

# **Honeywell**

## **Second Quarter 2010**

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### **Earnings Release**

### **July 23, 2010**

# Forward Looking Statements

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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 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.*

- **2Q Demonstrates Continued Recovery**
  - \$8.2B Sales, 13.6% Segment Margin, \$0.60 EPS, \$1.0B FCF
  - 8% Organic Sales Growth, Margins Up 130 bps
  - Increasing FY Guidance: \$2.40 – \$2.50 EPS, \$3.1 – 3.3B FCF
- **End Markets See Continued Improvement**
  - Early Cycle Recovery Continues, Turbo And General Industrial Strong
  - Sequential Uptick Commercial Aero Spares
  - Long Cycle Orders Growth In ACS Solutions, UOP And Commercial Aero
- **Growth Reflects Continued Seed Planting**
  - Announced Sperian Acquisition – Enhanced Position In Attractive PPE Space
  - Asia-Pac Up Strongly; Building Future Platforms – COMAC, HPS Wins
  - New Products Continue To Make a Difference, Contributing To Organic Growth
  - 1st HOS Silver Attainments – Trieste And Atesa, Italy (HLS, Turbo)

***Another Quarter Ahead Of Expectations***

# Financial Summary

Honeywell

<i>(M)</i>	<u>2Q09</u>	<u>2Q10</u>	
<b>Sales</b>	\$7,566	\$8,161	<ul style="list-style-type: none"> <li>• 8% Increase</li> <li>◆ 8% Organic</li> </ul>
<b>Segment Profit</b>	\$930	\$1,107	<ul style="list-style-type: none"> <li>• 19% Increase</li> <li>◆ ACS +90 bps</li> <li>◆ TS +810 bps</li> <li>◆ SM +270 bps</li> </ul>
<i>Margin %</i>	12.3%	13.6%	
<b>Net Income</b>	\$450	\$468	<ul style="list-style-type: none"> <li>• 4% Increase</li> </ul>
<i>Attributable to Honeywell</i>			
<b>EPS</b>	\$0.60	\$0.60	<ul style="list-style-type: none"> <li>• Flat</li> <li>◆ 24% Increase Ex-Pension</li> </ul>
<i>EPS, Ex-Pension</i>	\$0.63	\$0.78	
<b>Free Cash Flow</b>	\$1,009	\$975	<ul style="list-style-type: none"> <li>• 208% Conversion</li> <li>◆ 160% Ex Non-Cash Pension</li> </ul>

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

- **What We Are Seeing**
  - Strengthening AT&R Flight Hours, Commercial Spares Order Rates
  - Continued Recovery In Early Cycle, Industrial Businesses
  - Significant Rebound In European Auto Production Rates 1H
  - Double Digit Growth In Emerging Regions
  - UOP/HPS Winning New Energy Infrastructure Projects
  
- **What We Are Expecting**
  - Global Airline Capacity, Commercial OE Production Rate Increases
  - Global Energy Infrastructure Additions – Emerging Regions
  - Eurozone Recovery To Remain Slow / Ongoing F/X Pressure
  - Declining Stimulus, High Gov't Deficit Concerns
  - Asia Growth Continues Strong

***End Markets Improving, Remaining Cautious***

# Aerospace

Honeywell

<i>(\$M)</i>				<u><b>Financial Highlights</b></u>	
	<u>2Q09</u>	<u>2Q10</u>	<u>V</u>		
Sales	\$ 2,719	\$ 2,647	(3)%	<ul style="list-style-type: none"> <li>• <b>Sales Down 3%</b> <ul style="list-style-type: none"> <li>- <b>Air Transport &amp; Regional Flat</b> <ul style="list-style-type: none"> <li>◆ OE Up 8%</li> <li>◆ Aftermarket (4)%, Up Sequentially</li> </ul> </li> <li>- <b>Business &amp; General Aviation Down 13%</b> <ul style="list-style-type: none"> <li>◆ OE (36)%, Although Stable</li> <li>◆ Aftermarket Up 8%, Improving Utilization Rates</li> </ul> </li> <li>- <b>Defense &amp; Space Down 1%</b> <ul style="list-style-type: none"> <li>◆ Program Ramp Down, Comm'l Helo Softness</li> <li>◆ Services Up 1%</li> </ul> </li> </ul> </li> <li>- <b>Segment Profit Down 2%</b> <ul style="list-style-type: none"> <li>◆ Flat Margins                             <ul style="list-style-type: none"> <li>+ Productivity, Net Of Inflation</li> <li>- Volume</li> <li>- BGA OE Payments</li> </ul> </li> </ul> </li> </ul>	
Segment Profit	454	443	(2)%		
Margin	16.7%	16.7%	Flat		
<u><b>Business Highlights</b></u>					
<ul style="list-style-type: none"> <li>+ COMAC 919 Wins</li> <li>+ Flight Hours Improving (ATR, BGA)</li> <li>+ Sequential Commercial Growth 2H</li> <li>+ Cost Actions</li> <li>- Parked Aircraft</li> <li>- Maintenance Deferrals</li> </ul>					

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

# Automation And Control Solutions

Honeywell

<i>(\$M)</i>				<u><b>Financial Highlights</b></u>			
	<u>2Q09</u>	<u>2Q10</u>	<u>Δ</u>				
Sales	\$ 3,013	\$ 3,237	7%	<ul style="list-style-type: none"> <li>• <b>Sales Up 7%</b> <ul style="list-style-type: none"> <li>◆ 7% Organic</li> </ul> </li> <li>- <b>Products Up 9%</b> <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 36%, Americas Up 7%, EMEA Up 7%</li> <li>◆ Commercial Holding Up – NPI Impact</li> </ul> </li> <li>- <b>Solutions Up 6%</b> <ul style="list-style-type: none"> <li>◆ Global Energy Efficiency Growth</li> <li>◆ Organic Orders: +12%, HPS +22%</li> </ul> </li> </ul>			
Segment Profit	346	401	16%				
Margin	11.5%	12.4%	+90 bps	<ul style="list-style-type: none"> <li>• <b>Segment Profit Up 16%</b> <ul style="list-style-type: none"> <li>◆ 90 bps Margin Expansion                             <ul style="list-style-type: none"> <li>+ Productivity, Net Of Inflation</li> <li>+ Product / Solutions Mix</li> </ul> </li> </ul> </li> </ul>			
<u><b>Business Highlights</b></u>							
<ul style="list-style-type: none"> <li>+ Continued Short Cycle Improvement</li> <li>+ Emerging Regions Growth</li> <li>+ New Products – ECC, HLS, S&amp;M</li> <li>+ Restructuring Benefits</li> <li>- Residential Softness</li> <li>- Slower European Growth</li> </ul>							

***Continued Growth And Operating Leverage***

# Sperian Acquisition

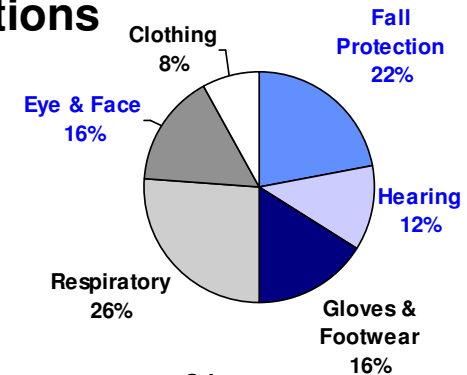
## Strategic Rationale

- **Highly Attractive, Fragmented And Growing \$20B Space**
  - Regulated By Codes & Standards
- **Extends HON Leading PPE Positions**
  - Creates ~\$2B Global Franchise With Premium Brands
- **Highly Complementary Product Lines, Regions And Channels**
- **Robust Integration Process With Proven Acquisition Track Record**
  - Significant Synergy Opportunities Expected
- **Big Emerging Market Opportunity**

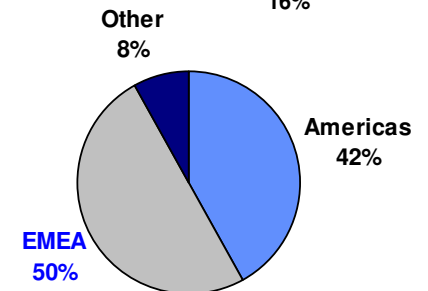
## Business Overview

- **Key Financials**
  - Sales ~\$900M
  - Sales And Margin Upside
  - EPS Accretive 2011

- **Premium Positions**



- **Geographies**



***Great Fit With ACS Safety Products***



# Transportation Systems

Honeywell

<i>(\$M)</i>	<u>2Q09</u>	<u>2Q10</u>	<u>Y</u>	<u>Financial Highlights</u>	
Sales	\$ 786	\$ 1,018	30%	• Sales Up 30%	◆ 32% Organic
Segment Profit	25	115	360%	- Turbo Up 41%	◆ New Platform Successes
Margin	3.2%	11.3%	+ 810 bps	◆ Higher PV/CV Production Volumes Europe And Asia	
				- CPG Up 2%	◆ Improved Operational Performance
<u>Business Highlights</u>				• Segment Profit Up \$90M	◆ 810 bps Margin Expansion
+ Global OE Production Rebound				+ Volume	
+ Improving Diesel Penetration				+ Productivity, Net Of Inflation	
+ Turbo Share Gains On New Launches					
+ Restructuring Benefits					
+ Continued CPG Performance					
- 2H OE Production Rate Decline Expected					

***Significant Uptick 1H, Slower Growth 2H***

# Specialty Materials

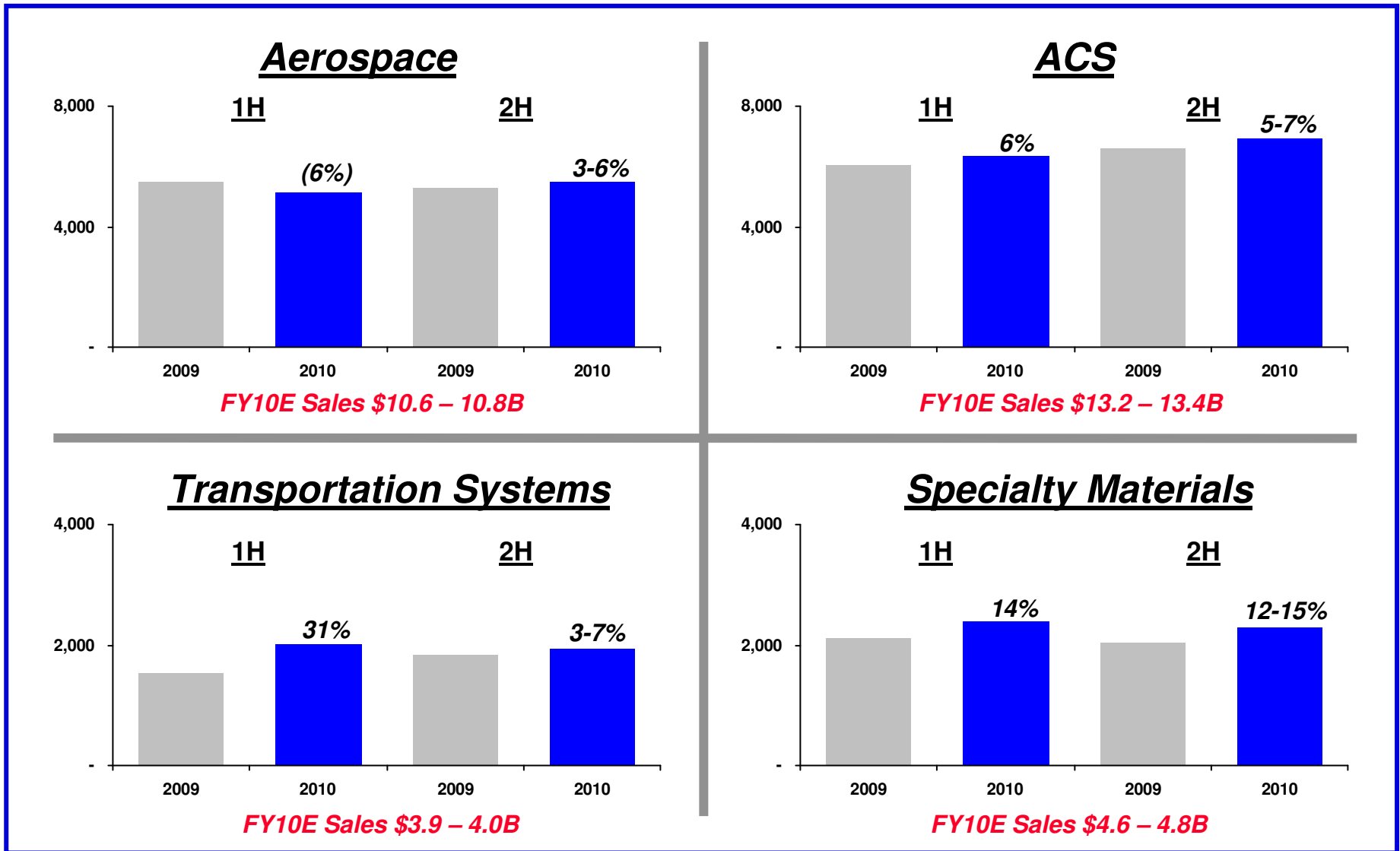
Honeywell

<i>(\$M)</i>				<u><b>Financial Highlights</b></u>	
	<u>2Q09</u>	<u>2Q10</u>	<u>V</u>		
Sales	\$ 1,048	\$ 1,259	20%	<ul style="list-style-type: none"> <li>• <b>Sales Up 20%</b> <ul style="list-style-type: none"> <li>- <b>UOP Up 6%</b> <ul style="list-style-type: none"> <li>◆ Large Catalyst Shipment, Strong Equipment Demand</li> </ul> </li> <li>- <b>Resins and Chemicals Up 27%</b> <ul style="list-style-type: none"> <li>◆ Improved Global Markets, Plant Performance And Pass-Through Pricing</li> </ul> </li> <li>- <b>Fluorines Up 26%, Specialty Products Up 32%</b> <ul style="list-style-type: none"> <li>◆ Strong Commercial Execution</li> <li>◆ Electronic Materials Up Sharply</li> </ul> </li> </ul> </li> <li>• <b>Segment Profit Up 43%</b> <ul style="list-style-type: none"> <li>◆ 270 bps Margin Expansion                             <ul style="list-style-type: none"> <li>+ Volume</li> <li>+ Productivity</li> </ul> </li> </ul> </li> </ul>	
Segment Profit	150	214	43%		
Margin	14.3%	17.0%	+270 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 Mix</b></li> <li>- <b>Raw Material Costs</b></li> </ul>					

***Improved Global Markets***

# 2010 Sales Outlook

Honeywell



**1H Strength, 2H Growth Continues**

# 1H To 2H 2010 Comparison

Honeywell

	<u>1H10</u>	<u>2H10</u>	
Organic Growth	4%	~6 - 8%	<ul style="list-style-type: none"> <li>• Continued 2H Growth                             <ul style="list-style-type: none"> <li>◆ F/X (3%)</li> <li>◆ Acq/Div +2%</li> </ul> </li> </ul>
Segment Margin <i>Margin Expansion</i>	13.4% +150 bps	~14.0 - 14.5% <i>Flat - (50) bps</i>	<ul style="list-style-type: none"> <li>• 2H09 Cost Actions</li> </ul>
Tax Rate	27.6%	~25.5%	<ul style="list-style-type: none"> <li>• 1H Health Care Charge</li> </ul>
Share Count	774	~785 - 790	<ul style="list-style-type: none"> <li>• Pension Contribution</li> </ul>

***Ties To FY Guidance – \$2.40 - \$2.50***

# 3Q10 Sales Preview

Honeywell

<i>(\$B)</i>	<u>Sales</u>	<u>Comments</u>
Aerospace	~2.6 – 2.8	<ul style="list-style-type: none"><li>• Sequential Commercial AM Improvement</li><li>• Modest Growth Defense</li></ul>
ACS	~3.3 – 3.4	<ul style="list-style-type: none"><li>• Sustaining 2Q Momentum</li><li>• Acq. +1% Estimated Impact</li></ul>
Transportation	~0.9 – 1.0	<ul style="list-style-type: none"><li>• EU LV Production Lower Than 1H</li><li>• F/X Rate Lower Than Prior Year</li></ul>
Specialty	~1.1 – 1.2	<ul style="list-style-type: none"><li>• Continued End Market Improvement</li><li>• Formula Pricing +3% Estimated Impact</li></ul>

***3Q10 Sales ~\$8.0B - \$8.3B***

# 3Q10 Earnings Guidance

Honeywell

<b>2Q10 EPS</b>	<b>\$0.60</b>	
Operating Earnings	+\$0.03 – \$0.07	• <b>Seasonality And Recovery</b>
Higher Tax Rate	(\$0.02)	• <b>Expect Lower Tax Rate In 4Q</b>
<b>Subtotal</b>	<b>\$0.61 – \$0.65</b>	
Sperian Dilution	(\$0.03) – (\$0.04)	• <b>Timing Dependent</b>
<b>3Q10 EPS Guidance</b>	<b>\$0.57 – \$0.62</b>	

***3Q10 EPS ~\$0.57 – \$0.62***

# Summary

- **2Q Performance Ahead Of Expectations**
  - Continued Strength In TS, SM, ACS Short-Cycle
  - Uptick In Commercial AM Orders
- **2H – Strong Organic Growth**
  - Commercial Aero Utilization Rates Drive AM Improvement
  - Industrial And Emerging Markets Continue Strong
  - Turbo Up, But At Lesser Rate
  - Tougher YOY Comps Due To 2009 Cost Actions
- **Revised Higher Full Year Outlook**
  - Raising FY10 EPS To \$2.40 – \$2.50
  - Free Cash Flow To \$3.1 – \$3.3 Billion

***Strong 1H, Improved FY Outlook***

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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 Margin

**Honeywell**

<i>(\$M)</i>	<b>2Q09</b>	<b>2Q10</b>
Sales	\$7,566	\$8,161
Cost of Products and Services Sold	(5,682)	(6,268)
Selling, General and Administrative Expenses	(1,084)	(1,162)
Operating Income	<u>\$800</u>	<u>\$731</u>
Stock Based Compensation (1)	35	36
Repositioning and Other (1, 2)	153	137
Pension Expense (1)	30	191
OPEB (Income) Expense (1)	(88)	12
Segment Profit	<u>\$930</u>	<u>\$1,107</u>
Operating Income	\$800	\$731
÷ Sales	<u>\$7,566</u>	<u>\$8,161</u>
Operating Income Margin %	<u>10.6%</u>	<u>9.0%</u>
Segment Profit	\$930	\$1,107
÷ Sales	<u>\$7,566</u>	<u>\$8,161</u>
Segment Profit Margin %	<u>12.3%</u>	<u>13.6%</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

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

**Honeywell**

(\$B)	2009	1H10	2H10E	2010E
Sales	\$30.9	\$15.9	\$16.5 - \$17.0	\$32.4 - \$32.9
Cost of Products and Services Sold	(23.2)	(12.3)	(12.5) - (12.9)	(24.8) - (25.2)
Selling, General and Administrative Expenses	(4.3)	(2.3)	(2.4) - (2.6)	(4.7) - (4.9)
Operating Income	\$3.4	\$1.4	\$1.5 - \$1.7	\$2.9 - \$3.1
Stock Based Compensation <sup>(1)</sup>	0.1	0.1	~ 0.1	~0.2
Repositioning and Other <sup>(1, 2)</sup>	0.5	0.3	~ 0.2	~0.5
Pension and OPEB Expense <sup>(1)</sup>	0.1	0.4	0.4	0.8
Segment Profit	\$4.1	\$2.1	\$2.3 - \$2.5	\$4.4 - \$4.6
Operating Income	\$3.4	\$1.4	\$1.5 - \$1.7	\$2.9 - \$3.1
÷ Sales	\$30.9	\$15.9	\$16.5 - \$17.0	\$32.4 - \$32.9
Operating Income Margin %	11.0%	8.8%	9.5% - 10.3%	9.0% - 9.5%
Segment Profit	\$4.1	\$2.1	\$2.3 - \$2.5	\$4.4 - \$4.6
÷ Sales	\$30.9	\$15.9	\$16.5 - \$17.0	\$32.4 - \$32.9
Segment Profit Margin %	13.3%	13.4%	14.0% - 14.5%	13.5 - 14.0%

(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>2Q09</b>	<b>2Q10</b>
Cash Provided by Operating Activities	\$1,126	\$1,090
Expenditures for Property, Plant and Equipment	(117)	(115)
Free Cash Flow	<u>\$1,009</u>	<u>\$975</u>
Cash Provided by Operating Activities	\$1,126	\$1,090
÷ Net Income Attributable to Honeywell	\$450	\$468
Operating Cash Flow Conversion %	<u>250%</u>	<u>233%</u>
Free Cash Flow	\$1,009	\$975
÷ Net Income Attributable to Honeywell	\$450	\$468
Free Cash Flow Conversion %	<u>224%</u>	<u>208%</u>

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

**Honeywell**

**(\$B)**

**Cash Provided by Operating Activities**  
**Expenditures for Property, Plant and Equipment**  
**Free Cash Flow**

**2010E**

**\$3.8 - \$4.0**

**~(0.7)**

**\$3.1 - \$3.3**

**Cash Provided by Operating Activities**  
**÷ Net Income Attributable to Honeywell**  
**Operating Cash Flow Conversion %**

**\$3.8 - \$4.0**

**~\$1.9**

**~200%**

**Free Cash Flow**  
**÷ Net Income Attributable to Honeywell**  
**Free Cash Flow Conversion %**

**\$3.1 - \$3.3**

**~\$1.9**

**~170%**

## Calculation of Cash Flow Conversion, Excluding Pension Expense

**Honeywell**

**(\$M)**

**2Q10**

<b>Net Income Attributable to Honeywell</b>	<b>\$468</b>
<b>Pension Expense, net of tax</b>	<b>140</b>
<b>Net Income Attributable to Honeywell, Excluding Pension</b>	<b>\$608</b>
<b>Free Cash Flow</b>	<b>\$975</b>
<b>÷ Net Income Attributable to Honeywell, Excluding Pension</b>	<b>\$608</b>
<b>Free Cash Flow Conversion %, Excluding Pension</b>	<b>160%</b>

## Reconciliation of EPS to EPS, Excluding Pension

**Honeywell**

(\$B)	<u>2Q09<sup>(1)</sup></u>	<u>2Q10<sup>(1)</sup></u>	<u>2009<sup>(1)</sup></u>	<u>2010E<sup>(2)</sup></u>
EPS	\$0.60	\$0.60	\$2.85	~\$2.40 - \$2.50
Pension Expense	0.03	0.18	0.10	~\$0.74
EPS, Excluding Pension	<u>\$0.63</u>	<u>\$0.78</u>	<u>\$2.95</u>	<u>~\$3.14 - \$3.24</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.

**Honeywell**