HONEYWELL INTERNATIONAL INC
Form 10-K
February 12, 2016

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

**Form 10-K**

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
o 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.) |
| 115 Tabor Road Morris Plains, New Jersey | 07950 |
| (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 |
| $9^{1}/_{2}$% 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 x No o

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 o No x

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 x No o

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 x No o

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. o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $80.9 billion at June 30, 2015.

There were 769,322,910 shares of Common Stock outstanding at January 29, 2016.

Documents Incorporated by Reference

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 25, 2016.

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# PART I.

## Item 1. Business

Honeywell International Inc. (Honeywell or the Company) is a diversified technology and manufacturing company, serving customers worldwide with aerospace products and services, turbochargers, control, sensing and security technologies for buildings, homes and industry, 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.

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 (www.honeywell.com) 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 2016 Annual Meeting of Stockholders, which we expect to file with the SEC on or about March 10, 2016, and which will also be available free of charge on our website.

## Major Businesses

We globally manage our business operations through three operating segments: Aerospace, Automation and Control Solutions (ACS), and Performance Materials and Technologies (PMT). Financial information related to our operating segments is included in Note 21 Segment Financial Data of Notes to Financial Statements.

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

## Aerospace

Aerospace is a leading global supplier of aircraft engines, integrated avionics, systems and service solutions, and related products and services for aircraft manufacturers, airlines, aircraft operators, military services, and defense and space contractors. Aerospace is also a leading manufacturer of turbochargers to improve the performance and efficiency of passenger cars and commercial vehicles. Aerospace products and services include auxiliary power units, propulsion engines, environmental control systems, connectivity, 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, repair and overhaul services, turbochargers and thermal systems. Aerospace sells its products to original equipment manufacturers (OEMs) in the air transport, regional, business and general aviation aircraft, and automotive and truck manufacturers segments, and provides spare parts and repair and maintenance services (principally to aircraft operators) for the aftermarket.

## Automation and Control Solutions

ACS is a leading global provider of products, software and technologies for environmental and energy solutions; sensors, switches and controls for sensing and productivity solutions; security and fire safety products; industrial safety products; and building solutions and services for homes, commercial buildings and industrial facilities. 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; products, services and solutions for measurement, regulation, control and metering of gases and electricity; metering and communications systems for water utilities and industries; security, fire and gas detection;

personal protection equipment; access control; video surveillance; remote patient monitoring systems; software and products for high performance data collection including rugged

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mobile computers and printers, bar code scanners and voice technologies; and installation, maintenance and upgrades of systems that keep buildings safe, comfortable and productive.

**Performance Materials and Technologies**

PMT is a global leader in developing and manufacturing advanced materials, process technologies and automation solutions. UOP provides process technology, products, including catalysts and adsorbents, equipment and consulting services to efficiently produce gasoline, diesel, jet fuel, petrochemicals and renewable fuels for the petroleum refining, gas processing, petrochemical, and other industries. Process Solutions is a pioneer in automation control, instrumentation, services and advanced software for the oil and gas, refining, pulp and paper, industrial power generation, chemicals and petrochemicals, biofuels, life sciences, and metals, minerals and mining industries. Advanced Materials manufactures a wide variety of high-performance products, including fluorocarbons, hydrofluoroolefins, caprolactam, resins, ammonium sulfate fertilizer, phenol, specialty films, waxes, additives, advanced fibers, customized research chemicals and intermediates, and electronic materials and chemicals.

**Competition**

We are subject to competition in substantially all product and service areas. Some of our key competitors are:

- Aerospace: Borg-Warner (automotive), Garmin, General Electric, Rockwell Collins, Thales and United Technologies
- ACS: 3M, Johnson Controls, Schneider, Siemens and Zebra-Motorola
- PMT: Albemarle, BASF, Dow, Dupont, Emerson and Sinopec

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. Many of our competitors have substantial financial resources and significant technological capabilities. In addition, some of our products compete with the captive component divisions of OEMs.

**Aerospace Sales**

Our sales to aerospace customers were 39%, 39%, and 40% of our total sales in 2015, 2014 and 2013. Our sales to commercial aerospace OEMs were 8%, 6%, and 7% of our total sales in 2015, 2014 and 2013. In addition, our sales to commercial aftermarket customers of aerospace products and services were 12%, 11%, and 11% of our total sales in 2015, 2014 and 2013.

**U.S. Government Sales**

Sales to the U.S. Government (principally by Aerospace), acting through its various departments and agencies and through prime contractors, amounted to $3,743 million, $3,693 million and $3,856 million in 2015, 2014 and 2013, which included sales to the U.S. Department of Defense, as a prime contractor and subcontractor, of $2,680 million, $2,792 million and $3,066 million in 2015, 2014 and 2013. U.S. defense spending decreased in 2015 compared to 2014. We do not expect our overall operating results to be significantly affected by any proposed changes in 2016 federal defense spending due principally to the varied mix of the government programs which impact us (OEMs 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.

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**Backlog**

Our total backlog at December 31, 2015 and 2014 was $18,183 million and $18,313 million. We anticipate that approximately $11,601 million of the 2015 backlog will be filled in 2016. 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.

**International Operations**

We are engaged in manufacturing, sales, service and research and development globally. U.S. exports and non-U.S. manufactured products are significant to our operations. U.S. exports comprised 14% of our total sales in each of 2015, 2014 and 2013. Non-U.S. manufactured products and services, mainly in Europe and Asia, were 39% of our total sales in 2015, and 41% in 2014 and 2013.

| Manufactured Products and Systems and Performance of Services | Year Ended December 31, 2015 | | |
|---|---|---|---|
| | Aerospace | ACS | PMT |
| | (% of Total Sales) | | |
| U.S. Exports | 22% | 3% | 20% |
| Non-U.S. | 29% | 48% | 40% |

**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 or commodities in 2015. 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 PMT.

The costs of certain key raw materials, including cumene, natural gas, R240, sulfur, fluorspar, ethylene and perchloroethylene in PMT and nickel, steel, titanium and other metals in Aerospace, 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 2016.

**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. In our judgment, our intellectual property 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 individual patent, trademark or any licensing or distribution rights related to a specific process or product to be of material importance in relation to our total business.

**Research and Development**

The Company s principal research and development activities are in the U.S., India, Europe and China. Research and development (R&D) expense totaled $1,856 million, $1,892 million and $1,804 million in 2015, 2014 and 2013. R&D expense was 5% of sales in 2015, 2014 and 2013. Customer-sponsored (principally by the U.S. Government) R&D activities amounted to an additional $998 million, $1,034 million and $969 million in 2015, 2014 and 2013.

**Environment**

We are subject to various federal, state, local and foreign government requirements regarding protection of human health and 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 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 also possible 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 Agency s National Priority List. Although 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.

**Employees**

We have approximately 129,000 employees at December 31, 2015, of whom approximately 49,000 are located in the United States.

**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, 63 2002(a) | Chairman of the Board and Chief Executive Officer since July 2002. |
| Darius Adamczyk, 50 2014 | President and Chief Executive Officer Performance Materials and Technologies since April 2014. President of Honeywell Process Solutions from April 2012 to April 2014. President of Honeywell Scanning & Mobility from July 2008 to April 2012. |
| Katherine L. Adams, 51 2009 | Senior Vice President and General Counsel since April 2009. |
| Roger Fradin, 62 2004 | Vice Chairman since April 2014. President and Chief Executive Officer Automation and Control Solutions from January 2004 to April 2014. |
| Alexandre Ismail, 50 2009 | President and Chief Executive Officer Automation and Control Solutions since April 2014. President Energy, Safety and Security from May 2013 to April 2014. President and Chief Executive Officer Transportation Systems from April 2009 to May 2013. |
| Mark R. James, 54 2007 | Senior Vice President Human Resources, Procurement and Communications since November 2007. |
| Andreas C. Kramvis, 63 2008 | Vice Chairman since April 2014. President and Chief Executive Officer Performance Materials and Technologies from March 2008 to April 2014. |
| Timothy O. Mahoney, 59 2009 | President and Chief Executive Officer Aerospace since September 2009. |
| Krishna Mikkilineni, 56 2010 | Senior Vice President Engineering, Operations and Information Technology since April 2013. Senior Vice President Engineering and Operations from April 2010 to April 2013 and President Honeywell Technology Solutions from January 2009 to April 2013. |
| Thomas A. Szlosek, 52 2014 | Senior Vice President and Chief Financial Officer since April 2014. Vice President of Corporate Finance from April 2013 to April 2014. Chief Financial Officer of Automation and Control Solutions from February 2007 to April 2013. |

(a) Also a Director.

## Item 1A. Risk Factors

### Cautionary Statement about Forward-Looking Statements

We describe 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, Results of Operations and in other parts of this report (including this Item 1A). Such discussions 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. These factors may be revised or supplemented in subsequent reports on Forms 10-Q and 8-K.

### Risk Factors

Our business, operating results, cash flows and financial condition are subject to the principal 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.

**Macroeconomic and Industry Risks**

***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.***

***Aerospace*** Operating results of Aerospace are directly tied to cyclical industry and economic conditions, as well as changes in customer buying patterns of aftermarket parts, supplier stability, factory transitions and capacity constraints. The operating results of our Commercial Original Equipment and Commercial Aftermarket business units may be adversely affected by downturns in the global demand for air travel which impacts new aircraft production or the delay or cancellation of new aircraft orders, delays in launch schedules for new aircraft, the retirement of aircraft and global flying hours, which impact business and general aviation aircraft utilization rates. Operating results in our Defense and Space Systems business unit may be affected by the mix of U.S. and foreign government appropriations for defense and space programs. Operating results in our Transportation Systems business unit may be affected by the level of production and demand for automobiles and trucks equipped with turbochargers, regulatory changes regarding automobile and truck emissions and fuel economy, consumer demand and spending for automotive aftermarket products and delays in launch schedules for new automobile and truck platforms.

***ACS*** Operating results may be adversely impacted by downturns in 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, and inventory levels in distribution channels.

***PMT*** Operating results may be adversely impacted by downturns in the capacity utilization for chemical, industrial, refining, petrochemical and semiconductor plants, our customers availability of capital for refinery construction and expansion, raw material demand and supply volatility, and our ability to maximize our facilities production capacity and minimize downtime. In particular, the volatility in oil and natural gas prices have and will continue to impact our customers operating levels and capital spending and thus demand for our products and services. Pricing of certain chemical products are driven by raw materials that are correlated to the price of oil, hence revenue could be significantly impacted by volatility in the price of oil.

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

Our international operations, including U.S. exports, represent more than half of the Company s sales. Risks related to international operations include exchange control regulations, wage and price controls, antitrust regulations, employment regulations, foreign investment laws, import, export and other trade restrictions (such as embargoes), violations by our employees of anti-corruption laws (despite our efforts to mitigate these risks), changes in regulations regarding transactions with state-owned enterprises, nationalization of private enterprises, acts of terrorism, and our ability to hire and maintain qualified staff and maintain the safety of our employees in these regions. Instability and uncertainties arising from the global geopolitical environment and the cost of compliance with increasingly complex and often conflicting regulations worldwide can 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.

Operating outside of the United States also exposes us to foreign exchange risk, which we monitor and seek to reduce through hedging activities. However, foreign exchange hedging activities bear a financial cost and may not always be available to us or successful in eliminating such volatility. Finally, we generate significant amounts of cash outside of the United States that is invested with financial and non-financial counterparties. 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 counterparties with whom we transact business could expose Honeywell to financial loss.

***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 require cash pension contributions in future periods. Changes in discount rates and actual asset returns different than our anticipated asset returns can result in significant non-cash actuarial gains or losses which we record in the fourth quarter of each fiscal year, and, if applicable, in any quarter in which an interim re-measurement is triggered. With regard to cash pension contributions, funding requirements for our pension plans are largely dependent upon interest rates, actual investment returns on pension assets and the impact of legislative or regulatory changes related to pension funding obligations.

**Operational Risks**

***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 PMT (cumene, fluorspar, R240, natural gas, perchloroethylene, sulfur and ethylene) and Aerospace (nickel, steel, titanium and other metals). 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.

Many major components, product equipment items and raw materials, particularly in Aerospace, are procured or subcontracted on a single or sole-source basis. Although we maintain a qualification and performance surveillance process 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 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.

***We may be unable to successfully execute or effectively integrate acquisitions, 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 failure to integrate multiple acquired businesses into Honeywell simultaneously and on schedule and/or to achieve expected synergies, (iii) the inability to dispose of non-core assets and businesses on satisfactory terms and conditions, and (iv) the discovery of unanticipated liabilities or other problems in acquired businesses for which we lack contractual protections, insurance or indemnities or, with regard to divested businesses, claims by purchasers to whom we have provided contractual indemnification.

***Our future growth is largely dependent upon our ability to develop new technologies and introduce new products that achieve market acceptance in increasingly competitive markets with acceptable margins.***

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 and defend our market share against an ever-expanding number of competitors including many new and non- traditional competitors, (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 compelling new products to market quickly and cost-effectively, and (v) attract, develop and retain individuals with the requisite technical expertise and understanding of customers needs to develop new technologies and introduce new products.

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.

***Failure to increase productivity through sustainable operational improvements, as well as an inability to successfully execute repositioning projects, may reduce our profitability or adversely impact our businesses.***

Our profitability and margin growth are dependent upon our ability to drive sustainable improvements. In addition, we seek productivity and cost savings benefits through repositioning actions and projects, such as consolidation of manufacturing facilities, transitions to cost-competitive regions and product line rationalizations. Risks associated with these actions include delays in execution of the planned initiatives, additional unexpected costs and adverse effects on employee morale. We may not realize the full operational or financial benefits we expect, the recognition of these benefits may be delayed and these actions may potentially disrupt our 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.***

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. Our contracts with the U.S. Government are also subject to government audits that may recommend downward price adjustments and other changes. When appropriate and prudent, we have made adjustments and paid voluntary refunds in the past and may do so in the future.

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, employment 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.

***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 continue to incur 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. Various federal, state, local and foreign governments regulate the discharge of materials into the environment and 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. 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 additional costs in the future that would have a negative effect on our financial condition or results of operations.

***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, its products, its customers and/or its third party service providers including cloud providers. Our customers, including the U.S. government, are increasingly requiring cybersecurity protections and mandating cybersecurity standards in our products and we may incur additional costs to comply with such demands. 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. We seek to deploy comprehensive measures to deter, prevent, detect, respond and mitigate these threats (including access controls, data encryption, vulnerability assessments, product software designs which we believe are less susceptible to cyber attacks, continuous monitoring of our IT networks and systems and maintenance of backup and protective systems. Despite these efforts, 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. Cybersecurity incidents aimed at the software imbedded in our products could lead to third party claims that our product failures have caused a similar range of damages to our customers, and this risk is enhanced by the increasingly connected nature of our products. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, fines levied by the Federal Trade Commission, 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.

## Legal and Regulatory Risks

***Our U.S. and non-U.S. tax liabilities are dependent, in part, upon the distribution of income among various jurisdictions in which we operate.***

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 tax laws, regulations and judicial rulings (or changes in the interpretation thereof), 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 and various other governmental enforcement initiatives. Our tax expense includes estimates of tax reserves and reflects other estimates and assumptions, including assessments of future earnings of the Company which could impact the valuation of our deferred tax assets. Changes in tax laws or regulations, including multi- jurisdictional changes enacted in response to the guidelines provided by the Organization for Economic Co-operation and Development (OECD) to address base erosion and profit shifting, will increase tax uncertainty and may adversely impact our provision for income taxes.

***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 including safety, performance and product certification regulations. Within Aerospace, the operating results of Commercial Original Equipment and Commercial Aftermarket may be impacted by, among other things, mandates of the Federal Aviation Administration and other similar international regulatory bodies requiring the installation of equipment on aircraft. Our Defense and Space business unit may be affected by changes in government procurement regulations, while emissions, fuel economy and energy efficiency standards for motor vehicles can impact Transportation Systems. Within ACS, the demand for and cost of providing products, services and solutions can be impacted by fire, security, safety, health care, environmental and energy efficiency standards and regulations. PMT s results of operations can be affected by environmental, safety and energy efficiency standards and regulations. Growth in all our businesses within emerging markets may be adversely impacted by the inability to acquire and retain qualified employees where local employment law mandates may be restrictive.

***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. 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. 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.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

We have approximately 1,328 locations, of which 319 are plants. 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.

**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 19 Commitments and Contingencies of Notes to Financial Statements.

**Item 4. Mine Safety Disclosures**

Not applicable.

## 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 24 Unaudited Quarterly Financial Information of Notes to Financial Statements.

The number of record holders of our common stock at December 31, 2015 was 53,230.

Honeywell purchased 1,724,212 shares of its common stock, par value $1 per share, in the quarter ending December 31, 2015. Under the Company s previously reported $5 billion share repurchase program, $2.2 billion remained available as of December 31, 2015 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time to generally offset the dilutive impact of employee stock based compensation plans, including 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 our operating, financing and other investing activities.

The following table summarizes Honeywell s purchase of its common stock for the three months ended December 31, 2015:

**Issuer Purchases of Equity Securities**

| 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) |
|---|---|---|---|---|
| October 2015 | 1,567,882 | $ 93.89 | 1,567,882 | $ 2,207 |
| December 2015 | 156,330 | $ 98.02 | 156,330 | $ 2,192 |

## 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 (S&P) 500 Stock Index and a composite of S&P s Industrial Conglomerates and Aerospace and Defense indices, on a 65%/35% weighted basis (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, 2010 and that all dividends were reinvested.

**COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN**

**HONEYWELL INTERNATIONAL INC.**

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, | | | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 |
| | (Dollars in millions, except per share amounts) | | | | |
| **Results of Operations** | | | | | |
| Net sales | $ 38,581 | $ 40,306 | $ 39,055 | $ 37,665 | $ 36,529 |
| Amounts attributable to Honeywell: | | | | | |
| Income from continuing operations less net income attributable to the noncontrolling interest | 4,768 | 4,239 | 3,924 | 2,926 | 1,858 |
| Income from discontinued operations(1) | | | | | 209 |
| Net income attributable to Honeywell | 4,768 | 4,239 | 3,924 | 2,926 | 2,067 |
| **Earnings Per Common Share** | | | | | |
| Basic: | | | | | |
| Income from continuing operations | 6.11 | 5.40 | 4.99 | 3.74 | 2.38 |
| Income from discontinued operations | | | | | 0.27 |
| Net income attributable to Honeywell | 6.11 | 5.40 | 4.99 | 3.74 | 2.65 |
| Assuming dilution: | | | | | |
| Income from continuing operations | 6.04 | 5.33 | 4.92 | 3.69 | 2.35 |
| Income from discontinued operations | | | | | 0.26 |
| Net income attributable to Honeywell | 6.04 | 5.33 | 4.92 | 3.69 | 2.61 |
| Dividends per share | 2.15 | 1.87 | 1.68 | 1.53 | 1.37 |
| **Financial Position at Year-End** | | | | | |
| Property, plant and equipment-net | 5,789 | 5,383 | 5,278 | 5,001 | 4,804 |
| Total assets | 49,316 | 45,451 | 45,435 | 41,853 | 39,808 |
| Short-term debt | 6,514 | 2,637 | 2,028 | 1,101 | 674 |
| Long-term debt | 5,554 | 6,046 | 6,801 | 6,395 | 6,881 |
| Total debt | 12,068 | 8,683 | 8,829 | 7,496 | 7,555 |
| Redeemable noncontrolling interest | 290 | 219 | 167 | 150 | |
| Shareowners equity | 18,418 | 17,784 | 17,579 | 13,065 | 10,902 |

(1) For the year ended December 31, 2011, income from discontinued operations included a $178 million, net of tax gain, resulting from the sale of the Consumer Products Group business.

**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, 2015. All references to Notes relate to Notes to Financial Statements in Item 8. Financial Statements and Supplementary Data.

**EXECUTIVE SUMMARY**

In 2015, Honeywell successfully navigated a challenging macro-economic climate by combining strategic growth in our diverse portfolio and our well-known cost discipline with a marked acceleration of our capital deployment strategy. Earnings per share of common stock assuming dilution, grew 13% to $6.04 per share in 2015 and net income attributable to Honeywell grew 12% to $4,768 million. Our balanced long-term focus on enhancing shareowner value resulted in segment margin expansion of 220 basis points versus 2014 without sacrificing seed planting intended to ensure future growth, including maintaining R&D spending at 5% of sales, new product introductions aligned with global macroeconomic trends in energy, safety and security and productivity, $216 million of repositioning investments to improve our operations and increased investment in High Growth Regions. Honeywell Operating System (HOS) Gold and Honeywell User Experience (HUE) initiatives intensified throughout the company, driving productivity through sustainable improvements to our factories, footprints and supply chain.

In 2015 we deployed capital of over $10 billion, including the following:

***Mergers and Acquisitions*** we deployed over $5 billion during 2015, acquiring businesses that will be integrated into each of our three operating segments. These acquisitions all share a technology focus and increase our existing deep alignment with enduring macro trends such as energy efficiency, clean energy generation, safety and security, urbanization and customer productivity.

***Dividend*** after a 15% dividend rate increase in 2014, we again increased our annual dividend rate by 15% in 2015, as we seek to grow the dividend faster than earnings.

***Share Repurchases*** we continue to opportunistically repurchase our shares with the goal of generally keeping share count flat and seeking to offset the dilutive impact of employee stock based compensation plans. In 2015, we repurchased 18.8 million shares for $1.9 billion.

***Capital Investment in Facilities*** we invested over $1 billion in high return capital expenditures, focused on revenue growth projects such as our Solstice low global-warming potential refrigerant products for the automotive industry and catalyst products in UOP.

**CONSOLIDATED RESULTS OF OPERATIONS**

**Net Sales**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net sales | $ 38,581 | $ 40,306 | $ 39,055 |
| % change compared with prior period | (4)% | 3% | |

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The change in net sales is attributable to the following:

| | 2015 Versus 2014 | 2014 Versus 2013 |
|---|---|---|
| Volume | 1% | 3% |
| Price | (1)% | |
| Acquisitions/Divestitures | (1)% | 1% |
| Foreign Currency Translation | (4)% | |
| Other | 1% | (1)% |
| | (4)% | 3% |

A discussion of net sales by segment can be found in the Review of Business Segments section of this MD&A. The foreign currency translation impact is principally driven by the weakening of the Euro and Canadian Dollar against the U.S. Dollar.

**Cost of Products and Services Sold**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cost of products and services sold | $ 26,747 | $ 28,957 | $ 28,364 |
| % change compared with prior period | (8)% | 2% | |
| Gross Margin percentage | 30.7% | 28.2% | 27.4% |

Cost of products and services sold decreased in 2015 compared with 2014 principally due to a decrease in direct and indirect material costs of approximately $1,460 million (driven primarily by the favorable impact of foreign currency translation, productivity, lower raw materials pass-through pricing and the absence of the Friction Materials business, partially offset by higher sales volume), a decrease in labor costs of approximately $450 million and higher pension income of approximately $230 million.

Gross margin percentage increased in 2015 compared with 2014 principally due to higher gross margin in all of our business segments (approximately 2.0 percentage point impact collectively) and increased pension income allocated to cost of products and services sold (approximately 0.5 percentage point impact).

Cost of products and services sold increased in 2014 compared with 2013 principally due to an increase in direct material and labor costs of approximately $645 million (driven by higher sales volume and acquisitions, net of divestitures) and an increase in pension and other postretirement benefit expense of approximately $35 million, partially offset by a decrease in repositioning and other charges of approximately $40 million.

Gross margin percentage increased in 2014 compared with 2013 principally due to higher gross margin in all of our business segments (approximately 0.7 percentage point impact collectively) and lower repositioning and other charges (approximately 0.1 percentage point impact), partially offset by higher pension and other postretirement benefit expense (approximately 0.1 percentage point impact).

**Selling, General and Administrative Expenses**

| | 2015 | 2014 | 2013 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Selling, general and administrative expense | $ 5,006 | $ 5,518 | $ 5,190 |
| % of sales | 13.0% | 13.7% | 13.3% |

Selling, general and administrative expenses (SG&A) decreased in 2015 compared with 2014 primarily driven by the favorable impact from foreign currency translation, increased pension income, decreased indirect costs and benefits from repositioning, partially offset by increased labor costs (primarily merit increases and investment for growth).

SG&A increased in 2014 compared with 2013 primarily driven by an increase in labor costs (primarily acquisitions, incentive compensation, merit increases and investment for growth) and an increase in pension and other postretirement benefit expense, partially offset by a decrease in repositioning charges.

**Tax Expense**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Tax expense | $ 1,739 | $ 1,489 | $ 1,450 |
| Effective tax rate | 26.4% | 25.6% | 26.8% |

For discussion of changes in the effective tax rate, see Note 5 Income Taxes in the Notes to Financial Statements.

The effective tax rates for 2015, 2014 and 2013 are lower than the U.S. statutory rate of 35% primarily due to lower tax rates on non-U.S. earnings, the vast majority of which we intend to permanently reinvest outside the United States.

The Company currently expects the effective tax rate for 2016 to be approximately 26.5%. The effective tax rate can vary from quarter to quarter due to unusual or infrequently occurring items, the resolution of income tax audits, changes in tax laws or other items such as pension mark-to-market adjustments.

**Net Income Attributable to Honeywell**

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net income attributable to Honeywell | $ 4,768 | $ 4,239 | $ 3,924 |
| Earnings per share of common stock assuming dilution | $ 6.04 | $ 5.33 | $ 4.92 |

Earnings per share of common stock assuming dilution increased in 2015 compared with 2014 primarily driven by increased segment profit in each of our business segments and lower pension and other postretirement expense, partially offset by increased tax expense and lower other income (principally due to the absence of a realized gain related to the prior year sale of marketable equity securities).

Earnings per share of common stock assuming dilution increased in 2014 compared with 2013 primarily due to increased segment profit in each of our business segments and lower repositioning and other charges, partially offset by higher pension and other postretirement expense and increased tax expense.

**BUSINESS OVERVIEW**

Our consolidated results are principally impacted by:

- Change in global economic growth rates and industry conditions and demand in our key end markets;
- Overall sales mix, in particular the mix of Aerospace original equipment and aftermarket sales and the mix of ACS products, distribution and services sales;
- The impact of fluctuations in foreign currency exchange rates (in particular the Euro), relative to the U.S. Dollar;
- The extent to which cost savings from productivity actions are able to offset or exceed the impact of material and non-material inflation; and
- The impact of the pension discount rate and asset returns on pension expense, including mark-to-market adjustments, and funding requirements.

Our 2016 areas of focus are supported by the Honeywell Enablers, including HOS Gold, 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, repositioning, 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;

Driving strong cash flow conversion through effective working capital management which will enable the Company to deploy capital for strategic acquisitions, capital expenditures and returning cash to shareholders;
Driving organic growth through expansion of our localized footprint in high growth regions, including China, India, Eastern Europe, the Middle East and Latin America;
Executing disciplined, rigorous M&A and integration processes to deliver inorganic growth through previously announced acquisitions while also identifying appropriate acquisitions to further deploy our capital effectively;
Aligning and prioritizing capital expenditures for long-term growth, while considering short-term demand volatility;
Actively monitoring trends in the oil and gas industry end markets, principally the demand from midstream and downstream customers for products and services provided by Process Solutions and UOP;
Monitoring both suppliers and customers for signs of liquidity constraints, limiting exposure to any resultjing inability to meet delivery commitments or pay amounts due, and identifying alternate sources of supply as necessary;
Proactively managing raw material costs through formula and long-term supply agreements and hedging activities, where feasible and prudent; 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**

| | Years Ended December 31, | | | % Change | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 Versus 2014 | 2014 Versus 2013 |
| **Aerospace Sales** | | | | | |
| Commercial Original Equipment | $ 2,905 | $ 2,607 | $ 2,651 | 11% | (2)% |
| Commercial Aftermarket | 4,656 | 4,578 | 4,459 | 2% | 3% |
| Defense and Space | 4,715 | 4,754 | 4,870 | (1)% | (2)% |
| Transportation Systems | 2,961 | 3,659 | 3,755 | (19)% | (3)% |
| Total Aerospace Sales | 15,237 | 15,598 | 15,735 | | |
| **Automation and Control Solutions Sales** | | | | | |
| Energy Safety & Security | 9,544 | 9,738 | 8,756 | (2)% | 11% |
| Building Solutions & Distribution | 4,565 | 4,749 | 4,709 | (4)% | 1% |
| Total Automation and Control Solutions Sales | 14,109 | 14,487 | 13,465 | | |
| **Performance Materials and Technologies Sales** | | | | | |
| UOP | 2,976 | 3,195 | 2,962 | (7)% | 8% |
| Process Solutions | 2,749 | 3,122 | 3,091 | (12)% | 1% |
| Advanced Materials | 3,510 | 3,904 | 3,802 | (10)% | 3% |
| Total Performance Materials and Technologies Sales | 9,235 | 10,221 | 9,855 | | |
| Net Sales | $ 38,581 | $ 40,306 | $ 39,055 | | |

**Aerospace**

| | 2015 | 2014 | Change | 2013 | Change |
|---|---|---|---|---|---|
| Net sales | $ 15,237 | $ 15,598 | (2)% | $ 15,735 | (1)% |
| Cost of products and services sold | 11,068 | 11,699 | | 11,889 | |
| Selling, general and administrative expenses | 643 | 712 | | 705 | |
| Other | 308 | 272 | | 271 | |
| Segment profit | $ 3,218 | $ 2,915 | 10% | $ 2,870 | 2% |

| | 2015 vs. 2014 | | 2014 vs. 2013 | |
|---|---|---|---|---|
| **Factors Contributing to Year-Over-Year Change** | **Sales** | **Segment Profit** | **Sales** | **Segment Profit** |
| Organic growth/ Operational segment profit | 2% | 8% | 2% | 8% |
| Foreign currency translation | (3)% | (4)% | | |
| Acquisitions, divestitures and other, net | (1)% | 6% | (3)% | (6)% |
| Total % Change | (2)% | 10% | (1)% | 2% |

**2015 compared with 2014**

Aerospace sales decreased primarily due to the unfavorable impact from foreign currency translation and the Friction Materials divestiture, partially offset by an increase in organic sales, as discussed below, and a decrease in incentives predominantly to air transport and regional aviation original equipment manufacturers (OEM Incentives).

- Commercial Original Equipment sales increased by 11% (increased 5% organic) primarily driven by a decrease in OEM Incentives and higher business and general aviation engine shipments.
- Commercial Aftermarket sales increased by 2% (increased 2% organic) primarily driven by higher repair and overhaul activities, partially offset by lower retrofits, modifications and upgrades for business and general aviation customers.
- Defense and Space sales decreased by 1% (flat organic) primarily due to lower U.S. government revenue, partially offset by growth in international programs.
- Transportation Systems sales decreased by 19% (increased 3% organic) primarily due to the unfavorable impact from foreign currency translation and the Friction Materials divestiture, partially offset by continued growth from new platform launches and higher global turbo gas penetration.

Aerospace segment profit increased primarily due to an 8% increase in operational segment profit and a 6% favorable impact of acquisitions, divestitures and other (predominantly the absence of higher prior year OEM Incentives), as discussed above, partially offset by a 4% unfavorable impact of foreign currency translation. The increase in operational segment profit is primarily driven by productivity, net of inflation, and favorable pricing, partially offset by continued investments for growth. Cost of products and services sold decreased primarily due to the favorable impact of foreign currency translation, the Friction Materials divestiture, and productivity, net of inflation, partially offset by continued investments for growth.

**2014 compared with 2013**

Aerospace sales decreased primarily due to the Friction Materials divestiture and an increase in OEM incentives, partially offset by an increase in organic sales, as discussed below.

Commercial Original Equipment sales decreased by 2% (increased by 3% organic) primarily due to an increase in OEM Incentives to air transport and regional original equipment manufacturers (OEMs), partially offset by higher air transport volumes, consistent with the OEMs higher production rates, and business and general aviation engine shipments.

Commercial Aftermarket sales increased by 3% driven primarily by higher sales of spare parts to air transport and regional customers, partially offset by a decline in retrofits, modifications and upgrades and lower repair and overhaul activities for our business and general aviation customers.

Defense and Space sales decreased by 2% primarily due to lower U.S. government services revenue and the absence of a prior year royalty gain, partially offset by growth in international programs.

Transportation Systems sales decreased by 3% (increased by 5% organic) primarily due to the Friction Materials divestiture, partially offset by continued growth from new platform launches, higher global turbo gas penetration and increased commercial vehicle demand in Europe.

Aerospace segment profit increased primarily due to an 8% increase in operational segment profit, partially offset by a 6% unfavorable impact from acquisitions, divestitures and other (predominantly higher OEM Incentives and the absence of a prior year royalty gain), as discussed above. The increase in operational segment profit is driven primarily by favorable price and productivity, net of inflation. Cost of products and services sold decreased primarily due to the factors discussed above (excluding price).

**Automation and Control Solutions**

| | 2015 | 2014 | Change | 2013 | Change |
|---|---|---|---|---|---|
| Net sales | $ 14,109 | $ 14,487 | (3)% | $ 13,465 | 8% |
| Cost of products and services sold | 9,133 | 9,447 | | 8,872 | |
| Selling, general and administrative expenses | 2,373 | 2,584 | | 2,358 | |
| Other | 290 | 256 | | 252 | |
| Segment profit | $ 2,313 | $ 2,200 | 5% | $ 1,983 | 11% |

| | 2015 vs. 2014 | | 2014 vs. 2013 | |
|---|---|---|---|---|
| **Factors Contributing to Year-Over-Year Change** | **Sales** | **Segment Profit** | **Sales** | **Segment Profit** |
| Organic growth/ Operational segment profit | 2% | 9% | 4% | 9% |
| Foreign currency translation | (6)% | (5)% | (1)% | (1)% |
| Acquisitions and divestitures, net | 1% | 1% | 5% | 3% |
| Total % Change | (3)% | 5% | 8% | 11% |

**2015 compared with 2014**

ACS sales decreased primarily due to the unfavorable impact of foreign currency translation, partially offset by organic sales growth and growth from acquisitions, net of divestitures.

Sales in Energy, Safety & Security decreased by 2% (increased by 2% organic) principally due to the unfavorable impact of foreign currency translation partially offset by organic sales growth and acquisitions, net of divestitures. Organic sales growth was primarily due to increased sales volumes, most significantly in Security and Fire across all regions, as well as Sensing & Productivity Solutions.

Sales in Building Solutions & Distribution decreased by 4% (increased by 2% organic) principally due to the unfavorable impact of foreign currency translation. Organic sales growth was primarily due to increased sales volume in Americas Distribution partially offset by softness in the project installation and U.S. energy retrofit businesses, which is expected to continue.

ACS segment profit increased due to an increase in operational segment profit and acquisitions, net of divestitures partially offset by the unfavorable impact of foreign currency translation. The increase in operational segment profit is primarily due to the positive impact of price and productivity net of inflation and higher organic sales volumes partially offset by continued investments for growth. Cost of products and services decreased primarily due to the favorable impact of foreign currency translation and productivity partially offset by higher organic sales volume and inflation.

**2014 compared with 2013**

ACS sales increased primarily due to growth from acquisitions, net of divestitures and organic sales growth, partially offset by the unfavorable impact of foreign currency translation.

- Sales in Energy, Safety & Security increased by 11% (4% organic) principally due to (i) acquisitions, net of divestitures, (ii) higher global sales volumes in our Environmental & Energy Solutions business driven by strong U.S. residential market conditions and new product introductions, (iii) increases in sales volumes in our Security and Fire and Industrial Safety businesses driven by organic growth in all regions and (iv) increases in sales volumes in our Sensing & Productivity Solutions business in the second half of 2014.
- Sales in Building Solutions & Distribution increased by 1% (2% organic) principally due to increased sales volumes in our Americas Distribution business partially offset by softness in the U.S. energy retrofit business. Building Solutions backlog increased in 2014.

ACS segment profit increased due to an increase in operational segment profit and acquisitions, net of divestitures, partially offset by the unfavorable impact of foreign currency translation. The increase in operational segment profit is primarily the result of higher sales volumes as discussed above, and the positive impact of price and productivity, net of inflation partially offset by continued investment for growth. Cost of products and services sold increased primarily due to higher sales volume, acquisitions, net of divestitures and inflation, partially offset by productivity and the favorable impact of foreign currency translation.

**Performance Materials and Technologies**

| | 2015 | 2014 | Change | 2013 | Change |
|---|---|---|---|---|---|
| Net sales | $ 9,235 | $ 10,221 | (10)% | $ 9,855 | 4% |
| Cost of products and services sold | 6,262 | 7,221 | | 6,974 | |
| Selling, general and administrative expenses | 902 | 1,049 | | 1,025 | |
| Other | 136 | 134 | | 131 | |
| Segment profit | $ 1,935 | $ 1,817 | 6% | $ 1,725 | 5% |

| | 2015 vs. 2014 | | 2014 vs. 2013 | |
|---|---|---|---|---|
| **Factors Contributing to Year-Over-Year Change** | **Sales** | **Segment Profit** | **Sales** | **Segment Profit** |
| Organic growth/ Operational segment profit | (6)% | 10% | 5% | 6% |
| Foreign currency translation | (4)% | (4)% | (1)% | (1)% |
| Total % Change | (10)% | 6% | 4% | 5% |

**2015 compared with 2014**

Performance Materials and Technologies (PMT) sales decreased due to a decrease in organic sales volumes and the unfavorable impact of foreign currency translation.

- UOP sales decreased 7% (decreased 6% organic) driven primarily by lower gas processing revenues due to a significant slowdown in customer projects, which is expected to continue, and decreased equipment, engineering and licensing revenues partially offset by increased catalyst revenues.

Process Solutions sales decreased 12% (decreased 3% organic) driven primarily by the unfavorable impact of foreign currency translation and lower volumes primarily due to weakness in projects and field products, which is expected to moderate during 2016.

Advanced Materials sales decreased 10% (decreased 7% organic) primarily driven by lower raw material pass-through pricing and unplanned plant outages in Resins and Chemicals partially offset by increased volumes in Fluorine Products. We anticipate volatility in raw materials pass-through pricing to continue in 2016 primarily in Resins and Chemicals where sales fluctuate with the market price of certain raw materials, which are correlated to the price of oil.

PMT segment profit increased due to an increase in operational segment profit partially offset by the unfavorable impact of foreign currency translation. The increase in operational segment profit is primarily due to price and productivity net of inflation partially offset by lower organic sales volumes and continued investments for growth. Cost of products and services sold decreased primarily due to the favorable impacts of inflation, foreign currency translation, lower organic sales volumes and productivity, partially offset by continued investments for growth.

**2014 compared with 2013**

PMT sales increased due to an increase in organic sales partially offset by the unfavorable impact of foreign currency translation.

- UOP sales increased by 8% driven primarily by higher catalyst and gas processing volumes partially offset by lower equipment and service revenues in the first nine months. Catalyst sales decreased in the fourth quarter due to the timing of shipments as well as stronger volume growth in the fourth quarter of 2013 as compared to 2014 which was partially offset by increased licensing revenues.
- Sales in our Process Solutions business increased by 1% (4% organic) driven primarily by volume growth in advanced solutions software and services and field products partially offset by unfavorable foreign currency translation, predominately in the fourth quarter. Project and service orders and backlog increased in 2014.
- Advanced Materials sales increased by 3% primarily driven by increased volume in Fluorine Products and Resins and Chemicals, partially offset by unfavorable pricing most significantly in Fluorine Products and lower raw materials pass-through pricing in Resins and Chemicals. We anticipate lower raw materials pass-through pricing to continue in 2015 primarily in Resins and Chemicals where sales fluctuate with the market price of certain raw materials, which are correlated to the price of oil.

PMT segment profit increased due to an increase in operational segment profit partially offset by the unfavorable impact of foreign currency translation. The increase in operational segment profit is primarily due to higher sales volumes, as discussed above, and productivity, net of inflation partially offset by unfavorable Advanced Materials pricing, continued investment for growth and unfavorable foreign currency translation. Cost of products and services sold increased primarily due to higher volume and continued investment for growth partially offset by productivity, net of inflation and the favorable impact of foreign currency translation.

**Repositioning Charges**

See Note 3 Repositioning and Other Charges of Notes to Financial Statements for a discussion of our repositioning actions and related charges incurred in 2015, 2014 and 2013. These repositioning actions are expected to generate incremental pretax savings of $175 million to $200 million in 2016 compared with 2015 principally from planned workforce reductions. Cash spending related to our repositioning actions was $118 million, $161 million and $160 million in 2015, 2014 and 2013, and was funded through operating cash flows. In 2016, we expect cash spending for repositioning actions to be approximately $175 million and to be funded through operating cash flows.

## 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. 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, are summarized as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Cash provided by (used for): | | | |
| Operating activities | $ 5,454 | $ 5,024 | $ 4,335 |
| Investing activities | (6,514) | (1,876) | (1,959) |
| Financing activities | 102 | (2,272) | (433) |
| Effect of exchange rate changes on cash | (546) | (339) | (155) |
| Net increase in cash and cash equivalents | $ (1,504) | $ 537 | $ 1,788 |

### 2015 compared with 2014

Cash provided by operating activities increased by $430 million primarily due to a $489 million favorable impact from working capital and a $382 million increase in net income before the non-cash pension mark-to-market adjustment, partially offset by (i) a $175 million decrease in customer advances and deferred income, (ii) $151 million in OEM incentives and (iii) increased cash tax payments of $50 million.

Cash used for investing activities increased by $4,638 million primarily due to an increase in cash paid for acquisitions of $5,224 million, most significantly the Elster Division of Melrose Industries plc (Elster), and a decrease in proceeds of $159 million, primarily from the Friction Materials divestiture, partially offset by a net $659 million decrease in investments, primarily short-term marketable securities.

Cash provided by financing activities increased by $2,374 million primarily due to an increase in the net proceeds from debt issuances of $3,648 million, partially offset by an increase in net repurchases of common stock of $1,039 million and an increase in cash dividends paid of $216 million.

### 2014 compared with 2013

Cash provided by operating activities increased by $689 million primarily due to (i) a $508 million increase of net income before the non-cash pension mark-to-market adjustment, (ii) reduced net payments for repositioning and other charges of $233 million primarily due to the collection of a $130 million asbestos receivable due from one of our insurance carriers and lower asbestos related payments of $98 million, (iii) reduced cash contributions to our pension and other postretirement plans of $131 million and (iv) lower cash tax payments of approximately $129 million, partially offset by a $93 million unfavorable impact from working capital primarily driven by higher inventory to support sales growth.

Cash used for investing activities decreased by $83 million primarily due to a decrease in cash paid for acquisitions of $1,129 million most significantly Intermec and RAE Systems, Inc. in 2013 and an increase in proceeds from the sales of businesses of $157 million (most significantly Friction Materials), partially offset by (i) a net $688 million increase in investments primarily short-term marketable securities, (ii) an increase of approximately $371 million in settlement payments of foreign currency exchange contracts used as economic hedges on certain non-functional currency denominated monetary assets and liabilities and (iii) a $147 million increase in expenditures for property, plant and equipment.

Cash used for financing activities increased by $1,839 million primarily due to a decrease in the net proceeds from debt issuances of $1,589 million, an increase in cash dividends paid of $157 million and lower net proceeds from the issuance of common stock of $33 million.

**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, we believe that cash balances and operating cash flow will continue to be our 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. At December 31, 2015, 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 the vast majority of 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.

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

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 acquisitions. The weighted average interest rate on short-term borrowings and commercial paper outstanding at December 31, 2015 and 2014 was 0.26% and 0.60%.

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, 2015, Standard and Poor s (S&P), Fitch, and Moody s have ratings on our long-term debt of A, A and A2 and short-term debt of A-1, F1 and P1. 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, share repurchases, capital expenditures and acquisitions.

During 2015, the Company entered into credit agreements with a syndicate of banks. See Note 12 Long-term Debt and Credit Agreements of Notes to Financial Statements for further discussion on the credit agreements.

During 2015, the Company repurchased $1,884 million of outstanding shares to offset the dilutive impact of employee stock based compensation plans, including option exercises, restricted unit vesting and matching contributions under our savings plans. In December 2013, the Board of Directors authorized the repurchase of up to a total of $5 billion of Honeywell common stock, $2.2 billion remained available as of December 31, 2015 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time 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.

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 2016 to be as follows:

Capital expenditures we expect to spend approximately $1.1 billion for capital expenditures in 2016 primarily for growth, production and capacity expansion, cost reduction, maintenance, and replacement.

Share repurchases under the Company s share repurchase program, $2.2 billion is available as of December 31, 2015 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time to generally offset the dilutive impact of employee stock-based compensation plans, including 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 our level of operating, financing and other investing activities.

Dividends we increased our dividend rate by 15% to $.5950 per share of common stock effective with the fourth quarter 2015 dividend. The Company intends to continue to pay quarterly dividends in 2016.

Asbestos claims we expect our cash spending for asbestos claims and our cash receipts for related insurance recoveries to be approximately $295 million and $25 million in 2016.

Pension contributions in 2016, we are not required to make contributions to our U.S. pension plans. We plan to make contributions of cash and/or marketable securities of approximately $160 million ($106 million of marketable securities were contributed in January 2016) 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 repositioning actions will approximate $175 million in 2016.

Environmental remediation costs we expect to spend approximately $250 million in 2016 for remedial response and voluntary clean-up costs.

Acquisitions we acquired the remaining 30 percent noncontrolling interest in UOP Russell LLC for approximately $240 million in January 2016. In addition, in February 2016 we acquired COM DEV International for an aggregate purchase price of approximately $330 million and entered into a definitive agreement to acquire Xtralis International Holdings Limited for an aggregate purchase price of approximately $480 million.

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 2015 and 2014, we realized $1 million and $160 million 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, 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, 2015:

| | Payments by Period | | | | |
|---|---|---|---|---|---|
| | Total(6) | 2016 | 2017-2018 | 2019-2020 | Thereafter |
| Long-term debt, including capitalized leases(1) | $ 6,131 | $ 577 | $ 1,400 | $ 904 | $ 3,250 |
| Interest payments on long-term debt, including capitalized leases | 3,047 | 290 | 494 | 344 | 1,919 |
| Minimum operating lease payments | 1,201 | 316 | 421 | 191 | 273 |
| Purchase obligations(2) | 1,980 | 962 | 623 | 392 | 3 |
| Estimated environmental liability payments(3) | 518 | 253 | 190 | 55 | 20 |
| Asbestos related liability payments(4) | 1,543 | 292 | 775 | 382 | 94 |
| Asbestos insurance recoveries(5) | (449) | (23) | (110) | (103) | (213) |
| | $ 13,971 | $ 2,667 | $ 3,793 | $ 2,165 | $ 5,346 |

(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, 2015.
(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, 2015. See Asbestos Matters in Note 19 Commitments and Contingencies of Notes to Financial Statements for additional information.
(5) These amounts represent our insurance recoveries that are deemed probable for asbestos related liabilities as of December 31, 2015. See Asbestos Matters in Note 19 Commitments and Contingencies of Notes to Financial Statements for additional information.
(6) The table excludes tax liability payments, including those for unrecognized tax benefits. See Note 5 Income Taxes of Notes to Financial Statements for additional information.

**Environmental Matters**

Accruals for environmental matters deemed probable and reasonably estimable were $194 million, $268 million and $272 million in 2015, 2014 and 2013. In addition, in 2015 and 2014 we incurred operating costs for ongoing businesses of approximately $90 million and $88 million relating to compliance with environmental regulations.

Spending related to known environmental matters was $273 million, $321 million and $304 million in 2015, 2014 and 2013 and is estimated to be approximately $250 million in 2016. We expect to fund expenditures for these environmental matters from operating cash flow. The timing of cash expenditures depends on a numbers 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 agreement with other parties.

See Note 19 Commitments and Contingencies of Notes to Financial Statements for further discussion of our environmental matters.

**Financial Instruments**

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 and the potential change in fair value for foreign exchange rate sensitive instruments based on a 10% weakening of the U.S. Dollar versus local currency exchange rates across all maturities at December 31, 2015 and 2014.

| | Face or Notional Amount | Carrying Value(1) | Fair Value(1) | Estimated Increase (Decrease) in Fair Value(2) |
|---|---|---|---|---|
| **December 31, 2015** | | | | |
| **Interest Rate Sensitive Instruments** | | | | |
| Long-term debt (including current maturities) | $ 6,131 | $ (6,131) | $ (6,721) | $ (407) |
| Interest rate swap agreements | 1,100 | 92 | 92 | (59) |
| **Foreign Exchange Rate Sensitive Instruments** | | | | |
| Foreign currency exchange contracts(3) | 10,538 | 11 | 11 | (153) |
| **December 31, 2014** | | | | |
| **Interest Rate Sensitive Instruments** | | | | |
| Long-term debt (including current maturities) | $ 6,985 | $ (6,985) | $ (7,817) | $ (478) |
| Interest rate swap agreements | 1,100 | 93 | 93 | (69) |
| **Foreign Exchange Rate Sensitive Instruments** | | | | |
| Foreign currency exchange contracts(3) | 7,291 | 10 | 10 | 86 |

(1) Asset or (liability).
(2) A hypothetical immediate one percentage point decrease in interest rates across all maturities and a potential change in fair value of foreign exchange rate sensitive instruments based on a 10% strengthening of the U.S. dollar versus local currency exchange rates across all maturities will result in a change in fair value equal to the inverse of the amount disclosed in the table.
(3) 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.

See Note 14 Financial Instruments and Fair Value Measures of Notes to Financial Statements for further discussion on the agreements.

## 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.

***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 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. See Note 19 Commitments and Contingencies of Notes to Financial Statements for a discussion of management s judgment applied in the recognition and measurement of our environmental and asbestos liabilities which represent our most significant contingencies.

***Asbestos Related Contingencies and Insurance Recoveries*** Honeywell s involvement in asbestos related personal injury actions relates to two predecessor companies. 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. 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 from January 2002 through the effective date of the NARCO Trust on April 30, 2013, 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.

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 dealings and our knowledge of any pertinent solvency issues surrounding insurers. 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 19 Commitments and Contingencies of Notes to Financial Statements for a discussion of management s judgments applied in the recognition and measurement of our asbestos-related liabilities and related insurance recoveries.

***Defined Benefit Pension Plans*** We sponsor both funded and unfunded U.S. and non-U.S. defined benefit pension plans. For financial reporting purposes, net periodic pension (income) expense is calculated annually 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. Changes in the discount rate and expected long-term rate of return on plan assets could materially affect the annual pension (income) expense amount. Annual pension (income) expense is comprised of a potential mark-to-market adjustment (MTM Adjustment) and service and interest cost, assumed return on plan assets and prior service amortization (Pension Ongoing (Income) Expense).

The key assumptions used in developing our 2015, 2014 and 2013 net periodic pension (income) expense for our U.S. plans included the following:

| | **2015** | **2014** | **2013** |
|---|---|---|---|
| Discount rate | 4.08% | 4.89% | 4.06% |
| Assets: | | | |

| | | | |
|---|---|---|---|
| Expected rate of return | 7.75% | 7.75% | 7.75% |
| Actual rate of return | 2% | 8% | 23% |
| Actual 10 year average annual compounded rate of return | 7% | 8% | 8% |

The MTM Adjustment represents the recognition of net actuarial gains or losses in excess of the corridor. 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. 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 difference between expected and actual returns on plan assets. The mark-to-market accounting method results in the potential for volatile and difficult to forecast MTM Adjustments. MTM charges were $67 million, $249 million and $51 million in 2015, 2014 and 2013.

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 of future market conditions and asset mix considerations (see Note 20 Pension and Other Postretirement Benefits of Notes to Financial Statements for details on the actual various asset classes and targeted asset allocation percentages for our pension plans). We plan to continue to use an expected rate of return on plan assets of 7.75% for 2016 as this is a long-term rate based on historical plan asset returns over varying long term periods combined with our expectations of future market conditions and the asset mix of the plan s investments.

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. The discount rate can be volatile from year to year as it is determined based upon prevailing interest rates as of the measurement date. We will use a 4.46% discount rate as of December 31, 2015, reflecting the increase in the market interest rate environment since the prior year-end.

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 (income) expense. The following table highlights the sensitivity of our U.S. pension obligations and ongoing (income) expense to changes in these assumptions, assuming all other assumptions remain constant. These estimates exclude any potential MTM Adjustment:

| Change in Assumption | Impact on 2016 Pension Ongoing Expense | Impact on PBO |
|---|---|---|
| 0.25 percentage point decrease in discount rate | Decrease $19 million | Increase $490 million |
| 0.25 percentage point increase in discount rate | Increase $17 million | Decrease $470 million |
| 0.25 percentage point decrease in expected rate of return on assets | Increase $40 million | |
| 0.25 percentage point increase in expected rate of return on assets | Decrease $40 million | |

Pension ongoing income for all of our pension plans is expected to be approximately $580 million in 2016 compared with pension ongoing income of $430 million in 2015. The expected increase is primarily due to lower service and interest costs resulting mainly from the change in our discount rate methodology as described in Note 20 Pension and Other Postretirement Benefits of Notes to Financial Statements and the plan amendment in the fourth quarter of 2015 to freeze final average compensation in our U.S. pension plans as of December 31, 2015 partially offset by the impact of lower asset returns in 2015. Also, if required, an MTM Adjustment will be recorded in the fourth quarter of 2016 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 2016, 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.

***Long-Lived Assets (including Tangible and Finite-Lived Intangible Assets)*** The determination of useful lives (for depreciation/amortization purposes) and whether or not tangible and intangible 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 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 in considering 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; or
- 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 of 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.

***Goodwill and Indefinite-Lived Intangible Assets Impairment Testing*** In testing goodwill and indefinite-lived intangible assets, the fair value 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. These impairment tests involve 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.

***Income Taxes*** On a recurring basis, we assess the need for a valuation allowance against our deferred tax assets by considering all available positive and negative evidence, such as past operating results, projections of future taxable income, enacted tax law changes and the feasibility and impact of tax planning initiatives. Our projections of future taxable income include a number of estimates and assumptions regarding our volume, pricing and costs, as well as the timing and amount of reversals of taxable temporary differences.

***Sales Recognition on Long-Term Contracts*** In 2015, we recognized approximately 14% of our total net sales using the percentage-of-completion method for long-term contracts. 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 19 Commitments and Contingencies of Notes to Financial Statements for a discussion of environmental, asbestos and other litigation matters.

### Recent Accounting Pronouncements

See Note 1 Summary of Significant Accounting Policies of Notes to Financial Statements for a discussion of recent accounting pronouncements.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risks

Information relating to market risks 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, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| | **(Dollars in millions, except per share amounts)** | | |
| Product sales | $ 30,695 | $ 32,398 | $ 31,214 |
| Service sales | 7,886 | 7,908 | 7,841 |
| Net sales | 38,581 | 40,306 | 39,055 |
| Costs, expenses and other | | | |
| Cost of products sold | 21,775 | 23,889 | 23,317 |
| Cost of services sold | 4,972 | 5,068 | 5,047 |
| | 26,747 | 28,957 | 28,364 |
| Selling, general and administrative expenses | 5,006 | 5,518 | 5,190 |
| Other (income) expense | (68) | (305) | (238) |
| Interest and other financial charges | 310 | 318 | 327 |
| | 31,995 | 34,488 | 33,643 |
| Income from continuing operations before taxes | 6,586 | 5,818 | 5,412 |
| Tax expense | 1,739 | 1,489 | 1,450 |
| Net income | 4,847 | 4,329 | 3,962 |
| Less: Net income attributable to the noncontrolling interest | 79 | 90 | 38 |
| Net income attributable to Honeywell | $ 4,768 | $ 4,239 | $ 3,924 |
| Earnings per share of common stock basic | $ 6.11 | $ 5.40 | $ 4.99 |
| Earnings per share of common stock assuming dilution | $ 6.04 | $ 5.33 | $ 4.92 |
| Cash dividends per share of common stock | $ 2.15 | $ 1.87 | $ 1.68 |

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

**HONEYWELL INTERNATIONAL INC.**
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Dollars in millions) | | |
| Net income | $ 4,847 | $ 4,329 | $ 3,962 |
| Other comprehensive income (loss), net of tax | | | |
| Foreign exchange translation adjustment | (1,152) | (1,044) | (52) |
| Actuarial gains (losses) | (464) | (1,411) | 2,064 |
| Prior service credit | 446 | 73 | 99 |
| Prior service cost (credit) recognized during year | (13) | (2) | 5 |
| Actuarial losses recognized during year | 72 | 202 | 61 |
| Transition obligation recognized during year | | 1 | 2 |
| Settlements and curtailments | 2 | | (26) |
| Foreign exchange translation and other | 41 | 54 | (2) |
| Pensions and other postretirement benefit adjustments | 84 | (1,083) | 2,203 |
| Unrealized gains for the period | | 15 | 140 |
| Less: reclassification adjustment for gains included in net income | | 185 | 127 |
| Changes in fair value of available for sale investments | | (170) | 13 |
| Effective portion of cash flow hedges recognized in other comprehensive income | 91 | 20 | (30) |
| Less: reclassification adjustment for gains (losses) included in net income | 99 | | (23) |
| Changes in fair value of effective cash flow hedges | (8) | 20 | (7) |
| Other comprehensive income (loss), net of tax | (1,076) | (2,277) | 2,157 |
| Comprehensive income | 3,771 | 2,052 | 6,119 |
| Less: Comprehensive income attributable to the noncontrolling interest | 73 | 87 | 36 |
| Comprehensive income attributable to Honeywell | $ 3,698 | $ 1,965 | $ 6,083 |

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

**HONEYWELL INTERNATIONAL INC.**
**CONSOLIDATED BALANCE SHEET**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | (Dollars in millions) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 5,455 | $ 6,959 |
| Accounts, notes and other receivables | 8,075 | 7,960 |
| Inventories | 4,420 | 4,405 |
| Deferred income taxes | | 722 |
| Investments and other current assets | 2,103 | 2,145 |
| Total current assets | 20,053 | 22,191 |
| Investments and long-term receivables | 517 | 465 |
| Property, plant and equipment net | 5,789 | 5,383 |
| Goodwill | 15,895 | 12,788 |
| Other intangible assets net | 4,577 | 2,208 |
| Insurance recoveries for asbestos related liabilities | 426 | 454 |
| Deferred income taxes | 283 | 404 |
| Other assets | 1,776 | 1,558 |
| Total assets | $ 49,316 | $ 45,451 |
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,580 | $ 5,365 |
| Commercial paper and other short-term borrowings | 5,937 | 1,698 |
| Current maturities of long-term debt | 577 | 939 |
| Accrued liabilities | 6,277 | 6,771 |
| Total current liabilities | 18,371 | 14,773 |
| Long-term debt | 5,554 | 6,046 |
| Deferred income taxes | 558 | 236 |
| Postretirement benefit obligations other than pensions | 526 | 911 |
| Asbestos related liabilities | 1,251 | 1,200 |
| Other liabilities | 4,348 | 4,282 |
| Redeemable noncontrolling interest | 290 | 219 |
| **SHAREOWNERS EQUITY** | | |
| Capital common stock issued | 958 | 958 |
| additional paid-in capital | 5,377 | 5,038 |
| Common stock held in treasury, at cost | (11,664) | (9,995) |
| Accumulated other comprehensive income (loss) | (2,535) | (1,459) |
| Retained earnings | 26,147 | 23,115 |
| Total Honeywell shareowners equity | 18,283 | 17,657 |
| Noncontrolling interest | 135 | 127 |

| | | | | |
|---|---|---|---|---|
| Total shareowners equity | | 18,418 | | 17,784 |
| Total liabilities, redeemable noncontrolling interest and shareowners equity | $ | 49,316 | $ | 45,451 |

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

**HONEYWELL INTERNATIONAL INC.**
**CONSOLIDATED STATEMENT OF CASH FLOWS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| | (Dollars in millions) | | |
| **Cash flows from operating activities:** | | | |
| Net income | $ 4,847 | $ 4,329 | $ 3,962 |
| Less: Net income attributable to the noncontrolling interest | 79 | 90 | 38 |
| Net income attributable to Honeywell | 4,768 | 4,239 | 3,924 |
| Adjustments to reconcile net income attributable to Honeywell to net cash provided by operating activities: | | | |
| Depreciation | 672 | 667 | 670 |
| Amortization | 211 | 257 | 319 |
| Loss on sale of non-strategic businesses and assets | 1 | 11 | 20 |
| Gain on sale of available for sale investments | | (221) | (195) |
| Repositioning and other charges | 546 | 598 | 663 |
| Net payments for repositioning and other charges | (537) | (530) | (763) |
| Pension and other postretirement (income) expense | (323) | 44 | (19) |
| Pension and other postretirement benefit payments | (122) | (167) | (298) |
| Stock compensation expense | 175 | 187 | 170 |
| Deferred income taxes | 315 | 132 | 262 |
| Excess tax benefits from share based payment arrangements | (81) | (102) | (132) |
| Other | (8) | (327) | 308 |
| Changes in assets and liabilities, net of the effects of acquisitions and divestitures: | | | |
| Accounts, notes and other receivables | 211 | (172) | (365) |
| Inventories | 230 | (200) | 41 |
| Other current assets | 80 | 120 | (421) |
| Accounts payable | (17) | 307 | 352 |
| Accrued liabilities | (667) | 181 | (201) |
| Net cash provided by operating activities | 5,454 | 5,024 | 4,335 |
| **Cash flows from investing activities:** | | | |
| Expenditures for property, plant and equipment | (1,073) | (1,094) | (947) |
| Proceeds from disposals of property, plant and equipment | 15 | 18 | 15 |
| Increase in investments | (6,714) | (4,074) | (1,220) |
| Decrease in investments | 6,587 | 3,288 | 1,122 |
| Cash paid for acquisitions, net of cash acquired | (5,228) | (4) | (1,133) |
| Proceeds from sales of businesses, net of fees paid | 1 | 160 | 3 |
| Other | (102) | (170) | 201 |
| Net cash used for investing activities | (6,514) | (1,876) | (1,959) |
| **Cash flows from financing activities:** | | | |
| Net increase in commercial paper and other short-term borrowings | 4,265 | 309 | 930 |

| | | | |
|---|---|---|---|
| Proceeds from issuance of common stock | 186 | 265 | 447 |
| Proceeds from issuance of long-term debt | 60 | 97 | 1,063 |
| Payments of long-term debt | (880) | (609) | (607) |
| Excess tax benefits from share based payment arrangements | 81 | 102 | 132 |
| Repurchases of common stock | (1,884) | (924) | (1,073) |
| Cash dividends paid | (1,726) | (1,510) | (1,353) |
| Other | | (2) | 28 |
| Net cash provided by (used for) financing activities | 102 | (2,272) | (433) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (546) | (339) | (155) |
| Net (decrease) increase in cash and cash equivalents | (1,504) | 537 | 1,788 |
| Cash and cash equivalents at beginning of period | 6,959 | 6,422 | 4,634 |
| Cash and cash equivalents at end of period | $ 5,455 | $ 6,959 | $ 6,422 |

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

**HONEYWELL INTERNATIONAL INC.**
**CONSOLIDATED STATEMENT OF SHAREOWNERS EQUITY**

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2013 | |
| | Shares | $ | Shares | $ | Shares | $ |
| | | | (in millions) | | | |
| **Common stock, par value** | 957.6 | 958 | 957.6 | 958 | 957.6 | 958 |
| **Additional paid-in capital** | | | | | | |
| Beginning balance | | 5,038 | | 4,682 | | 4,358 |
| Issued for employee savings and option plans | | 164 | | 175 | | 155 |
| Stock-based compensation expense | | 175 | | 187 | | 170 |
| Other owner changes | | | | (6) | | (1) |
| Ending balance | | 5,377 | | 5,038 | | 4,682 |
| **Treasury stock** | | | | | | |
| Beginning balance | (175.4) | (9,995) | (173.8) | (9,374) | (174.8) | (8,801) |
| Reacquired stock or repurchases of common stock | (18.8) | (1,884) | (10.0) | (924) | (13.5) | (1,073) |
| Issued for employee savings and option plans | 6.7 | 215 | 8.4 | 303 | 14.5 | 500 |
| Other owner changes | 0.3 | | | | | |
| Ending balance | (187.2) | (11,664) | (175.4) | (9,995) | (173.8) | (9,374) |
| **Retained earnings** | | | | | | |
| Beginning balance | | 23,115 | | 20,383 | | 17,799 |