

# **Honeywell**

## **Third Quarter 2010**

---

**Earnings Release**

**October 22, 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.*

# Overview

Honeywell

- **3Q Continues 2010 Momentum**
  - \$8.4B Sales, 14.2% Segment Margin, \$0.64 EPS, \$1.2B FCF
  - 9% Organic Sales Growth, Segment Margin Up 40 bps
  - FY10 Outlook: Sales ~\$33B, EPS ~\$2.52, FCF ~\$3.5B
- **Order Rates Continue Upward Trend**
  - Turbo And General Industrial Continue Strong
  - Aerospace Growth Reflects Commercial AM Uptick
  - Long Cycle Orders Robust In ACS Solutions, UOP And Commercial Aero
- **Seed Planting Benefits Evident**
  - Closed Sperian, E-Mon Acquisitions – Enhanced Positions In Attractive Spaces
  - Innovation: Smart Path™, Smart View™ Certifications
  - Emerging Region Expansion: China, Eastern Europe, Middle East
  - Traction on Key Process Initiatives: HOS/VPD™/FT

***Good Growth And Margin Expansion,  
Exceptional Cash Flow***

# Financial Summary

Honeywell

<i>(M)</i>	<u>3Q09</u>	<u>3Q10</u>	
<b>Sales</b>	\$7,700	\$8,392	<ul style="list-style-type: none"> <li>• 9% Increase</li> <li>◆ 9% Organic</li> </ul>
<b>Segment Profit</b>	\$1,060	\$1,192	<ul style="list-style-type: none"> <li>• 12% Increase</li> <li>◆ <i>Absorbing Labor Headwinds</i></li> </ul>
<i>Margin %</i>	13.8%	14.2%	
<b>Net Income</b>	\$608	\$499	<ul style="list-style-type: none"> <li>• (18%) Decrease</li> <li>◆ <i>1% Increase Ex-Pension</i></li> </ul>
<i>Attributable to Honeywell</i>			
<b>EPS</b>	\$0.80	\$0.64	<ul style="list-style-type: none"> <li>• (20%) Decrease</li> <li>◆ <i>Sperian Dilution (\$0.03)</i></li> <li>◆ <i>Higher Tax Rate (\$0.06)</i></li> </ul>
<i>EPS, Ex-Pension</i>	\$0.83	\$0.82	
<b>Free Cash Flow</b>	\$1,022	\$1,159	<ul style="list-style-type: none"> <li>• 232% Conversion</li> <li>◆ <i>182% Ex Non-Cash Pension</i></li> </ul>

***Strong Operating Earnings And Cash Flow***

# 3Q10 Earnings Walk

Honeywell

	<u>Guidance</u>	<u>Actual</u>	
<b>2Q10 EPS</b>	<b>\$0.60</b>	<b>\$0.60</b>	
Operating Earnings	+\$0.03 – \$0.07	\$0.10	• Organic Growth and Sales Conversion
Higher Tax Rate	(\$0.02)	(\$0.03)	• Higher Tax Rate In 3Q, Lower Rate Expected In 4Q
<b>Subtotal</b>	<b>\$0.61 – \$0.65</b>	<b>\$0.67</b>	
Sperian Dilution <sup>1</sup>	(\$0.03) – (\$0.04)	(\$0.03)	• Incl. M&A Fees, Repo And Purchase Accounting
<b>Subtotal</b>	<b>\$0.57 – \$0.62</b>	<b>\$0.64</b>	
JV Gain		\$0.05	• SM JV Consolidation
Repo And Other <sup>2</sup>		(\$0.05)	• Repo Actions Benefit '11
<b>3Q10 EPS Reported</b>		<b>\$0.64</b>	

<sup>1</sup> Includes Acquisition Costs of \$14M, Repositioning Costs of \$18M and Purchase Accounting of \$7M

<sup>2</sup> Excludes Asbestos, Environmental and Sperian Repositioning

***Better Than Expected Operating Earnings***

# End Market Update

Honeywell

- **What We Are Seeing**
  - Commercial Spares Outpacing Flight Hours; R&O Picking Up
  - D&S Stable, Some Project Delays
  - ACS Short-Cycle Industrial Recovery Continues
  - Developed Res./ Non-Res. Construction Still Slow; Emerging Regions Strong
  - TS and SM Favorable To Expectations
  
- **What We Are Expecting**
  - ATR Aftermarket Continues To Outpace Flight Hours
  - Continued Softness Due To U.S. Defense Budget Shifts
  - ACS/SM Short-Cycle Growth To Moderate; Long Cycle Book To Bill >1
  - Converting Strong Solutions Backlog
  - Turbo Continues To Outpace Macro Production Levels

***Outlook Ahead Of Prior Expectations***

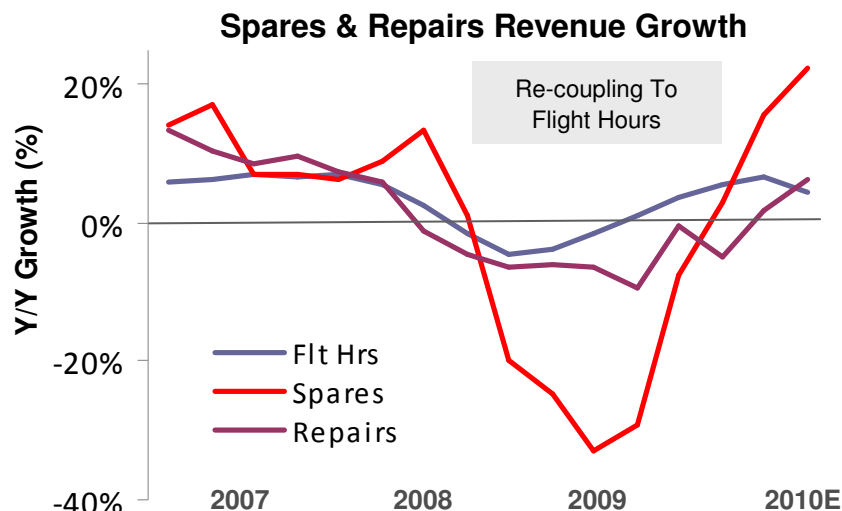
# Aerospace

Honeywell

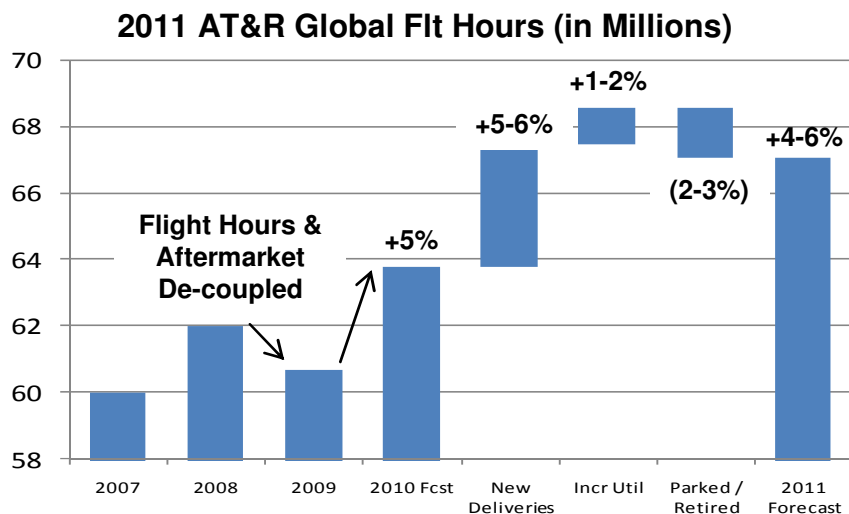
<i>(\$M)</i>				<u><b>Financial Highlights</b></u>			
	<u>3Q09</u>	<u>3Q10</u>	<u>V</u>				
Sales	\$ 2,622	\$ 2,704	3%	<ul style="list-style-type: none"> <li>• <b>Sales Up 3%</b> <ul style="list-style-type: none"> <li>- <b>Air Transport &amp; Regional Up 4%</b> <ul style="list-style-type: none"> <li>◆ OE Up 2%</li> <li>◆ Aftermarket Up 4%; Strong Spares, R&amp;O Up</li> </ul> </li> <li>- <b>Business &amp; General Aviation Up 10%</b> <ul style="list-style-type: none"> <li>◆ OE Up 11%</li> <li>◆ Aftermarket Up 10%, Strong RMUs</li> </ul> </li> <li>- <b>Defense &amp; Space Up 1%</b> <ul style="list-style-type: none"> <li>◆ Services Up 4%</li> </ul> </li> </ul> </li> <li>- <b>Segment Profit Up 1%</b> <ul style="list-style-type: none"> <li>◆ Margins Down (40) bps                             <ul style="list-style-type: none"> <li>+ Volume</li> <li>+ Productivity, Net Of Inflation</li> <li>- '09 Labor Actions</li> <li>- BGA OEM Payments</li> </ul> </li> </ul> </li> </ul>			
Segment Profit	455	458	1%				
Margin	17.4%	17.0%	(40) bps				
<u><b>Business Highlights</b></u>							
<ul style="list-style-type: none"> <li>+ Sequential and YOY Sales Growth</li> <li>+ Comm'l OE Order Rates</li> <li>+ Comm'l Spares Recovery</li> <li>+ Cost Actions</li> <li>- Defense Program Ramp Downs</li> </ul>							

***Good Performance, Clear Signs Of Recovery***

# Aerospace AM Key Indicators



- Significant Spares Destocking In 2009
- R&O More Closely Tracks Flight Hours
- Parked A/C Supply Delayed A/M Recovery
- End-of-Destocking Drives Uptick In Spares
- 4Q10E ATR A/M Growth ~2X Flight Hours



- Flight Hour Trends Follow GDP Growth
- Flight Hours Above Previous Cycle Peak
- Increased Utilization Of Active Fleet
- Deliveries Partially Offset By Retirements
- Inventory-to-Flight Hours Ratio Stabilizes

**Aftermarket To Recouple To Aircraft Utilization In '11**



# Automation And Control Solutions

Honeywell

<i>(\$M)</i>			
	<u>3Q09</u>	<u>3Q10</u>	<u>V</u>
Sales	\$ 3,188	\$ 3,474	9%
Segment Profit	431	471	9%
Margin	13.5%	13.6%	+10 bps

<u><b>Business Highlights</b></u>	
+ Sperian Acquisition Closed	
+ Continued Short Cycle Improvement	
+ Growth Across All Regions – Top Tier Perf.	
+ New Products – ECC, HLS, S&M	
– Commercial Construction Softness	

<u><b>Financial Highlights</b></u>	
• Sales Up 9%	<ul style="list-style-type: none"> <li>◆ 8% Organic</li> </ul>
- Products Up 10%	<ul style="list-style-type: none"> <li>◆ Industrial Uptick – Gas Detection, PPE, S&amp;C, Scanning &amp; Mobility</li> <li>◆ Regional Organic Growth: Asia-Pac Up 28%, Americas Up 8%, EMEA Up 6%</li> <li>◆ Residential Improving – NPI Impact</li> </ul>
- Solutions Up 7%	<ul style="list-style-type: none"> <li>◆ Converting Global Energy Efficiency Projects</li> <li>◆ HPS Building Backlog</li> </ul>
• Segment Profit Up 9%	<ul style="list-style-type: none"> <li>◆ Margins Up 10 bps                             <ul style="list-style-type: none"> <li>+ Volume</li> <li>+ Productivity, Net Of Inflation</li> <li>– '09 Labor Actions</li> <li>– Acq./Div.</li> </ul> </li> </ul>

***Continued Growth And Operating Leverage***

# Sperian Acquisition Completed

Honeywell

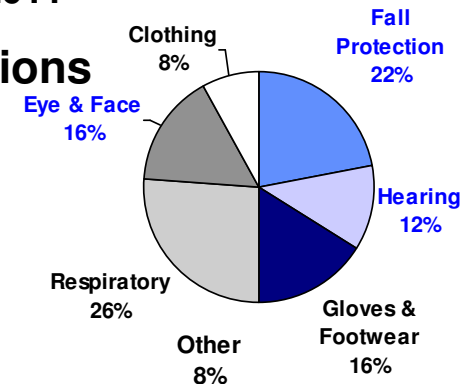
## Strategic Rationale

- **Highly Attractive, Fragmented and Growing \$20B Space**
  - Regulated by Codes & Standards
- **Extends HON Leading PPE Positions**
  - Creates ~\$2B Global Franchise with Premium Brands
- **Complementary with Norcross/Gas Det.**
- **Robust Integration Process With Proven Acquisition Track Record**
  - Significant Synergy Opportunities Expected
- **Big Emerging Market Opportunity**

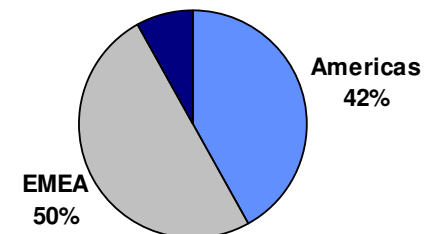
## Business Overview

- **Key Financials**
  - 2010E Sales ~\$900M, ~\$130M EBITDA
  - Purchase Price ~10.8x '10E EBITDA, ~6x With Estimated Run-Rate Synergies
  - Attractive Sales and Margin Growth
  - EPS Accretive 2011

- **Premium Positions**



- **Geographies**



**Adds To HON's Robust Acquisition Track Record**

# Transportation Systems

Honeywell

<i>(\$M)</i>				<b><u>Financial Highlights</u></b>	
	<u>3Q09</u>	<u>3Q10</u>	<u>V</u>		
Sales	\$ 875	\$ 1,039	19%	• <b>Sales Up 19%</b>	◆ 24% Organic
Segment Profit	62	122	97%	- <b>Turbo Up 25%</b>	◆ New Platform Launches, Turbo Penetration
Margin	7.1%	11.7%	+460 bps	◆ Higher PV/CV Production Volumes Europe And Asia	
<b><u>Business Highlights</u></b>				- <b>CPG Up 3%</b>	◆ Improved Operational Performance
+ Global OE Production Still Strong				• <b>Segment Profit Up \$60M</b>	◆ 460 bps Margin Expansion
+ Improved Diesel Penetration					+ Volume
+ Turbo Share Gains On New Launches					+ Productivity, Net Of Inflation
+ Restructuring Benefits					- '09 Labor Actions
+ CPG Double Digit Margins					

***Demand Greater Than Expected***

# Specialty Materials

Honeywell

<i>(\$M)</i>				<u><b>Financial Highlights</b></u>			
	<u>3Q09</u>	<u>3Q10</u>	<u>V</u>				
Sales	\$ 1,015	\$ 1,175	16%	<ul style="list-style-type: none"> <li>• <b>Sales Up 16%</b> <ul style="list-style-type: none"> <li>- <b>UOP Up 4%</b> <ul style="list-style-type: none"> <li>◆ Projects Growth Offsets Catalyst Decline</li> <li>◆ Orders Trends Improving</li> </ul> </li> <li>- <b>Advanced Materials Up 22%</b> <ul style="list-style-type: none"> <li>◆ Resins &amp; Chemicals – Asia Strong, Improved Global Markets</li> <li>◆ Fluorines – Commercial Execution</li> <li>◆ Specialty Products – New Product Introductions</li> </ul> </li> </ul> </li> <li>• <b>Segment Profit Up 25%</b> <ul style="list-style-type: none"> <li>◆ 130 bps Margin Expansion                             <ul style="list-style-type: none"> <li>+ Volume</li> <li>+ Productivity, Net of Inflation</li> <li>- '09 Labor Actions</li> </ul> </li> </ul> </li> </ul>			
Segment Profit	155	194	25%				
Margin	15.2%	16.5%	+130 bps				
<u><b>Business Highlights</b></u>							
<ul style="list-style-type: none"> <li>+ <b>Global Markets / Channel Penetration</b></li> <li>+ <b>Commercial Excellence</b></li> <li>+ <b>Plant Performance</b></li> <li>- <b>UOP Licensing</b></li> <li>- <b>Raw Material Costs</b></li> </ul>							

***Diversified, Growing Global Markets***

# 4Q10 Sales Preview

Honeywell

<i>(\$B)</i>	<u>Sales</u>	<u>Comments</u>
Aerospace	~2.8	<ul style="list-style-type: none"><li>• Continued Commercial AM Improvement</li><li>• Seasonal Strong Defense Quarter</li></ul>
ACS	~3.8	<ul style="list-style-type: none"><li>• Con't. Organic Growth Across Portfolio</li><li>• +6% Acquisitions Impact</li></ul>
Transportation	~1.0	<ul style="list-style-type: none"><li>• EU LV Production Down YOY</li><li>• Improved Diesel Pen., New Launches</li></ul>
Specialty	~1.2	<ul style="list-style-type: none"><li>• Robust Advanced Materials Demand</li><li>• Increased UOP Project Sales</li></ul>

**4Q10 Sales ~\$8.8B; FY10 ~\$33B**  
**4Q10 EPS ~\$0.78; FY10 ~\$2.52**

# Preliminary Planning For 2011

Honeywell

- **Economic / Industry Views Drive Top-Line Growth ~5%+**
  - Short-Cycle Growth Moderates: Turbo, ACS, Industrial, SM
  - Long-Cycle Improves: Commercial Aero AM, OE Uptick, ACS Solutions, UOP
- **Double Digit Segment Profit Growth ~10%+**
  - Volume Growth, Favorable Mix, Commercial and R&D Effectiveness
  - HOS Productivity ~\$180M and Repositioning Benefits ~\$150M
- **Pension Headwind ~ (\$300-400M) Higher**
  - Consistent With Guidance; Other Below The Line Expenses Lower Than 2010
- **Double Digit Earnings Growth Ex-Pension**
  - Planning Assumptions: Share Count Flat to Year-End; Tax-Rate Flat to 2010
- **Balanced Cash Deployment**
  - Continued Focus on Business Investment and Pension Pre-Funding
  - Proactively Pre-Fund Pension – \$600M Cash 4Q10

***2011 Outlook Call – December 15th***

# Summary

Honeywell

- **3Q Results Reflect Good Continued Momentum**
  - Continued Strong Uptick In TS, SM, ACS Short-Cycle YTD
  - Strong Operational Earnings and Exceptional Cash Flow
- **Order Rates Remain Strong Across Portfolio**
  - Commercial Aero Utilization Rates Drive AM Improvement
  - Industrial And Emerging Markets Continue Strong
  - Turbo Up, But At Lesser Rate
- **2010 Strength Maintained Into 2011**
  - Seed Planting Benefits Evident – Growth, Key Initiatives, Repositioning
  - Double Digit Operational Earnings Growth In 2011

***Honeywell Executing Well, Delivering Results***

---

---

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

---

---



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

**Honeywell**

<i>(\$M)</i>	<b>3Q09</b>	<b>3Q10</b>
Sales	\$7,700	\$8,392
Cost of Products and Services Sold	(5,797)	(6,490)
Selling, General and Administrative Expenses	(1,034)	(1,177)
Operating Income	<u>\$869</u>	<u>\$725</u>
Stock Based Compensation <sup>(1)</sup>	18	37
Repositioning and Other <sup>(1, 2)</sup>	122	215
Pension Expense <sup>(1)</sup>	30	197
OPEB Expense <sup>(1)</sup>	21	18
Segment Profit	<u>\$1,060</u>	<u>\$1,192</u>
Operating Income	\$869	\$725
÷ Sales	<u>\$7,700</u>	<u>\$8,392</u>
Operating Income Margin %	<u>11.3%</u>	<u>8.6%</u>
Segment Profit	\$1,060	\$1,192
÷ Sales	<u>\$7,700</u>	<u>\$8,392</u>
Segment Profit Margin %	<u>13.8%</u>	<u>14.2%</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

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

**Honeywell**

<i>(\$M)</i>	<b>3Q09</b>	<b>3Q10</b>
Cash Provided by Operating Activities	\$1,148	\$1,325
Expenditures for Property, Plant and Equipment	(126)	(166)
Free Cash Flow	<u>\$1,022</u>	<u>\$1,159</u>
Cash Provided by Operating Activities	\$1,148	\$1,325
÷ Net Income Attributable to Honeywell	\$608	\$499
Operating Cash Flow Conversion %	<u>189%</u>	<u>266%</u>
Free Cash Flow	\$1,022	\$1,159
÷ Net Income Attributable to Honeywell	\$608	\$499
Free Cash Flow Conversion %	<u>168%</u>	<u>232%</u>

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

**Honeywell**

(\$B)	<u>YTD 09</u>	<u>YTD 10</u>	<u>2010E</u>
Sales	\$22.8	\$24.3	~33.0
Cost of Products and Services Sold	(17.2)	(18.7)	~(25.1)
Selling, General and Administrative Expenses	(3.3)	(3.5)	~(4.8)
<b>Operating Income</b>	<u>\$2.3</u>	<u>\$2.1</u>	<u>~3.1</u>
Stock Based Compensation <sup>(1)</sup>	0.1	0.1	~0.2
Repositioning and Other <sup>(1, 2)</sup>	0.4	0.5	~0.6
Pension and OPEB Expense <sup>(1)</sup>	0.1	0.6	~0.8
<b>Segment Profit</b>	<u>\$2.9</u>	<u>\$3.3</u>	<u>~\$4.6</u>
<b>Operating Income</b>	\$2.3	\$2.1	~3.1
÷ Sales	\$22.8	\$24.3	~33.0
<b>Operating Income Margin %</b>	<u>10.2%</u>	<u>8.7%</u>	<u>9.1% - 9.5%</u>
<b>Segment Profit</b>	\$2.9	\$3.3	~\$4.6
÷ Sales	\$22.8	\$24.3	~33.0
<b>Segment Profit Margin %</b>	<u>12.6%</u>	<u>13.7%</u>	<u>13.6 - 14.0%</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

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

**Honeywell**

<i>(\$M)</i>	<b>YTD 09</b>	<b>YTD 10</b>
Cash Provided by Operating Activities	\$2,615	\$3,158
Expenditures for Property, Plant and Equipment	(352)	(351)
Free Cash Flow	<u>\$2,263</u>	<u>\$2,807</u>
Cash Provided by Operating Activities	\$2,615	\$3,158
÷ Net Income Attributable to Honeywell	\$1,455	\$1,353
Operating Cash Flow Conversion %	<u>180%</u>	<u>233%</u>
Free Cash Flow	\$2,263	\$2,807
÷ Net Income Attributable to Honeywell	\$1,455	\$1,353
Free Cash Flow Conversion %	<u>156%</u>	<u>207%</u>

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

**Honeywell**

(\$B)

	<b>2010E</b>
Cash Provided by Operating Activities	~4.1
Expenditures for Property, Plant and Equipment	~(0.6)
Free Cash Flow	<u>~3.5</u>
Cash Provided by Operating Activities	~4.1
÷ Net Income Attributable to Honeywell	~2.0
Operating Cash Flow Conversion %	<u>~205%</u>
Free Cash Flow	~3.5
÷ Net Income Attributable to Honeywell	~2.0
Free Cash Flow Conversion %	<u>~175%</u>

## Calculation of Cash Flow Conversion, Excluding Pension Expense

**Honeywell**

<i>(\$M)</i>	<b>3Q09</b>	<b>3Q10</b>
Net Income Attributable to Honeywell	\$608	\$499
Pension Expense, net of tax	23	139
Net Income Attributable to Honeywell, Excluding Pension	\$631	\$638
Free Cash Flow	\$1,022	\$1,159
÷ Net Income Attributable to Honeywell, Excluding Pension	\$631	\$638
Free Cash Flow Conversion %, Excluding Pension	162%	182%

## Reconciliation of EPS to EPS, Excluding Pension

**Honeywell**

<i>(\$B)</i>	<u>3Q09(1)</u>	<u>3Q10(1)</u>	<u>2009(1)</u>	<u>2010E (2)</u>
EPS	<u>\$0.80</u>	<u>\$0.64</u>	<u>\$2.85</u>	<u>~2.52</u>
Pension Expense	<u>0.03</u>	<u>0.18</u>	<u>0.10</u>	<u>~\$0.74</u>
EPS, Excluding Pension	<u><u>\$0.83</u></u>	<u><u>\$0.82</u></u>	<u><u>\$2.95</u></u>	<u><u>~3.26</u></u>

(1) Utilizes weighted average shares outstanding and the effective tax rate for the period.

(2) Assumes weighted average shares outstanding of 780 million and a 26.5% effective tax rate for 2010 guidance.