HONEYWELL INTERNATIONAL INC
Form 10-K
February 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
OR
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-8974

Honeywell International Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	22-2640650
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 Columbia Road Morris Township, New Jersey	07962
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code (973) 455-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1 per share*	New York Stock Exchange
	Chicago Stock Exchange
$9^1/_2$% Debentures due June 1, 2016	New York Stock Exchange

* The common stock is also listed on the London Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes S No £

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes £ No S

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S No £

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S No £

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. S

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of accelerated filer, large accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer S Accelerated filer £ Non-accelerated filer £ Smaller reporting company £

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes £ No S

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $43.6 billion at June 30, 2012.

There were 783,787,893 shares of Common Stock outstanding at January 25, 2013.

<u>Documents Incorporated by Reference</u>

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 22, 2013.

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PART I.

Item 1. Business

Honeywell International Inc. (Honeywell) is a diversified technology and manufacturing company, serving customers worldwide with aerospace products and services, control, sensing and security technologies for buildings, homes and industry, turbochargers, automotive products, specialty chemicals, electronic and advanced materials, process technology for refining and petrochemicals, and energy efficient products and solutions for homes, business and transportation. Honeywell was incorporated in Delaware in 1985.

We maintain an internet website at http://www.honeywell.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports, are available free of charge on our website under the heading Investor Relations (see SEC Filings & Reports) immediately after they are filed with, or furnished to, the Securities and Exchange Commission (SEC). In addition, in this Form 10-K, the Company incorporates by reference certain information from parts of its proxy statement for the 2013 Annual Meeting of Stockholders, which we expect to file with the SEC on or about March 7, 2013, and which will also be available free of charge on our website.

Information relating to corporate governance at Honeywell, including Honeywell s Code of Business Conduct, Corporate Governance Guidelines and Charters of the Committees of the Board of Directors are also available, free of charge, on our website under the heading Investor Relations (see Corporate Governance), or by writing to Honeywell, 101 Columbia Road, Morris Township, New Jersey 07962, c/o Vice President and Corporate Secretary. Honeywell s Code of Business Conduct applies to all Honeywell directors, officers (including the Chief Executive Officer, Chief Financial Officer and Controller) and employees.

Major Businesses

We globally manage our business operations through four businesses that are reported as operating segments: Aerospace, Automation and Control Solutions, Performance Materials and Technologies, and Transportation Systems. Financial information related to our operating segments is included in Note 24 of Notes to Financial Statements in Item 8. Financial Statements and Supplementary Data.

The major products/services, customers/uses and key competitors of each of our operating segments follows:

Aerospace

Our Aerospace segment is a leading global provider of integrated avionics, engines, systems and service solutions for aircraft manufacturers, airlines, business and general aviation, military, space and airport operations.

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Turbine propulsion engines	TFE731 turbofan TFE1042 turbofan ATF3 turbofan F125 turbofan F124 turbofan ALF502 turbofan LF507 turbofan CFE738 turbofan HTF 7000 turbofan	Business, regional, and general aviation Commercial helicopters Military vehicles Military helicopters Military trainer	Rolls Royce/Allison Turbomeca United Technologies Williams

T53 turboshaft
T55 turboshaft
CTS800 turboshaft
HTS900 turboshaft
LT101 turboshaft
TPE 331 turboprop
AGT1500 turboshaft
Repair, overhaul and spare parts

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Auxiliary power units (APUs)	Airborne auxiliary power units Jet fuel starters Secondary power systems Ground power units Repair, overhaul and spare parts	Commercial, regional, business and military aircraft Ground power	United Technologies
Environmental control systems	Air management systems: Air conditioning Bleed air Cabin pressure control Air purification and treatment Gas Processing Heat Exchangers Repair, overhaul and spare parts	Commercial, regional and general aviation aircraft Military aircraft Ground vehicles Spacecraft	Auxilec Barber Colman Dukes Eaton-Vickers General Electric Liebherr Pacific Scientific Parker Hannifin TAT United Technologies
Electric power systems	Generators Power distribution & control Power conditioning Repair, overhaul and spare parts	Commercial, regional, business and military aircraft Commercial and military helicopters Military vehicles	General Electric Safran United Technologies
Engine systems accessories	Electronic and hydromechanical fuel controls Engine start systems Electronic engine controls Sensors Valves Electric and pneumatic power generation systems Thrust reverser actuation, pneumatic and electric	Commercial, regional and general aviation aircraft Military aircraft	BAE Controls Parker Hannifin United Technologies

Avionics, displays, flight guidance and flight management systems	Flight data and cockpit voice recorders Integrated avionics systems Flight management systems Cockpit display systems Data management and aircraft performance monitoring systems Aircraft information systems Network file servers Wireless network transceivers Weather information network Navigation database information Cabin management systems Vibration detection and monitoring Mission management systems Tactical data management systems Maintenance and health monitoring systems Flight control and autopilot systems	Commercial, business and general aviation aircraft Government aviation Military aircraft	BAE Boeing/Jeppesen Garmin General Electric Kaiser L3 Lockheed Martin Northrop Grumman Rockwell Collins Thales Trimble/Terra United Technologies Universal Avionics Universal Weather
Radios, radar, navigation communication, datalink safety systems	Flight safety systems: Enhanced Ground Proximity Warning Systems (EGPWS) Traffic Alert and Collision Avoidance Systems (TCAS) Windshear detection systems Weather radar Communication, navigation	Commercial, business and general aviation aircraft Government aviation Military aircraft	BAE Boeing/Jeppesen Garmin General Electric Kaiser L3 Lockheed Martin Northrop Grumman Rockwell Collins Thales Trimble/Terra United Technologies

and surveillance systems: Navigation and guidance systems Global positioning systems Satellite systems	Universal Avionics Universal Weather

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Aircraft lighting	Interior and exterior aircraft lighting	Commercial, regional, business, helicopter and military aviation aircraft (operators, OEMs, parts distributors and MRO service providers)	Hella/United Technologies LSI Luminator Whelen
Inertial sensor	Inertial sensor systems for guidance, stabilization, navigation and control Gyroscopes, accelerometers, inertial measurement units and thermal switches Attitude and heading reference systems	Military and commercial vehicles Commercial spacecraft and launch vehicles Transportation Powered, guided munitions Munitions	Astronautics Kearfott BAE GEC General Electric L3 KVH Northrop Grumman Rockwell United Technologies
Control products	Radar altimeters Pressure products Air data products Thermal switches Magnetic sensors	Military aircraft Powered, guided munitions, UAVs Commercial applications Commercial, regional, business aircraft	BAE Northrop Grumman Rockwell Collins Rosemount United Technologies
Space products and subsystems	Guidance subsystems Control subsystems Processing subsystems Radiation hardened electronics and integrated circuits GPS-based range safety systems Gyroscopes	Commercial and military spacecraft DoD FAA NASA	BAE Ithaco L3 Northrop Grumman Raytheon
Management and technical services	Maintenance/operation and provision of space systems, services and facilities Systems engineering and integration Information technology services Logistics and sustainment	U.S. government space (NASA) DoD (logistics and information services) FAA DoE Local governments Commercial space ground segment systems and services	Bechtel Boeing Computer Sciences Dyncorp Exelis Lockheed Martin Raytheon SAIC The Washington Group

			United Space Alliance
Landing systems	Wheels and brakes Wheel and brake repair and overhaul services	Commercial airline, regional, business and military aircraft USAF, DoD, DoE Boeing, Airbus, Lockheed Martin	Meggitt Messier-Bugatti United Technologies

Automation and Control Solutions

Our Automation and Control Solutions segment is a leading global provider of environmental and combustion controls, sensing controls, security and life safety products and services, scanning and mobility devices and process automation and building solutions and services for homes, buildings and industrial facilities.

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Environmental and combustion controls; sensing controls	Heating, ventilating and air conditioning controls and components for homes and buildings Indoor air quality products including zoning, air cleaners, humidification, heat and energy recovery ventilators Controls plus integrated electronic systems for burners, boilers and furnaces Consumer household products including humidifiers and thermostats Electrical devices and switches Water controls Sensors, measurement, control and industrial components Energy demand/ response management products and services	Original equipment manufacturers (OEMs) Distributors Contractors Retailers System integrators Commercial customers and homeowners served by the distributor, wholesaler, contractor, retail and utility channels Package and materials handling operations Appliance manufacturers Transportation companies Aviation companies Food and beverage processors Medical equipment Heat treat processors Computer and business equipment manufacturers	Bosch Cherry Danfoss Eaton Emerson Endress & Hauser Freescale Semiconductor GE Holmes Invensys Johnson Controls Omron Schneider Siemens United Technologies Yamatake Measurement Specialties
Security and life safety products and services	Security products and home control systems Fire products and systems Access controls and closed circuit television Home health monitoring and nurse call systems Gas detection products and	OEMs Retailers Distributors Commercial customers and homeowners served by the the distributor, wholesaler, contractor, retail and utility channels Health care organizations	Axis Communications Bosch Draeger Hikvision Hubbell Inc Mine Safety Appliances Schneider Phillips Riken Keiki Siemens Tyco

	systems Emergency lighting Distribution Personal protection equipment	Security monitoring service providers Industrial, fire service, utility distributors, data centers and telecommunication companies and U.S. Government	Tri Ed/Northern Video Distribution United Technologies 3M
Scanning and mobility	Hand held and hands free image and laser based bar code scanners Scan engines Rugged mobile and wireless computers for use in hand held and vehicle mount applications Satellite tracking hardware, airtime services and applications Search & Rescue ground stations and system software	OEMs Retailers Distributors Commercial customers served by the transportation and and logistics, manufacturing, healthcare and retail, warehousing and ports industries Security, logistics, maritime customers for: the tracking of vehicles, containers, ships, and personnel in remote environments National organizations that monitor distress signals from aircraft, ships and individuals, typically military branches and coast guards	Bluebird Soft Code Corporation Datalogic Intermec, Inc. Iridium Vars Lucas Motorola Solutions Skywave Tsi

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Process automation products and solutions	Advanced control software and industrial automation systems for control and monitoring of continuous, batch and hybrid operations Production management software Communications systems for Industrial Control equipment and systems Consulting, networking engineering and installation Terminal automation solutions Process control instrumentation Field instrumentation Analytical instrumentation Recorders and controllers Critical environment control solutions and services Aftermarket maintenance, repair and upgrade Gas control, measurement and analyzing equipment	Refining and petrochemical companies Chemical manufacturers Oil and gas producers Food and beverage processors Pharmaceutical companies Utilities Film and coated producers Pulp and paper industry Continuous web producers in the paper, plastics, metals, rubber, non-wovens and printing industries Mining and mineral industries	ABB AspenTech Emerson Invensys Siemens Yokogawa
Building solutions and services	HVAC and building control solutions and services Energy management solutions and services, including demand response and automation	Building managers and owners Contractors, architects and developers Consulting engineers Security directors Plant managers Utilities	Ameresco Chevron GroupMac Ingersoll Rand Invensys Johnson Controls Local contractors and utilities

	Security and asset management solutions and services Enterprise building integration solutions Building information services Airport lighting and systems, visual docking guidance systems	Large global corporations Public school systems Universities Local governments Public housing agencies Airports	Safegate Schneider Siemens Trane Thorn United Technologies

Performance Materials and Technologies

Our Performance Materials and Technologies segment is a global leader in providing customers with leading technologies and high-performance materials, including hydrocarbon processing technologies, catalysts, adsorbents, equipment and services, fluorine products, specialty films and additives, advanced fibers and composites, intermediates, specialty chemicals, electronic materials and chemicals.

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Resins & chemicals	Nylon 6 polymer Caprolactam Ammonium sulfate Phenol Acetone Cyclohexanone MEKO	Nylon for carpet fibers, engineered resins and flexible packaging Fertilizer Resins Phenolic, Epoxy, Polycarbonate Solvents Chemical intermediates Paints, Coatings, Laquers	BASF DSM INEOS Mitsui Polimeri Sinopec UBE Shell
Hydrofluoric acid (HF)	Anhydrous and aqueous hydrofluoric acid	Fluorocarbons Metals processing Oil refining Chemical intermediates Semiconductors Photovoltaics	Mexichem Fluor Solvay

Product/Service Classes	**Major Products/Services**	**Major Customers/Uses**	**Key Competitors**
Fluorochemicals	Refrigerants, aerosol and insulation foam blowing agents Solstice™ refrigerants, blowing agents, aersols and solvents Oxyfume sterilant gases Enovate 3000 blowing agent for refrigeration insulation	Refrigeration Stationary air conditioning Automotive air conditioning Polyurethane foam Precision cleaning Optical Appliances Hospitals Medical equipment Manufacturers	Asahi Arkema Daikin Dupont Mexichem Fluor Sinochem Solvay 3M
Nuclear services	UF6 conversion services	Nuclear fuel Electric utilities	Cameco Comurhex Rosatom
Research and fine chemicals	Oxime-based fine chemicals Fluoroaromatics High-purity solvents	Agrichemicals Biotech	Avecia Degussa DSM E. Merck Lonza Thermo Fisher Scientific Sigma-Aldrich
Performance chemicals Imaging chemicals Chemical processing sealants	HF derivatives Fluoroaromatics Catalysts	Diverse by product type	Atotech BASF DSM
Advanced fibers & composites	High modulus polyethylene fiber and shield composites Aramid shield composites	Bullet resistant vests, helmets and other armor applications Cut-resistant gloves Rope & cordage	DuPont DSM Teijin
Healthcare and packaging	Cast nylon film Bi-axially oriented nylon film Fluoropolymer film	Food and pharmaceutical packaging	American Biaxis CFP Daikin Kolon Unitika
Specialty additives	Polyethylene waxes Paraffin waxes and blends	Coatings and inks PVC pipe, siding & profiles	BASF Clariant

	PVC lubricant systems Processing aids Luminescent pigments Adhesives	Plastics Reflective coatings Safety & security applications	Westlake
Electronic chemicals	Ultra high-purity HF Inorganic acids Hi-purity solvents	Semiconductors Photovoltaics	BASF KMG
Semiconductor materials and services	Interconnect-dielectrics Interconnect-metals Semiconductor packaging materials Advanced polymers Anti-reflective coatings Thermo-couples	Semiconductors Microelectronics Telecommunications LED Photovoltaics	BASF Brewer Dow Nikko Praxair Shinko Tosoh
Catalysts, adsorbents and specialties	Catalysts Molecular sieves Adsorbents Aluminas Customer catalyst manufacturing	Petroleum, refining, petrochemical industry, gas processing industry and home, automotive, steel, and medical manufacturing industries	Axens Albemarle Chevron Exxon-Mobil Haldor Topsoe Johnson Mathey Shell/Criterion Sinopec SK WR Grace
Process technology and equipment	Technology licensing and engineering design of process units and systems Engineered products Proprietary equipment Training and development of technical personnel	Petroleum refining, petrochemical	Axens Chevron Lummus Global Chicago Bridge & Iron Exxon-Mobil Koch Glitsch Linde AG Natco Technip Sinopec Shell/SGS

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Renewable fuels and chemicals	Technology licensing of Process, catalysts, absorbents, Refining equipment and services for producing renewable-based fuels and chemicals	Military, refining, fuel oil, power production	Dynamotive Haldor Topsoe Kior Lurgi Neste Oy Syntroleum
Gas processing and hydrogen	Design, engineer, manufacture and install natural gas processing and hydrogen separation plants	Gas processing and hydrogen separation	Cameron Exterran Linde AG Lurgi Optimized Process Design Proquip Prosep

Transportation Systems

Our Transportation Systems segment is one of the leading manufacturers of engine boosting systems for passenger cars and commercial vehicles, as well as a leading provider of braking products.

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Charge-air systems	Turbochargers for gasoline and diesel engines	Passenger car, truck and off-highway OEMs Engine manufacturers Aftermarket distributors and dealers	Borg-Warner Holset IHI MHI Bosch Mahle Continental
Thermal systems	Exhaust gas coolers Charge-air coolers Aluminum radiators Aluminum cooling modules	Passenger car, truck and off-highway OEMs Engine manufacturers Aftermarket distributors and dealers	Behr Modine Valeo
Brake hard parts and other friction materials	Disc brake pads and shoes Drum brake linings Brake blocks Disc and drum brake components Brake hydraulic components Brake fluid Aircraft brake linings Railway linings	Automotive and heavy vehicle OEMs, OES, brake manufacturers and aftermarket channels Installers Railway and commercial/ military aircraft OEMs and brake manufacturers	Akebono Continental Federal-Mogul ITT Corp JBI Nisshinbo TRW

Aerospace Sales

Our sales to aerospace customers were 32, 31, and 33 percent of our total sales in 2012, 2011 and 2010, respectively. Our sales to commercial aerospace original equipment manufacturers were 7, 6, and 6 percent of our total sales in 2012, 2011 and 2010, respectively. In addition, our sales to commercial aftermarket customers of aerospace products and services were 12, 11, and 11 percent of our total sales in 2012, 2011 and 2010. Our Aerospace results of operations can be impacted by various industry and economic conditions. See Item 1A. Risk Factors.

U.S. Government Sales

Sales to the U.S. Government (principally by our Aerospace segment), acting through its various departments and agencies and through prime contractors, amounted to $4,109, $4,276 and $4,354 million in 2012, 2011 and 2010, respectively, which included sales to the U.S. Department of Defense, as a prime contractor and subcontractor, of $3,273, $3,374 and $3,500 million in 2012, 2011 and 2010, respectively. Base U.S. defense spending (excludes Overseas Contingent Operations) was essentially flat in 2012 compared to 2011 (see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations). Due to anticipated lower U.S. Government spending levels mandated by the Budget Control Act (sequestration), we expect a slight decline in our defense and space revenue in 2013. We do not expect our overall operating results to be significantly affected by any proposed changes in 2013 federal defense spending due principally to the varied mix of the government programs which impact us (OEM production, engineering development programs, aftermarket spares and repairs and overhaul programs), increases in direct foreign defense and space market sales, as well as our diversified commercial businesses. Our contracts with the U.S. Government are subject to audits, investigations, and termination by the government. See Item 1A. Risk Factors.

Backlog

Our total backlog at December 31, 2012 and 2011 was $16,807 and $16,160 million, respectively. We anticipate that approximately $12,102 million of the 2012 backlog will be filled in 2013. We believe that backlog is not necessarily a reliable indicator of our future sales because a substantial portion of the orders constituting this backlog may be canceled at the customer s option.

Competition

We are subject to active competition in substantially all product and service areas. Competition is expected to continue in all geographic regions. Competitive conditions vary widely among the thousands of products and services provided by us, and vary by country. Our businesses compete on a variety of factors, such as price, quality, reliability, delivery, customer service, performance, applied technology, product innovation and product recognition. Brand identity, service to customers and quality are important competitive factors for our products and services, and there is considerable price competition. Other competitive factors include breadth of product line, research and development efforts and technical and managerial capability. While our competitive position varies among our products and services, we believe we are a significant competitor in each of our major product and service classes. A number of our products and services are sold in competition with those of a large number of other companies, some of which have substantial financial resources and significant technological capabilities. In addition, some of our products compete with the captive component divisions of original equipment manufacturers. See Item 1A Risk Factors for further discussion.

International Operations

We are engaged in manufacturing, sales, service and research and development globally. U.S. exports and foreign manufactured products are significant to our operations. U.S. exports comprised 14, 12 and 11 percent of our total sales in 2012, 2011 and 2010, respectively. Foreign manufactured products and services, mainly in Europe and Asia, were 41, 43 and 42 percent of our total sales in 2012, 2011 and 2010, respectively.

Approximately 20 percent of total 2012 sales of Aerospace-related products and services were exports of U.S. manufactured products and systems and performance of services such as aircraft repair and overhaul. Exports were principally made to Europe, Canada, Asia and Latin America. Foreign manufactured products and systems and performance of services comprised approximately 16 percent of total 2012 Aerospace sales. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Canada and Asia.

Approximately 3 percent of total 2012 sales of Automation and Control Solutions products and services were exports of U.S. manufactured products. Foreign manufactured products and performance of services accounted for 57 percent of total 2012 Automation and Control Solutions sales. The principal manufacturing facilities outside the U.S. are in Europe and Asia, with less significant operations in Canada and Australia.

Approximately 35 percent of total 2012 sales of Performance Materials and Technologies products and services were exports of U.S. manufactured products. Exports were principally made to Asia and Latin America. Foreign manufactured products and performance of services comprised 22 percent of total 2012 Performance Materials and Technologies sales. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Asia.

Approximately 3 percent of total 2012 sales of Transportation Systems products were exports of U.S. manufactured products. Foreign manufactured products accounted for 83 percent of total 2012 sales of Transportation Systems. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Asia and Australia.

The Company and its subsidiaries have a current policy not to conduct business with Iran. Pursuant to Section 13(r) of the Securities Exchange Act of 1934, we note the following. In 2009, Honeywell acquired RMG Group (RMG), a German company that had a pre-existing contract with an Iranian entity for the supply and installation of compressed natural gas refueling stations in Iran. The RMG contract was entered into and performed by a foreign entity and did not involve the development of natural gas resources or pipelines, and we believe that it was not prohibited by or sanctionable under applicable laws. In July 2011, RMG assigned performance under the contract to an unaffiliated Italian company. During the first quarter of 2012, the unaffiliated Italian company performed some services under the contract. However, since the Iranian customer failed to make required payments, the unaffiliated Italian company has performed no work under the assigned contract since the first quarter of 2012. The Company does not intend to perform any further services under this contract, in accordance with Company policy and applicable laws. No gross revenues or net profits have been received by the Company under this contract from Iran in 2012. Additionally, a non-U.S. affiliate of Honeywell received $1,120,000 (representing net profit of $400,000 recognized in a prior period) during 2012 for services performed and / or goods delivered in or prior to the first quarter of 2011 in connection with automation engineering services contracts entered into in 2009 involving Iran. These contracts were also entered into and performed by non-US entities, and we believe that the contracts and their performance were not prohibited by or sanctionable under laws applicable at the time. Honeywell s Italian affiliate transferred its remaining obligations to an unaffiliated company based in Dubai in the fourth quarter of 2010. Honeywell has not performed any services or provided any materials under these contracts after the first quarter of 2011, and it does not intend to provide any further services or materials under these contracts, in accordance with Company policy and applicable laws. OFAC issued a General License in 31 CFR § 560.555 valid from October 9, 2012 to March 8, 2013, which permits transactions ordinarily incident to the wind-down of operations involving Iran by foreign subsidiaries of U.S. companies. Honeywell s non-U.S. affiliate in Italy received payments of $187,000 (out of a total of $1,120,000 received in 2012) during the validity period of the General License. To Honeywell s knowledge, neither it nor any of its affiliates engaged in any other activity during 2012 required to be disclosed under the Securities Exchange Act of 1934.

Financial information including net sales and long-lived assets related to geographic areas is included in Note 25 of Notes to Financial Statements in Item 8. Financial Statements and Supplementary Data . Information regarding the economic, political, regulatory and other risks associated with international operations is included in Item 1A. Risk Factors.

Raw Materials

The principal raw materials used in our operations are generally readily available. Although we occasionally experience disruption in raw materials supply, we experienced no significant problems in the purchase of key raw materials and commodities in 2012. We are not dependent on any one supplier for a material amount of our raw materials, except related to R240 (a key component in foam blowing agents), a raw material used in our Performance Materials and Technologies segment.

The costs of certain key raw materials, including cumene, fluorspar, perchloroethylene, R240, natural gas, sulfur and ethylene in our Performance Materials and Technologies business, nickel, steel and other metals in our Transportation Systems business, and nickel, titanium and other metals in our Aerospace business, are expected to continue to fluctuate. We will continue to attempt to offset raw material cost increases with formula or long-term supply agreements, price increases and hedging activities where feasible. We do not presently anticipate that a shortage of raw materials will cause any material adverse impacts during 2013. See Item 1A. Risk Factors for further discussion.

Patents, Trademarks, Licenses and Distribution Rights

Our segments are not dependent upon any single patent or related group of patents, or any licenses or distribution rights. We own, or are licensed under, a large number of patents, patent applications and trademarks acquired over a period of many years, which relate to many of our products or improvements to those products and which are of importance to our business. From time to time, new patents and trademarks are obtained, and patent and trademark licenses and rights are acquired from others. We also have distribution rights of varying terms for a number of products and services produced by other companies. In our judgment, those rights are adequate for the conduct of our business. We believe that, in the aggregate, the rights under our patents, trademarks and licenses are generally important to our operations, but we do not consider any patent, trademark or related group of patents, or any licensing or distribution rights related to a specific process or product, to be of material importance in relation to our total business. See Item 1A. Risk Factors for further discussion.

We have registered trademarks for a number of our products and services, including Honeywell, Aclar, Ademco, Bendix, BW, Callidus, Enovate, Esser, Fire-Lite, Garrett, Genetron, Gent, Howard Leight, Jurid, Matrikon, Maxon, MK, North, Notifier, Novar, RMG, Silent Knight, Solstice, Spectra, System Sensor, Trend, Tridium and UOP.

Research and Development

Our research activities are directed toward the discovery and development of new products, technologies and processes, and the development of new uses for existing products and software applications. The Company s principal research and development activities are in the U.S., India, Europe and China.

Research and development (R&D) expense totaled $1,847, $1,799 and $1,450 million in 2012, 2011 and 2010, respectively. The increase in R&D expense of 3 percent in 2012 compared to 2011 was mainly due to increased expenditures on the development of new technologies to support existing and new aircraft platforms in our Aerospace segment and new product development in our Automation and Control Solutions and Performance Materials Technologies segments. The increase in R&D expense of 24 percent in 2011 compared to 2010 was mainly due to increased expenditures on the development of new technologies to support existing and new aircraft platforms in our Aerospace segment, the development of turbocharging systems for new diesel and gas applications in our Transportation Systems segment and new product development in our Automation and Control Solutions segment. R&D as a percentage of sales was 4.9, 4.9 and 4.5 percent in 2012, 2011 and 2010, respectively. Customer-sponsored (principally the U.S. Government) R&D activities amounted to an additional $835, $867 and $874 million in 2012, 2011 and 2010, respectively.

Environment

We are subject to various federal, state, local and foreign government requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. It is our policy to comply with these requirements, and we believe that, as a general matter, our policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage, and of resulting financial liability, in connection with our business. Some risk of environmental damage is, however, inherent in some of our operations and products, as it is with other companies engaged in similar businesses.

We are and have been engaged in the handling, manufacture, use and disposal of many substances classified as hazardous by one or more regulatory agencies. We believe that, as a general matter, our policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and personal injury, and that our handling, manufacture, use and disposal of these substances are in accord with environmental and safety laws and regulations. It is possible, however, that future knowledge or other developments, such as improved capability to detect substances in the environment or increasingly strict environmental laws and standards and enforcement policies, could bring into question our current or past handling, manufacture, use or disposal of these substances.

Among other environmental requirements, we are subject to the federal superfund and similar state and foreign laws and regulations, under which we have been designated as a potentially responsible party that may be liable for cleanup costs associated with current and former operating sites and various hazardous waste sites, some of which are on the U.S. Environmental Protection

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Agency s Superfund priority list. Although, under some court interpretations of these laws, there is a possibility that a responsible party might have to bear more than its proportional share of the cleanup costs if it is unable to obtain appropriate contribution from other responsible parties, to date we have not had to bear significantly more than our proportional share in multi-party situations taken as a whole.

We do not believe that existing or pending climate change legislation, regulation, or international treaties or accords are reasonably likely to have a material effect in the foreseeable future on the Company s business or markets that it serves, nor on its results of operations, capital expenditures or financial position. We will continue to monitor emerging developments in this area.

Further information, including the current status of significant environmental matters and the financial impact incurred for remediation of such environmental matters, if any, is included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, in Note 22 Commitments and Contingencies of Notes to Financial Statements in Item 8. Financial Statements and Supplementary Data, and in Item 1A. Risk Factors.

Employees

We have approximately 132,000 employees at December 31, 2012, of which approximately 52,000 were located in the United States.

Item 1A. Risk Factors

Cautionary Statement about Forward-Looking Statements

We have described many of the trends and other factors that drive our business and future results in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations , including the overview of the Company and each of our segments and the discussion of their respective economic and other factors and areas of focus for 2013. These sections and other parts of this report (including this Item 1A) contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements are those that address activities, events or developments that management intends, expects, projects, believes or anticipates will or may occur in the future. They 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 significantly from those envisaged by our forward-looking statements. We do not undertake to update or revise any of our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties that can affect our performance in both the near-and long-term. These forward-looking statements should be considered in light of the information included in this Form 10-K, including, in particular, the factors discussed below.

Risk Factors

Our business, operating results, cash flows and financial condition are subject to the risks and uncertainties set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Industry and economic conditions may adversely affect the markets and operating conditions of our customers, which in turn can affect demand for our products and services and our results of operations.

The operating results of our segments are impacted by general global industry and economic conditions that can cause changes in spending and capital investment patterns, demand for our products and services and the level of our manufacturing and shipping costs. The operating results of our Aerospace segment, which generated 32 percent of our consolidated revenues in 2012, are directly tied to cyclical industry and economic conditions, including global demand for air travel as reflected in new aircraft production, the deferral or cancellation of orders for new aircraft, delays in launch schedules for new aircraft platforms, the retirement of aircraft, global flying hours, and business and general aviation aircraft utilization rates, as well as changes in customer buying patterns with respect to aftermarket parts, supplier consolidation, factory transitions, capacity constraints, and the level and mix of U.S. and foreign government appropriations for defense and space programs (as further discussed in other risk factors below). The challenging operating environment faced by the commercial airline industry may be influenced by a wide variety of factors including global flying hours, aircraft fuel prices, labor issues, airline consolidation, airline insolvencies, terrorism and safety concerns as well as changes in regulations. Future terrorist actions or pandemic health issues could dramatically reduce both the demand for air travel and our Aerospace aftermarket sales and margins. The operating results of our Automation and Control Solutions (ACS) segment, which generated 42 percent of our consolidated revenues in 2012, are impacted by the level of global residential and commercial construction (including retrofits and upgrades), capital spending and operating expenditures on building and process automation, industrial plant capacity utilization and expansion, inventory levels in distribution channels, and global economic growth rates. Performance Materials and Technologies operating results, which generated 16 percent of our consolidated revenues in 2012, are impacted by global economic growth rates, capacity utilization for chemical, industrial, refining, petrochemical and semiconductor plants, our customers availability of capital for refinery construction and expansion, and raw material demand and supply volatility. Transportation Systems operating results, which generated 10 percent of our consolidated revenues in 2012, are impacted by global production and demand for

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automobiles and trucks equipped with turbochargers, and regulatory changes regarding automobile and truck emissions and fuel economy, delays in launch schedules for new automotive platforms, and consumer demand and spending for automotive aftermarket products. Demand of global automotive and truck manufacturers will continue to be influenced by a wide variety of factors, including ability of consumers to obtain financing, ability to reduce operating costs and overall consumer and business confidence. Each of the segments is impacted by volatility in raw material prices (as further described below) and non- material inflation.

Raw material price fluctuations, the ability of key suppliers to meet quality and delivery requirements, or catastrophic events can increase the cost of our products and services, impact our ability to meet commitments to customers and cause us to incur significant liabilities.

The cost of raw materials is a key element in the cost of our products, particularly in our Performance Materials and Technologies (cumene, fluorspar, perchloroethylene, R240, natural gas, sulfur and ethylene), Transportation Systems (nickel, steel and other metals) and Aerospace (nickel, titanium and other metals) segments. Our inability to offset material price inflation through increased prices to customers, formula or long-term fixed price contracts with suppliers, productivity actions or through commodity hedges could adversely affect our results of operations.

Our manufacturing operations are also highly dependent upon the delivery of materials (including raw materials) by outside suppliers and their assembly of major components, and subsystems used in our products in a timely manner and in full compliance with purchase order terms and conditions, quality standards, and applicable laws and regulations. In addition, many major components, product equipment items and raw materials are procured or subcontracted on a single-source basis with a number of domestic and foreign companies; in some circumstances these suppliers are the sole source of the component or equipment. Although we maintain a qualification and performance surveillance process to control risk associated with such reliance on third parties and we believe that sources of supply for raw materials and components are generally adequate, it is difficult to predict what effects shortages or price increases may have in the future. Our ability to manage inventory and meet delivery requirements may be constrained by our suppliers inability to scale production and adjust delivery of long-lead time products during times of volatile demand. Our suppliers may fail to perform according to specifications as and when required and we may be unable to identify alternate suppliers or to otherwise mitigate the consequences of their non-performance. The supply chains for our businesses could also be disrupted by suppliers decisions to exit certain businesses, bankruptcy and by external events such as natural disasters, extreme weather events, pandemic health issues, terrorist actions, labor disputes, governmental actions and legislative or regulatory changes (e.g., product certification or stewardship requirements, sourcing restrictions, product authenticity, climate change or greenhouse gas emission standards, etc.). Our inability to fill our supply needs would jeopardize our ability to fulfill obligations under commercial and government contracts, which could, in turn, result in reduced sales and profits, contract penalties or terminations, and damage to customer relationships. Transitions to new suppliers may result in significant costs and delays, including those related to the required recertification of parts obtained from new suppliers with our customers and/or regulatory agencies. In addition, because our businesses cannot always immediately adapt their cost structure to changing market conditions, our manufacturing capacity for certain products may at times exceed or fall short of our production requirements, which could adversely impact our operating costs, profitability and customer and supplier relationships.

Our facilities, distribution systems and information technology systems are subject to catastrophic loss due to, among other things, fire, flood, terrorism or other natural or man-made disasters. If any of these facilities or systems were to experience a catastrophic loss, it could disrupt our operations, result in personal injury or property damage, damage relationships with our customers and result in large expenses to repair or replace the facilities or systems, as well as result in other liabilities and adverse impacts. The same risk could also arise from the failure of critical systems supplied by Honeywell to large industrial, refining and petrochemical customers.

Our future growth is largely dependent upon our ability to develop new technologies that achieve market acceptance with acceptable margins.

Our businesses operate in global markets that are characterized by rapidly changing technologies and evolving industry standards. Accordingly, our future growth rate depends upon a number of factors, including our ability to (i) identify emerging technological trends in our target end-markets, (ii) develop and maintain competitive products, (iii) enhance our products by adding innovative features that differentiate our products from those of our competitors and prevent commoditization of our products, (iv) develop, manufacture and bring products to market quickly and cost-effectively, and (v) develop and retain individuals with the requisite expertise.

Our ability to develop new products based on technological innovation can affect our competitive position and requires the investment of significant resources. These development efforts divert resources from other potential investments in our businesses, and they may not lead to the development of new technologies or products on a timely basis or that meet the needs of our customers as fully as competitive offerings. In addition, the markets for our products may not develop or grow as we currently anticipate. The failure of our technologies or products to gain market acceptance due to more attractive offerings by our competitors could significantly reduce our revenues and adversely affect our competitive standing and prospects.

Protecting our intellectual property is critical to our innovation efforts.

We own or are licensed under a large number of U.S. and non-U.S. patents and patent applications, trademarks and copyrights. Our intellectual property rights may expire or be challenged, invalidated or infringed upon by third parties or we may be unable to maintain, renew or enter into new licenses of third party proprietary intellectual property on commercially reasonable terms. In some non-U.S. countries, laws affecting intellectual property are uncertain in their application, which can affect the scope or enforceability of our patents and other intellectual property rights. Any of these events or factors could diminish or cause us to lose the competitive advantages associated with our intellectual property, subject us to judgments, penalties and significant litigation costs, and/or temporarily or permanently disrupt our sales and marketing of the affected products or services.

Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology (IT) systems to sophisticated and targeted measures known as advanced persistent threats, directed at the Company and/or its third party service providers. While we have experienced, and expect to continue to experience, these types of threats and incidents, none of them to date have been material to the Company. Although we employ comprehensive measures to prevent, detect, address and mitigate these threats (including access controls, data encryption, vulnerability assessments, continuous monitoring of our IT networks and systems and maintenance of backup and protective systems), cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, diminution in the value of our investment in research, development and engineering, and increased cybersecurity protection and remediation costs, which in turn could adversely affect our competitiveness and results of operations.

An increasing percentage of our sales and operations is in non-U.S. jurisdictions and is subject to the economic, political, regulatory and other risks of international operations.

Our international operations, including U.S. exports, comprise a growing proportion of our operating results. Our strategy calls for increasing sales to and operations in overseas markets, including developing markets such as China, India, the Middle East and other high growth regions.

In 2012, approximately 55 percent of our total sales (including products manufactured in the U.S. and sold outside the U.S. as well as products manufactured in international locations) were outside of the U.S. including approximately 28 percent in Europe and approximately 13 percent in Asia. Risks related to international operations include exchange control regulations, wage and price controls, employment regulations, foreign investment laws, import, export and other trade restrictions (such as embargoes), changes in regulations regarding transactions with state-owned enterprises, nationalization of private enterprises, government instability, acts of terrorism, and our ability to hire and maintain qualified staff and maintain the safety of our employees in these regions. We are also subject to U.S. laws prohibiting companies from doing business in certain countries, or restricting the type of business that may be conducted in these countries. The cost of compliance with increasingly complex and often conflicting regulations worldwide can also impair our flexibility in modifying product, marketing, pricing or other strategies for growing our businesses, as well as our ability to improve productivity and maintain acceptable operating margins.

Uncertain global economic conditions arising from circumstances such as sovereign debt issues, slowing growth in emerging regions and credit rating downgrades in certain European countries or speculation regarding changes to the composition or viability of the Euro zone could result in reduced customer confidence resulting in decreased demand for our products and services, disruption in payment patterns and higher default rates, a tightening of credit markets (see risk factor below regarding volatility of credit markets for further discussion), increased risk regarding supplier performance, increased counterparty risk with respect to the financial institutions with which we do business, and exchange rate fluctuations. While we employ comprehensive controls regarding global cash management to guard against cash or investment loss and to ensure our ability to fund our operations and commitments, a material disruption to the financial institutions with whom we transact business could expose Honeywell to financial loss.

Sales and purchases in currencies other than the US dollar expose us to fluctuations in foreign currencies relative to the US dollar and may adversely affect our results of operations. Currency fluctuations may affect product demand and prices we pay for materials, as a result, our operating margins may be negatively impacted. Fluctuations in exchange rates may give rise to translation gains or losses when financial statements of our non-U.S. businesses are translated into U.S. dollars. While we monitor our exchange rate exposures and seek to reduce the risk of volatility through hedging activities, such activities bear a financial cost and may not always be available to us or successful in significantly mitigating such volatility.

Volatility of credit markets or macro-economic factors could adversely affect our business.

Changes in U.S. and global financial and equity markets, including market disruptions, limited liquidity, and interest rate volatility, may increase the cost of financing as well as the risks of refinancing maturing debt. In addition, our borrowing costs can be affected by short and long-term ratings assigned by independent rating agencies. A decrease in these ratings could increase our cost of borrowing.

Delays in our customers ability to obtain financing, or the unavailability of financing to our customers, could adversely affect our results of operations and cash flow. The inability of our suppliers to obtain financing could result in the need to transition to alternate suppliers, which could result in significant incremental cost and delay, as discussed above. Lastly, disruptions in the U.S. and global financial markets could impact the financial institutions with which we do business.

We may be required to recognize impairment charges for our long-lived assets or available for sale investments.

At December 31, 2012, the net carrying value of long-lived assets (property, plant and equipment, goodwill and other intangible assets) and available for sale securities totaled approximately $19.9 billion and $0.5 billion, respectively. In accordance with generally accepted accounting principles, we periodically assess these assets to determine if they are impaired. Significant negative industry or economic trends, disruptions to our business, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may result in impairments to goodwill and other long-lived assets. An other than temporary decline in the market value of our available for

sale securities may also result in an impairment charge. Future impairment charges could significantly affect our results of operations in the periods recognized. Impairment charges would also reduce our consolidated shareowners equity and increase our debt-to-total-capitalization ratio, which could negatively impact our credit rating and access to the public debt and equity markets.

A change in the level of U.S. Government defense and space funding or the mix of programs to which such funding is allocated could adversely impact Aerospace s defense and space sales and results of operations.

Sales of our defense and space-related products and services are largely dependent upon government budgets, particularly the U.S. defense budget. Sales as a prime contractor and subcontractor to the U.S. Department of Defense comprised approximately 27 and 9 percent of Aerospace and total sales, respectively, for the year ended December 31, 2012. We cannot predict the extent to which total funding and/or funding for individual programs will be included, increased or reduced as part of the 2013 and subsequent budgets ultimately approved by Congress, or be included in the scope of separate supplemental appropriations. We also cannot predict the impact of potential changes in priorities due to military transformation and planning and/or the nature of war-related activity on existing, follow-on or replacement programs. A shift in defense or space spending to programs in which we do not participate and/or reductions in funding for or termination of existing programs could adversely impact our results of operations.

As a supplier of military and other equipment to the U.S. Government, we are subject to unusual risks, such as the right of the U.S. Government to terminate contracts for convenience and to conduct audits and investigations of our operations and performance.

In addition to normal business risks, companies like Honeywell that supply military and other equipment to the U.S. Government are subject to unusual risks, including dependence on Congressional appropriations and administrative allotment of funds, changes in governmental procurement legislation and regulations and other policies that reflect military and political developments, significant changes in contract requirements, complexity of designs and the rapidity with which they become obsolete, necessity for frequent design improvements, intense competition for U.S. Government business necessitating increases in time and investment for design and development, difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work, and other factors characteristic of the industry, such as contract award protests and delays in the timing of contract approvals. Changes are customary over the life of U.S. Government contracts, particularly development contracts, and generally result in adjustments to contract prices and schedules.

Our contracts with the U.S. Government are also subject to various government audits. Like many other government contractors, we have received audit reports that recommend downward price adjustments to certain contracts or changes to certain accounting systems or controls to comply with various government regulations. When appropriate and prudent, we have made adjustments and paid voluntary refunds in the past and may do so in the future.

U.S. Government contracts are subject to termination by the government, either for the convenience of the government or for our failure to perform consistent with the terms of the applicable contract. In the case of a termination for convenience, we are typically entitled to reimbursement for our allowable costs incurred, plus termination costs and a reasonable profit. If a contract is terminated by the government for our failure to perform we could be liable for reprocurement costs incurred by the government in acquiring undelivered goods or services from another source and for other damages suffered by the government as permitted under the contract.

We are also subject to government investigations of business practices and compliance with government procurement regulations. If, as a result of any such investigation or other government investigations (including violations of certain environmental or export laws), Honeywell or one of its businesses were found to have violated applicable law, it could be suspended from bidding on or receiving awards of new government contracts, suspended from contract performance pending the completion of legal proceedings and/or have its export privileges suspended. The U.S. Government

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also reserves the right to debar a contractor from receiving new government contracts for fraudulent, criminal or other egregious misconduct. Debarment generally does not exceed three years.

Our reputation and ability to do business may be impacted by the improper conduct of employees, vendors, agents or business partners.

We cannot ensure that our extensive compliance controls, policies and procedures will, in all instances, protect us from reckless, unethical or criminal acts committed by our employees, vendors, agents or business partners that would violate the laws of the jurisdictions in which the Company operates, including laws governing payments to government officials, competition, data privacy and rights of employees. Any improper actions could subject us to civil or criminal investigations, monetary and non-monetary penalties and could adversely impact our ability to conduct business, results of operations and reputation.

Changes in legislation or government regulations or policies can have a significant impact on our results of operations.

The sales and margins of each of our segments are directly impacted by government regulations. Safety and performance regulations (including mandates of the Federal Aviation Administration and other similar international regulatory bodies requiring the installation of equipment on aircraft), product certification requirements and government procurement practices can impact Aerospace sales, research and development expenditures, operating costs and profitability. The demand for and cost of providing Automation and Control Solutions products, services and solutions can be impacted by fire, security, safety, health care, environmental and energy efficiency standards and regulations. Performance Materials and Technologies results of operations can be affected by environmental (e.g. government regulation of fluorocarbons), safety and energy efficiency standards and regulations, while emissions, fuel economy and energy efficiency standards and regulations can impact the demand for turbochargers in our Transportation Systems segment. Honeywell sells products that address safety and environmental regulation and a substantial portion of our portfolio is dedicated to energy efficient products and services. Legislation or regulations regarding areas such as labor and employment, employee benefit plans, tax, health, safety and environmental matters, import, export and trade, intellectual property, product certification, and product liability may impact the results of each of our operating segments and our consolidated results.

Completed acquisitions may not perform as anticipated or be integrated as planned, and divestitures may not occur as planned.

We regularly review our portfolio of businesses and pursue growth through acquisitions and seek to divest non-core businesses. We may not be able to complete transactions on favorable terms, on a timely basis or at all. In addition, our results of operations and cash flows may be adversely impacted by (i) the failure of acquired businesses to meet or exceed expected returns, (ii) the discovery of unanticipated issues or liabilities, (iii) the failure to integrate acquired businesses into Honeywell on schedule and/or to achieve synergies in the planned amount or within the expected timeframe, (iv) the inability to dispose of non-core assets and businesses on satisfactory terms and conditions and within the expected timeframe, and (v) the degree of protection provided by indemnities from sellers of acquired companies and the obligations under indemnities provided to purchasers of our divested businesses.

We cannot predict with certainty the outcome of litigation matters, government proceedings and other contingencies and uncertainties.

We are subject to a number of lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising out of the conduct of our business, including matters relating to commercial transactions, government contracts, product liability (including asbestos), prior acquisitions and divestitures, employment, employee benefits plans, intellectual property, antitrust, import and export matters and environmental, health and safety matters. Resolution of these matters can be

prolonged and costly, and the ultimate results or judgments are uncertain due to the inherent uncertainty in litigation and other proceedings. Moreover, our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary requirements, and we may become subject to or be required to pay damage awards or settlements that could have a material adverse effect on our results of operations, cash flows and financial condition. While we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover the total amount of all insured claims and liabilities. It also is not possible to obtain insurance to protect against all our operational risks and liabilities. The incurrence of significant liabilities for which there is no or insufficient insurance coverage could adversely affect our results of operations, cash flows, liquidity and financial condition.

Our operations and the prior operations of predecessor companies expose us to the risk of material environmental liabilities.

Mainly because of past operations and operations of predecessor companies, we are subject to potentially material liabilities related to the remediation of environmental hazards and to claims of personal injuries or property damages that may be caused by hazardous substance releases and exposures. We have incurred remedial response and voluntary clean-up costs for site contamination and are a party to lawsuits and claims associated with environmental and safety matters, including past production of products containing hazardous substances. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future. We are subject to various federal, state, local and foreign government requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. These laws and regulations can impose substantial fines and criminal sanctions for violations, and require installation of costly equipment or operational changes to limit emissions and/or decrease the likelihood of accidental hazardous substance releases. We incur, and expect to continue to incur, capital and operating costs to comply with these laws and regulations. In addition, changes in laws, regulations and enforcement of policies, the discovery of previously unknown contamination or new technology or information related to individual sites, the establishment of stricter state or federal toxicity standards with respect to certain contaminants, or the imposition of new clean-up requirements or remedial techniques could require us to incur costs in the future that would have a negative effect on our financial condition or results of operations.

Our expenses include significant costs related to employee and retiree health benefits.

With approximately 132,000 employees, including approximately 52,000 in the U.S., our expenses relating to employee health and retiree health benefits are significant. In recent years, we have experienced significant increases in certain of these costs, largely as a result of economic factors beyond our control, in particular, ongoing increases in health care costs well in excess of the rate of inflation. Continued increasing health-care costs, legislative or regulatory changes, and volatility in discount rates, as well as changes in other assumptions used to calculate retiree health benefit expenses, may adversely affect our financial position and results of operations.

Risks related to our defined benefit pension plans may adversely impact our results of operations and cash flow.

Significant changes in actual investment return on pension assets, discount rates, and other factors could adversely affect our results of operations and pension contributions in future periods. U.S. generally accepted accounting principles require that we calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial markets and interest rates, which may change based on economic conditions. Funding requirements for our U.S. pension plans may become more significant. However, the ultimate amounts to be contributed are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory changes related to pension funding obligations. For a discussion regarding the significant assumptions used to estimate pension expense, including discount rate and the expected long-term rate of return on plan assets, and how our financial statements can be affected by pension plan

accounting policies, see Critical Accounting Policies included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Additional tax expense or additional tax exposures could affect our future profitability.

We are subject to income taxes in both the United States and various non-U.S. jurisdictions, and our domestic and international tax liabilities are dependent upon the distribution of income among these different jurisdictions. In 2012, our tax expense represented 24.4 percent of our income before tax, and includes estimates of additional tax which may be incurred for tax exposures and reflects various estimates and assumptions, including assessments of future earnings of the Company, that could impact the valuation of our deferred tax assets. Our future results of operations could be adversely affected by changes in the effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in the overall profitability of the Company, changes in tax legislation and rates, changes in generally accepted accounting principles, changes in the valuation of deferred tax assets and liabilities, changes in the amount of earnings permanently reinvested offshore, the results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We have approximately 1,300 locations consisting of plants, research laboratories, sales offices and other facilities. Our headquarters and administrative complex is located in Morris Township, New Jersey. Our plants are generally located to serve large marketing areas and to provide accessibility to raw materials and labor pools. Our properties are generally maintained in good operating condition. Utilization of these plants may vary with sales to customers and other business conditions; however, no major operating facility is significantly idle. We own or lease warehouses, railroad cars, barges, automobiles, trucks, airplanes and materials handling and data processing equipment. We also lease space for administrative and sales staffs. Our properties and equipment are in good operating condition and are adequate for our present needs. We do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

Our principal plants, which are owned in fee unless otherwise indicated, are as follows:

	Aerospace	
Anniston, AL (leased)	Olathe, KS	Toronto, Canada
Glendale, AZ (leased)	Minneapolis, MN (partially leased)	Olomouc, Czech Republic (leased)
Phoenix, AZ (partially leased)	Plymouth, MN	Penang, Malaysia
Tempe, AZ	Rocky Mount, NC	Chihuahua, Mexico
Tucson, AZ	Albuquerque, NM (partially leased)	Singapore
Torrance, CA	Urbana, OH	Yeovil, UK (leased)
Clearwater, FL	Greer, SC	South Bend, IN

Automation and Control Solutions

San Diego, CA (leased)	Pleasant Prairie, WI (leased)	Schonaich, Germany (leased)
Northford, CT	Shenzhen, China (leased)	Pune, India (partially leased)
Freeport, IL	Suzhou, China	Chihuahua, Mexico (partially leased)
St. Charles, IL (leased)	Tianjin, China (leased)	Juarez, Mexico (partially leased)
Golden Valley, MN	Brno, Czech Republic (leased)	Tijuana, Mexico (leased)
York, PA (leased)	Mosbach, Germany	Emmen, Netherlands
	Neuss, Germany	Newhouse, Scotland

Performance Materials and Technologies

Mobile, AL (partially leased)	Shreveport, LA	Colonial Heights, VA
Des Plaines, IL	Frankford, PA	Hopewell, VA
Metropolis, IL	Pottsville, PA	Spokane, WA (partially leased)
Baton Rouge, LA	Orange, TX	Seelze, Germany
Geismar, LA	Chesterfield, VA	

Transportation Systems

Shanghai, China	Atessa, Italy	Mexicali, Mexico (partially leased)
Glinde, Germany	Kodama, Japan	Bucharest, Romania
	Ansan, Korea (leased)	Pune, India

Item 3. Legal Proceedings

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See a discussion of environmental, asbestos and other litigation matters in Note 22 Commitments and Contingencies of Notes to Financial Statements.

Environmental Matters Involving Potential Monetary Sanctions in Excess of $100,000

Although the outcome of the matter discussed below cannot be predicted with certainty, we do not believe that it will have a material adverse effect on our consolidated financial position, consolidated results of operations or operating cash flows.

The United States Environmental Protection Agency and the United States Department of Justice are investigating whether the Company s manufacturing facility in Hopewell, Virginia is in compliance with the requirements of the Clean Air Act and the facility s air operating permit. Based on these investigations, the federal authorities have issued notices of violation with respect to the facility s benzene waste operations, leak detection and repair program, emissions of nitrogen oxides and emissions of particulate matter. The Company has entered into negotiations with federal authorities to resolve the alleged violations.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

The executive officers of Honeywell, listed as follows, are elected annually by the Board of Directors. There are no family relationships among them.

Name, Age, Date First Elected an Executive Officer	Business Experience
David M. Cote, 60 2002(a)	Chairman of the Board and Chief Executive Officer since July 2002.
Katherine L. Adams, 48 2009	Senior Vice President and General Counsel since April 2009. Vice President and General Counsel from September 2008 to April 2009. Vice President and General Counsel for Performance Materials and Technologies from February 2005 to September 2008.
David J. Anderson, 63 2003	Senior Vice President and Chief Financial Officer since June 2003.
Roger Fradin, 59 2004	President and Chief Executive Officer Automation and Control Solutions since January 2004.
Alexandre Ismail, 47 2009	President and Chief Executive Officer Transportation Systems since April 2009. President Turbo Technologies from November 2008 to April 2009. President Global Passengers Vehicles from August 2006 to November 2008.
Mark R. James, 51 2007	Senior Vice President Human Resources and Communications since November 2007. Vice President of Human Resources and Communications for Aerospace from October 2004 to November 2007.
Andreas C. Kramvis, 60 2008	President and Chief Executive Officer Performance Materials and Technologies since March 2008. President of Environmental and Combustion Controls from September 2002 to February 2008.
Timothy O. Mahoney, 56 2009	President and Chief Executive Officer Aerospace since September 2009. Vice President Aerospace Engineering and Technology and Chief Technology Officer from March 2007 to August 2009. President of Air Transport and Regional from July 2005 to March 2007.
Krishna Mikkilineni, 53 2010	Senior Vice President Engineering and Operations since April 2010 and President Honeywell Technology Solutions since January 2009. Vice President Honeywell Technology Solutions from July 2002 to January 2009.

(a) Also a Director.

Part II.

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Honeywell s common stock is listed on the New York Stock Exchange. Market and dividend information for Honeywell s common stock is included in Note 27 Unaudited Quarterly Financial Information of Notes to Financial Statements in Item 8. Financial Statements and Supplementary Data.

The number of record holders of our common stock at December 31, 2012 was 55,879.

Honeywell purchased 5,000,000 shares of its common stock, par value $1 per share, in the quarter and year ending December 31, 2012. Under the Company s previously reported $3 billion share repurchase program, $1.6 billion remained available as of December 31, 2012 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time during 2013 to offset the dilutive impact of employee stock based compensation plans, including future option exercises, restricted unit vesting and matching contributions under our savings plans. The amount and timing of future repurchases may vary depending on market conditions and the level of operating, financing and other investing activities.

The following table summarizes Honeywell s purchase of its common stock, par value $1 per share, for the three months ended December 31, 2012:

Issuer Purchases of Equity Securities

	(a)	(b)	(c)	(d)
Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs (Dollars in millions)**
December 2012	5,000,000	$ 63.31	5,000,000	$ 1,598

Performance Graph

The following graph compares the five-year cumulative total return on our Common Stock to the total returns on the Standard & Poor s 500 Stock Index and a composite of Standard & Poor s Industrial Conglomerates and Aerospace and Defense indices, on a 60%/40% weighted basis, respectively (the Composite Index). The weighting of the components of the Composite Index are based on our segments relative contribution to total segment profit. The selection of the Industrial Conglomerates component of the Composite Index reflects the diverse and distinct range of non-aerospace businesses conducted by Honeywell. The annual changes for the five-year period shown in the graph are based on the assumption that $100 had been invested in Honeywell stock and each index on December 31, 2007 and that all dividends were reinvested.

COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN

HONEYWELL INTERNATIONAL INC.

The Consumer Products Group (CPG) automotive aftermarket business had historically been part of the Transportation Systems reportable segment. In accordance with generally accepted accounting principles, CPG is presented as discontinued operations in all periods presented. See Note 2 Acquisitions and Divestitures for further details. This selected financial data should be read in conjunction with Honeywell s Consolidated Financial Statements and related Notes included elsewhere in this Annual Report as well as the section of this Annual Report titled Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Item 6. Selected Financial Data

	Years Ended December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
	(Dollars in millions, except per share amounts)				
Results of Operations					
Net sales	$ 37,665	$ 36,529	$ 32,350	$ 29,951	$ 35,520
Amounts attributable to Honeywell:					
Income from continuing operations less net income attributable to the noncontrolling interest	2,926	1,858	1,944	1,492	789
Income from discontinued operations(1)		209	78	56	17
Net income attributable to Honeywell(2)	2,926	2,067	2,022	1,548	806
Earnings Per Common Share					
Basic:					
Income from continuing operations	3.74	2.38	2.51	1.99	1.07
Income from discontinued operations		0.27	0.10	0.07	0.02
Net income attributable to Honeywell	3.74	2.65	2.61	2.06	1.09
Assuming dilution:					
Income from continuing operations	3.69	2.35	2.49	1.98	1.06
Income from discontinued operations		0.26	0.10	0.07	0.02
Net income attributable to Honeywell	3.69	2.61	2.59	2.05	1.08

Dividends per share	1.53	1.37	1.21	1.21	1.10
Financial Position at Year-End					
Property, plant and equipment net	5,001	4,804	4,724	4,847	4,934
Total assets	41,853	39,808	37,834	35,993	35,570
Short-term debt	1,101	674	889	1,361	2,510
Long-term debt	6,395	6,881	5,755	6,246	5,865
Total debt	7,496	7,555	6,644	7,607	8,375
Redeemable noncontrolling interest	150				
Shareowners equity	13,065	10,902	10,787	8,971	7,140

(1) For the year ended December 31, 2011, income from discontinued operations includes a $178 million, net of tax gain, resulting from the sale of the CPG business which funded a portion of the 2011 repositioning actions.

(2) For the year ended December 31, 2008, net income attributable to Honeywell includes a $417 million, net of tax gain, resulting from the sale of our Consumables

Solutions business as well as a charge of $465 million for environmental liabilities deemed probable and reasonably estimable during 2008.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

(Dollars in millions, except per share amounts)

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the results of operations and financial condition of Honeywell International Inc. and its consolidated subsidiaries (Honeywell or the Company) for the three years ended December 31, 2012. All references to Notes related to Notes to the Financial Statements in Item 8 Financial Statements and Supplementary Data .

The Consumer Products Group (CPG) automotive aftermarket business had historically been part of the Transportation Systems reportable segment. In accordance with generally accepted accounting principles, CPG results are excluded from continuing operations and are presented as discontinued operations in all periods presented. See Note 2 Acquisitions and Divestitures for further details.

EXECUTIVE SUMMARY

For Honeywell, 2012 marked another year of strong growth despite a challenging political and macro-economic environment. The Company continued to manage uncertainty associated with slower than expected economic growth in the United States, recession in the European Union, political unrest in the Middle East, and slowing growth in China and other emerging economies. Despite a modest 2.6 percent growth in World GDP and Industrial Production, Honeywell s 2012 revenues were $37.7 billion representing a 3 percent improvement compared to 2011 revenues of $36.5 billion. Honeywell s 2012 revenue growth was achieved despite significant foreign exchange weakness in the Euro and other non-U.S. dollar currencies which had a negative 2 percent impact on our 2012 revenues. Our segment profit improved by 10 percent, in excess of three times revenue growth, evidencing the Company s continued focus on operational excellence. See Review of Business Segments section of this MD&A for a reconciliation of segment profit to consolidated income from continuing operations before taxes.

The Company s operational excellence and ability to expand profit faster than sales growth is due in part to a consistent, methodical application of several key internal business processes which drive efficiency and service quality, bringing world-class products and services to markets faster and more cost effectively for our customers. Honeywell refers to these processes as the Honeywell Enablers. In 2012, Honeywell continued to strengthen and expand the use of the Honeywell Enablers:

The Honeywell Operating System (HOS): HOS drives sustainable improvements in our manufacturing operations to generate exceptional performance in safety, quality, delivery, cost, and inventory management. Approximately 70 percent of our manufacturing cost base has achieved HOS certification.

Velocity Product Development (VPD): VPD is a process which brings together all of the functions necessary to successfully launch new products R&D, manufacturing, marketing and sales to increase the probability that in commercializing new technologies Honeywell delivers the right products at the right price.

Functional Transformation (FT): Functional Transformation is HOS for our administrative functions Finance, Legal, HR, IT and Purchasing standardizing the way we work, which improves service quality and reduces costs.

Organizational Efficiency (OEF): OEF is, in its simplest form, the cost of labor. Improvements in OEF represent the success of Honeywell s initiatives to increase labor cost efficiency and employee productivity.

The Company continues to invest for future growth as measured by a number of important metrics:

R&D spending at 4.9 percent of revenues was targeted at such high growth areas as natural gas processing, low global warming refrigerants and blowing agents, and wireless control devices and technologies.

Capital expenditures grew 11 percent to $884 million including the construction or expansion of technology centers in India and Saudi Arabia.

The Company recognized approximately $119 million of restructuring actions to support sustainable productivity in years to come.

The Company completed $438 million (net of cash acquired) in acquisitions in 2012, including acquisition of a 70 percent ownership interest in Thomas Russell L.L.C. (Thomas Russell Co.), a leader in technology and equipment for natural gas processing and treating, primarily serving the US market.

Expansion of Honeywell s presence and sales in high growth regions and countries such as China, India, Eastern Europe, the Middle-East, and Latin America. Sales to customers outside the United States now account for approximately 55 percent of total revenues.

Operating cash flow grew by 24 percent in 2012 to $3,517 million. This operating cash flow performance enabled us to invest $884 million in capital expenditures, fund the acquisitions discussed above, make $1,039 million in pension contributions, and provide an 11 percent increase in dividends paid (vs. 2011) and repurchase 5 million shares of common stock.

CONSOLIDATED RESULTS OF OPERATIONS

Net Sales

	2012	2011	2010
Net sales	$ 37,665	$ 36,529	$ 32,350
% change compared with prior period	3%	13%	

The change in net sales compared to the prior year period is attributable to the following:

	2012 Versus 2011	2011 Versus 2010
Volume	2 %	6 %
Price	1 %	2 %
Acquisitions/Divestitures	2 %	3 %
Foreign Exchange	(2)%	2 %
	3 %	13 %

A discussion of net sales by segment can be found in the Review of Business Segments section of this MD&A.

Cost of Products and Services Sold

	2012	2011	2010
Cost of products and services sold	$ 28,291	$ 28,556	$ 24,721
% change compared with prior period	(1)%	16%	
Gross Margin percentage	24.9 %	21.8 %	23.6 %

Cost of products and services sold decreased by $265 million or 1 percent in 2012 compared with 2011 principally due to a decrease in pension expense of approximately $800 million (primarily driven by the decrease in the pension mark-to-market adjustment allocated to cost of products and services sold of $780 million) and a decrease in repositioning and other charges of approximately $220 million, partially offset by an estimated increase in direct material costs of approximately $620 million driven substantially by a 3 percent increase in sales as a result of the factors (excluding price) shown above and discussed in the Review of Business Segments section of this MD&A and an increase in other postretirement expense of approximately $135 million due to the absence of 2011 curtailment gains.

Gross margin percentage increased by 3.1 percentage points in 2012 compared with 2011 principally due to lower pension expense (approximately 2.2 percentage point impact primarily driven by the decrease in the pension mark-to-market adjustment allocated to cost of products and services sold), lower repositioning actions (approximately 0.6 percentage point impact) and higher segment gross margin in our Aerospace, Automation and Control Solutions and Performance Materials and Technologies segments (approximately 0.4 percentage point impact collectively), partially offset by higher other postretirement expense (approximately 0.4 percentage point impact).

Cost of products and services sold increased by $3,835 million or 16 percent in 2011 compared with 2010, principally due to an estimated increase in direct material costs, labor costs and indirect costs of approximately $2 billion, $520 million, and $280 million, respectively, driven substantially by a 13 percent increase in sales as a result of the factors (excluding price) shown above and discussed in the Review of Business Segments section of this MD&A, an increase in pension and other postretirement expense of approximately $880 million (primarily driven by the increase in the pension mark-to-market adjustment allocated to cost of products and services sold of $1.1 billion) and an increase in repositioning and other charges of approximately $90 million.

Gross margin percentage decreased by 1.8 percentage points in 2011 compared with 2010, primarily due to higher pension and other postretirement expense (approximate 2.8 percentage point impact primarily driven by an unfavorable 3.3 percentage point impact resulting from the increase in the pension mark-to-market adjustment allocated to cost of products and services sold) and repositioning and other charges (approximate 0.2 percentage point impact), partially offset by higher sales volume driven by each of our business segments (approximate 1.2 percentage point impact).

Selling, General and Administrative Expenses

	2012	2011	2010
Selling, general and administrative expense	$ 5,218	$ 5,399	$ 4,618
Percent of sales	13.9%	14.8%	14.3%

Selling, general and administrative expenses (SG&A) decreased as a percentage of sales by 0.9 percent in 2012 compared to 2011 driven by the impact of higher sales as a result of the factors discussed in the Review of Business Segments section of this MD&A, an estimated $110 million decrease in pension expense (driven by the decrease in the portion of the pension mark-to-market charge allocated to SG&A), $90 million decrease due to foreign exchange and $80 million decrease in repositioning actions, partially offset by the impact an estimated $140 million increase in costs resulting from acquisitions, investment for growth and merit increases (net of other employee related costs).

Selling, general and administrative expenses increased as a percentage of sales by 0.5 percent in 2011 compared to 2010 driven by an estimated $430 million increase in labor costs resulting from acquisitions, investment for growth, and merit increases, an estimated increase of $240 million in pension and other postretirement expense (driven primarily by the allocated portion of the pension mark-to-market charge increase of approximately $270 million) and an estimated increase of $60 million in repositioning actions, partially offset by the impact of higher sales volume as a result of the factors discussed in the Review of Business Segments section of this MD&A.

Other (Income) Expense

	2012	2011	2010
Equity (income)/loss of affiliated companies	$ (45)	$ (51)	$ (28)
Gain on sale of non-strategic businesses and assets	(5)	(61)	
Interest income	(58)	(58)	(39)
Foreign exchange	36	50	12

Other, net	2	36	(42)
	$ (70)	$ (84)	$ (97)

Other income decreased by $14 million in 2012 compared to 2011 due primarily to a $50 million pre-tax gain related to the divestiture of the automotive on-board sensors products business within our Automation and Control Solutions segment in the first quarter of 2011, partially offset by a loss of $29 million resulting from early redemption of debt in 2011 included within Other, net and the reduction of approximately $6 million of acquisition related costs compared to 2011 included within Other, net .

Other income decreased by $13 million in 2011 compared to 2010 due primarily to a $29 million loss resulting from early redemption of debt in the first quarter of 2011, included within Other, net , and the absence of a $62 million pre-tax gain related to the consolidation of a joint venture within our Performance Materials and Technologies segment in the third quarter of 2010, included within Other, net , (see Note 4 of Notes to Financial Statements for further details), partially offset by a $61 million increase in gain on sale of non-strategic businesses and assets due primarily to a $50 million pre-tax gain related to the divestiture of the automotive on-board sensors products business within our Automation and Control Solutions segment and the reduction of approximately $12 million of acquisition related costs compared to 2010 included within Other, net .

Interest and Other Financial Charges

	2012	2011	2010
Interest and other financial charges	$ 351	$ 376	$ 386
% change compared with prior period	(7)%	(3)%	

Interest and other financial charges decreased by 7% percent in 2012 compared with 2011 primarily due to lower borrowing costs, partially offset by higher average debt balances.

Interest and other financial charges decreased by 3% percent in 2011 compared with 2010 primarily due to lower borrowing costs, partially offset by higher debt balances.

Tax Expense

	2012	2011	2010
Tax expense	$ 944	$ 417	$ 765
Effective tax rate	24.4 %	18.3 %	28.1 %

The effective tax rate increased by 6.1 percentage points in 2012 compared with 2011 primarily due to a change in the mix of earnings taxed at higher rates (primarily driven by an approximate 6.1 percentage point impact from the decrease in pension mark-to-market expense), a decreased benefit from valuation allowances, a decreased benefit from the settlement of tax audits and the absence of the U.S. R&D tax credit, partially offset by a decreased expense related to tax reserves. The foreign effective tax rate was 17.0 percent, a decrease of approximately 4.1 percentage points which primarily consisted of a 10.0 percent impact related to a decrease in tax reserves, partially offset by a 5.2 percent impact from increased valuation allowances on net operating losses primarily due to a decrease in Luxembourg and France earnings available to be offset by net operating loss carry forwards and a 1.4 percent impact from tax expense related to foreign exchange. The effective tax rate was lower than the U.S. statutory rate of 35 percent primarily due to earnings taxed at lower foreign rates.

The effective tax rate decreased by 9.8 percentage points in 2011 compared with 2010 primarily due to a change in the mix of earnings between U.S. and foreign sources related to higher U.S. pension expense (primarily driven by an approximate 7.6 percentage point impact which resulted from the increase in pension mark-to-market expense), an increased benefit from manufacturing incentives, an increased benefit from the favorable settlement of tax audits and an increased benefit from a lower foreign effective tax rate. The foreign effective tax rate was 21.1 percent, a decrease of approximately 4.9 percentage points which primarily consisted of (i) a 5.1 percent impact from decreased valuation allowances on net operating losses primarily due to an increase in German earnings available to be offset by net operating loss carry forwards, (ii) a 2.4 percent impact from tax benefits related to foreign exchange and investment losses, (iii) a 1.2 percent impact from an increased benefit in tax credits and lower statutory tax rates, and (iv) a 4.1 percent impact related to an increase in tax reserves. The effective tax rate was lower than the U.S. statutory rate of 35 percent primarily due to earnings taxed at lower foreign rates.

The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013. Some of these provisions provide retroactive changes to the 2012 tax year which were not taken into account in determining the Company s effective tax rate for 2012. The impact of these retroactive changes will be recorded in the first quarter of 2013, however, the 2013 effective tax rate could also change based upon the Company s operating results, mix of earnings and the outcome of tax positions taken regarding previously filed tax returns currently under audit by various Federal, State and foreign tax authorities, several of which may be finalized in the foreseeable future. The Company believes that it has adequate reserves for these matters. However, the ultimate outcome of these matters may differ and could materially impact the results of operations and operating cash flows in the period they are resolved.

Net Income Attributable to Honeywell

	2012	2011	2010
Amounts attributable to Honeywell			
Income from continuing operations	$ 2,926	$ 1,858	$ 1,944
Income from discontinued operations		209	78
Net income attributable to Honeywell	$ 2,926	$ 2,067	$ 2,022
Earnings per share of common stock assuming dilution			
Income from continuing operations	$ 3.69	$ 2.35	$ 2.49
Income from discontinued operations		0.26	0.10
Net income attributable to Honeywell	$ 3.69	$ 2.61	$ 2.59

Earnings per share of common stock assuming dilution increased by $1.08 per share in 2012 compared with 2011 primarily due to lower pension expense (mainly due to a decrease in the pension mark-to-market adjustment), increased segment profit in our Aerospace, Automation and Control Solutions and Performance Materials and Technologies segments, lower repositioning and other charges, partially offset by increased tax expense, decreased income from discontinued operations and higher other postretirement expense.

Earnings per share of common stock assuming dilution increased by $0.02 per share in 2011 compared with 2010 primarily due to an increase in segment profit in each of our business segments, lower tax expense, the gain on disposal of discontinued operations, and lower other postretirement expense, partially offset by higher pension expense (primarily due to an increase in the pension mark-to-market adjustment) and higher repositioning and other charges.

For further discussion of segment results, see Review of Business Segments .

BUSINESS OVERVIEW

This Business Overview provides a summary of Honeywell and its four reportable operating segments (Aerospace, Automation and Control Solutions, Performance Materials and Technologies and Transportation Systems), including their respective areas of focus for 2013 and the relevant economic and other factors impacting their results, and a discussion of each segment s results for the three years ended December 31, 2012. Each of these segments is comprised of various product and service classes that serve multiple end markets. See Note 24 Segment Financial Data of Notes to the Financial Statements for further information on our reportable segments and our definition of segment profit.

Economic and Other Factors

In addition to the factors listed below with respect to each of our operating segments, our consolidated operating results are principally impacted by:

- Change in global economic growth rates and industry conditions on demand in our key end markets;

- Overall sales mix, in particular the mix of Aerospace original equipment and aftermarket sales and the mix of Automation and Control Solutions (ACS) products, distribution and services sales;

- The extent to which cost savings from productivity actions are able to offset or exceed the impact of material and non-material inflation;

- The impact of the pension discount rate and asset returns on pension expense, including mark-to-market adjustments, and funding requirements; and

- The impact of fluctuations in foreign currency exchange rates (in particular the Euro), relative to the U.S. dollar.

Areas of Focus for 2013

The 2013 areas of focus will be supported by the enablers including the Honeywell Operating System, our Velocity Product Development process, and Functional Transformation/ Organizational Efficiency. These areas of focus are generally applicable to each of our operating segments, and include:

- Driving profitable growth through R&D, technological excellence and optimized manufacturing capability to deliver innovative products that customers value;

Expanding margins by maintaining and improving the Company s cost structure through manufacturing and administrative process improvements, restructuring, and other actions, which will drive productivity and enhance the flexibility of the business as it works to proactively respond to changes in end market demand;

Proactively managing raw material costs through formula and long-term supply agreements and hedging activities, where feasible and prudent;

Driving strong cash flow conversion through effective working capital management which will enable the Company to undertake strategic actions to benefit the business including capital expenditures, strategic acquisitions, and returning cash to shareholders;

Increasing our sales penetration and expanding our localized footprint in high growth regions, including China, India, Eastern Europe, the Middle East and Latin America;

Aligning and prioritizing investments for long-term growth, while considering short-term demand volatility;

Monitoring both suppliers and customers for signs of liquidity constraints, limiting exposure to any resulting inability to meet delivery commitments or pay amounts due, and identifying alternate sources of supply as necessary; and

Controlling Corporate and other non-operating costs, including costs incurred for asbestos and environmental matters, pension and other post-retirement expenses and tax expense.

Review of Business Segments

	2012	2011	2010
Net Sales			
Aerospace			
Product	$ 6,999	$ 6,494	$ 5,868
Service	5,041	4,981	4,815
Total	12,040	11,475	10,683
Automation and Control Solutions			
Product	13,610	13,328	11,733
Service	2,270	2,207	2,016
Total	15,880	15,535	13,749
Performance Materials and Technologies			
Product	5,642	5,064	4,449
Service	542	595	277
Total	6,184	5,659	4,726
Transportation Systems			
Product	3,561	3,859	3,192
Service			
Total	3,561	3,859	3,192
Corporate			
Product			
Service		1	
Total		1	
	$ 37,665	$ 36,529	$ 32,350
Segment Profit			
Aerospace	$ 2,279	$ 2,023	$ 1,835
Automation and Control Solutions	2,232	2,083	1,770
Performance Materials and Technologies	1,154	1,042	749
Transportation Systems	432	485	353
Corporate	(218)	(276)	(222)
	$ 5,879	$ 5,357	$ 4,485

A reconciliation of segment profit to consolidated income from continuing operations before taxes are as follows:

	Years Ended December 31,		
	2012	2011	2010
Segment Profit	$ 5,879	$ 5,357	$ 4,485
Other income/ (expense)(1)	25	33	69
Interest and other financial charges	(351)	(376)	(386)
Stock compensation expense(2)	(170)	(168)	(163)
Pension ongoing expense(2)	(36)	(105)	(185)
Pension mark-to-market expense(2)	(957)	(1,802)	(471)
Other postretirement income/(expense)(2)	(72)	86	(29)
Repositioning and other charges(2)	(443)	(743)	(598)
Income from continuing operations before taxes	$ 3,875	$ 2,282	$ 2,722

(1) Equity income/(loss) of affiliated companies is included in Segment Profit.

(2) Amounts included in cost of products and services sold and selling, general and administrative expenses.

	2012	2011	2010	% Change 2012 Versus 2011	% Change 2011 Versus 2010
Aerospace Sales					
Commercial:					
Original Equipment					
Air transport and regional	$ 1,601	$ 1,439	$ 1,362	11 %	6 %
Business and general aviation	967	723	513	34 %	41 %
Aftermarket					
Air transport and regional	2,947	2,828	2,437	4 %	16 %
Business and general aviation	1,417	1,207	976	17 %	24 %
Defense and Space	5,108	5,278	5,395	(3)%	(2)%
Total Aerospace Sales	12,040	11,475	10,683		
Automation and Control Solutions Sales					
Energy Safety & Security	8,123	7,977	6,789	2 %	17 %
Process Solutions	3,093	3,010	2,678	3 %	12 %
Building Solutions & Distribution	4,664	4,548	4,282	3 %	6 %
Total Automation and Control Solutions Sales	15,880	15,535	13,749		
Performance Materials and Technologies Sales					
UOP	2,253	1,931	1,556	17 %	24 %
Advanced Materials	3,931	3,728	3,170	5 %	18 %
Total Performance Materials and Technologies Sales	6,184	5,659	4,726		
Transportation Systems Sales					
Turbo Technologies	3,561	3,859	3,192	(8)%	21 %
Total Transportation Systems Sales	3,561	3,859	3,192		
Corporate		1			
Net Sales	$ 37,665	36,529	32,350		

Aerospace

Overview

Aerospace is a leading global supplier of aircraft engines, avionics, and related products and services for aircraft manufacturers, airlines, aircraft operators, military services, and defense and space contractors. Our Aerospace products and services include auxiliary power units, propulsion engines, environmental control systems, electric power systems, engine controls, flight safety, communications, navigation, radar and surveillance systems, aircraft lighting, management and technical services, logistics services, advanced systems and instruments, aircraft wheels and brakes and repair and overhaul services. Aerospace sells its products to original equipment (OE) manufacturers in the air transport, regional, business and general aviation aircraft segments, and provides spare parts and repair and maintenance services for the aftermarket (principally to aircraft operators). The United States Government is a major customer for our defense and space products.

Economic and Other Factors

Aerospace operating results are principally impacted by:

New aircraft production rates and delivery schedules set by commercial air transport, regional jet, business and general aviation OE manufacturers, as well as airline profitability, platform mix and retirement of aircraft from service;

Global demand for commercial air travel as reflected in global flying hours and utilization rates for corporate and general aviation aircraft, as well as the demand for spare parts and maintenance and repair services for aircraft currently in use;

Level and mix of U.S. and foreign government appropriations for defense and space programs and military activity;

Changes in customer platform development schedules, requirements and demands for new technologies; and

Availability and price variability of raw materials such as nickel,

titanium and
other metals.

Aerospace

	2012	2011	Change	2010	Change
Net sales	$ 12,040	$ 11,475	5 %	$ 10,683	7 %
Cost of products and services sold	8,989	8,665		8,099	
Selling, general and administrative expenses	619	591		553	
Other	153	196		196	
Segment profit	$ 2,279	$ 2,023	13 %	$ 1,835	10 %

	2012 vs. 2011		2011 vs. 2010	
Factors Contributing to Year-Over-Year Change	**Sales**	**Segment Profit**	**Sales**	**Segment Profit**
Organic growth/ Operational segment profit	3 %	8 %	7 %	9 %
Acquisitions and divestitures, net	1 %	1 %		
Other	1 %	4 %		1 %
Total % Change	5 %	13 %	7 %	10 %

Aerospace sales by major customer end-markets were as follows:

	% of Aerospace Sales			% Increase (Decrease) in Sales	
Customer End-Markets	**2012**	**2011**	**2010**	**2012 Versus 2011**	**2011 Versus 2010**
Commercial original equipment					
Air transport and regional	13 %	13 %	13 %	11 %	6 %
Business and general aviation	8 %	6 %	5 %	34 %	41 %
Commercial original equipment	21 %	19 %	18 %	19 %	15 %
Commercial aftermarket					
Air transport and regional	25 %	25 %	23 %	4 %	16 %
Business and general aviation	12 %	11 %	9 %	17 %	24 %
Commercial aftermarket	37 %	36 %	32 %	8 %	18 %

Defense and Space	42 %	45 %	50 %	(3)%	(2)%
Total	100 %	100 %	100 %	5 %	7 %

2012 compared with 2011

Aerospace sales increased by 5 percent in 2012 compared with 2011 primarily due to an increase in organic growth of 3 percent primarily due to increased commercial sales volume, a 1 percent increase from acquisitions, net of divestitures, and a 1 percent increase in revenue related to an $88 million reduction in payments to business and general aviation OE manufacturers to partially offset their pre-production costs associated with new aircraft platforms (OEM payments).

Details regarding the changes in sales by customer end-markets are as follows:

Commercial original equipment (OE) sales increased by 19 percent (12 percent organic) in 2012 compared to 2011.

Air transport and regional OE sales increased by 11 percent (11 percent organic) in 2012 primarily driven by higher sales to our OE customers, consistent with higher production rates, and a favorable platform mix.

Business and general aviation OE sales increased by 34 percent (15 percent organic) in 2012 driven by strong demand in the business jet end-market, favorable platform mix, growth from acquisitions and the favorable 12 percent impact of the OEM payments discussed above.

Commercial aftermarket sales increased by 8 percent in 2012 compared to 2011.

Air transport and regional aftermarket sales increased by 4 percent for 2012 primarily due to increased sales of spare parts and higher maintenance activity driven by an approximate 2 percent increase in global flying hours in 2012, increased sales of avionics upgrades, and changes in customer buying patterns relating to maintenance activity in the first half of 2012.

Business and general aviation aftermarket sales increased by 17 percent in 2012 primarily due to increased sales of spare parts and revenue associated with maintenance service agreements and a higher penetration in retrofit, modifications, and upgrades.

Defense and space sales decreased by 3 percent (negative 4 percent organic) in 2012 primarily due to anticipated program ramp downs, partially offset by higher international aftermarket sales and growth from acquisitions, net of divestitures.

Aerospace segment profit increased by 13 percent in 2012 compared with 2011 primarily due to an increase in operational segment profit of 8 percent, a 4 percent favorable impact from lower OEM payments, discussed above, and a 1 percent increase from acquisitions, net of divestitures. The increase in operational segment profit is due to the favorable impact from higher price and productivity, net of inflation, and commercial demand partially offset by increased research, development and engineering investments. Cost of products and services sold totaled $9.0 billion in 2012, an increase of approximately $324 million from 2011 which is primarily a result of the factors discussed above (excluding price).

2011 compared with 2010

Aerospace sales increased by 7 percent in 2011 compared with 2010 primarily due to an increase in organic growth of 7 percent primarily due to increased commercial sales volume.

Details regarding the increase in sales by customer end-markets are as follows:

Commercial OE sales increased by 15 percent (11 percent organic) in 2011 compared with 2010.

Air transport and regional OE sales increased by 6 percent in 2011 primarily driven by higher sales to our OE customers, consistent with higher production rates, platform mix and a higher win rate on selectables (components selected by purchasers of new aircraft).

- Business and general aviation OE sales increased by 41 percent (24 percent organic) in 2011 due to a rebound from near trough levels in 2010 and strong demand in the business jet end market, favorable platform mix, growth from acquisitions and lower OEM Payments during 2011.

Commercial aftermarket sales increased by 18 percent in 2011 compared to 2010.

- Air transport and regional aftermarket sales increased by 16 percent in 2011 primarily due to (i) increased maintenance activity and spare parts sales driven by an approximately 6 percent increase in global flying hours, (ii) increased sales of avionics upgrades, and

(iii) changes in customer buying patterns relating to spare parts and maintenance activity.

Business and general aviation aftermarket sales increased by 24 percent in 2011 primarily due to increased sales of spare parts and revenue associated with maintenance service agreements.

Defense and space sales decreased by 2 percent (negative 3 percent organic) in 2011 primarily due to anticipated program ramp downs, partially offset by higher domestic and international aftermarket sales, increased unmanned aerial vehicle (UAV) shipments and the EMS acquisition (refer to Note 2).

Aerospace segment profit increased by 10 percent in 2011 compared to 2010 primarily due to an increase in operational segment profit of 9 percent and an increase of 1 percent due to lower OEM Payments made during 2011. The increase in operational segment profit is comprised of the positive impact from higher commercial aftermarket demand, price and productivity, net of inflation, partially offset by research, development and engineering investments. Cost of products and services sold totaled $8.7 billion in 2011, an increase of approximately $566 million from 2010 which is primarily a result of the factors discussed above (excluding price).

2013 Areas of Focus

Aerospace s primary areas of focus for 2013 include:

Global pursuit of new commercial, defense and space programs;

Driving customer satisfaction through operational excellence (product quality, cycle time reduction, and supplier management);

Aligning research and development and customer support costs with customer requirements and demand for new platforms;

Expanding sales and operations in international locations;

Focusing on cost structure

initiatives to maintain profitability in face of economic uncertainty and potential defense and space budget reductions and program specific appropriations;

Continuing to design equipment that enhances the safety, performance and durability of aerospace and defense equipment, while reducing weight and operating costs; and

Continued deployment and optimization of our common enterprise resource planning (ERP) system.

Automation and Control Solutions (ACS)

Overview

ACS provides innovative products and solutions that make homes, buildings, industrial sites and infrastructure more efficient, safe and comfortable. Our ACS products and services include controls and displays for heating, cooling, indoor air quality, ventilation, humidification, combustion, lighting and home automation; advanced software applications for home/building control and optimization; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature and electrical current; security, fire and gas detection; personal protection equipment; access control; video surveillance; remote patient monitoring systems; products for automatic identification and data collection; installation, maintenance and upgrades of systems that keep buildings safe, comfortable and productive; and automation and control solutions for industrial plants, including field instruments and advanced software and automation systems that integrate, control and monitor complex processes in many types of industrial settings as well as equipment that controls, measures and analyzes natural gas production and transportation.

Economic and Other Factors

ACS s operating results are principally impacted by:

- Economic conditions and growth rates in developed (North America, Europe and Australia) and high growth regions;
- Industrial production and global commercial construction (including retrofits and upgrades);
- Demand for residential security, environmental control retrofits and upgrades and energy efficient products and solutions;
- Government and public sector spending;

The strength of global capital and operating spending on process (including petrochemical and refining) and building automation;

Inventory levels in distribution channels; and

Changes to energy, fire, security, health care, safety and environmental concerns and regulations.

Automation and Control Solutions

	2012	2011	Change	2010	Change
Net sales	$ 15,880	$ 15,535	2 %	$ 13,749	13 %
Cost of products and services sold	10,691	10,448		9,312	
Selling, general and administrative expenses	2,790	2,819		2,480	
Other	167	185		187	
Segment profit	$ 2,232	$ 2,083	7 %	$ 1,770	18 %

	2012 vs. 2011		2011 vs. 2010	
Factors Contributing to Year-Over-Year Change	**Sales**	**Segment Profit**	**Sales**	**Segment Profit**
Organic growth/ Operational segment profit	3 %	8 %	5 %	9 %
Foreign exchange	(2)%	(2)%	2 %	3 %
Acquisitions and divestitures, net	1 %	1 %	6 %	6 %
Total % Change	2 %	7 %	13 %	18 %

2012 compared with 2011

Automation and Control Solutions (ACS) sales increased by 2 percent in 2012 compared with 2011, primarily due to a 3 percent increase in organic revenue driven by increased sales volume and 1 percent growth from acquisitions, net of divestitures, partially offset by the unfavorable impact of foreign exchange.

Sales in our Energy, Safety & Security businesses increased by 2 percent (1 percent organic) in 2012 principally due to (i) the positive impact of acquisitions (most significantly EMS Technologies, Inc. and King s Safetywear Limited), net of divestitures, (ii) higher sales volumes due to contract wins and new product introductions in the scanning and mobility business, (iii) higher sales volumes due to improved U.S. residential market conditions and new product introductions in the security business, partially offset by (i) the unfavorable impact of foreign exchange, (ii) lower sales volume in Europe and (iii) decreases in sales volumes of our personal protective equipment and sensing and control products primarily the result of softness in industrial end markets.

Sales in our Process Solutions business increased 3 percent (6 percent organic) in 2012 principally due to increased conversion to sales from backlog, partially offset by the unfavorable impact of foreign exchange. Project orders decreased in the second half of 2012 compared to the corresponding period in 2011 primarily driven by extension of project timing by customers and higher than typical project orders in the fourth quarter of 2011, which we expect will lead to more moderate growth rates in 2013.

Sales in our Building Solutions & Distribution businesses increased by 3 percent (4 percent organic) in 2012 principally due to growth in our Building Solutions business reflecting conversion to sales from backlog and increased sales volume in our Americas Distribution business due to improved U.S. residential market conditions, partially offset by the unfavorable impact of foreign exchange and softness in the energy retrofit business. Project orders decreased in the fourth quarter of 2012 principally due to extension of project timing by customers and softness in the energy retrofit business.

ACS segment profit increased by 7 percent in 2012 compared with 2011 due to a 8 percent increase in operational segment profit and a 1 percent increase from acquisitions, net of divestitures partially offset by a 2 percent unfavorable impact of foreign exchange. The increase in operational segment profit is primarily the result of the positive impact from price and productivity, net of inflation. Cost of products and services sold totaled $10.7 billion in 2012, an increase of $243 million which is primarily due to higher sales, inflation and acquisitions, net of divestitures partially offset by the favorable impact of foreign exchange and productivity.

2011 compared with 2010

ACS sales increased by 13 percent in 2011 compared with 2010, primarily due to a 6 percent growth from acquisitions, net of divestitures, 5 percent increase in organic revenue driven by increased sales volume and higher prices and 2 percent favorable impact of foreign exchange through the first nine months partially offset by the negative impact of foreign exchange in the fourth quarter.

Sales in our Energy, Safety & Security businesses increased by 17 percent (6 percent organically) in 2011 principally due to (i) the positive impact of acquisitions (most significantly Sperian and EMS), net of divestitures (ii) higher sales volume due to general industrial recovery and new product introductions and (iii) the favorable impact of foreign exchange.

Sales in our Process Solutions

increased 12 percent (6 percent organically) in 2011 principally due to (i) increased volume reflecting conversion to sales from backlog (ii) the favorable impact of foreign exchange and (iii) the impact of acquisitions. Orders increased in 2011 compared to 2010 primarily driven by continued favorable macro trends in oil and gas infrastructure projects, growth in emerging regions and the positive impact of foreign exchange.

Sales in our Building Solutions & Distribution increased by 6 percent (4 percent organically) in 2011 driven principally due to (i) volume growth in our Building Solutions business reflecting conversion to sales from order backlog and increased sales volume in our Distribution business (ii) the favorable impact of foreign exchange and (iii) the impact of acquisitions, net of divestitures.

ACS segment profit increased by 18 percent in 2011 compared with 2010 due to a 9 percent increase in operational segment profit, 6 percent increase from acquisitions, net of divestitures and 3 percent positive impact of foreign exchange. The increase in operational segment profit is comprised of an approximate 5 percent positive impact from price and productivity, net of inflation and investment for growth and a 4 percent positive impact from higher sales volumes. Cost of products and services sold totaled $10.4 billion in 2011, an increase of approximately $1.1 billion which is primarily due to acquisitions, net of divestitures, higher sales volume, foreign exchange and inflation partially offset by positive impact from productivity.

2013 Areas of Focus

ACS s primary areas of focus for 2013 include:

Extending technology leadership through continued investment in new product development and introductions which deliver energy efficiency, lowest total installed cost and integrated solutions;

Defending and extending our installed base through customer productivity and globalization;

Sustaining strong brand recognition through our brand and channel management;

Continuing to identify, execute and integrate acquisitions in or adjacent to the markets which we serve;

Continuing to establish and grow presence and capability in high growth regions;

Continued deployment and optimization of our common ERP system; and

Continued proactive cost actions and

successful
execution of
repositioning
actions.

Performance Materials and Technologies (PMT)

Overview

Performance Materials and Technologies develops and manufactures high-purity, high-quality and high-performance chemicals and materials for applications in the refining, petrochemical, automotive, healthcare, agricultural, packaging, refrigeration, appliance, housing, semiconductor, wax and adhesives segments. Performance Materials and Technologies also provides process technology, products, including catalysts and adsorbents, and services for the petroleum refining, gas processing, petrochemical, renewable energy and other industries. Performance Materials and Technologies product portfolio includes fluorocarbons, hydrofluoroolefins, caprolactam, resins, ammonium sulfate for fertilizer, phenol, specialty films, waxes, additives, advanced fibers, customized research chemicals and intermediates, electronic materials and chemicals, catalysts, and adsorbents.

Economic and Other Factors

Performance Materials and Technologies operating results are principally impacted by:

- Level and timing of capital spending and capacity and utilization rates in refining and petrochemical end markets;
- Pricing volatility and industry supply conditions for raw materials such as cumene, fluorspar, perchloroethylene, R240, natural gas, sulfur and ethylene;
- Impact of environmental and energy efficiency regulations;
- Global supply conditions and demand for non-ozone depleting, low global warming refrigerants and blowing agents;

- Global supply conditions and demand for caprolactam, nylon resin and ammonium sulfate;
- Condition of the U.S. residential housing and non-residential industries and automotive demand;
- Extent of change in order rates from global semiconductor customers; and
- Demand for new products including renewable energy and biofuels, low global warming products for insulation and refrigeration, additives, and enhanced nylon resin.

Performance Materials and Technologies

	2012	2011	Change	2010	Change
Net sales	$ 6,184	$ 5,659	9 %	$ 4,726	20 %
Cost of products and services sold	4,543	4,151		3,554	
Selling, general and administrative expenses	439	420		345	
Other	48	46		78	
Segment profit	$ 1,154	$ 1,042	11 %	$ 749	39 %

	2012 vs. 2011		2011 vs. 2010	
Factors Contributing to Year-Over-Year Change	**Sales**	**Segment Profit**	**Sales**	**Segment Profit**

Organic growth/ Operational segment profit	4 %	9 %	16 %	38 %
Foreign exchange	(1)%	(1)%	1 %	1 %
Acquisitions and divestitures, net	6 %	3 %	3 %	
Total % Change	9 %	11 %	20 %	39 %

2012 compared with 2011

PMT sales increased by 9 percent in 2012 compared with 2011 due to a 6 percent growth from acquisitions and 4 percent increase in organic growth, partially offset by 1 percent unfavorable impact of foreign exchange.

UOP sales increased by 17 percent (12 percent organic) in 2012 compared to 2011 primarily driven by (i) increased equipment and licensing revenues and higher volume of petrochemical and refining catalysts in the first nine months, reflecting continued strength in the refining and petrochemical industries, and (ii) the favorable impact from acquisitions, partially offset by lower service revenue related to scheduled project completions.

Advanced Materials sales increased by 5 percent (flat organic) in 2012 compared to 2011 primarily driven by an increase in Resins and

Chemicals sales, primarily due to the phenol plant acquisition; offset by lower sales in Fluorine Products primarily due to unfavorable pricing reflecting more challenging global end market conditions and the unfavorable impact of foreign exchange. We expect challenging global end market conditions to continue in the first quarter of 2013.

PMT segment profit increased by 11 percent in 2012 compared with 2011 due to a 9 percent increase in operational segment profit (net of a 10 percent decrease in the fourth quarter due to the factors described below) and a 3 percent increase from acquisitions partially offset by an unfavorable impact of 1 percent in foreign exchange. The increase in operational segment profit is primarily due to higher licensing, catalyst and equipment revenues in UOP and productivity (net of continued investment in growth initiatives) partially offset by unfavorable pricing in Fluorine Products and Resins and Chemicals reflecting more challenging global end market conditions. Cost of products and services sold totaled $4.5 billion in 2012, an increase of $392 million which is primarily due to acquisitions, higher volume and continued investment in growth initiatives partially offset by productivity and the favorable impact of foreign exchange.

In July 2012, the Company announced that it is evaluating a series of upgrades to its Metropolis Works nuclear conversion facility, a Fluorine Products facility, following a U.S. Nuclear Regulatory Commission (NRC) inspection that focused on preparedness for extreme natural disasters such as strong earthquakes and tornados. The NRC inspection was part of a comprehensive assessment of all U.S. nuclear-related facilities following the Fukushima, Japan earthquake in 2011. Production at the Metropolis facility was suspended following the NRC inspection and will not resume until certain seismic-related upgrades have been implemented by the Company and reviewed by the NRC. The scope of these upgrades has been defined in a Confirmatory Order issued by the NRC to Honeywell on October 16, 2012. The Company believes that completion of the upgrades to the facility could be completed by the third quarter of 2013. The continued suspension of operations and the cost of the plant upgrades are not expected to have a material negative impact on Performance Materials and Technologies 2013 results of operations.

2011 compared with 2010

PMT sales increased by 20 percent in 2011 compared with 2010 due to a 16 percent increase in organic growth, 3 percent growth from acquisitions, and a 1 percent favorable impact of foreign exchange.

UOP sales increased by 24 percent in 2011 compared to 2010 primarily driven by increased service, and licensing revenues and higher unit sales of refining and specialty catalysts, primarily reflecting continued strength in the refining and petrochemical industries.

Advanced Materials sales increased by 18 percent (12 percent organically) in 2011 compared to 2010 primarily driven by (i) a 33 percent (18 percent organically) increase in Resins and Chemicals sales primarily due to higher prices driven by strong Asia demand, agricultural demand, formula pricing arrangements and increased sales resulting from the acquisition of a phenol plant, partially offset by decreased volumes primarily due to disruptions in phenol supply and weather related events, (ii) a 10 percent increase in our Fluorine Products business due to higher pricing reflecting robust global demand and tight industry supply conditions primarily in the first half of the year, which moderated in the second half of the year due to seasonally weaker demand and increased available capacity in the marketplace, and (iii) a 12 percent increase in Specialty Products sales primarily due to higher sales volume in our armor, additives, and healthcare packaging products, and commercial excellence initiatives. We expect Advanced Materials sales growth to continue to moderate during the first half of 2012 due to slowing global demand and lower prices resulting from increased availability of refrigerants supply.

PMT segment profit increased by 39 percent in 2011 compared with 2010 due to a 38 percent increase in operational segment profit and a 1 percent favorable impact of foreign exchange. The increase in operational segment profit is primarily due to the favorable price to raw materials spread in Resins and Chemicals and Fluorine Products and higher service, product and licensing revenues in UOP, partially offset by continued investment in growth and plant optimization initiatives. Cost of products and services sold totaled $4.2 billion in 2011, an increase of approximately $597 million which is primarily due to volume, material inflation, the phenol plant acquisition and continued investment in growth initiatives.

2013 Areas of Focus

Performance Materials and Technologies primary areas of focus for 2013 include:

Continuing to develop new processes, products and technologies that address energy efficiency, the environment and security, as well as position the portfolio for higher value;

Commercializing new products and technologies in the petrochemical, gas processing and refining industries and renewable energy sector;

Investing to increase plant capacity and reliability to service backlog and improve productivity and quality through operational excellence;

Driving sales and marketing excellence and expanding local presence in high growth regions;

Managing exposure to raw material price and supply fluctuations through evaluation of alternative sources of supply and contractual arrangements; and

Managing the successful integration of acquisitions related to our gas processing and hydrogen business unit including capacity and geographic expansion to address rapidly growing commercial opportunities and existing backlog.

Transportation Systems

Overview

Transportation Systems provides automotive products that improve the performance and efficiency of cars, trucks, and other vehicles through state-of-the-art technologies, world class brands and global solutions to customers needs. Transportation Systems products include turbochargers and thermal systems; and friction materials (Bendix(R) and Jurid(R)) and brake hard parts. Transportation Systems sells its products to original equipment (OE) automotive and truck manufacturers (e.g., BMW, Caterpillar, Daimler, Renault, Ford, and Volkswagen), wholesalers and distributors and through the retail aftermarket.

Economic and Other Factors

Transportation Systems operating results are principally impacted by:

- Financial strength and stability of automotive OE manufacturers;
- Global demand, particularly in Western Europe, for automobile and truck production;
- Turbo penetration rates for new engine platforms;
- Global consumer preferences, particularly in Western Europe, for boosted diesel passenger cars;
- Degree of volatility in raw material prices, including nickel and steel;

New automobile production rates and the impact of inventory levels of automotive OE manufacturers on demand for our products;

Regulations mandating lower emissions and improved fuel economy;

- Consumers ability to obtain financing for new vehicle purchases; and

- Impact of factors such as consumer confidence on automotive aftermarket demand.

Transportation systems

	2012	2011	Change	2010	Change
Net sales	$ 3,561	$ 3,859	(8)%	$ 3,192	21 %
Cost of products and services sold	2,939	3,174		2,641	
Selling, general and administrative expenses	159	161		149	
Other	31	39		49	
Segment profit	$ 432	$ 485	(11)%	$ 353	37 %

	2012 vs. 2011		2011 vs. 2010	
Factors Contributing to Year-Over-Year Change	**Sales**	**Segment Profit**	**Sales**	**Segment Profit**
Organic growth/ Operational segment profit	(3)%	(4)%	16 %	32 %
Foreign exchange	(5)%	(7)%	5 %	5 %
Total % Change	(8)%	(11)%	21 %	37 %

2012 compared with 2011

Transportation Systems sales decreased by 8 percent in 2012 compared with the 2011 primarily due to an unfavorable impact from foreign exchange of 5 percent and a decrease in organic sales of 3 percent. Lower sales were primarily driven by decreased light vehicle production in Europe and lower aftermarket sales partially offset by new platform launches, including higher turbo gas penetration in North America.

Transportation Systems segment profit decreased by 11 percent in 2012 compared with 2011 due to a 7 percent unfavorable impact from foreign exchange and a 4 percent decrease in operational segment profit. The decrease in operational segment profit is primarily due to decreased volume and unfavorable pricing, substantially offset by productivity (net of the impact of ongoing projects to drive operational improvement in the Friction Materials business), net of inflation. Cost of products and services sold totaled $2.9 billion in 2012, a decrease of $235 million which is primarily a result of foreign exchange, decreased volume and increased productivity.

2011 compared with 2010

Transportation Systems sales increased by 21 percent in 2011 compared with the 2010, primarily due to a 16 percent increase in organic revenue driven by increased sales volume and a favorable impact from foreign exchange of 5 percent.

The sales increase in 2011 as compared with 2010 was primarily driven by (i) increased turbocharger sales to both light vehicle and commercial vehicle engine manufacturers primarily due to new platform launches and strong diesel penetration rates in Western Europe and (ii) the favorable impact of foreign exchange.

Transportation Systems segment profit increased by 37 percent in 2011 compared with 2010 due to a 32 percent increase in operational segment profit and a 5 percent favorable impact from foreign exchange. The increase in operational segment profit is comprised of an approximate 25 percent positive impact from productivity, net of inflation and price, and 7 percent positive impact from higher sales volumes. Cost of products and services sold totaled $3.2 billion in 2011, an increase of $533 million which is primarily a result of higher sales volume, foreign exchange and inflation, partially offset by positive impact from productivity.

2013 Areas of Focus

Transportation Systems primary areas of focus in 2013 include:

- Sustaining superior turbocharger technology through successful platform launches;

Maintaining the high quality of current products while executing new product introductions;

Increasing global penetration and share of diesel and gasoline turbocharger OEM demand;

Reducing manufacturing costs through increasing plant productivity and an improving global manufacturing footprint;

Aligning cost structure with current economic outlook, and successful execution of repositioning actions; and

Aligning development efforts and costs with new turbo platform launch schedules.

Repositioning and Other Charges

See Note 3 Repositioning and Other Charges of Notes to the Financial Statements for a discussion of repositioning and other charges incurred in 2012, 2011, and 2010. Our repositioning actions are expected to generate incremental pretax savings of approximately $150 million in 2013 compared with 2012 principally from planned workforce reductions. Cash expenditures for severance and other exit costs necessary to execute our repositioning actions were $136, $159, and $147 million in 2012, 2011, and 2010, respectively. Such expenditures for severance and other exit costs have been funded principally through operating cash flows. Cash expenditures for severance and other costs necessary to execute the remaining actions are expected to be approximately $175 million in 2013 and will be funded through operating cash flows.

The following tables provide details of the pretax impact of total net repositioning and other charges by segment.

	Years Ended December 31,		
	2012	**2011**	**2010**
Aerospace			
Net repositioning charge	$ (5)	$ 29	$ 32

	Years Ended December 31,		
	2012	**2011**	**2010**
Automation and Control Solutions			
Net repositioning charge	$ 18	$ 191	$ 79

	Years Ended December 31,		
	2012	**2011**	**2010**
Performance Materials and Technologies			
Net repositioning charge	$ 12	$ 41	$ 18

	Years Ended December 31,		
	2012	**2011**	**2010**
Transportation Systems			
Net repositioning charge	$ 28	$ 82	$ 20
Asbestos related litigation charges, net of insurance	169	146	158
	$ 197	$ 228	$ 178

	Years Ended December 31,		
	2012	**2011**	**2010**
Corporate			
Net repositioning charge	$	$ 11	$

Asbestos related litigation charges, net of insurance		(13)		3		17
Probable and reasonably estimable environmental liabilities		234		240		212
Other						62
	$	221	$	254	$	291

LIQUIDITY AND CAPITAL RESOURCES

The Company continues to manage its businesses to maximize operating cash flows as the primary source of liquidity. In addition to our available cash and operating cash flows, additional sources of liquidity include committed credit lines, short-term debt from the commercial paper market, long-term borrowings, and access to the public debt and equity markets, as well as the ability to sell trade accounts receivables. We continue to balance our cash and financing uses through investment in our existing core businesses, acquisition activity, share repurchases and dividends.

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows for the years ended 2012, 2011 and 2010, are summarized as follows:

	2012	2011	2010
Cash provided by (used for):			
Operating activities	$ 3,517	$ 2,833	$ 4,203
Investing activities	(1,428)	(611)	(2,269)
Financing activities	(1,206)	(1,114)	(2,047)
Effect of exchange rate changes on cash	53	(60)	(38)
Net increase/(decrease) in cash and cash equivalents	$ 936	$ 1,048	$ (151)

2012 compared with 2011

Cash provided by operating activities increased by $684 million during 2012 compared with 2011 primarily due to reduced cash contributions to our pension plans of $706 million and a $344 million increase of net income before the non-cash pension mark-to-market adjustment, partially offset by higher cash tax payments of approximately $340 million.

Cash used for investing activities increased by $817 million during 2012 compared with 2011 primarily due to (i) a decrease in proceeds from sales of businesses of $1,135 million (most significantly the divestiture of the Consumer Products Group business and the automotive on-board sensor products business within our Automation and Control Solutions segment in 2011), (ii) a net $117 million increase in investments (primarily short-term marketable securities), and (iii) an increase in expenditures for property, plant and equipment of $86 million, partially offset by a decrease in cash paid for acquisitions of $535 million.

Cash used for financing activities increased by $92 million during 2012 compared to 2011 primarily due to a decrease in the net proceeds from debt issuances of $825 million and an increase in dividends paid of $120 million, partially offset by a decrease of $806 million in net repurchases of common stock and a decrease of $33 million in the payment of debt assumed with acquisitions.

2011 compared with 2010

Cash provided by operating activities decreased by $1,370 million during 2011 compared with 2010 primarily due to i) increased voluntary cash contributions of $1,050 million to our U.S. pension plans, ii) an unfavorable impact from decreased deferred taxes (excluding the impact of cash taxes) of approximately $710 million, and iii) higher cash tax payments of approximately $500 million, partially offset by an $863 million increase of net income before the non-cash pension mark-to-market adjustment.

Cash used for investing activities decreased by $1,658 million during 2011 compared with 2010 primarily due to an increase in proceeds from sale of businesses of $1,149 million (most significantly the divestiture of the Consumer Products Group business and the automotive on-board sensor products business within our Automation and Control Solutions segment), a decrease in cash paid for acquisitions of $330 million, and a net $315 million decrease in investments of short-term marketable securities.

Cash used for financing activities decreased by $933 million during 2011 compared with 2010 primarily due to an increase in the net proceeds from debt of $1,734 million and a decrease of $293 million in the payment of debt assumed with acquisitions, partially offset by an increase of $1,085 million of repurchases of common stock.

Liquidity

Each of our businesses is focused on implementing strategies to increase operating cash flows through revenue growth, margin expansion and improved working capital turnover. Considering the current economic environment in which each of the businesses operate and their business plans and strategies, including the focus on growth, cost reduction and productivity initiatives, the Company believes that cash balances and operating cash flows are the principal source of liquidity. In addition to the available cash and operating cash flows, additional sources of liquidity include committed credit lines, short term debt from the commercial paper markets, long-term borrowings, and access to the public debt and equity markets, as well as the ability to sell trade accounts receivables. At December 31, 2012, a substantial portion of the Company s cash and cash equivalents were held by foreign subsidiaries. If the amounts held outside of the U.S. were to be repatriated, under current law, they would be subject to U.S. federal income taxes, less applicable foreign tax credits. However, our intent is to permanently reinvest these funds outside of the U.S. It is not practicable to estimate the amount of tax that might be payable if some or all of such earnings were to be repatriated, and the amount of foreign tax credits that would be available to reduce or eliminate the resulting U.S. income tax liability.

A source of liquidity is our ability to issue short-term debt in the commercial paper market. Commercial paper notes are sold at a discount and have a maturity of not more than 365 days from date of issuance. Borrowings under the commercial paper program are available for general corporate purposes as well as for financing potential acquisitions. There was $400 million of commercial paper outstanding at December 31, 2012.

Our ability to access the commercial paper market, and the related cost of these borrowings, is affected by the strength of our credit rating and market conditions. Our credit ratings are periodically reviewed by the major independent debt-rating agencies. As of December 31, 2012, Standard and Poor s (S&P), Fitch, and Moody s have ratings on our long-term debt of A, A and A2 respectively, and short-term debt of A-1, F1 and P1 respectively. S&P, Fitch and Moody s have Honeywell s rating outlook as stable . To date, the Company has not experienced any limitations in our ability to access these sources of liquidity.

We also have a current shelf registration statement filed with the Securities and Exchange Commission under which we may issue additional debt securities, common stock and preferred stock that may be offered in one or more offerings on terms to be determined at the time of the offering. Net proceeds of any offering would be used for general corporate purposes, including repayment of existing indebtedness, capital expenditures and acquisitions.

As a source of liquidity, we sell interests in designated pools of trade accounts receivables to third parties. As of December 31, 2012 and 2011, none of the receivables in the designated pools had been sold to third parties. When we sell receivables, they are over-collateralized and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables pools. The terms of the trade accounts receivable program permit the repurchase of receivables from the third parties at our discretion, providing us with an additional source of revolving credit. As a result, program receivables remain on the Company s balance sheet with a corresponding amount recorded as Short-term borrowings.

On April 2, 2012, the Company entered into a $3,000 million Amended and Restated Five Year Credit Agreement (Credit Agreement) with a syndicate of banks. Commitments under the Credit Agreement can be increased pursuant to the terms of the Credit Agreement to an aggregate amount not to exceed $3,500 million. The Credit Agreement contains a $700 million sub-limit for the issuance of letters of credit. The Credit Agreement is maintained for general corporate purposes and amends and restates the previous $2,800 million five year credit agreement dated March 31, 2011 (Prior Agreement). There have been no borrowings under the Credit Agreement or the Prior Agreement.

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We monitor the third-party depository institutions that hold our cash and cash equivalents on a daily basis. Our emphasis is primarily on safety of principal and secondarily on maximizing yield on those funds. We diversify our cash and cash equivalents among counterparties to minimize exposure to any one of these entities.

Global economic conditions or a tightening of credit markets could adversely affect our customers or suppliers ability to obtain financing, particularly in our long-cycle businesses and airline, automotive and refining/petrochemical end markets. Customer or supplier bankruptcies, delays in their ability to obtain financing, or the unavailability of financing could adversely affect our cash flow or results of operations. To date we have not experienced material impacts from customer or supplier bankruptcy or liquidity issues. We continue to monitor and take measures to limit our exposure.

In February 2011, the Board of Directors authorized the repurchase of up to a total of $3 billion of Honeywell common stock. During 2012, the Company repurchased $317 million of outstanding shares to offset the dilutive impact of employee stock based compensation plans, including future option exercises, restricted unit vesting and matching contributions under our savings plans (see Part II, Item 5 for share repurchases in the fourth quarter of 2012).

On October 22, 2012, the Company acquired a 70 percent controlling interest in Thomas Russell Co., a privately-held leading provider of technology and equipment for natural gas processing and treating, for approximately $525 million ($368 million, net of cash). Thomas Russell Co. s results of operations have been consolidated into the Performance Materials and Technologies segment, with the noncontrolling interest portion reflected in net income attributable to the noncontrolling interest in the Consolidated Statement of Operations. During the calendar year 2016, Honeywell has the right to acquire and the noncontrolling shareholder has the right to sell to Honeywell the remaining 30 percent interest at a price based on a multiple of Thomas Russell Co. s average annual operating income from 2013 to 2015, subject to a predetermined cap and floor. Additionally, Honeywell has the right to acquire the remaining 30 percent interest for a fixed price equivalent to the cap at any time on or before December 31, 2015. See Note 21 Redeemable Noncontrolling Interest.

In December 2012, the Company entered into a definitive agreement to acquire Intermec, Inc. (Intermec) a leading provider of mobile computing, radio frequency identification solutions (RFID) and bar code, label and receipt printers for use in warehousing, supply chain, field service and manufacturing environments for $10 per share in cash, or an aggregate purchase price of approximately $600 million, net of cash acquired. Intermec is a U.S. public company which operates globally and had reported 2011 revenues of approximately $850 million. The transaction is expected to close by the end of the second quarter of 2013, pending Intermec shareholder approval and following customary regulatory reviews. The acquisition is expected to be funded with available cash and the issuance of commercial paper. Intermec will be integrated into our Automation and Control Solutions segment.

During 2012, the Company made cash contributions of $1,039 million principally to improve the funded status of our pension plans.

In addition to our normal operating cash requirements, our principal future cash requirements will be to fund capital expenditures, dividends, strategic acquisitions, share repurchases, employee benefit obligations, environmental remediation costs, asbestos claims, severance and exit costs related to repositioning actions and debt repayments.

Specifically, we expect our primary cash requirements in 2013 to be as follows:

Capital expenditures we expect to spend approximately

$1.2 billion for capital expenditures in 2013 primarily for growth, production and capacity expansion, cost reduction, maintenance, and replacement.

Share repurchases under the Company s previously reported $3 billion share repurchase program, $1.6 billion remained available as of December 31, 2012 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time during 2013 to offset the dilutive impact of employee stock based compensation plans, including future option exercises, restricted unit vesting and matching contributions under our savings plans. The amount and timing of future repurchases may vary depending on market conditions and the level of operating, financing and other investing activities.

Dividends we expect to pay approximately $1.3 billion in dividends on our common stock in 2013, reflecting the 10 percent increase in the dividend rate effective with the fourth quarter 2012 dividend.

Asbestos claims we expect our cash spending for asbestos claims and our cash receipts for related insurance recoveries to be approximately $480 and $44 million, respectively, in 2013. We believe it is possible that the effective date of the NARCO Plan of

Reorganization will occur in 2013 so we have included estimated funding for the NARCO Trust in 2013. See Asbestos Matters in Note 22 to the financial statements for further discussion of possible funding obligations in 2013 related to the NARCO Trust.

Pension contributions in 2013, we are not required to make contributions to our U.S. pension plans. We plan to make cash contributions of approximately $150 million ($113 million was made in January 2013) to our non-U.S. plans to satisfy regulatory funding standards. The timing and amount of contributions to both our U.S. and non-U.S. plans may be impacted by a number of factors, including the funded status of the plans.

Repositioning actions we expect that cash spending for severance and other exit costs necessary to execute the previously announced repositioning actions will approximate $175 million in 2013.

Environmental remediation costs we expect to spend approximately $300 million in 2013 for remedial response and voluntary clean-up costs. See Environmental Matters in Note 22 to the financial statements for additional information.

We continuously assess the relative strength of each business in our portfolio as to strategic fit, market position, profit and cash flow contribution in order to upgrade our combined portfolio and identify business units that will most benefit from increased investment. We identify acquisition candidates that will further our strategic plan and strengthen our existing core businesses. We also identify businesses that do not fit into our long-term strategic plan based on their market position, relative profitability or growth potential. These businesses are considered for potential divestiture, restructuring or other repositioning actions subject to regulatory constraints. In 2012 and 2011, we realized $21 and $1,156 million, respectively, in cash proceeds from sales of non-strategic businesses.

Based on past performance and current expectations, we believe that our operating cash flows will be sufficient to meet our future operating cash needs. Our available cash, committed credit lines, access to the public debt and equity markets as well as our ability to sell trade accounts receivables, provide additional sources of short-term and long-term liquidity to fund current operations, debt maturities, and future investment opportunities.

Contractual Obligations and Probable Liability Payments

Following is a summary of our significant contractual obligations and probable liability payments at December 31, 2012:

	Payments by Period				
	Total(6)	2013	2014-2015	2016-2017	Thereafter
Long-term debt, including capitalized leases(1)	$ 7,020	$ 625	$ 711	$ 863	$ 4,821
Interest payments on long-term debt, including capitalized leases	2,798	240	400	357	1,801
Minimum operating lease payments	1,288	305	442	229	312
Purchase obligations(2)	1,783	939	474	223	147
Estimated environmental liability payments(3)	654	304	200	100	50
Asbestos related liability payments(4)	1,772	480	769	438	85
Asbestos insurance recoveries(5)	(707)	(44)	(147)	(141)	(375)
	$ 14,608	$ 2,849	$ 2,849	$ 2,069	$ 6,841

(1) Assumes all long-term debt is outstanding until scheduled maturity.

(2) Purchase obligations are entered into with various vendors in the normal course of business and are consistent with our

expected requirements.

(3) The payment amounts in the table only reflect the environmental liabilities which are probable and reasonably estimable as of December 31, 2012. See Environmental Matters in Note 22 Commitments and Contingencies of Notes to the Financial Statements for additional information.

(4) These amounts are estimates of asbestos related cash payments for NARCO and Bendix based on our asbestos related liabilities which are probable and reasonably estimable as of December 31, 2012. We believe that it is possible that the effective date of the NARCO Plan of Reorganization will occur in 2013 so we have included estimated funding for the

NARCO Trust starting in 2013. We have accrued for the estimated value of future NARCO asbestos related claims expected to be asserted against the NARCO trust through 2018. In light of the uncertainties inherent in making long-term projections and in connection with the initial operation of a 524(g) trust, as well as the stay of all NARCO asbestos claims since January 2002, we do not believe that we have a reasonable basis for estimating NARCO asbestos claims beyond 2018. Projecting the timing of NARCO payments is dependent on, among other things, the effective date of the Trust which could cause the timing of payments to be earlier or later than that projected. Projecting future events is subject to many uncertainties that could cause asbestos liabilities to be higher or lower than those projected and recorded. See Asbestos Matters in Note 22 Commitments and Contingencies of Notes to the Financial Statements for additional information.

(5) These amounts represent our insurance recoveries that are deemed probable for asbestos related liabilities as of December 31, 2012. The timing of insurance recoveries are impacted by the terms of insurance settlement agreements, as well as the documentation, review and collection process required to collect on insurance claims. Where probable insurance

recoveries are not subject to definitive settlement agreements with specified payment dates, but instead are covered by insurance policies, we have assumed collection will occur beyond 2017. Projecting the timing of insurance recoveries is subject to many uncertainties that could cause the amounts collected to be higher or lower than those projected and recorded or could cause the timing of collections to be earlier or later than that projected. We reevaluate our projections concerning insurance recoveries in light of any changes or developments that would impact recoveries or the timing thereof. See Asbestos Matters in Note 22 Commitments and Contingencies of Notes to the Financial Statements for additional information.

(6) The table excludes tax effects as well as $722 million of uncertain tax positions. See Note 6 Income Taxes of Notes to the Financial Statements for additional information.

The table also excludes our pension and other postretirement benefits (OPEB) obligations. In 2013, we are not required to make contributions to our U.S. pension plans, however, we plan to make cash contributions of approximately $150 million ($113 million was made in January 2013) to our non-U.S. plans to satisfy regulatory funding standards. The timing and amount of contributions may be impacted by a number of factors, including the funded status of the plans. Beyond 2013, the actual amounts required to be contributed are dependent upon, among other things, interest rates, underlying asset returns and the impact of legislative or regulatory actions related to pension funding obligations. Payments due under our OPEB plans are not required to be funded in advance, but are paid as medical costs are incurred by covered retiree populations, and are principally dependent upon the future cost of retiree medical benefits under our plans. We expect our OPEB payments to approximate $149 million in 2013 net of the benefit of approximately $11 million from the Medicare prescription subsidy. See Note 23 to the financial statements for further discussion of our pension and OPEB plans.

The noncontrolling interest shareholder of Thomas Russell Co., one of our subsidiaries, has put rights that may be exercised causing us to purchase their equity interests beginning January 1, 2016 through December 31, 2016. The same interest is subject to certain call rights by the Company. As the amount paid is based on operating income performance from 2013 to 2015, the actual settlement amount may be different and has therefore been excluded from this table.

Off-Balance Sheet Arrangements

Following is a summary of our off-balance sheet arrangements:

Guarantees We have issued or are a party to the following direct and indirect guarantees at December 31, 2012:

	Maximum Potential Future Payments
Operating lease residual values	$ 51
Other third parties financing	5
Unconsolidated affiliates financing	12
Customer financing	9
	$ 77

We do not expect that these guarantees will have a material adverse effect on our consolidated results of operations, financial position or liquidity.

In connection with the disposition of certain businesses and facilities we have indemnified the purchasers for the expected cost of remediation of environmental contamination, if any, existing on the date of disposition. Such expected costs are accrued when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated.

Environmental Matters

We are subject to various federal, state, local and foreign government requirements relating to the protection of the environment. We believe that, as a general matter, our policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and personal injury and that our handling, manufacture, use and disposal of hazardous substances are in accordance with environmental and safety laws and regulations. However, mainly because of past operations and operations of predecessor companies, we, like other companies engaged in similar businesses, have incurred remedial response and voluntary cleanup costs for site contamination and are a party to lawsuits and claims associated with environmental and safety matters, including past production of products containing hazardous substances. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future.

With respect to environmental matters involving site contamination, we continually conduct studies, individually or jointly, with other potentially responsible parties, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy (see Note 1 to the financial statements) to record appropriate liabilities for environmental matters when remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our recorded liabilities. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, execution timeframe of projects, remedial techniques to be utilized and agreements with other parties.

Remedial response and voluntary cleanup costs charged against pretax earnings were $234, $240 and $225 million in 2012, 2011 and 2010, respectively. At December 31, 2012 and 2011, the recorded liabilities for environmental matters was $654 and $723 million, respectively. In addition, in 2012 and 2011 we incurred operating costs for ongoing businesses of approximately $84 and $102 million, respectively, relating to compliance with environmental regulations.

Remedial response and voluntary cleanup payments were $320, $270 and $266 million in 2012, 2011 and 2010, respectively, and are currently estimated to be approximately $300 million in 2013. We expect to fund such expenditures from operating cash flow.

Although we do not currently possess sufficient information to reasonably estimate the amounts of liabilities to be recorded upon future completion of studies, litigation or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined, they could be material to our consolidated results of operations or operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that environmental matters will have a material adverse effect on our consolidated financial position.

See Note 22 Commitments and Contingencies of Notes to the Financial Statements for a discussion of our commitments and contingencies, including those related to environmental matters and toxic tort litigation.

Financial Instruments

As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates and commodity prices, which may adversely affect our operating results and financial position. We minimize our risks from interest and foreign currency exchange rate and commodity price fluctuations through our normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We do not use derivative financial instruments for trading or other speculative purposes and do not use leveraged derivative financial instruments. A summary of our accounting policies for derivative financial instruments is included in Note 1 Summary of Significant Accounting Policies of Notes to the Financial Statements. We also hold investments in marketable equity securities, which exposes us to market volatility, as discussed in Note 16 Financial Instruments and Fair Value Measures of Notes to the Financial Statements.

We conduct our business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk from changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and anticipated transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency cash flows. We attempt to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency forward and option agreements with third parties. Our principal currency exposures relate to the U.S. dollar, Euro, British pound, Canadian dollar, Chinese renminbi, Mexican peso, Indian rupee, Korean won, Czech koruna, Hong Kong dollar, Singapore dollar, Romanian leu, Swiss franc, Swedish krona, and Thai baht.

Our exposure to market risk from changes in interest rates relates primarily to our net debt and pension obligations. As described in Note 14 Long-term Debt and Credit Agreements and Note 16 Financial Instruments and Fair Value Measures of Notes to the Financial Statements, we issue both fixed and variable rate debt and use interest rate swaps to manage our exposure to interest rate movements and reduce overall borrowing costs.

Financial instruments, including derivatives, expose us to counterparty credit risk for nonperformance and to market risk related to changes in interest and foreign currency exchange rates and commodity prices. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties are substantial investment and commercial banks with significant experience using such derivative instruments. We monitor the impact of market risk on the fair value and expected future cash flows of our derivative and other financial instruments considering reasonably possible changes in interest and currency exchange rates and restrict the use of derivative financial instruments to hedging activities.

The following table illustrates the potential change in fair value for interest rate sensitive instruments based on a hypothetical immediate one-percentage-point increase in interest rates across all maturities, the potential change in fair value for foreign exchange rate sensitive instruments based on a 10 percent weakening of the U.S. dollar versus local currency exchange rates across all maturities, and the potential change in fair value of contracts hedging commodity purchases based on a 20 percent decrease in the price of the underlying commodity across all maturities at December 31, 2012 and 2011.

	Face or Notional Amount	Carrying Value(1)	Fair Value(1)	Estimated Increase (Decrease) in Fair Value
December 31, 2012				
Interest Rate Sensitive Instruments				
Long-term debt (including current maturities)	$ 7,020	$ (7,020)	$ (8,152)	$ (555)
Interest rate swap agreements	1,400	146	146	(67)
Foreign Exchange Rate Sensitive Instruments				
Foreign currency exchange contracts(2)	8,506	20	20	361
Commodity Price Sensitive Instruments				
Forward commodity contracts(3)	17			(3)
December 31, 2011				
Interest Rate Sensitive Instruments				
Long-term debt (including current maturities)	$ 6,896	$ (6,896)	$ (7,896)	$ (578)
Interest rate swap agreements	1,400	134	134	(74)
Foreign Exchange Rate Sensitive Instruments				
Foreign currency exchange contracts(2)	7,108	(26)	(26)	274
Commodity Price Sensitive Instruments				
Forward commodity contracts(3)	59	(9)	(9)	(10)

(1) Asset or (liability).

(2) Changes in the fair value of foreign currency exchange contracts are offset by changes in the fair value or cash flows of underlying hedged foreign currency transactions.

(3) Changes in the fair value of forward commodity contracts are offset by changes in the cash flows of underlying hedged commodity transactions.

The above discussion of our procedures to monitor market risk and the estimated changes in fair value resulting from our sensitivity analyses are forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from these estimated results due to actual developments in the global financial markets. The methods used by us to assess and mitigate risk discussed above should not be considered projections of future events.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles is based on the selection and application of accounting policies that require us to make significant estimates and assumptions about the effects of matters that are inherently uncertain. We consider the accounting policies discussed below to be critical to the understanding of our financial statements. Actual results could differ from our estimates and assumptions, and any such differences could be material to our consolidated financial statements.

We have discussed the selection, application and disclosure of these critical accounting policies with the Audit Committee of our Board of Directors and our Independent Registered Public Accountants. New accounting standards effective in 2012 which had a material impact on our consolidated financial statements are described in the Recent Accounting Pronouncements section in Note 1 Summary of Significant Accounting Policies of Notes to the Financial Statements.

Contingent Liabilities We are subject to a number of lawsuits, investigations and claims (some of which involve substantial dollar amounts) that arise out of the conduct of our global business operations or those of previously owned entities, including matters relating to commercial transactions, government contracts, product liability (including asbestos), prior acquisitions and divestitures, employee benefit plans, intellectual property, and environmental, health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential amounts or ranges of probable losses, and recognize a liability, if any, for these contingencies based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Such analysis includes making judgments concerning matters such as the costs associated with environmental matters, the outcome of negotiations, the number and cost of pending and future asbestos claims, and the impact of evidentiary requirements. Because most contingencies are resolved over long periods of time, liabilities may change in the future due to new developments (including new discovery of facts, changes in legislation and outcomes of similar cases through the judicial system), changes in assumptions or changes in our settlement strategy. For a discussion of our contingencies related to environmental, asbestos and other matters, including management s judgment applied in the recognition and measurement of specific liabilities, see Notes 1 Summary of Significant Accounting Policies and 22 Commitments and Contingencies of Notes to the Financial Statements.

Asbestos Related Contingencies and Insurance Recoveries We are a defendant in personal injury actions related to products containing asbestos (refractory and friction products). We recognize a liability for any asbestos related contingency that is probable of occurrence and reasonably estimable. Regarding North American Refractories Company (NARCO) asbestos related claims, we accrued for pending claims based on terms and conditions in agreements with NARCO, its former parent company, and certain asbestos claimants, and an estimate of the unsettled claims pending as of the time NARCO filed for bankruptcy protection. We also accrued for the estimated value of future NARCO asbestos related claims expected to be asserted against the NARCO trust through 2018 as described in Note 22 Commitments and Contingencies of Notes to the Financial Statements. In light of the inherent uncertainties in making long term projections and in connection with the initial operation of a 524(g) trust, as well as the stay of all NARCO asbestos claims since January 2002, we do not believe that we have a reasonable basis for estimating NARCO asbestos claims beyond 2018. Regarding Bendix asbestos related claims, we accrued for the estimated value of pending claims using average resolution values for the previous five years. We also accrued for the estimated value of future anticipated claims related to Bendix for the next five years based on historic claims filing experience and dismissal rates, disease classifications, and average resolution values in the tort system for the previous five years. In light of the uncertainties inherent in making long-term projections, as well as certain factors unique to friction product asbestos claims, we do not believe that we have a reasonable basis for estimating asbestos claims beyond the next five years. We will continue to update the resolution values used to estimate the cost of pending and future Bendix claims during the fourth quarter each year. For additional information see Note 22 Commitments and Contingencies of Notes to the Financial Statements. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential ranges of probable losses and recognize a liability, if any, for

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these contingencies based on an analysis of each individual issue with the assistance of outside legal counsel and, if applicable, other experts.

In connection with the recognition of liabilities for asbestos related matters, we record asbestos related insurance recoveries that are deemed probable. In assessing the probability of insurance recovery, we make judgments concerning insurance coverage that we believe are reasonable and consistent with our historical experience with our insurers, our knowledge of any pertinent solvency issues surrounding insurers, various judicial determinations relevant to our insurance programs and our consideration of the impacts of any settlements with our insurers. Our insurance is with both the domestic insurance market and the London excess market. While the substantial majority of our insurance carriers are solvent, some of our individual carriers are insolvent, which has been considered in our analysis of probable recoveries. Projecting future events is subject to various uncertainties that could cause the insurance recovery on asbestos related liabilities to be higher or lower than that projected and recorded. Given the inherent uncertainty in making future projections, we reevaluate our projections concerning our probable insurance recoveries in light of any changes to the projected liability, our recovery experience or other relevant factors that may impact future insurance recoveries. See Note 22 Commitments and Contingencies of Notes to the Financial Statements for a discussion of management s judgments applied in the recognition and measurement of insurance recoveries for asbestos related liabilities.

Defined Benefit Pension Plans We sponsor both funded and unfunded U.S. and non-U.S. defined benefit pension plans covering the majority of our employees and retirees.

We recognize net actuarial gains or losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans projected benefit obligation (the corridor) annually in the fourth quarter each year (MTM Adjustment) and, if applicable, in any quarter in which an interim remeasurement is triggered. Net actuarial gains and losses occur when the actual experience differs from any of the various assumptions used to value our pension plans or when assumptions change as they may each year. The primary factors contributing to actuarial gains and losses are changes in the discount rate used to value pension obligations as of the measurement date each year and the differences between expected and actual returns on plan assets. This accounting method also results in the potential for volatile and difficult to forecast MTM Adjustments. MTM charges were $957, $1,802 and $471 million in 2012, 2011 and 2010, respectively. The remaining components of pension income/expense, primarily service and interest costs and assumed return on plan assets, are recorded on a quarterly basis (Pension Ongoing Income/Expense).

For financial reporting purposes, net periodic pension income/expense is calculated based upon a number of actuarial assumptions, including a discount rate for plan obligations and an expected long-term rate of return on plan assets. We determine the expected long-term rate of return on plan assets utilizing historical plan asset returns over varying long-term periods combined with our expectations on future market conditions and asset mix considerations (see Note 23 Pension and Other Postretirement Benefits of Notes to the Financial Statements for details on the actual various asset classes and targeted asset allocation percentages for our pension plans). The discount rate reflects the market rate on December 31 (measurement date) for high-quality fixed-income investments with maturities corresponding to our benefit obligations and is subject to change each year. Information on all our major actuarial assumptions is included in Note 23 Pension and Other Postretirement Benefits of Notes to the Financial Statements.

The key assumptions used in developing our 2012, 2011 and 2010 net periodic pension expense for our U.S. plans included the following:

	2012	**2011**	**2010**
Discount rate	4.89 %	5.25 %	5.75 %
Assets:			
Expected rate of return	8 %	8 %	9 %

Actual rate of return	13 %		19 %
Actual 10 year average annual compounded rate of return	8 %	6 %	6 %

The discount rate can be volatile from year to year because it is determined based upon prevailing interest rates as of the measurement date. We will use a 4.06 percent discount rate in 2013, reflecting the decrease in the market interest rate environment since December 31, 2011. We will use an expected rate of return on plan assets of 7.75 percent for 2013 down from 8 percent in 2012 due to lower future expected market returns.

In addition to the potential for MTM Adjustments, changes in our expected rate of return on plan assets and discount rate resulting from economic events also affects future pension ongoing expense. The following table highlights the sensitivity of our U.S. pension obligations and ongoing expense to changes in these assumptions, assuming all other assumptions remain constant. These estimates exclude any potential MTM Adjustment:

Change in Assumption	**Impact on 2013 Pension Ongoing Expense**	**Impact on PBO**
0.25 percentage point decrease in discount rate	Decrease $9 million	Increase $565 million
0.25 percentage point increase in discount rate	Increase $7 million	Decrease $545 million
0.25 percentage point decrease in expected rate of return on assets	Increase $35 million	
0.25 percentage point increase in expected rate of return on assets	Decrease $35 million	

Pension ongoing income for all of our pension plans is expected to range from $50 to $75 million in 2013 compared with ongoing pension expense of $36 million in 2012. The increase in pension ongoing income in 2013 compared with 2012 results primarily from an increase in the plans   assets at December 31, 2012 compared with December 31, 2011 due to contributions and strong asset returns in 2012. Also, if required, an MTM Adjustment will be recorded in the fourth quarter of 2013 in accordance with our pension accounting method as previously described. It is difficult to reliably forecast or predict whether there will be a MTM Adjustment in 2013, and if one is required what the magnitude of such adjustment will be. MTM Adjustments are primarily driven by events and circumstances beyond the control of the Company such as changes in interest rates and the performance of the financial markets.

In 2012, 2011 and 2010, we were not required to make contributions to satisfy minimum statutory funding requirements in our U.S. pension plans. However, we made voluntary contributions of $792, $1,650 and $1,000 million to our U.S. pension plans in 2012, 2011 and 2010, respectively, primarily to improve the funded status of our plans which has been adversely impacted by relatively low discount rates and asset losses in 2011 and 2008 resulting from the poor performance of the equity markets. In 2013, we are not required to make contributions to our U.S. pension plans, however, we plan to make cash contributions of approximately $150 million ($113 million was made in January 2013) to our non-U.S. plans to satisfy regulatory funding standards. The timing and amount of contributions to both our U.S. and non-U.S. plans may be impacted by a number of factors, including the funded status of the plans.

Long-Lived Assets (including Tangible and Definite-Lived Intangible Assets)   To conduct our global business operations and execute our business strategy, we acquire tangible and intangible assets, including property, plant and equipment and definite-lived intangible assets. At December 31, 2012, the net carrying amount of these long-lived assets totaled approximately $6.7 billion. The determination of useful lives (for depreciation/amortization purposes) and whether or not these assets are impaired involves the use of accounting estimates and assumptions, changes in which could materially impact our financial condition or operating performance if actual results differ from such estimates and assumptions. We periodically evaluate the recoverability of the carrying amount of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset group may not be fully recoverable. The principal factors we consider in deciding when to perform an impairment review are as follows:

Significant under-performance (i.e., declines in sales, earnings or cash flows) of a business or product line in relation to expectations;

Annual operating plans or five-year strategic plans that indicate an unfavorable trend in operating performance of a business or product line;

- Significant negative industry or economic trends; and
- Significant changes or planned changes in our use of the assets.

Once it is determined that an impairment review is necessary, recoverability of assets is measured by comparing the carrying amount of the asset grouping to the estimated future undiscounted cash flows. If the carrying amount exceeds the estimated future undiscounted cash flows, the asset grouping is considered to be impaired. The impairment is then measured as the difference between the carrying amount of the asset grouping and its fair value. We endeavor to utilize the best information available to measure fair value, which is usually either market prices (if available), level 1 or level 2 in the fair value hierarchy or an estimate of the future discounted cash flow, level 3 of the fair value hierarchy. The key estimates in our discounted cash flow analysis include expected industry growth rates, our assumptions as to volume, selling prices and costs, and the discount rate selected. As described in more detail in Note 16 to the financial statements, we have recorded impairment charges related to long-lived assets of $22 million and $127 million in 2012 and 2011, respectively, principally related to manufacturing plant and equipment in facilities scheduled to close or be downsized.

Goodwill and Indefinite-Lived Intangible Assets Impairment Testing Goodwill represents the excess of acquisition costs over the fair value of the net tangible assets and identifiable intangible assets acquired in a business combination. Indefinite-lived intangible assets primarily consist of trademarks acquired in business combinations. Goodwill and indefinite-lived assets are not amortized, but are subject to impairment testing. Our goodwill and indefinite-lived intangible asset balances of $12.4 billion and $725 million, respectively, as of December 31, 2012, are subject to impairment testing annually as of March 31, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. This testing compares carrying values to fair values and, when appropriate, the carrying value is reduced to fair value. In testing goodwill, the fair value of our reporting units is estimated utilizing a discounted cash flow approach utilizing cash flow forecasts in our five year strategic and annual operating plans adjusted for terminal value assumptions. This impairment test involves the use of accounting estimates and assumptions, changes in which could materially impact our financial condition or operating performance if actual results differ from such estimates and assumptions. To address this uncertainty we perform sensitivity analysis on key estimates and assumptions.

We completed our annual impairment test as of March 31, 2012 and determined that there was no impairment to our goodwill and indefinite-lived intangible assets as of that date. However, significant negative industry or economic trends, disruptions to our business, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may have a negative effect on the fair values.

Income Taxes Deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Our provision for income taxes is based on domestic and international statutory income tax rates in the jurisdictions in which we operate. Significant judgment is required in determining income tax provisions as well as deferred tax asset and liability balances, including the estimation of valuation allowances and the evaluation of tax positions.

As of December 31, 2012, we recorded a net deferred tax asset of $2,473 million, less a valuation allowance of $598 million. Net deferred tax assets are primarily comprised of net deductible temporary differences, net operating loss carryforwards and tax credit carryforwards that are available to reduce taxable income in future periods. The determination of the amount of valuation allowance to be provided on recorded deferred tax assets involves estimates regarding (1) the timing and amount of the reversal of taxable temporary differences, (2) expected future taxable income, and (3) the impact of tax planning strategies. A valuation allowance is established to offset any deferred tax assets if, based upon the available evidence it is more likely than not that some or all of the deferred tax asset will not be realized. In assessing the need for a valuation allowance, we consider all available positive and negative evidence, including past operating results, projections of future taxable income and the feasibility of ongoing tax planning strategies. The projections of future taxable income include a number of estimates and assumptions regarding our volume, pricing and costs. Additionally, valuation allowances related to deferred tax assets can be impacted by changes to tax laws.

Our net deferred tax asset of $2,473 million consists of $1,422 million related to U.S. operations and $1,051 million related to non-U.S. operations. The U.S. net deferred tax asset of $1,422 million consists of net deductible temporary differences, tax credit carryforwards, state tax net operating losses which we believe will more likely than not be realized through the generation of future taxable income in the U.S. and tax planning strategies. The non-U.S. net deferred tax asset of $1,051 million consists principally of net operating loss, capital loss and tax credit carryforwards, mainly in Canada, France, Germany, Luxembourg, Netherlands and the United Kingdom. We maintain a valuation allowance of $598 million against these deferred tax assets reflecting our historical experience and lower expectations of taxable income over the applicable carryforward periods. As more fully described in Note 6 to the financial statements, our valuation allowance increased by $7 million in 2012, decreased by $45 million in 2011 and increased by $58 million in 2010, respectively. In the event we determine that we will not be able to realize our net deferred tax assets in the future, we will reduce such amounts through a charge to income in the period such determination is made. Conversely, if we determine that we will be able to realize net deferred tax assets in excess of the carrying amounts, we will decrease the recorded valuation allowance through a credit to income in the period that such determination is made.

Significant judgment is required in determining income tax provisions and in evaluating tax positions. We establish additional reserves for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that do not meet the minimum recognition threshold. The approach for evaluating certain and uncertain tax positions is defined by the authoritative guidance and this guidance determines when a tax position is more likely than not to be sustained upon examination by the applicable taxing authority. In the normal course of business, the Company and its subsidiaries are examined by various Federal, State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

Sales Recognition on Long-Term Contracts In 2012, we recognized approximately 16 percent of our total net sales using the percentage-of-completion method for long-term contracts in our Automation and Control Solutions, Aerospace and Performance Materials and Technologies segments. These long- term contracts are measured on the cost-to-cost basis for engineering-type contracts and the units-of-delivery basis for production-type contracts. Accounting for these contracts involves management judgment in estimating total contract revenue and cost. Contract revenues are largely determined by negotiated contract prices and quantities, modified by our assumptions regarding contract options, change orders, incentive and award provisions associated with technical performance and price adjustment clauses (such as inflation or index-based clauses). Contract costs are incurred over a period of time, which can be several years, and the estimation of these costs requires management judgment. Cost estimates are largely based on negotiated or estimated purchase contract terms, historical performance trends and other economic projections. Significant factors that influence these estimates include inflationary trends, technical and schedule risk, internal and subcontractor performance trends, business volume assumptions, asset utilization, and anticipated labor agreements. Revenue and cost estimates are regularly monitored and revised based on changes in circumstances. Anticipated losses on long-term contracts are recognized when such losses become evident. We maintain financial controls over the customer qualification, contract pricing and estimation processes to reduce the risk of contract losses.

OTHER MATTERS

Litigation

See Note 22 to the financial statements for a discussion of environmental, asbestos and other litigation matters.

Recent Accounting Pronouncements

See Note 1 to the financial statements for a discussion of recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information relating to market risk is included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Financial Instruments .

ITEM 8. Financial Statements and Supplementary Data

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions, except per share amounts)		
Product sales	$ 29,812	$ 28,745	$ 25,242
Service sales	7,853	7,784	7,108
Net sales	37,665	36,529	32,350
Costs, expenses and other			
Cost of products sold	22,929	23,220	19,903
Cost of services sold	5,362	5,336	4,818
	28,291	28,556	24,721
Selling, general and administrative expenses	5,218	5,399	4,618
Other (income) expense	(70)	(84)	(97)
Interest and other financial charges	351	376	386
	33,790	34,247	29,628
Income from continuing operations before taxes	3,875	2,282	2,722
Tax expense	944	417	765
Income from continuing operations after taxes	2,931	1,865	1,957
Income from discontinued operations after taxes		209	78
Net income	2,931	2,074	2,035
Less: Net income attributable to the noncontrolling interest	5	7	13
Net income attributable to Honeywell	$ 2,926	$ 2,067	$ 2,022
Amounts attributable to Honeywell:			
Income from continuing operations less net income attributable to the noncontrolling interest	2,926	1,858	1,944
Income from discontinued operations		209	78

Net income attributable to Honeywell	$ 2,926	$ 2,067	$ 2,022
Earnings per share of common stock basic:			
Income from continuing operations	3.74	2.38	2.51
Income from discontinued operations		0.27	0.10
Net income	$ 3.74	$ 2.65	$ 2.61
Earnings per share of common stock assuming dilution:			
Income from continuing operations	3.69	2.35	2.49
Income from discontinued operations		0.26	0.10
Net income	$ 3.69	$ 2.61	$ 2.59
Cash dividends per share of common stock	$ 1.53	$ 1.37	$ 1.21

The Notes to Financial Statements are an integral part of this statement.

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Net income	$ 2,931	$ 2,074	$ 2,035
Other comprehensive income (loss), net of tax			
Foreign exchange translation adjustment	282	(146)	(249)
Actuarial gains (losses)	(839)	(1,317)	(291)
Prior service credit (cost)	9	10	36
Prior service cost (credit) recognized during year	6	(1)	(7)
Actuarial losses recognized during year	649	1,171	345
Settlements and curtailments	(2)	(107)	(26)
Foreign exchange translation and other	(21)	35	(13)
Pensions and other postretirement benefit adjustments	(198)	(209)	44
Unrealized gains (losses) for the period	(6)	12	90
Changes in fair value of available for sale investments	(6)	12	90
Effective portion of cash flow hedges recognized in other comprehensive income	14	(48)	(4)
Less: reclassification adjustment for losses included in net income	(13)	(14)	
Changes in fair value of effective cash flow hedges	27	(34)	(4)
Other comprehensive income (loss)	105	(377)	(119)
Comprehensive income (loss)	3,036	1,697	1,916
Less: Comprehensive income attributable to noncontrolling interest	5	3	15
Comprehensive income (loss) attributable to Honeywell	$ 3,031	$ 1,694	$ 1,901

The Notes to Financial Statements are an integral part of this statement.

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2012		December 31, 2011	
	(Dollars in millions)			
ASSETS				
Current assets:				
Cash and cash equivalents	$	4,634	$	3,698
Accounts, notes and other receivables		7,429		7,228
Inventories		4,235		4,264
Deferred income taxes		669		460
Investments and other current assets		631		484
Total current assets		17,598		16,134
Investments and long-term receivables		623		494
Property, plant and equipment net		5,001		4,804
Goodwill		12,425		11,858
Other intangible assets net		2,449		2,477
Insurance recoveries for asbestos related liabilities		663		709
Deferred income taxes		1,889		2,132
Other assets		1,205		1,200
Total assets	$	41,853	$	39,808
LIABILITIES				
Current liabilities:				
Accounts payable	$	4,736	$	4,738
Short-term borrowings		76		60
Commercial paper		400		599
Current maturities of long-term debt		625		15
Accrued liabilities		7,208		6,863
Total current liabilities		13,045		12,275
Long-term debt		6,395		6,881
Deferred income taxes		628		676
Postretirement benefit obligations other than pensions		1,365		1,417
Asbestos related liabilities		1,292		1,499
Other liabilities		5,913		6,158
Redeemable noncontrolling interest		150		
SHAREOWNERS EQUITY				

Capital common stock issued		958		958
additional paid-in capital		4,358		4,157
Common stock held in treasury, at cost		(8,801)		(8,948)
Accumulated other comprehensive income (loss)		(1,339)		(1,444)
Retained earnings		17,799		16,083
Total Honeywell shareowners equity		12,975		10,806
Noncontrolling interest		90		96
Total shareowners equity		13,065		10,902
Total liabilities, redeemable noncontrolling interest and shareowners equity	$	41,853	$	39,808

The Notes to Financial Statements are an integral part of this statement.

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Cash flows from operating activities:			
Net income attributable to Honeywell	$ 2,926	$ 2,067	$ 2,022
Adjustments to reconcile net income attributable to Honeywell to net cash provided by operating activities:			
Depreciation and amortization	926	957	987
Gain on sale of non-strategic businesses and assets	(5)	(362)	
Repositioning and other charges	443	743	600
Net payments for repositioning and other charges	(503)	(468)	(439)
Pension and other postretirement expense	1,065	1,823	689
Pension and other postretirement benefit payments	(1,183)	(1,883)	(838)
Stock compensation expense	170	168	164
Deferred income taxes	84	(331)	878
Excess tax benefits from share based payment arrangements	(56)	(42)	(13)
Other	108	289	27
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts, notes and other receivables	(119)	(316)	(688)
Inventories	25	(310)	(300)
Other current assets	(78)	25	(26)
Accounts payable	(13)	527	592
Accrued liabilities	(273)	(54)	548
Net cash provided by operating activities	3,517	2,833	4,203
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(884)	(798)	(651)
Proceeds from disposals of property, plant and equipment	5	6	14
Increase in investments	(702)	(380)	(453)
Decrease in investments	559	354	112
Cash paid for acquisitions, net of cash acquired	(438)	(973)	(1,303)
Proceeds from sales of businesses, net of fees paid	21	1,156	7
Other	11	24	5
Net cash used for investing activities	(1,428)	(611)	(2,269)

Cash flows from financing activities:			
Net (decrease)/increase in commercial paper	(199)	300	1
Net increase/(decrease) in short-term borrowings	22	(2)	20
Payment of debt assumed with acquisitions		(33)	(326)
Proceeds from issuance of common stock	342	304	195
Proceeds from issuance of long-term debt	102	1,390	
Payments of long-term debt	(1)	(939)	(1,006)
Excess tax benefits from share based payment arrangements	56	42	13
Repurchases of common stock	(317)	(1,085)	
Cash dividends paid	(1,211)	(1,091)	(944)
Net cash used for financing activities	(1,206)	(1,114)	(2,047)
Effect of foreign exchange rate changes on cash and cash equivalents	53	(60)	(38)
Net increase/(decrease) in cash and cash equivalents	936	1,048	(151)
Cash and cash equivalents at beginning of period	3,698	2,650	2,801
Cash and cash equivalents at end of period	$ 4,634	$ 3,698	$ 2,650

The Notes to Financial Statements are an integral part of this statement.

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF SHAREOWNERS EQUITY

	Years Ended December 31,					
	2012		2011		2010	
	Shares	$	Shares	$	Shares	$
	(in millions)					
Common stock, par value	957.6	958	957.6	958	957.6	958
Additional paid-in capital						
Beginning balance		4,157		3,977		3,823
Issued for employee savings and option plans		22		14		(35)
Contributed to pension plans						32
Stock-based compensation expense		170		168		157
Other owner changes		9		(2)		
Ending balance		4,358		4,157		3,977
Treasury stock						
Beginning balance	(182.9)	(8,948)	(174.6)	(8,299)	(193.4)	(8,995)
Reacquired stock or repurchases of common stock	(5.0)	(317)	(20.3)	(1,085)		
Issued for employee savings and option plans	13.1	464	12.0	436	8.9	328
Contributed to pension plans					9.9	368
Ending balance	(174.8)	(8,801)	(182.9)	(8,948)	(174.6)	(8,299)

Retained earnings			
Beginning balance	16,083	15,097	14,023
Net income attributable to Honeywell	2,926	2,067	2,022
Dividends on common stock	(1,210)	(1,081)	(948)
Ending balance	17,799	16,083	15,097
Accumulated other comprehensive income (loss)			
Beginning balance	(1,444)	(1,067)	(948)
Foreign exchange translation adjustment	282	(146)	(249)
Pensions and other postretirement benefit adjustments	(198)	(209)	44
Changes in fair value of available for sale investments	(6)	12	90
Changes in fair value of effective cash flow hedges	27	(34)	(4)
Ending balance	(1,339)	(1,444)	(1,067)
Noncontrolling interest			
Beginning balance	96	121	110
Acquisitions	6		2
Interest sold (bought)	7	(5)	4

Net income attributable to noncontrolling interest		2		7		13
Foreign exchange translation adjustment				(4)		2
Dividends paid		(21)		(23)		(10)
Ending balance		90		96		121
Total shareowners equity	782.8	13,065	774.7	10,902	783.0	10,787

The Notes to Financial Statements are an integral part of this statement.

HONEYWELL INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions, except per share amounts)

Note 1 Summary of Significant Accounting Policies

Accounting Principles The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. The following is a description of Honeywell s significant accounting policies.

Principles of Consolidation The consolidated financial statements include the accounts of Honeywell International Inc. and all of its subsidiaries and entities in which a controlling interest is maintained. Our consolidation policy requires equity investments that we exercise significant influence over but do not control the investee and are not the primary beneficiary of the investee s activities to be accounted for using the equity method. Investments through which we are not able to exercise significant influence over the investee and which we do not have readily determinable fair values are accounted for under the cost method. All intercompany transactions and balances are eliminated in consolidation.

The Consumer Products Group (CPG) automotive aftermarket business had historically been part of the Transportation Systems reportable segment. In accordance with generally accepted accounting principles, CPG is presented as discontinued operations in all periods presented. See Note 2 Acquisitions and Divestitures for further details.

Noncontrolling interest is included within the equity section in the Consolidated Balance Sheet. Redeemable noncontrolling interest is considered to be temporary equity and is therefore reported outside of permanent equity on the Company s Consolidated Balance Sheet at the greater of the initial carrying amount adjusted for the noncontrolling interest s share of net income (loss) or its redemption value. We present the amount of consolidated net income that is attributable to Honeywell and the noncontrolling interest in the Consolidated Statement of Operations. Furthermore, we disclose the amount of comprehensive income that is attributable to Honeywell and the noncontrolling interest in the Consolidated Statement of Comprehensive Income.

Cash and Cash Equivalents Cash and cash equivalents include cash on hand and on deposit and highly liquid, temporary cash investments with an original maturity of three months or less.

Inventories Inventories are valued at the lower of cost or market using the first-in, first-out or the average cost method and the last-in, first-out (LIFO) method for certain qualifying domestic inventories.

Investments Investments in affiliates over which we have a significant influence, but not a controlling interest, are accounted for using the equity method of accounting. Other investments are carried at market value, if readily determinable, or at cost. All equity investments are periodically reviewed to determine if declines in fair value below cost basis are other-than-temporary. Significant and sustained decreases in quoted market prices or a series of historic and projected operating losses by investees are strong indicators of other-than-temporary declines. If the decline in fair value is determined to be other- than-temporary, an impairment loss is recorded and the investment is written down to a new carrying value.

Property, Plant and Equipment Property, plant and equipment are recorded at cost, including any asset retirement obligations, less accumulated depreciation. For financial reporting, the straight-line method of depreciation is used over the estimated useful lives of 10 to 50 years for buildings and improvements and 2 to 16 years for machinery and equipment. Recognition of the fair value of obligations associated with the retirement of tangible long-lived assets is required when there is a legal obligation to incur such costs. Upon initial recognition of a liability, the cost is capitalized as part of the related long-lived asset and depreciated over the corresponding asset s useful life. See Note

11 Property, Plant and Equipment - Net and Note 17 Other Liabilities of Notes to the Financial Statements for additional details.

Goodwill and Indefinite-Lived Intangible Assets Goodwill represents the excess of acquisition costs over the fair value of tangible net assets and identifiable intangible assets of businesses acquired. Goodwill and certain other intangible assets deemed to have indefinite lives are not

HONEYWELL INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
(Dollars in millions, except per share amounts)

amortized. Intangible assets determined to have definite lives are amortized over their useful lives. Goodwill and indefinite-lived intangible assets are subject to impairment testing annually as of March 31, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value. We completed our annual goodwill impairment test as of March 31, 2012 and determined that there was no impairment as of that date. See Note 12 for additional details on goodwill balances.

Other Intangible Assets with Determinable Lives Other intangible assets with determinable lives consist of customer lists, technology, patents and trademarks and other intangibles and are amortized over their estimated useful lives, ranging from 2 to 24 years.

Long-Lived Assets We periodically evaluate the recoverability of the carrying amount of long-lived assets (including property, plant and equipment and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We evaluate events or changes in circumstances based on a number of factors including operating results, business plans and forecasts, general and industry trends and, economic projections and anticipated cash flows. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are recognized in earnings. We also continually evaluate the estimated useful lives of all long-lived assets and periodically revise such estimates based on current events.

Sales Recognition Product and service sales are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Service sales, principally representing repair, maintenance and engineering activities in our Aerospace and Automation and Control Solutions segments, are recognized over the contractual period or as services are rendered. Sales under long-term contracts in the Aerospace, Automation and Control Solutions and Performance Materials and Technologies segments are recorded on a percentage-of-completion method measured on the cost-to-cost basis for engineering-type contracts and the units-of-delivery basis for production-type contracts. Provisions for anticipated losses on long-term contracts are recorded in full when such losses become evident. Revenues from contracts with multiple element arrangements are recognized as each element is earned based on the relative fair value of each element provided the delivered elements have value to customers on a standalone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately or competitor prices for similar products or services.

Allowance for Doubtful Accounts We maintain allowances for doubtful accounts for estimated losses as a result of customer s inability to make required payments. We estimate anticipated losses from doubtful accounts based on days past due, as measured from the contractual due date, historical collection history and incorporate changes in economic conditions that may not be reflected in historical trends for example, customers in bankruptcy, liquidation or reorganization. Receivables are written-off against the allowance for doubtful accounts when they are determined uncollectible. Such determination includes analysis and consideration of the particular conditions of the account, including time intervals since last collection, success of outside collection agencies activity, solvency of customer and any bankruptcy proceedings.

Environmental Expenditures Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and that do not provide future benefits, are expensed as incurred. Liabilities are recorded when environmental remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical, regulatory or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our recorded liabilities.

Asbestos Related Contingencies and Insurance Recoveries Honeywell is a defendant in personal injury actions related to products containing asbestos (refractory and friction products). We recognize a liability for any asbestos related contingency that is probable of occurrence and reasonably estimable. Regarding North American Refractories Company (NARCO) asbestos related claims, we accrued for pending claims based on terms and conditions in agreements with NARCO, its former parent company, and certain asbestos claimants, and an estimate of the unsettled claims pending as of the time NARCO filed for bankruptcy protection. We also accrued for the estimated value of future NARCO asbestos related claims expected to be asserted against the NARCO Trust through 2018 as described in Note 22 Commitments and Contingencies of Notes to the Financial Statements. In light of the inherent uncertainties in making long term projections and in connection with the initial operation of a 524(g) trust, as well as the stay of all NARCO asbestos claims since January 2002, we do not believe that we have a reasonable basis for estimating NARCO asbestos claims beyond 2018. Regarding Bendix asbestos related claims, we accrued for the estimated value of pending claims using average resolution values for the previous five years. We also accrued for the estimated value of future anticipated claims related to Bendix for the next five years based on historic claims filing experience and dismissal rates, disease classifications, and average resolution values in the tort system for the previous five years. In light of the uncertainties inherent in making long-term projections, as well as certain factors unique to friction product asbestos claims, we do not believe that we have a reasonable basis for estimating asbestos claims beyond the next five years. We will continue to update the resolution values used to estimate the cost of pending and future Bendix claims during the fourth quarter each year. For additional information see Note 22. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential ranges of probable losses and recognize a liability, if any, for these contingencies based on an analysis of each individual issue with the assistance of outside legal counsel and, if applicable, other experts.

In connection with the recognition of liabilities for asbestos related matters, we record asbestos related insurance recoveries that are deemed probable. In assessing the probability of insurance recovery, we make judgments concerning insurance coverage that we believe are reasonable and consistent with our historical experience with our insurers, our knowledge of any pertinent solvency issues surrounding insurers, various judicial determinations relevant to our insurance programs and our consideration of the impacts of any settlements with our insurers.

Aerospace Sales Incentives We provide sales incentives to commercial aircraft manufacturers and airlines in connection with their selection of our aircraft equipment, predominately wheel and braking system hardware and auxiliary power units, for installation on commercial aircraft. These incentives principally consist of free or deeply discounted products, but also include credits for future purchases of product and upfront cash payments. These costs are recognized in the period incurred as cost of products sold or as a reduction to sales, as appropriate. For aircraft manufacturers, incentives are recorded when the products are delivered; for airlines, incentives are recorded when the associated aircraft are delivered by the aircraft manufacturer to the airline.

Research and Development Research and development costs for company-sponsored research and development projects are expensed as incurred. Such costs are principally included in Cost of Products Sold and were $1,847, $1,799 and $1,450 million in 2012, 2011 and 2010, respectively.

Stock-Based Compensation Plans The principal awards issued under our stock-based compensation plans, which are described in Note 20 Stock-Based Compensation Plans of Notes to

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HONEYWELL INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
(Dollars in millions, except per share amounts)

the Financial Statements, include non-qualified stock options and restricted stock units (RSUs). The cost for such awards is measured at the grant date based on the fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods (generally the vesting period of the equity award) and is included in selling, general and administrative expense in our Consolidated Statement of Operations. Forfeitures are required to be estimated at the time of grant in order to estimate the portion of the award that will ultimately vest. The estimate is based on our historical rates of forfeiture.

Pension Benefits We sponsor both funded and unfunded U.S. and non-U.S. defined benefit pension plans covering the majority of our employees and retirees. We recognize net actuarial gains or losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans projected benefit obligation (the corridor) annually in the fourth quarter each year (MTM Adjustment), and, if applicable, in any quarter in which an interim remeasurement is triggered. The remaining components of pension expense, primarily service and interest costs and assumed return on plan assets, are recorded on a quarterly basis (Pension ongoing income/expense).

Foreign Currency Translation Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than U.S. dollars are translated into U.S. dollars using year-end exchange rates. Sales, costs and expenses are translated at the average exchange rates in effect during the year. Foreign currency translation gains and losses are included as a component of Accumulated Other Comprehensive Income (Loss). For subsidiaries operating in highly inflationary environments, inventories and property, plant and equipment, including related expenses, are remeasured at the exchange rate in effect on the date the assets were acquired, while monetary assets and liabilities are remeasured at year-end exchange rates. Remeasurement adjustments for these subsidiaries are included in earnings.

Derivative Financial Instruments As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates and commodity prices, which may adversely affect our operating results and financial position. We minimize our risks from interest and foreign currency exchange rate and commodity price fluctuations through our normal operating and financing activities and, when deemed appropriate through the use of derivative financial instruments. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes and we do not use leveraged derivative financial instruments. Derivative financial instruments used for hedging purposes must be designated and effective as a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in fair value of the derivative contract must be highly correlated with changes in fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

All derivatives are recorded on the balance sheet as assets or liabilities and measured at fair value. For derivatives designated as hedges of the fair value of assets or liabilities, the changes in fair values of both the derivatives and the hedged items are recorded in current earnings. For derivatives designated as cash flow hedges, the effective portion of the changes in fair value of the derivatives are recorded in Accumulated Other Comprehensive Income (Loss) and subsequently recognized in earnings when the hedged items impact earnings. Cash flows of such derivative financial instruments are classified consistent with the underlying hedged item.

Transfers of Financial Instruments Sales, transfers and securitization of financial instruments are accounted for under authoritative guidance for the transfers and servicing of financial assets and extinguishments of liabilities.

We sell interests in designated pools of trade accounts receivables to third parties. The terms of the trade accounts receivable program permit the repurchase of receivables from the third parties at our discretion. As a result, these program receivables are not accounted for as a sale and remain on the Consolidated Balance Sheet with a corresponding amount recorded as Short-term borrowings.

HONEYWELL INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
(Dollars in millions, except per share amounts)

At times we also transfer trade and other receivables that qualify as a sale and are thus are removed from the Consolidated Balance Sheet at the time they are sold. The value assigned to any subordinated interests and undivided interests retained in receivables sold is based on the relative fair values of the interests retained and sold. The carrying value of the retained interests approximates fair value due to the short-term nature of the collection period for the receivables.

Income Taxes Deferred tax liabilities or assets reflect temporary differences between amounts of assets and liabilities for financial and tax reporting. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is established to offset any deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The determination of the amount of a valuation allowance to be provided on recorded deferred tax assets involves estimates regarding (1) the timing and amount of the reversal of taxable temporary differences, (2) expected future taxable income, and (3) the impact of tax planning strategies. In assessing the need for a valuation allowance, we consider all available positive and negative evidence, including past operating results, projections of future taxable income and the feasibility of ongoing tax planning strategies. The projections of future taxable income include a number of estimates and assumptions regarding our volume, pricing and costs. Additionally, valuation allowances related to deferred tax assets can be impacted by changes to tax laws.

Significant judgment is required in determining income tax provisions and in evaluating tax positions. We establish additional reserves for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that do not meet the minimum recognition threshold. The approach for evaluating certain and uncertain tax positions is defined by the authoritative guidance and this guidance determines when a tax position is more likely than not to be sustained upon examination by the applicable taxing authority. In the normal course of business, the tax filings of the Company and its subsidiaries are examined by various Federal, State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a change in estimate become known.

Earnings Per Share Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding and all dilutive potential common shares outstanding.

Use of Estimates The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and related disclosures in the accompanying notes. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

Reclassifications Certain prior year amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU s) to the FASB s Accounting Standards Codification.

The Company considers the applicability and impact of all ASU s. ASU s not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

In May 2011, the FASB issued amendments to disclosure requirements for common fair value measurement. These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in a common definition of fair value and common requirements for measurement of and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. Consequently, the amendments change some fair value measurement principles and disclosure requirements. The implementation of the amended accounting guidance has not had a material impact on our consolidated financial position or results of operations.

In June 2011, the FASB issued amendments to disclosure requirements for presentation of comprehensive income. This guidance, effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In December 2011, the FASB issued an amendment to defer the presentation on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for annual and interim financial statements. The implementation of the amended accounting guidance has not had a material impact on our consolidated financial position or results of operations. In February 2013, the FASB issued amendments to disclosure requirements for presentation of comprehensive income. The standard requires presentation (either in a single note or parenthetically on the face of the financial statements) of the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, a cross reference to the related footnote for additional information will be required. The amendments are effective prospectively for reporting periods beginning after December 15, 2012 (early adoption is permitted). The implementation of the amended accounting guidance is not expected to have a material impact on our consolidated financial position or results of operations.

In September 2011, the FASB issued amendments to the goodwill impairment guidance which provides an option for companies to use a qualitative approach to test goodwill for impairment if certain conditions are met. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (early adoption is permitted). The implementation of the amended accounting guidance has not had a material impact on our consolidated financial position or results of operations.

In July 2012, the FASB issued amendments to the indefinite-lived intangible asset impairment guidance which provides an option for companies to use a qualitative approach to test indefinite-lived intangible assets for impairment if certain conditions are met. The amendments are effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption is permitted). The implementation of the amended accounting guidance is not expected to have a material impact on our consolidated financial position or results of operations.

Note 2 Acquisitions and Divestitures

Acquisitions We acquired businesses for an aggregate cost (net of cash acquired) of $438, $973, and $1,303 million in 2012, 2011 and 2010, respectively. For all of our acquisitions the acquired businesses were recorded at their estimated fair values at the dates of acquisition. Significant acquisitions made in these years are discussed below.

In December 2012, the Company entered into a definitive agreement to acquire Intermec, Inc. (Intermec) a leading provider of mobile computing, radio frequency identification solutions (RFID) and bar code, label and receipt printers for use in warehousing, supply chain, field service and manufacturing environments for $10 per share in cash, or an aggregate purchase price of

HONEYWELL INTERNATIONAL INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
(Dollars in millions, except per share amounts)

approximately $600 million, net of cash acquired. Intermec is a U.S. public company which operates globally and had reported 2011 revenues of approximately $850 million. The transaction is expected to close by the end of the second quarter of 2013, pending Intermec shareholder approval and following customary regulatory reviews. The acquisition is expected to be funded with available cash and the issuance of commercial paper. Intermec will be integrated into our Automation and Control Solutions segment.

On October 22, 2012, the Company acquired a 70 percent controlling interest in Thomas Russell Co., a privately-held leading provider of technology and equipment for natural gas processing and treating, for approximately $525 million ($368 million, net of cash acquired). Thomas Russell Co. s results of operations have been consolidated into the Performance Materials and Technologies segment, with the noncontrolling interest portion reflected in net income attributable to the noncontrolling interest in the Consolidated Statement of Operations. During the calendar year 2016, Honeywell has the right to acquire and the noncontrolling shareholder has the right to sell to Honeywell the remaining 30 percent interest at a price based on a multiple of Thomas Russell Co. s average annual operating income from 2013 to 2015, subject to a predetermined cap and floor. Additionally, Honeywell has the right to acquire the remaining 30 percent interest for a fixed price equivalent to the cap at any time on or before December 31, 2015. See Note 21 Redeemable Noncontrolling Interest.

The aggregate value of Thomas Russell Co. was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their consolidated estimated fair values at the acquisition date. On a preliminary basis, the Company has assigned approximately $215 million to identifiable intangible assets. The intangible assets are predominantly backlog, technology, and trademarks. These intangible assets are being amortized over their estimated lives, which range from 2 to 10 years, using both straight-line and accelerated amortization methods. The excess of the purchase price over the estimated fair values of net assets acquired (approximating $440 million), was recorded as goodwill. This goodwill arises primarily from the avoidance of the time and costs which would be required (and the associated risks that would be encountered) to enhance our product offerings to key target markets and serve as entry into new and profitable businesses within the Performance Materials and Technologies segment. Our interest in the acquired goodwill is deductible for tax purposes.

The following amounts represent the preliminary determination of the fair value of the identifiable assets acquired and liabilities assumed.

Cash	$	157
Accounts and other receivables		85
Other assets		16
Intangible assets		215
Deferred revenue		(221)
Other current liabilities		(18)
Net assets acquired		234
Goodwill		440
Redeemable noncontrolling interest		(149)
Purchase price	$	525

The results from the acquisition date through December 31, 2012 are included in the Performance Materials and Technologies segment and were not material to the consolidated financial statements. As of December 31, 2012, the purchase accounting for Thomas Russell Co. is subject to final adjustment primarily for the determination of useful lives of intangible assets, amounts allocated to intangible assets and goodwill, and tax balances.

In December 2011, the Company acquired King s Safetywear Limited (KSW), a leading international provider of branded safety footwear. The aggregate value, net of cash acquired, was

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approximately $331 million (including the assumption of debt of $33 million) and was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has assigned approximately $167 million to identifiable intangible assets, predominantly trademarks, technology, and customer relationships. The definite lived intangible assets are being amortized over their estimated lives, using straight-line and accelerated amortization methods. The value assigned to trademarks of approximately $84 million is classified as indefinite lived intangibles. The excess of the purchase price over the estimated fair values of net assets acquired (approximately $157 million), was recorded as goodwill. This goodwill arises primarily from the avoidance of the time and costs which would be required (and the associated risks that would be encountered) to enhance our product offerings to key target markets and serve as entry into new and profitable segments, and the expected cost synergies that will be realized through the consolidation of the acquired business into our Automation and Control Solutions segment. Their cost synergies are expected to be realized principally in the areas of selling, general and administrative expenses, material sourcing and manufacturing. This goodwill is non deductible for tax purposes.

The results from the acquisition date through December 31, 2011 are included in the Automation and Control Solutions segment and were not material to the consolidated financial statements.

In August 2011, the Company acquired 100 percent of the issued and outstanding shares of EMS Technologies, Inc. (EMS), a leading provider of connectivity solutions for mobile networking, rugged mobile computers and satellite communications. EMS had reported 2010 revenues of approximately $355 million.

The aggregate value, net of cash acquired, was approximately $513 million and was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has assigned approximately $119 million to identifiable intangible assets, of which approximately $89 million and approximately $30 million were recorded within the Aerospace and Automation and Control segments, respectively. The intangible assets are predominantly customer relationships, existing technology and trademarks. These intangible assets are being amortized over their estimated lives, using straight-line and accelerated amortization methods. The excess of the purchase price over the estimated fair values of net assets acquired (approximating $314 million), was recorded as goodwill. This goodwill arises primarily from the avoidance of the time and costs which would be required (and the associated risks that would be encountered) to enhance our product offerings to key target markets and serve as entry into new and profitable segments, and the expected cost synergies that will be realized through the consolidation of the acquired business into our Aerospace and Automation and Control Solutions segments. These cost synergies are expected to be realized principally in the areas of selling, general and administrative expenses, material sourcing and manufacturing. This goodwill is non-deductible for tax purposes.

The results from the acquisition date through December 31, 2011 are included in the Aerospace and Automation and Control Solutions segments and were not material to the consolidated financial statements.

In October 2010, we completed the acquisition of the issued and outstanding shares of Sperian Protection (Sperian), a French company that operates globally in the personal protection equipment design and manufacturing industry. Sperian had reported 2009 revenues of approximately $900 million.

The aggregate value, net of cash acquired, was approximately $1,475 million (including the assumption of approximately $326 million of outstanding debt) and was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

The following amounts represent the final determination of the fair value of the identifiable assets acquired and liabilities assumed.

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Accounts and other receivables	$	117
Inventories		166
Other current assets		8
Property, plant and equipment		108
Intangible assets		539
Other assets and deferred charges		4
Accounts payable		(63)
Accrued liabilities		(114)
Deferred income taxes		(156)
Long-term debt		(326)
Other long-term liabilities		(64)
Net assets acquired		219
Goodwill		930
Purchase price	$	1,149

We have assigned $539 million to intangible assets, predominantly customer relationships, trade names, and technology. These intangible assets are being amortized over their estimated lives which range from 3 to 20 years using straight line and accelerated amortization methods. Included in this amount, a value of approximately $246 million has been assigned to trade names intangibles determined to have indefinite lives. The excess of the purchase price over the estimated fair values of net assets acquired is approximately $930 million and was recorded as goodwill. This goodwill arises primarily from the avoidance of the time and costs which would be required (and the associated risks that would be encountered) to develop a business with a product offering and customer base comparable to Sperian and the expected cost synergies that will be realized through the consolidation of the acquired business into our Automations and Controls Solutions segment. These cost synergies are expected to be realized principally in the areas of selling, general and administrative expenses, material sourcing and manufacturing. This goodwill is non-deductible for tax purposes. The results from the acquisition date through December 31, 2010 are included in the Automation and Control Solutions segment and were not material to the consolidated financial statements.

In connection with all acquisitions in 2012, 2011 and 2010, the amounts recorded for transaction costs and the costs of integrating the acquired businesses into Honeywell were not material.

The pro forma results for 2012, 2011 and 2010, assuming these acquisitions had been made at the beginning of the comparable prior year, would not be materially different from consolidated reported results.

Divestitures In July 2011, the Company sold its Consumer Products Group business (CPG) to Rank Group Limited. The sale was completed for approximately $955 million in cash proceeds, resulting in a pre-tax gain of approximately $301 million and approximately $178 million, net of tax. The gain was recorded in net income from discontinued operations after taxes in the Company s Consolidated Statement of Operations for the year ended December 31, 2011. The net income attributable to the noncontrolling interest for the discontinued operations is insignificant. The sale of

CPG, which had been part of the Transportation Systems segment, is consistent with the Company s strategic focus on its portfolio of differentiated global technologies.

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The key components of income from discontinued operations related to CPG were as follows:

	Years Ended December 31,	
	2011	**2010**
Net sales	$ 530	$ 1,020
Costs, expenses and other	421	798
Selling, general and administrative expense	63	99
Other (income) expense	(2)	2
Income before taxes	48	121
Gain on disposal of discontinued operations	301	
Net income from discontinued operations before taxes	349	121
Tax expense	140	43
Net income from discontinued operations after taxes	$ 209	$ 78

Note 3 Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Years Ended December 31,		
	2012	**2011**	**2010**
Severance	$ 91	$ 246	$ 144
Asset impairments	12	86	21
Exit costs	16	48	14
Reserve adjustments	(66)	(26)	(30)
Total net repositioning charge	53	354	149
Asbestos related litigation charges, net of insurance	156	149	175
Probable and reasonably estimable environmental liabilities	234	240	212
Other			62
Total net repositioning and other charges	$ 443	$ 743	$ 598

The following table summarizes the pretax distribution of total net repositioning and other charges by income statement classification:

	Years Ended December 31,		
	2012	2011	2010
Cost of products and services sold	$ 428	$ 646	$ 558
Selling, general and administrative expenses	15	97	40
	$ 443	$ 743	$ 598

The following table summarizes the pretax impact of total net repositioning and other charges by segment:

	Years Ended December 31,		
	2012	2011	2010
Aerospace	$ (5)	$ 29	$ 32
Automation and Control Solutions	18	191	79
Performance Materials and Technologies	12	41	18
Transportation Systems	197	228	178
Corporate	221	254	291
	$ 443	$ 743	$ 598

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In 2012, we recognized repositioning charges totaling $119 million including severance costs of $91 million related to workforce reductions of 2,204 manufacturing and administrative positions across all of our segments. The workforce reductions were primarily related to the planned shutdown of a manufacturing facility in our Transportation Systems segment, the exit from a product line in our Performance Materials and Technologies segment, and cost savings actions taken in connection with our productivity and ongoing functional transformation initiatives. The repositioning charge also included asset impairments of $12 million principally related to manufacturing plant and equipment associated with the exit of a product line in our Performance Materials and Technologies segment. The repositioning charge also included exit costs of $16 million principally related to closure obligations associated with the planned shutdown of a manufacturing facility in our Transportation Systems segment and exit from a product line in our Performance Materials and Technologies segment. Also, $66 million of previously established accruals primarily for severance at our Automation and Control Solutions, Aerospace and Performance Materials and Technologies segments were returned to income in 2012 due primarily to fewer employee severance actions caused by higher attrition than originally planned associated with prior severance programs and changes in the scope of previously announced repositioning actions.

In 2011, we recognized repositioning charges totaling $380 million including severance costs of $246 million related to workforce reductions of 3,188 manufacturing and administrative positions across all of our segments. The workforce reductions were primarily related to the planned shutdown of a manufacturing facility in our Transportation Systems segment, cost savings actions taken in connection with our ongoing functional transformation and productivity initiatives, factory transitions in connection with acquisition-related synergies in our Automation and Control Solutions and Aerospace segments, the exit from and/or rationalization of certain product lines and markets in our Performance Materials and Technologies and Automation and Control Solutions segments, the consolidation of repair facilities in our Aerospace segment, and factory consolidations and/or rationalizations and organizational realignments of businesses in our Automation and Control Solutions segment. The repositioning charges included asset impairments of $86 million principally related to the write-off of certain intangible assets in our Automation and Control Solutions segment due to a change in branding strategy and manufacturing plant and equipment associated with the planned shutdown of a manufacturing facility and the exit of a product line and a factory transition as discussed above. The repositioning charges also included exit costs of $48 million principally for costs to terminate contracts related to the exit of a market and product line and a factory transition as discussed above. Exit costs also included closure obligations associated with the planned shutdown of a manufacturing facility and exit of a product line also as discussed above. Also, $26 million of previously established accruals, primarily for severance at our Aerospace and Automation and Control Solutions segments, were returned to income in 2011 due principally to fewer employee separations than originally planned associated with prior severance programs.

In 2010, we recognized repositioning charges totaling $179 million including severance costs of $144 million related to workforce reductions of 2,781 manufacturing and administrative positions primarily in our Automation and Control Solutions, Aerospace and Transportation Systems segments. The workforce reductions were primarily related to the planned shutdown of certain manufacturing facilities in our Automation and Control Solutions and Transportation Systems segments, cost savings actions taken in connection with our ongoing functional transformation and productivity initiatives, factory transitions in our Aerospace, Automation and Control Solutions and Performance Materials and Technologies segments to more cost-effective locations, achieving acquisition-related synergies in our Automation and Control Solutions segment, and the exit and/or rationalization of certain product lines in our Performance Materials and Technologies segment. The repositioning charge also included asset impairments of $21 million principally related to manufacturing plant and equipment associated with the exit and/or rationalization of certain product lines and in facilities scheduled to close. Also, $30 million of previously established accruals, primarily for severance at our Automation and Control Solutions,

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Transportation Systems and Aerospace segments, were returned to income in 2010 due to fewer employee separations than originally planned associated with prior severance programs.

The following table summarizes the status of our total repositioning reserves:

	Severance Costs	Asset Impairments	Exit Costs	Total
Balance at December 31, 2009	$ 294	$	$ 37	$ 331
2010 charges	144	21	14	179
2010 usage cash	(130)		(17)	(147)
2010 usage noncash		(21)		(21)
Adjustments	(30)			(30)
Foreign currency translation	(8)			(8)
Balance at December 31, 2010	270		34	304
2011 charges	246	86	48	380
2011 usage cash	(136)		(23)	(159)
2011 usage noncash		(86)		(86)
Adjustments	(26)			(26)
Foreign currency translation	(1)			(1)
Balance at December 31, 2011	353		59	412
2012 charges	91	12	16	119
2012 usage cash	(113)		(23)	(136)
2012 usage noncash		(12)		(12)
Adjustments	(61)		(5)	(66)
Foreign currency translation	6			6
Balance at December 31, 2012	$ 276	$	$ 47	$ 323

Certain repositioning projects in our Aerospace, Automation and Control Solutions and Transportation Systems segments included exit or disposal activities, the costs related to which will be recognized in future periods when the actual liability is incurred. The nature of these exit or disposal costs includes asset set-up and moving, product recertification and requalification, and employee retention, training and travel. The following tables summarize by segment, expected, incurred and remaining exit and disposal costs related to 2011 and 2010 repositioning actions which we were not able to recognize at the time the actions were initiated. The exit and disposal costs related to the repositioning actions in 2012 which we were not able to recognize at the time the actions were initiated were not significant.

2011 Repositioning Actions	**Aerospace**	**Automation and Control Solutions**	**Transportation Systems**	**Total**
Expected exit and disposal costs	$ 15	$ 15	$ 7	$ 37
Costs incurred during:				
Year ended December 31, 2011	(1)			(1)
Year ended December 31, 2012	(2)	(3)	(1)	(6)
Remaining exit and disposal costs at December 31, 2012	$ 12	$ 12	$ 6	$ 30

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2010 Repositioning Actions	**Aerospace**	**Automation and Control Solutions**	**Transportation Systems**	**Total**
Expected exit and disposal costs	$ 11	$ 10	$ 2	$ 23
Costs incurred during:				
Year ended December 31, 2010				
Year ended December 31, 2011	(2)	(3)	(1)	(6)
Year ended December 31, 2012	(1)	(1)	(1)	(3)
Remaining exit and disposal costs at December 31, 2012	$ 8	$ 6	$	$ 14

In 2012, we recognized a charge of $234 million for environmental liabilities deemed probable and reasonably estimable during the year. We recognized asbestos related litigation charges, net of insurance, of $156 million. Environmental and Asbestos matters are discussed in detail in Note 22 Commitments and Contingencies of Notes to the Financial Statements.

In 2011, we recognized a charge of $240 million for environmental liabilities deemed probable and reasonably estimable during the year. We recognized asbestos related litigation charges, net of insurance, of $149 million.

In 2010, we recognized a charge of $212 million for environmental liabilities deemed probable and reasonably estimable during the year. We recognized asbestos related litigation charges, net of insurance, of $175 million. We also recognized other charges of $62 million in connection with the evaluation of potential resolution of certain legal matters.

Note 4 Other (income) expense

	Years Ended December 31,		
	2012	**2011**	**2010**
Equity (income)/loss of affiliated companies	$ (45)	$ (51)	$ (28)
Gain on sale of non-strategic businesses and assets	(5)	(61)	
Interest income	(58)	(58)	(39)
Foreign exchange	36	50	12
Other, net	2	36	(42)
	$ (70)	$ (84)	$ (97)

Gain on sale of non-strategic businesses and assets for 2011 includes a $50 million pre-tax gain, $31 million net of tax, related to the divestiture of the automotive on-board sensor products business within our Automation and Control Solutions segment.

Other, net in 2011 includes a loss of $29 million resulting from early redemption of debt in the first quarter of 2011. See Note 14 Long-term Debt and Credit Agreements for further details.

Other, net for 2010 includes a $62 million pre-tax gain, $39 million net of tax, related to the consolidation of a joint venture within our Performance Materials and Technologies segment. The Company obtained control and the ability to direct those activities most significant to the joint venture s economic performance in the third quarter, resulting in consolidation. Accordingly, we have i) recognized the assets and liabilities at fair value, ii) included the results of operations in the consolidated financial statements from the date of consolidation and iii) recognized the above noted gain representing the difference between the carrying amount and fair value of our previously held equity method investment. The Company has assigned $24 million to intangibles, predominantly the joint venture s customer contracts. These intangible assets are being amortized over their estimated lives using the straight line method. The excess of the book value over the estimated fair values of the net assets consolidated approximating $132 million, was recorded as goodwill. This goodwill is non-

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deductible for tax purposes. The results from the consolidation date through December 31, 2010 are included in the Performance Materials and Technologies segment and were not material to the consolidated financial statements.

Note 5 Interest and Other Financial Charges

	Years Ended December 31,		
	2012	2011	2010
Total interest and other financial charges	$ 369	$ 389	$ 402
Less capitalized interest	(18)	(13)	(16)
	$ 351	$ 376	$ 386

The weighted average interest rate on short-term borrowings and commercial paper outstanding at December 31, 2012 and 2011 was 1.43 percent and 0.84 percent, respectively.

Note 6 Income Taxes

Income from continuing operations before taxes

	Years Ended December 31,		
	2012	2011	2010
United States	$ 1,761	$ 318	$ 1,157
Foreign	2,114	1,964	1,565
	$ 3,875	$ 2,282	$ 2,722

Tax expense (benefit)

	Years Ended December 31,		
	2012	2011	2010
United States	$ 584	$ 3	$ 358
Foreign	360	414	407
	$ 944	$ 417	$ 765

Years Ended December 31,

	2012	2011	2010
Tax Expense consists of			
Current:			
United States	$ 470	$ 171	$ (501)
State	10	13	3
Foreign	380	564	385
	$ 860	$ 748	$ (113)
Deferred:			
United States	$ 85	$ (185)	$ 784
State	19	4	72
Foreign	(20)	(150)	22
	84	(331)	878
	$ 944	$ 417	$ 765

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	Years Ended December 31,		
	2012	**2011**	**2010**
The U.S. statutory federal income tax rate is reconciled to our effective income tax rate as follows:			
Statutory U.S. federal income tax rate	35.0 %	35.0 %	35.0 %
Taxes on foreign earnings below U.S. tax rate(1)	(7.4)	(10.4)	(7.3)
State income taxes(1)	0.3	0.7	1.5
Manufacturing incentives	(1.6)	(1.7)	
ESOP dividend tax benefit	(0.6)	(1.1)	(0.8)
Tax credits	(0.4)	(2.3)	(1.2)
Audit settlements		(2.0)	0.1
All other items net	(0.9)	0.1	0.8
	24.4 %	18.3 %	28.1 %

(1) Net of changes in valuation allowance and tax reserves

The effective tax rate increased by 6.1 percentage points in 2012 compared with 2011 primarily due to a change in the mix of earnings taxed at higher rates (primarily driven by an approximate 6.1 percentage point impact from the decrease in pension mark-to-market expense), a decreased benefit from valuation allowances, a decreased benefit from the settlement of tax audits and the absence of the U.S. R&D tax credit, partially offset by a decreased expense related to tax reserves. The foreign effective tax rate was 17.0 percent, a decrease of approximately 4.1 percentage points which primarily consisted of a 10.0 percent impact related to a decrease in tax reserves, partially offset by a 5.2 percent impact from increased valuation allowances on net operating losses primarily due to a decrease in Luxembourg and French earnings available to be offset by net operating loss carry forwards and a 1.4 percent impact from tax expense related to foreign exchange. The effective tax rate was lower than the U.S. statutory rate of 35 percent primarily due to earnings taxed at lower foreign rates.

The effective tax rate decreased by 9.8 percentage points in 2011 compared to 2010 primarily due to a change in the mix of earnings between U.S. and foreign sources related to higher U.S. pension expense (primarily driven by an approximate 7.6 percentage point impact which resulted from the increase in pension mark-to-market expense), an increased benefit from manufacturing incentives, an increased benefit from the favorable settlement of tax audits and an increased benefit from a lower foreign effective tax rate. The foreign effective tax rate was 21.1 percent, a decrease of approximately 4.9 percentage points which primarily consisted of (i) a 5.1 percent impact from decreased valuation allowances on net operating losses primarily due to an increase in German earnings available to be offset by net operating loss carry forwards; (ii) a 2.4 percent impact from tax benefits related to foreign exchange and investment losses; (iii) a 1.2 percent impact from an increased benefit in tax credits and lower statutory tax rates and (iv) a 4.1 percent impact related to an increase in tax reserves. The effective tax rate was lower than the U.S. statutory rate of 35 percent primarily due to earnings taxed at lower foreign rates.

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Deferred tax assets (liabilities)

Deferred income taxes represent the future tax effects of transactions which are reported in different periods for tax and financial reporting purposes. The tax effects of temporary differences and tax carryforwards which give rise to future income tax benefits and payables are as follows:

	December 31,	
	2012	**2011**
Property, plant and equipment basis differences	$ (928)	$ (1,097)
Postretirement benefits other than pensions and post employment benefits	620	571
Investment and other asset basis differences	(1,084)	(970)
Other accrued items	2,918	2,852
Net operating and capital losses	820	810
Tax credits	232	379
Undistributed earnings of subsidiaries	(60)	(57)
All other items net	(45)	(67)
	2,473	2,421
Valuation allowance	(598)	(591)
	$ 1,875	$ 1,830

The Company has state tax net operating loss carryforwards of $3.0 billion at December 31, 2012 with various expiration dates through 2030. We also have foreign net operating and capital losses of $2.8 billion which are available to reduce future income tax payments in several countries, subject to varying expiration rules.

We have U.S. federal tax credit carryforwards of $6 million at December 31, 2012 with various expiration dates through 2031. We also have state tax credit carryforwards of $55 million at December 31, 2012, including carryforwards of $33 million with various expiration dates through 2027 and tax credits of $22 million which are not subject to expiration.

The valuation allowance against deferred tax assets increased by $7 million in 2012 and decreased by $45 million and increased by $58 million in 2011 and 2010, respectively. The 2012 increase in the valuation allowance was primarily due to decreased earnings in France and Luxembourg, partially offset by a decrease in the valuation allowance related to purchase accounting for various acquisitions and audit settlements for various countries. The 2011 decrease in the valuation allowance was primarily due to decreased foreign net operating losses related to the Netherlands and Germany, partially offset by the increase in the valuation allowance of France, Luxembourg and Canada. The 2010 increase in the valuation allowance was primarily due to increased foreign net operating losses related to France, Luxembourg, and the Netherlands offset by the reversal of a valuation allowance related to Germany. The 2010 increase in valuation allowance also includes adjustments related to purchase accounting for various acquisitions.

Federal income taxes have not been provided on undistributed earnings of the majority of our international subsidiaries as it is our intention to reinvest these earnings into the respective subsidiaries. At December 31, 2012 Honeywell has not provided for U.S. federal income and foreign withholding taxes on approximately $11.6 billion of such earnings of our non-U.S. operations. It is not practicable to estimate the amount of tax that might be payable if some or all of such earnings were to be repatriated, and the amount of foreign tax credits that would be available to reduce or eliminate the resulting U.S. income tax liability.

We had $722 million, $815 million and $757 million of unrecognized tax benefits as of December 31, 2012, 2011, and 2010 respectively. If recognized, $722 million would be recorded as a component of income tax expense as of December 31, 2012. For the year ended December 31, 2012, the Company decreased its unrecognized tax benefits by $93 million due to the expiration of various

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statute of limitations and settlements with tax authorities, partially offset by adjustments related to our ongoing assessment of the likelihood and amount of potential outcomes of current and future examinations. For the year ended December 31, 2011, the Company increased its unrecognized tax benefits by $58 million due to additional reserves for various international and U.S. tax audit matters, partially offset by adjustments related to our ongoing assessment of the likelihood and amount of potential outcomes of current and future examinations, the expiration of various statute of limitations, and settlements with tax authorities. The following table summarizes the activity related to our unrecognized tax benefits:

	2012	2011	2010
Change in unrecognized tax benefits:			
Balance at beginning of year	$ 815	$ 757	$ 720
Gross increases related to current period tax positions	25	46	37
Gross increases related to prior periods tax positions	44	327	84
Gross decreases related to prior periods tax positions	(62)	(56)	(41)
Decrease related to settlements with tax authorities	(40)	(237)	(23)
Expiration of the statute of limitations for the assessment of taxes	(64)	(12)	(8)
Foreign currency translation	4	(10)	(12)
Balance at end of year	$ 722	$ 815	$ 757

Generally, our uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. The following table summarizes these open tax years by major jurisdiction as of December 31, 2012:

	Open Tax Year	
Jurisdiction	Examination in progress	Examination not yet initiated
United States(1)	2001 2011	2005 2012
United Kingdom	N/A	2011 2012
Canada(1)	2006 2010	2011 2012
Germany(1)	2004 2009	2010 2012
France	2009 2011	2000 2008, 2012
Netherlands	2009	2010 2012
Australia	N/A	2009 2012
China	2009 2010	2006 2008, 2011 2012
India	2000 2010	2011 2012
Italy	2005 2011	2012

(1) Includes federal as well as state, provincial or similar local jurisdictions, as applicable.

Based on the outcome of these examinations, or as a result of the expiration of statute of limitations for specific jurisdictions, it is reasonably possible that certain unrecognized tax benefits for tax positions taken on previously filed tax returns will materially change from those recorded as liabilities for uncertain tax positions in our financial statements. In addition, the outcome of these examinations may impact the valuation of certain deferred tax assets (such as net operating losses) in future periods. Based on the number of tax years currently under audit by the relevant U.S federal, state and foreign tax authorities, the Company anticipates that several of these audits may be finalized in the foreseeable future. However, based on the status of these examinations, the protocol of finalizing audits by the relevant taxing authorities, and the possibility that the Company might challenge certain audit findings (which could include formal legal proceedings), at this time it is not possible to estimate the impact of such changes, if any, to previously recorded uncertain tax positions.

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Unrecognized tax benefits for examinations in progress were $443 million, $482 million and $274 million, as of December 31, 2012, 2011, and 2010, respectively. The decrease from 2011 to 2012 is primarily due to the expiration of various statute of limitations and settlements with tax authorities. The increase from 2010 to 2011 is primarily due to an increase in tax examinations. Estimated interest and penalties related to the underpayment of income taxes are classified as a component of Tax Expense in the Consolidated Statement of Operations and totaled $37 million, $63 million and $33 million for the years ended December 31, 2012, 2011, and 2010, respectively. Accrued interest and penalties were $284 million, $247 million and $183 million, as of December 31, 2012, 2011, and 2010, respectively.

Note 7 Earnings Per Share

The details of the earnings per share calculations for the years ended December 31, 2012, 2011 and 2010 are as follows:

	Years Ended December 31,		
Basic	**2012**	**2011**	**2010**
Income from continuing operations less net income attributable to the noncontrolling interest	$ 2,926	$ 1,858	$ 1,944
Income from discontinued operations		209	78
Net income attributable to Honeywell	$ 2,926	$ 2,067	$ 2,022
Weighted average shares outstanding	782.4	780.8	773.5
Earnings per share of common stock:			
Income from continuing operations	$ 3.74	$ 2.38	$ 2.51
Income from discontinued operations		0.27	0.10
Net Income attributable to Honeywell	$ 3.74	$ 2.65	$ 2.61

	Years Ended December 31,		
Assuming Dilution	**2012**	**2011**	**2010**
Income from continuing operations less net income attributable to the noncontrolling interest	$ 2,926	$ 1,858	$ 1,944
Income from discontinued operations		209	78
Net income attributable to Honeywell	$ 2,926	$ 2,067	$ 2,022
Average Shares			

Weighted average shares outstanding		782.4		780.8		773.5
Dilutive securities issuable stock plans		9.5		10.8		7.4
Total weighted average diluted shares outstanding		791.9		791.6		780.9
Earnings per share of common stock assuming dilution:						
Income from continuing operations	$	3.69	$	2.35	$	2.49
Income from discontinuing operations				0.26		0.10
Net income attributable to Honeywell	$	3.69	$	2.61	$	2.59

The diluted earnings per share calculations exclude the effect of stock options when the options assumed proceeds exceed the average market price of the common shares during the period. In 2012, 2011, and 2010 the weighted number of stock options excluded from the computations were 12.5, 9.5, and 14.8 million, respectively. These stock options were outstanding at the end of each of the respective periods.

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NOTES TO FINANCIAL STATEMENTS (Continued)
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Note 8 Accounts, Notes and Other Receivables

	December 31, 2012	December 31, 2011
Trade	$ 6,940	$ 6,926
Other	715	555
	7,655	7,481
Less Allowance for doubtful accounts	(226)	(253)
	$ 7,429	$ 7,228

Trade Receivables includes $1,495, and $1,404 million of unbilled balances under long-term contracts as of December 31, 2012 and December 31, 2011, respectively. These amounts are billed in accordance with the terms of customer contracts to which they relate.

Note 9 Inventories

	December 31, 2012	December 31, 2011
Raw materials	$ 1,152	$ 1,222
Work in process	859	958
Finished products	2,421	2,253
	4,432	4,433
Reduction to LIFO cost basis	(197)	(169)
	$ 4,235	$ 4,264

Inventories valued at LIFO amounted to $325 and $302 million at December 31, 2012 and 2011, respectively. Had such LIFO inventories been valued at current costs, their carrying values would have been approximately $197 and $169 million higher at December 31, 2012 and 2011, respectively.

Note 10 Investments and Long-Term Receivables

	December 31, 2012	December 31, 2011

Investments	$	424	$	362
Long-term trade and other receivables		168		81
Long-term financing receivables		31		51
	$	623	$	494

Long-Term Trade and Other Receivables include $31 million and $29 million of unbilled balances under long-term contracts as of December 31, 2012 and 2011, respectively. These amounts are billed in accordance with the terms of the customer contracts to which they relate.

The following table summarizes long term trade, financing and other receivables by segment, including current portions and allowances for credit losses.

	December 31, 2012	
Aerospace	$	11
Automation and Control Solutions		89
Performance Materials and Technologies		9
Transportation Systems		15
Corporate		73
	$	197

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Allowance for credit losses for the above detailed long-term trade, financing and other receivables totaled $4 million and $5 million as of December 31, 2012 and 2011, respectively. The receivables are evaluated for recoverability on an individual basis, including consideration of credit quality. The above detailed financing receivables are predominately with commercial and governmental counterparties of investment grade credit quality.

Note 11 Property, Plant and Equipment Net

	December 31, 2012	December 31, 2011
Land and improvements	$ 368	$ 376
Machinery and equipment	10,174	9,937
Buildings and improvements	3,078	2,897
Construction in progress	592	513
	14,212	13,723
Less Accumulated depreciation	(9,211)	(8,919)
	$ 5,001	$ 4,804

Depreciation expense was $660, $699 and $707 million in 2012, 2011 and 2010, respectively.

Note 12 Goodwill and Other Intangible Assets Net

The change in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 by segment is as follows:

	December 31, 2011	Acquisitions	Divestitures	Currency Translation Adjustment	December 31, 2012
Aerospace	$ 2,095	$ (23)	$ (3)	$ 6	$ 2,075
Automation and Control Solutions	8,260	62	(62)	83	8,343
Performance Materials and Technologies	1,306	501		3	1,810
Transportation Systems	197				197
	$ 11,858	$ 540	$ (65)	$ 92	$ 12,425

	December 31, 2012			December 31, 2011		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Determinable life intangibles:						
Patents and technology	$ 1,224	$ (841)	$ 383	$ 1,151	$ (761)	$ 390
Customer relationships	1,736	(625)	1,111	1,718	(493)	1,225
Trademarks	179	(103)	76	155	(84)	71
Other	311	(157)	154	211	(145)	66
	3,450	(1,726)	1,724	3,235	(1,483)	1,752
Indefinite life intangibles:						
Trademarks	725		725	725		725
	$ 4,175	$ (1,726)	$ 2,449	$ 3,960	$ (1,483)	$ 2,477

(Dollars in millions, except per share amounts)

Intangible assets amortization expense was $266, $249, and $263 million in 2012, 2011, 2010, respectively. Estimated intangible asset amortization expense for each of the next five years approximates $275 million in 2013, $247 million in 2014, $206 million in 2015, $152 million in 2016, and $142 million in 2017.

Note 13 Accrued Liabilities

	December 31,	
	2012	**2011**
Compensation, benefit and other employee related	$ 1,447	$ 1,555
Customer advances and deferred income	2,127	1,914
Asbestos related liabilities	480	237
Repositioning	323	412
Product warranties and performance guarantees	375	367
Environmental costs	304	303
Income taxes	548	318
Accrued interest	108	108
Other taxes (payroll, sales, VAT etc.)	232	233
Insurance	192	180
Other (primarily operating expenses)	1,072	1,236
	$ 7,208	$ 6,863

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Note 14 Long-term Debt and Credit Agreements

	December 31,	
	2012	2011
4.25% notes due 2013	$ 600	$ 600
3.875% notes due 2014	600	600
5.40% notes due 2016	400	400
5.30% notes due 2017	400	400
5.30% notes due 2018	900	900
5.00% notes due 2019	900	900
4.25% notes due 2021	800	800
5.375% notes due 2041	600	600
Industrial development bond obligations, floating rate maturing at various dates through 2037	37	37
6.625% debentures due 2028	216	216
9.065% debentures due 2033	51	51
5.70% notes due 2036	550	550
5.70% notes due 2037	600	600
Other (including capitalized leases), 0.2% 9.5% maturing at various dates through 2023	366	242
	7,020	6,896
Less: current portion	(625)	(15)
	$ 6,395	$ 6,881

The schedule of principal payments on long-term debt is as follows:

	December 31, 2012
2013	$ 625
2014	660
2015	51
2016	454
2017	409
Thereafter	4,821

		7,020
Less-current portion		(625)
	$	6,395

On April 2, 2012, the Company entered into a $3,000 million Amended and Restated Five Year Credit Agreement (Credit Agreement) with a syndicate of banks. Commitments under the Credit Agreement can be increased pursuant to the terms of the Credit Agreement to an aggregate amount not to exceed $3,500 million. The Credit Agreement contains a $700 million sub-limit for the issuance of letters of credit. The Credit Agreement is maintained for general corporate purposes and amends and restates the previous $2,800 million five year credit agreement dated March 31, 2011 (Prior Agreement). There have been no borrowings under the Credit Agreement or the Prior Agreement.

The Credit Agreement does not restrict our ability to pay dividends and contains no financial covenants. The failure to comply with customary conditions or the occurrence of customary events of default contained in the credit agreement would prevent any further borrowings and would generally require the repayment of any outstanding borrowings under the credit agreement. Such events of default include: (a) non-payment of credit agreement debt, interest or fees; (b) non-compliance with the terms of the credit agreement covenants; (c) cross-default to other debt in certain circumstances; (d) bankruptcy; and (e) defaults upon obligations under Employee Retirement Income Security Act.

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Additionally, each of the banks has the right to terminate its commitment to lend additional funds or issue letters of credit under the agreement if any person or group acquires beneficial ownership of 30 percent or more of our voting stock, or, during any 12-month period, individuals who were directors of Honeywell at the beginning of the period cease to constitute a majority of the Board of Directors.

The Credit Agreement has substantially the same material terms and conditions as the Prior Agreement with an improvement in pricing and an extension of maturity. Loans under the Credit Agreement are required to be repaid no later than April 2, 2017, unless such date is extended pursuant to the terms of the Credit Agreement. We have agreed to pay a facility fee of 0.08 percent per annum on the aggregate commitment.

Revolving credit borrowings under the Credit Agreement would bear interest, at Honeywell s option, (A) (1) at a rate equal to the highest of (a) the floating base rate publicly announced by Citibank, N.A., (b) 0.5 percent above the Federal funds rate or (c) LIBOR plus 1.00 percent, plus (2) a margin based on Honeywell s credit default swap mid-rate spread and subject to a floor and a cap as set forth in the Credit Agreement (the Applicable Margin) minus 1.00 percent, provided such margin shall not be less than zero; or (B) at a rate equal to LIBOR plus the Applicable Margin; or (C) by a competitive bidding procedure.

The facility fee and the letter of credit issuance fee are subject to change, based upon a grid determined by our long term debt ratings. The Credit Agreement is not subject to termination based upon a decrease in our debt ratings or a material adverse change.

In February 2011, the Company issued $800 million 4.25 percent Senior Notes due 2021 and $600 million 5.375 percent Senior Notes due 2041 (collectively, the Notes). The Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell s existing and future senior unsecured debt and senior to all of Honeywell s subordinated debt. The offering resulted in gross proceeds of $1,400 million, offset by $19 million in discount and closing costs related to the offering.

In the first quarter of 2011, the Company repurchased the entire outstanding principal amount of its $400 million 5.625 percent Notes due 2012 via a cash tender offer and a subsequent optional redemption. The cost relating to the early redemption of the Notes, including the make-whole premium , was $29 million.

In the fourth quarter of 2011, the Company repaid $500 million of its 6.125 percent notes. The repayment was funded with cash provided by operating activities.

As a source of liquidity, we sell interests in designated pools of trade accounts receivables to third parties. As of December 31, 2012 and December 31, 2011, none of the receivables in the designated pools had been sold to third parties. When we sell receivables, they are over-collateralized and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables pools. The terms of the trade accounts receivable program permit the repurchase of receivables from the third parties at our discretion, providing us with an additional source of revolving credit. As a result, program receivables remain on the Company s balance sheet with a corresponding amount recorded as Short-term borrowings.

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Note 15 Lease Commitments

Future minimum lease payments under operating leases having initial or remaining noncancellable lease terms in excess of one year are as follows: