Morgan Stanley China Investor Summit
Stephen Shang
China President
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.
Honeywell’s Businesses

- $36.5 Billion in Revenues in 2011, 54% Outside of U.S.
- Nearly 130,000 Employees Operating in 100 Countries
- Morristown, NJ Global Corporate Headquarters

Aerospace $11.5B

Automation and Control Solutions $15.5B

Performance Materials and Technologies $5.7B

Transportation Systems $3.9B
Energy Efficiency

More Than 50% of Honeywell’s Portfolio Offers Energy Efficiency Benefits

By Immediately and Comprehensively Adopting Existing Honeywell Products, the United States Could Reduce Energy Consumption By 20 - 25%
Technology & Innovation

Developing Solutions for the World’s Toughest Challenges and Building on Honeywell’s Great Positions in Good Industries

Research, Development and Engineering is the Growth Engine for Honeywell.

Global
• Nearly 21,000 Scientists and Engineers Worldwide
• 97 Research and Engineering Facilities
• Honeywell Technology Solutions in India, China and Europe
• More Than 32,000 Patents or Patents Pending Worldwide

China
• Over 1,400 Scientists and Engineers with Diverse Expertise
• Solving China’s Challenges in Energy Efficiency, Safety and Security with Speed and Rigor
  - Close Partnerships with Key Local Players in Various Industries
  - In Line with the Macro Trends in China
• Over 930 New Inventions and 270 Patents Have Been Filed Since 2007
Honeywell In China

Sales

- China Sales Up 3x Over Past 6 Years
  - 2011 Sales Up ~20%
- ~25% Of Total HON HGR Sales In 2011
- ~35 Major China Sites
- Census Up From ~1K To Over 11K Employees
- $220M Investment Since 2003

Census

Sales By SBG

ACS
PMT
TS
Aero

China A Cornerstone For HON HGR Strategy
Global Impact Of Chinese Competitors

China-Led Sectors & Share of Global Output

Tech Sophistication

- Aerospace
- Chemical
- Automation

What’s Next?

- Wind power equipment: 25%
- Polysilicon: 17%
- Power equipment: 55%
- Mobile Phone: 50%
- PV Cell: 40%
- Vitamin: 60%
- Lithium battery: >30%
- Steel: 47%
- Synthetic Fiber: 63%
- Injection Machine: 63%
- Loading Machine: >30%
- White goods: >70%

1990’s 2000’s Time

Fast & Successful Growth Changing Competitive Landscape
Rise Of Local Competitors

• Local Enterprises Moving Up the Pyramid, Challenging MNCs Even in Their Home Markets by Exporting, Buying Brand, or OEM

**Segment Size***

<table>
<thead>
<tr>
<th>Income Distribution</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>High End</td>
<td>24</td>
<td>91</td>
</tr>
<tr>
<td>Mid Segment</td>
<td>109</td>
<td>202</td>
</tr>
<tr>
<td>Low End</td>
<td>260</td>
<td>138</td>
</tr>
</tbody>
</table>

**MNCs Evolving**

- Exporter
- ER Producer
- Localized MNC
- Mid Mkt Player
- Glocal Player

**Local Companies Upgrading**

- Global Challengers
- ER Players
- Brand Innovators
- Mature Imitators
- Garage Imitators

**Key Battle Field**

**Source:** BCG, Euromonitor

**Note**: Income category defined in nominal dollar terms:
- 2010: Low <= $7,300; Mid = $7,300-$23,200; High => $23,200
- 2020: Low <= $9,900; Mid = $9,900-$31,300; High => $31,300

**Intensifying Competition Even In MNCs’ Home Markets**
**Honeywell China Strategy**

**Up to 1980’s**
- **West to East**
  - Import Sales
  - Being in China is an Advantage by Itself
  - Mainly Imported to Sell Through Local Distributors

**1990’s**
- **Local Manufacturing & Sourcing**
  - Started to Localize Low Value Components and Assembly in China for Cost Advantage
  - Small Scale Facilities with Limited Design Capabilities
  - ~10% Growth CAGR

**Current China/India Strategy Focus**
- **East for East** (Innovation for China/India)
  - Moved Asia Pacific Headquarters to China
  - Integrated R&D Platform Across Businesses
  - Establishing Position in Mid-Segment
  - Started to Sell China Innovated Products to Other Emerging Regions
  - 20-30% Growth CAGR

- **East to West** (Innovation for the World)
  - Mature Integrated Innovation Process
  - Become Global Growth Accelerator – Contribute >25% of Honeywell Global Growth

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**Established E4E; Foundation For E2W**
East For East (E4E) Platform

**E4E Design**
- “Global Capabilities, Local Needs”
- HTS As The Local R&D Center

**E4E Manufacturing**
- “Global Quality, Local Competitiveness”
- Strong Supply Chain Platform Established

**E4E Sales**
- “Global Brand, Local Channels”
- Local Distribution And Partnership

HON E4E Products

- ComfortPoint
- Halo Series Thermostats
- Youjie 3300

- N-6000 Intelligent Fire Alarm System
- PlantCruise by Experion
- China Micro Gas Turbo

E4E Engine And Products For The Mid-Segment
Examples: Executing E4E
Executing E4E (1/3)

Residential Security – Creating a Full Range Portfolio

- High End Offerings → Localization, Value Engineering, Customization
  - Smart Home Gateway
  - High-End Color Video Door Phone Network
  - Complete Local VOC, Design and Mfg for Mid/Mass Segment Products
    - Basic Video Door Phones (Color/BW)
    - Residential Systems (Venus, Armor)

Fire System – Improving Value Proposition thru Total Solution

- Traditional Global Products:
  - Fire Panel, Detectors, Explosion-Proof Devices, Clip Devices, Flash Scan Devices
- E4E – Capturing Local Needs with Faster Launch
- China NPI:
  - Mid Segment Fire Alarm System
  - XLS-1000 Aspiration System
  - Linear Heat Cable System
  - Electrical Leakage Monitoring
  - Gas Detector
  - Flame Detector
  - Integrated Public Addressing (PA)

Adding Portfolio Strength
Executing E4E (2/3)

HPS – Secondary Platform For Underserved Segments

- Leverage existing world class platform
- In-Region Design, Product Mgmt, R&D, and Operations
- Differentiated Branding, Strategy, etc.
- Improved Cost Position to Grow in Underserved Segments
- Multi-million Pre-launch Order in China

Turbocharger – Aligning To The Emerging Mega Trends

<table>
<thead>
<tr>
<th>Megatrends</th>
<th>Honeywell Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Cost Microcars India</td>
<td>First 2-Cyl Diesel Turbo</td>
</tr>
<tr>
<td>Microvan Growth China</td>
<td>Local Dev – Microgas Turbo</td>
</tr>
<tr>
<td>Growth of Tier 2/3 Cities</td>
<td>Local Dev – Light CV Turbos</td>
</tr>
<tr>
<td>China Infrastructure Investment</td>
<td>China Heavy Duty CV Turbos</td>
</tr>
</tbody>
</table>

Growing Customer Segments
### Executing E4E (3/3)

#### AERO
**Tuning To Local Needs And Trends**
- COMAC C919
- Robust JV Integration & Execution
  - Primary Flight Controls
  - APU, Engine Control, Installation Kit, and Starter Generator
  - Avionics – IRS / Air Data
  - Wheels & Brakes
  - C919

- Collaboration with AVIC, CETC, etc. →
  - e.g. Engines, Mechanical Components, ATM Technology Lab

#### PMT
**Customer Application Everyday**

**Fluorine Products**
- Organic Rankin Cycle Waste Heat Recovery
- 245fa Application Development
- LGWP Application Development

**Resins & Chemicals**
- Nylon Cable Tie
- Fishnet Gen II
- Textile Application

**Specialty Products**
- PV Backsheet – Gen III 3W
- Asphalt
- Color Master Batch

**Electronic Materials**
- Printable Dopant for Solar Cells
- Anti-Reflective Coating for Solar Module
- Polymers for Display Adjacency

**UOP**
- Equipment Fabrication
- Adsorbents Development
- Gas Processing, Hydrogen Industries

### Listening To Voice Of The Customer
# Executing E4E and E2W

<table>
<thead>
<tr>
<th>ISC Localization</th>
<th>Localized MNC</th>
<th>Chinese Competitor</th>
<th>Global Challenger</th>
</tr>
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<tbody>
<tr>
<td>Local Sourcing</td>
<td>Local Manufacturing</td>
<td>Locally Competitive Operations</td>
<td>World-Class Operation</td>
</tr>
<tr>
<td>Local Supply Base</td>
<td></td>
<td>Fully Developed Local Supply Base</td>
<td>Global Standards</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>R&amp;D</th>
<th></th>
<th>Core Local COEs</th>
<th>Full Scale R&amp;D – Global COE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Tech Support, QA &amp; Testing</td>
<td>Customization and Application Development</td>
<td>Full Product Ownership</td>
<td>High Velocity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Channel</th>
<th></th>
<th>Fully Deployed Nationwide Network</th>
<th>Take Advantage of Global Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Sales Force in Tier 1 &amp; Key a/c’s</td>
<td>Build Direct Channel Tier 2/3 Cities</td>
<td>Local Partnership</td>
<td>Multi-Brand</td>
</tr>
<tr>
<td>Rely on Distributors</td>
<td>Deepen Customer Relationships</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer Segment</th>
<th></th>
<th>Significant Play in Mid-Segment Offerings</th>
<th>Mid-Segment Offerings for the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-End</td>
<td>Tailored Mid-Segment Offerings</td>
<td>Selective Low-End</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Marketing</th>
<th></th>
<th>Live With the Customer</th>
<th>Take Advantage of Global Relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Driven, Local Support</td>
<td>Full Local Marketing Capability &amp; Intelligence</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IP</th>
<th></th>
<th>Patent Filing Mainly for Local Market</th>
<th>Patent Filing for Both Local and Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trademark Registration and Protection</td>
<td>Detailed Measures to Protect “Know-How”</td>
<td></td>
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</tr>
</tbody>
</table>

## Winning Strategy

- E4E
- E2W
High Growth Regions (HGR)
High Growth Regions (HGR)

HGRs to Drive 70-80% Global Growth…

Estimated HGR Share of World GDP Growth* Percent

- Conference Board (to 2020) 78%
- McKinsey (to 2025) 74%
- BCG (2015) 71%

…Led by China and India

Forecasted Average Real GDP Growth 2011-15, Percent

- China 8.0
- India 6.5
- ASEAN-5 5.9
- Sub-Saharan Africa 5.6
- MENA 4.6
- CIS 4.6
- Latin America 4.1
- Advanced Economies 2.5

Share of HGR Growth to 2020 (Percent)

- China & India 42%
- ASEAN 15%
- ME & Africa 15%
- CIS 15%
- Latin America 13%
- Others 7%


Source: Conference Board, McKinsey, BCG, IMF, HON analysis
The World Continues To Shift

**The Past 10 Years**

- **Globalization A Major Driver**
  - HGRs Now ~30% of Global GDP vs. ~20%
  - >50% World GDP Growth From HGRs
  - Focus On China & India The Right Call

**The Next 10 Years**

- **HGRs Continue To Drive Growth**
  - China & India Growth Continues, But…
  - Expand Focus To Larger Population Of HGR’s
  - Focus Geographies Best Aligned With HON Strengths

### Source: Global Insight

**HGRs A Significant Growth Engine**

<table>
<thead>
<tr>
<th>Year</th>
<th>China &amp; India</th>
<th>Other Emerging</th>
<th>Real GDP, $T</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$2.2</td>
<td>$5.8</td>
<td>$8.0</td>
</tr>
<tr>
<td></td>
<td>+10% CAGR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>$5.5</td>
<td>$8.8</td>
<td>$14.3</td>
</tr>
<tr>
<td></td>
<td>+4% CAGR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>$11.8</td>
<td>$13.4</td>
<td>$25.2</td>
</tr>
</tbody>
</table>

### Source: Global Insight
HGR Has Similar Business Environments

Growth Regions…

Characterized by Common Trends

Move Into the Middle Class / Urbanization
- 2.3B HGR Middle Class by 2020 – 1.4B Increase

Construction
- HGRs 55% Global Industry by 2020 (From 35%)
- ~130% Increase in HGR Infrastructure to 2020 (vs. 20% in Developed)

Resource Intensive
- HGRs 75% of 2020 Global Energy Consumption

Environmental Challenges
- HGRs 62% of 2020 Global CO₂ Emissions

...Fast Growing but Relatively Poor

GDP Growth 2001-09 (% real)

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP Growth 2001-09 (% real)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.5</td>
</tr>
<tr>
<td>Developed</td>
<td>1.3</td>
</tr>
<tr>
<td>Argentina</td>
<td>4.9</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.4</td>
</tr>
<tr>
<td>China</td>
<td>10.8</td>
</tr>
<tr>
<td>India</td>
<td>7.7</td>
</tr>
<tr>
<td>Vietnam</td>
<td>7.3</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.3</td>
</tr>
<tr>
<td>Russia</td>
<td>4.7</td>
</tr>
<tr>
<td>Nigeria</td>
<td>9.7</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Nominal GDP per Capita 2009 (US$)

<table>
<thead>
<tr>
<th>Region</th>
<th>Nominal GDP per Capita 2009 (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>8,500</td>
</tr>
<tr>
<td>Developed</td>
<td>38,300</td>
</tr>
<tr>
<td>Argentina</td>
<td>7,670</td>
</tr>
<tr>
<td>Brazil</td>
<td>8,110</td>
</tr>
<tr>
<td>China</td>
<td>3,770</td>
</tr>
<tr>
<td>India</td>
<td>1,080</td>
</tr>
<tr>
<td>Vietnam</td>
<td>1,060</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2,350</td>
</tr>
<tr>
<td>Russia</td>
<td>8,740</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1,120</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>6,980</td>
</tr>
</tbody>
</table>

Source: OECD, “Global Construction 2020” (Global Construction Perspectives and Oxford Economics); EIA, UNCTAD
### New HGR Money Flows

**HGR Companies Becoming Global Leaders**

<table>
<thead>
<tr>
<th>Global Contracting/EPC</th>
<th>Global M&amp;A</th>
<th>Global Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 51 Chinese + 31 Turkish contractors in Top 225 (total int'l revenue ~$72B)</td>
<td>• <del>450 outbound M&amp;As in 2010 from China &amp; India (</del>$70B)</td>
<td>• 61 Chinese + 8 Indian companies in Fortune 500</td>
</tr>
<tr>
<td>• Strong in Africa, Asia, ME, etc</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Trend of State Capitalism**

Source: CEIC, lit-search

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**Capturing Growth From New Global Capital Flows**
Summary

Writing the China Playbook
• Developed Capabilities → Leadership, R&D, Sales & Marketing, etc.
• Capturing Opportunities in a High Growth Market
• Executing on E4E Strategy

China Becoming the Trendsetter
• 2nd Largest Economy… Yet Still A “Developing Country”
• Solving Some of the World’s Toughest Issues
  - ex: Energy, Environment, Sustainable Growth
• Determined, Resourceful, Talented Country

Abundant Growth Opportunities in HGRs
• Lion’s Share of Future Economic Growth
• Similar Business Environment and Needs as China / India
• Rapid Industrialization and Urbanization; Rising Middle Class

Honeywell’s Response
• Leverage China Playbook and Capabilities for HGRs
• E4E Innovation; Export E2W
• Follow Growth and Investment from China / India

Positioning For The Next Decade