

# **Honeywell**

## **2010 Outlook**

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**December 16, 2009**

# 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.*

- **Strong Finish to 2009**
  - Holding Segment Margins ~Flat at 13.3%
  - Strong Cash Generation → Delivering ~\$3B FCF
- **Challenging Economy → Signs of Stabilization**
  - Improvement in Order Rates
- **Continued Seed Planting**
  - Strategic Growth Platforms: Energy Efficiency, New Products, EMR
  - Traction on Key Process Initiatives – HOS/VPD™/FT
- **Planning Conservatively for 2010**
  - Modest Organic Growth, Margin Improvement
  - Growth in Earnings (Excluding Pension)
  - Pension → Accounting Outlier; Economics In-Line
- **Executing Well...Significantly Different Company**
  - Strongly Positioned for Economic Recovery

***Executing Well***

# What's Different

Honeywell

## Prior Downturn

- Convergence of 3 Distinct Entities
- Lack of Visibility to Cost Drivers
- Few New Products...Cupboard Bare
- Portfolio Challenges
- Weak Sales Force, Poor Marketing
- Underpenetrated Emerging Regions

*Significantly Underperformed*

## Today

- Resilient One Honeywell Culture
  - *5 Initiatives, Leadership Development*
- Intelligent Cost Management
  - *HOS, FT, ERP, Indirect Spend*
- New Products and Growth Investments
  - *Seed Planting, VPD™*
- Great Positions in Good Industries
  - *Proven M&A Process*
- Sales and Marketing Excellence
  - *Analytics And Training*
- Expanded Portfolio, Global Presence
  - *Emerging Regions = Growth Driver*

*Strong Performance, Investing In Future*

***A Very Different...And Much Better Company***

# 2009 Summary

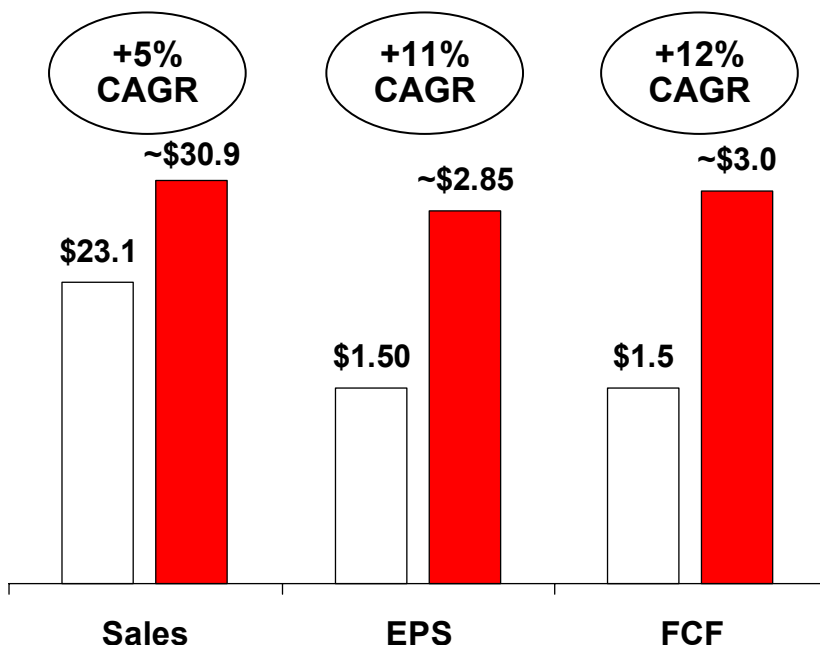
Honeywell

Consolidated (\$B)	2009E	Growth 2009E vs. 2008
Sales	\$ 30.9	(15)%
Segment Profit	\$ 4.1	(15)%
Segment Margin	13.3%	Flat
EPS	\$ 2.85	(24)%
Free Cash Flow	\$ 3.0	3%
FCF Conversion	140%	36 pts

## 2009 Highlights

- Progressive End Market Softening
- Executed Aggressive Cost Controls
- Held Segment Margins Flat
- Strong Free Cash Flow Conversion
- Continued To Invest For Growth
- Progress On Key Initiatives
- Successful M&A Integration
- Voluntary Pension Contributions
- Focused Efforts → Sales Force Excellence & Emerging Markets

## 2003-2009E Track Record



**Good Performance In Tough Environment**

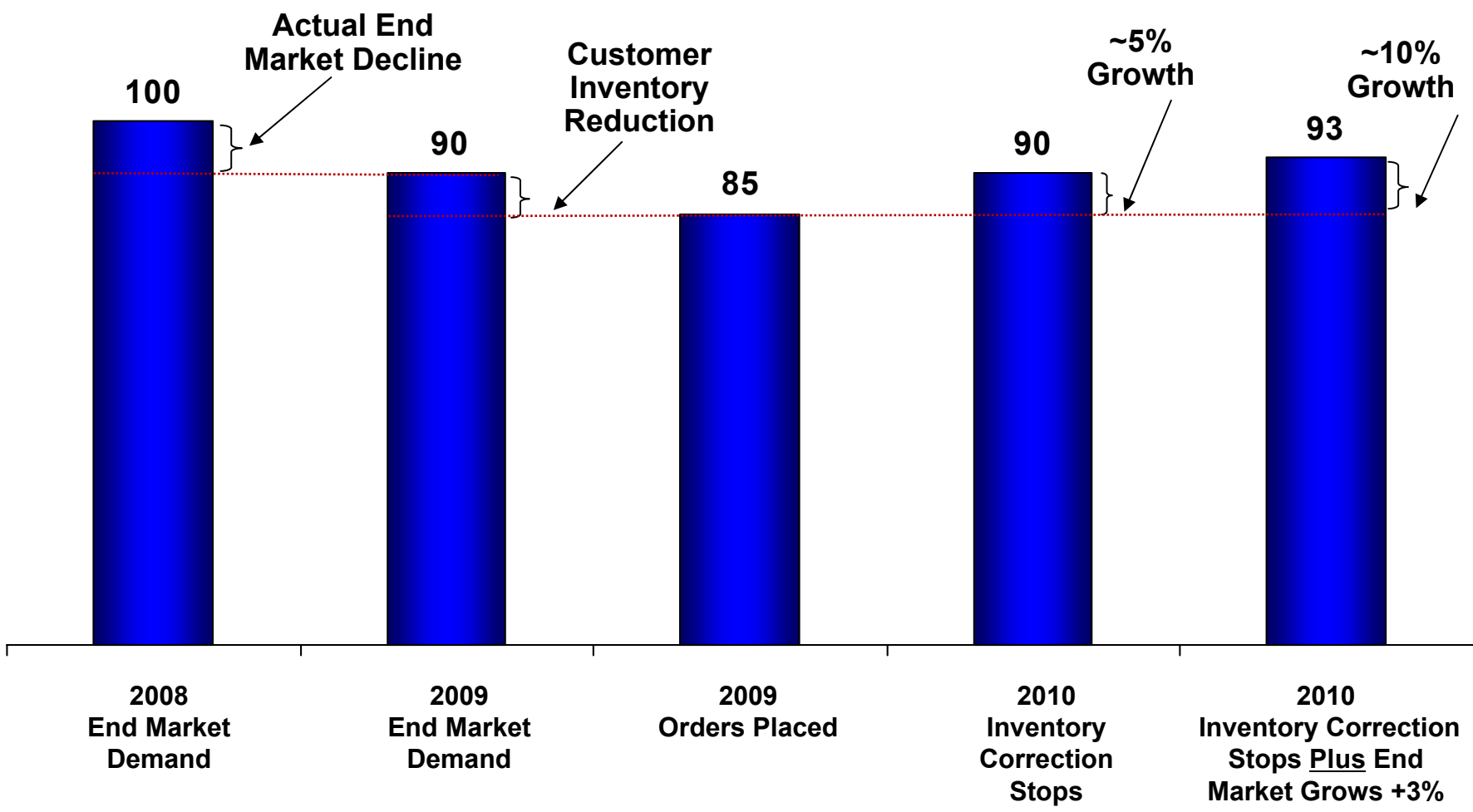
# Key Market Assumptions

Business	2010 Drivers	2010 Planning
AT&R	Flight Hours OE Deliveries	2% to 4% (10)% to (15)%
B&GA	TFE Flight Hours OE Deliveries	10% to 15% (10)% to (15)%
Defense	DOD Budget	Flat
ACS – Developed	US/EU Housing Sales	Improving
	US/EU Non-Res	Downturn
	Retrofit / Regulation	Modest Growth
	Industrial Cap/Op Ex	Stable
ACS – Emerging	New Construction	Growth
Turbocharging	Europe Auto Production	Flat
	Europe Diesel Penetration	2 pts Increase
	New Turbo Launches	100+ Launches
UOP	Refining / Gas / Petrochem	Stable, EM Growth

***Conditions Improving Overall***

# End Of Destocking

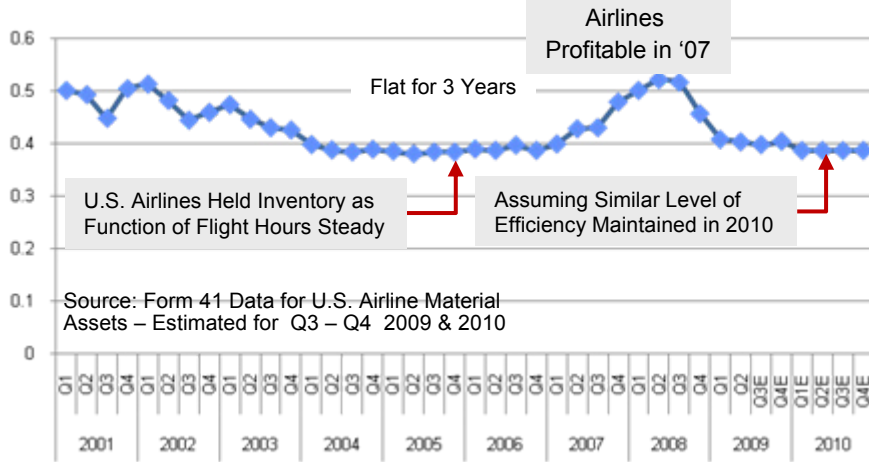
Index Point: Year 2008 = 100



***When Does The Inventory Correction Stop?***

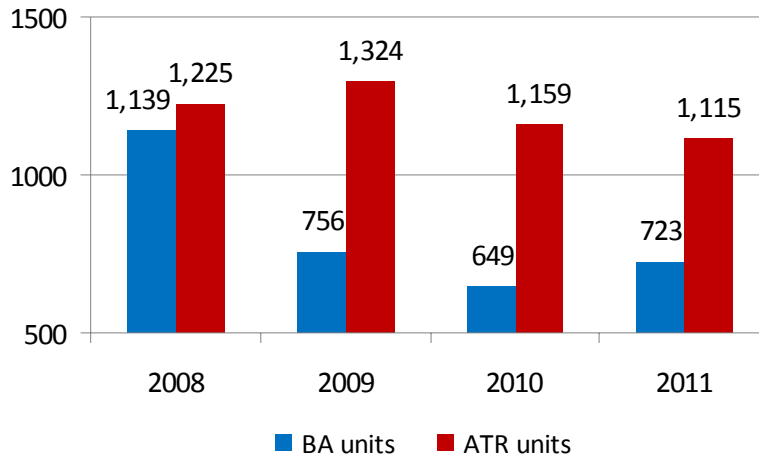
# Commercial Aero Indicators

U.S. Airline Inventory normalized by Flight Hours (\$000 / FH)



- Inventory-to-Flight Hours Ratio Decline
- Includes Both AM and Initial Provisioning
- AM Could Recouple to Utilization 2H10
- IP Spares Restocking Expected 2011/12

New Aircraft Deliveries



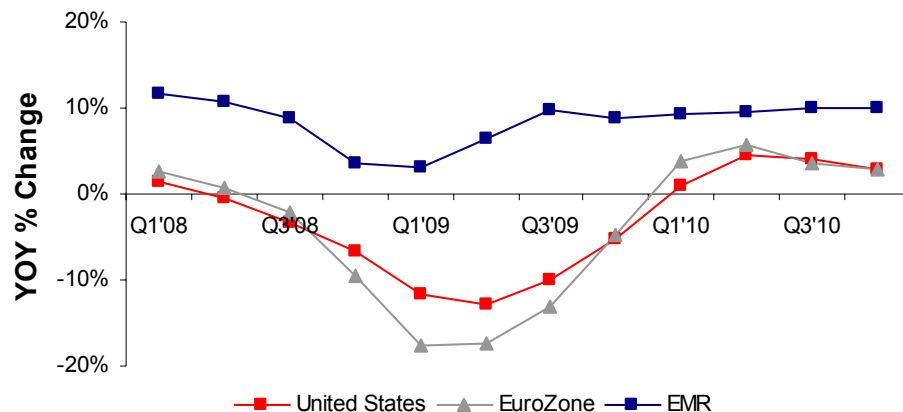
- OE Delivery Downturn in 2010
- Regionals Declining, 70-90 Seats Pressured
- BGA Peak-to-Trough ↓ 40%, Uptick 2011

**OE Headwinds Continue, Commercial AM Recovery Begins**



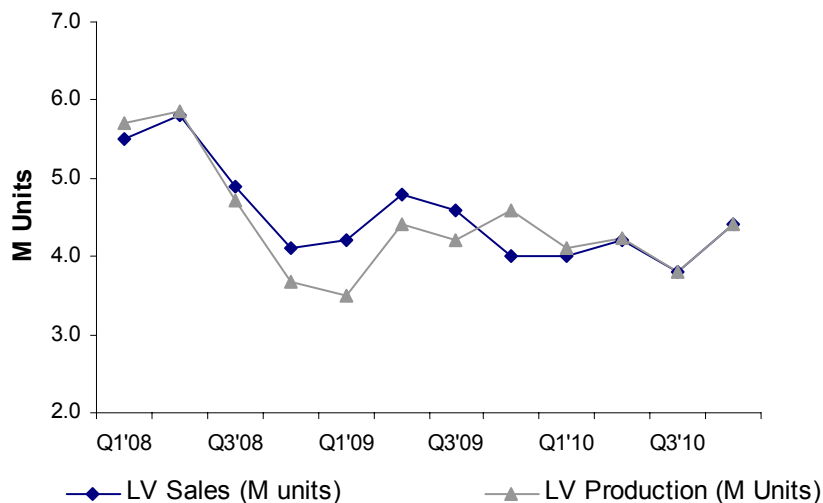
# Other Key Economic Indicators

### Industrial Production



- Correlated to HON Industrial Segments
- 3-6 Month Leading Indicator
- Developed Markets Improving, Up in 2010
- Emerging Regions Remain Strong

### Europe Auto



- Destocking Through 3Q09
- Scrappage Incentives Mostly Phased Out
- Flat EU Production 2010
- 2010 Sales In-Line with Production

**Clear Signs Of Stabilization**

# 2010 Financial Guidance Summary

Consolidated (\$B)	2010 Financial Outlook	Growth 2009E vs. 2010E
Revenues	\$ 31.3 - 32.2	1% - 4%
Segment Profit	4.1 - 4.4	1% - 8%
Segment Margin	13.3% - 13.8%	0 bps - 50 bps
Net Income	1.7 - 1.9	(13)% - (21)%
EPS	\$ 2.20 - 2.40	(16)% - (23)%
EPS, Excl. Pension*	\$ 3.00 - 3.20	1% - 8%
Free Cash Flow	\$ 2.4 - 2.7	(10)% - (20)%

\* Pension Expense Excluded from 2009E and 2010E

## Low End

- Lower Global GDP Growth
- Emerging Markets Stall
- Unfavorable Mix – UOP, ACS Distribution
- Inflation / Productivity Worse
- Stronger Dollar – EUR < \$1.35

## High End

- + Stronger Global GDP Growth
- + Emerging Markets Better
- + Favorable Mix – Comm'l AM, ACS Products
- + Inflation / Productivity Better
- + Weaker Dollar – EUR > \$1.35

***Planning Conservatively In 2010***

# Pension Accounting Outlier

- HON Quicker To Feel The Highs And The Lows
  - 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)

## Pension Expense Comparison (\$M)

	<u>2009</u>	<u>2010</u>	<u>'10 Headwind</u>
HON Acctg	\$120	\$850	\$730
HON w/ Peer Acctg*	\$190	\$350	\$160

- Change Made Some Time Ago, Unfortunately Can't Undo

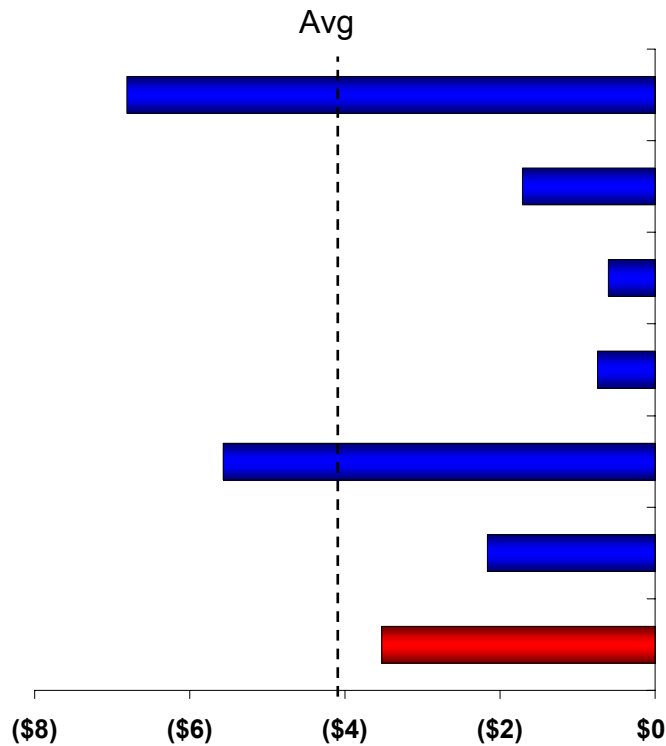
*\*Assumes 5 year smoothing, 10 year amortization period, and 6.2% and 5.8% average discount rate, 2009 and 2010 respectively*

***Accounting Does Not Directly Reflect Economics***

# Pension Funding Vs. Peers

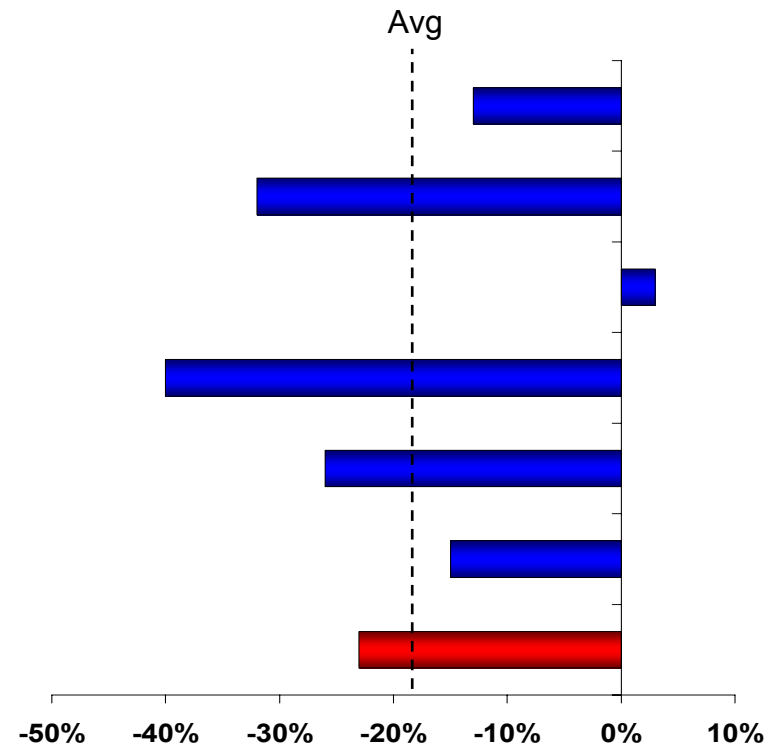
12/31/08 Measurement Date

## Funded Status \$B



## Over / (Under) Funded Status % \*\*

Peers



\*Data as of 9/30/09

\*\* Over/(Under) Funded Status % = (Pension Assets - Pension Liabilities PBO) / Pension Liabilities PBO

**Honeywell Not An Outlier**

# Pension And BTL Assumptions

(\$M)	2010 Pension Expense			2010 P&L (Income) / Expense		(\$M)
	<u>Estimated 2009 Actual Return</u>					
Estimated Discount Rate 12/31/09	<u>15%</u>	<u>20%</u>	<u>25%</u>			
5.25%	930	900	870	Pension	~850	
5.50%	880	850	820	OPEB	~75	} <i>Other BTL In Line With 2009E</i>
5.75%	840	800	770	Interest	~400	
6.00%	790	750	720	Environmental	~170	
				Net Asbestos	~150	
				Repo and Other	~150 - 200	
					~1,795 - 1,845	

\*2009 Forecasted Pension Expense ~\$120M

**2010 Pension Headwind Likely ~\$700M**

<b>(\$B)</b>	<b>2010 Financial Outlook</b>	<b>Growth 2010E vs. 2009E</b>
Revenues	\$ 10.8 - 11.0	0% - 2%
Segment Profit	1.9 - 2.0	3% - 8%
Segment Margin	17.6% - 18.1%	50 bps - 100 bps

## Macro Drivers

- Aftermarket Stabilization
- Improving Global Flying Hours
- Recovery in Biz Jet Utilization
- Commercial OE Production Cuts
- Flattish U.S. Defense Budgets
- Growing Role of Emerging Regions

## Business Highlights

- New Platforms and New Products
  - F-35, G650, 787, Synthetic Vision
- Modernization, Services Growth & Int'l Defense
  - New Contracts
- Aftermarket More In Line With Utilization
  - Flight Hours / Engine Utilization Growth
- Restructuring Savings

***Executing Well In Mixed Environment***

# Automation And Control Solutions

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<b>(\$B)</b>	<b>2010 Financial Outlook</b>	<b>Growth 2010E vs. 2009E</b>
<b>Revenues</b>	<b>\$ 12.7 - 13.0</b>	<b>1% - 3%</b>
<b>Segment Profit</b>	<b>1.5 - 1.6</b>	<b>1% - 7%</b>
<b>Segment Margin</b>	<b>12.2% - 12.6%</b>	<b>0 bps - 40 bps</b>

## Macro Drivers

- **Mega Trends in Safety, Security, Energy Efficiency**
  - **Regulations Driving Retrofits**
- **Slower Recovery in Developed Regions**
- **Non-Residential Construction Declines**
- **Continued Emerging Region Strength**

## Business Highlights

- **Continued New Product and Emerging Region Growth**
  - **400+ New Products**
- **Energy Efficiency Growth**
  - **Homes, Buildings, Industrial**
- **Acquisition Execution**
  - **Integration Savings**
- **Restructuring Savings**

***Diversified, Global Portfolio Strength***

# Transportation Systems

Honeywell

<b>(\$B)</b>	<b>2010 Financial Outlook</b>	<b>Growth 2010E vs. 2009E</b>
Revenues	\$ 3.5 - 3.7	4% - 10%
Segment Profit	0.2 - 0.3	70% - 90%
<i>Segment Margin</i>	<i>7.0% - 8.0%</i>	<i>260 bps - 360 bps</i>

## Macro Drivers

- Favorable Fuel Economy, Efficiency, Emissions Trends
- Improving Turbo Penetration
- Global Production Up / New Launches
- Commercial Vehicle Stabilization
- Aftermarket Growth → Aging Car Parc

## Business Highlights

- Significant New Wins / New Products
  - Top 15 Platforms Contributing \$3B+ Future Revenues
- New Turbo Launches – 100+
- CPG Operational Improvement
- Restructuring Savings

***Multi-Year Positive Outlook***



<b>(\$B)</b>	<b>2010 Financial Outlook</b>	<b>Growth 2010E vs. 2009E</b>
Revenues	\$ 4.3 - 4.5	3% - 8%
Segment Profit	0.6 - 0.7	0% - 10%
<i>Segment Margin</i>	<i>14.2% - 14.8%</i>	<i>0 bps - 60 bps</i>

## Macro Drivers

- Increasing Global Energy Demand
- Environmental Regulations
- Renewable Energy / Biofuels
- US Refining Project Delays
- Emerging Region Strength
- Commodity Price Increases

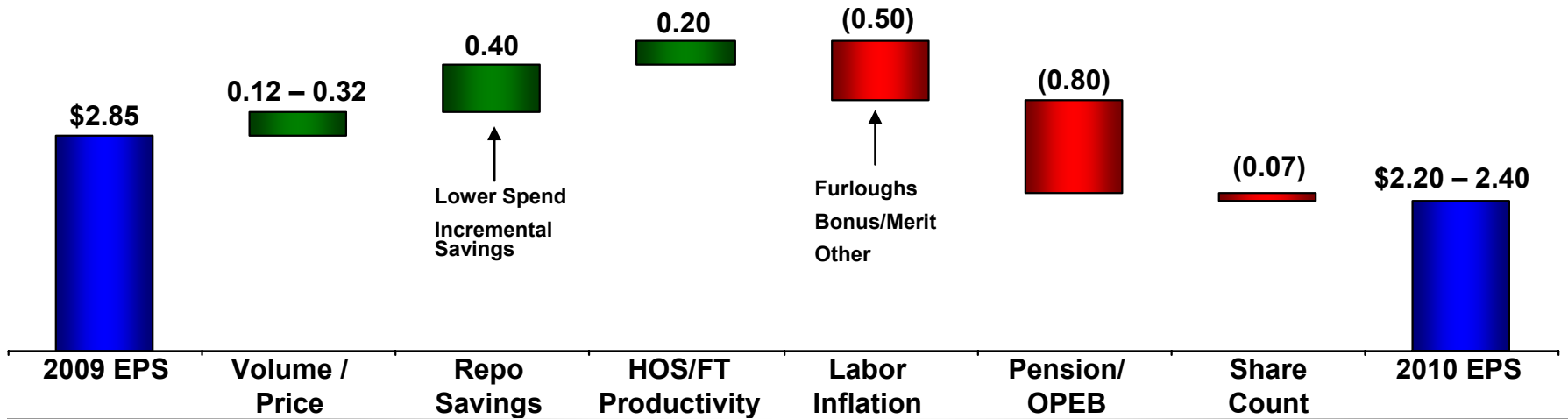
## Business Highlights

- UOP Catalyst Reloads / New Technologies
  - Robust Backlog
- New Products and Emerging Regions
  - Fluorines, Specialty
- Price and Productivity Driving Margins
  - Offsetting Commodity Costs

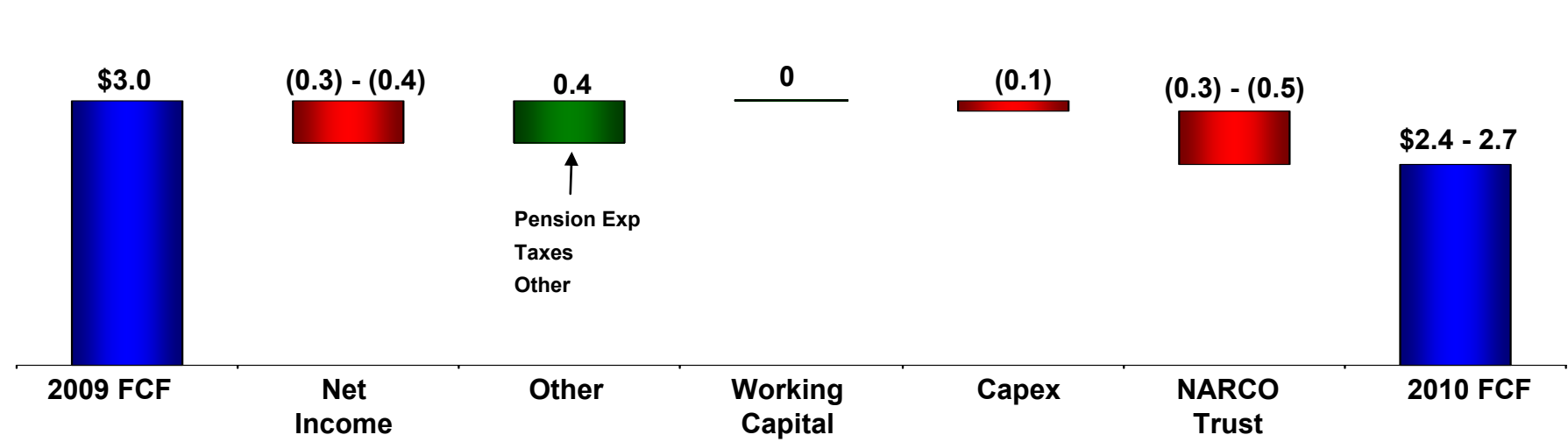
***Strong Overall Performance***

# 2010 Walks

## Earnings Per Share



## Free Cash Flow (\$B)

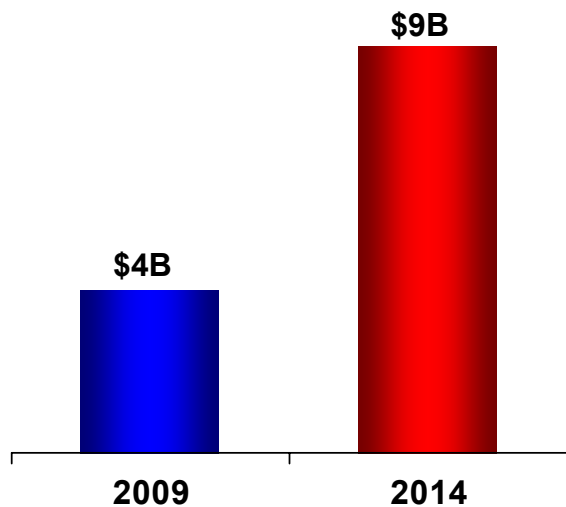


***Clear Path To Targets***

# Seed Planting

## New Products

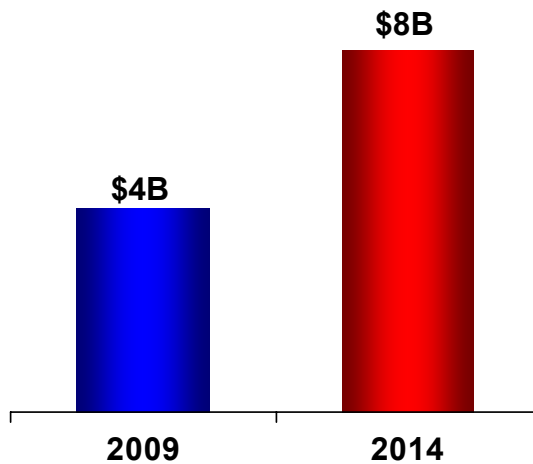
**+15%  
CAGR**



**~\$5B Growth**

## Emerging Markets

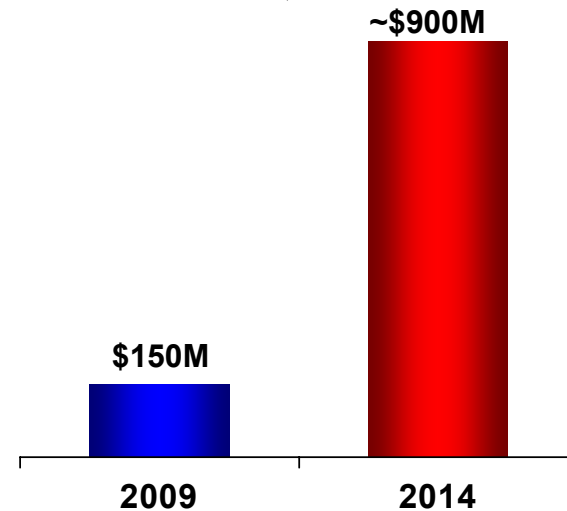
**+10%  
CAGR**



**~\$4B Growth**

## HOS Productivity

**~\$150M /  
YR**



**+\$750M Savings**

**Drive Growth And Sustainable Operating Performance**

# Seed Planting Evidence

Honeywell

## Aerospace

- APU & Avionics Retrofits & Upgrades
- Flight Efficiency & Safety
- Airline Selectable & MSA Wins
- International Market Expansion

## ACS

- New Product Development Process
- Energy Efficiency Solutions
- Emerging Region Penetration
- Advanced Wireless Offerings

## Transportation Systems

- Turbo Win Rate 50%+
- Next Generation VNT™
- Diesel, Gas, Hybrid Applications
- Increasing ER Footprint

## Specialty Materials

- Renewables / Biofuels
- Heavy Oil Hydrocracking
- Methanol-to-Olefins
- Low Global Warming Refrigerants

***Investing For The Future***

# Long-Term Growth Drivers

Honeywell

## 2010

- Comm'l Aero OE Deliveries Declining
- Improving Global Flying Hours

- Defense Budgets Flattening
- Shift in OCO Focus

- Energy Efficiency Focus
- Regulations Fueling Tech Innovation

- Growing Role of Emerging Regions
- Refining / Petrochemical Industry Weakness

## 2011 – 2014

- Global Airline Capacity Increases
- Replacement Cycle Will Accelerate
- Share Gains on New A/C Platforms

- Continued Defense Needs for Logistics, Services, Upgrades
- Growth in Non-US Defense Spending

- Mega Growth Trend → Reduce Emissions
- Smart Grid → Dynamic Energy Model
- New Product Portfolio Gaining Share

- Focused Investments Grow Entitlement
- Global Demand for Energy, Refined Goods
- Growth in Renewable Transportation Fuels

***HON Well Positioned To Capture Mega-Trend Growth***

- **Global Economic Environment Still Tough**
  - US and Europe Slower to Recover
  - Continued Growth in Emerging Regions
- **Achievable Top Line / Cost Management**
  - Modest Volume, Pricing, Mix Tailwinds
  - Benefits from Ongoing Repositioning
  - Key Process Enablers Driving Productivity
  - Delivering Margin Expansion; 100% + Free Cash Flow Conversion
- **HON Playbook = Long-term Value Creation**
  - Great Positions in Good Industries, 5 Initiatives, One HON Culture
  - Favorable Macro Trends – Driving Very Strong Long Term Outlook
  - Seed Planting: Innovation, Productivity, Global Expansion → It's Working

***Preparing To Outperform***

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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**

(\$B)	<u>2009E</u>	<u>2010E</u>
Sales	~\$30.9	\$31.3 - 32.2
Cost of Products and Services Sold	~(23.3)	(24.5) - (25.0)
Selling, General and Administrative Expenses	~(4.1)	(4.2) - (4.4)
Operating Income	<u>~\$3.5</u>	<u>\$2.6 - 2.8</u>
Stock Based Compensation <sup>(1)</sup>	~0.1	0.1 - 0.2
Repositioning and Other <sup>(1, 2)</sup>	~0.4	0.4 - 0.5
Pension and OPEB Expense <sup>(1)</sup>	~0.1	0.9 - 1.0
Segment Profit	<u>~\$4.1</u>	<u>\$4.1 - 4.4</u>
Operating Income	~\$3.5	\$2.6 - 2.8
÷ Sales	~\$30.9	\$31.3 - 32.2
Operating Income Margin %	<u>~11.3%</u>	<u>8.3 - 8.7%</u>
Segment Profit	~\$4.1	\$4.1 - 4.4
÷ Sales	~\$30.9	\$31.3 - 32.2
Segment Profit Margin %	<u>~13.3%</u>	<u>13.3 - 13.8%</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**

<b>(\$B)</b>	<b>2003</b>	<b>2009E</b>	<b>2010E</b>
Cash Provided by Operating Activities	\$2.2	~\$3.6	\$3.1 - 3.4
Expenditures for Property, Plant and Equipment	(0.7)	~(0.6)	~(0.7)
<b>Free Cash Flow</b>	<b>\$1.5</b>	<b>~\$3.0</b>	<b>\$2.4 - 2.7</b>
Cash Provided by Operating Activities	\$2.2	~\$3.6	\$3.1 - 3.4
÷ Net Income	\$1.3	~\$2.2	~\$1.8
<b>Operating Cash Flow Conversion %</b>	<b>166%</b>	<b>~164%</b>	<b>~180%</b>
Free Cash Flow	\$1.5	~\$3.0	\$2.4 - 2.7
÷ Net Income	\$1.3	~\$2.2	~\$1.8
<b>Free Cash Flow Conversion %</b>	<b>117%</b>	<b>~140%</b>	<b>~140%</b>

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

**Honeywell**

(\$B)

EPS

2009E

2010E

~\$2.85

~\$2.20 - \$2.40

Pension Expense

~\$.11

~\$.80

EPS, Excluding Pension

~\$2.96

~\$3.00 - \$3.20

(1) Assumes weighted average shares outstanding of 755 million and 780 million in 2009 and 2010, respectively and a 26.5% effective tax rate for both periods

**Honeywell**