

TREASURY & RISK
THE FUTURE OF FINANCE TODAY

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Honeywell

Interest Rate Risk Management

Problem

- Develop and Execute a Strategy to Manage Interest Rate Risk on \$7.6B Debt Portfolio to Minimize Interest Expense and Incorporate Risk Limits Based Upon EPS Volatility
- Low Floating Rate Debt Exposure
 - Floating rate debt has historically proven to provide lower interest expense compared to fixed rate debt
 - Since 1980, 10-year swaps have had a positive NPV 100% of the time
 - Forward Curve has historically over predicted future Libor settings



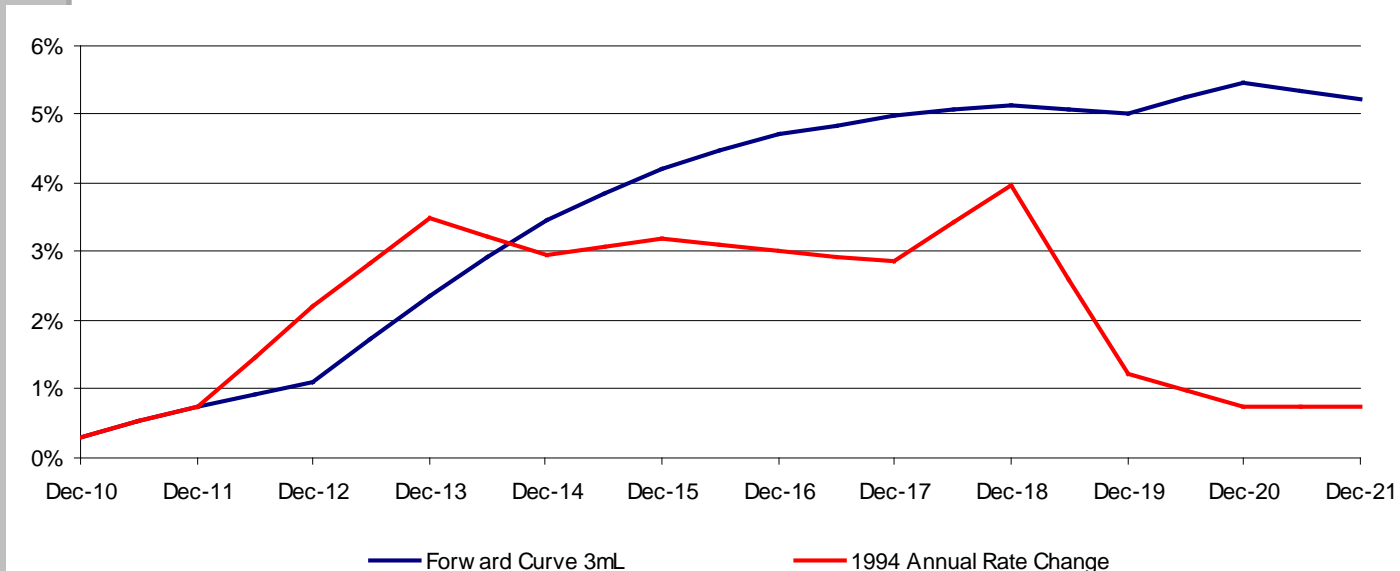
Objective

- Assess and Set Floating Rate Net Debt Target
 - Peer Comparison
 - Current vs forecasted debt portfolio
 - Inclusive of all rate impacts on Honeywell not just balance sheet debt (i.e. pension liability, operating leases)
- Established Risk Limits for EPS volatility By Creating Scenario Analyses of Interest Expense Over a 10 Year Horizon
 - Simulated Libor rate settings using forward curve and the past two major interest rate cycles in 1994 and 2004
 - Determined the amount of EPS at risk with 100bps increase in rates on different amounts of floating rate debt
- Observed 60 years of Historical Rate Cycles to Determine Optimal Tenor to Swap to Floating



Interest Expense Scenario Analysis

Interest Expense Based on the 1994 Tightening Cycle*



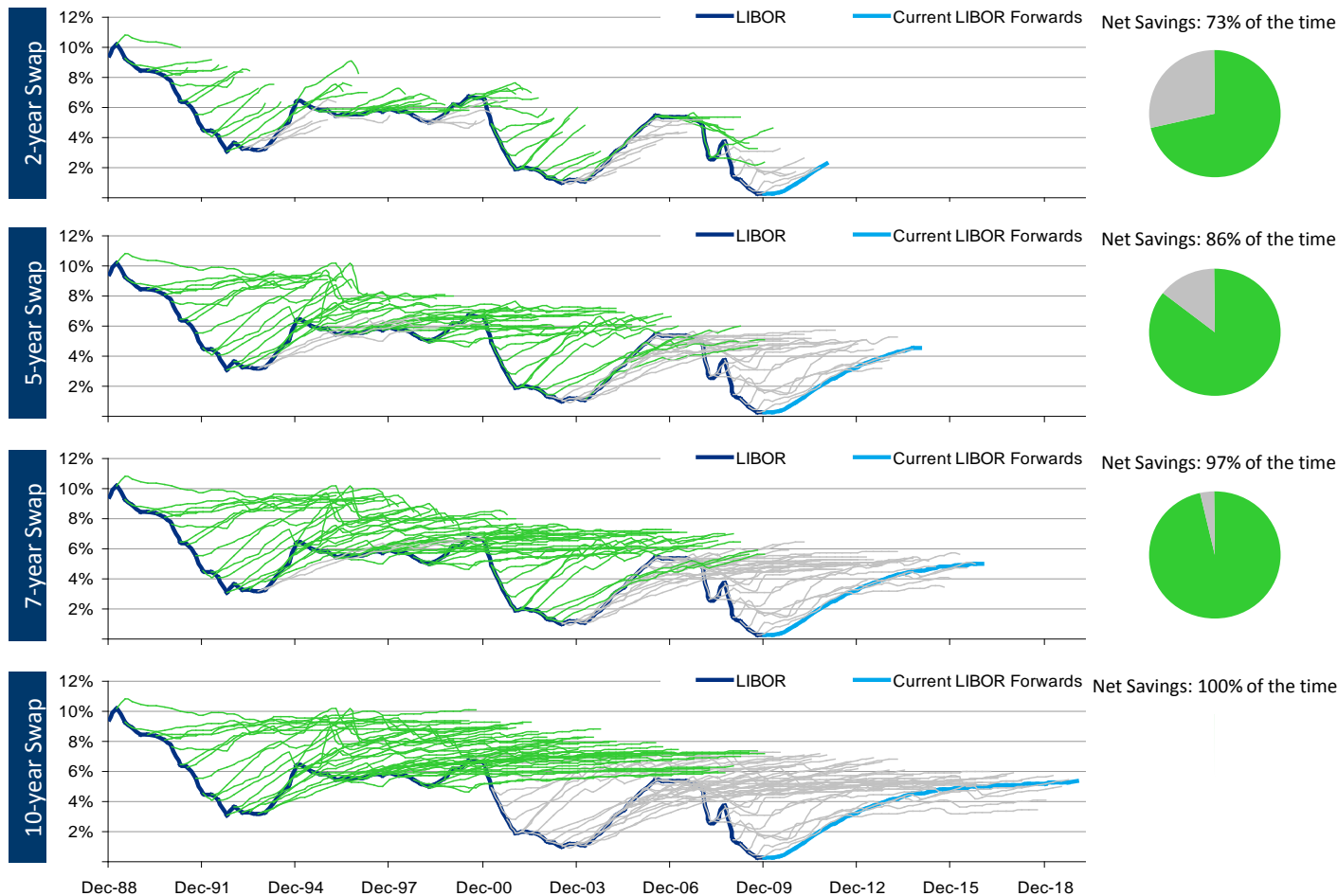
(\$M) (Hypothetical Example)

Debt of \$5B	Floating / Debt	100bps Increase	Year												Total Interest Expense	NPV
			2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021			
Base	25%	\$ 10	\$ 200	\$ 197	\$ 208	\$ 204	\$ 206	\$ 205	\$ 204	\$ 213	\$ 209	\$ 205	\$ 205	\$	2,256	\$ 1,958
% change				-1%	5%	-2%	1%	0%	-1%	4%	-2%	-2%	0%			
+\$1,000	35%	20	174	178	194	188	191	190	188	197	186	178	178		2,043	1,774
% change				3%	9%	-3%	2%	-1%	-1%	5%	-6%	-4%	0%			
+\$2,000	45%	30	150	157	175	168	171	169	168	178	163	155	155		1,809	1,571
% change				5%	11%	-4%	2%	-1%	-1%	6%	-8%	-5%	0%			
+\$3,000	55%	40	124	133	150	143	146	145	143	153	137	129	129		1,531	1,329
% change				7%	13%	-4%	2%	-1%	-1%	7%	-10%	-6%	0%			

* Assumes 1994 tightening cycle impacts 2012 and forward

*Forward Curve Underestimates Initial Tightening
But Ignores Next Downturn*

Longer Tenor Swaps Have Historically Achieved Savings More Often

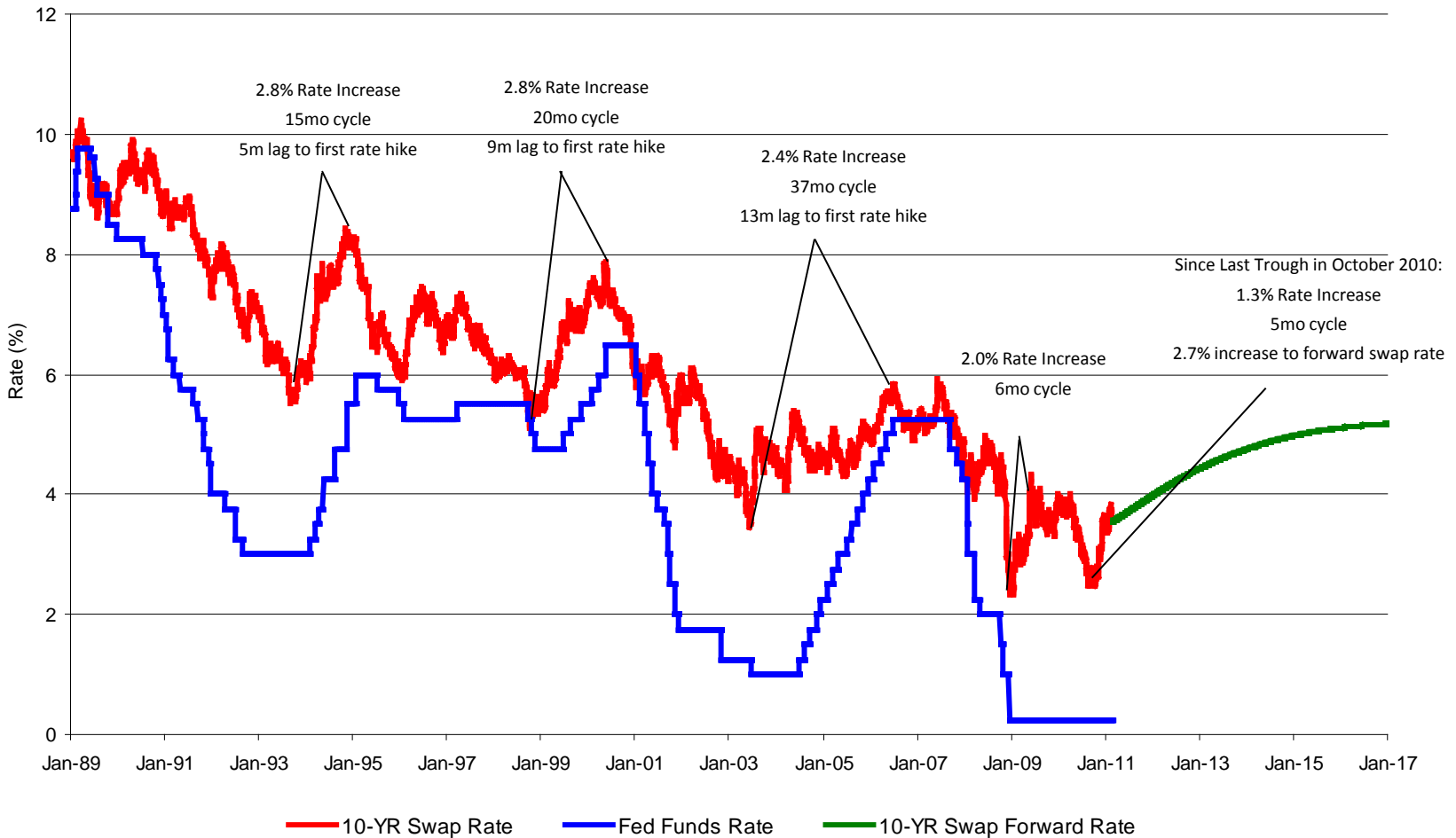


Note: "Net Savings" represent the per annum savings of entering into a fixed-to-float swap and are calculated as the difference between the swap rate for the chosen tenor (cost of fixed-rate funding) and the average realized 3-Month LIBOR settings (floating-rate funding) over the life of the swap. Net savings are considered achieved for values greater than 10 bps.

Source: Bloomberg, Citi



10 Year Swap Rate Cycles Since 1989



Benefits

- 2011 10-Year 4.25% Issuance of \$800M Swapped to Floating at Issuance to L+ 56bps (0.89% Initial Rate) with an Annualized Savings of \$27M
 - Flawless execution on bond launch date through syndication to avoid Treasury leakage
 - FAS 133 short cut accounting treatment
- Current \$1.4B Swap Portfolio had an Unrealized Gain of \$135m as of 3Q 2011 and \$15m of Savings in 2010
- Historically Honeywell's Swap Execution Over Last 5 Years Provided a Total Positive Carry and Gains of ~\$195m
- Established Framework for Entering Into Additional Swaps as Long as the Opportunities Do Not Exceed the Predetermined Risk Limits

