

# **Honeywell**

## **First Quarter 2008**

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### **Earnings Release**

### **April 18, 2008**

# 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 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.*

- **Financial Performance**

- **11% Sales Growth, Organic Growth Across All Regions**
- **Segment Profit up 16%, Net Income up 22%, EPS up 30%**
- **\$100M+ Repositioning, Benefiting Future Periods**
- **Free Cash Flow up 25%**
- **FY 2008 EPS Guidance \$3.70 - \$3.80, High End of Previous Range**

- **Highlights**

- **Diversified Portfolio: Great Positions, Short / Long Mix, Global Reach**
- **Franchise Strength: A350 XWB + G650 + EMB MSJ / MLJ = \$40B+**
- **Capital Allocation: Norcross Acquisition, 7.4M Shares Repurchased**
- **Well Positioned: Strong Performance Despite Tougher Conditions**

# Financial Summary

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<i>(M)</i>	<u>1Q07</u>	<u>1Q08</u>	
<b>Sales</b>	<b>\$8,041</b>	<b>\$8,895</b>	<ul style="list-style-type: none"><li>• <b>11% Growth</b><ul style="list-style-type: none"><li>◆ 8% Organic</li><li>➢ 3% F/X Impact</li></ul></li></ul>
<b>Segment Profit</b>	<b>\$1,079</b>	<b>\$1,249</b>	<ul style="list-style-type: none"><li>• <b>16% Growth</b></li></ul>
<i>Margin %</i>	<i>13.4%</i>	<i>14.0%</i>	<ul style="list-style-type: none"><li>• <b>+60 bps</b></li></ul>
<b>Net Income</b>	<b>\$526</b>	<b>\$643</b>	<ul style="list-style-type: none"><li>• <b>22% Growth</b></li></ul>
<b>EPS</b>	<b>\$0.66</b>	<b>\$0.85</b>	<ul style="list-style-type: none"><li>• <b>30% Growth</b></li></ul>
<b>Free Cash Flow</b>	<b>\$458</b>	<b>\$571</b>	<ul style="list-style-type: none"><li>• <b>25% Increase</b></li></ul>

*Another Terrific Quarter*

<i>(M)</i>	<u>1Q07</u>	<u>1Q08</u>	<u>V'07</u>
Sales	\$ 2,840	\$ 3,030	7%
Segment Profit	\$ 500	\$ 563	13%
Margin	17.6%	18.6%	100 bps

## Business Highlights

- + Airbus, Gulfstream and Embraer wins reinforce franchise strength
- + Strong Commercial growth
  - ◆ OE up 8%
  - ◆ AM up 8% (AT&R flight hours up ~7%)
- + Business jet industry remains robust

## Financial Highlights

- Sales up 7%
  - ◆ Organic 5%
  - Air Transport & Regional up 8%
    - ◆ OE up 11%
    - ◆ Aftermarket up 6%
  - Business & General Aviation up 7%
    - ◆ OE up 3%
    - ◆ Aftermarket up 11%
  - Defense & Space up 5%
- Segment Profit up 13%
  - ◆ 100 bps margin expansion
    - + Price
    - + Productivity
    - Inflation

*Continued Broad Based Strength*

# Automation And Control Solutions

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<i>(M)</i>	<u>1Q07</u>	<u>1Q08</u>	<u>V'07</u>
Sales	\$ 2,801	\$ 3,180	14%
Segment Profit	\$ 274	\$ 328	20%
Margin	9.8%	10.3%	50 bps

## Business Highlights

- + Balanced Products and Solutions performance
- + Continued good order growth
- + Acquisition integrations on-track
- + Acquiring attractive Norcross platform
- S&C and residential softness

## Financial Highlights

- Sales up 14%
  - ◆ Acquisitions Impact 6%
  - ◆ FX Impact 5%
- Products up 14%
  - ◆ Life Safety and Environmental Controls
- Solutions up 14%
  - ◆ Orders up 13%
  - ◆ Growth across all geographies
- Segment Profit up 20%
  - ◆ 50 bps margin expansion
    - + Productivity
    - + Price
    - Inflation
    - Acquisitions

*Diversification And Productivity Benefits*

# Transportation Systems

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<i>(M)</i>	<u>1Q07</u>	<u>1Q08</u>	<u>V'07</u>
Sales	\$ 1,201	\$ 1,276	6%
Segment Profit	\$ 156	\$ 149	-4%
Margin	13.0%	11.7%	-130 bps

## Business Highlights

- + Commercial Vehicle Recovery On-Track
- + New Passenger Vehicle Platform Execution
- Passenger Vehicle Customer Launch Timing
- Continued CPG challenges
  - ◆ Automotive Aftermarket

## Financial Highlights

- Sales up 6%
  - ◆ F/X impact 9%
- Turbo up 12%
  - ◆ Commercial vehicle growth and FX
  - ◆ European passenger vehicle softness
- CPG down 3%
  - ◆ F/X and price more than offset by lower volume
- Segment Profit down 4%
  - ◆ 130 bps margin contraction
    - + Productivity
    - Inflation
    - Platform investments

*Turbo Growth; CPG Challenges*

# Specialty Materials

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<i>(M)</i>	<u>1Q07</u>	<u>1Q08</u>	<u>V'07</u>
Sales	\$ 1,199	\$ 1,409	18%
Segment Profit	\$ 192	\$ 265	38%
Margin	16.0%	18.8%	280 bps

## Business Highlights

- + Continued strong UOP performance
- + Growth across all geographies
- + Price and Productivity Actions
- Raw material costs

## Financial Highlights

- Sales up 18%
  - UOP up 23%
    - ◆ Strong catalysts and adsorbents product growth
  - Fluorine Products up 12%
  - Resins and Chemicals up 24%
  - Specialty Products up 7%
  
- Segment Profit up 38%
  - ◆ 280 bps margin expansion
    - + Productivity
    - + Volume
    - + Price
    - Inflation

*Growth Across All Businesses*

# 2008 Key Market Assumptions

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Business	Drivers	Key Assumptions
AT&R	Flight Hours OE Deliveries	+5% +10%
B&GA	OE Deliveries	+9%
Defense	DOD Budget	+4%
ACS – Developed Markets	US Housing Starts US Non-Res Construction Retrofit / Regulation Europe	No Recovery Slower Growth Increasing Moderating
ACS – Emerging Markets	New Construction	Double Digit Growth
Passenger Vehicles	Europe Auto Production Europe Diesel Penetration	Flat to +2% +2 pts
Commercial Vehicles	NA Class 8 Truck Production	Rebounding
UOP	Refining and Petrochemicals	Continued Strength

*Detailed Bottom-Up Analysis*

# 1Q Sales Vs. 2008 Expectations

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<b>Business</b>	<b>1Q08</b>	<b>FY08*</b>
<b>AT&amp;R</b>	+8%	+8%
<b>B&amp;GA</b>	+7%	+8%
<b>Defense</b>	+5%	+4%
<b>ACS – Developed Markets</b>	+12%	+5%
<b>ACS – Emerging Markets</b>	+33%	+21%
<b>Passenger Vehicles</b>	+12%	+2%
<b>Commercial Vehicles</b>	+12%	+9%
<b>UOP</b>	+23%	+5%

*1Q Performance Supports FY08 Outlook*

# 2Q08 Preview

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(\$B)

	<u>Sales</u>	<u>Comments</u>
<b>Aerospace</b>	<b>~\$3.2</b>	<ul style="list-style-type: none"><li>• ~6% Growth</li><li>• Continued AT&amp;R and B&amp;GA Growth</li><li>• Flight Hours up ~5%</li></ul>
<b>Automation &amp; Control</b>	<b>~3.4</b>	<ul style="list-style-type: none"><li>• ~12% Growth</li><li>• Balanced Products / Solutions Growth</li><li>• Selective Softening</li></ul>
<b>Transportation</b>	<b>~1.3</b>	<ul style="list-style-type: none"><li>• ~4% Growth</li><li>• Turbo Growth, Weaker Europe</li><li>• Continued CPG Softness</li></ul>
<b>Specialty Materials</b>	<b>~1.3</b>	<ul style="list-style-type: none"><li>• ~7% Growth</li><li>• All Businesses Contributing</li><li>• UOP Mix / Timing</li></ul>

*2Q08 Sales ~\$9.2B  
EPS \$0.92 – 0.94, Up 18 – 21%*

# 2008 Financial Summary

Honeywell

(\$B)

	<u>2007</u>	<u>2008E</u>	<u>V'07</u>
<b>Sales</b>	\$34.6	\$36.8 – 37.4	6 - 8%
<b>Segment Profit</b>	\$4.7	\$5.1 - 5.3	10 - 15%
<i>Margin %</i>	13.5%	14.0 - 14.3%	50 - 80 bps
<b>EPS</b>	\$3.16	\$3.70 – 3.80	17 - 21%
<b>Free Cash Flow</b>	\$3.1	\$3.2 - 3.4	2 - 8%
<i>Conversion</i>	129%	+100%	

*Moving To High End Of Guidance Range*

- **Another Strong Quarter**
  - Growth despite tougher macro environment
  - \$100M+ repositioning to benefit future periods
- **Business Wins Reinforce Franchise Strength**
  - A350 XWB, Gulfstream G650, Embraer MSJ / MLJ
- **Key Initiatives Contributing**
  - HOS, FT, VPD™
- **Moving to High End of 2008 EPS Guidance Range**
  - \$3.70 - \$3.80

*Honeywell Well Positioned*

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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**

(\$M)	<u>1Q07</u>	<u>1Q08</u>
Sales	\$8,041	\$8,895
Cost of Products and Services Sold	(6,150)	(6,672)
Selling, General and Administrative Expenses	(1,089)	(1,255)
Operating Income	<u>\$802</u>	<u>\$968</u>
Stock Based Compensation <sup>(1)</sup>	24	41
Repositioning and Other <sup>(1, 2)</sup>	179	213
Pension and OPEB Expense <sup>(1)</sup>	74	27
Segment Profit	<u>\$1,079</u>	<u>\$1,249</u>
Operating Income	\$802	\$968
÷ Sales	<u>\$8,041</u>	<u>\$8,895</u>
Operating Income Margin %	<u>10.0%</u>	<u>10.9%</u>
Segment Profit	\$1,079	\$1,249
÷ Sales	<u>\$8,041</u>	<u>\$8,895</u>
Segment Profit Margin %	<u>13.4%</u>	<u>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 (beginning 1/1/2008)

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

**Honeywell**

<i>(\$M)</i>	<b>1Q07</b>	<b>1Q08</b>
Cash Provided by Operating Activities	\$578	\$721
Expenditures for Property, Plant and Equipment	(120)	(150)
Free Cash Flow	<u>458</u>	<u>571</u>
Cash Provided by Operating Activities	\$578	\$721
÷ Net Income	526	643
Operating Cash Flow Conversion %	<u>110%</u>	<u>112%</u>
Free Cash Flow	\$458	\$571
÷ Net Income	526	643
Free Cash Flow Conversion %	<u>87%</u>	<u>89%</u>

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

**Honeywell**

(\$B)	<u>2007</u>	<u>2008E</u>
Sales	\$34.6	\$36.8 - 37.4
Cost of Products and Services Sold	(26.3)	(27.8) - (28.1)
Selling, General and Administrative Expenses	(4.6)	(4.7) - (4.9)
Operating Income	<u>\$3.7</u>	<u>\$4.3 - 4.4</u>
Stock Based Compensation <sup>(1)</sup>	0.1	~0.1
Repositioning and Other <sup>(1, 2)</sup>	0.6	0.5 - 0.6
Pension and OPEB Expense <sup>(1)</sup>	0.3	~0.2
Segment Profit	<u>\$4.7</u>	<u>\$5.1 - 5.3</u>
Operating Income	\$3.7	\$4.3 - 4.4
÷ Sales	<u>\$34.6</u>	<u>\$36.8 - 37.4</u>
Operating Income Margin %	<u>10.7%</u>	<u>11.7 - 11.8%</u>
Segment Profit	\$4.7	\$5.1 - 5.3
÷ Sales	<u>\$34.6</u>	<u>\$36.8 - 37.4</u>
Segment Profit Margin %	<u>13.5%</u>	<u>14.0 - 14.3%</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 (beginning 1/1/2008)

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

**Honeywell**

<b>(\$B)</b>	<b>2007</b>	<b>2008E</b>
Cash Provided by Operating Activities	\$3.9	\$4.1 - 4.3
Expenditures for Property, Plant and Equipment	(0.8)	~(0.9)
Free Cash Flow	<u>\$3.1</u>	<u>\$3.2 - 3.4</u>
Cash Provided by Operating Activities	\$3.9	\$4.1 - 4.3
÷ Net Income	\$2.4	\$2.8 - 2.9
Operating Cash Flow Conversion %	<u>160%</u>	<u>~147%</u>
Free Cash Flow	\$3.1	\$3.2 - 3.4
÷ Net Income	\$2.4	\$2.8 - 2.9
Free Cash Flow Conversion %	<u>129%</u>	<u>~116%</u>

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