

# Honeywell Shareowner Outreach Meetings

Summer/Autumn 2014

**Honeywell**

# 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.*

# Discussion Agenda

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- **1H 2014 Financial Performance, FY Outlook** (as of July 18, 2014)
- **Total Shareowner Return**
- **Recent Management Changes And Segment Realignment**
- **Honeywell Executive Pay Programs And Policies**
- **Voting Results From April 2014 Shareowners' Meeting**
- **2015 Governance Preview Issues**

## 1H 2014 Financial Performance, FY Outlook (as of July 18, 2014)

**Important Note:** All of the projections of future financial performance in this presentation refer back to Honeywell's second quarter earnings presentation on July 18, 2014, and speak only as of that date. Honeywell undertakes no duty to update such projections and is not reaffirming any such projections or guidance as of the date hereof or any date after July 18, 2014.

# First Half 2014 Financial Summary

Honeywell

*(\$M except per share amounts)*

	<u>1H13</u>	<u>1H14</u>	
<b>Sales</b>	<b>\$19,021</b>	<b>\$19,932</b>	<ul style="list-style-type: none"> <li>• <b>5% Increase</b> <ul style="list-style-type: none"> <li>◆ <i>Up 2% Organic</i></li> </ul> </li> </ul>
<b>Segment Profit</b>	<b>\$3,067</b>	<b>\$3,305</b>	<ul style="list-style-type: none"> <li>• <b>8% Increase</b> <ul style="list-style-type: none"> <li>◆ <i>50 bps Margin Expansion</i></li> </ul> </li> </ul>
<i>Margin %</i>	<i>16.1%</i>	<i>16.6%</i>	
<b>Net Income</b>	<b>\$1,987</b>	<b>\$2,116</b>	<ul style="list-style-type: none"> <li>• <b>7% Increase</b></li> </ul>
<i>Attributable to Honeywell</i>			
<b>EPS</b>	<b>\$2.49</b>	<b>\$2.66</b>	<ul style="list-style-type: none"> <li>• <b>7% Increase</b> <ul style="list-style-type: none"> <li>◆ <i>Up 11% Normalized For Tax**</i></li> </ul> </li> </ul>
<i>Tax Rate</i>	<i>23.1%</i>	<i>26.3%</i>	
<b>Free Cash Flow *</b>	<b>\$1,253</b>	<b>\$1,608</b>	<ul style="list-style-type: none"> <li>• <b>28% Increase</b></li> </ul>

\* Cash Flow from Operations Less Capital Expenditures

\*\* V% Adjusted to Expected Full Year 2014 Tax Rate of 26.5% Before Any Pension Mark-to-Market Adjustment

*On Track To Full Year Guidance (As Of July 18, 2014)*

# 2014 Financial Guidance Summary (as of July 18, 2014)

**Honeywell**

(\$B, except per share amounts;  
V%, BPS vs. prior year)

		<u>3Q14E</u>	<u>4Q14E</u>	<u>2014E</u>	<u>Comments</u>
<b>Sales</b>	<b>Sales</b>	\$9.9 - 10.1	\$10.3 - 10.4	\$40.2 - 40.4	<ul style="list-style-type: none"> <li>• <b>Modest Acceleration</b></li> </ul>
	<i>Reported V%</i>	3 - 5%	~Flat	3 - 4%	<ul style="list-style-type: none"> <li>- FM Divestiture</li> </ul>
	<i>Organic V%</i>	3 - 4%	~3%	~3%	<ul style="list-style-type: none"> <li>- 4Q Tougher Comps</li> </ul>
<b>Segment Margin</b>	<b>Segment Margin</b>	~17.2%	17.2 - 17.4%	16.8 - 17.0%	<ul style="list-style-type: none"> <li>• <b>Strong Margin Expansion</b></li> </ul>
	<i>Bps Change</i>	~50 Bps	110 - 130 Bps	50 - 70 Bps	<ul style="list-style-type: none"> <li>- FY ~ At Mid-Point Of 2014 Targets</li> <li>- Restructuring Benefits</li> </ul>
<b>EPS*</b>	<b>EPS</b>	\$1.37 - 1.42	\$1.42 - 1.47	\$5.45 - 5.55	<ul style="list-style-type: none"> <li>• <b>Raised Full Year Outlook</b></li> </ul>
	<i>Proforma V%</i>	10 - 15%	15 - 19%	10 - 12%	<ul style="list-style-type: none"> <li>- 4Q Tax Benefit: ~12 Cents</li> <li>- Linearity In-Line With Prior Years</li> </ul>

\* Proforma, V% Exclude Any Pension Mark-to-Market Adjustment

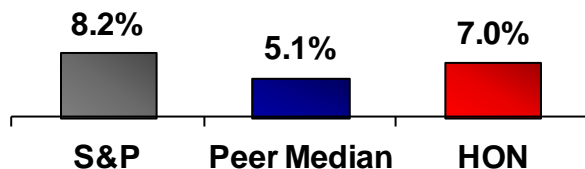
**Increasing Low End Of Full Year EPS Guidance By \$0.05**

# Total Shareowner Return

Honeywell

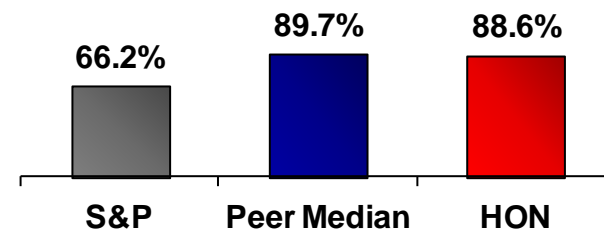
## 1-YR

HON Percentile Rank = 64%



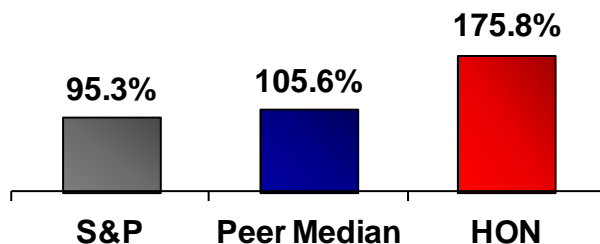
## 3-YR

HON Percentile Rank = 47%



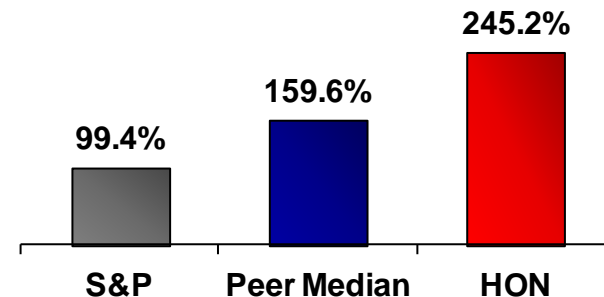
## 5-YR

HON Percentile Rank = 98%



## 10-YR

HON Percentile Rank = 95%



### HON Annual TSR

- 2009 = 24%
- 2010 = 39%
- 2011 = 5%
- 2012 = 20%
- 2013 = 47%

Peer Median Reflects Compensation Peer Group Median; Percentages Reflect Cumulative Growth Over The Period; HON Percentile Rank Based on Compensation Peer Group;  
 Updated as of July 18, 2014; 1-year period begins 1/1/2014, 3-year period begins 1/1/2012, 5-year period begins 1/1/2010; 10-year period begins 1/1/2005

*HON Outperformed Market And Peers*

## **Recent Organizational and Management Changes**



# 2014 Management Changes

- **Retirement of CFO, Dave Anderson; Promotion of Thomas Szlosek**
  - Szlosek joined HON in 2004, served as HON's Controller and CFO of ACS
- **Promotion Of Two New Divisional CEOs**
  - Alex Ismail becomes President/CEO of ACS
    - Ismail was formerly President/CEO of Transportation Systems, groomed for ACS CEO position for one year as President of ESS
  - Darius Adamczyk becomes President and CEO of PMT
    - Adamczyk was formerly President/CEO of Honeywell Process Solutions, deep experience in oil, petrochemicals and gas processing
- **Promotion Of Two New Vice Chairmen**
  - Roger Fradin becomes Vice Chairman, responsible for advancing HON's M&A strategy, High Growth Region expansion and internal operations improvements
    - Fradin was formerly President/CEO of ACS, which more than doubled from an \$8B mainly U.S. business to a \$17B global business during his tenure
  - Andreas Kramvis also becomes Vice Chairman, responsible for deployment of HOS Gold, advancing Honeywell's software initiative and HGR expansion
    - Kramvis was formerly President/CEO of PMT, a \$7B highly profitable business

*Talent Succession Planning Successfully Deployed*

# 2014 Segment Realignment

- **Change In Organization Structure**

- Under a realigned segment reporting structure, there are now three business segments:
  - Aerospace, Automation and Control Solutions (ACS) and Performance Materials and Technologies (PMT)
- Transportation Systems is now part of Aerospace
  - Following sale of Friction Materials, realignment takes advantage of engineering and technology similarities and shared operating practices

- **Combination of Honeywell Process Solutions (HPS) with PMT**

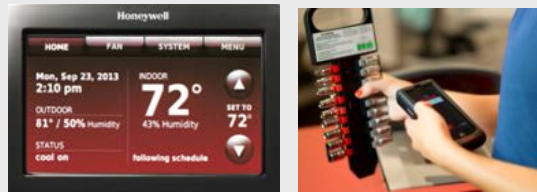
- Better aligns Honeywell's technology and service offerings to the oil, gas and petrochemicals industries; More efficiently leverages customer and sales synergies

## Aerospace (w/ Transportation Systems)



2014E Sales\*: ~\$15.7B

## Automation and Control Solutions



2014E Sales\*: ~\$14.4B

## Performance Materials and Technologies



2014E Sales\*: ~\$10.2B

*Commitment To Continued Evolution As A Company*

# *Executive Pay*

# Executive Compensation Program - 2014

Honeywell

## • Base Pay

*~9% of CEO Target Annual Direct Compensation; / ~17% other NEOs*

- 2014 Merit Increases: 5% for CEO; 0%-9% other NEOs (no merits in 2013)
- 2 NEO's with promotional increases (new CFO / new Vice-Chairman)

## • Bonus Plan – Annual

*15-20% of NEO Target Annual Direct Compensation (Targets: CEO 175%; NEOs 100%)*

- Payout Levels TBD Based On Overall 2014 HON And SBG Performance

## • Growth Plan – Medium/Long-Term

*20-25% of NEO Target Annual Direct Compensation*

- 2-year non-overlapping performance cycles; 3.2 year payout
- New 2014-2015 performance cycle awards granted; grant sizes similar to last cycle
- New plan targets tied to 2018 overall Honeywell Revenue and Segment margin targets

## • Stock Options – Long-Term

*40-50% of NEO Target Annual Direct Compensation – direct link to TSR performance*

- 2014 Grant value fully realized at \$110+ stock price (Option \$93.97; B-S \$16.36)

## • Performance-Adjusted RSUs – Long-Term

*Considered periodically (not annual) as part of retention & succession planning review*

- Typically vest over longer timeframes (e.g., 7 years)
- Number of units that vest subject to adjustment based on TSR vs. Comp Peers
- New CFO, 2 Vice Chairs and SBG Presidents were granted awards at July 25, 2014 meeting

*Consistent Approach To Executive Comp*

# 2014-2015 Growth Plan

## Total Honeywell Performance Targets

(3-Metrics, Equally Weighted – M&A Excluded)

1. **Total Sales (for 2-years): \$82.74 Billion** ➤ **3.9% CAGR**
2. **2015 Segment Margin: 17.3%** ➤ **100 bps Improvement Vs 2013**
3. **2015 ROI: 22.8%** ➤ **120 bps Improvement Vs 2013**

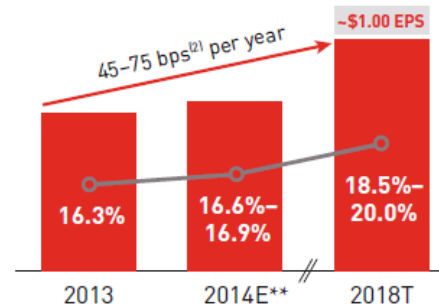
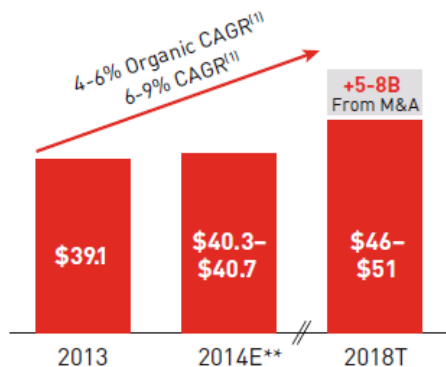
### NEW 2018 LONG-TERM TARGETS

(AS OF MARCH 5, 2014)

Revenue: \$46-\$51 billion (\$51-\$59 billion including M&A)

Segment Margin: 18.5%-20.0% (excludes impact from M&A)

(Dollars in Billions)



<sup>(1)</sup> CAGR - Compound Annual Growth Rate

<sup>(2)</sup> bps - basis points improvement

\*\* - 2014E represents original 2014 estimates at the time 5-year plan was established. For 2014 estimates as of July 18, 2014, see Slide 6.

*Performance Plan Aligned With 2018 L-T Targets*

## ***2014 Shareowner Voting Results***

# 2014 HON Annual Meeting – Voting Results Honeywell

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- **Election of Directors: All Directors Received at Least 91% Approval**
- **Say on Pay: 91% Approval**
- **Shareowner Proposals: None Received Majority Support**
  - Independent Chair: ~48% voted “For” (up 5% from 2013)
  - Right To Act By Written Consent: ~37% voted “For” (down 3% from 2013)
  - Eliminate Accelerated Equity Vesting / Prorate Upon A Change in Control: After Stock Plan change: ~28% voted “For” (vs. 44% in 2013)
  - Enhanced Political Spending Disclosure: ~32% voted “For” (first time on HON’s proxy)
- **Proxy Season Shareowner Outreach**
  - Invitation to largest 30 shareholders for 1:1 during proxy season
  - One-on-one conversations/emails with 15 of our top 30 shareholders
  - Distributed supplementary proxy material to distill message and inform shareholders
  - Proxy season dialogue with proxy advisory services (Glass Lewis and ISS)

*Seeking Meaningful Feedback From Shareholders*

# Comparison To Voting Results In S&P 500

Honeywell

## • Say On Pay

- Averaging ~90% Support at S&P 500 Companies
- Approval Levels Remain High, Similar to 2013 Proxy Season

## • Independent Chair

- 49 Proposals, Up From 47 Last Year; Passed At Vornado Realty Trust, Allergan, Inc., and Staples, Inc.
- 2014 YTD: Averaging 32% Support (same as in 2013)

## • Right To Act By Written Consent

- 26 Proposals, Same Number as Last Year; Yet To Pass At An S&P 500 Company
- 2014 YTD: Averaging 38% Support (vs. 40% in 2013)

## • Eliminate Accelerated Equity Vesting/Prorate On A Change In Control

- 16 Proposals, Down From 23 Last Year; Passed At Gannett Co. Inc., Valero Energy Corporation and Boston Properties
- 2014 YTD: Averaging 34% Support (same as in 2013)

## • Enhanced Political Spending Disclosure

- 36 Proposals, Up From 33 Last Year; Yet To Pass At An S&P 500 Company
- 2014 YTD: Averaging 22% Support (vs. 21% in 2013)

*Overall Results Consistent With Prior Year*



# ***2015 Governance Issues***

# Honeywell Board Composition

## Director Tenure

- HON average director tenure is 7.4 years (below US market average of 8.6 yrs)

Tenure	1-4 Years	5-9 Years	≥ 10 Years
No. of HON Directors	4	4	4

- *Composition among new, mid and long tenured directors strikes the right balance of experience and independence*
- Nominating Committee annually reviews with the Board the requisite skills & characteristics of Board members and the composition of the Board as a whole and conducts regular reviews of current directors

## Board Diversity

- Diversity a core value of Honeywell, and Board composition reflects diversity of gender, race, ethnicity and nationality:

	Women	Hispanic	African-American	Non-U.S. Citizen
No. of HON Directors	3	3	2	2

*Diversity A Core HON Value*

# 2014 Governance Developments

## Issuance of New Corporate Citizenship Report

- Describes our commitment to safeguarding natural resources and worker and public health
- Honeywell brand promise closely linked to sustainability: nearly 50% of our products linked to energy efficiency
  - Report available on our website: <http://citizenship.honeywell.com/guidelines-and-policies/>

## Auditor Rotation

- On July 30, we announced the appointment of Deloitte as our new independent auditor for 2015 and beyond (PwC dismissed)

## Improvement in Political Spending Disclosure

- Revamp of political disclosure. More detail on Management and Board oversight
- Affirmation that HON has made no political contributions since at least 2009 and has no intention to do so
- Significant improvement in HON's CPA-Zicklin index score (HON will likely be moved to 2d Tier from 3d Tier in 2015 Report)
  - Report available on our website: <http://phx.corporate-ir.net/phoenix.zhtml?c=94774&p=irol-PolContributions>

## Revamp of Honeywell Proxy

- Utilized feedback from 2013 shareholder discussions in new design

*Continuous Improvement Mentality Applied To Governance*

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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 Margins

**Honeywell**

(\$M)	<u>1H13</u>	<u>1H14</u>
Aerospace	\$1,134	\$1,141
Automation and Control Solutions	890	1,004
Performance Materials and Technologies	912	948
Transportation Systems	237	321
Corporate	(106)	(109)
<b>Segment Profit</b>	<b>\$3,067</b>	<b>\$3,305</b>
Stock Based Compensation <sup>(1)</sup>	(91)	(102)
Repositioning and Other <sup>(1, 2)</sup>	(319)	(348)
Pension Ongoing Income <sup>(1)</sup>	46	125
OPEB Expense <sup>(1)</sup>	(2)	(25)
<b>Operating Income</b>	<b>\$2,701</b>	<b>\$2,955</b>
<b>Segment Profit</b>	<b>\$3,067</b>	<b>\$3,305</b>
÷ Sales	<b>\$19,021</b>	<b>\$19,932</b>
<b>Segment Profit Margin %</b>	<b>16.1%</b>	<b>16.6%</b>
<b>Operating Income</b>	<b>\$2,701</b>	<b>\$2,955</b>
÷ Sales	<b>\$19,021</b>	<b>\$19,932</b>
<b>Operating Income Margin %</b>	<b>14.2%</b>	<b>14.8%</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 adjustment.

## Calculation Of EPS At Tax Rate Of 26.5%

**Honeywell**

*(\$M except per share amounts)*

	<b>1H13</b>	<b>1H14</b>
Income Before Taxes	\$2,589	\$2,934
Taxes at 26.5%	686	778
Net Income at 26.5% Tax Rate	\$1,903	\$2,156
Less: Net Income Attributable to the Noncontrolling Interest	4	46
Net Income Attributable to Honeywell at 26.5% Tax Rate	\$1,899	\$2,110
Weighted Average Number of Shares Outstanding - Assuming Dilution	797.6	795.9
EPS at 26.5% Tax Rate	\$2.38	\$2.65

## Reconciliation Of Cash Provided By Operating Activities To Free Cash Flow

**Honeywell**

	<u>1H13</u>	<u>1H14</u>
<i>(\$M)</i>		
Cash Provided by Operating Activities	\$1,597	\$2,029
Expenditures for Property, Plant and Equipment	(344)	(421)
Free Cash Flow	<u>\$1,253</u>	<u>\$1,608</u>

# Reconciliation Of Segment Profit To Operating Income And Calculation Of Segment Profit And Operating Income Margins

**Honeywell**

(\$M)	<u>3Q13</u>	<u>4Q13</u>	<u>2013</u>
Aerospace	\$602	\$636	\$2,372
Automation and Control Solutions	523	570	1,983
Performance Materials and Technologies	413	400	1,725
Transportation Systems	128	133	498
Corporate	(51)	(70)	(227)
<b>Segment Profit</b>	<u>\$1,615</u>	<u>\$1,669</u>	<u>\$6,351</u>
Stock Based Compensation <sup>(1)</sup>	(38)	(41)	(170)
Repositioning and Other <sup>(1, 2)</sup>	(131)	(249)	(699)
Pension Ongoing Income <sup>(1)</sup>	22	22	90
Pension Mark-to-Market Adjustment <sup>(1)</sup>	-	(51)	(51)
OPEB Expense <sup>(1)</sup>	(5)	(13)	(20)
<b>Operating Income</b>	<u><u>\$1,463</u></u>	<u><u>\$1,337</u></u>	<u><u>\$5,501</u></u>
<b>Segment Profit</b>	<u>\$1,615</u>	<u>\$1,669</u>	<u>\$6,351</u>
÷ Sales	<u>\$9,647</u>	<u>\$10,387</u>	<u>\$39,055</u>
<b>Segment Profit Margin %</b>	<u>16.7%</u>	<u>16.1%</u>	<u>16.3%</u>
<b>Operating Income</b>	<u>\$1,463</u>	<u>\$1,337</u>	<u>\$5,501</u>
÷ Sales	<u>\$9,647</u>	<u>\$10,387</u>	<u>\$39,055</u>
<b>Operating Income Margin %</b>	<u>15.2%</u>	<u>12.9%</u>	<u>14.1%</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 adjustment.



# Reconciliation Of Segment Profit To Operating Income And Calculation Of Segment Profit And Operating Income Margins

**Honeywell**

(\$B)	<u>3Q14E</u>	<u>4Q14E</u>	<u>2014E</u>
Segment Profit	\$1.7 - 1.8	\$1.7 - 1.8	\$6.7 - 6.9
Stock Based Compensation <sup>(1,3)</sup>	~(0.0)	~(0.0)	~(0.2)
Repositioning and Other <sup>(1,2,3)</sup>	~(0.1)	~(0.1)	~(0.6)
Pension Ongoing Income <sup>(1,3)</sup>	~0.1	~0.1	~0.2
Pension Mark-to-Market Adjustment <sup>(1)</sup>	N/A	TBD	TBD
OPEB Expense <sup>(1,3)</sup>	~(0.0)	~(0.0)	~(0.1)
Operating Income	<u>\$1.6 - 1.7</u>	<u>\$1.6 - 1.7</u>	<u>\$6.1 - 6.3</u>
Segment Profit	\$1.7 - 1.8	\$1.7 - 1.8	\$6.7 - 6.9
÷ Sales	<u>\$9.9 - 10.1</u>	<u>\$10.3 - 10.4</u>	<u>\$40.2 - 40.4</u>
Segment Profit Margin %	<u>~17.2%</u>	<u>17.2% - 17.4%</u>	<u>16.8% - 17.0%</u>
Operating Income	\$1.6 - 1.7	\$1.6 - 1.7	\$6.1 - 6.3
÷ Sales	<u>\$9.9 - 10.1</u>	<u>\$10.3 - 10.4</u>	<u>\$40.2 - 40.4</u>
Operating Income Margin %	<u>~16.0%</u>	<u>16.2% - 16.4%</u>	<u>15.4% - 15.6%</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 adjustment.

(3) Amounts less than \$50M are rounded down to zero.