

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

Form 10-K

S ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from      to

Commission file number 1-8974

**Honeywell International Inc.**

(Exact name of registrant as specified in its charter)

DELAWARE

22-2640650

(State or other jurisdiction of  
incorporation or organization)  
101 Columbia Road  
Morris Township, New Jersey

(I.R.S. Employer  
Identification No.)  
  
07962

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (973)455-2000  
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$1 per share*	New York Stock Exchange Chicago Stock Exchange Pacific Exchange
Zero Coupon Serial Bonds due 2009 9½% Debentures due June 1, 2016	New York Stock Exchange New York Stock Exchange

\* The common stock is also listed for trading on the London stock exchange.

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

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  No

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately \$31.5 billion at June 30, 2004.

There were 850,772,327 shares of Common Stock outstanding at January 31, 2005.

Documents Incorporated by Reference

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 25, 2005.



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This report contains certain statements that may be deemed “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. The forward-looking statements included in this report are also subject to a number of material risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting our operations, markets, products, services and prices. Such forward-looking statements are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements.

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**Item 1. Business**

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

We maintain an internet website at <http://www.honeywell.com>. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, are available free of charge on our website under the heading "Investor Relations" (see "SEC Filings and Reports") immediately after they are filed with, or furnished to, the Securities and Exchange Commission (SEC). Honeywell's Code of Business Conduct, Corporate Governance Guidelines and Charters of the Committees of the Board of Directors are also available, free of charge, on our website under the heading "Investor Relations" (see "Corporate Governance"), or by writing to Honeywell, 101 Columbia Road, Morris Township, New Jersey 07962, c/o Vice President and Corporate Secretary. Honeywell's Code of Business Conduct applies to all Honeywell directors, officers (including the Chief Executive Officer, Chief Financial Officer and Controller) and employees.

The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 about the disclosure contained in this Annual Report on Form 10-K are included as Exhibits 31.1 and 31.2 to this Annual Report and are available free of charge on our website under the heading "Investor Relations" (see "SEC Filings and Reports"). Our Chief Executive Officer certified to the New York Stock Exchange (NYSE) on May 20, 2004, pursuant to Section 303A.12 of the NYSE's listing standards, that he was not aware of any violation by Honeywell of the NYSE's corporate governance listing standards as of that date.

**Major Businesses**

We globally manage our business operations through strategic business units, which have been aggregated under four reportable segments: Aerospace, Automation and Control Solutions, Specialty Materials and Transportation Systems. Financial information related to our reportable segments is included in Note 23 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

Following is further information about our four reportable segments which are comprised of various strategic business units and product classes that serve multiple end markets:

<b>Strategic Business Units</b>	<b>Product Classes</b>	<b>Major Products/Services</b>	<b>Major Customers/Uses</b>	<b>Key Competitors</b>
<b>Aerospace</b> Engines, Systems and Services	Turbine propulsion engines	TFE731 turbofan TPE331 turboprop TFE1042 turbofan ATF3 turbofan F124 turbofan LF502 turbofan LF507 turbofan CFE738 turbofan HTF 7000 turbofan T53, T55 turboshaft LTS101 turboshaft T800 turboshaft AGT1500 turboshaft Repair, overhaul and spare parts	Business, regional, general aviation and military trainer aircraft Commercial and military helicopters Military vehicles	United Technologies (Pratt & Whitney Canada) Rolls Royce/ Allison Turbomeca Williams
	Auxiliary power units (APUs)	Airborne auxiliary power units Jet fuel starters Secondary power systems Ground power units Repair, overhaul and spare parts	Commercial, regional, business and military aircraft Ground power	United Technologies (Pratt & Whitney Canada) United Technologies (Hamilton Sundstrand)

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
	Environmental control systems	Air management systems: Air conditioning Bleed air Cabin pressure control Air purification and treatment Electrical power systems: Power distribution and control Emergency power generation Repair, overhaul and spare parts	Commercial, regional and general aviation aircraft Military aircraft Ground vehicles Spacecraft	Auxilec Barber Colman Dukes Eaton-Vickers Goodrich (Lucas Aerospace) Liebherr Litton Breathing Systems Pacific Scientific Parker Hannifin United Technologies (Hamilton Sundstrand) Smiths TAT
	Engine systems and accessories	Electronic and hydromechanical fuel controls Engine start systems Electronic engine controls Sensors Electric and pneumatic power generation systems Thrust reverser actuation, pneumatic and electric	Commercial, regional and general aviation aircraft Military aircraft	BAE Controls Goodrich (Chandler-Evans) Goodrich (Lucas Aerospace) Parker Hannifin United Technologies (Hamilton Sundstrand)
	Aircraft hardware distribution	Fasteners, including nuts, bolts, rivets, clamps and pins Bearings, including ball, roller, spherical, needle and ceramic Electrical hardware, including connectors, components, lighting products, terminals, and wire and wiring accessories Seals, including seals, o-rings, gaskets and packings Value-added services, repair and overhaul kitting and point-of-use replenishment	Commercial, regional, business and military aviation aircraft	Anixter (Pentacon) Arrow Pemco Avnet BE Aerospace (M&M Aerospace) Fairchild Direct Satair Wencor Wesco Aircraft
Aerospace Electronic Systems	Avionics systems	Flight safety systems: Enhanced Ground Proximity Warning Systems (EGPWS) Traffic Alert and Collision Avoidance Systems (TCAS) Windshear detection systems Flight data and cockpit voice recorders Weather Radar Communication, navigation and surveillance systems: Weather radar Navigation & communication radios Air-to-ground telephones Global positioning systems Automatic flight control systems Satellite systems Surveillance systems Integrated systems Flight management systems Cockpit display systems	Commercial, business and general aviation aircraft Government aviation	BAE Boeing/Jeppesen Garmin Goodrich Kaiser L3 Lockheed Martin Northrop Grumman Rockwell Collins Smiths Thales Trimble/Terra Universal Avionics Universal Weather

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
		Data management and aircraft performance monitoring systems Vehicle management systems Aircraft information systems Network file servers Wireless network transceivers Satellite TV systems Audio/Video equipment Weather information network Navigation database information Cabin management systems Vibration detection and monitoring Mission management systems Tactical data management systems		
Aircraft, Obstruction and Airport lighting		Inset lights Control and monitoring systems Regulators Tower and obstruction lights Interior and exterior aircraft lighting Visual docking guidance systems	Airports Commercial, regional, business, helicopter and military aviation aircraft (operators, OEMs, parts distributors and MRO service providers) General contractors (building and tower manufacturers), cell phone companies	Bruce Hella/Goodrich LSI Luminator Safegate Siemens Thorn Whelen
Inertial sensor		Inertial sensor systems for guidance, stabilization, navigation and control Gyroscopes, accelerometers, inertial measurement units and thermal switches	Military and commercial vehicles Commercial spacecraft and launch vehicles Commercial, regional, business and military aircraft Transportation Missiles Munitions	Astronautics- Kearfott BAE Ball GEC L3 Com KVH Northrop Grumman Rockwell Smiths
Automatic test equipment		EW ATE Avionics ATE Vehicle health Management	Boeing USAF Foreign air forces	Northrop Grumman Lockheed
Control products		Radar altimeters Pressure products Air data products Thermal switches Magnetic sensors	Military aircraft Missiles, UAVs Commercial applications	Ball Brothers BAE Druck Goodrich NavCom Northrop Grumman Rosemount Solarton
Space products and subsystems		Guidance subsystems Control subsystems Processing subsystems Radiation hardened electronics and integrated circuits GPS-based range safety systems	Commercial and military-spacecraft DoD FAA NASA	BAE Ithaco L3 Northrop Grumman Raytheon

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
	Management and technical services	Maintenance/operation and provision of space systems, services and facilities Systems engineering and integration Information technology services Logistics and sustainment	U.S. government space (NASA) DoD (logistics and information services) DoE Local governments Commercial space ground segment systems and services	Bechtel Boeing Computer Sciences Dyncorp ITT Lockheed Martin Raytheon SAIC The Washington Group United Space Alliance
Aircraft Landing Systems	Landing systems	Wheels and brakes Friction products Wheel and brake repair and overhaul services	Commercial airline, regional, business and military aircraft High performance commercial vehicles USAF, DoD, DoE Boeing, Airbus, Lockheed Martin	Aircraft Braking Systems Dunlop Standard Aerospace Goodrich Messier-Bugatti NASCO Various smaller repair and overhaul companies

### Automation and Control Solutions

Products	Environmental controls and combustion; sensing and controls	Heating, ventilating and air conditioning controls and components for homes and buildings Indoor air quality products including zoning, air cleaners, humidification, heat and energy recovery ventilators Controls plus integrated electronic systems for burners, boilers and furnaces Consumer household products including humidifiers and thermostats Water controls Sensors, measurement, control and industrial components	Original equipment manufacturers (OEMs) Distributors Contractors Retailers System integrators Commercial customers and homeowners served by the distributor, wholesaler, contractor, retail and utility channels Package and materials handling operations Appliance manufacturers Automotive companies Aviation companies Food and beverage processors Medical equipment Heat treat processors Computer and business equipment manufacturers	Bosch Carrier Cherry Danfoss Eaton Emerson Endruss & Hauser Holmes Invensys Johnson Controls Motorola Omron Schneider Siemens Yokogawa
	Security and life safety products and services	Security products and systems Fire products and systems Access controls and closed circuit television Home health monitoring	OEMs Retailers Distributors Commercial customers and homeowners served by the distributor, wholesaler, contractor, retail and utility channels Health care organizations	Bosch GE Pelco Phillips Siemens SPX Tyco
Process Solutions	Industrial automation solutions	Advanced control software and industrial automation systems for control and monitoring of continuous, batch and hybrid operations Production management software Communications systems for Industrial Control equipment and systems Consulting, networking engineering and installation Process control instrumentation Field instrumentation	Refining and petrochemical companies Chemical manufacturers Oil and gas producers Food and beverage processors Pharmaceutical companies Utilities Film and coated producers Pulp and paper industry Continuous web producers in the paper, plastics, metals, rubber, non-wovens and printing industries Mining and mineral industries	Asea Brown Boveri Aspen Tech Emerson Invensys Siemens Yokogawa

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
		Analytical instrumentation Recorders Controllers Critical environment control solutions and services Aftermarket maintenance, repair and upgrade		
Building Solutions	Solutions and services	HVAC and building control solutions and services Energy management solutions and services Security and asset management solutions and services Enterprise building integration solutions Building information services	Building managers and owners Contractors, architects and developers Consulting engineers Security directors Plant managers Utilities Large, global corporations Public school systems Universities Local governments	GroupMac Invensys Johnson Controls Local contractors and utilities Siemens Trane
<b>Specialty Materials</b>				
Specialty Materials	Nylon	Nylon filament and staple yarns Nylon bulk continuous filament Nylon polymer Caprolactam Ammonium sulfate Cyclohexanol Cyclohexanone Sulfuric acid Ammonia	Commercial, residential and specialty carpet markets Nylon for fibers, engineered resins and film Fertilizer ingredients Specialty chemicals	BASF DSM Enichem Hoechst Invista Monsanto Rhodia Solutia
	Advanced Fibers & Composites	High molecular weight polyethylene fiber and shield composites Aramid shield composites	Bullet resistant vests, helmets and other armor applications Cut-resistant gloves Rope & cordage	DuPont DSM Teijin
	Specialty Films	Cast nylon film Bi-axially oriented nylon film Fluoropolymer film	Food and pharmaceutical packaging	American Biaxis CFP Daikan Kolon Unitika
	Specialty additives	Polyethylene waxes Petroleum waxes and blends PVC lubricant systems Plastic additives Luminescent photodyes	Coatings and inks PVC Plastics Reflective coatings Security and safe applications	BASF Clariant Eastman
	Fluorocarbons	Genetron® refrigerants, aerosol and insulation foam blowing agents Genesolv® solvents Oxyfume sterilant gases Ennovate 3000 blowing agent for refrigeration insulation	Refrigeration Air conditioning Polyurethane foam Precision cleaning Optical Metalworking Hospitals Medical equipment manufacturers	Arkema INEOS Fluor Solvay-Solexis
	Hydrofluoric acid (HF)	Anhydrous and aqueous hydrofluoric acid	Fluorocarbons Steel Oil refining Chemical intermediates	Ashland Atofina E. Merck Hashimoto Norfluor Quimica Fluor
	Fluorine specialties	Sulfur hexafluoride (SF <sub>6</sub> ) Iodine pentafluoride (IF <sub>5</sub> ) Antimony pentafluoride (SbF <sub>5</sub> )	Electric utilities Magnesium Gear manufacturers	Air Products Asahi Glass Atofina Solvay-Solexis



<b>Strategic Business Units</b>	<b>Product Classes</b>	<b>Major Products/Services</b>	<b>Major Customers/Uses</b>	<b>Key Competitors</b>
	Nuclear services	UF <sub>6</sub> conversion services	Nuclear fuel Electric utilities	British Nuclear Fuels Cameco Cogema
	Research and life sciences	Active pharmaceutical ingredients Pharmaceutical intermediates Pharmaceutical formulations Oxime-based fine chemicals Fluoroaromatics Bromoaromatics High-purity solvents	Agrichemicals Pharmaceuticals Biotech	Avecia Degussa DSM E. Merck Fisher Scientific Lonza Sigma-Aldrich
	Performance chemicals Imaging chemicals Chemical processing Display chemicals Surface treatment Catalysts Sealants	HF derivatives Fluoroaromatics Phosphors Catalysts Oxime-silanes Hydroxylamine	Diverse by product type	Atotech BASF Solvay-Solexis
	Electronic chemicals	Ultra high-purity HF Inorganic acids Hi-purity solvents	Semiconductors	Air Products Arch E. Merck
	Semiconductor materials and services	Interconnect-dielectrics Interconnect-metals Semiconductor packaging materials Advanced polymers Sapphire substrates Anti-reflective coatings Thermo-couplings	Semiconductors Microelectronics Telecommunications	ATMI Dow Chemical Dow Corning Japan Energy JSR Sumitomo Tokyo-Ohka Tosoh SMD
	UOP (50%-owned joint venture)	Catalysts Molecular sieves Adsorbents Design of process, plants and equipment Customer catalyst manufacturing	Petroleum, petrochemical, gas processing and chemical industries	ABB Lummus Axens Exxon-Mobil Procatalyse Shell/Criterion Stone & Webster Zeochem
<b>Transportation Systems</b> Honeywell Turbo Technologies	Charge-air systems	Turbochargers Remanufactured components	Passenger car, truck and off-highway OEMs Engine manufacturers Aftermarket distributors and dealers	ABB Borg-Warner Hitachi Holset IHI MHI Tianyan
	Thermal systems	Exhaust gas coolers Charge-air coolers Aluminum radiators Aluminum cooling modules	Passenger car, truck and off-highway OEMs Engine manufacturers Aftermarket distributors and dealers	Behr/McCord Modine Valeo

<b>Strategic Business Units</b>	<b>Product Classes</b>	<b>Major Products/Services</b>	<b>Major Customers/Uses</b>	<b>Key Competitors</b>
Consumer Products Group	Aftermarket filters, spark plugs, electronic components and car care products	Oil, air, fuel, transmission and coolant filters PCV valves Spark plugs Wire and cable Antifreeze/coolant Ice-fighter products Windshield washer fluids Waxes, washes and specialty cleaners	Automotive and heavy vehicle aftermarket channels, OEMs and OES Auto supply retailers Specialty installers Mass merchandisers	AC Delco Bosch Champion Champ Labs Havoline/Texaco Mann & Hummel NGK Peak/Old World Industries Pennzoil-Quaker State Purolator/Arvin Ind STP/ArmorAll/ Clorox Turtle Wax Various Private Label Wix/Dana Zerex/Valvoline
Friction Materials	Friction materials Aftermarket brake hard parts	Disc brake pads and shoes Drum brake linings Brake blocks Disc and drum brake components Brake hydraulic components Brake fluid Aircraft brake linings Railway linings	Automotive and heavy vehicle OEMs, OES, brake manufacturers and aftermarket channels Mass merchandisers Installers Railway and commercial/ military aircraft OEMs and brake manufacturers	Akebono Dana Delphi Federal-Mogul ITT Galfer JBI Nisshinbo TMD Roulunds

### **Aerospace Sales**

Our sales to aerospace customers were 38, 38 and 40 percent of our total sales in 2004, 2003 and 2002, respectively. Our sales to commercial aerospace original equipment manufacturers were 8, 7 and 9 percent of our total sales in 2004, 2003 and 2002, respectively. If there are large changes in sales of aircraft that use our components, operating results could be impacted. In addition, our sales to commercial aftermarket customers of aerospace products and services were 16, 15 and 16 percent of our total sales in 2004, 2003, and 2002, respectively. If there are large changes in the number of global flying hours or landings for aircraft that use our components or services, operating results could be impacted. The terrorist attacks on September 11, 2001 resulted in an abrupt downturn in the aviation industry which was already negatively impacted by a weak economy. This dramatic downturn in the commercial air transport industry significantly impacted the operating results of our Aerospace segment in 2002 and 2003. We began to see some recovery at the end of 2003, which continued in 2004, aided by continued improvement in the commercial aerospace market segment and the favorable impact of safety mandates.

### **U.S. Government Sales**

Sales to the U.S. Government (principally by our Aerospace segment), acting through its various departments and agencies and through prime contractors, amounted to \$3,464, \$3,111 and \$2,730 million in 2004, 2003 and 2002, respectively, which included sales to the U.S. Department of Defense, as a prime contractor and subcontractor, of \$2,808, \$2,564 and \$2,046 million in 2004, 2003 and 2002, respectively. U.S. defense spending increased in 2004 and is also expected to increase in 2005.

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

Our contracts with the U.S. Government are subject to audits. Like many other government contractors, we have received audit reports that recommend downward price adjustments to certain contracts to comply with various government regulations. We have made adjustments and paid voluntary refunds in appropriate cases. In addition, we accrue for liabilities associated with these government contract matters that are probable and can be reasonably estimated.

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

We, like other government contractors, are subject to government investigations of business practices and compliance with government procurement regulations. If Honeywell or one of its businesses were charged with wrongdoing as a result of any such investigation or other government investigations (including violation of certain environmental or export laws), it could be suspended from bidding on or receiving awards of new government contracts pending the completion of legal proceedings. The U.S. Government also reserves the right to debar a contractor from receiving new government contracts for fraudulent, criminal or other egregious misconduct. Debarment generally does not exceed three years. Although the outcome of pending government investigations cannot be predicted with certainty, we are not aware of any investigations that we expect will have a material adverse effect on us.

### **Backlog**

Our total backlog at year-end 2004 and 2003 was \$8,229 and \$7,191 million, respectively. We anticipate that approximately \$6,339 million of the 2004 backlog will be filled in 2005. We believe that backlog is not necessarily a reliable indicator of our future sales because a substantial portion of the orders constituting this backlog may be canceled at the customer's option.

### **Competition**

We are subject to active competition in substantially all product and service areas. Competition is expected to continue in all geographic regions. Competitive conditions vary widely among the thousands of products and services provided by us, and vary country by country. Depending on the particular customer or market involved, 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 generally important competitive factors for our products and services, and there is considerable price competition. Other competitive factors for certain products 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. However, a number of our products and services are sold in competition with those of a large number of other companies, some of which have substantial financial resources and significant technological capabilities. In addition, some of our products compete with the captive component divisions of original equipment manufacturers.

### **International Operations**

We are engaged in manufacturing, sales, service and research and development mainly in the United States, Europe, Canada, Asia and Latin America. U.S. exports and foreign manufactured products are significant to our operations. U.S. exports comprised 9 and 10 percent of our total net sales in 2004 and 2003, respectively. Foreign manufactured products and services, mainly in Europe, were 35 and 34 percent of our total net sales in 2004 and 2003, respectively.

Our international operations, including U.S. exports, are potentially subject to a number of unique risks and limitations, including: fluctuations in currency value; exchange control regulations; wage and price controls; employment regulations; foreign investment laws; import and trade restrictions, including embargoes; and governmental instability.

Approximately 18 percent of total 2004 net sales of Aerospace-related products and services were exports of U.S. manufactured products and systems and performance of services such as aircraft

repair and overhaul. Exports were principally made to Europe, Asia and Canada. Foreign manufactured products and systems and performance of services comprised 14 percent of total 2004 Aerospace net sales.

Approximately 3 percent of total 2004 net sales of Automation and Control Solutions products were exports of U.S. manufactured products. Foreign manufactured products and performance of services accounted for 49 percent of total 2004 net sales of Automation and Control Solutions. The principal manufacturing facilities outside the U.S. are in Europe and Mexico, with less significant operations in Asia and Canada.

Approximately 11 percent of total 2004 net sales of Specialty Materials were exports of U.S. manufactured products. Exports were principally made to Asia, Europe, Latin America and Canada. Foreign manufactured products comprised 29 percent of total 2004 net sales of Specialty Materials. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Asia and Canada.

Exports of U.S. manufactured products comprised 1 percent of total 2004 net sales of Transportation Systems products. Foreign manufactured products accounted for 62 percent of total 2004 net sales of Transportation Systems. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Asia, Latin America and Canada.

### **Raw Materials**

The principal raw materials used in our operations are generally readily available. We experienced no significant or unusual problems in the purchase of key raw materials and commodities in 2004. We are not dependent on any one supplier for a material amount of our raw materials. However, we are highly dependent on our suppliers and subcontractors in order to meet commitments to our customers. In addition, many major components and product equipment items are procured or subcontracted on a sole-source basis with a number of domestic and foreign companies. We maintain a qualification and performance surveillance process to control risk associated with such reliance on third parties. While 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. The costs of certain key raw materials, including natural gas and benzene, in our Specialty Materials' business were at historically high levels in 2004 and are expected to remain at those levels in 2005. We will continue to attempt to offset raw material cost increases with price increases where feasible. At present, we have no reason to believe a shortage of raw materials will cause any material adverse impact during 2005.

### **Patents, Trademarks, Licenses and Distribution Rights**

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

We have registered trademarks for a number of our products, including such consumer brands as Honeywell, Prestone, FRAM, Anso, Autolite, Bendix, Jurid and Garrett.

### **Research and Development**

Our research activities are directed toward the discovery and development of new products and processes and the development of new uses for existing products.

Research and development expense totaled \$917, \$751 and \$757 million in 2004, 2003 and 2002, respectively. The increase in research and development expense in 2004 compared with 2003 results primarily from design and development costs associated with new aircraft platforms in Aerospace and new product development costs in Automation and Control Solutions. Customer-sponsored (principally the U.S. Government) research and development activities amounted to an additional \$593, \$608 and \$603 million in 2004, 2003 and 2002, respectively.

## Environment

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

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

Among other environmental requirements, we are subject to the federal superfund and similar state and foreign laws and regulations, under which we have been designated as a potentially responsible party that may be liable for cleanup costs associated with various hazardous waste sites, some of which are on the U.S. Environmental Protection Agency's superfund priority list. Although, under some court interpretations of these laws, there is a possibility that a responsible party might have to bear more than its proportional share of the cleanup costs if it is unable to obtain appropriate contribution from other responsible parties, we have not had to bear significantly more than our proportional share in multi-party situations taken as a whole.

In the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.*, the United States District Court for the District of New Jersey held in May 2003 that a predecessor Honeywell site located in Jersey City, New Jersey constituted an imminent and substantial endangerment and ordered Honeywell to conduct the excavation and transport for offsite disposal of approximately one million tons of chromium residue present at the site. Honeywell appealed the Court's decision to the Third Circuit Court of Appeals (Appeals Court). As disclosed in prior SEC filings, we believed that the District Court-ordered remedy would be remanded, reversed or replaced and, accordingly, provisions previously made in our financial statements for remedial costs at this site did not assume excavation and offsite removal of chromium. On February 18, 2005, the Appeals Court denied Honeywell's appeal. In light of the Appeals Court decision, we recorded a pre-tax charge of \$278 million in the fourth quarter of 2004, which reflects the incremental cost of implementing the Court-ordered remedy. Implementation of the excavation and offsite removal remedy is expected to take place over a five-year period, and the cost of implementation is expected to be incurred evenly over that period. We do not expect implementation of the remedy to have a material adverse effect on our future consolidated results of operations, operating cash flows or financial position.

In accordance with a 1992 consent decree with the State of New York, Honeywell is studying environmental conditions in and around Onondaga Lake (the Lake) in Syracuse, New York. The purpose of the study is to identify, evaluate and propose remedial measures that can be taken to remedy historic industrial contamination in the Lake. A predecessor company to Honeywell operated a chemical plant which is alleged to have contributed mercury and other contaminants to the Lake. In November 2004, the New York State Department of Environmental Conservation (the DEC) issued its Proposed Plan for remediation of industrial contamination in the Lake. There will be a public comment period until March 1, 2005, and the Proposed Plan is subject to review by the U.S. Environmental Protection Agency. The DEC is currently expected to issue its Record of Decision in the first half of 2005.

The Proposed Plan calls for a combined dredging/capping remedy generally in line with the approach recommended in the Feasibility Study submitted by Honeywell in May 2004 (the May 2004 Feasibility Study). Although the Proposed Plan calls for additional remediation in certain parts of the Lake, it would not require the most extensive dredging alternatives described in the May 2004 Feasibility Study. The DEC's aggregate cost estimate is based on the high end of the range of potential costs for major elements of the Proposed Plan and includes a contingency. The actual cost of the

Proposed Plan will depend upon, among other things, the resolution of certain technical issues during the design phase of the remediation, expected to occur sometime in 2007 and beyond.

Based on currently available information and analysis performed by our engineering consultants, our estimated cost of implementing the remedy set forth in the Proposed Plan is consistent with amounts previously provided for in our financial statements. Our estimating process considered a range of possible outcomes and amounts recorded reflect our best estimate at this time. We do not believe that this matter will have a material adverse impact on our consolidated financial position. Given the scope and complexity of this project, it is possible that actual costs could exceed estimated costs by an amount that could have a material adverse impact on our consolidated results of operations and operating cash flows in the periods recognized or paid. At this time, however, we cannot identify any legal, regulatory or technical reason to conclude that a specific alternative outcome is more probable than the outcome for which we have made provisions in our financial statements.

Further information regarding environmental matters is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

## **Employees**

We have approximately 109,000 employees at December 31, 2004, of which approximately 60,000 were located in the United States.

## **Item 2. Properties**

We have 1,152 locations consisting of plants, research laboratories, sales offices and other facilities. Our headquarters and administrative complex is located at Morris Township, New Jersey. Our plants are generally located to serve large marketing areas and to provide accessibility to raw materials and labor pools. Our properties are generally maintained in good operating condition. Utilization of these plants may vary with sales to customers and other business conditions; however, no major operating facility is significantly idle. We own or lease warehouses, railroad cars, barges, automobiles, trucks, airplanes and materials handling and data processing equipment. We also lease space for administrative and sales staffs. Our properties and equipment are in good operating condition and are adequate for our present needs. We do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

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

Glendale, AZ (partially leased)	<b><u>Aerospace</u></b>	Rocky Mount, NC
Phoenix, AZ	South Bend, IN	Urbana, OH
Tempe, AZ	Olathe, KS	Redmond, WA (leased)
Tucson, AZ	Minneapolis, MN	Toronto, Canada
Torrance, CA (partially leased)	Plymouth, MN	Raunheim, Germany
Clearwater, FL	Teterboro, NJ	
	<b><u>Automation and Control Solutions</u></b>	
Phoenix, AZ	Northford, CT	Chihuahua, Mexico
San Diego, CA	Freeport, IL	Juarez, Mexico
	Golden Valley, MN	Newhouse, Scotland
	<b><u>Specialty Materials</u></b>	
Baton Rouge, LA	Pottsville, PA	Hopewell, VA
Geismar, LA	Chesterfield, VA	Seelze, Germany
	<b><u>Transportation Systems</u></b>	
Mexicali, Mexico	Thaon-Les-Vosges, France	Atessa, Italy
	Glinde, Germany	

### 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 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

### Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

### Executive Officers of the Registrant

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

<b><u>Name, Age, Date First Elected an Executive Officer</u></b>	<b><u>Business Experience</u></b>
David M. Cote (a), 52 2002	Chairman of the Board and Chief Executive Officer since July 2002. President and Chief Executive Officer from February 2002 to June 2002. Chairman of the Board, President and Chief Executive Officer of TRW (manufacturer of aerospace and automotive products) from August 2001 to February 2002. President and Chief Executive Officer of TRW from February 2001 to July 2001. President and Chief Operating Officer of TRW from November 1999 to January 2001. Senior Vice President of General Electric Company and President and Chief Executive Officer of GE Appliances from June 1996 to November 1999.
Adriane M. Brown, 46 2005	President and Chief Executive Officer Transportation Systems since January 2005. Vice President and General Manager of Engine Systems & Accessories from September 2001 to December 2004. Vice President and General Manager of Aircraft Landing Systems from October 1999 to August 2001.

(a) Also a Director.

**Name, Age,  
Date First  
Elected an  
Executive Officer**

**Business Experience**

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Dr. Nance K. Dicciani, 57 2001	President and Chief Executive Officer Specialty Materials since November 2001. Senior Vice President and Business Group Executive of Chemical Specialties and Director, European Region of Rohm and Haas (chemical company) from June 1998 to October 2001.
Roger Fradin, 51 2004	President and Chief Executive Officer Automation and Control Solutions since January 2004. President of Automation and Control Products from June 2002 to December 2003. President and Chief Executive Officer of Security and Fire Solutions from February 2000 to May 2002. President of The Security Group of The Pittway Corporation from September 1995 to April 2002.
Robert J. Gillette, 44 2001	President and Chief Executive Officer Aerospace since January 2005. President and Chief Executive Officer Transportation Systems from July 2001 to December 2004. President of Honeywell Turbo Technologies from July 2000 to June 2001. Vice President and General Manager of Engineering Plastics from December 1996 to June 2000.
David J. Anderson, 55 2003	Senior Vice President and Chief Financial Officer since June 2003. Senior Vice President and Chief Financial Officer of ITT Industries (global manufacturing company) from December 1999 to June 2003.
Larry E. Kittelberger, 56 2001	Senior Vice President Administration and Chief Information Officer since August 2001. Senior Vice President and Chief Information Officer of Lucent Technologies Inc. from November 1999 to August 2001.
Peter M. Kreindler, 59 1992	Senior Vice President and General Counsel since March 1992. Secretary from December 1994 through November 1999.
Thomas W. Weidenkopf, 46 2002	Senior Vice President Human Resources and Communications since April 2002. Vice President of Human Resources, Aerospace, from March 1999 to March 2002.



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

Market and dividend information for Honeywell's common stock is included in Note 26 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

The number of record holders of our common stock at December 31, 2004 was 83,995.

The following table summarizes Honeywell's purchases of its common stock, par value \$1 per share, for the quarter ending December 31, 2004:

**Issuer Purchases of Equity Securities**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under Plans or Programs
October 2004	4,250,000	\$ 33.32	4,250,000	(A)
November 2004	6,750,000	\$ 35.61	6,750,000	(A)
December 2004	—	—	—	(A)

(A) In November 2003, Honeywell announced its intention to repurchase sufficient outstanding shares of its common stock 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. We estimate the issuance of approximately 10 million shares annually under such plans. Total repurchases may vary depending on market conditions and the level of other investing activities. In response to market conditions, in the fourth quarter of 2004, we repurchased shares to offset the anticipated 2005 dilutive impact of employee stock based compensation plans, bringing the total number of shares repurchased in 2004 to 20,072,650. Accordingly, we do not anticipate the need for additional share repurchases in 2005 under this program.

**Item 6. Selected Financial Data**

	Years Ended December 31,					
	2004	2003	2002	2001	2000	1999
	(Dollars in millions, except per share amounts)					
<b>Results of Operations</b>						
Net sales	\$ 25,601	\$ 23,103	\$ 22,274	\$ 23,652	\$ 25,023	\$ 23,735
Net income (loss)(1)	1,281	1,324	(220)	(99)	1,659	1,541
<b>Per Common Share</b>						
Net earnings (loss):						
Basic	1.49	1.54	(0.27)	(0.12)	2.07	1.95
Assuming dilution	1.49	1.54	(0.27)	(0.12)	2.05	1.90
Dividends	0.75	0.75	0.75	0.75	0.75	0.68
<b>Financial Position at Year-End</b>						
Property, plant and equipment—net	4,331	4,295	4,055	4,933	5,230	5,630
Total assets	31,062	29,314	27,565	24,226	25,175	23,527
Short-term debt	1,204	199	370	539	1,682	2,609
Long-term debt	4,069	4,961	4,719	4,731	3,941	2,457
Total debt	5,273	5,160	5,089	5,270	5,623	5,066
Shareowners' equity	11,252	10,729	8,925	9,170	9,707	8,599

Note: Commencing January 1, 2002, we ceased amortization of goodwill and indefinite-lived intangible assets.

(1) In 2004, includes net repositioning, environmental, litigation, business impairment and other charges, gains on sales of non-strategic businesses and a gain related to the settlement of a patent infringement lawsuit resulting in a net after-tax charge of \$315 million, or \$0.36 per share. In 2003, includes the cumulative after-tax charge of \$20 million, or \$0.02 per share, for the adoption of SFAS No. 143. In 2003, also includes net repositioning, environmental and other charges, gains on sales of non-strategic businesses and a gain related to the settlement of a patent infringement lawsuit resulting in a net after-tax charge of \$22 million, or \$0.03 per share. In 2002, includes net repositioning, litigation, business impairment and other charges and gains on sales of non-strategic businesses resulting in a net after-tax charge of \$1,864 million, or \$2.27 per share. In 2001, includes net repositioning, litigation, business impairment and other charges resulting in an after-tax charge of \$1,771 million, or \$2.18 per share. In 2000, includes net repositioning, litigation, business impairment and other charges and a gain on the sale of the TCAS product line of Honeywell Inc. resulting in a net after-tax charge of \$634 million, or \$0.78 per share. In 1999, includes merger, repositioning and other charges and gains on the sales of our Laminate Systems business and our investment in AMP Incorporated common stock resulting in a net after-tax charge of \$624 million, or \$0.78 per share.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****BUSINESS OVERVIEW**

This Business Overview provides a summary of Honeywell's four reportable operating segments (Aerospace, Automation and Control Solutions, Specialty Materials and Transportation Systems), including how they generate income, the relevant economic and other factors impacting their results, and business challenges and areas of focus in both the short- and long-term. Each of these segments is comprised of various business units and product classes that serve multiple end markets. See Note 23 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further information on our reportable segments and our definition of segment profit.

## Aerospace

	2004	2003	2002
		(Dollars in millions)	
Net sales	\$ 9,748	\$ 8,813	\$ 8,855
Segment profit	\$ 1,479	\$ 1,221	\$ 1,308
Segment profit %	15.2%	13.9%	14.8%

Aerospace is a leading global supplier of aircraft engines, avionics, and related products and services for commercial airlines, business and regional aircraft, manned and unmanned military aircraft, and spacecraft. Our Aerospace portfolio includes Engines, Systems and Services (auxiliary power units; propulsion engines; environmental control systems; engine controls; repair and overhaul services; hardware; logistics; and electric power systems); Aerospace Electronic Systems (flight safety, communications, navigation, radar and surveillance systems; aircraft and airport lighting; management and technical services and advanced systems and instruments); and Aircraft Landing Systems (aircraft wheels and brakes). Aerospace sells its products to original equipment (OE) manufacturers in the commercial air transport and business and regional aircraft segments, as well as spare parts into the aftermarket (principally to aircraft operators). The United States Government is also a major customer for our defense and space products.

**Economic and Other Factors**—Aerospace's operating results are principally driven by the global demand for air travel as reflected in new aircraft production, as well as spare parts and maintenance and repair services for aircraft currently in use. Aircraft production by commercial air transport OE manufacturers, business and regional jet deliveries, as well as global flying hours and airline profitability, are the principal factors that drive our commercial aerospace operating results. U.S. Government appropriations for defense and space programs and military activity are critical factors impacting our defense and space operating results.

**Business Challenges/Areas of Focus**—Aerospace's primary business challenges and areas of focus include:

- Continuing to grow the sales and profitability of the commercial aerospace aftermarket as the worldwide airline industry struggles to regain and maintain profitable operations.
- Securing Honeywell product content on new aircraft platforms.
- Making our product development process faster and less costly to meet increasing customer requirements while continuing to reduce recurring manufacturing costs.
- Continuing to design equipment that enhances the safety, performance and durability of aircraft, while reducing weight and operating costs.
- Utilizing our systems engineering expertise for continued growth in Network Centric Warfare initiatives with the U.S. Government.

## Automation and Control Solutions (ACS)

	2004	2003	2002
		(Dollars in millions)	
Net sales	\$ 8,031	\$ 7,464	\$ 6,978
Segment profit	\$ 894	\$ 843	\$ 860
Segment profit %	11.1%	11.3%	12.3%

ACS provides innovative solutions that make homes, buildings, industrial sites and airport facilities more efficient, safe and comfortable. Our ACS portfolio includes Automation and Control Products (controls for heating, cooling, indoor air quality, ventilation, humidification and home automation; advanced software applications for home/building control and optimization; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature, electrical current; and security and fire detection, access control, video surveillance and remote patient monitoring systems); Building Solutions (installs, maintains and upgrades systems that keep buildings safe, comfortable and productive); and Process Solutions (provides a full range of automation and control solutions for

industrial plants, offering advanced software and automation systems that integrate, control and monitor complex processes in many types of industrial settings).

**Economic and Other Factors**—ACS' operating results are principally driven by global residential and nonresidential construction, industrial production, capital spending on process and building automation, and fire and security concerns and regulations.

**Business Challenges/Areas of Focus**—ACS' primary business challenges and areas of focus include:

- Extending technology leadership: lowest total installed cost, integrated solutions within our security, fire and sensors product portfolios.
- Defending and extending our installed base through customer productivity and globalization.
- Sustaining strong brand recognition.
- Continuing to invest in sales and marketing resources and new product development capabilities to drive profitable growth.
- Integrating Novar plc's Intelligent Building Systems division into our life safety, building controls, security and related service businesses (acquisition of Novar plc expected to be completed in the first quarter of 2005).

### Specialty Materials

	2004	2003	2002
	(Dollars in millions)		
Net sales	\$ 3,497	\$ 3,169	\$ 3,205
Segment profit	\$ 184	\$ 136	\$ 90
Segment profit %	5.3%	4.3%	2.8%

Specialty Materials develops and manufactures high-purity, high-quality and high-performance chemicals and materials for applications in the automotive, healthcare, agricultural, packaging, fibers, refrigeration, semiconductor, wax and adhesives markets. Specialty Materials' product portfolio includes fluorocarbons, specialty films, advanced fibers, customized research chemicals and intermediates and electronic materials and chemicals. Specialty Materials' core growth businesses are Chemicals, Electronic Materials and Performance Products.

**Economic and Other Factors**—Specialty Materials' operating results are principally driven by global gross domestic product, plant capacity utilization and the costs of raw materials including natural gas and benzene. We expect raw material costs to remain at historically high levels in 2005 and will continue to attempt to offset raw material cost increases with price increases where feasible.

**Business Challenges/Areas of Focus**—Specialty Materials' primary business challenges and areas of focus include:

- Sharpening the focus on core growth platforms to drive improved profitability through new product applications and introductions.
- Continuing to restructure and exit non-core commodity lines of business with minimal or no differentiating technology and/or exposure to raw material cost volatility.
- Continuing to improve manufacturing productivity.

### Transportation Systems

	2004	2003	2002
	(Dollars in millions)		
Net sales	\$ 4,323	\$ 3,650	\$ 3,184
Segment profit	\$ 575	\$ 461	\$ 393
Segment profit %	13.3%	12.6%	12.3%

Transportation Systems provides automotive products that improve the performance, efficiency, and appearance of cars, trucks, and other vehicles through state-of-the-art technologies, world class brands and global solutions to our customers needs. Our Transportation Systems' portfolio includes Honeywell Turbo Technologies (Garrett® turbochargers and charge-air and thermal systems); the Consumer Products Group (car care products including anti-freeze (Prestone®), filters (Fram®), spark plugs (Autolite®), and cleaners, waxes and additives (Holts®)); and Friction Materials (friction materials and related brake system components (Bendix® and Jurid®)). Transportation Systems sells its products to OE automotive and truck manufacturers (e.g., BMW, Caterpillar, Daimler-Chrysler, Ford, Volkswagen), wholesalers and distributors and through the retail aftermarket.

**Economic and Other Factors**—Transportation Systems' operating results are principally driven by worldwide automobile and truck production and the global demand for automobiles and trucks equipped with turbochargers to enhance power, increase engine efficiency and lower emissions.

**Business Challenges/Areas of Focus**—Transportation Systems' primary business challenges and areas of focus include:

- Sustaining superior turbocharger technology.
- Increasing market penetration and share of diesel and gasoline turbocharger OEM demand.
- Expanding and strengthening established strong product brands in the Consumer Products Group business.
- Revitalizing our Friction Materials business.

## CRITICAL ACCOUNTING POLICIES

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

We have discussed the selection, application and disclosure of these critical accounting policies with the Audit Committee of our Board of Directors and our Independent Registered Public Accountants. There were no new accounting standards effective in 2004 which had a material impact on 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. These contingencies relate to product liabilities, including asbestos, commercial transactions, government contracts and environmental health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential amounts or ranges of probable losses, and recognize a liability, if any, for these contingencies based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Such analysis includes making judgments concerning matters such as the costs associated with environmental matters, the outcome of negotiations, the number and cost of pending and future (where estimable) 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 or changes in our settlement strategy. For a discussion of our contingencies related to shareowners litigation, environmental and asbestos matters, including management's judgment applied in the recognition and measurement of specific liabilities, see Notes 1 and 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data".

**Insurance for Asbestos Related Liabilities**—In connection with 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 with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs. We have approximately \$1.3 billion in insurance coverage remaining that can be specifically allocated to North American Refractories Company (NARCO) related asbestos liabilities. We also have \$1.9 billion in coverage remaining for Bendix related asbestos liabilities although there are gaps in our coverage due to insurance company insolvencies, a comprehensive policy buy-back settlement with Equitas and certain uninsured periods, resulting in approximately 50 percent of these claims being reimbursable by insurance. Our insurance is with both the domestic insurance market and the London excess market. While the substantial majority of our insurance carriers are solvent, some of our individual carriers are insolvent, which has been considered in our analysis of probable recoveries. Projecting future events is subject to various uncertainties that could cause the insurance recovery on asbestos related liabilities to be higher or lower than that projected and recorded. Given the inherent uncertainty in making future projections, we reevaluate our projections concerning our probable insurance recoveries in light of any changes to the projected liability, our recovery experience or other relevant factors that may impact future insurance recoveries. See Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of management's judgments applied in the recognition and measurement of insurance recoveries for asbestos related liabilities.

**Defined Benefit Pension Plans**—We maintain defined benefit pension plans covering a majority of our employees and retirees. For financial reporting purposes, net periodic pension expense (income) is calculated based upon a number of actuarial assumptions including a discount rate for plan obligations and an expected rate of return on plan assets. We consider current market conditions, including changes in investment returns and interest rates, in making these assumptions. We determine the expected long-term rate of return on plan assets utilizing historic plan asset returns over varying long-term periods combined with current market conditions and broad asset mix considerations (see Note 22 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for actual and targeted asset allocation percentages for our pension plans). The expected rate of return on plan assets is a long-term assumption and generally does not change annually. The discount rate reflects the market rate for high-quality fixed-income investments on our annual measurement date (December 31) and is subject to change each year. The expected rate of return on pension assets and discount rate were determined in accordance with consistent methodologies as described in Note 22 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data".

The key assumptions used in developing our 2004, 2003 and 2002 net periodic pension expense (income) for our U.S. plans included the following:

	2004	2003	2002
Discount rate	6.00%	6.75%	7.25%
Assets:			
Expected rate of return	9%	9%	10%
Actual rate of return	13%	23%	(8)%
Actual 10 year average annual compounded rate of return	11%	10%	9%

The reduction in the discount rate in both 2004 and 2003 reflects the lower market interest rate environment for high-quality fixed income debt instruments. The discount rate is also volatile because it is determined based upon the prevailing rate as of the measurement date. Due to continuing declines in interest rates, we will use a 5.875 percent discount rate in 2005. The expected rate of return on plan assets was reduced from 10 to 9 percent for 2003 to reflect the impact of the poor performance of the equity markets during the three year period ended December 31, 2002. As equity markets have stabilized in 2003 and 2004, we plan to continue to use an expected rate of return of 9 percent for 2005. The unrecognized net losses for our U.S. pension plans were \$2.6 billion at December 31, 2004, down from \$3.2 billion at December 31, 2003. These unrecognized losses mainly result from actual plan asset returns below expected rates of return during 2002, 2001 and 2000 and from lower discount rates and are being systematically recognized in future net periodic pension expense in accordance with Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pensions" (SFAS

No. 87). Under SFAS No. 87, we use the market-related value of plan assets reflecting changes in the fair value of plan assets over a three-year period. Further, unrecognized losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans projected benefit obligation are recognized over a six-year period. Net periodic pension expense for our U.S. pension plans is expected to be \$320 million in 2005, a \$56 million decrease from 2004 due principally to a decrease in the amortization of unrecognized losses. The decline in the amortization of unrecognized losses results principally from actual plan asset returns higher than the expected rate of return in 2003 and 2004.

We made voluntary contributions of \$40, \$670 and \$830 million to our U.S. pension plans in 2004, 2003 and 2002, respectively. The 2003 and 2002 voluntary contributions were made to improve the funded status of the plans which had been impacted by the poor performance of the equity markets during the three-year period ended December 31, 2002, as well as the declining interest rate environment. Future plan contributions are dependent upon actual plan asset returns and interest rates. Assuming that actual plan returns are consistent with our expected plan return of 9 percent in 2005 and beyond, and that interest rates remain constant, we would not be required to make any contributions to our U.S. pension plans for the foreseeable future.

Changes in net periodic pension expense may occur in the future due to changes in our expected rate of return on plan assets and discount rate resulting from economic events. The following table highlights the sensitivity of our U.S. pension obligations and expense to changes in these assumptions, assuming all other assumptions remain constant:

Change in Assumption	Impact on Annual Pension Expense	Impact on PBO
0.25 percentage point decrease in discount rate	Increase \$50 million	Increase \$300 million
0.25 percentage point increase in discount rate	Decrease \$50 million	Decrease \$300 million
0.25 percentage point decrease in expected rate of return on assets	Increase \$25 million	—
0.25 percentage point increase in expected rate of return on assets	Decrease \$25 million	—

SFAS No. 87 requires recognition of an additional minimum pension liability if the fair value of plan assets is less than the accumulated benefit obligation at the end of the plan year. In 2004, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of \$15 million (\$19 million on a pretax basis) which increased the additional minimum pension liability. In 2003, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of \$369 million (\$604 million on a pretax basis) to reduce the additional minimum pension liability by \$304 million and reinstate a portion of our pension assets (\$300 million) written off as a result of the prior year's minimum pension liability adjustment. The 2003 adjustment resulted from an increase in our pension assets in 2003 due to the improvement in equity markets and our contribution of \$670 million to our U.S. plans. In 2002, due to the poor performance of the equity markets which adversely affected our pension assets and a decline in the discount rate, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of \$606 million (\$956 million on a pretax basis) which increased the additional minimum pension liability. Equity market returns and interest rates significantly impact the funded status of our pension plans. Based on future plan asset performance and interest rates, additional adjustments to equity may be required.

**Long-Lived Assets (including Tangible and Definite-Lived Intangible Assets)**—To conduct our global business operations and execute our business strategy, we acquire tangible and intangible assets. We periodically evaluate the recoverability of the carrying amount of our long-lived assets (including property, plant and equipment and definite-lived intangible assets) whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset group may not be fully recoverable. These events or changes in circumstances include business plans and forecasts, economic or competitive positions within an industry, as well as current operating performance and anticipated future performance based on a business' competitive position. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of a long-lived asset exceeds its fair value and are recognized in earnings. We continually apply our best judgment

when applying the impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairment, and the fair value of an impaired long-lived asset group. The dynamic economic environment in which each of our businesses operate and the resulting assumptions used to estimate future cash flows, such as economic growth rates, industry growth rates, product life cycles, selling price changes and cost inflation can significantly influence and impact the outcome of all impairment tests. For a discussion of the result of management's judgment applied in the recognition and measurement of impairment charges see the repositioning and other charges section of this MD&A.

**Income Taxes**—The future tax benefit arising from net deductible temporary differences and tax carryforwards was \$1.7 and \$1.8 billion at December 31, 2004 and 2003, respectively. We believe that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided.

In assessing the need for a valuation allowance, we consider all available positive and negative evidence, including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. Additionally, valuation allowances related to deferred tax assets can be impacted by changes to tax laws and future taxable income levels. In the event we determine that we will not be able to realize our deferred tax assets in the future, we will reduce such amounts through a charge to income in the period that such determination is made. Conversely, if we determine that we will be able to realize deferred tax assets in excess of the carrying amounts, we will decrease the recorded valuation allowance through a credit to income in the period that such determination is made.

**Sales Recognition on Long-Term Contracts**—In 2004, we recognized approximately 8 percent of our total net sales using the percentage-of-completion method for long-term contracts in our Automation and Control Solutions and Aerospace reportable segments. The percentage-of-completion method requires us to make judgments in estimating contract revenues, contract costs and progress toward completion. These judgments form the basis for our determinations regarding overall contract value, contract profitability and timing of revenue recognition based on measured progress toward contract completion. Revenue and cost estimates are monitored on an ongoing basis 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 cost estimation processes to reduce the risk of contract losses.

**Aerospace Customer Incentives**—Consistent with other suppliers to commercial aircraft manufacturers and airlines, we provide sales incentives to commercial aircraft manufacturers and airlines in connection with their selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft. These incentives consist of free or deeply discounted products, product credits and upfront cash payments. The cost of these incentives are capitalized at the time we deliver the products to our customers or, in the case of product credits, at the time the credit is issued, or in the case of upfront cash payments, at the time the payment is made. In the case of free or deeply discounted product, the cost to manufacture less any amount recovered from the airframe manufacturer or airline is capitalized. Product credits and upfront cash payments are capitalized at exchanged value. Research, design, development and qualification costs related to these products are expensed as incurred, unless contractually guaranteed of reimbursement. The cost of the sales incentives described above is capitalized because the selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft results in the creation of future revenues and cash flows through aftermarket sales to fulfill long-term product maintenance requirements mandated by the Federal Aviation Administration (FAA) and other similar international organizations over the useful life of the aircraft. Once our products are certified and selected on an aircraft, the recovery of our investment is virtually guaranteed over the useful life of the aircraft. The likelihood of displacement by an alternative supplier is remote due to contractual sole-sourcing, the high cost to alternative suppliers and aircraft operators of product retrofits, and/or rigorous regulatory



specifications, qualification and testing requirements. Amounts capitalized at December 31, 2004, 2003 and 2002 were \$776, \$719 and \$662 million, respectively, and are being amortized over their useful lives on a straight-line basis, up to 25 years, representing the estimated minimum service life of the aircraft. This useful life is the period over which we are virtually assured to earn revenues from the aftermarket sales of certified products necessary to fulfill the maintenance required by the FAA and other similar international organizations. We classify the amortization expense associated with free and discounted products as cost of goods sold and the amortization expense associated with product credits and upfront cash payments as a reduction of sales. We regularly evaluate the recoverability of capitalized amounts whenever events or changes in circumstances indicate that the carrying amount of the incentives may not be fully recoverable. There were no impairment charges related to these capitalized incentives recognized during 2004, 2003 and 2002. For additional information see Note 13 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

## RESULTS OF OPERATIONS

### Net Sales

	2004	2003	2002
	(Dollars in millions)		
Net sales	\$ 25,601	\$ 23,103	\$ 22,274
% change compared with prior year	11%	4%	(6)%

The change in net sales in 2004 and 2003 is attributable to the following:

	2004 Versus 2003	2003 Versus 2002
Acquisitions	1%	3%
Divestitures	(1)	(2)
Price	—	—
Volume	8	—
Foreign Exchange	3	3
	11%	4%

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

### Cost of Products and Services Sold

	2004	2003	2002
	(Dollars in millions)		
Cost of products and services sold	\$ 20,585	\$ 18,235	\$ 17,615
Gross Margin %	19.6%	21.1%	20.9%

Gross margin decreased in 2004 by 1.5 percentage points compared with 2003. The decrease resulted primarily from an increase in net repositioning and other charges of \$349 million, higher pension and other postretirement benefits expense of \$249 million and an increase in research and development expense of \$166 million, partially offset by an increase in sales of higher-margin products and services, mainly in our Aerospace reportable segment. Gross margin increased in 2003 by 0.2 percentage points compared with 2002. The increase resulted primarily from a decrease in net repositioning and other charges of \$289 million partially offset by higher pension expense and a decrease in sales of higher-margin products and services, mainly in our Aerospace and Automation and Control Solutions reportable segments.

## Selling, General and Administrative Expenses

	2004	2003	2002
		(Dollars in millions)	
Selling, general and administrative expenses	\$ 3,316	\$ 2,950	\$ 2,757
Percent of sales	13.0%	12.8%	12.4%

Selling, general and administrative expenses increased by \$366 million, or 12 percent in 2004 compared with 2003 due to an increase in general and administrative expenses of \$155 million due in part to higher spending for information technology systems, an increase in selling expenses of \$136 million from higher sales and an increase in pension and other postretirement benefits expense of \$54 million. Selling, general and administrative expenses increased by \$193 million, or 7 percent in 2003 compared with 2002 due primarily to an increase in general and administrative expenses of \$120 million due in part to an increase in other employee benefit expenses, and higher pension and other postretirement benefits expense of \$56 million.

	2004	2003	2002
		(Dollars in millions)	
Pension and other postretirement benefits expense (income) included in cost of goods sold and selling, general and administrative expenses	\$628	\$325	\$ (11)
Increase compared with prior year	\$303	\$336	\$154

Pension expense increased by \$276 and \$290 million in 2004 and 2003, respectively, mainly due to the following:

- A decrease in the market-related value of our pension plan assets during the period 2000 to 2002 due to the poor performance of the equity markets which adversely affected our pension fund assets during this period.
- A systematic recognition of higher losses resulting mainly from actual plan asset returns below the expected rate of return during the period 2000 to 2002.
- A reduction in 2003 in the expected rate of return on plan assets from 10 to 9 percent in response to the continued deterioration in financial market returns in 2002.
- A decrease in the discount rate for each of the years 2001 (7.75 percent), 2002 (7.25 percent), 2003 (6.75 percent) and 2004 (6.00 percent).

Using an expected long-term rate of return of 9 percent and a discount rate of 5.875 percent, pension expense for our U.S. plans is expected to be \$320 million in 2005, a decrease of \$56 million compared with 2004.

## (Gain) Loss on Sale of Non-Strategic Businesses

	2004	2003	2002
		(Dollars in millions)	
(Gain) loss on sale of non-strategic businesses	\$ (255)	\$ (38)	\$ 124

Gain on sale of non-strategic businesses of \$255 million in 2004 represents the pretax gains on the sales of our Security Monitoring and VCSEL Optical Products businesses in our Automation and Control Solutions reportable segment of \$215 and \$36 million, respectively. The gain also includes adjustments of \$19 million related to businesses sold in prior periods and the pretax loss of \$15 million on the sale of our Performance Fibers business in our Specialty Materials reportable segment. The dispositions of these businesses did not materially impact net sales and segment profit in 2004 compared with 2003. Gain on sale of non-strategic businesses of \$38 million in 2003 represents the net pretax gain on the dispositions of certain Specialty Materials (Engineering Plastics, Rudolstadt and Metglas) and Aerospace (Honeywell Aerospace Defense Services) businesses. The dispositions of these businesses did not materially impact net sales and segment profit in 2003 compared with 2002.

**Asbestos Related Litigation Charges, Net of Insurance**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in millions)		
Asbestos related litigation charges, net of insurance	\$ 76	\$ —	\$ 1,548

In 2004, we recognized charges totaling \$76 million primarily for Bendix related asbestos claims filed and defense costs incurred during 2004, net of insurance recoveries. The charges include an update of expected resolution values for pending Bendix claims and are net of an additional \$47 million of NARCO insurance deemed probable of recovery. In 2002, asbestos related litigation charges, net of insurance related to costs associated with asbestos claims related to NARCO. See Asbestos Matters in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion.

**Business Impairment Charges**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in millions)		
Business impairment charges	\$ 42	\$ —	\$ 877

Business impairment charges in 2004 relates principally to the write-down of property, plant and equipment of our Performance Fibers business in our Specialty Materials reportable segment. The Performance Fibers business was sold in the fourth quarter of 2004. Business impairment charges in 2002 related to the write-down of property, plant and equipment of businesses in our Specialty Materials and Automation and Control Solutions reportable segments and of our Friction Materials business. See the repositioning and other charges section of this MD&A for further details.

**Equity in (Income) Loss of Affiliated Companies**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in millions)		
Equity in (income) loss of affiliated companies	\$ (82)	\$ (38)	\$ (42)

Equity income increased by \$44 million in 2004 compared with 2003 due primarily to an improvement in earnings from our UOP process technology joint venture (UOP). Equity income decreased by \$4 million in 2003 compared with 2002 due to a charge of \$2 million in 2003 related to the sale of a Specialty Materials' equity investee's investment. Also, 2002 included income of \$15 million resulting from exiting joint ventures in our Aerospace and Transportation Systems reportable segments partially offset by a charge of \$13 million for severance actions by UOP.

**Other (Income) Expense**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(Dollars in millions)		
Other (income) expense	\$ (92)	\$ 19	\$ (4)

Other income increased by \$111 million in 2004 compared with 2003 due principally to a decrease in foreign exchange losses of \$93 million in the current year due to a reduction in foreign exchange exposures resulting in losses in 2003 due to a weak U.S. dollar, a gain of \$27 million related to the settlement of a patent infringement lawsuit and an increase in interest income of \$13 million from higher cash balances, partially offset by the inclusion of a gain of \$20 million in the prior year related to the settlement of a patent infringement lawsuit. Other expense increased by \$23 million in 2003 compared with 2002 due principally to an increase of \$65 million in foreign exchange losses resulting from weakness in the U.S. dollar mainly against the EURO partially offset by a gain of \$20 million related to a settlement of a patent infringement lawsuit and an increase of \$19 million in interest income from higher cash balances.

## Interest and Other Financial Charges

	2004	2003	2002
		(Dollars in millions)	
Interest and other financial charges	\$ 331	\$ 335	\$ 344
% change compared with prior year	(1)%	(3)%	(15)%

Interest and other financial charges decreased by 1 percent in 2004 compared with 2003 due principally to lower average short-term debt outstanding in the current year. Interest and other financial charges decreased by 3 percent in 2003 compared with 2002 due principally to lower average interest rates.

## Tax Expense (Benefit)

	2004	2003	2002
		(Dollars in millions)	
Tax expense (benefit)	\$ 399	\$ 296	\$ (725)
Effective tax (benefit) rate	23.8%	18.0%	(76.7)%

The effective tax (benefit) rate in 2004, 2003 and 2002 was different than the statutory rate of 35 percent due in part to tax benefits from export sales, favorable tax audit settlements and foreign tax planning strategies. The effective tax rate in 2003 also includes tax benefits expected to be realized as a result of the redesignation of our Friction Materials business from held for sale to held and used resulting from the termination of discussions with Federal-Mogul Corp. The effective (benefit) rate in 2002 included the tax benefit resulting from a higher deductible tax basis than book basis related to sales of our Advanced Circuits, PFC and Consumer Products businesses. The impact of tax benefits from export sales, U.S. tax credits and favorable audit settlements had a more favorable impact on our effective (benefit) rate in 2002 principally due to the relative amount of these benefits in comparison to the amount of our pretax loss in 2002. See Note 7 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further information on taxes including a detailed effective tax rate reconciliation.

The American Jobs Creation Act of 2004, signed into law in October 2004, provides for a variety of changes in the tax law including incentives to repatriate undistributed earnings of foreign subsidiaries, a phased elimination of the extra-territorial income exclusion, and a domestic manufacturing benefit. More specifically, the Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned outside the U.S. by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and currently, uncertainty remains as to how to interpret numerous provisions in the Act. As such, we are not in a position to determine whether, and to what extent, we might repatriate foreign earnings. Based on our analysis to date, however, it is reasonably possible that we may repatriate some amount up to approximately \$2.6 billion. We estimate the income tax effects of repatriating \$2.6 billion to be approximately \$150 to \$350 million. Honeywell has not provided for U.S. federal income and foreign withholding taxes on \$3.9 billion of undistributed earnings from non-U.S. operations as of December 31, 2004. Until our analysis of the Act is completed, we will continue to permanently reinvest those earnings. We expect to finalize our assessment later in 2005.

The extra-territorial income exclusion (ETI) for foreign sales will be phased-out over two years beginning in 2005. The deduction for income from qualified domestic production activities will be phased-in from 2005 through 2010. Similar to the ETI benefit, the domestic manufacturing benefit has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our federal income tax return. We are currently assessing the details of the Act and the net effect of the phase-out of the ETI and the phase-in of this new deduction. We expect to complete our analysis later in 2005. Until such time, it is not possible to determine what impact this legislation will have on our consolidated tax accruals or effective tax rate.

**Net Income (Loss)**

	2004	2003	2002
	(Dollars in millions, except per share amounts)		
Net income (loss)	\$ 1,281	\$ 1,324	\$ (220)
Earnings (loss) per share of common stock—assuming dilution	\$ 1.49	\$ 1.54	\$ (0.27)

The decrease of \$0.05 per share in 2004 compared with 2003 relates primarily to increased charges for environmental matters primarily attributable to the denial of our appeal in the matter entitled *Interfaith Community Organization et. al. v. Honeywell International Inc. et. al.* (See Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data") and higher pension and other postretirement benefits expense, partially offset by an increase in segment profit across all reportable segments. The increase of \$1.81 per share in 2003 compared with 2002 mainly relates to a decrease in repositioning and other charges partially offset by the impact of higher pension expense and lower sales of higher-margin products and services, principally in our Aerospace and Automation and Control Solutions reportable segments.

**Review of Business Segments**

	2004	2003	2002
	(Dollars in millions)		
<b>Net Sales</b>			
Aerospace	\$ 9,748	\$ 8,813	\$ 8,855
Automation and Control Solutions	8,031	7,464	6,978
Specialty Materials	3,497	3,169	3,205
Transportation Systems	4,323	3,650	3,184
Corporate	2	7	52
	<u>\$ 25,601</u>	<u>\$ 23,103</u>	<u>\$ 22,274</u>
<b>Segment Profit</b>			
Aerospace	\$ 1,479	\$ 1,221	\$ 1,308
Automation and Control Solutions	894	843	860
Specialty Materials	184	136	90
Transportation Systems	575	461	393
Corporate	(158)	(142)	(154)
	<u>\$ 2,974</u>	<u>\$ 2,519</u>	<u>\$ 2,497</u>

A reconciliation of segment profit to income (loss) before taxes and cumulative effect of accounting change follows:

	2004	2003	2002
	(Dollars in millions)		
Segment profit	\$ 2,974	\$ 2,519	\$ 2,497
Gain (loss) on sale of non-strategic businesses	255	38	(124)
Asbestos related litigation charges, net of insurance	(76)	—	(1,548)
Business impairment charges	(42)	—	(877)
Repositioning and other charges(1)	(646)	(276)	(606)
Pension and other postretirement benefits (expense) income(1)	(628)	(325)	11
Equity in income (loss) of affiliated companies	82	38	42
Other income (expense)	92	(19)	4
Interest and other financial charges	(331)	(335)	(344)
Income (loss) before taxes and cumulative effect of accounting change	<u>\$ 1,680</u>	<u>\$ 1,640</u>	<u>\$ (945)</u>

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

## Aerospace

	2004	2003	2002
	(Dollars in millions)		
Net sales	\$ 9,748	\$ 8,813	\$ 8,855
% change compared with prior year	11%	—%	(8)%
Segment profit	\$ 1,479	\$ 1,221	\$ 1,308
% change compared with prior year	21%	(7)%	(18)%

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

Market Segment	% of Aerospace Sales			% Change in Sales	
	2004	2003	2002	2004 Versus 2003	2003 Versus 2002
<b>Commercial:</b>					
Air transport aftermarket	22%	21%	20%	19%	(1)%
Air transport original equipment	9	9	11	5	(16)
Regional transport aftermarket	8	9	9	11	(8)
Regional transport original equipment	3	2	2	48	(15)
Business and general aviation aftermarket	8	8	8	13	6
Business and general aviation original equipment	7	6	8	27	(21)
<b>Defense and Space:</b>					
Defense and space aftermarket	13	13	11	7	16
Defense and space original equipment	30	32	31	6	4
Total	100%	100%	100%	11%	—%

Details of the changes in sales for both 2004 and 2003 by customer end-markets were as follows:

- Despite the continuing financial problems being experienced by many of the commercial airlines, air transport aftermarket sales improved substantially in 2004 primarily related to a 10 percent increase in global flying hours, the reintroduction of aircraft into service which were previously parked in the desert, a replenishment of spare parts inventories by the airlines and growth in low cost carriers. Additionally, global flying hours in 2003 were adversely impacted as a result of the SARS epidemic. Sales also improved due to an increase in upgrades and retrofits of avionics equipment (ground proximity warning systems) to meet new regulatory standards. Air transport aftermarket sales were adversely impacted in 2003 by a decrease in global flying hours of 1 percent and the financial problems being experienced by many of the commercial airlines. The global flying hours and sales decline trends began in 2001 and was exacerbated by the abrupt downturn in the aviation industry following the terrorists attacks on September 11, 2001 and the SARS epidemic in 2003. While sales of repair and overhaul services started to improve in 2003 signaling increased maintenance and out-sourcing activity by the major airlines, discretionary spending by airlines for purchases of spare parts for replacements and upgrades continued to be weak.
- Air transport original equipment (OE) sales increased in 2004 primarily reflecting higher aircraft deliveries by our OE customers (primarily Airbus and Boeing) as aircraft orders by the commercial airlines began to improve. Air transport OE sales decreased significantly in 2003 reflecting dramatically lower deliveries by our OE customers due to reduced aircraft orders by commercial airlines.
- Regional transport aftermarket sales increased in 2004 due primarily to an increase in fleet sizes and routes of regional carriers and the introduction of the Primus Epic integrated avionics

system. Regional aftermarket sales decreased in 2003 due mainly to lower sales of spare parts to regional airline operators.

- Business and general aviation aftermarket sales were higher in 2004 as an improving economy drove increased utilization of corporate aircraft. Also, there was an increase in upgrade activity in avionics equipment (RVSM) to meet new regulatory standards. Business and general aviation aftermarket sales also increased in 2003 largely due to higher repair and overhaul activity in the fractional jet market.
- Business and general aviation OE sales improved in 2004 due primarily to deliveries of the Primus Epic integrated avionics system and HTF7000 engine to business jet OE manufacturers. Business and general aviation OE sales were lower in 2003 reflecting a decline in projected deliveries of business jet airplanes due to weakness in the demand for fractional interests in aircraft and corporate profitability.
- Defense and space OE sales increased in both 2004 and 2003 due principally to war-related activities, continued growth in precision munitions and increases in restricted space programs.
- Defense and space aftermarket sales were strong in both 2004 and 2003 driven by war-related activities resulting in increases in repairs, platform upgrades and modifications for fixed, rotary wing and ground vehicles.

Aerospace segment profit in 2004 increased by 21 percent compared with 2003 due primarily to an increase in sales of higher margin commercial aftermarket products and services and volume growth. This increase was partially offset by higher development expense associated with new programs and an increase in spending for information technology systems. Aerospace segment profit in 2003 decreased by 7 percent compared with 2002 due mainly to lower sales of commercial original equipment and higher-margin commercial aftermarket spare parts.

Trends which may impact Aerospace operating results in 2005 include:

- Global flying hours improved by 10 percent in 2004 and are expected to increase again in 2005 (5 to 6 percent).
- The financial condition of major commercial airlines continues to be a concern due mainly to high fuel costs and intense fare competition.
- The extent to which increased military activity is offset by lower OE sales due to program completions and reductions.
- The magnitude of an expected increase in aircraft orders and deliveries in the air transport, business and general aviation segments.

#### Automation and Control Solutions

	2004	2003	2002
	(Dollars in millions)		
Net sales	\$ 8,031	\$ 7,464	\$ 6,978
% change compared with prior year	8%	7%	(3)%
Segment profit	\$ 894	\$ 843	\$ 860
% change compared with prior year	6%	(2)%	11%

Automation and Control Solutions sales in 2004 increased by 8 percent compared with 2003 due to higher volumes of 5 percent and the favorable effect of foreign exchange of 4 percent, partially offset by the impact of lower prices of 1 percent. Sales increased by 9 percent for our Automation and Control Products businesses due principally to strong sales of fire solutions, environmental controls and sensor products, and the favorable effects of foreign exchange and acquisitions. Sales for our Process Solutions business increased by 8 percent due primarily to the favorable effect of foreign exchange and improvement in industrial production and capital spending. Sales for our Building Solutions business increased by 5 percent due primarily to the favorable effect of foreign exchange and the impact of investments in sales and marketing initiatives, partially offset by the divestiture of our Security

Monitoring business. Automation and Control Solutions sales in 2003 increased by 7 percent compared with 2002 due to favorable effects of foreign exchange of 5 percent and acquisitions, net of the disposition of our Consumer Products business, of 4 percent, partially offset by the impact of lower prices and volumes of 1 percent each. Sales increased by 11 percent for our Automation and Control Products businesses as the favorable effects of foreign exchange and acquisitions, mainly Invensys Sensor Systems (Invensys), more than offset the impact of the disposition of our Consumer Products business and lower volumes. Sales for our Process Solutions business increased by 4 percent due to the favorable effect of foreign exchange partially offset by lower unit volumes. Sales for our Building Solutions business increased by 2 percent as the favorable effect of foreign exchange more than offset lower volumes due to continued softness in the non-residential construction market.

Automation and Control Solutions segment profit in 2004 increased by 6 percent compared with 2003 due to the favorable effect of higher sales volumes partially offset by increased investments in sales and marketing initiatives and higher research and development costs to support new product introductions. Automation and Control Solutions segment profit in 2003 decreased by 2 percent compared with 2002 due mainly to the decline in higher-margin energy-retrofit and discretionary spot sales in our Building Solutions business, and increased research and development expense and investments in sales and marketing initiatives, mainly in our Automation and Control Products and Building Solutions businesses, respectively. Segment profit was also adversely impacted in 2003 by pricing pressures mainly in our Automation and Control Products and Process Solutions businesses.

Trends which may impact Automation and Control Solutions operating results in 2005 include:

- Extent, if any, of recovery in non-residential construction spending and capital spending on building and process automation.
- Consolidation in the fire and security industry may result in increased competition.

## Specialty Materials

	2004	2003	2002
	(Dollars in millions)		
Net sales	\$ 3,497	\$ 3,169	\$ 3,205
% change compared with prior year	10%	(1)%	(3)%
Segment profit	\$ 184	\$ 136	\$ 90
% change compared with prior year	35%	51%	61%

Specialty Materials sales in 2004 increased by 10 percent compared with 2003 due to the impact of higher prices of 6 percent (mainly in our Nylon System business), higher volumes of 5 percent and the favorable effect of foreign exchange of 1 percent, partially offset by prior year divestitures, net of acquisitions, of 2 percent. Sales for our Chemicals business improved by 19 percent driven principally by continuing strong demand for our non-ozone depleting HFC products for refrigeration and air conditioning applications, as well as for blowing agents for insulation applications. Sales for our Electronic Materials business increased by 13 percent driven by improvement in the semiconductor industry. Sales for our Performance Products business were also higher by 13 percent due to strong demand for our Spectra fiber, principally from the U.S. military. Specialty Materials sales in 2003 decreased by 1 percent compared with 2002 due to the impact of the divestitures of our Advanced Circuits, PFC and Engineering Plastics businesses, net of the acquisition of BASF's nylon fiber business, of 6 percent partially offset by the favorable effects of foreign exchange of 3 percent and higher volumes of 2 percent. Higher volumes were principally driven by strong demand for Spectra fiber from the U.S. military, increasing demand for HFCs, a key component of many non-ozone depleting refrigerants and foam blowing agents and increased demand for electronic materials from the semiconductor industry. Volumes were adversely affected in 2003 by the temporary plant shutdowns in our Fluorocarbons and Nylon System businesses.

Specialty Materials segment profit in 2004 increased by 35 percent compared with 2003 due principally to higher sales volumes and price increases, partially offset by higher raw material costs (principally phenol resulting from increases in benzene prices) mainly in our Nylon System business.



Additionally segment profit in 2003 was adversely impacted by temporary plant shutdowns in our Fluorocarbons and Nylon System businesses. Specialty Materials segment profit in 2003 increased by 51 percent compared with 2002 due mainly to the impact of the prior year write-down of property, plant and equipment in several businesses, the benefits of cost actions including synergies from the nylon transaction, divestitures of non-strategic businesses and higher sales volumes. The increase was partially offset by higher raw material costs (mainly natural gas and phenol resulting from increases in benzene prices) and the impact of the temporary plant shutdowns in our Fluorocarbons and Nylon System businesses.

Trends which may impact Specialty Materials operating results in 2005 include:

- Continued excess global capacity in the production of nylon. The Nylon System business did not perform in accordance with our operating plan in 2004. We have taken certain repositioning actions in 2004 (see repositioning section of this MD&A) and are evaluating other alternatives. Additionally, we continue to evaluate strategic alternatives to maximize the value of this business.
- Degree of volatility in significant raw material costs (natural gas and benzene).
- Extent of change in order rates from global semiconductor customers.

## Transportation Systems

	2004	2003	2002
	(Dollars in millions)		
Net sales	\$ 4,323	\$ 3,650	\$ 3,184
% change compared with prior year	18%	15%	(8)%
Segment profit	\$ 575	\$ 461	\$ 393
% change compared with prior year	25%	17%	28%

Transportation Systems sales in 2004 increased by 18 percent compared with 2003 due primarily to a favorable sales mix and higher volumes of 12 percent and the favorable effect of foreign exchange of 6 percent. The increase in sales for the segment resulted principally from a 29 percent increase in sales in our Honeywell Turbo Technologies business due to a favorable sales mix and volume growth driven by increasing diesel penetration in Europe and strength in the North American truck segment, and the favorable effect of foreign exchange. Sales for our Consumer Products Group business increased by 7 percent driven by strong retail demand for our high-end products and recent introductions of new Autolite, FRAM and Prestone products and the favorable effect of foreign exchange and higher prices (offsetting incremental ethylene glycol raw material costs). Sales for our Friction Materials business increased by 7 percent largely due to the favorable effect of foreign exchange. Transportation Systems sales in 2003 increased by 15 percent compared with 2002 due mainly to the favorable effects of foreign exchange of 9 percent and a favorable sales mix and volume growth of 5 percent. The increase resulted mainly from a 27 percent increase in sales in our Honeywell Turbo Technologies business due to a favorable sales mix and volume growth of 15 percent as worldwide demand for our turbochargers continued to be strong and the favorable effect of foreign exchange of 12 percent.

Transportation Systems segment profit in 2004 increased by 25 percent compared with 2003 due primarily to the effect of favorable sales mix and volume growth in our Honeywell Turbo Technologies business partially offset by higher raw material costs (mostly steel and other metals in each of the segment's businesses and ethylene glycol in our Consumer Products Group business). Transportation Systems segment profit in 2003 increased by 17 percent compared with 2002 as the effect of higher sales in our Honeywell Turbo Technologies business was partially offset by higher new product development and introduction and facility relocations expenses, and lower aftermarket sales at our Friction Materials business.

Trends which may impact Transportation Systems operating results in 2005 include:

- Rate of increase in global diesel and gasoline turbocharger OEM demand arising from continued penetration of diesel passenger cars into the European market, and North America truck shipments.
- The adoption of regulations aimed at reducing emissions.
- Change in consumer spending for automotive aftermarket products.

## Repositioning and Other Charges

A summary of repositioning and other charges follows:

	2004	2003	2002
	(Dollars in millions)		
Severance	\$ 85	\$ 69	\$ 270
Asset impairments	21	6	121
Exit costs	10	7	62
Reserve adjustments	(28)	(69)	(76)
<b>Total net repositioning charge</b>	<b>88</b>	<b>13</b>	<b>377</b>
Asbestos related litigation charges, net of insurance	76	—	1,548
Other probable and reasonably estimable legal and environmental liabilities	565	261	30
Business impairment charges	42	—	877
Customer claims and settlements of contract liabilities	(10)	—	152
Write-offs of receivables, inventories and other assets	14	2	60
Investment impairment charges	—	2	15
<b>Total net repositioning and other charges</b>	<b>\$ 775</b>	<b>\$ 278</b>	<b>\$ 3,059</b>

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

	2004	2003	2002
	(Dollars in millions)		
Cost of products and services sold	\$ 621	\$ 272	\$ 561
Selling, general and administrative expenses	25	4	45
Asbestos related litigation charges, net of insurance	76	—	1,548
Business impairment charges	42	—	877
Equity in (income) loss of affiliated companies	6	2	13
Other (income) expense	5	—	15
	<b>\$ 775</b>	<b>\$ 278</b>	<b>\$ 3,059</b>

In 2004, we recognized repositioning charges totaling \$116 million primarily for severance costs related to workforce reductions of 2,272 manufacturing and administrative positions across all of our reportable segments. Also, \$28 million of previously established accruals, primarily for severance, were returned to income in 2004, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities principally in our Automation and Control Solutions reportable segment.

In 2003, we recognized repositioning charges totaling \$82 million primarily for severance costs related to workforce reductions of 1,501 manufacturing and administrative positions across all of our reportable segments. Also, \$69 million of previously established accruals, primarily for severance, were returned to income in 2003, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities in our Automation and Control Solutions, Aerospace and Specialty Materials reportable segments.

In 2002, we recognized repositioning charges totaling \$453 million for workforce reductions across all of our reportable segments and our UOP process technology joint venture. The charge also related to costs for the planned shutdown and consolidation of manufacturing plants in our Specialty Materials and Automation and Control Solutions reportable segments. Severance costs related to announced workforce reductions of approximately 8,100 manufacturing and administrative positions. Asset impairments principally related to manufacturing plant and equipment held for sale and capable of being taken out of service and actively marketed in the period of impairment. Exit costs related principally to incremental costs to exit facilities, including lease termination losses negotiated or subject to reasonable estimation related mainly to closed facilities in our Automation and Control Solutions and Specialty Materials reportable segments. Also, \$76 million of previously established severance accruals were returned to income in 2002, due to fewer employee separations than originally planned associated with certain prior repositioning actions and higher than expected voluntary employee attrition, resulting in reduced severance liabilities in our Aerospace, Automation and Control Solutions and Specialty Materials reportable segments.

Our 2004 repositioning actions are expected to generate incremental pretax savings of approximately \$75 million in 2005 compared with 2004 principally from planned workforce reductions. Cash expenditures for severance and other exit costs necessary to execute our repositioning actions were \$164, \$200 and \$447 million in 2004, 2003 and 2002, respectively. Such expenditures for severance and other exit costs have been funded principally through operating cash flows. Cash expenditures for severance and other exit costs necessary to execute the remaining actions will approximate \$100 million in 2005 and will be funded principally through operating cash flows.

In 2004, we recognized a charge of \$565 million for other probable and reasonably estimable legal and environmental liabilities. This includes \$536 million for legacy environmental liabilities, primarily related to the denial of our appeal of the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.*, and estimated liabilities for remediation of environmental conditions in and around Onondaga Lake in Syracuse, New York. Both of these environmental matters are discussed in further detail in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data." We recognized a charge of \$29 million for various legal settlements including property damage claims in our Automation and Control Solutions reportable segment. We recognized a charge of \$76 million primarily for Bendix related asbestos claims and defense costs incurred in 2004 including an update of expected resolution values with respect to pending claims. The charge was net of probable Bendix related insurance recoveries and an additional \$47 million of NARCO insurance deemed probable of recovery. See Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion. We recognized an impairment charge of \$42 million in the second quarter of 2004 related principally to the write-down of property, plant and equipment of our Performance Fibers business in our Specialty Materials reportable segment. This business was sold in December 2004. We recognized a charge of \$14 million for the write-off of receivables, inventories and other assets. We also reversed a reserve of \$10 million established in the prior year for a contract settlement.

In 2003, we recognized a charge of \$261 million for other probable and reasonably estimable legal and environmental liabilities. This included \$235 million for environmental liabilities mainly related to the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.* and for remediation of environmental conditions in and around Onondaga Lake in Syracuse, New York, both as discussed in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data." We also recognized a charge of \$4 million in our Specialty Materials reportable segment including a loss on sale of an investment owned by an equity investee.

In 2002, we recognized business impairment charges of \$877 million related to businesses in our Specialty Materials and Automation and Control Solutions reportable segments, as well as our Friction Materials business. Based on current operating losses and deteriorating economic conditions in certain chemical and telecommunications end-markets, we performed impairment tests and recognized impairment charges of \$785 million principally related to the write-down of property, plant and equipment held and used in our Nylon System, Performance Fibers and Metglas Specialty Materials businesses, as well as an Automation and Control Solutions communication business. We also

recognized impairment charges of \$92 million related principally to the write-down of property, plant and equipment of our Friction Materials business, which was classified as assets held for disposal in Other Current Assets as of December 31, 2002. A plan of disposal of Friction Materials was adopted in 2001; in January 2003, we entered into a letter of intent to sell this business to Federal-Mogul Corp. The assets were reclassified from held for sale to held and used as of December 31, 2003 following the cessation of negotiations to sell our Friction Materials business to Federal-Mogul Corp. At that time, no adjustment to the carrying value of Friction Materials' assets was required based on a current reassessment of the fair value of those assets. Such reassessment of the fair value of the property, plant and equipment was performed using discounted estimated future cash flows of the business. The fair value approximated the written-down held for sale value and was also less than the carrying amount of the property, plant and equipment prior to being classified as held for sale, adjusted for depreciation expense that would have otherwise been recognized had these assets been classified as held and used (see Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion). We recognized asbestos related litigation charges of \$1,548 million principally related to costs associated with the potential resolution of asbestos claims of NARCO (see Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion). We also recognized other charges consisting of customer claims and settlements of contract liabilities of \$152 million and write-offs of receivables, inventories and other assets of \$60 million. These other charges related mainly to our Advanced Circuits business, bankruptcy of a customer in our Aerospace reportable segment, and customer claims in our Aerospace and Automation and Control Solutions reportable segments. Additionally, we recognized other charges consisting of other probable and reasonably estimable environmental liabilities of \$30 million and write-offs related to an other than temporary decline in the value of certain equity investments of \$15 million.

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

#### Aerospace

	2004	2003	2002
	(Dollars in millions)		
Net repositioning charge	\$ 5	\$ 10	\$ 15
Customer claims and settlements of contract liabilities	(10)	—	99
Write-offs of receivables, inventories and other assets	—	—	21
Investment impairment charges	—	—	11
	<u>\$ (5)</u>	<u>\$ 10</u>	<u>\$ 146</u>

#### Automation and Control Solutions

	2004	2003	2002
	(Dollars in millions)		
Net repositioning charge	\$ 15	\$ (22)	\$ 131
Other probable and reasonably estimable legal and environmental liabilities	13	—	—
Business impairment charges	—	—	22
Customer claims and settlements of contract liabilities	—	—	42
Write-offs of receivables, inventories and other assets	—	—	17
	<u>\$ 28</u>	<u>\$ (22)</u>	<u>\$ 212</u>

## Specialty Materials

	2004	2003	2002
	(Dollars in millions)		
Net repositioning charge	\$ 36	\$ 16	\$ 167
Other probable and reasonably estimable legal and environmental liabilities	9	—	23
Business impairment charges	42	—	763
Customer claims and settlements of contract liabilities	—	—	11
Write-offs of receivables, inventories and other assets	3	2	12
Investment impairment charges	—	2	—
	<u>\$ 90</u>	<u>\$ 20</u>	<u>\$ 976</u>

## Transportation Systems

	2004	2003	2002
	(Dollars in millions)		
Net repositioning charge	\$ 26	\$ 5	\$ 26
Asbestos related litigation charges, net of insurance	120	—	167
Other probable and reasonably estimable legal and environmental liabilities	—	11	—
Business impairment charges	—	—	92
Write-offs of receivables, inventories and other assets	1	—	10
	<u>\$ 147</u>	<u>\$ 16</u>	<u>\$ 295</u>

## Corporate

	2004	2003	2002
	(Dollars in millions)		
Net repositioning charge	\$ 6	\$ 4	\$ 38
Asbestos related litigation charges, net of insurance	(44)	—	1,381
Other probable and reasonably estimable legal and environmental liabilities	543	250	7
Write-offs of receivables, inventories and other assets	10	—	—
Investment impairment charges	—	—	4
	<u>\$ 515</u>	<u>\$ 254</u>	<u>\$ 1,430</u>

## LIQUIDITY AND CAPITAL RESOURCES

### 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:

	2004	2003	2002
	(Dollars in millions)		
Cash provided by (used for):			
Operating activities	\$ 2,253	\$ 2,199	\$ 2,380
Investing activities	(584)	(680)	(870)
Financing activities	(1,223)	(895)	(932)
Effect of exchange rate changes on cash	190	305	50
Net increase in cash and cash equivalents	<u>\$ 636</u>	<u>\$ 929</u>	<u>\$ 628</u>

Cash provided by operating activities increased by \$54 million during 2004 compared with 2003 due primarily to increased cash earnings and a decrease in voluntary U.S. pension contributions of

\$630 million. The increase in cash provided by operating activities was partially offset by an increase in net asbestos related liability payments of \$558 million as the prior year included \$472 million in cash received from Equitas related to a comprehensive policy buy-back settlement, and an increase in working capital (receivables, inventories and accounts payable), usage of \$268 million principally related to higher sales and a weakening of the U.S. dollar versus the Euro and Canadian dollar throughout 2004. Cash provided by operating activities decreased by \$181 million during 2003 compared with 2002 mainly due to a \$540 million increase in voluntary U.S. pension contributions as well as an increase in working capital usage due primarily to a weakening of the U.S. dollar versus the Euro and Canadian dollar throughout 2003. The decrease was partially offset by reduced severance and exit costs payments of \$247 million, lower litigation payments of \$222 million, as well as insurance receipts in excess of asbestos liability payments of \$107 million during 2003.

Cash used for investing activities decreased by \$96 million during 2004 compared with 2003 due primarily to an increase in proceeds from sales of businesses of \$289 million largely from the dispositions of our Security Monitoring and VCSEL Optical Products businesses in the current year. Additionally, proceeds from the maturity of investment securities were \$80 million in 2004. The decrease in cash used for investing activities was partially offset by an increase in spending for acquisitions of \$185 million due principally to various acquisitions in our Automation and Control Solutions reportable segment and an investment of \$115 million in auction rate securities. Cash used for investing activities decreased by \$190 million during 2003 compared with 2002 due mainly to reduced spending of \$321 million for acquisitions, principally reflecting the acquisition of Invensys in October 2002. The decrease was partially offset by reduced proceeds from sales of investments of \$91 million related to the disposition of a cost investment in our Automation and Control Solutions reportable segment in 2002, and reduced proceeds from sales of businesses of \$46 million. Proceeds from business sales in 2003 resulted from the sale of certain non-core Specialty Materials (Engineering Plastics, Rudolstadt and Metglas) and Aerospace (Honeywell Aerospace Defense Services) businesses.

Cash used for financing activities increased by \$328 million during 2004 compared with 2003 due primarily to an increase in repurchases of common stock of \$687 million in connection with our stock repurchase program announced in November 2003 partially offset by a reduction in debt repayments, net of issuances, of \$337 million in 2004. Total debt of \$5,273 million at December 31, 2004 was \$113 million, or 2 percent higher than at December 31, 2003 principally reflecting higher commercial paper borrowings to fund our share repurchases in 2004. Cash used for financing activities decreased by \$37 million during 2003 compared with 2002 mainly due to lower net debt repayments in 2003, partially offset by cash used to repurchase shares in the fourth quarter of 2003. Total debt of \$5,160 million at December 31, 2003 was \$71 million, or 1 percent higher than at December 31, 2002 principally reflecting the assumption of \$267 million of debt associated with the purchase of assets under operating leases partially offset by lower short-term borrowings.

We had approximately \$3.4 and \$2.6 billion of cash and cash equivalents held by non-U.S. subsidiaries mainly in local currencies (principally the Euro, Canadian dollar, and Australian dollar) at December 31, 2004 and 2003, respectively. The \$190 and \$305 million increases in cash and cash equivalents in 2004 and 2003, respectively, due to exchange rate changes, principally resulted from a weakening of the U.S. dollar mainly against the Euro and Canadian dollar throughout 2004 and 2003. We manage our worldwide cash requirements considering available cash balances and the most cost effective method to access those cash balances. The repatriation of cash balances from some non-U.S. subsidiaries to the U.S. could have U.S. tax consequences (see discussion of American Jobs Creation Act of 2004 in Note 7 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data"); however, substantially all cash balances held by non-U.S. subsidiaries are available without legal restrictions to fund business operations.

## **Liquidity**

We manage our businesses to maximize operating cash flows as the primary source of our liquidity. Operating cash flows were \$2.3 billion in 2004. We have approximately \$3.6 billion in cash and cash equivalents and \$4.8 billion in working capital (receivables, inventories and accounts payable).

Each of our businesses continues to focus on strategies to improve working capital turnover in 2005 to increase operating cash flows. Considering the current economic environment in which each of our businesses operate and our business plans and strategies, including our focus on growth, cost reduction and productivity initiatives, we believe that our cash balances and operating cash flows will remain our principal source of liquidity. In addition to our available cash and operating cash flows, additional sources of liquidity include committed credit lines, access to the public debt and equity markets using debt and equity securities, including commercial paper, as well as our ability to sell trade accounts receivables.

A source of liquidity is our ability to issue short-term debt in the commercial paper market. Our ability to access the commercial paper market, and the related cost of these borrowings, is affected by the strength of our credit ratings and our \$2.3 billion of committed bank revolving credit facilities (Revolving Credit Facilities). Our credit ratings are periodically reviewed by the major independent debt-rating agencies. In 2004, Standard and Poor's and Fitch Rating Services affirmed their corporate ratings on our long-term debt, A and A+, respectively, and short-term debt A-1 and F1, respectively, and revised Honeywell's outlook from "negative" to "stable". Moody's Investors Service affirmed its corporate rating on our long-term and short-term debt of A2 and P-1, respectively. Our credit rating provided by Moody's Investors Service reflects a "negative outlook" due principally to the cyclical market conditions in the commercial air transport industry, our potential exposure to asbestos liabilities, and the existence of integration risk associated with our recently announced acquisition of Novar plc (expected to be completed in the first quarter of 2005). The "negative outlook" has not impaired, nor do we expect it to impair, our access to the commercial paper markets.

Commercial paper notes are sold at a discount and have a maturity of not more than 270 days from date of issuance. Borrowings under the commercial paper program are available for general corporate purposes as well as for financing potential acquisitions. There was \$220 million of commercial paper outstanding at December 31, 2004.

Our \$2.3 billion of Revolving Credit Facilities are maintained with a group of banks, arranged by Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., and comprises: (a) a \$1 billion Five-Year Credit Agreement and (b) a \$1.3 billion Five-Year Credit Agreement. The credit agreements are maintained for general corporate purposes, including support for the issuance of commercial paper. The \$1 billion Five-Year Credit Agreement was put in place on October 22, 2004, replacing a \$1 billion 364-Day Credit Agreement which was expiring on November 24, 2004. This newly established Five-Year credit facility includes a \$200 million sub-limit for the potential issuance of letters of credit. The \$1.3 billion Five-Year Credit Agreement was increased in November 2003 with the addition of a \$300 million sub-limit for the potential issuance of letters of credit. See Note 15 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

We also have a shelf registration statement filed with the Securities and Exchange Commission which allows us to issue up to \$3 billion in debt securities, common stock and preferred stock that may be offered in one or more offerings on terms to be determined at the time of the offering. Net proceeds of any offering would be used for general corporate purposes, including repayment of existing indebtedness, capital expenditures and acquisitions.

We also sell interests in designated pools of trade accounts receivables to third parties. The sold receivables were over-collateralized by \$120 million at December 31, 2004 and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables pools. New receivables are sold under the agreement as previously sold receivables are collected. The retained interests in the receivables are reflected at the amounts expected to be collected by us, and such carrying value approximates the fair value of our retained interests. The sold receivables were \$500 million at both December 31, 2004 and 2003.

In addition to our normal operating cash requirements, our principal future cash requirements will be to fund capital expenditures, debt repayments, employee benefit obligations, environmental remediation costs, asbestos claims, severance and exit costs related to repositioning actions, share repurchases and any strategic acquisitions. Our total capital expenditures in 2005 are currently projected at approximately \$775 million. These expenditures are primarily intended for maintenance,

replacement, production capacity expansion, cost reduction and growth. There are \$956 million of long-term debt repayments scheduled for 2005. Assuming that actual pension plan returns are consistent with our expected rate of return of 9 percent in 2005 and beyond and that interest rates remain constant, we would not be required to make any contributions to our U.S. pension plans for the foreseeable future. Due to share repurchases made in the fourth quarter of 2004 to offset the anticipated 2005 dilutive impact of employee stock-based compensation plans, we do not anticipate the need for additional share repurchases in 2005 under the program initiated in the fourth quarter of 2003. Total repurchases may vary depending on market conditions and the level of other investing activities. Cash expenditures for severance and other exit costs necessary to execute the remaining repositioning actions will approximate \$100 million in 2005. We expect our cash expenditures for asbestos claims in 2005 to be approximately \$744 million and insurance recoveries to be approximately \$150 million in 2005. See Asbestos Matters in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion. As discussed in Note 2 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data," we expect to complete our acquisition of Novar plc in the first quarter of 2005. We expect to fund the acquisition with existing cash resources.

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 business units that do not fit into our long-term strategic plan based on their market position, relative profitability or growth potential. These business units are considered for potential divestiture, restructuring or other repositioning actions subject to regulatory constraints. In 2004, we realized \$426 million in cash proceeds from sales of non-strategic businesses.

We believe that our operating cash flows will be sufficient to meet our future cash needs. Our available cash, committed credit lines, access to the public debt and equity markets using debt and equity securities, including commercial paper, as well as our ability to sell trade accounts receivables, provide additional sources of short-term and long-term liquidity to fund current operations and future investment opportunities. Based on our current financial position and expected economic performance, we do not believe that our liquidity will be adversely impacted by an inability to access our sources of financing.

### Contractual Obligations and Probable Liability Payments

Following is a summary of our significant contractual obligations and probable liability payments at December 31, 2004:

	Payments by Period				
	Total	2005	2006-2007	2008-2009	Thereafter
	(Dollars in millions)				
Long-term debt, including capitalized leases(1)	\$ 5,025	\$ 956	\$ 1,385	\$ 611	\$ 2,073
Minimum operating lease payments	1,028	289	369	197	173
Purchase obligations(2)	2,663	334	1,104	302	923
Estimated environmental liability payments	895	267	260	260	108
Asbestos related liability payments(3)	2,750	744	860	286	860
	<u>12,361</u>	<u>2,590</u>	<u>3,978</u>	<u>1,656</u>	<u>4,137</u>
Asbestos insurance recoveries(4)	(1,562)	(150)	(280)	(240)	(892)
	<u>\$ 10,799</u>	<u>\$ 2,440</u>	<u>\$ 3,698</u>	<u>\$ 1,416</u>	<u>\$ 3,245</u>

(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) These amounts are estimates of asbestos related cash payments for NARCO and Bendix. NARCO estimated payments are based on the terms and conditions, including evidentiary requirements, specified in the definitive agreements or agreements in principle and pursuant to Trust Distribution Procedures. Bendix payments are based on our estimate of pending claims. Projecting future events is subject to many uncertainties that could cause asbestos liabilities to be higher or lower than those projected and recorded. There is no assurance that NARCO or Bendix insurance recoveries will be timely, that a NARCO plan of reorganization will be proposed or confirmed, or whether there will be any NARCO related asbestos claims beyond 2018. See Asbestos Matters in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data".
- (4) These amounts represent probable insurance recoveries through 2018. See Asbestos Matters in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

The table excludes our pension and other postretirement benefits (OPEB) obligations. We made voluntary contributions of \$40, \$670 and \$830 million to our U.S. pension plans in 2004, 2003 and 2002, respectively. Future plan contributions are dependent upon actual plan asset returns and interest rates. Assuming that actual plan asset returns are consistent with our expected plan return of 9 percent in 2005 and beyond, and that interest rates remain constant, we would not be required to make any contributions to our U.S. pension plans for the foreseeable future. Payments due under our OPEB plans are not required to be funded in advance, but are paid as medical costs are incurred by covered retiree populations, and are principally dependent upon the future cost of retiree medical benefits under our plans. We expect our OPEB payments to approximate \$208 million in 2005. See Note 22 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion of our pension and OPEB plans.

#### Off-Balance Sheet Arrangements

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

**Guarantees**—We have issued or are a party to the following direct and indirect guarantees at December 31, 2004:

	Maximum Potential Future Payments
	(Dollars in millions)
Operating lease residual values	\$ 47
Other third parties' financing	4
Unconsolidated affiliates' financing	7
Customer and vendor financing	35
	<u>\$ 93</u>

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

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

**Retained Interests in Factored Pools of Trade Accounts Receivables**—As a source of liquidity, we sell interests in designated pools of trade accounts receivables to third parties. The sold receivables (\$500 million at December 31, 2004) are over-collateralized and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables pools. The over-collateralization provides credit support to the purchasers of the receivable interest by limiting their losses in the event that a portion of the

receivables sold becomes uncollectible. At December 31, 2004, our retained subordinated and undivided interests at risk were \$120 and \$440 million, respectively. Based on the underlying credit quality of the receivables placed into the designated pools of receivables being sold, we do not expect that any losses related to our retained interests at risk will have a material adverse effect on our consolidated results of operations, financial position or liquidity.

## **Environmental Matters**

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

With respect to environmental matters involving site contamination, we continually conduct studies, individually or jointly with other responsible parties, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy (see Note 1 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data") to record appropriate liabilities for environmental matters when remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonable possible environmental loss in excess of our accrual. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

Remedial response and voluntary cleanup expenditures were \$248, \$77 and \$81 million in 2004, 2003, and 2002, respectively, and are currently estimated to be approximately \$267 million in 2005. We expect to fund such expenditures from operating cash flow.

Remedial response and voluntary cleanup costs charged against pretax earnings were \$536, \$235 and \$60 million in 2004, 2003 and 2002, respectively. At December 31, 2004 and 2003, the recorded liability for environmental matters was \$895 and \$593 million, respectively. In addition, in 2004 and 2003 we incurred operating costs for ongoing businesses of approximately \$116 and \$80 million, respectively, relating to compliance with environmental regulations.

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

See Note 3 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of our legal and environmental charges and Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of our commitments and contingencies, including those related to environmental matters and toxic tort litigation.

## Financial Instruments

As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates and commodity prices, which may adversely affect our operating results and financial position. We minimize our risks from interest and foreign currency exchange rate and commodity price fluctuations through our normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We do not use derivative financial instruments for trading or other speculative purposes and do not use leveraged derivative financial instruments. A summary of our accounting policies for derivative financial instruments is included in Note 1 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data".

We conduct our business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and anticipated transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency cash flows. We attempt to have all transaction exposures hedged with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency forward and option agreements with third parties. Our principal currency exposures relate to the Euro, the Canadian dollar, British pound, and the U.S. dollar.

Our exposure to market risk from changes in interest rates relates primarily to our debt obligations. As described in Notes 15 and 17 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data", we issue both fixed and variable rate debt and use interest rate swaps to manage our exposure to interest rate movements and reduce overall borrowing costs.

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

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

a 20 percent decrease in the price of the underlying commodity across all maturities at December 31, 2004 and 2003.

	Face or Notional Amount	Carrying Value(1)	Fair Value(1)	Estimated Increase (Decrease) In Fair Value
(Dollars in millions)				
<b>December 31, 2004</b>				
<b>Interest Rate Sensitive Instruments</b>				
Long-term debt (including current maturities)	\$ (4,994)	\$ (5,025)	\$ (5,411)	\$ (131)
Interest rate swap agreements	1,218	39	39	(15)
<b>Foreign Exchange Rate Sensitive Instruments</b>				
Foreign currency exchange contracts(2)	790	16	16	(21)
<b>Commodity Price Sensitive Instruments</b>				
Forward commodity contracts(3)	87	8	8	(11)
<b>December 31, 2003</b>				
<b>Interest Rate Sensitive Instruments</b>				
Long-term debt (including current maturities)	\$ (4,947)	\$ (5,008)	\$ (5,508)	\$ (148)
Interest rate swap agreements	1,189	67	67	(26)
<b>Foreign Exchange Rate Sensitive Instruments</b>				
Foreign currency exchange contracts(2)	641	1	1	(32)
<b>Commodity Price Sensitive Instruments</b>				
Forward commodity contracts(3)	50	18	18	(13)

(1) Asset or (liability).

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

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

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

## OTHER MATTERS

### Litigation

See Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of environmental, asbestos and other litigation matters.

### Sales to the U.S. Government

Sales to the U.S. Government, acting through its various departments and agencies and through prime contractors, amounted to \$3,464, \$3,111 and \$2,730 million in 2004, 2003 and 2002, respectively. This included sales to the Department of Defense (DoD), as a prime contractor and subcontractor, of \$2,808, \$2,564 and \$2,046 million in 2004, 2003 and 2002, respectively. Sales to the DoD accounted for 11.0, 11.1 and 9.2 percent of our total sales in 2004, 2003 and 2002, respectively. U.S. defense spending increased in 2004 and is also expected to increase in 2005.

**Backlog**

Our total backlog at year-end 2004 and 2003 was \$8,229 and \$7,191 million, respectively. We anticipate that approximately \$6,339 million of the 2004 backlog will be filled in 2005. 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.

**Inflation**

Highly competitive market conditions have minimized inflation's impact on the selling prices of our products and the costs of our purchased materials. Except for the costs of certain raw materials in our Specialty Materials reportable segment (See Business Overview section of this MD&A for further discussion), cost increases for materials and labor have generally been low, and productivity enhancement programs, including repositioning actions and Six Sigma initiatives, have largely offset any impact.

**Recent Accounting Pronouncements**

See Note 1 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of recent accounting pronouncements.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

**Item 8. Financial Statements and Supplementary Data**

**HONEYWELL INTERNATIONAL INC.  
CONSOLIDATED STATEMENT OF OPERATIONS**

	Years Ended December 31,		
	2004	2003	2002
	(Dollars in millions, except per share amounts)		
Product sales	\$ 20,408	\$ 18,234	\$ 17,608
Service sales	5,193	4,869	4,666
	<u>25,601</u>	<u>23,103</u>	<u>22,274</u>
Costs, expenses and other			
Cost of products sold	16,904	14,753	14,168
Cost of services sold	3,681	3,482	3,447
Selling, general and administrative expenses	3,316	2,950	2,757
(Gain) loss on sale of non-strategic businesses	(255)	(38)	124
Asbestos related litigation charges, net of insurance	76	—	1,548
Business impairment charges	42	—	877
Equity in (income) loss of affiliated companies	(82)	(38)	(42)
Other (income) expense	(92)	19	(4)
Interest and other financial charges	331	335	344
	<u>23,921</u>	<u>21,463</u>	<u>23,219</u>
Income (loss) before taxes and cumulative effect of accounting change	1,680	1,640	(945)
Tax expense (benefit)	399	296	(725)
Income (loss) before cumulative effect of accounting change	1,281	1,344	(220)
Cumulative effect of accounting change	—	(20)	—
Net income (loss)	<u>\$ 1,281</u>	<u>\$ 1,324</u>	<u>\$ (220)</u>
Earnings (loss) per share of common stock—basic:			
Income (loss) before cumulative effect of accounting change	\$ 1.49	\$ 1.56	\$ (0.27)
Cumulative effect of accounting change	—	(0.02)	—
Net income (loss)	<u>\$ 1.49</u>	<u>\$ 1.54</u>	<u>\$ (0.27)</u>
Earnings (loss) per share of common stock—assuming dilution:			
Income (loss) before cumulative effect of accounting change	\$ 1.49	\$ 1.56	\$ (0.27)
Cumulative effect of accounting change	—	(0.02)	—
Net income (loss)	<u>\$ 1.49</u>	<u>\$ 1.54</u>	<u>\$ (0.27)</u>

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

**HONEYWELL INTERNATIONAL INC.  
CONSOLIDATED BALANCE SHEET**

December 31,  
2004                      2003  
**(Dollars in millions)**

<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,586	\$ 2,950
Accounts, notes and other receivables	4,243	3,643
Inventories	3,160	3,040
Deferred income taxes	1,289	1,526
Other current assets	542	465
Total current assets	12,820	11,624
Investments and long-term receivables	542	569
Property, plant and equipment—net	4,331	4,295
Goodwill	6,013	5,789
Other intangible assets—net	1,241	1,098
Insurance recoveries for asbestos related liabilities	1,412	1,317
Deferred income taxes	613	342
Prepaid pension benefit cost	2,985	3,173
Other assets	1,105	1,107
Total assets	\$ 31,062	\$ 29,314
 <b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 2,564	\$ 2,240
Short-term borrowings	28	152
Commercial paper	220	—
Current maturities of long-term debt	956	47
Accrued liabilities	4,971	4,314
Total current liabilities	8,739	6,753
Long-term debt	4,069	4,961
Deferred income taxes	397	316
Postretirement benefit obligations other than pensions	1,713	1,683
Asbestos related liabilities	2,006	2,279
Other liabilities	2,886	2,593
<b>CONTINGENCIES</b>		
<b>SHAREOWNERS' EQUITY</b>		
Capital—common stock—Authorized 2,000,000,000 shares (par value \$1 per share):		
—issued 957,599,900 shares	958	958
—additional paid-in capital	3,574	3,486
Common stock held in treasury, at cost:		
2004—107,586,616 shares; 2003—95,269,642 shares	(4,185)	(3,655)
Accumulated other nonowner changes	138	(189)
Retained earnings	10,767	10,129
Total shareowners' equity	11,252	10,729
Total liabilities and shareowners' equity	\$ 31,062	\$ 29,314

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

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

	Years Ended December 31,		
	2004	2003	2002
(Dollars in millions)			
<b>Cash Flows from Operating Activities</b>			
Net income (loss)	\$ 1,281	\$ 1,324	\$ (220)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of accounting change	—	20	—
(Gain) loss on sale of non-strategic businesses	(255)	(38)	124
Repositioning and other charges	657	278	634
Severance and exit cost payments	(164)	(200)	(447)
Environmental and non-asbestos litigation payments	(273)	(91)	(313)
Business impairment charges	42	—	877
Asbestos related litigation charges, net of insurance	76	—	1,548
Asbestos related liability payments	(518)	(557)	(135)
Insurance receipts for asbestos related liabilities	67	664	76
Depreciation and amortization	650	661	730
Undistributed earnings of equity affiliates	(75)	(38)	(55)
Deferred income taxes	223	344	(775)
Pension and other postretirement benefits expense (income)	628	325	(11)
Pension contributions—U.S. plans	(40)	(670)	(130)
Other postretirement benefit payments	(207)	(203)	(199)
Other	(121)	(16)	(133)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts, notes and other receivables	(470)	(236)	105
Inventories	(84)	118	333
Other current assets	(77)	(20)	51
Accounts payable	408	240	63
Accrued liabilities	505	294	257
Net cash provided by operating activities	<u>2,253</u>	<u>2,199</u>	<u>2,380</u>
<b>Cash Flows from Investing Activities</b>			
Expenditures for property, plant and equipment	(629)	(655)	(671)
Proceeds from disposals of property, plant and equipment	38	37	41
Decrease in investments	80	—	91
(Increase) in investments	(115)	—	—
Cash paid for acquisitions	(384)	(199)	(520)
Proceeds from sales of businesses	426	137	183
Decrease in short-term investments	—	—	6
Net cash (used for) investing activities	<u>(584)</u>	<u>(680)</u>	<u>(870)</u>
<b>Cash Flows from Financing Activities</b>			
Net increase (decrease) in commercial paper	220	(201)	198
Net (decrease) increase in short-term borrowings	(121)	81	(96)
Proceeds from issuance of common stock	74	54	41
Proceeds from issuance of long-term debt	—	—	6
Payments of long-term debt	(29)	(147)	(428)
Repurchases of common stock	(724)	(37)	—
Cash dividends on common stock	(643)	(645)	(614)
Other	—	—	(39)
Net cash (used for) financing activities	<u>(1,223)</u>	<u>(895)</u>	<u>(932)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	190	305	50
Net increase in cash and cash equivalents	636	929	628
Cash and cash equivalents at beginning of year	2,950	2,021	1,393
Cash and cash equivalents at end of year	<u>\$ 3,586</u>	<u>\$ 2,950</u>	<u>\$ 2,021</u>

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



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

	Common Stock Issued		Additional Paid-in Capital	Common Stock Held in Treasury		Accumulated Other Non- owner Changes	Retained Earnings	Total Shareowners' Equity
	Shares	Amount		Shares	Amount			
	(In millions, except per share amounts)							
<b>Balance at December 31, 2001</b>	957.6	\$ 958	\$ 3,015	(142.6)	\$(4,252)	\$ (835)	\$ 10,284	\$ 9,170
Net loss							(220)	(220)
Foreign exchange translation adjustments						310		310
Minimum pension liability adjustment						(606)		(606)
Change in fair value of effective cash flow hedges						22		22
Nonowner changes in shareowners' equity								(494)
Common stock issued for employee savings and option plans (including related tax expense of \$28)			138	7.7	54			192
Common stock contributed to pension plans			286	31.5	414			700
Cash dividends on common stock (\$0.75 per share)							(614)	(614)
Other owner changes			(30)	.3	1			(29)
<b>Balance at December 31, 2002</b>	957.6	958	3,409	(103.1)	(3,783)	(1,109)	9,450	8,925
Net income							1,324	1,324
Foreign exchange translation adjustments						551		551
Minimum pension liability adjustment						369		369
Change in fair value of effective cash flow hedges						—		—
Nonowner changes in shareowners' equity								2,244
Common stock issued for employee savings and option plans (including related tax benefits of \$19)			75	9.3	182			257
Repurchases of common stock				(1.9)	(62)			(62)
Cash dividends on common stock (\$0.75 per share)							(645)	(645)
Other owner changes			2	.4	8			10
<b>Balance at December 31, 2003</b>	957.6	958	3,486	(95.3)	(3,655)	(189)	10,129	10,729
Net income							1,281	1,281
Foreign exchange translation adjustments						351		351
Minimum pension liability adjustment						(15)		(15)
Change in fair value of effective cash flow hedges						(9)		(9)
Nonowner changes in shareowners' equity								1,608
Common stock issued for employee savings and option plans (including related tax benefits of \$19)			79	7.5	162			241
Repurchases of common stock				(20.1)	(699)			(699)
Cash dividends on common stock (\$0.75 per share)							(643)	(643)
Other owner changes			9	.3	7			16
<b>Balance at December 31, 2004</b>	957.6	\$ 958	\$ 3,574	(107.6)	\$(4,185)	\$ 138	\$ 10,767	\$ 11,252

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

**Note 1—Summary of Significant Accounting Policies**

**Honeywell International Inc.** is a diversified technology and manufacturing company, serving customers worldwide with aerospace products and services, control, sensing and security technologies for buildings, homes and industry, turbochargers, automotive products, specialty chemicals, fibers, and electronic and advanced materials. The following is a description of the significant accounting policies of Honeywell International Inc.

**Principles of Consolidation**—The consolidated financial statements include the accounts of Honeywell International Inc. and all of its subsidiaries and entities in which a controlling interest is maintained. Our consolidation policy requires the consolidation of entities where a controlling financial interest is obtained as well as consolidation of variable interest entities in which we are designated as the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN 46), as amended. See Recent Accounting Pronouncements in this Note for further discussion of FIN 46. All intercompany transactions and balances are eliminated in consolidation.

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

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

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

**Property, Plant and Equipment**—Property, plant and equipment are recorded at cost less accumulated depreciation. For financial reporting, the straight-line method of depreciation is used over the estimated useful lives of 10 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment.

**Goodwill and Indefinite-Lived Intangible Assets**—Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (SFAS No. 142) requires that goodwill and certain other intangible assets having indefinite lives no longer be amortized to income, but instead be periodically tested for impairment. Intangible assets determined to have definite lives will continue to be amortized over their useful lives. When we adopted SFAS No. 142, we reassessed the useful lives and residual values of all acquired intangible assets to make any necessary amortization period adjustments. Based on that assessment, an amount related to a trademark in our automotive consumer products business was determined to be an indefinite-lived intangible asset because it is expected to generate cash flows indefinitely. There were no other adjustments made to the amortization period or residual values of other intangible assets. We also completed our goodwill impairment testing during the three months ended March 31, 2002 and determined that there was no impairment as of January 1, 2002. This initial impairment assessment was updated as of March 31, 2004 and no impairment was determined. Impairment tests for our reporting units are performed annually as of March 31 or when events or changes in circumstances occur. See Note 13 for additional details.

**Other Intangible Assets with Determinable Lives**—Other intangible assets with determinable lives consist of Aerospace customer incentives, patents and trademarks and other intangibles and are amortized over weighted average service periods of 25, 19 and 15 years, respectively.

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

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

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

**Aerospace Customer Incentives**—We provide sales incentives to commercial aircraft manufacturers and airlines in connection with their selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft. These incentives consist of free or deeply discounted products, product credits and upfront cash payments. The cost of these incentives are capitalized at the time we deliver the products to our customers or, in the case of product credits, at the time the credit is issued, or in the case of upfront cash payments, at the time the payment is made. In the case of free or deeply discounted product, the cost to manufacture less any amount recovered from the airframe manufacturer or airline is capitalized. Product credits and upfront cash payments are capitalized at exchanged value. Research, design, development and qualification costs related to these products are expensed as incurred, unless contractually guaranteed of reimbursement. The cost of the sales incentives described above is capitalized because the selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft results in the creation of future revenues and cash flows through aftermarket sales to fulfill long-term product maintenance requirements mandated by the Federal Aviation Administration (FAA) and other similar international organizations over the useful life of the aircraft. Once our products are certified and selected on an aircraft, the recovery of our investment is virtually guaranteed over the useful life of the aircraft. The likelihood of displacement by an alternative supplier is remote due to contractual sole-sourcing, the high cost to alternative suppliers and aircraft operators of product retrofits, and/or rigorous regulatory specifications, qualification and testing requirements. We amortize the cost of these capitalized sales incentives over their useful lives on a straight-line basis, up to 25 years, representing the estimated minimum service life of the aircraft. This useful life is the period over which we are virtually assured to earn revenues from the aftermarket sales of certified products necessary to fulfill the maintenance required by the FAA and other similar international organizations. We classify the amortization expense associated with free and discounted products as cost of goods sold and the amortization expense associated with product credits and upfront cash payments as a

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

reduction of sales. We regularly evaluate the recoverability of capitalized amounts whenever events or changes in circumstances indicate that the carrying amount of the incentives may not be fully recoverable. There were no impairment charges related to these capitalized incentives recognized during 2004, 2003 and 2002. See Note 13 for additional details.

**Environmental Expenditures**—Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and that do not provide future benefits, are expensed as incurred. Liabilities are recorded when environmental remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our accruals. The undiscounted liabilities for environmental costs recorded in Accrued Liabilities and Other Liabilities at December 31, 2004 were \$267 and \$628 million, respectively, and at December 31, 2003 were \$90 and \$503 million, respectively.

**Asbestos Related Contingencies and Insurance Recoveries**—Honeywell is a defendant in personal injury actions related to asbestos containing products (refractory products and friction products). We recognize a liability for any asbestos related contingency that is probable of occurrence and reasonably estimable. Regarding North American Refractories Company (NARCO) asbestos related claims, we accrue for pending claims based on terms and conditions, including evidentiary requirements, in definitive agreements or agreements in principle with current claimants. We also accrued for the probable value of future asbestos related claims through 2018 based on the disease criteria and payment values contained in the NARCO trust as described in Note 21. In light of the inherent uncertainties in making long term projections regarding claims filing rates and disease manifestation, we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018 under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (SFAS No. 5). Regarding Bendix asbestos related claims, we accrue for the estimated value of pending claims based on expected claim resolution values and dismissal rates. We have not accrued for future Bendix asbestos related claims as we cannot reasonably predict how many additional claims may be brought against us, the allegations in such claims or their probable outcomes and resulting settlement values in the tort system. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential ranges of probable losses and recognize a liability, if any, for these contingencies based on a careful analysis of each individual issue with the assistance of outside legal counsel and, if applicable, other experts.

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

**Research and Development**—Research and development costs for company-sponsored research and development projects are expensed as incurred. Such costs are principally included in Cost of Products Sold and were \$917, \$751 and \$757 million in 2004, 2003 and 2002, respectively.

**Stock-Based Compensation Plans**—We account for our fixed stock option plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25). Under APB No. 25, there is no compensation cost recognized for our fixed stock option plans, because the options granted under these plans have an exercise price equal to the market value of the

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

underlying stock at the grant date. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), as amended, allows, but does not require, companies to record compensation cost for fixed stock option plans using a fair value based method. As permitted by SFAS No. 123, we elected to continue to account for compensation cost for our fixed stock option plans using the intrinsic value based method under APB No. 25. See Recent Accounting Pronouncements section of this Note for discussion of recently issued rules regarding accounting for share-based payments. The following table sets forth pro forma information as if compensation cost had been determined consistent with the requirements of SFAS No. 123.

	2004	2003	2002
Net income (loss), as reported	\$ 1,281	\$ 1,324	\$ (220)
Deduct: Total stock-based employee compensation cost determined under fair value method for fixed stock option plans, net of related tax effects	(42)	(48)	(64)
Pro forma net income (loss)	<u>\$ 1,239</u>	<u>\$ 1,276</u>	<u>\$ (284)</u>
Earnings (loss) per share of common stock:			
Basic—as reported	\$ 1.49	\$ 1.54	\$(0.27)
Basic—pro forma	<u>\$ 1.44</u>	<u>\$ 1.48</u>	<u>\$(0.35)</u>
Earnings (loss) per share of common stock:			
Assuming dilution—as reported	1.49	\$ 1.54	\$(0.27)
Assuming dilution—pro forma	<u>\$ 1.44</u>	<u>\$ 1.48</u>	<u>\$(0.35)</u>

The following table sets forth fair value per share information, including related assumptions, used to determine compensation cost consistent with the requirements of SFAS No. 123.

	2004	2003	2002
Weighted average fair value per share of options granted during the year(1)	\$ 10.97	\$ 8.82	\$ 12.64
Assumptions:			
Historical dividend yield	2.1%	2.0%	1.9%
Historical volatility	37.9%	46.7%	43.8%
Risk-free rate of return	3.3%	2.9%	4.2%
Expected life (years)	5.0	5.0	5.0

(1) Estimated on date of grant using Black-Scholes option-pricing model.

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

**Derivative Financial Instruments**—Derivative financial instruments are accounted for under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended (SFAS No. 133). Under SFAS No. 133, all derivatives are recorded on the balance sheet as assets or liabilities and measured at fair value. For derivatives designated as hedges of the fair value of assets or liabilities, the changes in fair values of both the derivatives and the

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

hedged items are recorded in current earnings. For derivatives designated as cash flow hedges, the effective portion of the changes in fair value of the derivatives are recorded in Accumulated Other Nonowner Changes and subsequently recognized in earnings when the hedged items impact earnings. Changes in the fair value of derivatives not designated as hedges and the ineffective portion of cash flow hedges are recorded in current earnings.

**Transfers of Financial Instruments**—Sales, transfers and securitization of financial instruments are accounted for under Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. We sell interests in designated pools of trade accounts receivables to third parties. The receivables are removed from the Consolidated Balance Sheet at the time they are sold. The value assigned to our subordinated interests and undivided interests retained in trade receivables sold is based on the relative fair values of the interests retained and sold. The carrying value of the retained interests approximates fair value due to the short-term nature of the collection period for the receivables.

**Income Taxes**—Deferred tax liabilities or assets reflect temporary differences between amounts of assets and liabilities for financial and tax reporting. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is established to offset any deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

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

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

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

**Recent Accounting Pronouncements**—In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised), “Share-Based Payment (Revised 2004)” (SFAS 123R) requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is to be measured based on the fair value of the equity or liability instruments issued. SFAS 123R is effective as of the first interim or annual reporting period beginning after June 15, 2005. We currently expect that the adoption of SFAS 123R will reduce 2005 diluted earnings per share by \$0.04 to \$0.05.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, “Inventory Costs, an amendment of ARB No. 43, Chapter 4” (SFAS No. 151) which amends Accounting Research Bulletin (ARB) No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are currently assessing the impact of SFAS No. 151 on our consolidated financial statements.

In May 2004, the FASB issued FASB Staff Position No. 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003” (FSP No. 106-2) which provides guidance on accounting for the effects of the Medicare

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Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug coverage that is at least actuarially equivalent to that offered by Medicare Part D. We have determined that the enactment of the Act does not have a material impact on our accumulated postretirement benefit obligation and, therefore, is not a "significant event" as defined in FSP No. 106-2 for our postretirement health care plans. Accordingly, as permitted, we adopted FSP No. 106-2 on December 31, 2004 and such adoption did not have a material effect on our consolidated financial statements.

In December 2003, the FASB issued Statement of Financial Accounting Standards No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106" (SFAS No. 132-Revised 2003) which revises employers' disclosures about pension plans and other postretirement benefit plans. All provisions of this statement are effective for the year ended December 31, 2004. See Note 22 for further information.

In January 2003, the FASB issued FIN 46, which provides guidance on consolidation of variable interest entities. In December 2003, the FASB deferred the effective date of FIN 46 for certain variable interest entities (i.e., non-special purpose entities) until the first quarter of 2004. Our full adoption of the provisions of FIN 46 did not have a material effect on our consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45), which requires us to recognize a liability for the fair value of an obligation assumed by issuing a guarantee. FIN 45 was effective for guarantees issued or modified on or after January 1, 2003. The adoption of FIN 45 did not have a material effect on our consolidated financial statements. See Note 21 for further information.

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 provides guidance on when and how to separate elements of an arrangement that may involve the delivery or performance of multiple products, services and rights to use assets into separate units of accounting. The guidance in the consensus was effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We adopted EITF Issue No. 00-21 prospectively in the quarter beginning July 1, 2003. The adoption of EITF Issue No. 00-21 did not have a material effect on our consolidated financial statements.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146), the provisions of which were effective for any exit or disposal activities initiated by us after December 31, 2002. SFAS No. 146 provides guidance on the recognition and measurement of liabilities associated with exit or disposal activities and requires that such liabilities be recognized when incurred. The adoption of the provisions of SFAS No. 146 impacted the measurement and timing of costs associated with any exit or disposal activities initiated after December 31, 2002.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) which requires recognition of the fair value of obligations associated with the retirement of tangible long-lived assets when there is a legal obligation to incur such costs. Upon initial recognition of a liability the cost is capitalized as part of the related long-lived asset and depreciated over the corresponding asset's useful life. SFAS No. 143 primarily impacts our accounting for costs associated with the future retirement of nuclear fuel conversion facilities in our Specialty Materials reportable segment. Upon adoption on January 1, 2003, we recorded an increase in property, plant and equipment, net of \$16 million and recognized an asset retirement obligation of \$47 million. This resulted in the recognition of a non-cash charge of \$31 million (\$20 million after-tax, or \$0.02 per share) that was reported as a cumulative effect of an accounting

change. This accounting change did not have a material impact on results of operations for 2004 and 2003. Pro forma effects for 2002 assuming adoption of SFAS No. 143 as of January 1, 2002, were not material to net income or per share amounts.

## **Note 2—Acquisitions**

We acquired businesses for an aggregate cost of \$396, \$199 and \$520 million in 2004, 2003 and 2002, respectively. All of our acquisitions were accounted for under the purchase method of accounting, and accordingly, the assets and liabilities of the acquired businesses were recorded at their estimated fair values at the dates of acquisition. Significant acquisitions made in these years are discussed below.

In May 2003, Honeywell sold its Engineering Plastics business to BASF in exchange for BASF's nylon fiber business and \$90 million in cash. BASF's nylon fiber business became part of Specialty Materials' nylon business. Since the cash consideration received from BASF was in excess of 25 percent of the fair value of this exchange, this transaction was viewed as "monetary" in accordance with Issue 8(a) of EITF 01-2, "Interpretations of APB Opinion No. 29". Accordingly, the pre-tax gain on the sale of our Engineering Plastics business of \$38 million was based on the fair value of the consideration received from BASF less the sum of the net book value of our Engineering Plastics business and related transaction costs. We recorded the assets and liabilities acquired in the BASF business at fair market value based on a valuation performed by an independent appraisal firm at the acquisition date which corresponded to the value agreed upon in the asset purchase agreement for this transaction. Specialty Materials' Engineering Plastics business and BASF's nylon fiber business both had annual sales of approximately \$400 million.

In October 2002 we acquired Invensys Sensor Systems (ISS) for approximately \$416 million in cash with \$115 million allocated to tangible net assets, \$206 million allocated to goodwill and \$95 million allocated to other intangible assets with determinable lives. ISS is a global supplier of sensors and controls used in the medical, office automation, aerospace, HVAC, automotive, off-road vehicle and consumer appliance industries. ISS is part of our Automation and Control Products business in our Automation and Control Solutions reportable segment. ISS had sales of approximately \$253 million in 2002.

In connection with all acquisitions in 2004, 2003 and 2002, the amounts recorded for transaction costs and the costs of integrating the acquired businesses into Honeywell were not material. The results of operations of all acquired businesses have been included in the consolidated results of Honeywell from their respective acquisition dates. The pro forma results for 2004, 2003 and 2002, assuming these acquisitions had been made at the beginning of the year, would not be materially different from reported results.

On December 13, 2004, we announced that we had reached agreement with the board of directors of Novar plc (Novar) on the terms of recommended Offers for the entire issued and ordinary preference share capital of Novar. The aggregate value of the Offers is \$2.4 billion (fully diluted for the exercise of all outstanding options), including the assumption of approximately \$580 million of outstanding debt, net of cash. The Novar board has unanimously recommended the Offers. We expect to complete the transaction in the first quarter of 2005 and to fund the acquisition with existing cash resources.

Novar is a UK listed holding company which operates globally in the electrical, electronic and control products, the aluminum extrusion and the security printing businesses and had reported 2003 revenues of \$2.7 billion. We do not intend to hold the aluminum extrusion and security printing businesses in the long-term and expect to pursue strategic alternatives for these units as soon as practical.



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**Note 3—Repositioning and Other Charges**

A summary of repositioning and other charges follows:

	Years Ended December 31,		
	2004	2003	2002
Severance	\$ 85	\$ 69	\$ 270
Asset impairments	21	6	121
Exit costs	10	7	62
Reserve adjustments	(28)	(69)	(76)
Total net repositioning charge	88	13	377
Asbestos related litigation charges, net of insurance	76	—	1,548
Other probable and reasonably estimable legal and environmental liabilities	565	261	30
Business impairment charges	42	—	877
Customer claims and settlements of contract liabilities	(10)	—	152
Write-offs of receivables, inventories and other assets	14	2	60
Investment impairment charges	—	2	15
Total net repositioning and other charges	\$ 775	\$ 278	\$ 3,059

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

	Years Ended December 31,		
	2004	2003	2002
Cost of products and services sold	\$ 621	\$ 272	\$ 561
Selling, general and administrative expenses	25	4	45
Asbestos related litigation charges, net of insurance	76	—	1,548
Business impairment charges	42	—	877
Equity in (income) loss of affiliated companies	6	2	13
Other (income) expense	5	—	15
	\$ 775	\$ 278	\$ 3,059

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

	Years Ended December 31,		
	2004	2003	2002
Aerospace	\$ (5)	\$ 10	\$ 146
Automation and Control Solutions	28	(22)	212
Specialty Materials	90	20	976
Transportation Systems	147	16	295
Corporate	515	254	1,430
	\$ 775	\$ 278	\$ 3,059

In 2004, we recognized repositioning charges totaling \$116 million primarily for severance costs related to workforce reductions of 2,272 manufacturing and administrative positions across all of our reportable segments. Also, \$28 million of previously established accruals, primarily for severance, were returned to income in 2004, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities principally in our Automation and Control Solutions reportable segment.

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In 2003, we recognized repositioning charges totaling \$82 million primarily for severance costs related to workforce reductions of 1,501 manufacturing and administrative positions across all of our reportable segments. Also, \$69 million of previously established accruals, primarily for severance, were returned to income in 2003, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities in our Automation and Control Solutions, Aerospace and Specialty Materials reportable segments.

In 2002, we recognized repositioning charges totaling \$453 million for workforce reductions across all of our reportable segments and our UOP process technology joint venture. The charge also related to costs for the planned shutdown and consolidation of manufacturing plants in our Specialty Materials and Automation and Control Solutions reportable segments. Severance costs related to workforce reductions of approximately 8,100 manufacturing and administrative positions. Asset impairments principally related to manufacturing plant and equipment held for sale and capable of being taken out of service and actively marketed in the period of impairment. Exit costs related principally to incremental costs to exit facilities, including lease termination losses negotiated or subject to reasonable estimation related mainly to closed facilities in our Automation and Control Solutions and Specialty Materials reportable segments. Also, \$76 million of previously established severance accruals were returned to income in 2002, due to fewer employee separations than originally planned associated with certain prior repositioning actions and higher than expected voluntary employee attrition, resulting in reduced severance liabilities in our Aerospace, Automation and Control Solutions and Specialty Materials reportable segments.

The following table summarizes the status of our total repositioning costs.

	Severance Costs	Asset Impairments	Exit Costs	Total
Balance at December 31, 2001	\$ 484	\$ —	\$ 113	\$ 597
2002 charges	270	121	62	453
2002 usage	(355)	(121)	(92)	(568)
Adjustments	(74)	—	(2)	(76)
Balance at December 31, 2002	325	—	81	406
2003 charges	69	6	7	82
2003 usage	(166)	(6)	(34)	(206)
Adjustments	(57)	—	(12)	(69)
Balance at December 31, 2003	171	—	42	213
2004 charges	85	21	10	116
2004 usage	(138)	(21)	(26)	(185)
Adjustments	(21)	—	(7)	(28)
Balance at December 31, 2004	\$ 97	\$ —	\$ 19	\$ 116

In 2004, we recognized a charge of \$565 million for other probable and reasonably estimable legal and environmental liabilities. This includes \$536 million for legacy environmental liabilities, primarily related to the denial of our appeal of the matter entitled *Interfaith Community Organization, et. al. v. Honeywell International Inc., et al.*, and estimated liabilities for remediation of environmental conditions in and around Onondaga Lake in Syracuse, New York. Both of these environmental matters are discussed in further detail in Note 21. We recognized a charge of \$29 million for various legal settlements including property damage claims in our Automation and Control Solutions reportable segment. We recognized a charge of \$76 million primarily for Bendix related asbestos claims and defense costs incurred in 2004 including an update of expected resolution values with respect to pending claims. The charge was net of probable Bendix related insurance recoveries and an additional \$47 million of NARCO insurance deemed probable of recovery. See Note 21 for further discussion. We recognized an impairment charge of \$42 million in the second quarter of 2004 related principally to the

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write-down of property, plant and equipment of our Performance Fibers business in our Specialty Materials reportable segment. This business was sold in December 2004. We recognized a charge of \$14 million for the write-off of receivables, inventories and other assets. We also reversed a reserve of \$10 million established in the prior year for a contract settlement.

In 2003, we recognized a charge of \$261 million for other probable and reasonably estimable legal and environmental liabilities. This included \$235 million for environmental liabilities mainly related to the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.* and for remediation of environmental conditions in and around Onondaga Lake in Syracuse, New York, both as discussed in Note 21. We also recognized a charge of \$4 million in our Specialty Materials reportable segment including a loss on sale of an investment owned by an equity investee.

In 2002, we recognized business impairment charges of \$877 million related to businesses in our Specialty Materials and Automation and Control Solutions reportable segments, as well as our Friction Materials business. Based on current operating losses and deteriorating economic conditions in certain chemical and telecommunications end markets, we performed impairment tests and recognized impairment charges of \$785 million principally related to the write-down of property, plant and equipment held and used in our Nylon System, Performance Fibers and Metglas Specialty Materials businesses, as well as an Automation and Control Solutions communication business. We also recognized impairment charges of \$92 million related principally to the write-down of property, plant and equipment of our Friction Materials business, which was classified as assets held for disposal in Other Current Assets as of December 31, 2002. A plan of disposal of Friction Materials was adopted in 2001; in January 2003, we entered into a letter of intent to sell this business to Federal-Mogul Corp. The assets were reclassified from held for sale to held and used as of December 31, 2003 following the cessation of negotiations to sell our Friction Materials business to Federal-Mogul Corp. At that time, no adjustment to the carrying value of Friction Materials' assets was required based on a current reassessment of the fair value of those assets. Such reassessment of the fair value of the property, plant and equipment was performed using discounted estimated future cash flows of the business. The fair value approximated the written-down held for sale value and was also less than the carrying amount of the property, plant and equipment prior to being classified as held for sale, adjusted for depreciation expense that would have otherwise been recognized had these assets been classified as held and used (See Note 21). We recognized asbestos related litigation charges of \$1,548 million principally related to costs associated with the potential resolution of asbestos claims of NARCO (see Note 21). We also recognized other charges consisting of customer claims and settlements of contract liabilities of \$152 million and write-offs of receivables, inventories and other assets of \$60 million. These other charges related mainly to our Advanced Circuits business, bankruptcy of a customer in our Aerospace reportable segment, and customer claims in our Aerospace and Automation and Control Solutions reportable segments. Additionally, we recognized other charges consisting of other probable and reasonably estimable environmental liabilities of \$30 million and write-offs related to an other than temporary decline in the value of certain equity investments of \$15 million.

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**Note 4—Gain (Loss) on Sale of Non-Strategic Businesses**

The following is a summary of non-strategic businesses sold:

	Year Ended December 31, 2004	
	Pretax Gain (Loss)	After-tax Gain (Loss)
Automation and Control Solutions—Security Monitoring and VSCCEL Optical Products	\$ 251	\$ 133
Specialty Materials—Performance Fibers	(15)	(3)
Adjustments related to businesses sold in prior years	19	14
	\$ 255	\$ 144

In 2004, we realized proceeds of \$426 million in cash on the sale of these businesses. The sales of these businesses did not materially impact net sales and segment profit in 2004 compared with 2003.

	Year Ended December 31, 2003	
	Pretax Gain (Loss)	After-tax Gain (Loss)
Specialty Materials—Engineering Plastics, Rudolstadt and Metglas	\$ 25	\$ (5)
Aerospace—Honeywell Aerospace Defense Services	13	9
	\$ 38	\$ 4

In 2003, we realized proceeds of \$137 million in cash on the sales of these businesses. The sales of these businesses did not materially impact net sales and segment profit in 2003 compared with 2002. The after-tax loss on the sale of our Specialty Materials' businesses resulted mainly from tax benefits associated with prior capital losses.

	Year Ended December 31, 2002	
	Pretax Gain (Loss)	After-tax Gain (Loss)
Automation and Control Solutions—Consumer Products	\$ (131)	\$ (10)
Specialty Materials—Advanced Circuits	(83)	18
Specialty Materials—Pharmaceutical Fine Chemicals (PFC)	(35)	108
Transportation Systems—Bendix Commercial Vehicle Systems (BCVS)	125	79
	\$ (124)	\$ 195

In 2002, we realized proceeds of approximately \$435 million in cash and investment securities on the sales of these businesses. Our Advanced Circuits and PFC businesses had a higher deductible tax basis than book basis which resulted in an after-tax gain. The sales of these businesses reduced net sales and increased segment profit in 2002 compared with 2001 by approximately \$500 and \$31 million, respectively.

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**Note 5—Other (Income) Expense**

	Years Ended December 31,		
	2004	2003	2002
Interest income and other	\$ (130)	\$ (109)	\$ (68)
Minority interests	10	7	8
Foreign exchange loss	28	121	56
	\$ (92)	\$ 19	\$ (4)

**Note 6—Interest and Other Financial Charges**

	Years Ended December 31,		
	2004	2003	2002
Total interest and other financial charges	\$ 349	\$ 350	\$ 365
Less—capitalized interest	(18)	(15)	(21)
	\$ 331	\$ 335	\$ 344

The weighted average interest rate on short-term borrowings and commercial paper outstanding at December 31, 2004 and 2003 was 2.81 and 6.81 percent, respectively.

**Note 7—Income Taxes**

**Income (loss) before taxes and cumulative effect of accounting change**

	Years Ended December 31,		
	2004	2003	2002
United States	\$ 878	\$ 925	\$ (1,262)
Foreign	802	715	317
	\$ 1,680	\$ 1,640	\$ (945)

**Tax expense (benefit)**

	Years Ended December 31,		
	2004	2003	2002
United States	\$ 170	\$ 98	\$ (894)
Foreign	229	198	169
	\$ 399	\$ 296	\$ (725)

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	Years Ended December 31,		
	2004	2003	2002
Tax expense (benefit) consist of:			
Current:			
United States	\$ 26	\$ (251)	\$ (175)
State	16	(1)	28
Foreign	134	204	197
	176	(48)	50
Deferred:			
United States	109	347	(679)
State	19	3	(68)
Foreign	95	(6)	(28)
	223	344	(775)
	\$ 399	\$ 296	\$ (725)

	Years Ended December 31,		
	2004	2003	2002
The U.S. statutory federal income tax rate is reconciled to our effective income tax rate as follows:			
Statutory U.S. federal income tax rate	35.0%	35.0%	(35.0)%
Taxes on foreign earnings over (under) U.S. tax rate (1)	(7.1)	(5.0)	10.0
Asset basis differences	(.6)	(2.2)	(33.1)
Nondeductible amortization	1.1	1.9	2.4
State income taxes (1)	1.4	.4	(2.6)
Tax benefits on export sales	(4.5)	(3.6)	(8.5)
ESOP dividend tax benefit	(1.2)	(1.2)	(1.9)
Tax credits	(.6)	(1.0)	(1.5)
Equity income	(.5)	(.8)	(1.7)
Redesignation of Friction Materials business from held for sale to held and used	—	(6.6)	—
All other items—net	.8	1.1	(4.8)
	23.8%	18.0%	(76.7)%

(1) Net of changes in valuation allowance.

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**Deferred tax assets (liabilities)**

	December 31,	
	2004	2003
Deferred income taxes represent the future tax effects of transactions which are reported in different periods for tax and financial reporting purposes. The tax effects of temporary differences and tax carryforwards which give rise to future income tax benefits and payables are as follows:		
Property, plant and equipment basis differences	\$ (509)	\$ (570)
Postretirement benefits other than pensions and postemployment benefits	748	707
Investment and other asset basis differences	(205)	(215)
Other accrued items	558	535
Net operating losses	706	967
Tax credits	440	373
Undistributed earnings of subsidiaries	(34)	(33)
All other items—net	(33)	52
	1,671	1,816
Valuation allowance	(338)	(299)
	\$1,333	\$1,517

The amount of federal tax net operating losses available for carryforward at December 31, 2004 was \$213 million, including \$79 million of charitable contributions deductions converted to federal net operating losses under the Internal Revenue Code. Also, included are \$86 million of loss carryforwards that were generated by certain subsidiaries prior to their acquisition and have expiration dates through 2022. The use of pre-acquisition operating losses is subject to limitations imposed by the Internal Revenue Code. We do not anticipate that these limitations will affect utilization of the carryforwards prior to their expiration. Various subsidiaries have state tax net operating loss carryforwards of \$3.5 billion at December 31, 2004 with varying expiration dates through 2024. We also have foreign net operating losses of \$1.9 billion which are available to reduce future income tax payments in several countries, subject to varying expiration rules.

We have U.S. tax credit carryforwards of \$170 million at December 31, 2004, including carryforwards of \$90 million with various expiration dates through 2024, and tax credits of \$80 million which are not subject to expiration. In addition, we have \$270 million of foreign tax credits available for carryback or carryforward at December 31, 2004 with varying expiration dates through 2014.

The valuation allowance was increased by \$39, \$108 and \$80 million in 2004, 2003 and 2002, respectively. The increase in 2004 was primarily due to an increase in state tax net operating loss carryforwards (net of federal impact) and foreign net operating and capital losses that are not expected to be realized of \$40 and \$27 million, respectively, offset by a decrease of \$30 million for foreign tax credits which we now believe will be utilized due to the extension of the foreign tax credit carryforward period from five to 10 years under the American Jobs Creation Act of 2004. The increase in 2003 was primarily due to an increase in foreign net operating losses that are not expected to be utilized. The increase in 2002 was primarily due to foreign tax credits which are not expected to be realized and state tax net operating loss carryforwards (net of federal impact) which we believe will expire unutilized.

The American Jobs Creation Act of 2004, signed into law in October 2004, provides for a variety of changes in the tax law including incentives to repatriate undistributed earnings of foreign subsidiaries, a phased elimination of the extra-territorial income exclusion, and a domestic manufacturing benefit. More specifically, the Act creates a temporary incentive for U.S. corporations to repatriate accumulated

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income earned outside the U.S. by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and currently, uncertainty remains as to how to interpret numerous provisions in the Act. As such, we are not in a position to determine whether, and to what extent, we might repatriate foreign earnings. Based on our analysis to date, however, it is reasonably possible that we may repatriate some amount up to approximately \$2.6 billion. We estimate the income tax effects of repatriating \$2.6 billion to be approximately \$150 to \$350 million. Honeywell has not provided for U.S. federal income and foreign withholding taxes on \$3.9 billion of undistributed earnings from non-U.S. operations as of December 31, 2004. Until our analysis of the Act is completed, we will continue to permanently reinvest those earnings. We expect to finalize our assessment later in 2005.

The extra-territorial income exclusion (ETI) for foreign sales will be phased-out over two years beginning in 2005. The deduction for income from qualified domestic production activities will be phased-in from 2005 through 2010. Similar to the ETI benefit, the domestic manufacturing benefit has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our federal income tax return. We are currently assessing the details of the Act and the net effect of the phase-out of the ETI and the phase-in of this new deduction. We expect to complete our analysis later in 2005. Until such time, it is not possible to determine what impact this legislation will have on our consolidated tax accruals or effective tax rate.

**Note 8—Earnings (Loss) Per Share**

The following table sets forth the computations of basic and diluted earnings (loss) per share:

	2004		2003		2002	
	Basic	Assuming Dilution	Basic	Assuming Dilution	Basic	Assuming Dilution
<b>Income (loss)</b>						
Income (loss) before cumulative effect of accounting change	\$ 1,281	\$ 1,281	\$ 1,344	\$ 1,344	\$ (220)	\$ (220)
Cumulative effect of accounting change	—	—	(20)	(20)	—	—
Net income (loss)	\$ 1,281	\$ 1,281	\$ 1,324	\$ 1,324	\$ (220)	\$ (220)
<b>Average shares</b>						
Average shares outstanding	858,857,721	858,857,721	860,671,264	860,671,264	820,292,870	820,292,870
Dilutive securities issuable in connection with stock plans	—	3,475,613	—	1,423,992	—	—
Total average shares	858,857,721	862,333,334	860,671,264	862,095,256	820,292,870	820,292,870
<b>Earnings (loss) per share of common stock</b>						
Income (loss) before cumulative effect of accounting change	\$ 1.49	\$ 1.49	\$ 1.56	\$ 1.56	\$ (0.27)	\$ (0.27)
Cumulative effect of accounting change	—	—	(0.02)	(0.02)	—	—
Net income (loss)	\$ 1.49	\$ 1.49	\$ 1.54	\$ 1.54	\$ (0.27)	\$ (0.27)

In 2004 and 2003, the diluted earnings per share calculation excludes the effect of stock options when the options' exercise prices exceed the average market price of the common shares during the period. In 2004 and 2003, the number of stock options not included in the computation were 41,656,606 and 41,908,964, respectively. These stock options were outstanding at the end of each of the respective years. As a result of the net loss for 2002, 2,527,229 of dilutive securities issuable in connection with stock plans have been excluded from the diluted loss per share calculation because their effect would reduce the loss per share.



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**Note 9—Accounts, Notes and Other Receivables**

	December 31,	
	2004	2003
Trade	\$ 3,656	\$ 3,230
Other	724	563
	4,380	3,793
Less—Allowance for doubtful accounts	(137)	(150)
	\$ 4,243	\$ 3,643

We sell interests in designated pools of trade accounts receivables to third parties. The sold receivables are over-collateralized by \$120 million at December 31, 2004 and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables pools. New receivables are sold under the agreement as previously sold receivables are collected. Losses are recognized when our interest in the receivables are sold. The retained interests in the receivables are shown at the amounts expected to be collected by us, and such carrying value approximates the fair value of our retained interests. We are compensated for our services in the collection and administration of the receivables.

	December 31,	
	2004	2003
Designated pools of trade receivables	\$ 1,060	\$ 995
Interest sold to third parties	(500)	(500)
Retained interest	\$ 560	\$ 495

Losses on sales of receivables were \$9, \$7 and \$10 million in 2004, 2003 and 2002, respectively. No credit losses were incurred during those years.

**Note 10—Inventories**

	December 31,	
	2004	2003
Raw materials	\$ 1,153	\$ 972
Work in process	779	802
Finished products	1,382	1,412
	3,314	3,186
Less—		
Progress payments	(24)	(20)
Reduction to LIFO cost basis	(130)	(126)
	\$ 3,160	\$ 3,040

Inventories valued at LIFO amounted to \$108 and \$144 million at December 31, 2004 and 2003, respectively. Had such LIFO inventories been valued at current costs, their carrying values would have been approximately \$130 and \$126 million higher at December 31, 2004 and 2003, respectively.

**Note 11—Investments and Long-Term Receivables**

	December 31,	
	2004	2003
Investments	\$ 305	\$ 181
Long-term receivables	237	388
	\$ 542	\$ 569

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There were no marketable equity securities classified as available-for-sale at December 31, 2004 and 2003.

**Note 12—Property, Plant and Equipment**

	December 31,	
	2004	2003
Land and improvements	\$ 356	\$ 335
Machinery and equipment	8,935	9,011
Buildings and improvements	2,027	1,964
Construction in progress	344	435
	11,662	11,745
Less—Accumulated depreciation and amortization	(7,331)	(7,450)
	\$ 4,331	\$ 4,295

Depreciation expense was \$572, \$595 and \$671 million in 2004, 2003 and 2002, respectively.

**Note 13—Goodwill and Other Intangibles—Net**

The change in the carrying amount of goodwill for the years ended December 31, 2004 and 2003 by reportable segment are as follows:

	December 31, 2003	Acquisitions	Divestitures	Currency Translation Adjustment	December 31, 2004
Aerospace	\$ 1,641	\$ 64	\$ —	\$ 16	\$ 1,721
Automation and Control Solutions	2,832	162	(60)	20	2,954
Specialty Materials	781	—	(12)	10	779
Transportation Systems	535	—	—	24	559
	\$ 5,789	\$ 226	\$ (72)	\$ 70	\$ 6,013
	December 31, 2002	Acquisitions	Divestitures	Currency Translation Adjustment	December 31, 2003
Aerospace	\$ 1,644	\$ —	\$ (3)	\$ —	\$ 1,641
Automation and Control Solutions	2,678	136	—	18	2,832
Specialty Materials	849	5	(89)	16	781
Transportation Systems	527	—	—	8	535
	\$ 5,698	\$ 141	\$ (92)	\$ 42	\$ 5,789

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Intangible assets are comprised of:

	December 31, 2004			December 31, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:						
Investments in Aerospace customer incentives	\$ 952	\$ (176)	\$ 776	\$ 860	\$ (141)	\$ 719
Patents and trademarks	445	(310)	135	425	(295)	130
Other	512	(219)	293	398	(186)	212
	<u>1,909</u>	<u>(705)</u>	<u>1,204</u>	<u>1,683</u>	<u>(622)</u>	<u>1,061</u>
Trademark with indefinite life	46	(9)	37	46	(9)	37
	<u>\$ 1,955</u>	<u>\$ (714)</u>	<u>\$ 1,241</u>	<u>\$ 1,729</u>	<u>\$ (631)</u>	<u>\$ 1,098</u>

Intangible assets amortization expense was \$78, \$66 and \$59 million in 2004, 2003 and 2002, respectively. Estimated intangible assets amortization expense for each of the five succeeding years approximates \$75 million.

**Note 14—Accrued Liabilities**

	December 31,	
	2004	2003
Compensation and benefit costs	\$ 538	\$ 386
Customer advances	545	516
Income taxes	216	145
Environmental costs	267	90
Asbestos related liabilities	744	730
Severance	97	171
Product warranties and performance guarantees	270	242
Other	2,294	2,034
	<u>\$ 4,971</u>	<u>\$ 4,314</u>

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**Note 15—Long-term Debt and Credit Agreements**

	December 31,	
	2004	2003
6.875% notes due 2005	\$ —	\$ 750
5.25% notes due 2006	368	339
8 <sup>5</sup> / <sub>8</sub> % debentures due 2006	100	100
5 <sup>1</sup> / <sub>8</sub> % notes due 2006	500	500
7.0% notes due 2007	350	350
7 <sup>1</sup> / <sub>8</sub> % notes due 2008	200	200
6.20% notes due 2008	200	200
Zero coupon bonds and money multiplier notes, 13.0%–14.26%, due 2009	100	100
Floating rate notes due 2009-2011	252	267
7.50% notes due 2010	1,000	1,000
6 <sup>1</sup> / <sub>8</sub> % notes due 2011	500	500
Industrial development bond obligations, 1.1%–2.4%, maturing at various dates through 2037	66	66
6 <sup>5</sup> / <sub>8</sub> % debentures due 2028	216	216
9.065% debentures due 2033	51	51
Other (including capitalized leases), 0.53%–15.69%, maturing at various dates through 2020	166	322
	<u>\$ 4,069</u>	<u>\$ 4,961</u>

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

	At December 31, 2004	
2005	\$	956
2006		999
2007		386
2008		402
2009		209
Thereafter		2,073
		<u>5,025</u>
Less—current portion		(956)
	<u>\$</u>	<u>4,069</u>

We maintain \$2.3 billion of bank revolving credit facilities with a group of banks, arranged by Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., and comprises: (a) a \$1.3 billion Five-Year Credit Agreement, with a \$300 million letter of credit sub-limit and (b) a \$1 billion Five-Year Credit Agreement with a \$200 million letter of credit sub-limit. The credit agreements are maintained for general corporate purposes, including support for the issuance of commercial paper. We had no borrowings outstanding under either agreement at December 31, 2004. We have issued \$115 million of letters of credit under the \$1.3 billion Five-Year Credit Agreement at December 31, 2004.

Neither of the credit agreements restricts our ability to pay dividends and neither contains financial covenants. The failure to comply with customary conditions or the occurrence of customary events of default contained in the credit agreements would prevent any further borrowings and would generally require the repayment of any outstanding borrowings under such credit agreements. Such events of default include: (a) non-payment of credit agreement debt, interest or fees; (b) non-compliance with the terms of the credit agreement covenants; (c) cross-default to other debt in certain circumstances;

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(d) bankruptcy; and (e) defaults upon obligations under Employee Retirement Income Security Act. Additionally, each of the banks has the right to terminate its commitment to lend additional funds or issue additional letters of credit under the credit agreements if any person or group acquires beneficial ownership of 30 percent or more of our voting stock, or, during any 12-month period, individuals who were directors of Honeywell at the beginning of the period cease to constitute a majority of the Board of Directors (the Board).

Loans under the \$1.3 billion Five-Year Credit Agreement are required to be repaid no later than November 26, 2008. Loans under the \$1 billion Five-Year Credit Agreement are required to be repaid no later than October 22, 2009. We have agreed to pay a facility fee of 0.08 percent per annum on the aggregate commitment for both Five-Year Credit Agreements.

Interest on borrowings under both Five-Year Credit Agreements would be determined, at Honeywell's option, by (a) an auction bidding procedure; (b) the highest of the floating base rate publicly announced by Citibank, N.A., 0.5 percent above the average CD rate, or 0.5 percent above the Federal funds rate; or (c) the Eurocurrency rate plus 0.22 percent (applicable margin).

The facility fee, the applicable margin over the Eurocurrency rate on both Five-Year Credit Agreements and the letter of credit issuance fee in both Five-Year Credit Agreements, are subject to change, based upon a grid determined by our long-term debt ratings. Neither credit agreement is subject to termination based upon a decrease in our debt ratings or a material adverse change.

**Note 16—Lease Commitments**

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

	<b>At December 31, 2004</b>	
2005	\$	289
2006		216
2007		153
2008		122
2009		75
Thereafter		173
	\$	1,028

We have entered into agreements to lease land, equipment and buildings. Principally all our operating leases have initial terms of up to 25 years, and some contain renewal options subject to customary conditions. At any time during the terms of some of our leases, we may at our option purchase the leased assets for amounts that approximate fair value. We do not expect that any of our commitments under the lease agreements will have a material adverse effect on our consolidated results of operations, financial position or liquidity.

Rent expense was \$321, \$314 and \$274 million in 2004, 2003 and 2002, respectively.

**Note 17—Financial Instruments**

As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates and commodity prices, which may adversely affect our operating results and financial position. We minimize our risks from interest and foreign currency exchange rate and commodity price fluctuations through our normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments.

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**Credit and Market Risk**—Financial instruments, including derivatives, expose us to counterparty credit risk for nonperformance and to market risk related to changes in interest or currency exchange rates. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties in derivative transactions are substantial investment and commercial banks with significant experience using such derivative instruments. We monitor the impact of market risk on the fair value and cash flows of our derivative and other financial instruments considering reasonably possible changes in interest and currency exchange rates and restrict the use of derivative financial instruments to hedging activities. We do not use derivative financial instruments for trading or other speculative purposes and do not use leveraged derivative financial instruments.

We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. While concentrations of credit risk associated with our trade accounts and notes receivable are considered minimal due to our diverse customer base, a significant portion of our customers are in the commercial air transport industry (aircraft manufacturers and airlines) accounting for approximately 13 percent of our consolidated sales in 2004. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer. Our sales are not materially dependent on a single customer or a small group of customers.

**Foreign Currency Risk Management**—We conduct our business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and anticipated transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency denominated cash flows. We attempt to have all transaction exposures hedged with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency forward and option agreements with third parties. Our principal currency exposures relate to the Euro, the British pound, the Canadian dollar, and the U.S. dollar.

We hedge monetary assets and liabilities denominated in non-functional currencies. Prior to conversion into U.S. dollars, these assets and liabilities are remeasured at spot exchange rates in effect on the balance sheet date. The effects of changes in spot rates are recognized in earnings and included in Other (Income) Expense. We hedge our exposure to changes in foreign exchange rates principally with forward contracts. Forward contracts are marked-to-market with the resulting gains and losses similarly recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged.

We partially hedge forecasted 2005 sales and purchases denominated in non-functional currencies with currency forward contracts. When a functional currency strengthens against non-functional currencies, the decline in value of forecasted non-functional currency cash inflows (sales) or outflows (purchases) is partially offset by the recognition of gains (sales) and losses (purchases), respectively, in the value of the forward contracts designated as hedges. Conversely, when a functional currency weakens against non-functional currencies, the increase in value of forecasted non-functional currency cash inflows (sales) or outflows (purchases) is partially offset by the recognition of losses (sales) and gains (purchases), respectively, in the value of the forward contracts designated as hedges. Market value gains and losses on these contracts are recognized in earnings when the hedged transaction is recognized. All open forward contracts mature by December 31, 2005.

At December 31, 2004 and 2003, we had contracts with notional amounts of \$790 and \$641 million, respectively, to exchange foreign currencies, principally in the Euro countries and Great Britain.

**Commodity Price Risk Management**—Our exposure to market risk for commodity prices arises from changes in our cost of production. We mitigate our exposure to commodity price risk through the

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use of long-term, firm-price contracts with our suppliers and forward commodity purchase agreements with third parties hedging anticipated purchases of several commodities (principally natural gas). Forward commodity purchase agreements are marked-to-market, with the resulting gains and losses recognized in earnings when the hedged transaction is recognized.

**Interest Rate Risk Management**—We use a combination of financial instruments, including medium-term and short-term financing, variable-rate commercial paper, and interest rate swaps to manage the interest rate mix of our total debt portfolio and related overall cost of borrowing. At December 31, 2004 and 2003, interest rate swap agreements designated as fair value hedges effectively changed \$1,218 and \$1,189 million, respectively, of fixed rate debt at an average rate of 6.42 and 6.45 percent, respectively, to LIBOR based floating rate debt. Our interest rate swaps mature through 2007.

**Fair Value of Financial Instruments**—The carrying value of cash and cash equivalents, trade accounts and notes receivables, payables, commercial paper and short-term borrowings contained in the Consolidated Balance Sheet approximates fair value. Summarized below are the carrying values and fair values of our other financial instruments at December 31, 2004 and 2003. The fair values are based on the quoted market prices for the issues (if traded), current rates offered to us for debt of the same remaining maturity and characteristics, or other valuation techniques, as appropriate.

	December 31, 2004		December 31, 2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Long-term receivables	\$ 237	\$ 218	\$ 388	\$ 369
Interest rate swap agreements	39	39	67	67
Foreign currency exchange contracts	22	22	12	12
Forward commodity contracts	10	10	18	18
<b>Liabilities</b>				
Long-term debt and related current maturities	\$ (5,025)	\$ (5,411)	\$ (5,008)	\$ (5,508)
Foreign currency exchange contracts	(6)	(6)	(11)	(11)
Forward commodity contracts	(2)	(2)	—	—

**Note 18—Capital Stock**

We are authorized to issue up to 2,000,000,000 shares of common stock, with a par value of one dollar. Common shareowners are entitled to receive such dividends as may be declared by the Board, are entitled to one vote per share, and are entitled, in the event of liquidation, to share ratably in all the assets of Honeywell which are available for distribution to the common shareowners. Common shareowners do not have preemptive or conversion rights. Shares of common stock issued and outstanding or held in the treasury are not liable to further calls or assessments. There are no restrictions on us relative to dividends or the repurchase or redemption of common stock.

In November 2003, Honeywell announced its intention to repurchase sufficient outstanding shares of its common stock 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. While we estimate the issuance of approximately 10 million shares annually under such plans, in 2004, we repurchased 20.1 million shares for \$699 million, which included shares repurchased in response to market conditions in the fourth quarter to offset the anticipated 2005 dilutive impact of employee stock based compensation plans.

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We are authorized to issue up to 40,000,000 shares of preferred stock, without par value, and can determine the number of shares of each series, and the rights, preferences and limitations of each series. At December 31, 2004, there was no preferred stock outstanding.

**Note 19—Other Nonowner Changes in Shareowners' Equity**

Total nonowner changes in shareowners' equity are included in the Consolidated Statement of Shareowners' Equity. The changes in Accumulated Other Nonowner Changes are as follows:

	Pretax	Tax	After-Tax
<b>Year Ended December 31, 2004</b>			
Foreign exchange translation adjustments	\$ 351	\$ —	\$ 351
Change in fair value of effective cash flow hedges	(15)	6	(9)
Minimum pension liability adjustment	(19)	4	(15)
	<u>\$ 317</u>	<u>\$ 10</u>	<u>\$ 327</u>
<b>Year Ended December 31, 2003</b>			
Foreign exchange translation adjustments	\$ 551	\$ —	\$ 551
Change in fair value of effective cash flow hedges	—	—	—
Minimum pension liability adjustment	604	(235)	369
	<u>\$ 1,155</u>	<u>\$ (235)</u>	<u>\$ 920</u>
<b>Year Ended December 31, 2002</b>			
Foreign exchange translation adjustments	\$ 310	\$ —	\$ 310
Change in fair value of effective cash flow hedges	35	(13)	22
Minimum pension liability adjustment	(956)	350	(606)
	<u>\$ (611)</u>	<u>\$ 337</u>	<u>\$ (274)</u>

The components of Accumulated Other Nonowner Changes are as follows:

	December 31,		
	2004	2003	2002
Cumulative foreign exchange translation adjustments	\$ 489	\$ 138	\$ (413)
Fair value of effective cash flow hedges	8	17	17
Minimum pension liability	(359)	(344)	(713)
	<u>\$ 138</u>	<u>\$ (189)</u>	<u>\$ (1,109)</u>

**Note 20—Stock-Based Compensation Plans**

We have stock plans available to grant incentive stock options, non-qualified stock options and stock appreciation rights to officers and employees.

**Fixed Stock Options**—The exercise price, term and other conditions applicable to each option granted under the stock plans are generally determined by the Management Development and Compensation Committee of the Board. The options are granted at a price equal to our stock's fair market value on the date of grant. The options generally become exercisable over a three-year period and expire after ten years.



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The following table summarizes information about stock option activity for the three years ended December 31, 2004:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2001	53,879,625	\$ 39.37
Granted	2,996,005	33.61
Exercised	(1,692,005)	18.15
Lapsed or canceled	(3,168,916)	43.14
Outstanding at December 31, 2002	52,014,709	39.50
Granted	9,372,850	23.70
Exercised	(2,361,930)	18.34
Lapsed or canceled	(4,735,283)	39.58
Outstanding at December 31, 2003	54,290,346	37.68
Granted	9,409,800	35.49
Exercised	(2,947,232)	21.20
Lapsed or canceled	(2,433,985)	39.41
Outstanding at December 31, 2004	58,318,929	38.09

The following table summarizes information about stock options outstanding and exercisable at December 31, 2004:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Life(1)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$17.79–\$29.86	11,088,429	6.3	\$ 23.67	6,151,309	\$ 23.66
\$30.03–\$39.94	30,819,327	6.5	35.90	20,812,117	36.17
\$40.02–\$49.97	9,156,099	4.0	43.47	9,124,599	43.48
\$50.13–\$66.73	7,255,074	4.9	62.62	7,255,074	62.62
	58,318,929	5.9	38.09	43,343,099	40.36

(1) Average remaining contractual life in years.

There were 40,547,240 and 38,179,208 options exercisable at weighted average exercise prices of \$41.14 and \$39.58 at December 31, 2003 and 2002, respectively. There were 20,173,109 shares available for future grants under the terms of our stock option plans at December 31, 2004.

**Restricted Stock Units**—Restricted stock unit (RSU) awards entitle the holder to receive one share of common stock for each unit when the units vest. RSU's are issued to certain key employees as compensation and as incentives tied directly to the achievement of certain performance objectives.

RSU's issued were 980,706, 1,578,000 and 1,777,700 in 2004, 2003 and 2002, respectively. Compensation expense related to these RSUs was \$24, \$27 and \$36 million in 2004, 2003 and 2002, respectively. There were 3,691,556, 3,103,513 and 2,342,960 RSU's outstanding, with a weighted average grant date fair value per share of \$31.18, \$30.10 and \$37.12 at December 31, 2004, 2003 and 2002, respectively.

**Non-Employee Directors' Plan**—We also have a Stock Plan for Non-Employee Directors (Directors' Plan) under which restricted shares and options are granted. Each new director receives a one-time grant of 3,000 shares of common stock, subject to specific restrictions.

The Directors' Plan also provides for an annual grant to each director of options to purchase 5,000 shares of common stock at the fair market value on the date of grant. We have set aside 450,000

shares for issuance under the Directors' Plan. Options generally become exercisable over a three-year period and expire after ten years.

**Note 21—Commitments and Contingencies**

**Shareowner Litigation**—Honeywell and three of its former officers were defendants in a class action lawsuit filed in the United States District Court for the District of New Jersey. Plaintiffs alleged, among other things, that the defendants violated federal securities laws by purportedly making false and misleading statements and by failing to disclose material information concerning Honeywell's financial performance, thereby allegedly causing the value of Honeywell's stock to be artificially inflated. The Court certified a class consisting of all purchasers of Honeywell stock between December 20, 1999 and June 19, 2000. On June 4, 2004 Honeywell and the lead plaintiffs agreed to a settlement of this matter which required a payment to the class of \$100 million. Honeywell's contribution to the settlement was \$15 million, which amount had previously been fully reserved. Honeywell's insurance carriers paid the remainder of the settlement. The settlement was approved by the Court on August 16, 2004. A small number of class members, including the Florida State Board of Administration (FSBA), opted out of the settlement. The FSBA claims have been settled for \$1.25 million. Honeywell believes that all opt-out claims, including that of the FSBA, are fully insured.

**ERISA Class Action Lawsuit**—Honeywell and several of its current and former officers and directors are defendants in a purported class action lawsuit filed in the United States District Court for the District of New Jersey. The complaint principally alleges that the defendants breached their fiduciary duties to participants in the Honeywell Savings and Ownership Plan (the "Savings Plan") by purportedly making false and misleading statements, failing to disclose material information concerning Honeywell's financial performance, and failing to diversify the Savings Plan's assets and monitor the prudence of Honeywell stock as a Savings Plan investment. In September 2004, Honeywell reached an agreement in principle to settle this matter for \$14 million plus an agreement to permit Savings Plan participants greater diversification rights. The settlement will be paid in full by Honeywell's insurers. The settlement will require Court approval, which is expected in 2005.

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

With respect to environmental matters involving site contamination, we continually conduct studies, individually or jointly with other responsible parties, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy to record appropriate liabilities for environmental matters when remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our accruals. We expect to fund expenditures for these matters from operating cash flow. The timing

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of cash expenditures depends on a number of factors, including the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

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

In the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.*, the United States District Court for the District of New Jersey held in May 2003 that a predecessor Honeywell site located in Jersey City, New Jersey constituted an imminent and substantial endangerment and ordered Honeywell to conduct the excavation and transport for offsite disposal of approximately one million tons of chromium residue present at the site. Honeywell appealed the Court's decision to the Third Circuit Court of Appeals (Appeals Court). As disclosed in prior SEC filings, we believed that the District Court-ordered remedy would be remanded, reversed or replaced and, accordingly, provisions previously made in our financial statements for remedial costs at this site did not assume excavation and offsite removal of chromium. On February 18, 2005, the Appeals Court denied Honeywell's appeal. In light of the Appeals Court decision, we recorded a pre-tax charge of \$278 million in the fourth quarter of 2004, which reflects the incremental cost of implementing the Court-ordered remedy. Implementation of the excavation and offsite removal remedy is expected to take place over a five-year period, and the cost of implementation is expected to be incurred evenly over that period. We do not expect implementation of the remedy to have a material adverse effect on our future consolidated results of operations, operating cash flows or financial position.

In accordance with a 1992 consent decree with the State of New York, Honeywell is studying environmental conditions in and around Onondaga Lake (the Lake) in Syracuse, New York. The purpose of the study is to identify, evaluate and propose remedial measures that can be taken to remedy historic industrial contamination in the Lake. A predecessor company to Honeywell operated a chemical plant which is alleged to have contributed mercury and other contaminants to the Lake. In November 2004, the New York State Department of Environmental Conservation (the DEC) issued its Proposed Plan for remediation of industrial contamination in the Lake. There will be a public comment period until March 1, 2005, and the Proposed Plan is subject to review by the U.S. Environmental Protection Agency. The DEC is currently expected to issue its Record of Decision in the first half of 2005.

The Proposed Plan calls for a combined dredging/capping remedy generally in line with the approach recommended in the Feasibility Study submitted by Honeywell in May 2004 (the May 2004 Feasibility Study). Although the Proposed Plan calls for additional remediation in certain parts of the Lake, it would not require the most extensive dredging alternatives described in the May 2004 Feasibility Study. The DEC's aggregate cost estimate is based on the high end of the range of potential costs for major elements of the Proposed Plan and includes a contingency. The actual cost of the Proposed Plan will depend upon, among other things, the resolution of certain technical issues during the design phase of the remediation, expected to occur sometime in 2007 and beyond.

Based on currently available information and analysis performed by our engineering consultants, our estimated cost of implementing the remedy set forth in the Proposed Plan is consistent with amounts previously provided for in our financial statements. Our estimating process considered a range of possible outcomes and amounts recorded reflect our best estimate at this time. We do not believe that this matter will have a material adverse impact on our consolidated financial position.

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Given the scope and complexity of this project, it is possible that actual costs could exceed estimated costs by an amount that could have a material adverse impact on our consolidated results of operations and operating cash flows in the periods recognized or paid. At this time, however, we cannot identify any legal, regulatory or technical reason to conclude that a specific alternative outcome is more probable than the outcome for which we have made provisions in our financial statements.

**Asbestos Matters**—Like many other industrial companies, Honeywell is a defendant in personal injury actions related to asbestos. We did not mine or produce asbestos, nor did we make or sell insulation products or other construction materials that have been identified as the primary cause of asbestos related disease in the vast majority of claimants. Products containing asbestos previously manufactured by Honeywell or by previously owned subsidiaries fall into two general categories; refractory products and friction products.

**Refractory Products**—Honeywell owned North American Refractories Company (NARCO) from 1979 to 1986. NARCO produced refractory products (high temperature bricks and cement) which were sold largely to the steel industry in the East and Midwest. Less than 2 percent of NARCO's products contained asbestos.

When we sold the NARCO business in 1986, we agreed to indemnify NARCO with respect to personal injury claims for products that had been discontinued prior to the sale (as defined in the sale agreement). NARCO retained all liability for all other claims. NARCO had resolved approximately 176,000 claims through January 4, 2002, the date NARCO filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, at an average cost per claim of two thousand two hundred dollars. Of those claims, 43 percent were dismissed on the ground that there was insufficient evidence that NARCO was responsible for the claimant's asbestos exposure. As of the date of NARCO's bankruptcy filing, there were approximately 116,000 remaining claims pending against NARCO, including approximately 7 percent in which Honeywell was also named as a defendant. Since 1983, Honeywell and our insurers have contributed to the defense and settlement costs associated with NARCO claims.

As a result of the NARCO bankruptcy filing, all of the claims pending against NARCO are automatically stayed pending the reorganization of NARCO. Because the claims pending against Honeywell necessarily will impact the liabilities of NARCO, because the insurance policies held by Honeywell are essential to a successful NARCO reorganization, and because Honeywell has offered to commit the value of those policies to the reorganization, the bankruptcy court has temporarily enjoined any claims against Honeywell, current or future, related to NARCO, except one claim which is not material as to which the stay was lifted in August 2003. Although the stay has remained in effect continuously since January 4, 2002, there is no assurance that such stay will remain in effect. In connection with NARCO's bankruptcy filing, we paid NARCO's parent company \$40 million and agreed to provide NARCO with up to \$20 million in financing. We also agreed to pay \$20 million to NARCO's parent company upon the filing of a plan of reorganization for NARCO acceptable to Honeywell, and to pay NARCO's parent company \$40 million, and to forgive any outstanding NARCO indebtedness, upon the confirmation and consummation of such a plan.

As a result of negotiations with counsel representing NARCO related asbestos claimants regarding settlement of all pending and potential NARCO related asbestos claims against Honeywell, we have reached definitive agreements with approximately 260,000 claimants, which represents in excess of 90 percent of the anticipated current claimants who are expected to file a claim as part of the NARCO reorganization process. We are also in discussions with the NARCO Committee of Asbestos Creditors and the Court-appointed legal representative for future asbestos claimants on Trust Distribution Procedures for NARCO. We believe that, as part of the NARCO plan of reorganization, a trust will be established pursuant to these Trust Distribution Procedures for the benefit of all asbestos claimants, current and future. If the trust is put in place and approved by the Court as fair and equitable, Honeywell as well as NARCO will be entitled to a permanent channeling injunction barring

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all present and future individual actions in state or federal courts and requiring all asbestos related claims based on exposure to NARCO products to be made against the federally-supervised trust. NARCO has deferred filing its plan of reorganization pending resolution of the bankruptcy proceedings related to one of its sister companies. We now expect the NARCO plan of reorganization and the NARCO trust to be approved by the Court in 2005. As part of its ongoing settlement negotiations, Honeywell has reached agreement in principle with the representative for future NARCO claimants to cap its annual contributions to the trust with respect to future claims at a level that would not have a material impact on Honeywell's operating cash flows. Given the substantial progress of negotiations between Honeywell and NARCO related asbestos claimants and between Honeywell and the Committee of Asbestos Creditors during the fourth quarter of 2002, Honeywell developed an estimated liability for settlement of pending and future asbestos claims and recorded a charge of \$1.4 billion for NARCO related asbestos litigation charges, net of insurance recoveries. This charge consisted of the estimated liability to settle current asbestos related claims, the estimated liability related to future asbestos related claims through 2018 and obligations to NARCO's parent, net of insurance recoveries of \$1.8 billion.

The estimated liability for current claims is based on terms and conditions, including evidentiary requirements, in definitive agreements with in excess of 90 percent of current claimants. Substantially all settlement payments with respect to current claims are expected to be made by the end of 2007.

The liability for future claims estimates the probable value of future asbestos related bodily injury claims asserted against NARCO through 2018 and obligations to NARCO's parent as discussed above. The estimate is based upon the disease criteria and payment values contained in the NARCO Trust Distribution Procedures negotiated with the NARCO Committee of Asbestos Creditors and the NARCO future claimants representative. In light of the uncertainties inherent in making long-term projections we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018 under Statement of Financial Accounting Standards No. 5. Honeywell retained the expert services of Hamilton, Rabinovitz and Alschuler, Inc. (HR&A) to project the probable number and value, including trust claim handling costs, of asbestos related future liabilities based upon historical experience with similar trusts. The methodology used to estimate the liability for future claims has been commonly accepted by numerous courts and is the same methodology that is utilized by an expert who is routinely retained by the asbestos claimants committee in asbestos related bankruptcies. The valuation methodology includes an analysis of the population likely to have been exposed to asbestos containing products, epidemiological studies to estimate the number of people likely to develop asbestos related diseases, NARCO claims filing history, the pending inventory of NARCO asbestos related claims and payment rates expected to be established by the NARCO trust.

Honeywell has approximately \$1.3 billion in insurance limits remaining that reimburses it for portions of the costs incurred to settle NARCO related claims and court judgments as well as defense costs. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. At December 31, 2004, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. This includes agreements with a substantial majority of the London-based insurance companies entered into primarily in the first quarter of 2004. We conduct analyses to determine the amount of insurance that we estimate is probable that we will recover in relation to payment of current and projected future claims. 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. In the second quarter of 2004, based on our ongoing evaluation of our ability to enforce our rights under the various insurance policies, we concluded that we had additional probable insurance recoveries of \$47 million, net of solvency reserves, which has been reflected in insurance receivables. We made judgments

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concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs.

Projecting future events is subject to many uncertainties that could cause the NARCO related asbestos liabilities to be higher or lower than those projected and recorded. There is no assurance that a plan of reorganization will be proposed or confirmed, that insurance recoveries will be timely or whether there will be any NARCO related asbestos claims beyond 2018. Given the inherent uncertainty in predicting future events, we review our estimates periodically, and update them based on our experience and other relevant factors. Similarly we will reevaluate our projections concerning our probable insurance recoveries in light of any changes to the projected liability or other developments that may impact insurance recoveries.

**Friction Products**—Honeywell's Bendix Friction Materials (Bendix) business manufactured automotive brake pads that contained chrysotile asbestos in an encapsulated form. There is a group of existing and potential claimants consisting largely of individuals that allege to have performed brake replacements.

From 1981 through December 31, 2004, we have resolved approximately 71,000 Bendix related asbestos claims including trials covering 120 plaintiffs, which resulted in 115 favorable verdicts. Trials covering five individuals resulted in adverse verdicts; however, two of these verdicts were reversed on appeal and the remaining three claims were settled.

Through the second quarter of 2002, Honeywell had no out-of-pocket costs for Bendix related asbestos claims since its insurance deductible was satisfied many years ago. Beginning with claim payments made in the third quarter of 2002, Honeywell began advancing indemnity and defense claim costs. Those indemnity and defense costs were approximately \$165, \$112 and \$70 million in 2004, 2003 and 2002, respectively. In 2004 and 2003 Honeywell collected approximately \$8 and \$90 million, respectively, in insurance reimbursements and settlements for Bendix related asbestos claims. See further discussion of insurance coverage below.

The following tables present information regarding Bendix related asbestos claims activity during the past two years:

Claims Activity	Years Ended December 31,	
	2004	2003
Claims Unresolved at beginning of year	72,976	50,821
Claims Filed	10,504	25,765
Claims Resolved	(7,132)	(3,610)
Claims Unresolved at end of year	76,348	72,976

  

Disease Distribution of Unresolved Claims	December 31,	
	2004	2003
Mesothelioma and Other Cancer Claims	3,534	3,277
Other Claims	72,814	69,699
Total Claims	76,348	72,976

Approximately 30 percent of the approximately 76,000 pending claims at December 31, 2004 are on the inactive, deferred, or similar dockets established in some jurisdictions for claimants who allege minimal or no impairment. The approximately 76,000 pending claims also include claims filed in jurisdictions such as Texas, Virginia and Mississippi that allow for consolidated filings. In these

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jurisdictions, plaintiffs are permitted to file complaints against a pre-determined master list of defendants, regardless of whether they have claims against each individual defendant. Many of these plaintiffs may not actually have claims against Honeywell. Based on state rules and prior experience in these jurisdictions, we anticipate that many of these claims will ultimately be dismissed. During 2003, Honeywell was served with numerous complaints filed in Mississippi in advance of the January 1, 2003 effective date for tort reform in that state. Also during 2003, Honeywell experienced an increase in nonmalignancy filings that we believe were in response to the possibility of federal legislation. Based on prior experience, we anticipate that many of these claims will be placed on deferred, inactive or similar dockets or be dismissed. Honeywell has experienced average resolution values excluding legal costs as follows:

	Years Ended December 31,		
	2004	2003	2002
	(in whole dollars)		
Malignant claims	\$ 90,000	\$ 95,000	\$ 166,000
Nonmalignant claims	\$ 1,600	\$ 3,500	\$ 1,300

It is not possible to predict whether resolution values for Bendix related asbestos claims will increase, decrease or stabilize in the future.

We have accrued for the estimated cost of pending Bendix related asbestos claims. The estimate is based on the number of pending claims at December 31, 2004, disease classifications, expected settlement values and historic dismissal rates. Honeywell retained the expert services of HR&A (see discussion of HR&A under Refractory products above) to assist in developing the estimated expected settlement values and historic dismissal rates. We cannot reasonably estimate losses which could arise from future Bendix related asbestos claims because we cannot predict how many additional claims may be brought against us, the allegations in such claims or their probable outcomes and resulting settlement values in the tort system.

Honeywell presently has approximately \$1.9 billion of insurance coverage remaining with respect to pending Bendix related asbestos claims as well as claims which may be filed against us in the future. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. Although Honeywell has approximately \$1.9 billion in insurance, there are gaps in our coverage due to insurance company insolvencies, a comprehensive policy buy-back settlement with Equitas in 2003 and certain uninsured periods. We analyzed the amount of insurance that we estimate is probable that we will recover in relation to payment of asbestos related claims and determined that approximately 50 percent of expenditures for such claims are recoverable by insurance. 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. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs. Based on our analysis, at December 31, 2004 we had amounts receivable from our insurers of approximately \$340 million representing probable reimbursements associated with our liability for pending claims as well as amounts due to us for previously settled and paid claims related to the estimated liabilities for pending claims.

In the fourth quarter of 2002, we recorded a charge of \$167 million which consisted of a \$127 million accrual for our Bendix related asbestos liabilities to be settled by the then contemplated sale of Bendix to Federal-Mogul, net of insurance recoveries, and a \$40 million accrual for other costs which we expected to be required in order to complete the transaction (completion costs). In 2003, we paid \$112 million to settle Bendix related asbestos claims, which were charged to this accrual. When the deal negotiations ended, the \$40 million accrual for the expected completion costs was reversed and

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an additional asbestos accrual was recorded to reflect our current estimate of the asbestos exposure, net of expected insurance coverage.

Honeywell believes it has sufficient insurance coverage and reserves to cover all pending Bendix related asbestos claims. Although it is impossible to predict the outcome of pending claims or to reasonably estimate losses which could arise from future Bendix related asbestos claims, we do not believe that such claims would have a material adverse effect on our consolidated financial position in light of our insurance coverage and our prior experience in resolving such claims. If the rate and types of claims filed, the average indemnity cost of such claims and the period of time over which claim settlements are paid (collectively, the "Variable Claims Factors") do not substantially change, Honeywell would not expect future Bendix related asbestos claims to have a material adverse effect on our results of operations or operating cash flows in any fiscal year. No assurances can be given, however, that the Variable Claims Factors will not substantially change.

NARCO and Bendix asbestos related balances are included in the following balance sheet accounts:

	December 31,	
	2004	2003
Other current assets	\$ 150	\$ 130
Insurance recoveries for asbestos related liabilities	1,412	1,317
	\$ 1,562	\$ 1,447
Accrued liabilities	\$ 744	\$ 730
Asbestos related liabilities	2,006	2,279
	\$ 2,750	\$ 3,009

During 2004, we paid \$518 million in indemnity and defense costs related to NARCO and Bendix claims. Additionally, we recognized charges totaling \$76 million primarily for Bendix related asbestos claims filed and defense costs incurred during 2004, net of probable insurance recoveries. The charges include an update of expected resolution values for pending Bendix claims and are net of an additional \$47 million of NARCO insurance deemed probable of recovery.

We are monitoring proposals for federal asbestos legislation pending in the United States Congress. Due to the uncertainty surrounding the proposed legislation, it is not possible at this point in time to determine what impact such legislation would have on the NARCO bankruptcy strategy or our asbestos liabilities and related insurance recoveries.

**Warranties and Guarantees**—We have issued or are a party to the following direct and indirect guarantees at December 31, 2004:

	<b>Maximum Potential Future Payments</b>
Operating lease residual values	\$ 47
Other third parties' financing	4
Unconsolidated affiliates' financing	7
Customer and vendor financing	35
	\$ 93

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

In connection with the disposition of certain businesses and facilities we have indemnified the purchasers for the expected cost of remediation of environmental contamination, if any, existing on the



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date of disposition. Such expected costs are accrued when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated.

In the normal course of business we issue product warranties and product performance guarantees. We accrue for the estimated cost of product warranties and performance guarantees based on contract terms and historical experience at the time of sale. Adjustments to initial obligations for warranties and guarantees are made as changes in the obligations become reasonably estimable. The following table summarizes information concerning our recorded obligations for product warranties and product performance guarantees:

	Years Ended December 31,		
	2004	2003	2002
Beginning of year	\$ 275	\$ 217	\$ 217
Accruals for warranties/guarantees issued during the year	236	215	158
Adjustment of pre-existing warranties/guarantees	1	35	(18)
Settlement of warranty/guarantee claims	(213)	(192)	(140)
End of year	<u>\$ 299</u>	<u>\$ 275</u>	<u>\$ 217</u>

Product warranties and product performance guarantees are included in the following balance sheet accounts:

	December 31,	
	2004	2003
Accrued liabilities	\$ 270	\$ 242
Other liabilities	29	33
	<u>\$ 299</u>	<u>\$ 275</u>

**Other Matters**—We are subject to a number of other 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, prior acquisitions and divestitures, and health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse judgments of outcomes in these matters, as well as potential ranges of probable losses, based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Given the uncertainty inherent in litigation, we do not believe it is possible to develop estimates of the range of reasonably possible loss in excess of current accruals for these matters. Considering our past experience and existing accruals, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our consolidated financial position. Because most contingencies are resolved over long periods of time, potential liabilities are subject to change due to new developments, changes in settlement strategy or the impact of evidentiary requirements, which could cause us to pay damage awards or settlements (or become subject to equitable remedies) that could have a material adverse effect on our results of operations or operating cash flows in the periods recognized or paid.

**Note 22—Pension and Other Postretirement Benefits**

We sponsor both funded and unfunded U.S. and non-U.S. defined benefit pension plans covering the majority of our employees and retirees. Pension benefits for substantially all U.S. employees are provided through non-contributory, qualified and non-qualified defined benefit pension plans. U.S. defined benefit pension plans comprise 86 percent of our projected benefit obligation. Non-U.S. employees, who are not U.S. citizens, are covered by various retirement benefit arrangements, some of which are considered to be defined benefit pension plans for accounting purposes. Non-U.S. defined benefit pension plans comprise 14 percent of our projected benefit obligation.

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We also sponsor postretirement benefit plans that provide health care benefits and life insurance coverage to eligible retirees. Our retiree medical plans mainly cover U.S. employees who retire with pension eligibility for hospital, professional and other medical services. All non-union hourly and salaried employees joining Honeywell after January 1, 2000 are not eligible to participate in our retiree medical and life insurance plans. Most of the U.S. retiree medical plans require deductibles and copayments, and virtually all are integrated with Medicare. Retiree contributions are generally required based on coverage type, plan and Medicare eligibility. Honeywell has limited its subsidy of its retiree medical plans to a fixed-dollar amount for substantially all future retirees and for almost half of its current retirees. This cap of retiree medical benefits under our plans limits our exposure to the impact of future health care cost increases. The retiree medical and life insurance plans are not funded. Claims and expenses are paid from our general assets.

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The following tables summarize the balance sheet impact, including the benefit obligations, assets and funded status associated with our significant pension and other postretirement benefit plans at December 31, 2004 and 2003. We use a December 31 measurement date for the majority of our pension and postretirement benefit plans.

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 12,993	\$ 11,660	\$ 2,421	\$ 2,241
Service cost	222	201	17	17
Interest cost	755	757	138	145
Plan amendments	1	30	(19)	(92)
Actuarial losses	361	1,010	3	313
Acquisitions (divestitures)	(9)	15	—	—
Benefits paid	(905)	(883)	(207)	(203)
Settlements and curtailments	1	(2)	—	—
Other	168	205	—	—
<b>Benefit obligation at end of year</b>	<b>13,587</b>	<b>12,993</b>	<b>2,353</b>	<b>2,421</b>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	12,265	10,178	—	—
Actual return on plan assets	1,461	2,072	—	—
Company contributions	111	725	—	—
Acquisitions (divestitures)	(9)	15	—	—
Benefits paid	(905)	(883)	—	—
Other	147	158	—	—
<b>Fair value of plan assets at end of year</b>	<b>13,070</b>	<b>12,265</b>	<b>—</b>	<b>—</b>
Funded status of plans	(517)	(728)	(2,353)	(2,421)
Unrecognized net obligation at transition	11	11	—	—
Unrecognized net loss	3,245	3,666	679	779
Unrecognized prior service cost (credit)	151	187	(196)	(215)
<b>Net amount recognized</b>	<b>\$ 2,890</b>	<b>\$ 3,136</b>	<b>\$ (1,870)</b>	<b>\$ (1,857)</b>
<b>Amounts recognized in Consolidated Balance Sheet consist of:</b>				
Prepaid pension benefit cost	\$ 2,985	\$ 3,173	\$ —	\$ —
Intangible asset(1)	88	101	—	—
Accrued liabilities	—	—	(197)	(197)
Postretirement benefit obligations other than pensions(2)	—	—	(1,673)	(1,660)
Accrued benefit liability(3)	(225)	(170)	—	—
Additional minimum liability(3)	(462)	(453)	—	—
Accumulated other nonowner changes	504	485	—	—
<b>Net amount recognized</b>	<b>\$ 2,890</b>	<b>\$ 3,136</b>	<b>\$ (1,870)</b>	<b>\$ (1,857)</b>

(1) Included in Other Assets—Non-Current on Consolidated Balance Sheet.

(2) Excludes Non-U.S. plans of \$40 and \$23 million in 2004 and 2003, respectively.

(3) Included in Other Liabilities—Non-Current on Consolidated Balance Sheet.

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The accumulated benefit obligation for our defined benefit pension plans was \$12,996 and \$12,391 million at December 31, 2004 and 2003, respectively.

Net periodic pension and other postretirement benefit costs (income) for our significant plans include the following components:

	<b>Pension Benefits</b>		
	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Service cost	\$ 222	\$ 201	\$ 201
Interest cost	755	757	753
Expected return on plan assets	(1,042)	(1,030)	(1,164)
Amortization of transition asset	—	(7)	(7)
Amortization of prior service cost	38	37	43
Recognition of actuarial losses	413	178	13
Net periodic benefit cost (income)	386	136	(161)
Settlements and curtailments	—	—	14
Net periodic benefit cost (income) after settlements and curtailments	\$ 386	\$ 136	\$ (147)

  

	<b>Other Postretirement Benefits</b>		
	<b>Years Ended December 31,</b>		
	<b>2004</b>	<b>2003</b>	<b>2002</b>
Service cost	\$ 17	\$ 17	\$ 21
Interest cost	138	145	141
Expected return on plan assets	—	—	—
Amortization of prior service (credit)	(37)	(30)	(22)
Recognition of actuarial losses	101	62	10
Net periodic benefit cost	219	194	150
Settlements and curtailments	—	—	(30)
Net periodic benefit cost after settlements and curtailments	\$ 219	\$ 194	\$ 120

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Major actuarial assumptions used in determining the benefit obligations and net periodic benefit cost (income) for our U.S. benefit plans are presented in the following table. For non-U.S. benefit plans, no one of which was material, assumptions reflect economic assumptions applicable to each country.

	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Actuarial assumptions used to determine benefit obligations as of December 31:						
Discount rate	5.875%	6.00%	6.75%	5.50%	6.00%	6.75%
Expected annual rate of compensation increase	4.00%	4.00%	4.00%	—	—	—
Actuarial assumptions used to determine net periodic benefit cost (income) for years ended December 31:						
Discount rate	6.00%	6.75%	7.25%	6.00%	6.75%	7.25%
Expected rate of return on plan assets	9.00%	9.00%	10.00%	—	—	—
Expected annual rate of compensation increase	4.00%	4.00%	4.00%	—	—	—

We considered the available yields on high-quality fixed-income investments with maturities corresponding to the expected payment dates of our benefit obligations to determine our discount rates at each measurement date.

**Pension Benefits**

Pension plans with accumulated benefit obligations exceeding the fair value of plan assets were as follows:

	December 31,	
	2004	2003
Projected benefit obligation	\$ 1,801	\$ 1,639
Accumulated benefit obligation	1,720	1,566
Fair value of plan assets	950	906

Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pensions" (SFAS No. 87) requires recognition of an additional minimum pension liability if the fair value of plan assets is less than the accumulated benefit obligation at the end of the plan year. In 2004, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of \$15 million (\$19 million on a pretax basis) which increased the additional minimum pension liability. In 2003, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of \$369 million (\$604 million on a pretax basis) to reduce the additional minimum pension liability by \$304 million and reinstate a portion of the pension assets (\$300 million) written off in the prior year's minimum pension liability adjustment. This 2003 adjustment resulted from an increase in our pension assets in 2003 due to the improvement in equity markets and our contribution of \$670 million to our U.S. plans. In 2002, due to the poor performance of the equity markets which adversely affected our pension assets and a decline in the discount rate, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of \$606 million (\$956 million on a pretax basis) which increased the additional minimum pension liability.

Under SFAS No. 87, for our U.S. pension plans, we use the market-related value of plan assets reflecting changes in the fair value of plan assets over a three-year period. Further, unrecognized

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losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans projected benefit obligation are recognized over a six-year period.

Our U.S. pension plans assets were \$11.5 and \$10.9 billion and our non-U.S. pension plans assets were \$1.6 and \$1.4 billion at December 31, 2004 and 2003, respectively. Our asset allocation and target allocation for our pension plans assets are as follows:

Asset Category	Percentage of Plans Assets at December 31,		Long-term Target Allocation
	2004	2003	
Equity securities	61%	58%	40-65%
Debt securities, including cash	33	35	30-45
Real estate	4	5	2-8
Other	2	2	2-6
	100%	100%	

Equity securities include Honeywell common stock of \$214 and \$544 million at December 31, 2004 and 2003, respectively. An independent fiduciary holds and makes all investment decisions with respect to the Honeywell common stock.

Our asset investment strategy focuses on maintaining a diversified portfolio, using various asset classes, in order to achieve our long-term investment objectives on a risk adjusted basis. Our actual invested positions in various securities change over time based on short and longer-term investment opportunities. To achieve our objectives, our U.S. investment policy requires that our U.S. Master Retirement Trust be invested as follows: (a) no less than 30 percent be invested in fixed income securities; (b) no more than 10 percent in high-yield securities; (c) no more than 10 percent in private real estate investments; and (d) no more than 6 percent in other investment alternatives involving limited partnerships of various types. There is no stated limit on investments in publically-held U.S. and international equity securities. Our non-U.S. investment policies are different for each country, but the long-term investment objectives remain the same.

Our expected rate of return on plan assets of 9 percent is a long-term rate based on historic plan asset returns over varying long-term periods combined with current market conditions and broad asset mix considerations. The expected rate of return is a long-term assumption and generally does not change annually.

Our general funding policy for qualified pension plans is to contribute amounts at least sufficient to satisfy regulatory funding standards. In 2004, 2003 and 2002, we made voluntary contributions of \$40, \$670 and \$830 million, respectively, to our U.S. defined benefit pension plans to improve the funded status of our plans. The contributions in 2002 included \$700 million of Honeywell common stock. Assuming that actual plan asset returns are consistent with our expected rate of 9 percent in 2005 and beyond, and that interest rates remain constant, we would not be required to make any contributions to our U.S. pension plans for the foreseeable future. We expect to contribute approximately \$28 million in cash to our non-U.S. defined benefit pension plans in 2005. These contributions do not reflect benefits to be paid directly from Company assets.

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Benefit payments, including amounts to be paid from Company assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

2005	\$	912
2006		918
2007		924
2008		933
2009		942
2010-2014		4,938

**Other Postretirement Benefits**

	December 31,	
	2004	2003
Assumed health care cost trend rate:		
Health care cost trend rate assumed for next year	10.0%	11.0%
Rate that the cost trend rate gradually declines to	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2010	2010

The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1 percentage point	
	Increase	Decrease
Effect on total of service and interest cost components	\$ 8	\$ (7)
Effect on postretirement benefit obligation	\$ 123	\$ (111)

Benefit payments, including amounts to be paid from Company assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

2005	\$	208
2006		198
2007		199
2008		201
2009		197
2010-2014		902

**Employee Savings Plans**—We sponsor employee savings plans under which we match, in the form of our common stock, certain eligible U.S. employee savings plan contributions. Shares issued under the stock match plans were 4.3, 6.5 and 5.6 million at a cost of \$151, \$173 and \$173 million in 2004, 2003 and 2002, respectively.

**Note 23—Segment Financial Data**

We globally manage our business operations through strategic business units (SBUs) serving customers worldwide with aerospace products and services, control, sensing and security technologies for buildings, homes and industry, automotive products and chemicals. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. Based on similar economic and operational characteristics, our SBUs are aggregated and managed in four reportable segments as follows:

- Aerospace includes Engines, Systems and Services (auxiliary power units; propulsion engines; environmental control systems; engine controls; repair and overhaul services; hardware;

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

logistics and electric power systems); Aerospace Electronic Systems (flight safety, communications, navigation, radar and surveillance systems; aircraft and airport lighting; management and technical services and advanced systems and instruments); and Aircraft Landing Systems (aircraft wheels and brakes).

- Automation and Control Solutions includes Automation and Control Products (controls for heating, cooling, indoor air quality, ventilation, humidification and home automation; advanced software applications for home/building control and optimization; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature, electrical current; and security and fire detection, access control, video surveillance and remote patient monitoring systems); Building Solutions (installs, maintains and upgrades systems that keep buildings safe, comfortable and productive); and Process Solutions (provides a full range of automation and control solutions for industrial plants, offering advanced software and automation systems that integrate, control and monitor complex processes in many types of industrial settings).
- Specialty Materials includes fluorocarbons, specialty films, advanced fibers, customized research chemicals and intermediates, and electronic materials and chemicals.
- Transportation Systems includes Honeywell Turbo Technologies (turbochargers and charge-air and thermal systems); the Consumer Products Group (car care products including anti-freeze, filters, spark plugs, and cleaners, waxes and additives); and Friction Materials (friction materials and related brake system components).

The accounting policies of the segments are the same as those described in Note 1. Honeywell's senior management evaluates segment performance based on segment profit. Segment profit is business unit income (loss) before taxes excluding general corporate unallocated expenses, gains (losses) on sales of non-strategic businesses, equity income (loss), other income (expense), interest and other financial charges, pension and other postretirement benefits (expense) income and repositioning and other charges and accounting changes. In 2003, Honeywell changed its definition of segment profit to exclude pension and other postretirement benefits (expense) income. Pension and other postretirement benefits (expense) income is significantly impacted by external factors such as investment returns, interest rates and other actuarial assumptions that Honeywell does not consider indicative of the underlying business segment operating performance under the control of business unit management. All periods presented in this annual report have been restated to reflect this change. Intersegment sales approximate market and are not significant. Reportable segment data follows:



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

	Years Ended December 31,		
	2004	2003	2002
<b>Net sales</b>			
Aerospace	\$ 9,748	\$ 8,813	\$ 8,855
Automation and Control Solutions	8,031	7,464	6,978
Specialty Materials	3,497	3,169	3,205
Transportation Systems	4,323	3,650	3,184
Corporate	2	7	52
	<u>\$ 25,601</u>	<u>\$ 23,103</u>	<u>\$ 22,274</u>
<b>Depreciation and amortization</b>			
Aerospace	\$ 235	\$ 256	\$ 260
Automation and Control Solutions	159	168	190
Specialty Materials	141	133	180
Transportation Systems	80	80	66
Corporate	35	24	34
	<u>\$ 650</u>	<u>\$ 661</u>	<u>\$ 730</u>
<b>Segment profit</b>			
Aerospace	\$ 1,479	\$ 1,221	\$ 1,308
Automation and Control Solutions	894	843	860
Specialty Materials	184	136	90
Transportation Systems	575	461	393
Corporate	(158)	(142)	(154)
	<u>\$ 2,974</u>	<u>\$ 2,519</u>	<u>\$ 2,497</u>
<b>Capital expenditures</b>			
Aerospace	\$ 168	\$ 218	\$ 182
Automation and Control Solutions	106	100	106
Specialty Materials	156	144	233
Transportation Systems	137	108	108
Corporate	62	85	42
	<u>\$ 629</u>	<u>\$ 655</u>	<u>\$ 671</u>
<b>December 31,</b>			
	2004	2003	2002
<b>Total assets</b>			
Aerospace	\$ 8,441	\$ 7,792	\$ 7,006
Automation and Control Solutions	8,128	7,590	7,017
Specialty Materials	3,239	3,239	3,517
Transportation Systems	3,131	2,612	2,206
Corporate	8,123	8,081	7,819
	<u>\$ 31,062</u>	<u>\$ 29,314</u>	<u>\$ 27,565</u>

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

A reconciliation of segment profit to consolidated income (loss) before taxes and cumulative effect of accounting change is as follows:

	Years Ended December 31,		
	2004	2003	2002
Segment profit	\$ 2,974	\$ 2,519	\$ 2,497
Gain (loss) on sale of non-strategic businesses	255	38	(124)
Asbestos related litigation charges, net of insurance	(76)	—	(1,548)
Business impairment charges	(42)	—	(877)
Repositioning and other charges(1)	(646)	(276)	(606)
Pension and other postretirement benefits (expense) income(1)	(628)	(325)	11
Equity in income (loss) of affiliated companies	82	38	42
Other income (expense)	92	(19)	4
Interest and other financial charges	(331)	(335)	(344)
Income (loss) before taxes and cumulative effect of accounting change	<u>\$ 1,680</u>	<u>\$ 1,640</u>	<u>\$ (945)</u>

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

**Note 24—Geographic Areas—Financial Data**

	Net Sales(1)			Long-lived Assets(2)		
	Years Ended December 31,			Years Ended December 31,		
	2004	2003	2002	2004	2003	2002
United States	\$ 16,633	\$ 15,178	\$ 15,522	\$ 9,083	\$ 8,963	\$ 8,665
Europe	6,097	5,433	4,483	2,044	1,833	1,756
Other International	2,871	2,492	2,269	458	386	406
	<u>\$ 25,601</u>	<u>\$ 23,103</u>	<u>\$ 22,274</u>	<u>\$ 11,585</u>	<u>\$ 11,182</u>	<u>\$ 10,827</u>

(1) Sales between geographic areas approximate market and are not significant. Net sales are classified according to their country of origin. Included in United States net sales are export sales of \$2,399, \$2,246 and \$2,249 million in 2004, 2003 and 2002, respectively.

(2) Long-lived assets are comprised of property, plant and equipment, goodwill and other intangible assets.

**Note 25—Supplemental Cash Flow Information**

	Years Ended December 31,		
	2004	2003	2002
Interest paid, net of amounts capitalized	\$ 330	\$ 367	\$ 352
Income taxes paid, net of refunds	178	31	(14)
Non-cash investing and financing activities:			
Common stock contributed to U.S. pension plans	—	—	700
Common stock contributed to U.S. savings plans	151	173	173
Debt assumed in the purchase of leased assets	—	267	—
Investment securities received in connection with sale of BCVS business	—	—	250

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

**Note 26—Unaudited Quarterly Financial Information**

	2004					2003				
	Mar. 31(1)(2)	June 30(3)(4)	Sept. 30(5)(6)(7)	Dec. 31(8)(9)	Year	Mar. 31(10)	June 30(11)(12)(13)	Sept. 30(14)(15)	Dec. 31(16)(17)	Year
Net sales	\$ 6,178	\$ 6,388	\$ 6,395	\$ 6,640	\$25,601	\$ 5,399	\$ 5,749	\$ 5,768	\$ 6,187	\$23,103
Gross profit	1,259	1,209	1,332	1,216	5,016	1,159	1,235	1,259	1,215	4,868
Income before cumulative effect of accounting change	295	361	372	253	1,281	274	319	344	407	1,344
Net income	295	361	372	253	1,281	254	319	344	407	1,324
Earnings per share—basic:										
Income before cumulative effect of accounting change	.34	.42	.43	.30	1.49	.32	.37	.40	.47	1.56
Net income	.34	.42	.43	.30	1.49	.30	.37	.40	.47	1.54
Earnings per share— assuming dilution:										
Income before cumulative effect of accounting change	.34	.42	.43	.30	1.49	.32	.37	.40	.47	1.56
Net income	.34	.42	.43	.30	1.49	.30	.37	.40	.47	1.54
Dividends paid	.1875	.1875	.1875	.1875	.75	.1875	.1875	.1875	.1875	.75
Market price(18)										
High	37.43	37.51	38.11	36.76	38.11	25.65	29.02	30.06	33.43	33.43
Low	31.75	32.60	34.58	32.23	31.75	20.73	21.61	26.22	26.56	20.73

- (1) Includes a \$56 million provision for environmental, litigation and net repositioning charges. Total after-tax charge was \$35 million, or \$0.04 per share. The total pretax charge included in gross profit was \$41 million.
- (2) Includes an after-tax gain of \$14 million, or \$0.02 per share, on the sale of our VCSEL Optical Products business.
- (3) Includes a \$242 million provision for environmental, litigation, business impairment, net repositioning and other charges. Total after-tax charge was \$158 million, or \$0.18 per share. The total pretax charge included in gross profit was \$183 million.
- (4) Includes an after-tax gain of \$130 million, or \$0.15 per share, on the sale of our Security Monitoring business.
- (5) Includes a \$101 million provision for environmental, litigation and net repositioning charges. Total after-tax charge was \$56 million, or \$0.06 per share. The total pretax charge included in gross profit was \$76 million.
- (6) Includes an after-tax gain of \$3 million, with no effect on earnings per share, for adjustments related to businesses sold in prior periods.
- (7) Includes an after-tax gain of \$17 million, or \$0.02 per share, related to the settlement of a patent infringement lawsuit.
- (8) Includes a \$376 million provision for environmental, litigation, business impairment, net repositioning and other charges. Total after-tax charge was \$227 million, or \$0.26 per share. The total pretax charge included in gross profit was \$321 million.
- (9) Includes an after-tax loss of \$3 million, with no effect on earnings per share, on the sale of our Performance Fibers business and for adjustments related to businesses sold in prior periods.
- (10) Includes the January 1, 2003 adoption of SFAS No. 143. This adoption resulted in an after-tax cumulative effect expense adjustment of \$20 million, or \$0.02 per share.

*(footnotes continued on next page)*

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

*(footnotes continued from previous page)*

- (11) Includes a \$34 million provision for environmental, net repositioning and other charges. Total after-tax charge was \$21 million, or \$0.03 per share. The total pretax charge included in gross profit was \$29 million.
- (12) Includes an after-tax gain of \$9 million, or \$0.01 per share, on the sale of our Engineering Plastics business.
- (13) Includes an after-tax gain of \$15 million, or \$0.02 per share, related to the settlement of a patent infringement lawsuit.
- (14) Includes a \$30 million provision for environmental, net repositioning and other charges. Total after-tax charge was \$1 million, with no effect on earnings per share. The total pretax charge included in gross profit was \$26 million.
- (15) Includes an after-tax loss of \$3 million, with no effect on earnings per share, on the sale of several non-strategic businesses.
- (16) Includes a \$214 million provision for environmental, net repositioning and other charges. Total after-tax charge was \$19 million, or \$0.02 per share. The total pretax charge included in gross profit was \$217 million.
- (17) Includes an after-tax loss of \$2 million, with no effect on earnings per share, for adjustments related to businesses sold in prior periods.
- (18) From composite tape—stock is primarily traded on the New York Stock Exchange.

TO THE BOARD OF DIRECTORS AND SHAREOWNERS OF  
HONEYWELL INTERNATIONAL INC.:

We have completed an integrated audit of Honeywell International Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Honeywell International Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2003, the Company adopted the provisions of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Florham Park, New Jersey  
February 25, 2005

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

## Item 9A. Controls and Procedures

Honeywell management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that such disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K in alerting them on a timely basis to material information relating to Honeywell required to be included in Honeywell's periodic filings under the Exchange Act. There have been no changes that have materially affected, or are reasonably likely to materially affect, Honeywell's internal control over financial reporting that have occurred during the period covered by this Annual Report on Form 10-K.

### **Management's Report on Internal Control Over Financial Reporting**

Honeywell management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Honeywell's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Honeywell's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Honeywell's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of Honeywell's management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Honeywell's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Honeywell's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based on this assessment, management determined that Honeywell maintained effective internal control over financial reporting as of December 31, 2004.

Management's assessment of the effectiveness of Honeywell's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included in "Item 8. Financial Statements and Supplementary Data."

**Item 9B. Other Information**

Not Applicable.

**Part III.****Item 10. Directors and Executive Officers of the Registrant**

Information relating to the Directors of Honeywell, as well as information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, will be contained in our definitive Proxy Statement involving the election of the Directors which will be filed with the SEC pursuant to Regulation 14A not later than 120 days after December 31, 2004, and such information is incorporated herein by reference. Certain other information relating to the Executive Officers of Honeywell appears in Part I of this Annual Report on Form 10-K under the heading "Executive Officers of the Registrant".

The members of the Audit Committee of our Board of Directors are: Russell E. Palmer (Chair), Marshall N. Carter, James J. Howard, Eric K. Shinseki, John R. Stafford, and Michael W. Wright. The Board has determined that Mr. Palmer satisfies the "audit committee financial expert" criteria established by the SEC and the "accounting or related financial management expertise" criteria established by the NYSE. All members of the Audit Committee are "independent" as that term is defined in applicable SEC Rules and NYSE listing standards.

Honeywell's Code of Business Conduct is available, free of charge, on our website under the heading "Investor Relations" (see "Corporate Governance"), or by writing to Honeywell, 101 Columbia Road, Morris Township, New Jersey 07962, c/o Vice President and Corporate Secretary. Honeywell's Code of Business Conduct applies to all Honeywell directors, officers (including the Chief Executive Officer, Chief Financial Officer and Controller) and employees. Amendments to or waivers of the Code of Business Conduct granted to any of Honeywell's directors or executive officers will be published on our website within five business days of such amendment or waiver.

**Item 11. Executive Compensation**

Information relating to executive compensation is contained in the Proxy Statement referred to above in "Item 10. Directors and Executive Officers of the Registrant," and such information is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

Information relating to security ownership of certain beneficial owners and management is contained in the Proxy Statement referred to above in "Item 10. Directors and Executive Officers of the Registrant," and such information is incorporated herein by reference.

**Equity Compensation Plans**

Information about our equity compensation plans is as follows:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	56,835,712(1)	\$ 34.84(2)	20,282,109(3)
Equity compensation plans not approved by security holders	899,793(4)	N/A(5)	N/A(6)
Total	57,735,505	\$ 34.84	20,282,109

(1) Equity compensation plans approved by shareowners that are included in column (a) of the table are the 2003 Stock Incentive Plan of Honeywell International Inc. and its Affiliates (the 2003 Stock

*(footnotes continued on next page)*



*(footnotes continued from previous page)*

Incentive Plan) (9,666,400 common shares to be issued for options; 2,241,706 restricted units subject to attainment of certain performance goals or continued employment; and 423,582 deferred restricted units of previously earned and vested awards under prior plans approved by shareowners where delivery of shares has been deferred); the 1993 Stock Plan for Employees of Honeywell International Inc. and its Affiliates (42,630,949 common shares to be issued for options; 169,225 shares to be issued for SARs; and 1,449,850 restricted units subject to attainment of certain performance goals or continued employment); and the Stock Plan for Non-Employee Directors of Honeywell International Inc. and predecessor plans (206,000 common shares to be issued for options and 48,000 shares of restricted stock). 822,060 growth plan units were issued in the first quarter of 2005 pursuant to a long-term compensation program established under the 2003 Stock Incentive Plan. The ultimate value of any growth plan award may be paid in cash or shares of Honeywell common stock and, thus, growth plan units are not included in the table above. The ultimate value of growth plan units depends upon the achievement of pre-established performance goals during a two-year performance cycle relating to growth in earnings per share, revenue and return on investment. The growth plan units issued in the first quarter of 2005 relate to the performance cycle commencing January 1, 2005 and ending December 31, 2006. Awards made with respect to the prior two-year performance cycle (January 1, 2003–December 31, 2004) were paid in cash.

- (2) Column (b) does not include any exercise price for restricted units or growth plan units granted to employees or non-employee directors under equity compensation plans approved by shareowners. Restricted units do not have an exercise price because their value is dependent upon attainment of certain performance goals or continued employment or service and they are settled for shares of Honeywell common stock on a one-for-one basis. Growth plan units are denominated in cash units and the ultimate value of the award is dependent upon attainment of certain performance goals.
- (3) The number of shares that may be issued under the 2003 Stock Incentive Plan as of December 31, 2004 is 20,173,109 which includes the following additional shares under the 2003 Stock Incentive Plan (or any Prior Plan as defined in the 2003 Stock Incentive Plan) that may again be available for issuance: shares that are settled for cash, expire, are cancelled, are tendered in satisfaction of an option exercise price or tax withholding obligations, are reacquired with cash tendered in satisfaction of an option exercise price or with monies attributable to any tax deduction enjoyed by Honeywell to the exercise of an option, and are under any outstanding awards assumed under any equity compensation plan of an entity acquired by Honeywell. The remaining 109,000 shares included in column (c) are shares remaining for future grants under the Stock Plan for Non-Employee Directors of Honeywell International Inc.
- (4) Equity compensation plans not approved by shareowners that are included in the table are the Supplemental Non-Qualified Savings Plans for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries, the AlliedSignal Incentive Compensation Plan for Executive Employees of AlliedSignal Inc. and its Subsidiaries, and the Deferred Compensation Plan for Non-Employee Directors of Honeywell International Inc.

The Supplemental Non-Qualified Savings Plans for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries are unfunded, nonqualified plans that provide benefits equal to the employee deferrals and company matching allocations that would have been provided under Honeywell's U.S. tax-qualified savings plan if the Internal Revenue Code limitations on compensation and contributions did not apply. The company matching contribution is credited to participants' accounts in the form of notional shares of Honeywell common stock. Additional notional shares are credited to participants' accounts equal to the value of any cash dividends payable on actual shares of Honeywell common stock. The notional shares are distributed in the form of actual shares of Honeywell common stock when payments are made to participants under the plans.

*(footnotes continued on next page)*

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The AlliedSignal Incentive Compensation Plan for Executive Employees of AlliedSignal Inc. and its Subsidiaries was a cash incentive compensation plan maintained by AlliedSignal Inc. This plan has expired. Employees were permitted to defer receipt of a cash bonus payable under the plan and invest the deferred bonus in notional shares of Honeywell common stock. The notional shares are distributed in the form of actual shares of Honeywell common stock when payments are made to participants under the plan. No further deferrals can be made under this plan. The number of Honeywell securities that remain to be issued under this expired plan is 55,658.

The Deferred Compensation Plan for Non-Employee Directors of Honeywell International Inc. provides for mandatory and elective deferral of certain payments to non-employee directors. Mandatory deferrals are invested in notional shares of Honeywell common stock. Directors may also invest any elective deferrals in notional shares of Honeywell common stock. Additional notional shares are credited to participant accounts equal to the value of any cash dividends payable on actual shares of Honeywell common stock. Notional shares of Honeywell common stock are converted to an equivalent amount of cash at the time the distributions are made from the plan to directors. However, one former director is entitled to receive periodic distributions of actual shares of Honeywell common stock that were notionally allocated to his account in years prior to 1992. The number of Honeywell securities that remain to be issued to this director is 2,993.

- (5) Column (b) does not include any exercise price for notional shares allocated to employees under Honeywell's equity compensation plans not approved by shareowners because all of these shares are notionally allocated as a matching contribution under the non-qualified savings plans or as a notional investment of deferred bonuses or fees under the cash incentive compensation and directors' plans as described in note 4 and are only settled for shares of Honeywell common stock on a one-for-one basis.
- (6) No securities are available for future issuance under the AlliedSignal Incentive Compensation Plan for Executive Employees of AlliedSignal Inc. and its Subsidiaries and the Deferred Compensation Plan for Non-Employee Directors of Honeywell International Inc. The cash incentive compensation plan has expired. All notional investments in shares of Honeywell common stock are converted to cash when payments are made under the directors' plan (other than with respect to 2,993 shares of Honeywell common stock included in column (a) that is payable to one former director). The amount of securities available for future issuance under the Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries is not determinable because the number of securities that may be issued under these plans depends upon the amount deferred to the plans by participants in future years.

The table does not contain information for the following plans and arrangements:

- Employee benefit plans of Honeywell intended to meet the requirements of Section 401(a) of the Internal Revenue Code and a small number of foreign employee benefit plans that are similar to such Section 401(a) plans.
- Equity compensation plans maintained by Honeywell Inc. immediately prior to the merger of Honeywell Inc. and AlliedSignal Inc. on December 1, 1999. The right to receive Honeywell International Inc. securities was substituted for the right to receive Honeywell Inc. securities under these plans. No new awards have been granted under these plans after the merger date. The number of shares to be issued under these plans upon exercise of outstanding options, warrants and rights is 5,852,355 and their weighted-average exercise price is \$42.53.

- The Honeywell Global Employee Stock Purchase Plan. This plan is maintained solely for eligible employees of participating non-U.S. affiliates. Eligible employees can contribute between 2 and 8 percent of base pay from January through October of each year to purchase shares of Honeywell common stock in November of that year at a 15 percent discount. Honeywell has historically purchased shares through non-dilutive, open market purchases and intends to continue this practice. Employees purchased 351,283 shares of common stock at \$21.233 per share in 2003 and 342,317 shares of common stock at \$28.331 per share in 2004.

**Item 13. Certain Relationships and Related Transactions**

Information relating to certain relationships and related transactions is contained in the Proxy Statement referred to above in "Item 10. Directors and Executive Officers of the Registrant," and such information is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services**

Information relating to fees paid to and services performed by PricewaterhouseCoopers LLP in 2004 and 2003 and our Audit Committee's pre-approval policies and procedures with respect to non-audit services are contained in the Proxy Statement referred to above in "Item 10. Directors and Executive Officers of the Registrant," and such information is incorporated herein by reference.

**Part IV.**

**Item 15. Exhibits and Financial Statement Schedules**

	<u>Page Number in Form 10-K</u>
<b>(a)(1.) Consolidated Financial Statements:</b>	
Consolidated Statement of Operations for the years ended December 31, 2004, 2003 and 2002	43
Consolidated Balance Sheet at December 31, 2004 and 2003	44
Consolidated Statement of Cash Flows for the years ended December 31, 2004, 2003 and 2002	45
Consolidated Statement of Shareowners' Equity for the years ended December 31, 2004, 2003 and 2002	46
Notes to Financial Statements	47
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<b>(a)(2.) Consolidated Financial Statement Schedules:</b>	
	<u>Page Number in Form 10-K</u>
Schedule II—Valuation and Qualifying Accounts	101

All other financial statement schedules have been omitted because they are not applicable to us or the required information is shown in the consolidated financial statements or notes thereto.

**(a)(3.) Exhibits**

See the Exhibit Index on pages 98 through 100 of this Annual Report on Form 10-K.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

HONEYWELL INTERNATIONAL INC.

February 25, 2005

By:

/s/ THOMAS A. SZLOSEK

Thomas A. Szlosek  
Vice President and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

Name
*
David M. Cote Chairman of the Board, Chief Executive Officer and Director *
Hans W. Becherer Director *
Gordon M. Bethune Director *
Marshall N. Carter Director *
Jaime Chico Pardo Director *
Clive R. Hollick Director *
James J. Howard Director /s/ DAVID J. ANDERSON
David J. Anderson Senior Vice President and Chief Financial Officer (Principal Financial Officer) /s/ DAVID J. ANDERSON

\*By: \_\_\_\_\_  
(David J. Anderson  
Attorney-in-fact)

Name
*
Bruce Karatz Director *
Russell E. Palmer Director *
Ivan G. Seidenberg Director *
Bradley T. Sheares, Ph.D. Director *
Eric K. Shinseki Director *
John R. Stafford Director *
Michael W. Wright Director /s/ THOMAS A. SZLOSEK
Thomas A. Szlosek Vice President and Controller (Principal Accounting Officer)

February 25, 2005

## EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
2	Omitted (Inapplicable)
3(i)	Restated Certificate of Incorporation of Honeywell International Inc. (incorporated by reference to Exhibit 3(i) to Honeywell's Form 8-K filed December 3, 1999 and modified by Exhibit 3(i) to Honeywell's Form 10-Q for quarter ended June 30, 2004)
3(ii)	By-laws of Honeywell, as amended (incorporated by reference to Exhibit 3(ii) to Honeywell's Form 10-Q for the quarter ended September 30, 2001)
4	Honeywell International Inc. is a party to several long-term debt instruments under which, in each case, the total amount of securities authorized does not exceed 10% of the total assets of Honeywell and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, Honeywell agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.
9	Omitted (Inapplicable)
10.1*	2003 Stock Incentive Plan of Honeywell International Inc., and its Affiliates (incorporated by reference to Honeywell's Proxy Statement, dated March 17, 2003, filed pursuant to Rule 14a-6 of the Securities and Exchange Act of 1934 and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.2*	Deferred Compensation Plan for Non-Employee Directors of Honeywell International Inc., as amended and restated (incorporated by reference to Exhibit 10.2 to Honeywell's Form 10-Q for quarter ended June 30, 2003 and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.3*	Stock Plan for Non-Employee Directors of AlliedSignal Inc., as amended (incorporated by reference to Exhibit 10.3 to Honeywell's Form 10-Q for the quarter ended June 30, 2003)
10.4*	1985 Stock Plan for Employees of AlliedSignal Inc. and its Subsidiaries, as amended (incorporated by reference to Exhibit 19.3 to Honeywell's Form 10-Q for the quarter ended September 30, 1991)
10.5*	AlliedSignal, Inc. Incentive Compensation Plan for Executive Employees, as amended (incorporated by reference to Exhibit B to Honeywell's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-b of the Securities and Exchange Act of 1934, and amended by Exhibit 10.5 to Honeywell's Form 10-Q for the quarter ended June 30, 1999)
10.6*	Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries as amended and restated (incorporated by reference to Exhibit 10.6 to Honeywell's Form 10-Q for the quarter ended June 30, 2004, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.7*	Honeywell International Inc., Severance Plan for Senior Executives, as amended and restated (incorporated by reference to Exhibit 10.7 to Honeywell's Form 10-K for the year ended December 31, 2003, and amended by Exhibit 10.7 to Honeywell's Form 10-Q for the quarter ended June 30, 2004)

<u>Exhibit No.</u>	<u>Description</u>
10.8*	Salary and Incentive Award Deferral Plan for Selected Employees of Honeywell International Inc., and its Affiliates, as amended and restated (incorporated by reference to Exhibit 10.8 to Honeywell's Form 10-Q for the quarter ended June 30, 2004, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.9*	1993 Stock Plan for Employees of Honeywell International Inc. and its Affiliates, as amended (incorporated by reference to Exhibit A to Honeywell's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities and Exchange Act of 1934, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.10	Five-Year Credit Agreement dated as of October 22, 2004 among Honeywell, the initial lenders named therein, Citicorp USA, Inc., as administrative agent, JPMorgan Chase Bank, as syndication agent, and Bank of America, N.A., Barclays Bank plc, Deutsche Bank AG, New York branch, and UBS Securities LLC as documentation agents and CitiGroup Global Markets Inc. and J.P. Morgan Securities Inc., as joint lead arrangers and co-book managers (filed herewith)
10.11	Five-Year Credit Agreement dated as of November 26, 2003 among Honeywell, the initial lenders named therein, Citibank, N.A., as administrative agent, JPMorgan Chase Bank, as syndication agent, and Deutsche Bank AG, New York Branch, Bank of America, N.A., and Barclays Bank PLC, as documentation agents, and CitiGroup Global Markets Inc. and J.P. Morgan Securities Inc., as joint lead arrangers and co-book managers (incorporated by reference to Exhibit 10.11 to Honeywell's Form 10-K for the year ended December 31, 2003)
10.12*	Honeywell International Inc., Supplemental Pension Plan, as amended and restated (incorporated by reference to Exhibit 10.13 to Honeywell's Form 10-K for the year ended December 31, 2000, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.13*	Employment Separation Agreement and Release between J. Kevin Gilligan and Honeywell International Inc. dated February 10, 2004 (incorporated by reference to Honeywell's Form 10-K for year ended December 31, 2003)
10.14*	Honeywell International Inc. Supplemental Executive Retirement Plan for Executives in Career Band 6 and Above (incorporated by reference to Exhibit 10.14 to Honeywell's Form 10-Q for quarter ended June 30, 2004, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.15*	Honeywell Supplemental Defined Benefit Retirement Plan, as amended and restated (incorporated by reference to Exhibit 10.15 to Honeywell's Form 10-Q for the quarter ended June 30, 2004, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.16*	Letter between David J. Anderson and Honeywell International Inc. dated June 12, 2003 (incorporated by reference to Exhibit 10.26 to Honeywell's Form 10-Q for the quarter ended June 30, 2003)
10.17*	Employment Separation Agreement and Release between Richard F. Wallman and Honeywell International Inc. dated July 17, 2003 (incorporated by reference to Exhibit 10.2 to Honeywell's Form 10-Q for the quarter ended September 30, 2003)

<u>Exhibit No.</u>	<u>Description</u>
10.18*	Honeywell International Inc. Severance Plan for Corporate Staff Employees (Involuntary Termination Following a Change in Control), as amended and restated (incorporated by reference to Exhibit 10.19 to Honeywell's Form 10-K for the year ended December 31, 2002)
10.19*	Employment Agreement dated as of February 18, 2002 between Honeywell and David M. Cote (incorporated by reference to Exhibit 10.24 to Honeywell's Form 8-K filed March 4, 2002)
10.20*	2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates Award Agreement (incorporated by reference to Exhibit 10.1 to Honeywell's Form 8-K filed on February 7, 2005)
10.21*	2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates Restricted Unit Agreement (filed herewith)
10.22*	2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates Growth Plan Agreement (filed herewith)
11	Omitted (Inapplicable)
12	Statement re: Computation of Ratio of Earnings to Fixed Charges (filed herewith)
16	Omitted (Inapplicable)
18	Omitted (Inapplicable)
21	Subsidiaries of the Registrant (filed herewith)
22	Omitted (Inapplicable)
23	Consent of PricewaterhouseCoopers LLP (filed herewith)
24	Powers of Attorney (filed herewith)
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
99	Omitted (Inapplicable)

The Exhibits identified above with an asterisk(\*) are management contracts or compensatory plans or arrangements.

**HONEYWELL INTERNATIONAL INC**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
Three Years Ended December 31, 2004  
(In millions)

**Allowance for Doubtful Accounts:**

Balance December 31, 2001	\$	128
Provision charged to income		109
Deductions from reserves(1)		(90)
		<hr/>
Balance December 31, 2002		147
Provision charged to income		72
Deductions from reserves(1)		(69)
		<hr/>
Balance December 31, 2003		150
Provision charged to income		100
Deductions from reserves(1)		(113)
		<hr/>
Balance December 31, 2004	\$	<u>137</u>

(1) Represents uncollectible accounts written off, less recoveries, translation adjustments and reserves acquired.



FIVE YEAR CREDIT AGREEMENT

Dated as of October 22, 2004

HONEYWELL INTERNATIONAL INC., a Delaware corporation (the "Company"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") and initial issuing banks (the "Initial Issuing Banks") listed on the signature pages hereof, and CITICORP USA, INC. ("CUSA"), as administrative agent (the "Agent") for the Lenders (as hereinafter defined), JPMORGAN CHASE BANK, as syndication agent, BANK OF AMERICA, N.A., BARCLAYS BANK PLC, DEUTSCHE BANK AG NEW YORK BRANCH and UBS SECURITIES LLC, as documentation agents, and CITIGROUP GLOBAL MARKETS INC. and J.P. MORGAN SECURITIES INC., as joint lead arrangers and co-book managers, hereby agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms.

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Advance" means a Revolving Credit Advance or a Competitive Bid Advance.

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Agent's Account" means (a) in the case of Advances denominated in Dollars, the account of the Agent maintained by the Agent at Citibank at its office at 388 Greenwich Street, New York, New York 10013, Account No. 36852248, Attention: Bank Loan Syndications, (b) in the case of Advances denominated in any Foreign Currency, the account of the Sub-Agent designated in writing from time to time by the Agent to the Company and the Lenders for such purpose and (c) in any such case, such other account of the Agent as is designated in writing from time to time by the Agent to the Company and the Lenders for such purpose.

"Alternate Currency" means any lawful currency other than Dollars and the Major Currencies that is freely transferrable and convertible into Dollars.

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance and such Lender's Eurocurrency Lending Office in the case of a Eurocurrency Rate Advance and, in the case of a Competitive Bid Advance, the office of such Lender notified by such Lender to the Agent as its Applicable Lending Office with respect to such Competitive Bid Advance.

"Applicable Letter of Credit Rate" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Letter of Credit Rate
-----	
Level 1 -----	
A+ or A1 or above	0.230%
-----	
Level 2 -----	
Lower than Level 1 but at least A or A2	0.270%
-----	
Level 3 -----	
Lower than Level 2 but at least A- or A3	0.360%
-----	
Level 4 -----	
Lower than Level 3 but at least BBB+ or Baal	0.505%
-----	
Level 5 -----	
Lower than Level 4	0.725%
-----	

"Applicable Margin" means (a) for Base Rate Advances, 0% per annum and (b) for Eurocurrency Rate Advances, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin for Eurocurrency Rate Advances
-----	
Level 1 -----	
A+ or A1 or above	0.180%
-----	
Level 2 -----	
Lower than Level 1 but at least A or A2	0.220%
-----	
Level 3 -----	
Lower than Level 2 but at least A- or A3	0.260%
-----	

Level 4	
Lower than Level 3 but at least BBB+ or Baal	0.380%

  

Level 5	
Lower than Level 4	0.600%

"Applicable Percentage" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Percentage
Level 1	
A+ or A1 or above	0.070%
Level 2	
Lower than Level 1 but at least A or A2	0.080%
Level 3	
Lower than Level 2 but at least A- or A3	0.090%
Level 4	
Lower than Level 3 but at least BBB+ or Baal	0.120%
Level 5	
Lower than Level 4	0.150%

"Applicable Utilization Fee" means, as of any date that the sum of the aggregate principal amount of the Advances plus the aggregate Available Amount of the Letters of Credit exceeds 50% of the aggregate Revolving Credit Commitments, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Utilization Fee
Level 1	
A+ or A1 or above	0.050%
Level 2	
Lower than Level 1 but at least A or A2	0.050%
Level 3	
Lower than Level 2 but at least A- or A3	0.100%
Level 4	
Lower than Level 3 but at least BBB+ or Baal	0.125%

-----  
Level 5  
-----

Lower than Level 4

0.125%  
-----

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

"Available Amount" of any Letter of Credit means, at any time, the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing), converting all non-Dollar amounts into the Dollar Equivalent thereof at such time.

"Base Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank's base rate;

(b) the sum (adjusted to the nearest 1/32 of 1% or, if there is no nearest 1/32 of 1%, to the next higher 1/32 of 1%) of (i) 1/2 of 1% per annum, plus (ii) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average (adjusted to the basis of a year of 360 days) being determined weekly on each Monday (or, if such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank with respect to liabilities consisting of or including (among other liabilities) three-month Dollar non-personal time deposits in the United States, plus (iii) the average during such three-week period of the annual assessment rates estimated by Citibank for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring Dollar deposits of Citibank in the United States; and

(c) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means a Revolving Credit Advance denominated in Dollars that bears interest as provided in Section 2.08(a)(i).

"Borrower" means the Company or any Designated Subsidiary, as the context requires.

"Borrowing" means a Revolving Credit Borrowing or a Competitive Bid Borrowing.

"Business Day" means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any Eurocurrency Rate Advance or LIBO Rate Advance, on which dealings are carried on in the London interbank market and banks are open for business in London and in the country of issue of the currency of such Eurocurrency Rate Advance or LIBO Rate Advance (or, in the case of an Advance denominated in Euros, on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open) and, if the applicable Business Day relates to any Local Rate Advance, on which banks are open for business in the country of issue of the currency of such Local Rate Advance.

"Change of Control" means that (i) any Person or group of Persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended (the "Act")) (other than the Company, any Subsidiary of the Company or any savings, pension or other benefit plan for the benefit of employees of the Company or its Subsidiaries) which theretofore beneficially owned less than 30% of the Voting Stock of the Company then outstanding shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Act) of 30% or more in voting power of the outstanding Voting Stock of the Company or (ii) during any period of twelve consecutive calendar months commencing at the Effective Date, individuals who at the beginning of such twelve-month period were directors of the Company shall cease to constitute a majority of the Board of Directors of the Company.

"Citibank" means Citibank, N.A.

"Commitment" means a Revolving Credit Commitment or a Letter of Credit Commitment.

"Competitive Bid Advance" means an advance by a Lender to any Borrower as part of a Competitive Bid Borrowing resulting from the competitive bidding procedure described in Section 2.03 and refers to a Fixed Rate Advance, a LIBO Rate Advance or a Local Rate Advance (each of which shall be a "Type" of Competitive Bid Advance).

"Competitive Bid Borrowing" means a borrowing consisting of simultaneous Competitive Bid Advances from each of the Lenders whose offer to make one or more Competitive Bid Advances as part of such borrowing has been accepted under the competitive bidding procedure described in Section 2.03.

"Competitive Bid Note" means a promissory note of any Borrower payable to the order of any Lender, in substantially the form of Exhibit A-2 hereto, evidencing the indebtedness of such Borrower to such Lender resulting from a Competitive Bid Advance made by such Lender to such Borrower.

"Consolidated" refers to the consolidation of accounts in accordance with GAAP.

"Consolidated Subsidiary" means, at any time, any Subsidiary the accounts of which are required at that time to be included on a Consolidated basis in the Consolidated financial statements of the Company, assuming that such financial statements are prepared in accordance with GAAP.

"Convert", "Conversion" and "Converted" each refers to a conversion of Revolving Credit Advances of one Type into Revolving Credit Advances of the other Type pursuant to Section 2.09 or 2.12.

"Debt" means, with respect to any Person: (i) indebtedness of such Person, which is not limited as to recourse to such Person, for borrowed money (whether by loan or the issuance and sale of debt securities) or for the deferred (for 90 days or more) purchase or acquisition price of property or services; (ii) indebtedness or obligations of others which such Person has assumed or guaranteed; (iii) indebtedness or obligations of others secured by a lien, charge or encumbrance on property of such Person whether or not such Person shall have assumed such indebtedness or obligations; (iv) obligations of such Person in respect of letters of credit (other than performance letters of credit, except to the extent backing an obligation of any Person which would be Debt of such Person), acceptance facilities, or drafts or similar instruments issued or accepted by banks and other financial institutions for the account of such Person; and (v) obligations of such Person under leases which are required to be capitalized on a balance sheet of such Person in accordance with GAAP.

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Designated Subsidiary" means any corporate Subsidiary of the Company designated for borrowing privileges under this Agreement pursuant to Section 9.07.

"Designation Letter" means, with respect to any Designated Subsidiary, a letter in the form of Exhibit D hereto signed by such Designated Subsidiary and the Company.

"Disclosed Litigation" has the meaning specified in Section 3.01(b).

"Dollars" and the "\$" sign each mean lawful money of the United States of America.

"Domestic Lending Office" means, with respect to any Initial Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto and, with respect to any other Lender, the office of such Lender specified as its "Domestic Lending Office" in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Company and the Agent.

"Domestic Subsidiary" means any Subsidiary whose operations are conducted primarily in the United States excluding any Subsidiary whose assets consist primarily of

the stock of Subsidiaries whose operations are conducted outside the United States of America.

"Effective Date" has the meaning specified in Section 3.01.

"Eligible Assignee" means (a) with respect to the Revolving Credit Facility (i) a Lender; (ii) an Affiliate of a Lender; (iii) a commercial bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$10,000,000,000; (iv) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof, and having a net worth of at least \$500,000,000, calculated in accordance with GAAP; (v) a commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow, or a political subdivision of any such country, and having total assets in excess of \$10,000,000,000, so long as such bank is acting through a branch or agency located in the country in which it is organized or another country that is described in this clause (v); and (vi) the central bank of any country that is a member of the Organization for Economic Cooperation and Development and (b) with respect to the Letter of Credit Facility, a Person that is an Eligible Assignee under subclause (iii) or (v) of clause (a) of this definition and is approved by the Agent and, unless a Default has occurred and is continuing at the time any assignment is effected pursuant to Section 8.07, the Borrower, such approval not to be unreasonably withheld or delayed, provided, however, that neither the Borrower nor any Affiliate of the Borrower shall qualify as an Eligible Assignee under this definition.

"Environmental Action" means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, health, safety or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under any Environmental Law.

"Equivalent" in Dollars of any Foreign Currency on any date means the equivalent in Dollars of such Foreign Currency determined by using the quoted spot rate at which the Sub-Agent's principal office in London offers to exchange Dollars for such Foreign Currency in London prior to 4:00 P.M. (London time) (unless otherwise indicated by the terms of this Agreement) on such date as is required pursuant to the terms of this Agreement, and the "Equivalent" in any Foreign Currency of Dollars means the equivalent in such Foreign Currency of Dollars determined by using the quoted spot rate at which the Sub-Agent's principal office in London offers to exchange such Foreign Currency for Dollars in London prior to 4:00 P.M. (London time) (unless otherwise indicated by the terms of this Agreement) on such date as is required pursuant to the terms of this Agreement.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" of any Person means any other Person that for purposes of Title IV of ERISA is a member of such Person's controlled group, or under common control with such Person, within the meaning of Section 414 of the Internal Revenue Code.

"ERISA Event" with respect to any Person means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan of such Person or any of its ERISA Affiliates unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to a Plan of such Person or any of its ERISA Affiliates within the following 30 days, and the contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of such Plan is required under Section 4043(b)(3) of ERISA (taking into account Section 4043(b)(2) of ERISA) to notify the PBGC that the event is about to occur; (b) the application for a minimum funding waiver with respect to a Plan of such Person or any of its ERISA Affiliates; (c) the provision by the administrator of any Plan of such Person or any of its ERISA Affiliates of a notice of intent to terminate such Plan in a distress termination pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (d) the cessation of operations at a facility of such Person or any of its ERISA Affiliates in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by such Person or any of its ERISA Affiliates from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA shall have been met with respect to any Plan of such Person or any of its ERISA Affiliates; (g) the adoption of an amendment to a Plan of such Person or any of its ERISA Affiliates requiring the provision of security to such Plan pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate a Plan of such Person or any of its ERISA Affiliates pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, such Plan.



"Escrow" means an escrow established with an independent escrow agent pursuant to an escrow agreement reasonably satisfactory in form and substance to the Person or Persons asserting the obligation of one or more Borrowers to make a payment to it or them hereunder.

"EURIBO Rate" means, for any Interest Period for each Eurocurrency Rate Advance comprising part of the same Borrowing, the rate per annum appearing on Page 248 of the Moneyline Telerate Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Agent from time to time for purposes of providing quotations of interest rates applicable to deposits in Euro by reference to the Banking Federation of the European Union Settlement Rates for deposits in Euro) at approximately 10:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for deposits in Euros with a maturity comparable to such Interest Period or, if for any reason such rate is not available, the average (rounded upward to the nearest whole multiple of 1/16 of 1% per annum, if such average is not such a multiple) of the respective rates per annum at which deposits in Euros are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to such Reference Bank's Eurocurrency Rate Advance comprising part of such Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period (subject, however, to the provisions of Section 2.08).

"Euro" means the lawful currency of the European Union as constituted by the Treaty of Rome which established the European Community, as such treaty may be amended from time to time and as referred to in the EMU legislation.

"Eurocurrency Lending Office" means, with respect to any Initial Lender, the office of such Lender specified as its "Eurocurrency Lending Office" opposite its name on Schedule I hereto and, with respect to any other Lender, the office of such Lender specified as its "Eurocurrency Lending Office" in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Company and the Agent.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurocurrency Rate" means, for any Interest Period for each Eurocurrency Rate Advance comprising part of the same Revolving Credit Borrowing, an interest rate per annum equal to the rate per annum obtained by dividing (a) (i) in the case of any Advance denominated in Dollars or any Major Currency other than Euros, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on the applicable Telerate Page as the London interbank offered rate for deposits in Dollars or in the relevant Major Currency at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period or, if for any reason such rate is not available, the average (rounded upward to the nearest whole multiple of 1/32 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in Dollars or in the relevant Major Currency are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business

Days before the first day of such Interest Period in an amount substantially equal to such Reference Bank's Eurocurrency Rate Advance comprising part of such Revolving Credit Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period or, (ii) in the case of any Advance denominated in Euros, the EURIBO Rate by (b) a percentage equal to 100% minus the Eurocurrency Rate Reserve Percentage for such Interest Period. If the Telerate Page is unavailable, the Eurocurrency Rate for any Interest Period for each Eurocurrency Rate Advance comprising part of the same Revolving Credit Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.09.

"Eurocurrency Rate Advance" means a Revolving Credit Advance denominated in Dollars or in a Major Currency that bears interest as provided in Section 2.08(a) (ii).

"Eurocurrency Rate Reserve Percentage" for any Interest Period for all Eurocurrency Rate Advances or LIBO Rate Advances comprising part of the same Borrowing means the reserve percentage applicable two Business Days before the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with respect to liabilities or assets consisting of or including Eurocurrency Liabilities (or with respect to any other category of liabilities that includes deposits by reference to which the interest rate on Eurocurrency Rate Advances or LIBO Rate Advances is determined) having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Facility" means the Revolving Credit Facility or the Letter of Credit Facility.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Fixed Rate Advance" has the meaning specified in Section 2.03(a)(i), which Advance shall be denominated in Dollars or in any Foreign Currency.

"Foreign Currency" means any Major Currency or any Alternate Currency.

"GAAP" has the meaning specified in Section 1.03.

"Hazardous Materials" means (a) petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

"Insufficiency" means, with respect to any Plan, the amount, if any, of its unfunded benefit liabilities, as defined in Section 4001(a)(18) of ERISA.

"Interest Period" means, for each Eurocurrency Rate Advance comprising part of the same Revolving Credit Borrowing and each LIBO Rate Advance comprising part of the same Competitive Bid Borrowing, the period commencing on the date of such Eurocurrency Rate Advance or LIBO Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurocurrency Rate Advance and ending on the last day of the period selected by the Borrower requesting such Borrowing pursuant to the provisions below and, thereafter, with respect to Eurocurrency Rate Advances, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by such Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months and, if available to all Lenders, nine months, as the Borrower requesting the Borrowing may, upon notice received by the Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(i) such Borrower may not select any Interest Period that ends after the scheduled Termination Date;

(ii) Interest Periods commencing on the same date for Eurocurrency Rate Advances comprising part of the same Revolving Credit Borrowing or for LIBO Rate Advances comprising part of the same Competitive Bid Borrowing shall be of the same duration;

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iv) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the

calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"Issuing Bank" means an Initial Issuing Bank or any Eligible Assignee to which a portion of the Letter of Credit Commitment hereunder has been assigned pursuant to Section 9.06 so long as such Eligible Assignee expressly agrees to perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as an Issuing Bank and notifies the Agent of its Applicable Lending Office (which information shall be recorded by the Agent in the Register), for so long as the Initial Issuing Bank or Eligible Assignee, as the case may be, shall have a Letter of Credit Commitment.

"L/C Cash Deposit Account" means an interest bearing cash deposit account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon terms as may be satisfactory to the Agent.

"L/C Related Documents" has the meaning specified in Section 2.07(b)(i).

"Lenders" means, collectively, (i) Initial Lenders, (ii) the Issuing Banks and (iii) each Eligible Assignee that shall become a party hereto pursuant to Section 9.06(a), (b) and (c).

"Letter of Credit" has the meaning specified in Section 2.01(b).

"Letter of Credit Application" has the meaning specified in Section 2.04(a).

"Letter of Credit Commitment" means, with respect to each Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit to any Borrower in (a) the amount set forth opposite the Issuing Bank's name on the signature pages hereto under the caption "Letter of Credit Commitment" or (b) if such Issuing Bank has entered into one or more Assignment and Acceptances, the amount set forth for such Issuing Bank in the Register maintained by the Agent pursuant to Section 9.06(d) as such Issuing Bank's "Letter of Credit Commitment", in each case as such amount may be reduced prior to such time pursuant to Section 2.06.

"Letter of Credit Facility" means, at any time, an amount equal to the least of (a) the aggregate amount of the Issuing Banks' Letter of Credit Commitments at such time, (b) \$200,000,000 and (c) the aggregate amount of the Revolving Credit Commitments, as such amount may be reduced at or prior to such time pursuant to Section 2.06.

"LIBO Rate" means, for any Interest Period for all LIBO Rate Advances comprising part of the same Competitive Bid Borrowing, an interest rate per annum equal to the rate per annum obtained by dividing (a) (i) in the case of any Advance denominated in Dollars or any Foreign Currency other than Euro, the rate per annum

(rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on the applicable Telerate Page as the London interbank offered rate for deposits in Dollars or in the relevant Foreign Currency at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period or, if for any reason such rate is not available, the average (rounded upward to the nearest whole multiple of 1/32 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in Dollars or in the relevant Foreign Currency are offered by the principal office of each of the Reference Banks in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to the amount that would be the Reference Banks' respective ratable shares of such Borrowing if such Borrowing were to be a Revolving Credit Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period or, (ii) in the case of any Advance denominated in Euros, the EURIBO Rate by (b) a percentage equal to 100% minus the Eurocurrency Rate Reserve Percentage for such Interest Period. If the Telerate Page is unavailable, the LIBO Rate for any Interest Period for each LIBO Rate Advance comprising part of the same Competitive Bid Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.09.

"LIBO Rate Advance" means a Competitive Bid Advance denominated in Dollars or in any Foreign Currency and bearing interest based on the LIBO Rate.

"Lien" means any lien, mortgage, pledge, security interest or other charge or encumbrance of any kind.

"Local Rate Advance" means a Competitive Bid Advance denominated in any Foreign Currency sourced from the jurisdiction of issuance of such Foreign Currency and bearing interest at a fixed rate.

"Major Currencies" means lawful currency of the United Kingdom of Great Britain and Northern Ireland, lawful currency of Japan and Euros.

"Majority Lenders" means at any time Lenders holding at least 51% of the then aggregate principal amount (based on the Equivalent in Dollars at such time) of the Revolving Credit Advances owing to Lenders, or, if no such principal amount is then outstanding, Lenders having at least 51% of the Revolving Credit Commitments.

"Material Adverse Change" means any material adverse change in the financial condition or results of operations of the Company and its Consolidated Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the financial condition or results of operations of the Company and its Consolidated Subsidiaries taken as a whole, (b) the rights and remedies of the Agent or any Lender under this Agreement

or any Note or (c) the ability of the Borrowers to perform their obligations under this Agreement or any Note.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" of any Person means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which such Person or any of its ERISA Affiliates is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" of any Person means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of such Person or any of its ERISA Affiliates and at least one Person other than such Person or any of its ERISA Affiliates or (b) was so maintained and in respect of which such Person or any of its ERISA Affiliates could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"Net Tangible Assets of the Company and its Consolidated Subsidiaries", as at any particular date of determination, means the total amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (a) all current liabilities (excluding any thereof which are by their terms extendible or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed) and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, as set forth in the most recent balance sheet of the Company and its Consolidated Subsidiaries and computed in accordance with GAAP.

"Note" means a Revolving Credit Note or a Competitive Bid Note.

"Notice of Competitive Bid Borrowing" has the meaning specified in Section 2.03(a).

"Notice of Issuance" has the meaning specified in Section 2.04(a).

"Notice of Revolving Credit Borrowing" has the meaning specified in Section 2.02(a).

"Obligations" has the meaning specified in Section 7.01(b).

"Payment Office" means, for any Foreign Currency, such office of Citibank as shall be from time to time selected by the Agent and notified by the Agent to the Borrowers and the Lenders.

"PBGC" means the Pension Benefit Guaranty Corporation (or any successor).

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited

liability company or other entity, or a government or any political subdivision or agency thereof.

"Plan" means a Single Employer Plan or a Multiple Employer Plan.

"Process Agent" has the meaning specified in Section 9.12(a).

"Public Debt Rating" means, as of any date, the highest rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Company. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Letter of Credit Rate, the Applicable Margin, the Applicable Utilization Fee and the Applicable Percentage shall be determined by reference to the available rating; (b) if neither S&P nor Moody's shall have in effect a Public Debt Rating, the Applicable Margin, the Applicable Utilization Fee and the Applicable Percentage will be set in accordance with Level 5 under the definition of "Applicable Letter of Credit Rate", "Applicable Margin", "Applicable Utilization Fee" or "Applicable Percentage", as the case may be; (c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Letter of Credit Rate, the Applicable Margin, the Applicable Utilization Fee and the Applicable Percentage shall be based upon the higher rating, provided that if the lower of such ratings is more than one level below the higher of such ratings, the Applicable Letter of Credit Rate, the Applicable Margin, the Applicable Utilization Fee and the Applicable Percentage shall be determined by reference to the level that is one level above such lower rating; (d) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

"Ratable Share" of any amount means, with respect to any Lender at any time, the product of (a) a fraction the numerator of which is the amount of such Lender's Revolving Credit Commitment at such time and the denominator of which is the aggregate Revolving Credit Commitments at such time and (b) such amount.

"Rating Condition" has the meaning specified in Section 2.06(c)(ii).

"Rating Condition Notice" has the meaning specified in Section 2.06(c)(ii).

"Reference Banks" means Citibank, Bank of America, N.A., JPMorgan Chase Bank and Deutsche Bank AG New York Branch.

"Register" has the meaning specified in Section 9.06(d).

"Restricted Property" means (a) any property of the Company located within the United States of America that, in the opinion of the Company's Board of Directors, is a

principal manufacturing property or (b) any shares of capital stock or Debt of any Subsidiary owning any such property.

"Revolving Credit Advance" means an advance by a Lender to any Borrower as part of a Revolving Credit Borrowing and refers to a Base Rate Advance or a Eurocurrency Rate Advance (each of which shall be a "Type" of Revolving Credit Advance).

"Revolving Credit Borrowing" means a borrowing consisting of simultaneous Revolving Credit Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

"Revolving Credit Commitment" means as to any Lender (i) the Dollar amount set forth opposite its name on the signature pages hereof under the caption "Revolving Credit Commitment" or (ii) if such Lender has entered into any Assignment and Acceptance, the Dollar amount set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 9.06(d) as such Lender's Revolving Credit Commitment, in each case as the same may be terminated or reduced, as the case may be, pursuant to Section 2.06.

"Revolving Credit Facility" means, at any time, the aggregate amount of the Revolving Credit Commitments, as such amount may be reduced at or prior to such time pursuant to Section 2.06.

"Revolving Credit Note" means a promissory note of any Borrower payable to the order of any Lender, delivered pursuant to a request made under Section 2.17 in substantially the form of Exhibit A-1 hereto, evidencing the aggregate indebtedness of such Borrower to such Lender resulting from the Revolving Credit Advances made by such Lender to such Borrower.

"Sale and Leaseback Transaction" means any arrangement with any Person (other than the Company or a Subsidiary of the Company), or to which any such Person is a party, providing for the leasing to the Company or to a Subsidiary of the Company owning Restricted Property for a period of more than three years of any Restricted Property that has been or is to be sold or transferred by the Company or such Subsidiary to such Person, or to any other Person (other than the Company or a Subsidiary of the Company) to which funds have been or are to be advanced by such Person on the security of the leased property. It is understood that arrangements pursuant to Section 168(f)(8) of the Internal Revenue Code of 1954, as amended, or any successor provision having similar effect, are not included within this definition of "Sale and Leaseback Transaction".

"Single Employer Plan" of any Person means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of such Person or any of its ERISA Affiliates and no Person other than such Person and its ERISA Affiliates or (b) was so maintained and in respect of which such Person or any of its



ERISA Affiliates could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.

"Sub-Agent" means Citibank International plc.

"Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Telerate Page" means, as applicable, page 3740 or 3750 (or any successor pages, respectively) of Moneyline Telerate Service.

"Termination Date" means the earlier of (a) October 22, 2009 and (b) the date of termination in whole of the Commitments pursuant to Section 2.06(a) or Section 6.01 or, if all Lenders elect to terminate their Commitments as provided therein, Section 2.06(d).

"Threatened" means, with respect to any action, suit, investigation, litigation or proceeding, a written communication to the Company or a Designated Subsidiary, as the case may be, expressing an intention to immediately bring such action, suit, investigation, litigation or proceeding.

"Unissued Letter of Credit Commitment" means, with respect to any Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit to any Borrower in an amount (converting all non-Dollar amounts into the then Dollar Equivalent thereof) equal to the excess of (a) the amount of its Letter of Credit Commitment over (b) the aggregate Available Amount of all Letters of Credit issued by such Issuing Bank.

"Unused Commitment" means, with respect to each Lender at any time, (a) the amount of such Lender's Revolving Credit Commitment at such time minus (b) the sum of (i) the aggregate principal amount of all Revolving Credit Advances (based in respect of any Advances denominated in a Major Currency on the Equivalent in Dollars at such time) made by such Lender (in its capacity as a Lender) and outstanding at such time, plus (ii) such Lender's Ratable Share of (A) the aggregate principal amount of the Competitive Bid Advances (based in respect of any Advances denominated in a Foreign Currency on the Equivalent in Dollars at such time) and (B) the aggregate Available Amount of all the Letters of Credit outstanding at such time (based in respect of any Letters of Credit denominated in a Major Currency on the Equivalent in Dollars at such time).

"Voting Stock" means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"Withdrawal Liability" has the meaning specified in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed, and all financial computations and determinations pursuant hereto shall be made, in accordance with generally accepted accounting principles consistent with those applied in the preparation of the financial statements referred to in Section 4.01(e) ("GAAP"); provided, however, that, if any changes in accounting principles from those used in the preparation of such financial statements have been required by the rules, regulations, pronouncements or opinions of the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions) and have been adopted by the Company with the agreement of its independent certified public accountants, the Lenders agree to consider a request by the Company to amend this Agreement to take account of such changes.

## ARTICLE II

### AMOUNTS AND TERMS OF THE ADVANCES AND LETTERS OF CREDIT

SECTION 2.01. The Revolving Credit Advances and Letters of Credit.

(a) Revolving Credit Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Credit Advances to any Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an aggregate amount (based in respect of any Revolving Credit Advance denominated in a Major Currency on the Equivalent in Dollars determined on the date of delivery of the applicable Notice of Revolving Credit Borrowing), not to exceed such Lender's Unused Commitment. Each Revolving Credit Borrowing shall be in an aggregate amount not less than \$10,000,000 (or the Equivalent thereof in any Major Currency determined on the date of delivery of the applicable Notice of Revolving Credit Borrowing) or an integral multiple of \$1,000,000 (or the Equivalent thereof in any Major Currency determined on the date of delivery of the applicable Notice of Revolving Credit Borrowing) in excess thereof and shall consist of Revolving Credit Advances of the same Type made on the same day by the Lenders ratably according to their respective Revolving Credit Commitments; provided, however, that if there is no unused portion of the Commitment of one or more Lenders at the time of any requested Revolving Credit Borrowing such Borrowing shall consist of Revolving Credit Advances of the same Type made on the same day by the Lender or Lenders who do then have an Unused Commitment ratably according to the aggregate Unused Commitments. Notwithstanding anything herein to the contrary, no

Revolving Credit Borrowing may be made in a Major Currency if, after giving effect to the making of such Revolving Credit Borrowing, the Equivalent in Dollars of the aggregate amount of outstanding Revolving Credit Advances denominated in Major Currencies, together with the Equivalent in Dollars of the aggregate amount of outstanding Competitive Bid Advances denominated in Foreign Currencies, would exceed \$500,000,000. Within the limits of each Lender's Revolving Credit Commitment, any Borrower may borrow under this Section 2.01(a), prepay pursuant to Section 2.10 and reborrow under this Section 2.01(a).

(b) Letters of Credit. Each Issuing Bank agrees, on the terms and conditions hereinafter set forth, to issue performance and financial letters of credit (each, a "Letter of Credit") in any Major Currency for the account of any Borrower from time to time on any Business Day during the period from the Effective Date until 30 days before the Termination Date (i) in an aggregate Available Amount for all Letters of Credit issued by all Issuing Banks not to exceed at any time the Letter of Credit Facility at such time, (ii) in an amount for each Issuing Bank not to exceed the amount of such Issuing Banks' Letter of Credit Commitment at such time and (iii) in an amount for each such Letter of Credit not to exceed an amount equal to the Unused Commitments of the Lenders at such time, in each case, converting all non-Dollar amounts into the Dollar Equivalent thereof; provided that any Borrower may request that Letters of Credit be issued for the account of any of its Subsidiaries (without designating such Subsidiary as a Designated Subsidiary) so long as such Borrower remains obligated for the reimbursement of any drawings under such Letters of Credit under the terms of this Agreement. No Letter of Credit shall have an expiration date (including all rights of the applicable Borrower or the beneficiary to require renewal) of later than the Termination Date. Within the limits referred to above, any Borrower may request the issuance of Letters of Credit under this Section 2.01(b), repay any Revolving Credit Advances resulting from drawings thereunder pursuant to Section 2.04(c) and request the issuance of additional Letters of Credit under this Section 2.01(b). Each letter of credit listed on Schedule 2.01(b) shall be deemed to constitute a Letter of Credit issued hereunder, and each Lender that is an issuer of such a Letter of Credit shall, for purposes of Section 2.04, be deemed to be an Issuing Bank for each such letter of credit, provided that any renewal or replacement of any such letter of credit shall be issued by an Issuing Bank pursuant to the terms of this Agreement. The terms "issue", "issued", "issuance" and all similar terms, when applied to a Letter of Credit, shall include any renewal, extension or amendment thereof.

SECTION 2.02. Making the Revolving Credit Advances. (a) Each Revolving Credit Borrowing shall be made on notice, given not later than (x) 10:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Eurocurrency Rate Advances denominated in any Major Currency, (y) 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Eurocurrency Rate Advances denominated in Dollars or (z) 9:00 A.M. (New York City time) on the day of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing consisting of Base Rate Advances, by any Borrower to the Agent (and the Agent shall, in the case of a Revolving Credit Borrowing consisting of Eurocurrency Rate Advances, immediately relay such notice to the Sub-Agent), which shall give to each Lender prompt notice thereof by telecopier or telex. Each such notice of a Revolving Credit Borrowing (a "Notice of Revolving Credit Borrowing") shall be by telephone, confirmed

immediately in writing, or telecopier or telex in substantially the form of Exhibit B-1 hereto, specifying therein the requested (i) date of such Revolving Credit Borrowing, (ii) Type of Advances comprising such Revolving Credit Borrowing, (iii) aggregate amount of such Revolving Credit Borrowing, and (iv) in the case of a Revolving Credit Borrowing consisting of Eurocurrency Rate Advances, initial Interest Period and currency for each such Revolving Credit Advance. Each Lender shall, before 11:00 A.M. (New York City time) on the date of such Revolving Credit Borrowing, in the case of a Revolving Credit Borrowing consisting of Advances denominated in Dollars, and before 11:00 A.M. (London time) on the date of such Revolving Credit Borrowing, in the case of a Revolving Credit Borrowing consisting of Eurocurrency Rate Advances denominated in any Major Currency, make available for the account of its Applicable Lending Office to the Agent at the applicable Agent's account, in same day funds, such Lender's ratable portion (as determined in accordance with Section 2.01) of such Revolving Credit Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower requesting the Revolving Credit Borrowing at the Agent's aforesaid address or at the applicable Payment Office, as the case may be.

(b) Anything in subsection (a) above to the contrary notwithstanding, a Borrower may not select Eurocurrency Rate Advances for any proposed Revolving Credit Borrowing if the obligation of the Lenders to make Eurocurrency Rate Advances shall then be suspended pursuant to Section 2.09 or 2.12.

(c) Each Notice of Revolving Credit Borrowing of any Borrower shall be irrevocable and binding on such Borrower. In the case of any Revolving Credit Borrowing that the related Notice of Revolving Credit Borrowing specifies is to be comprised of Eurocurrency Rate Advances, the Borrower requesting such Revolving Credit Borrowing shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure by such Borrower to fulfill on or before the date specified in such Notice of Revolving Credit Borrowing for such Revolving Credit Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Credit Advance to be made by such Lender as part of such Revolving Credit Borrowing when such Revolving Credit Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the time of any Revolving Credit Borrowing that such Lender will not make available to the Agent such Lender's ratable portion of such Revolving Credit Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Revolving Credit Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower proposing such Revolving Credit Borrowing on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and such Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent, at (i) in the case of such Borrower, the higher of (A) the interest rate applicable at the time to Revolving Credit Advances comprising such

Revolving Credit Borrowing and (B) the cost of funds incurred by the Agent in respect of such amount and (ii) in the case of such Lender, (A) the Federal Funds Rate in the case of Advances denominated in Dollars or (B) the cost of funds incurred by the Agent in respect of such amount in the case of Advances denominated in any Major Currency. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Credit Advance as part of such Revolving Credit Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the Revolving Credit Advance to be made by it as part of any Revolving Credit Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Revolving Credit Advance on the date of such Revolving Credit Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Credit Advance to be made by such other Lender on the date of any Revolving Credit Borrowing.

SECTION 2.03. The Competitive Bid Advances. (a) Each Lender severally agrees that any Borrower may request Competitive Bid Borrowings under this Section 2.03 from time to time on any Business Day during the period from the date hereof until the date occurring seven days prior to the Termination Date in the manner set forth below; provided that, following the making of each Competitive Bid Borrowing, the aggregate amount (based in respect of any Advance denominated in a Foreign Currency on the Equivalent in Dollars on such Business Day) of the Advances then outstanding shall not exceed the aggregate amount of the Unused Commitments. Notwithstanding anything herein to the contrary, no Competitive Bid Borrowing may be made in a Foreign Currency if, after giving effect to the making of such Revolving Credit Borrowing, the Equivalent in Dollars of the aggregate amount of outstanding Competitive Bid Advances denominated in Foreign Currencies, together with the Equivalent in Dollars of the aggregate amount of outstanding Revolving Credit Advances denominated in Major Currencies, would exceed \$500,000,000.

(i) Any Borrower may request a Competitive Bid Borrowing under this Section 2.03 by delivering to the Agent (and the Agent shall, in the case of a Competitive Bid Borrowing not consisting of Fixed Rate Advances or LIBO Rate Advances to be denominated in Dollars, immediately notify the Sub-Agent), by telecopier or telex, a notice of a Competitive Bid Borrowing (a "Notice of Competitive Bid Borrowing"), in substantially the form of Exhibit B-2 hereto, specifying therein the requested (A) date of such proposed Competitive Bid Borrowing, (B) aggregate amount of such proposed Competitive Bid Borrowing, (C) interest rate basis and day count convention to be offered by the Lenders, (D) currency of such proposed Competitive Bid Borrowing, (E) in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances, Interest Period of each Competitive Bid Advance to be made as part of such Competitive Bid Borrowing, or in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances or Local Rate Advances, maturity date for repayment of each Fixed Rate Advance or Local Rate Advance to be made as part of such Competitive Bid Borrowing (which maturity date may not be earlier than the date occurring five days after the date of such Competitive Bid Borrowing or later than the Termination Date), (F) interest payment date or dates relating thereto, (G) location of such Borrower's account to which funds are to be advanced, and (H) other terms (if any) to be applicable to such

Competitive Bid Borrowing, not later than (w) 10:00 A.M. (New York City time) at least one Business Day prior to the date of the proposed Competitive Bid Borrowing, if such Borrower shall specify in its Notice of Competitive Bid Borrowing that the rates of interest to be offered by the Lenders shall be fixed rates per annum (each Advance comprising any such Competitive Bid Borrowing being referred to herein as a "Fixed Rate Advance") and that the Advances comprising such proposed Competitive Bid Borrowing shall be denominated in Dollars, (x) 10:00 A.M. (New York City time) at least four Business Days prior to the date of the proposed Competitive Bid Borrowing, if such Borrower shall instead specify in its Notice of Competitive Bid Borrowing that the Advances comprising such Competitive Bid Borrowing shall be LIBO Rate Advances denominated in Dollars, (y) 3:00 P.M. (New York City time) at least three Business Days prior to the date of the proposed Competitive Bid Borrowing, if such Borrower shall specify in the Notice of Competitive Bid Borrowing that the Advances comprising such proposed Competitive Bid Borrowing shall be either Fixed Rate Advances denominated in any Foreign Currency or Local Rate Advances denominated in any Foreign Currency and (z) 3:00 P.M. (New York City time) at least five Business Days prior to the date of the proposed Competitive Bid Borrowing, if such Borrower shall instead specify in its Notice of Competitive Bid Borrowing that the Advances comprising such Competitive Bid Borrowing shall be LIBO Rate Advances denominated in any Foreign Currency. Each Notice of Competitive Bid Borrowing shall be irrevocable and binding on such Borrower. Any Notice of Competitive Bid Borrowing by a Designated Subsidiary shall be given to the Agent in accordance with the preceding sentence through the Company on behalf of such Designated Subsidiary. The Agent shall in turn promptly notify each Lender of each request for a Competitive Bid Borrowing received by it from such Borrower by sending such Lender a copy of the related Notice of Competitive Bid Borrowing.

(ii) Each Lender may, if, in its sole discretion, it elects to do so, irrevocably offer to make one or more Competitive Bid Advances to the Borrower proposing the Competitive Bid Borrowing as part of such proposed Competitive Bid Borrowing at a rate or rates of interest specified by such Lender in its sole discretion, by notifying the Agent (which shall give prompt notice thereof to such Borrower and to the Sub-Agent, if applicable), (A) before 9:30 A.M. (New York City time) on the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances denominated in Dollars, (B) before 10:00 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances denominated in Dollars, (C) before 10:00 A.M. (New York City time) on the second Business Day prior to the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of either Fixed Rate Advances denominated in any Foreign Currency or Local Rate Advances denominated in any Foreign Currency and (D) before 10:00 A.M. (New York City time) four Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances denominated in any Foreign Currency, of the minimum amount and maximum amount of each Competitive Bid Advance which such Lender would be willing to make as part of such proposed Competitive Bid Borrowing (which amounts, or the Equivalent thereof in Dollars, as the case may be, may, subject to

the proviso to the first sentence of this Section 2.03(a), exceed such Lender's Commitment, if any), the rate or rates of interest therefor and such Lender's Applicable Lending Office with respect to such Competitive Bid Advance; provided that if the Agent in its capacity as a Lender shall, in its sole discretion, elect to make any such offer, it shall notify such Borrower of such offer at least 30 minutes before the time and on the date on which notice of such election is to be given to the Agent, by the other Lenders. If any Lender shall elect not to make such an offer, such Lender shall so notify the Agent, before 10:00 A.M. (New York City time) (and the Agent shall notify the Sub-Agent, if applicable) on the date on which notice of such election is to be given to the Agent by the other Lenders, and such Lender shall not be obligated to, and shall not, make any Competitive Bid Advance as part of such Competitive Bid Borrowing; provided that the failure by any Lender to give such notice shall not cause such Lender to be obligated to make any Competitive Bid Advance as part of such proposed Competitive Bid Borrowing.

(iii) The Borrower proposing the Competitive Bid Advance shall, in turn, (A) before 10:30 A.M. (New York City time) on the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of Fixed Rate Advances denominated in Dollars, (B) before 11:00 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances denominated in Dollars, (C) before 10:00 A.M. (New York City time) on the Business Day prior to the date of such Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of either Fixed Rate Advances denominated in any Foreign Currency or Local Rate Advances denominated in any Foreign Currency and (D) before 10:00 A.M. (New York City time) three Business Days before the date of such proposed Competitive Bid Borrowing, in the case of a Competitive Bid Borrowing consisting of LIBO Rate Advances denominated in any Foreign Currency, either:

(x) cancel such Competitive Bid Borrowing by giving the Agent notice to that effect, or

(y) accept one or more of the offers made by any Lender or Lenders pursuant to paragraph (ii) above, in its sole discretion, by giving notice to the Agent (and the Agent shall give notice to the Sub-Agent, if applicable) of the amount of each Competitive Bid Advance (which amount shall be equal to or greater than the minimum amount, and equal to or less than the maximum amount, notified to such Borrower by the Agent on behalf of such Lender for such Competitive Bid Advance pursuant to paragraph (ii) above) to be made by each Lender as part of such Competitive Bid Borrowing, and reject any remaining offers made by Lenders pursuant to paragraph (ii) above by giving the Agent notice to that effect; provided, however, that such Borrower shall not accept any offer in excess of the requested bid amount for any maturity. Such Borrower shall accept the offers made by any Lender or Lenders to make Competitive Bid Advances in order of the lowest to the highest rates of interest offered by such Lenders. If two or more Lenders have offered the same interest rate, the amount

to be borrowed at such interest rate will be allocated among such Lenders in proportion to the amount that each such Lender offered at such interest rate.

(iv) If the Borrower proposing the Competitive Bid Borrowing notifies the Agent that such Competitive Bid Borrowing is canceled pursuant to paragraph (iii)(x) above, the Agent shall give prompt notice thereof to the Lenders and such Competitive Bid Borrowing shall not be made.

(v) If the Borrower proposing the Competitive Bid Borrowing accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(y) above, the Agent shall in turn promptly notify (A) each Lender that has made an offer as described in paragraph (ii) above, of the date and aggregate amount of such Competitive Bid Borrowing and whether or not any offer or offers made by such Lender pursuant to paragraph (ii) above have been accepted by the Borrower, (B) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing, of the amount of each Competitive Bid Advance to be made by such Lender as part of such Competitive Bid Borrowing, and (C) each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing, upon receipt, that the Agent has received forms of documents appearing to fulfill the applicable conditions set forth in Article III. Each Lender that is to make a Competitive Bid Advance as part of such Competitive Bid Borrowing shall, before 11:00 A.M. (New York City time), in the case of Competitive Bid Advances to be denominated in Dollars or 11:00 A.M. (London time), in the case of Competitive Bid Advances to be denominated in any Foreign Currency, on the date of such Competitive Bid Borrowing specified in the notice received from the Agent pursuant to clause (A) of the preceding sentence or any later time when such Lender shall have received notice from the Agent pursuant to clause (C) of the preceding sentence, make available for the account of its Applicable Lending Office to the Agent (x) in the case of a Competitive Bid Borrowing denominated in Dollars, at its address referred to in Section 9.02, in same day funds, such Lender's portion of such Competitive Bid Borrowing in Dollars, and (y) in the case of a Competitive Bid Borrowing in a Foreign Currency, at the Payment Office for such Foreign Currency as shall have been notified by the Agent to the Lenders prior thereto, in same day funds, such Lender's portion of such Competitive Bid Borrowing in such Foreign Currency. Upon fulfillment of the applicable conditions set forth in Article III and after receipt by the Agent of such funds, the Agent will make such funds available to such Borrower's account at the location specified by such Borrower in its Notice of Competitive Bid Borrowing. Promptly after each Competitive Bid Borrowing the Agent will notify each Lender of the amount and tenor of such Competitive Bid Borrowing.

(vi) If the Borrower proposing the Competitive Bid Borrowing notifies the Agent that it accepts one or more of the offers made by any Lender or Lenders pursuant to paragraph (iii)(y) above, such notice of acceptance shall be irrevocable and binding on such Borrower. Such Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure by such Borrower to fulfill on or before the date specified in the related Notice of Competitive Bid Borrowing for such Competitive Bid Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense



incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Competitive Bid Advance to be made by such Lender as part of such Competitive Bid Borrowing when such Competitive Bid Advance, as a result of such failure, is not made on such date.

(b) Each Competitive Bid Borrowing shall be in an aggregate amount not less than \$10,000,000 (or the Equivalent thereof in any Foreign Currency, determined as of the time of the applicable Notice of Competitive Bid Borrowing) or an integral multiple of \$1,000,000 (or the Equivalent thereof in any Foreign Currency, determined as of the time of the applicable Notice of Competitive Bid Borrowing) in excess thereof and, following the making of each Competitive Bid Borrowing, the Borrower that has borrowed such Competitive Bid Borrowing shall be in compliance with the limitation set forth in the proviso to the first sentence of subsection (a) above.

(c) Within the limits and on the conditions set forth in this Section 2.03, any Borrower may from time to time borrow under this Section 2.03, repay or prepay pursuant to subsection (d) below, and reborrow under this Section 2.03, provided that a Competitive Bid Borrowing shall not be made within three Business Days of the date of any other Competitive Bid Borrowing.

(d) Any Borrower that has borrowed through a Competitive Bid Borrowing shall repay to the Agent for the account of each Lender that has made a Competitive Bid Advance, on the maturity date of such Competitive Bid Advance (such maturity date being that specified by such Borrower for repayment of such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a) (i) above and provided in the Competitive Bid Note evidencing such Competitive Bid Advance), the then unpaid principal amount of such Competitive Bid Advance. Such Borrower shall have no right to prepay any principal amount of any Competitive Bid Advance unless, and then only on the terms, specified by such Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a) (i) above and set forth in the Competitive Bid Note evidencing such Competitive Bid Advance.

(e) Each Borrower that has borrowed through a Competitive Bid Borrowing shall pay interest on the unpaid principal amount of each Competitive Bid Advance comprising such Competitive Bid Borrowing from the date of such Competitive Bid Advance to the date the principal amount of such Competitive Bid Advance is repaid in full, at the rate of interest for such Competitive Bid Advance specified by the Lender making such Competitive Bid Advance in its notice with respect thereto delivered pursuant to subsection (a) (ii) above, payable on the interest payment date or dates specified by such Borrower for such Competitive Bid Advance in the related Notice of Competitive Bid Borrowing delivered pursuant to subsection (a) (i) above, as provided in the Competitive Bid Note evidencing such Competitive Bid Advance. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), such Borrower shall pay interest on the amount of unpaid principal of and interest on each Competitive Bid Advance owing to a Lender, payable in arrears on the date or dates interest is payable thereon, at a rate per annum equal at all times to 1% per annum above the rate per annum required to be paid on such Competitive Bid Advance under the terms of the Competitive

Bid Note evidencing such Competitive Bid Advance unless otherwise agreed in such Competitive Bid Note.

(f) The indebtedness of any Borrower resulting from each Competitive Bid Advance made to such Borrower as part of a Competitive Bid Borrowing shall be evidenced by a separate Competitive Bid Note of the Borrower payable to the order of the Lender making such Competitive Bid Advance.

SECTION 2.04. Issuance of and Drawings and Reimbursement Under Letters of Credit. (a) Request for Issuance. (i) Each Letter of Credit shall be issued upon notice, given not later than 11:00 A.M. (New York City time) on the fifth Business Day prior to the date of the proposed issuance of such Letter of Credit (or on such shorter notice as the applicable Issuing Bank may agree), by any Borrower to any Issuing Bank, and such Issuing Bank shall give the Agent, prompt notice thereof by facsimile. Each such notice of issuance of a Letter of Credit (a "Notice of Issuance") shall be by telephone, confirmed immediately in writing, or facsimile, specifying therein the requested (A) date of such issuance (which shall be a Business Day), (B) Available Amount and currency (which shall be a Major Currency or Dollars) of such Letter of Credit, (C) expiration date of such Letter of Credit (which shall not be later than the Termination Date), (D) name and address of the beneficiary of such Letter of Credit and (E) form of such Letter of Credit, and shall be accompanied by such customary application and agreement for letter of credit as such Issuing Bank may specify to the Borrower requesting such issuance for use in connection with such requested Letter of Credit (a "Letter of Credit Application"). If (A) the requested form of such Letter of Credit, in the reasonable judgment of the Issuing Bank, conforms to standard practices of financial institutions that regularly issue letters of credit, (B) the issuance of a letter of credit to the beneficiary of such Letter of Credit would not, in the reasonable judgment of the Issuing Bank, violate or conflict with (y) any regulatory or legal restriction applicable to the Issuing Bank, or (z) any internal policy, procedure or guideline of, the Issuing Bank that is consistent with standard practices of financial institutions that regularly issue letters of credit and (C) the Issuing Bank has not received written notice from any Lender, the Agent or the Borrower, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Section 3.04 shall not be satisfied, then such Issuing Bank will, upon fulfillment of the applicable conditions set forth in Article III, make such Letter of Credit available to the Borrower requesting such issuance at its office referred to in Section 9.02 or as otherwise agreed with such Borrower in connection with such issuance. In the event and to the extent that the provisions of any Letter of Credit Application shall conflict with this Agreement, the provisions of this Agreement shall govern. An Issuing Bank that issues a Letter of Credit which expires prior to the Termination Date but provides for automatic extension of the expiry date will not exercise its right to prevent the automatic extension of the expiry date unless (i) the applicable conditions set forth in Section 3.04 are not satisfied as to the date of such Issuing Bank's required notice of non-extension, or (ii) such automatic extension would extend the expiry date beyond the Termination Date.

(b) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the applicable Issuing Bank or the Lenders, such Issuing Bank hereby grants to each Lender, and each Lender hereby acquires from such Issuing Bank, a participation in such Letter of Credit

equal to such Lender's Ratable Share of the Available Amount of such Letter of Credit. Each Borrower hereby agrees to each such participation. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Agent, for the account of such Issuing Bank, such Lender's Ratable Share of each drawing made under a Letter of Credit funded by such Issuing Bank and not reimbursed by the applicable Borrower on the date made, or of any reimbursement payment required to be refunded to any Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Revolving Credit Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Lender further acknowledges and agrees that its participation in each Letter of Credit will be automatically adjusted to reflect such Lender's Ratable Share of the Available Amount of such Letter of Credit at each time such Lender's Revolving Credit Commitment is amended pursuant to the operation of Sections 2.06(b), (c) or (d), an assignment in accordance with Section 9.06 or otherwise pursuant to this Agreement.

(c) Drawing and Reimbursement. The payment by an Issuing Bank of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement the making by any such Issuing Bank of a Revolving Credit Advance, which, in the case of Letters of Credit denominated in Dollars, shall be a Base Rate Advance, in the amount of such draft or, in the case of a Letter of Credit denominated in any Major Currency, shall be an Advance that bears interest at the Overnight Eurocurrency Rate (as defined below) of such Issuing Bank for a period of five Business Days and thereafter, shall be a Base Rate Advance in the Equivalent in Dollars on such fifth Business Day for the amount of such draft. Each Issuing Bank shall give prompt notice (and such Issuing Bank will use its commercially reasonable efforts to deliver such notice within one Business Day) of each drawing under any Letter of Credit issued by it to the Company, the applicable Borrower (if not the Company) and the Agent. Upon written demand by such Issuing Bank, with a copy of such demand to the Agent and the Company, each Lender shall pay to the Agent such Lender's Ratable Share of such outstanding Revolving Credit Advance, by making available for the account of its Applicable Lending Office to the Agent for the account of such Issuing Bank, by deposit to the Agent's Account, in same day funds, an amount equal to the portion of the outstanding principal amount of such Revolving Credit Advance to be funded by such Lender, provided that the Lenders shall not be required to fund such Revolving Credit Advances resulting from drawings under a Letter of Credit denominated in any Major Currency until such Advance is exchanged for the Equivalent in Dollars and is a Base Rate Advance. Each Lender acknowledges and agrees that its obligation to make Revolving Credit Advances pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Revolving Credit Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Promptly after receipt thereof, the Agent shall transfer such funds to such Issuing Bank. Each Lender agrees to fund its Ratable Share of an outstanding Revolving Credit Advance on (i) the Business Day on which demand therefor is made by such Issuing Bank, provided that notice of such demand is given not later than 11:00 A.M. (New York City time) on such Business Day, or (ii) the first Business Day next

succeeding such demand if notice of such demand is given after such time. If and to the extent that any Lender shall not have so made the amount of such Revolving Credit Advance available to the Agent, such Lender agrees to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by any such Issuing Bank until the date such amount is paid to the Agent, at the Federal Funds Rate for its account or the account of such Issuing Bank, as applicable. If such Lender shall pay to the Agent such amount for the account of any such Issuing Bank on any Business Day, such amount so paid in respect of principal shall constitute a Revolving Credit Advance made by such Lender on such Business Day for purposes of this Agreement, and the outstanding principal amount of the Revolving Credit Advance made by such Issuing Bank shall be reduced by such amount on such Business Day. "Overnight Eurocurrency Rate" means the rate per annum applicable to an overnight period beginning on one Business Day and ending on the next Business Day equal to the sum of the Applicable Margin for Eurocurrency Rate Advances and the rate per annum quoted by the Applicable Issuing Bank to the Agent as the rate at which it is offering overnight deposits in the relevant currency in amounts comparable to such Issuing Bank's Advances resulting from drawings on Letters of Credit denominated in a Major Currency.

(d) Letter of Credit Reports. Each Issuing Bank shall furnish (A) to the Agent (with a copy to the Company) on the first Business Day of each month a written report summarizing issuance and expiration dates of Letters of Credit during the preceding month and drawings during such month under all Letters of Credit and (B) to the Agent (with a copy to the Company) on the first Business Day of each calendar quarter a written report setting forth the average daily aggregate Available Amount during the preceding calendar quarter of all Letters of Credit.

(e) Failure to Make Advances. The failure of any Lender to make the Revolving Credit Advance to be made by it on the date specified in Section 2.04(c) shall not relieve any other Lender of its obligation hereunder to make its Revolving Credit Advance on such date, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Credit Advance to be made by such other Lender on such date.

SECTION 2.05. Fees. (a) Facility Fee. The Company agrees to pay to the Agent for the account of each Lender a facility fee on the aggregate amount of such Lender's Commitment from the date hereof in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Percentage in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December, commencing December 31, 2004, and on the Termination Date.

(b) Letter of Credit Fees. (i) Each Borrower shall pay to the Agent for the account of each Lender a fee on such Lender's Ratable Share of the sum of (x) the average daily aggregate Available Amount of all Letters of Credit issued at the request of such Borrower and outstanding from time to time and (y) any Advances bearing interest at the Overnight Eurocurrency Rate as provided in Section 2.04(c) and outstanding from time to time, at a rate per annum equal to the Applicable Letter of Credit Rate in effect from time to time, during such calendar quarter, payable in arrears quarterly on the third Business Day after the last day of each

March, June, September and December, commencing with the quarter ended December 31, 2004, and on and after the Termination Date payable upon demand; provided that the Applicable Letter of Credit Rate shall be 1% above the Applicable Letter of Credit Rate in effect upon the occurrence and during the continuation of an Event of Default if the Borrowers are required to pay default interest pursuant to Section 2.08(b).

(ii) Each Borrower shall pay to each Issuing Bank for its own account such reasonable fees as have been agreed between the Company and such Issuing Bank.

(c) Agent's Fees. The Company shall pay to the Agent for its own account such fees, and at such times, as the Company and the Agent may separately agree.

SECTION 2.06. Termination or Reduction of the Commitments. (a) Optional Ratable Termination or Reduction. The Company shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or permanently reduce ratably in part the Unused Commitments of the Lenders, provided that each partial reduction shall be in an aggregate amount not less than \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof. The aggregate amount of the Commitments, once reduced as provided in this Section 2.06(a), may not be reinstated.

(b) Non-Ratable Termination by Assignment. The Company shall have the right, upon at least ten Business Days' written notice to the Agent (which shall then give prompt notice thereof to the relevant Lender), to require any Lender to assign, pursuant to and in accordance with the provisions of Section 9.06, all of its rights and obligations under this Agreement and under the Notes to an Eligible Assignee selected by the Company; provided, however, that (i) no Event of Default shall have occurred and be continuing at the time of such request and at the time of such assignment; (ii) the assignee shall have paid to the assigning Lender the aggregate principal amount of, and any interest accrued and unpaid to the date of such assignment on, the Note or Notes of such Lender; (iii) the Company shall have paid to the assigning Lender any and all accrued facility fees and Letter of Credit fees payable to such Lender and all other accrued and unpaid amounts owing to such Lender under any provision of this Agreement (including, but not limited to, any increased costs or other additional amounts owing under Section 2.11 and any indemnification for Taxes under Section 2.14) as of the effective date of such assignment; (iv) if the assignee selected by the Company is not an existing Lender, such assignee or the Company shall have paid the processing and recordation fee required under Section 9.06(a) for such assignment and (v) if the assigning Lender is an Issuing Bank, the Company shall pay to the Agent for deposit in the L/C Cash Deposit Account an amount equal to the Available Amount of all Letters of Credit issued by such Issuing Bank; provided further that the Company shall have no right to replace more than three Lenders in any calendar year pursuant to this Section 2.06(b); and provided further that the assigning Lender's rights under Sections 2.11, 2.14 and 9.04, and, in the case of an Issuing Bank, Sections 2.04(b) and 6.02, and its obligations under Section 8.05, shall survive such assignment as to matters occurring prior to the date of assignment.

(c) Non-Ratable Reduction. (i) The Company shall have the right, at any time other than during any Rating Condition, upon at least ten Business Days' notice to a Lender (with a copy to the Agent), to terminate in whole such Lender's Commitments. Such termination

shall be effective, (x) with respect to such Lender's Unused Commitment, on the date set forth in such notice, provided, however, that such date shall be no earlier than ten Business Days after receipt of such notice and (y) with respect to each Advance outstanding to such Lender, in the case of Base Rate Advances, on the date set forth in such notice and, in the case of Eurocurrency Rate, on the last day of the then current Interest Period relating to such Advance; provided further, however, that such termination shall not be effective, if, after giving effect to such termination, the Company would, under this Section 2.06(c), reduce the Lenders' Revolving Credit Commitments in any calendar year by an amount in excess of the Revolving Credit Commitments of any three Lenders or \$240,000,000, whichever is greater on the date of such termination. Notwithstanding the preceding proviso, the Company may terminate in whole the Commitments of any Lender in accordance with the terms and conditions set forth in Section 2.06(b). Upon termination of a Lender's Commitments under this Section 2.06(c), the Company will pay or cause to be paid all principal of, and interest accrued to the date of such payment on, Advances owing to such Lender and pay any accrued facility fees or Letter of Credit fees payable to such Lender pursuant to the provisions of Section 2.05, and all other amounts payable to such Lender hereunder (including, but not limited to, any increased costs or other amounts owing under Section 2.11 and any indemnification for Taxes under Section 2.14); and upon such payments and, if such Lender is an Issuing Bank, shall pay to the Agent for deposit in the L/C Cash Deposit Account an amount equal to the Available Amount of all Letters of Credit issued by such Issuing Bank, the obligations of such Lender hereunder shall, by the provisions hereof, be released and discharged; provided, however, that such Lender's rights under Sections 2.11, 2.14 and 9.04, and, in the case of an Issuing Bank, Sections 2.04(b) and 6.02, and its obligations under Section 8.05 shall survive such release and discharge as to matters occurring prior to such date. The aggregate amount of the Commitments of the Lenders once reduced pursuant to this Section 2.06(c) may not be reinstated.

(ii) For purposes of this Section 2.06(c) only, the term "Rating Condition" shall mean a period commencing with notice (a "Rating Condition Notice") by the Agent to the Company and the Lenders to the effect that the Agent has been informed that the rating of the senior public Debt of the Company is unsatisfactory under the standard set forth in the next sentence, and ending with notice by the Agent to the Company and the Lenders to the effect that such condition no longer exists. The Agent shall give a Rating Condition Notice promptly upon receipt from the Company or any Lender of notice stating, in effect, that both of S&P and Moody's (or any successor by merger or consolidation to the business of either thereof), respectively, then rate the senior public Debt of the Company lower than BBB- and Baa3. The Company agrees to give notice to the Agent forthwith upon any change in a rating by either such organization of the senior public Debt of the Company; the Agent shall have no duty whatsoever to verify the accuracy of any such notice from the Company or any Lender or to monitor independently the ratings of the senior public Debt of the Company and no Lender shall have any duty to give any such notice. The Agent shall give notice to the Lenders and the Company as to the termination of a Rating Condition promptly upon receiving a notice from the Company to the Agent (which notice the Agent shall promptly notify to the Lenders) stating that the rating of the senior public Debt of the Company does not meet the standard set forth in the second sentence of this clause (ii), and requesting that the Agent notify the Lenders of the termination of the Rating Condition. The Rating Condition shall terminate upon the giving of such notice by the Agent.

(d) Termination by a Lender. In the event that a Change of Control occurs, each Lender may, by notice to the Company and the Agent given not later than 50 calendar days after such Change of Control, terminate its Revolving Credit Commitment and its Unissued Letter of Credit Commitment, if any, which Commitments shall be terminated effective as of the later of (i) the date that is 60 calendar days after such Change of Control or (ii) the end of the Interest Period for any Eurocurrency Rate Advance outstanding at the time of such Change of Control or for any Eurocurrency Rate Advance made pursuant to the next sentence of this Section 2.06(d). Upon the occurrence of a Change of Control, each Borrower's right to make a Borrowing or request the issuance of a Letter of Credit under this Agreement shall be suspended for a period of 60 calendar days, except for Base Rate Advances and Eurocurrency Rate Advances having an Interest Period ending not later than 90 calendar days after such Change of Control. A notice of termination pursuant to this Section 2.06(d) shall not have the effect of accelerating any outstanding Advance of such Lender and the Notes of such Lender.

(e) Funds deposited to the L/C Cash Deposit Account pursuant to Section 2.06(b)(v) above (in the case of an assigning Lender thereunder that is an Issuing Bank) or Section 2.06(c)(i) above (in the case of a Lender whose Commitments are terminated thereunder that is an Issuing Bank) shall be applied to reimburse any drawings made under any Letter of Credit issued by such applicable Issuing Bank to the extent permitted by applicable law, and if so applied then such reimbursement shall be deemed satisfaction of the obligations of the Lenders and of the applicable Borrower to reimburse such drawing. After all of the Letters of Credit issued by such Issuing Banks shall have expired or been fully drawn upon and all other obligations of the Borrowers hereunder to such Issuing Banks have been paid in full, the balance, if any, in the L/C Cash Deposit Account shall be promptly returned to the Company.

SECTION 2.07. Repayment of Advances. (a) Revolving Credit Advances. Each Borrower shall repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Revolving Credit Advances then outstanding.

(b) Competitive Bid Advances. Each Borrower shall repay to the Administrative Agent, for the account of each Lender that has made a Competitive Bid Advance, the aggregate outstanding principal amount of each Competitive Bid Advance made to such Borrower and owing to such Lender on the earlier of (i) the maturity date therefor, specified in the related Notice of Competitive Bid Borrowing delivered pursuant to Section 2.03(a)(i) and (ii) the Termination Date.

(c) Letter of Credit Reimbursements. The obligation of any Borrower under this Agreement, any Letter of Credit Application and any other agreement or instrument, in each case, to repay any Revolving Credit Advance that results from payment of a drawing under a Letter of Credit shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, such Letter of Credit Application and such other agreement or instrument under all circumstances, including, without limitation, the following circumstances (it being understood that any such payment by a Borrower is without prejudice to, and does not constitute a waiver of, any rights such Borrower might have or might acquire as a result of the payment by any Lender of any draft or the reimbursement by the Borrower thereof as set forth in Section 9.16 or otherwise):

(i) any lack of validity or enforceability of this Agreement, any Note, any Letter of Credit Application, any Letter of Credit or any other agreement or instrument relating thereto (all of the foregoing being, collectively, the "L/C Related Documents");

(ii) any change in the time, manner or place of payment of any Letter of Credit;

(iii) the existence of any claim, set-off, defense or other right that any Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Persons for which any such beneficiary or any such transferee may be acting), any Issuing Bank, the Agent, any Lender or any other Person, whether in connection with the transactions contemplated by the L/C Related Documents or any unrelated transaction;

(iv) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by any Issuing Bank under a Letter of Credit against presentation of a draft or certificate that does not substantially comply with the terms of such Letter of Credit;

(vi) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any guarantee, for all or any of the obligations of any Borrower in respect of the L/C Related Documents; or

(vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing that might, but for the provisions of this Section, constitute a legal or equitable discharge of the Borrower's obligations hereunder.

SECTION 2.08. Interest on Revolving Credit Advances. (a) Scheduled Interest. Each Borrower shall pay interest on the unpaid principal amount of each Revolving Credit Advance owing by such Borrower to each Lender from the date of such Revolving Credit Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Revolving Credit Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee, if any, in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Base Rate Advance shall be paid in full.

(ii) Eurocurrency Rate Advances. During such periods as such Revolving Credit Advance is a Eurocurrency Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Credit Advance to the sum of (x) the Eurocurrency Rate for such Interest Period for such Revolving Credit Advance plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee, if any, in effect from time to time, payable in arrears on the last day of such Interest



Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurocurrency Rate Advance shall be Converted or paid in full.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), each Borrower shall pay interest on (i) the unpaid principal amount of each Revolving Credit Advance owing by such Borrower to each Lender, payable in arrears on the dates referred to in clause (a) (i) or (a) (ii) above, at a rate per annum equal at all times to 1% per annum above the rate per annum required to be paid on such Revolving Credit Advance pursuant to clause (a) (i) or (a) (ii) above and (ii) to the fullest extent permitted by law, the amount of any interest, fee or other amount payable hereunder by such Borrower that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 1% per annum above the rate per annum required to be paid on such Revolving Credit Advance pursuant to clause (a) (i) or (a) (ii) above.

SECTION 2.09. Interest Rate Determination. (a) Each Reference Bank agrees to furnish to the Agent timely information for the purpose of determining each Eurocurrency Rate and each LIBO Rate if the applicable Telerate Page is unavailable. If any one or more of the Reference Banks shall not furnish such timely information to the Agent for the purpose of determining any such interest rate, the Agent shall determine such interest rate on the basis of timely information furnished by the remaining Reference Banks. The Agent shall give prompt notice to the Company and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.08(a) (i) or (ii), and the rate, if any, furnished by each Reference Bank for the purpose of determining the interest rate under Section 2.08(a) (ii).

(b) If, with respect to any Eurocurrency Rate Advances, the Majority Lenders notify the Agent that (i) they are unable to obtain matching deposits in the London interbank market at or about 11:00 A.M. (London time) on the second Business Day before the making of a Borrowing in sufficient amounts to fund their respective Revolving Credit Advances as part of such Borrowing during its Interest Period or (ii) the Eurocurrency Rate for any Interest Period for such Advances will not adequately reflect the cost to such Majority Lenders of making, funding or maintaining their respective Eurocurrency Rate Advances for such Interest Period, the Agent shall forthwith so notify each Borrower and the Lenders, whereupon (A) the Borrower will, on the last day of the then existing Interest Period therefor, (1) if such Eurocurrency Rate Advances are denominated in Dollars, either (x) prepay such Advances or (y) Convert such Advances into Base Rate Advances and (2) if such Eurocurrency Rate Advances are denominated in any Major Currency, either (x) prepay such Advances or (y) exchange such Advances into an Equivalent amount of Dollars and Convert such Advances into Base Rate Advances, and (B) the obligation of the Lenders to make Eurocurrency Rate Advances in the same currency as such Eurocurrency Rate Advances shall be suspended until the Agent shall notify each Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(c) If any Borrower, in requesting a Revolving Credit Borrowing comprised of Eurocurrency Rate Advances, shall fail to select the duration of the Interest Period for such

Eurocurrency Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Lenders and such Advances will (to the extent such Eurocurrency Rate Advances remain outstanding on such day) automatically, on the last day of the then existing Interest Period therefor, (i) if such Eurocurrency Rate Advances are denominated in Dollars, Convert into Base Rate Advances and (ii) if such Eurocurrency Rate Advances are denominated in any Major Currency, be exchanged into an Equivalent amount of Dollars and be Converted into Base Rate Advances.

(d) Upon the occurrence and during the continuance of any Event of Default under Section 6.01(a), (i) each Eurocurrency Rate Advance will (to the extent such Eurocurrency Rate Advance remains outstanding on such day) automatically, on the last day of the then existing Interest Period therefor, (A) if such Eurocurrency Rate Advance is denominated in Dollars, be Converted into a Base Rate Advance and (B) if such Eurocurrency Rate Advance is denominated in any Major Currency, be exchanged into an Equivalent amount of Dollars and Converted into a Base Rate Advance and (ii) the obligation of the Lenders to make Eurocurrency Rate Advances shall be suspended.

(e) If the applicable Telerate Page is unavailable and fewer than two Reference Banks furnish timely information to the Agent for determining the Eurocurrency Rate or LIBO Rate for any Eurocurrency Rate Advances or LIBO Rate Advances, as the case may be,

(i) the Agent shall forthwith notify the relevant Borrower and the Lenders that the interest rate cannot be determined for such Eurocurrency Rate Advances or LIBO Rate Advances, as the case may be,

(ii) with respect to Eurocurrency Rate Advances, each such Advance will (to the extent such Eurocurrency Rate Advance remains outstanding on such day) automatically, on the last day of the then existing Interest Period therefor, (A) if such Eurocurrency Rate Advance is denominated in Dollars, be prepaid by the applicable Borrower or be automatically Converted into a Base Rate Advance and (B) if such Eurocurrency Rate Advance is denominated in any Major Currency, be prepaid by the applicable Borrower or be automatically exchanged into an Equivalent amount of Dollars and Converted into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

(iii) the obligation of the Lenders to make Eurocurrency Rate Advances or LIBO Rate Advances shall be suspended until the Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist.

SECTION 2.10. Prepayments of Revolving Credit Advances. (a) Optional Prepayments. Each Borrower may, upon notice to the Agent stating the proposed date and aggregate principal amount of the prepayment, given not later than 11:00 A.M. (New York City time) on the second Business Day prior to the date of such proposed prepayment, in the case of Eurocurrency Rate Advances, and not later than 11:00 A.M. (New York City time) on the day of such proposed prepayment, in the case of Base Rate Advances, and, if such notice is given, such Borrower shall, prepay the outstanding principal amount of the Revolving Credit Advances

comprising part of the same Revolving Credit Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount not less than \$10,000,000 or the Equivalent thereof in a Major Currency (determined on the date notice of prepayment is given) or an integral multiple of \$1,000,000 or the Equivalent thereof in a Major Currency (determined on the date notice of prepayment is given) in excess thereof and (y) in the event of any such prepayment of a Eurocurrency Rate Advance other than on the last day of the Interest Period therefor, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 9.04(c). Each notice of prepayment by a Designated Subsidiary shall be given to the Administrative Agent through the Company.

(b) Mandatory Prepayments. (i) If, on any date, the sum of (A) the aggregate principal amount of all Advances denominated in Dollars then outstanding plus (B) the Equivalent in Dollars (determined on the third Business Day prior to such date) of the aggregate principal amount of all Advances denominated in Foreign Currencies then outstanding plus (C) the aggregate Available Amount of all Letters of Credit denominated in Dollars then outstanding plus (D) the Equivalent in Dollars (determined on the third Business Day prior to such date) of the aggregate Available Amount of all Letters of Credit denominated in Major Currencies then outstanding exceeds 103% of the aggregate Commitments of the Lenders on such date, the Company and each other Borrower, if any, shall thereupon promptly prepay the outstanding principal amount of any Advances owing by such Borrower in an aggregate amount (or deposit an amount in the L/C Cash Deposit Account) sufficient to reduce such sum (calculated on the basis of the Available Amount of Letters of Credit being reduced by the amount in the L/C Cash Deposit Account) to an amount not to exceed 100% of the aggregate Commitments of the Lenders on such date, together with any interest accrued to the date of such prepayment on the principal amounts prepaid and, in the case of any prepayment of a Eurocurrency Rate Advance, a LIBO Rate Advance or a Local Rate Advance on a date other than the last day of an Interest Period or at its maturity, any additional amounts which such Borrower shall be obligated to reimburse to the Lenders in respect thereof pursuant to Section 9.04(c). The Agent shall give prompt notice of any prepayment required under this Section 2.10(b)(i) to the Borrowers and the Lenders.

(ii) If, on any date, the sum of (A) the Equivalent in Dollars of the aggregate principal amount of all Eurocurrency Rate Advances denominated in Major Currencies then outstanding plus (B) the Equivalent in Dollars of the aggregate principal amount of all Competitive Bid Advances denominated in Foreign Currencies then outstanding plus (C) the Equivalent in Dollars of the aggregate Available Amount of all Letters of Credit denominated in Major Currencies then outstanding (in each case, determined on the third Business Day prior to such date), shall exceed 110% of \$500,000,000, the Company and each other Borrower shall prepay the outstanding principal amount of any such Eurocurrency Rate Advances or any such LIBO Rate Advances owing by such Borrower, on the last day of the Interest Periods relating to such Advances, in an aggregate amount (or deposit an amount in the L/C Cash Deposit Account) sufficient to reduce such sum (calculated on the basis of the Available Amount of Letters of Credit being reduced by the amount in the L/C Cash Deposit Account) to an amount not to exceed \$500,000,000, together with any interest accrued to the date of such prepayment on the principal amounts prepaid. The Agent shall give prompt notice of any prepayment required under this Section 2.10(b)(ii) to the Borrowers and the Lenders.

SECTION 2.11. Increased Costs. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority including, without limitation, any agency of the European Union or similar monetary or multinational authority (whether or not having the force of law), there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurocurrency Rate Advances or LIBO Rate Advances or agreeing to issue or of issuing or maintaining or participating in Letters of Credit (excluding for purposes of this Section 2.11 any such increased costs resulting from (i) Taxes or Other Taxes (as to which Section 2.14 shall govern) and (ii) changes in the basis of taxation of overall net income or overall gross income by the United States or by the foreign jurisdiction or state under the laws of which such Lender is organized or has its Applicable Lending Office or any political subdivision thereof), then the Borrower of such Advances shall from time to time, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost. A certificate as to the amount of such increased cost, submitted to such Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority including, without limitation, any agency of the European Union or similar monetary or multinational authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend or to issue or participate in Letters of Credit hereunder and other commitments of this type or the issuance of or participation in the Letters of Credit (or similar contingent obligations) hereunder, then, upon demand by such Lender (with a copy of such demand to the Agent), the Company shall pay to the Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder. A certificate as to such amounts submitted to the Company and the Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

(c) Any Lender claiming any additional amounts payable pursuant to this Section 2.11 shall, upon the written request of the Company delivered to such Lender and the Agent, assign, pursuant to and in accordance with the provisions of Section 9.06, all of its rights and obligations under this Agreement and under the Notes to an Eligible Assignee selected by the Company; provided, however, that (i) no Default shall have occurred and be continuing at the time of such request and at the time of such assignment; (ii) the assignee shall have paid to the assigning Lender the aggregate principal amount of, and any interest accrued and unpaid to the date of such assignment on, the Note or Notes of such Lender; (iii) the Company shall have paid to the assigning Lender any and all facility fees and other fees payable to such Lender and all other accrued and unpaid amounts owing to such Lender under any provision of this Agreement (including, but not limited to, any increased costs or other additional amounts owing under this Section 2.11, and any indemnification for Taxes under Section 2.14) as of the effective date of such assignment and (iv) if the assignee selected by the Company is not an existing Lender, such

assignee or the Company shall have paid the processing and recordation fee required under Section 9.06(a) for such assignment; provided further that the assigning Lender's rights under Sections 2.11, 2.14 and 9.04, and its obligations under Section 8.05, shall survive such assignment as to matters occurring prior to the date of assignment.

SECTION 2.12. Illegality. Notwithstanding any other provision of this Agreement, if any Lender shall notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its Eurocurrency Lending Office to perform its obligations hereunder to make Eurocurrency Rate Advances in Dollars or any Major Currency or LIBO Rate Advances in Dollars or in any Foreign Currency or to fund or maintain Eurocurrency Rate Advances in Dollars or in any Major Currency or LIBO Rate Advances in Dollars or in any Foreign Currency hereunder, (a) each such Eurocurrency Rate Advance or such LIBO Rate Advance, as the case may be, will automatically, upon such demand, (i) if such Eurocurrency Rate Advance or LIBO Rate Advance is denominated in Dollars, be Converted into a Base Rate Advance or an Advance that bears interest at the rate set forth in Section 2.08(a) (i), as the case may be, and (ii) if such Eurocurrency Rate Advance or LIBO Rate Advance is denominated in any Foreign Currency, be exchanged into an Equivalent amount of Dollars and Converted into a Base Rate Advance or an Advance that bears interest at the rate set forth in Section 2.08(a) (i), as the case may be, and (b) the obligation of the Lenders to make such Eurocurrency Rate Advances or such LIBO Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

SECTION 2.13. Payments and Computations. (a) Each Borrower shall make each payment hereunder and under any Notes, except with respect to principal of, interest on, and other amounts relating to, Advances denominated in a Foreign Currency, not later than 11:00 A.M. (New York City time) on the day when due in Dollars to the Agent at the applicable Agent's Account in same day funds without set-off, counterclaim or deduction of any kind. Each Borrower shall make each payment hereunder and under any Notes with respect to principal of, interest on, and other amounts relating to Advances denominated in a Foreign Currency not later than 12:00 Noon (at the Payment Office for such Foreign Currency) on the day when due in such Foreign Currency to the Agent in same day funds by deposit of such funds to the applicable Agent's Account without set-off, counterclaim or deduction of any kind. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, facility fees or Letter of Credit fees ratably (other than amounts payable pursuant to Section 2.03, 2.04(c), 2.05(b) (ii), 2.06(b), 2.06(c), 2.11, 2.14 or 9.04(c)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 9.06(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under any Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on the Base Rate and of facility fees shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, all computations of interest based on the Eurocurrency Rate (including the Overnight Eurocurrency Rate) or the Federal Funds Rate and of Letter of Credit fees shall be made by the Agent on the basis of a year of 360 days and all computations in respect of Competitive Bid Advances shall be made by the Agent or the Sub-Agent, as the case may be, as specified in the applicable Notice of Competitive Bid Borrowing (or, in each case of Advances denominated in Foreign Currencies where market practice differs, in accordance with market practice), in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest, facility fees or Letter of Credit fees are payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest, facility fee or Letter of Credit fee, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurocurrency Rate Advances or LIBO Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from any Borrower prior to the date on which any payment is due to the Lenders hereunder that such Borrower will not make such payment in full, the Agent may assume that such Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent such Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at (i) the Federal Funds Rate in the case of Advances denominated in Dollars or (ii) the cost of funds incurred by the Agent in respect of such amount in the case of Advances denominated in Foreign Currencies.

SECTION 2.14. Taxes. (a) Any and all payments by any Borrower (including the Company in its capacity as a guarantor under Article VII hereof) hereunder or under the Notes shall be made, in accordance with Section 2.13, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, net income taxes imposed by the United States or any State thereof and taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction under the laws of which such Lender or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender, taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Notes being hereinafter referred to as "Taxes"). If any Borrower (including the Company in its capacity as a guarantor under Article VII hereof) shall be required

by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note to any Lender or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.14) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under the Notes or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or the Notes (hereinafter referred to as "Other Taxes").

(c) Each Borrower shall indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any taxes imposed by any jurisdiction on amounts payable under this Section 2.14) imposed on or paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto; provided, however, that a Borrower shall not be obligated to pay any amounts in respect of penalties, interest or expenses pursuant to this paragraph that are payable solely as a result of (i) the failure on the part of the pertinent Lender or the Agent to pay over those amounts received from the Borrowers under this clause (c) or (ii) the gross negligence or willful misconduct on the part of the pertinent Lender or the Agent. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor. Each Lender agrees to provide reasonably prompt notice to the Agent, the Company and any Borrower of any imposition of Taxes or Other Taxes against such Lender; provided that failure to give such notice shall not affect such Lender's rights to indemnification hereunder. Each Lender agrees that it will, promptly upon a request by the Company or a Borrower having made an indemnification payment hereunder, furnish to the Company or such Borrower, as the case may be, such evidence as is reasonably available to such Lender as to the payment of the relevant Taxes or Other Taxes, and that it will, if requested by the Company or such Borrower, cooperate with the Company or such Borrower, as the case may be, in its efforts to obtain a refund or similar relief in respect of such payment.

(d) Within 30 days after the date of any payment of Taxes by a Borrower under subsection (a) above, each Borrower shall furnish to the Agent, at its address referred to in Section 9.02, the original or a certified copy of a receipt evidencing payment thereof. In the case of any payment hereunder or under the Notes by or on behalf of any Borrower through an account or branch outside the United States or by or on behalf of any Borrower by a payor that is not a United States person, if such Borrower determines that no Taxes are payable in respect thereof, such Borrower shall furnish, or shall cause such payor to furnish, to the Agent, at such address, an opinion of counsel acceptable to the Agent stating that such payment is exempt from Taxes. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Initial Lender, on the date of the Assignment and Acceptance pursuant to which it becomes a Lender in the case of each other Lender and on the date it changes its Applicable Lending Office in the case of any Lender, and from time to time thereafter as requested in writing by any Borrower (unless a change in law renders such Lender unable lawfully to do so), shall provide the Agent and each Borrower with two original Internal Revenue Service forms W-8ECI or W-8BEN, as appropriate, or any successor or other form prescribed by the Internal Revenue Service, certifying that such Lender is exempt from or entitled to a reduced rate of United States withholding tax on payments pursuant to this Agreement or the Notes. In addition, each Lender further agrees to provide any Borrower with any form or document as any Borrower may reasonably request which is required by any taxing authority outside the United States in order to secure an exemption from, or reduction in the rate of, withholding tax in such jurisdiction, if available to such Lender. If the forms provided by a Lender at the time such Lender first becomes a party to this Agreement or changes its Applicable Lending Office indicate a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes unless and until such Lender provides the appropriate forms certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such form; provided, however, that, in the case of a Lender that initially becomes a party to this Agreement pursuant to an assignment in accordance with Section 9.06 or a Lender that undertakes a change in its Applicable Lending Office, the term Taxes shall include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes) United States withholding tax, if any, applicable on the date of such assignment or change with respect to the assignee Lender or Lender after the change in Applicable Lending Office, but only to the extent of United States withholding tax included in Taxes, if any, applicable on the date of such assignment or change with respect to the assignor Lender or Lender prior to such change in Applicable Lending Office. If any form or document referred to in this subsection (e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service form W-8ECI or W-8BEN, that a Lender reasonably considers to be confidential, such Lender shall give notice thereof to each Borrower and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which a Lender has failed to provide each Borrower with the appropriate form described in Section 2.14(e) (other than if such failure is due to a change in law occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under Section 2.14(a) or (c) with respect to Taxes imposed by the United States by reason of such failure; provided, however, that should a Lender become subject to Taxes because of its failure to deliver a form required hereunder, each Borrower shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(g) If any Borrower is required to pay any additional amount to any Lender or to the Agent or on behalf of any of them to any taxing authority pursuant to this Section 2.14, such Lender shall, upon the written request of the Company delivered to such Lender and the Agent, assign, pursuant to and in accordance with the provisions of Section 9.06, all of its rights



and obligations under this Agreement and under the Notes to an Eligible Assignee selected by the Company; provided, however, that (i) no Default shall have occurred and be continuing at the time of such request and at the time of such assignment; (ii) the assignee shall have paid to the assigning Lender the aggregate principal amount of, and any interest accrued and unpaid to the date of such assignment on, the Note or Notes of such Lender; (iii) the Company shall have paid to the assigning Lender any and all facility fees and other fees payable to such Lender and all other accrued and unpaid amounts owing to such Lender under any provision of this Agreement (including, but not limited to, any increased costs or other additional amounts owing under Section 2.11, and any indemnification for Taxes under this Section 2.14) as of the effective date of such assignment; and (iv) if the assignee selected by the Company is not an existing Lender, such assignee or the Company shall have paid the processing and recordation fee required under Section 9.06(a) for such assignment; provided further that the assigning Lender's rights under Sections 2.11, 2.14 and 9.04, and its obligations under Section 8.05, shall survive such assignment as to matters occurring prior to the date of assignment.

SECTION 2.15. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff, if any, or otherwise) on account of the Revolving Credit Advances owing to it (other than pursuant to Section 2.03, 2.04(c), 2.06(b), 2.06(c), 2.11, 2.14 or 9.04(c)) in excess of its Ratable Share of payments on account of the Revolving Credit Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Revolving Credit Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Each Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff, if any) with respect to such participation as fully as if such Lender were the direct creditor of such Borrower in the amount of such participation.

SECTION 2.16. Use of Proceeds. The proceeds of the Advances shall be available (and each Borrower agrees that it shall use such proceeds) for general corporate purposes of such Borrower and its Subsidiaries, including, without limitation, backstop of commercial paper.

SECTION 2.17. Evidence of Debt. (a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of each Borrower to such Lender resulting from each Revolving Credit Advance owing to such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder in respect of Revolving Credit Advances. Each Borrower agrees that upon request of any Lender to such Borrower (with a copy of such notice to the Agent) that such Lender receive a Revolving Credit Note to evidence (whether for purposes of pledge, enforcement or otherwise) the Revolving Credit Advances owing to, or to be made by,

such Lender, such Borrower shall promptly execute and deliver to such Lender a Revolving Credit Note payable to the order of such Lender in a principal amount up to the Revolving Credit Commitment of such Lender.

(b) The Register maintained by the Agent pursuant to Section 9.06(d) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded (i) the date and amount of each Borrowing made hereunder, the Type of Advances comprising such Borrowing and, if appropriate, the Interest Period applicable thereto, (ii) the terms of each Assignment and Acceptance delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder and (iv) the amount of any sum received by the Agent from each Borrower hereunder and each Lender's share thereof.

(c) Entries made in good faith by the Agent in the Register pursuant to subsection (b) above, and by each Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from the Borrowers to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Agent or such Lender to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of any Borrower under this Agreement.

### ARTICLE III

#### CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01. Conditions Precedent to Effectiveness of Sections 2.01 and 2.03. Sections 2.01 and 2.03 of this Agreement shall become effective on and as of the first date (the "Effective Date") on which the following conditions precedent have been satisfied:

(a) There shall have occurred no Material Adverse Change since December 31, 2003, except as otherwise publicly disclosed prior to the date hereof.

(b) There shall exist no action, suit, investigation, litigation or proceeding affecting the Company or any of its Subsidiaries pending or to the knowledge of the Company Threatened before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect, other than the matters described on Schedule 3.01(b) hereto (the "Disclosed Litigation") or (ii) purports to affect the legality, validity or enforceability of this Agreement or any Note of the Company or the consummation of the transactions contemplated hereby, and there shall have been no adverse change in the status, or financial effect on the Company or any of its Subsidiaries, of the Disclosed Litigation from that described on Schedule 3.01(b) hereto.

(c) The Company shall have paid all accrued fees and expenses of the Agent and the Lenders in respect of this Agreement.

(d) On the Effective Date, the following statements shall be true and the Agent shall have received a certificate signed by a duly authorized officer of the Company, dated the Effective Date, stating that:

(i) The representations and warranties contained in Section 4.01 are correct on and as of the Effective Date, and

(ii) No event has occurred and is continuing that constitutes a Default.

(e) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent:

(i) The Revolving Credit Notes of the Company to the order of the Lenders to the extent requested by any Lender pursuant to Section 2.17.

(ii) Certified copies of the resolutions of the Board of Directors of the Company approving this Agreement and the Notes of the Company, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and such Notes.

(iii) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Agreement and the Notes of the Company and the other documents to be delivered hereunder.

(iv) A favorable opinion of Gail E. Lehman, Assistant General Counsel of the Company, substantially in the form of Exhibit F hereto and as to such other matters as any Lender through the Agent may reasonably request.

(v) A favorable opinion of Shearman & Sterling LLP, counsel for the Agent, substantially in the form of Exhibit H hereto.

(vi) Such other approvals, opinions or documents as any Lender, through the Agent, may reasonably request.

SECTION 3.02. Conditions Precedent to Initial Borrowing. The obligation of each Lender to make an Advance on the occasion of the initial Borrowing hereunder is subject to the following conditions precedent:

(a) The Effective Date shall have occurred.

(b) The Company shall have terminated the commitments and paid in full all outstanding obligations under the 364-Day Credit Agreement dated as of November 26, 2003 among the Company, the lenders parties thereto and Citibank, as administrative agent, as amended, and each Lender that is a party to said credit agreement hereby waives any requirement of prior notice to the termination of commitments or prepayment of obligations under said credit agreement.

(c) The Company shall have paid all accrued fees and expenses of the Agent (including the billed fees and expenses of counsel to the Agent).

SECTION 3.03. Initial Loan to Each Designated Subsidiary. The obligation of each Lender to make an initial Advance to each Designated Subsidiary following any designation of such Designated Subsidiary as a Borrower hereunder pursuant to Section 9.07 is subject to the Agent's receipt on or before the date of such initial Advance of each of the following, in form and substance satisfactory to the Agent and dated such date, and (except for the Revolving Credit Notes) in sufficient copies for each Lender:

(a) The Revolving Credit Notes of such Borrower to the order of the Lenders to the extent requested by any Lender pursuant to Section 2.17.

(b) Certified copies of the resolutions of the Board of Directors of such Borrower (with a certified English translation if the original thereof is not in English) approving this Agreement and the Notes of such Borrower, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and such Notes.

(c) A certificate of the Secretary or an Assistant Secretary of such Borrower certifying the names and true signatures of the officers of such Borrower authorized to sign this Agreement and the Notes of such Borrower and the other documents to be delivered hereunder.

(d) A certificate signed by a duly authorized officer of the Company, dated as of the date of such initial Advance, certifying that such Borrower shall have obtained all governmental and third party authorizations, consents, approvals (including exchange control approvals) and licenses required under applicable laws and regulations necessary for such Borrower to execute and deliver this Agreement and the Notes and to perform its obligations thereunder.

(e) The Designation Letter of such Designated Subsidiary, substantially in the form of Exhibit D hereto.

(f) Evidence of the Process Agent's acceptance of its appointment pursuant to Section 9.12(a) as the agent of such Borrower, substantially in the form of Exhibit E hereto.

(g) A favorable opinion of counsel to such Designated Subsidiary, dated the date of such initial Advance, substantially in the form of Exhibit G hereto.

(h) Such other approvals, opinions or documents as any Lender, through the Agent, may reasonably request.

SECTION 3.04. Conditions Precedent to Each Revolving Credit Borrowing and Issuance. The obligation of each Lender to make a Revolving Credit Advance (other than an Advance made by any Issuing Bank or any Lender pursuant to Section 2.04(c)) on the occasion of each Revolving Credit Borrowing, and the obligation of the Issuing Bank to issue a Letter of

Credit, shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Revolving Credit Borrowing or issuance, as the case may be, (a) the following statements shall be true (and each of the giving of the applicable Notice of Revolving Credit Borrowing, Notice of Issuance and the acceptance by the Borrower requesting such Revolving Credit Borrowing or issuance of the proceeds of such Revolving Credit Borrowing or such issuance shall constitute a representation and warranty by such Borrower that on the date of such Borrowing or issuance such statements are true):

(i) the representations and warranties of the Company contained in Section 4.01 (except the representations set forth in the last sentence of subsection (e) thereof and in subsections (f), (h)-(l) and (n) thereof) are correct on and as of the date of such Revolving Credit Borrowing or issuance, before and after giving effect to such Revolving Credit Borrowing or issuance and to the application of the proceeds therefrom, as though made on and as of such date, and additionally, if such Revolving Credit Borrowing or issuance shall have been requested by a Designated Subsidiary, the representations and warranties of such Designated Subsidiary contained in its Designation Letter are correct on and as of the date of such Revolving Credit Borrowing or issuance, before and after giving effect to such Revolving Credit Borrowing or issuance and to the application of the proceeds therefrom, as though made on and as of such date, and

(ii) no event has occurred and is continuing, or would result from such Revolving Credit Borrowing or issuance or from the application of the proceeds therefrom, that constitutes a Default;

and (b) the Agent shall have received such other approvals, opinions or documents as any Lender through the Agent may reasonably request.

SECTION 3.05. Conditions Precedent to Each Competitive Bid Borrowing. The obligation of each Lender that is to make a Competitive Bid Advance on the occasion of a Competitive Bid Borrowing to make such Competitive Bid Advance as part of such Competitive Bid Borrowing is subject to the conditions precedent that (i) the Agent shall have received the written confirmatory Notice of Competitive Bid Borrowing with respect thereto, (ii) on or before the date of such Competitive Bid Borrowing, but prior to such Competitive Bid Borrowing, the Agent shall have received a Competitive Bid Note payable to the order of such Lender and substantially in the form of Exhibit A-2 hereto for each of the one or more Competitive Bid Advances to be made by such Lender as part of such Competitive Bid Borrowing, in a principal amount equal to the principal amount of the Competitive Bid Advance to be evidenced thereby and otherwise on such terms as were agreed to for such Competitive Bid Advance in accordance with Section 2.03, and (iii) on the date of such Competitive Bid Borrowing the following statements shall be true (and each of the giving of the applicable Notice of Competitive Bid Borrowing and the acceptance by the Borrower requesting such Competitive Bid Borrowing of the proceeds of such Competitive Bid Borrowing shall constitute a representation and warranty by such Borrower that on the date of such Competitive Bid Borrowing such statements are true):

(a) the representations and warranties of the Company contained in Section 4.01 (except the representations set forth in the last sentence of subsection (e)

thereof and in subsections (f), (h)-(l) and (n) thereof) are correct on and as of the date of such Competitive Bid Borrowing, before and after giving effect to such Competitive Bid Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, and, if such Competitive Bid Borrowing shall have been requested by a Designated Subsidiary, the representations and warranties of such Designated Subsidiary contained in its Designation Letter are correct on and as of the date of such Competitive Bid Borrowing, before and after giving effect to such Competitive Bid Borrowing and to the application of the proceeds therefrom, as though made on and as of such date,

(b) no event has occurred and is continuing, or would result from such Competitive Bid Borrowing or from the application of the proceeds therefrom, that constitutes a Default, and

(c) no event has occurred and no circumstance exists as a result of which the information concerning such Borrower that has been provided to the Agent and each Lender by such Borrower in connection herewith would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading,

and (iv) the Agent shall have received such other approvals, opinions or documents as any Lender through the Agent may reasonably request.

SECTION 3.06. Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, each Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Company, by notice to the Lenders, designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders of the occurrence of the Effective Date.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Company. The Company represents and warrants as follows:

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) The execution, delivery and performance by the Company of this Agreement and the Notes of the Company, and the consummation of the transactions contemplated hereby, are within the Company's corporate powers, have been duly authorized by all necessary corporate action, and do not and will not cause or constitute a violation of any provision of law or regulation or any provision of the Certificate of Incorporation or By-Laws of the Company or result in the breach of, or constitute a default or require any consent under, or result in the creation of any lien, charge or

encumbrance upon any of the properties, revenues, or assets of the Company pursuant to, any indenture or other agreement or instrument to which the Company is a party or by which the Company or its property may be bound or affected.

(c) No authorization, consent, approval (including any exchange control approval), license or other action by, and no notice to or filing or registration with, any governmental authority, administrative agency or regulatory body or any other third party is required for the due execution, delivery and performance by the Company of this Agreement or the Notes of the Company.

(d) This Agreement has been, and each of the Notes when delivered hereunder will have been, duly executed and delivered by the Company. This Agreement is, and each of the Notes of the Company when delivered hereunder will be, the legal, valid and binding obligation of the Company enforceable against the Company in accordance with their respective terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally.

(e) The Consolidated balance sheet of the Company and its Consolidated Subsidiaries as at December 31, 2003, and the related Consolidated statements of income and cash flows of the Company and its Consolidated Subsidiaries for the fiscal year then ended (together with the notes to the financial statements of the Company and its Consolidated Subsidiaries and the Consolidated statements of cash flows of the Company and its Consolidated Subsidiaries), accompanied by an opinion of one or more nationally recognized firms of independent public accountants, and the Consolidated balance sheet of the Company and its Consolidated Subsidiaries as at June 30, 2004, and the related Consolidated statements of income and cash flows of the Company and its Consolidated Subsidiaries for the nine months then ended, duly certified by the principal financial officer of the Company, copies of which have been furnished to each Lender, are materially complete and correct, and fairly present, subject, in the case of said balance sheet as at June 30, 2004, and said statements of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of the Company and its Consolidated Subsidiaries as at such dates and the Consolidated results of the operations of the Company and its Consolidated Subsidiaries for the periods ended on such dates, all in accordance with GAAP consistently applied, except as otherwise noted therein; the Company and its Consolidated Subsidiaries do not have on such date any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in such balance sheet or the notes thereto as at such date. No Material Adverse Change has occurred since December 31, 2003, except as otherwise publicly disclosed prior to the date hereof.

(f) There is no action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, pending or to the knowledge of the Company Threatened affecting the Company or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect (other than the Disclosed Litigation), or (ii) purports to affect the legality, validity

or enforceability of this Agreement or any Note or the consummation of the transactions contemplated hereby, and there has been no adverse change in the status, or financial effect on the Company or any of its Subsidiaries, of the Disclosed Litigation from that described on Schedule 3.01(b) hereto.

(g) Following application of the proceeds of each Advance, not more than 25 percent of the value of the assets (either of the Borrower of such Advance or of such Borrower and its Subsidiaries on a Consolidated basis) subject to the provisions of Section 5.02(a) or subject to any restriction contained in any agreement or instrument between such Borrower and any Lender or any Affiliate of any Lender relating to Debt and within the scope of Section 6.01(e) will be margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System).

(h) The Company and each wholly-owned direct Subsidiary of the Company have, in the aggregate, met their minimum funding requirements under ERISA with respect to their Plans in all material respects and have not incurred any material liability to the PBGC, other than for the payment of premiums, in connection with such Plans.

(i) No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan of the Company or any of its ERISA Affiliates that has resulted in or is reasonably likely to result in a material liability of the Company or any of its ERISA Affiliates.

(j) The Schedules B (Actuarial Information) to the 2003 annual reports (Form 5500 Series) with respect to each Plan of the Company or any of its ERISA Affiliates, copies of which have been filed with the Internal Revenue Service (and which will be furnished to any Bank through the Administrative Agent upon the request of such Bank through the Administrative Agent to the Company), are complete and accurate in all material respects and fairly present in all material respects the funding status of such Plans at such date, and since the date of each such Schedule B there has been no material adverse change in funding status.

(k) Neither the Company nor any of its ERISA Affiliates has incurred or reasonably expects to incur any Withdrawal Liability to any Multiemployer Plan in an annual amount exceeding 6% of Net Tangible Assets of the Company and its Consolidated Subsidiaries.

(l) Neither the Company nor any of its ERISA Affiliates has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA. No such Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA, in a reorganization or termination which might reasonably be expected to result in a liability of the Company in an amount in excess of \$5,000,000.

(m) The Company is not, and immediately after the application by the Company of the proceeds of each Loan will not be, (a) an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or (b) a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.



(n) To the best of the Company's knowledge, the operations and properties of the Company and its Subsidiaries taken as a whole comply in all material respects with all Environmental Laws, all necessary Environmental Permits have been applied for or have been obtained and are in effect for the operations and properties of the Company and its Subsidiaries and the Company and its Subsidiaries are in compliance in all material respects with all such Environmental Permits. To the best of the Company's knowledge no circumstances exist that would be reasonably likely to form the basis of an Environmental Action against the Company or any of its Subsidiaries or any of their properties that could have a Material Adverse Effect.

#### ARTICLE V

#### COVENANTS OF THE BORROWER

SECTION 5.01. Affirmative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Company will:

(a) Compliance with Laws, Etc. Comply, and cause each Designated Subsidiary to comply with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA and Environmental Laws as provided in Section 5.01(j), if failure to comply with such requirements would have a Material Adverse Effect.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each Designated Subsidiary to pay and discharge, all taxes, assessments and governmental charges or levies imposed upon it or on its income or profits or upon any of its property; provided, however, that neither the Company nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained.

(c) Maintenance of Insurance. Maintain, and cause each Designated Subsidiary to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Company or such Subsidiary operates.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each Designated Subsidiary to preserve and maintain, its corporate existence and all its material rights (charter and statutory) privileges and franchises; provided, however, that the Company and each Designated Subsidiary may consummate any merger, consolidation or sale of assets permitted under Section 5.02(b).

(e) Visitation Rights. At any reasonable time and from time to time upon reasonable notice but not more than once a year unless an Event of Default has occurred and is continuing, permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Company and any Designated Subsidiary, and to discuss the affairs, finances and accounts of the Company and any Designated

Subsidiary with any of their officers or directors and with their independent certified public accountants.

(f) Keeping of Books. Keep, and cause each Designated Subsidiary to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Company and each Designated Subsidiary in accordance with generally accepted accounting principles in effect from time to time.

(g) Maintenance of Properties, Etc. Maintain and preserve, and cause each Designated Subsidiary to maintain and preserve, all of its properties that are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted; provided, however, that neither the Company nor any of its Designated Subsidiaries shall be required to maintain or preserve any property if the failure to maintain or preserve such property shall not have a Material Adverse Effect.

(h) Reporting Requirements. Furnish to the Agent (with a copy for each Lender) and the Agent shall promptly forward the same to the Lenders:

(i) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Company, a Consolidated balance sheet of the Company and its Consolidated Subsidiaries as of the end of such quarter and a Consolidated statement of income and cash flows of the Company and its Consolidated Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures as of the corresponding date and for the corresponding period of the preceding fiscal year, all in reasonable detail and certified by the principal financial officer, principal accounting officer, the Vice-President and Treasurer or an Assistant Treasurer of the Company, subject, however, to year-end auditing adjustments, which certificate shall include a statement that such officer has no knowledge, except as specifically stated, of any condition, event or act which constitutes a Default;

(ii) as soon as available and in any event within 120 days after the end of each fiscal year of the Company, a Consolidated balance sheet of the Company and its Consolidated Subsidiaries as of the end of such fiscal year and the related Consolidated statements of income and cash flows of the Company and its Consolidated Subsidiaries for such fiscal year setting forth in each case in comparative form the corresponding figures as of the close of and for the preceding fiscal year, all in reasonable detail and accompanied by an opinion of independent public accountants of nationally recognized standing, as to said financial statements and a certificate of the principal financial officer, principal accounting officer, the Vice-President and Treasurer or an Assistant Treasurer of the Company stating that such officer has no knowledge, except as specifically stated, of any condition, event or act which constitutes a Default;

(iii) copies of the Forms 8-K and 10-K reports (or similar reports) which the Company is required to file with the Securities and Exchange Commission of the United States of America, promptly after the filing thereof;

(iv) copies of each annual report, quarterly report, special report or proxy statement mailed to substantially all of the stockholders of the Company, promptly after the mailing thereof to the stockholders;

(v) immediate notice of the occurrence of any Default of which the principal financial officer, principal accounting officer, the Vice-President and Treasurer or an Assistant Treasurer of the Company shall have knowledge;

(vi) as soon as available and in any event within 15 days after the Company or any of its ERISA Affiliates knows or has reason to know that any ERISA Event has occurred, a statement of a senior officer of the Company with responsibility for compliance with the requirements of ERISA describing such ERISA Event and the action, if any, which the Company or such ERISA Affiliate proposes to take with respect thereto;

(vii) at the request of any Lender, promptly after the filing thereof with the Internal Revenue Service, copies of Schedule B (Actuarial Information) to each annual report (Form 5500 series) filed by the Company or any of its ERISA Affiliates with respect to each Plan;

(viii) promptly after receipt thereof by the Company or any of its ERISA Affiliates, copies of each notice from the PBGC stating its intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(ix) promptly after such request, such other documents and information relating to any Plan as any Lender may reasonably request from time to time;

(x) promptly and in any event within five Business Days after receipt thereof by the Company or any of its ERISA Affiliates from the sponsor of a Multiemployer Plan, copies of each notice concerning (A) (x) the imposition of Withdrawal Liability in an amount in excess of \$5,000,000 with respect to any one Multiemployer Plan or in an aggregate amount in excess of \$25,000,000 with respect to all such Multiemployer Plans within any one calendar year or (y) the reorganization or termination, within the meaning of Title IV of ERISA, of any Multiemployer Plan that has resulted or might reasonably be expected to result in Withdrawal Liability in an amount in excess of \$5,000,000 or of all such Multiemployer Plans that has resulted or might reasonably be expected to result in Withdrawal Liability in an aggregate amount in excess of \$25,000,000 within any one calendar year and (B) the amount of liability incurred, or that may be incurred, by the Company or any of its ERISA Affiliates in connection with any event described in such subclause (x) or (y);

(xi) promptly after the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting the

Borrower or any Designated Subsidiary of the type described in Section 4.01(f); and

(xii) from time to time such further information respecting the financial condition and operations of the Company and its Subsidiaries as any Lender may from time to time reasonably request.

(i) Authorizations. Obtain, and cause each Designated Subsidiary to obtain, at any time and from time to time all authorizations, licenses, consents or approvals (including exchange control approvals) as shall now or hereafter be necessary or desirable under applicable law or regulations in connection with its making and performance of this Agreement and, upon the request of any Lender, promptly furnish to such Lender copies thereof.

(j) Compliance with Environmental Laws. Comply, and cause each of its Subsidiaries and all lessees and other Persons operating or occupying its properties to comply, in all material respects, with all applicable Environmental Laws and Environmental Permits; obtain and renew and cause each of its Subsidiaries to obtain and renew all Environmental Permits necessary for its operations and properties; and conduct, and cause each of its Subsidiaries to conduct, any investigation, study, sampling and testing, and undertake any cleanup, removal, remedial or other action necessary to remove and clean up all Hazardous Materials from any of its properties, in accordance with the requirements of all Environmental Laws; provided, however, that neither the Company nor any of its Subsidiaries shall be required to undertake any such cleanup, removal, remedial or other action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances.

(k) Change of Control. If a Change of Control shall occur, within ten calendar days after the occurrence thereof, provide the Agent with notice thereof, describing therein in reasonable detail the facts and circumstances giving rise to such Change in Control.

SECTION 5.02. Negative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Company will not:

(a) Liens, Etc. Issue, assume or guarantee, or permit any of its Subsidiaries owning Restricted Property to issue, assume or guarantee, any Debt secured by Liens on or with respect to any Restricted Property without effectively providing that its obligations to the Lenders under this Agreement and any of the Notes shall be secured equally and ratably with such Debt so long as such Debt shall be so secured, except that the foregoing shall not apply to:

(i) Liens affecting property of the Company or any of its Subsidiaries existing on the Effective Date in effect as of the date hereof or of any corporation existing at the time it becomes a Subsidiary of the Company or at the time it is merged into or consolidated with the Company or a Subsidiary of the Company;

(ii) Liens on property of the Company or its Subsidiaries existing at the time of acquisition thereof or incurred to secure the payment of all or part of the purchase price thereof or to secure Debt incurred prior to, at the time of or within 24 months after acquisition thereof for the purpose of financing all or part of the purchase price thereof;

(iii) Liens on property of the Company or its Subsidiaries (in the case of property that is, in the opinion of the Board of Directors of the Company, substantially unimproved for the use intended by the Company) to secure all or part of the cost of improvement thereof, or to secure Debt incurred to provide funds for any such purpose;

(iv) Liens which secure only Debt owing by a Subsidiary of the Company to the Company or to another Subsidiary of the Company;

(v) Liens in favor of the United States of America, any State, any foreign country, or any department, agency, instrumentality, or political subdivisions of any such jurisdiction, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt incurred for the purpose of financing all or any part of the purchase price or cost of constructing or improving the property subject thereto, including, without limitation, Liens to secure Debt of the pollution control or industrial revenue bond type; or

(vi) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (i) to (v) inclusive of any Debt secured thereby, provided that the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement Lien shall be limited to all or part of the property which secured the Lien extended, renewed or replaced (plus improvements on such property);

provided, however, that, the Company and any one or more Subsidiaries owning Restricted Property may issue, assume or guarantee Debt secured by Liens which would otherwise be subject to the foregoing restrictions in an aggregate principal amount which, together with the aggregate outstanding principal amount of all other Debt of the Company and its Subsidiaries owning Restricted Property that would otherwise be subject to the foregoing restrictions (not including Debt permitted to be secured under clause (i) through (vi) above) and the aggregate value of the Sale and Leaseback Transactions in existence at such time, does not at any one time exceed 10% of the Net Tangible Assets of the Company and its Consolidated Subsidiaries; and provided further that the following type of transaction, among others, shall not be deemed to create Debt secured by Liens: Liens required by any contract or statute in order to permit the Company or any of its Subsidiaries to perform any contract or subcontract made by it with or at the request of the United States of America, any foreign country or any department, agency or instrumentality of any of the foregoing jurisdictions.

(b) Mergers, Etc. Merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to, any Person; provided, however, that the Company may merge or consolidate with any other Person so long as the Company is the surviving corporation and so long as no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom.

#### ARTICLE VI

##### EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) Any Borrower shall fail to pay: (i) any principal of any Advance when the same becomes due and payable; (ii) any facility fees or any interest on any Advance payable under this Agreement or any Note within three Business Days after the same becomes due and payable; or (iii) any other fees or other amounts payable under this Agreement or any Notes within 30 days after the same becomes due and payable other than those fees and amounts the liabilities for which are being contested in good faith by such Borrower and which have been placed in Escrow by such Borrower; or

(b) Any representation or warranty made (or deemed made) by any Borrower (or any of its officers) in connection with this Agreement or by any Designated Subsidiary in the Designation Letter pursuant to which such Designated Subsidiary became a Borrower hereunder shall prove to have been incorrect in any material respect when made (or deemed made); or

(c) The Company shall repudiate its obligations under, or shall default in the due performance or observance of, any term, covenant or agreement contained in Article VII of this Agreement; or

(d) (i) The Company shall fail to perform or observe Section 5.01(h)(v), (ii) the Company shall fail to perform or observe any other term, covenant or agreement contained in Section 5.02(a) and such failure shall remain unremedied for a period of 30 days after any Lender shall have given notice thereof to the Company (through the Agent), or (iii) the Company or any other Borrower shall fail to perform or to observe any other term, covenant or agreement contained in this Agreement on its part to be performed or observed and such failure shall remain unremedied for a period of 30 days after any Lender shall have given notice thereof to the relevant Borrower or, in the case of the Company, any of the principal financial officer, the principal accounting officer, the Vice-President and Treasurer or an Assistant Treasurer of the Company, and in the case of any other Borrower, a responsible officer of such Borrower, first has knowledge of such failure; or

(e) (i) The Company or any of its Consolidated or Designated Subsidiaries shall fail to pay any principal of or premium or interest on any Debt (other than Debt owed to the Company or its Subsidiaries or Affiliates) that is outstanding in a principal amount of at least \$150,000,000 in the aggregate (but excluding Debt outstanding hereunder and Debt owed by such party to any bank, financial institution or other institutional lender to the extent the Borrower or any Subsidiary has deposits with such bank, financial institution or other institutional lender sufficient to repay such Debt) of the Company or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt, or (ii) any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt, or (iii) any such Debt shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof; provided, however, that, for purposes of this Section 6.01(e), in the case of (x) Debt of any Person (other than the Company or one of its Consolidated Subsidiaries) which the Company has guaranteed and (y) Debt of Persons (other than the Company or one of its Consolidated Subsidiaries) the payment of which is secured by a Lien on property of the Company or such Subsidiary, such Debt shall be deemed to have not been paid when due or to have been declared to be due and payable only when the Company or such Subsidiary, as the case may be, shall have failed to pay when due any amount which it shall be obligated to pay with respect to such Debt; provided further, however, that any event or occurrence described in this subsection (e) shall not be an Event of Default if (A) such event or occurrence relates to the Debt of any Subsidiary of the Company located in China, India, the Commonwealth of Independent States or Turkey (collectively, the "Exempt Countries"), (B) such Debt is not guaranteed or supported in any legally enforceable manner by any Borrower or by any Subsidiary or Affiliate of the Company located outside the Exempt Countries, (C) such event or occurrence is due to the direct or indirect action of any government entity or agency in any Exempt Country and (D) as of the last day of the calendar quarter immediately preceding such event or occurrence, the book value of the assets of such Subsidiary does not exceed \$150,000,000 and the aggregate book value of the assets of all Subsidiaries of the Company located in Exempt Countries the Debt of which would cause an Event of Default to occur but for the effect of this proviso does not exceed \$500,000,000; or

(f) The Company or any of its Designated or Consolidated Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Company or any such Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver,

trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Company or any such Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (f); provided, however, that any event or occurrence described in this subsection (f) shall not be an Event of Default if (A) such event or occurrence relates to any Subsidiary of the Company located in an Exempt Country, (B) the Debt of such Subsidiary is not guaranteed or supported in any legally enforceable manner by any Borrower or by any Subsidiary or Affiliate of the Company located outside the Exempt Countries, (C) such event or occurrence is due to the direct or indirect action of any government entity or agency in any Exempt Country and (D) as of the last day of the calendar quarter immediately preceding such event or occurrence, the book value of the assets of such Subsidiary does not exceed \$150,000,000 and the aggregate book value of the assets of all Subsidiaries of the Company located in Exempt Countries with respect to which the happening of the events or occurrences described in this subsection (f) would cause an Event of Default to occur but for the effect of this proviso does not exceed \$500,000,000; or

(g) Any judgment or order for the payment of money in excess of \$150,000,000 shall be rendered against the Company or any of its Subsidiaries and enforcement proceedings shall have been commenced by any creditor upon such judgment or order and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; provided, however, that any such judgment or order shall not be an Event of Default under this Section 6.01(g) if (A) such judgment or order is rendered against any Subsidiary of the Company located in an Exempt Country, (B) the Debt of such Subsidiary is not guaranteed or supported in any legally enforceable manner by any Borrower or by any Subsidiary or Affiliate of the Company located outside the Exempt Countries, (C) such judgment or order is due to the direct or indirect action of any government entity or agency in any Exempt Country and (D) as of the last day of the calendar quarter immediately preceding the tenth consecutive day of the stay period referred to above, the book value of the assets of such Subsidiary does not exceed \$150,000,000 and the aggregate book value of the assets of all Subsidiaries of the Company located in Exempt Countries the judgments and orders against which would cause an Event of Default to occur but for the effect of this proviso does not exceed \$500,000,000; or

(h) Any non-monetary judgment or order shall be rendered against the Company or any of its Subsidiaries that is reasonably likely to have a Material Adverse Effect, and enforcement proceedings shall have been commenced by any Person upon such judgment or order and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or



(i) Any license, consent, authorization or approval (including exchange control approvals) now or hereafter necessary to enable the Company or any Designated Subsidiary to comply with its obligations herein or under any Notes of such Borrower shall be modified, revoked, withdrawn, withheld or suspended; or

(j) (i) Any ERISA Event shall have occurred with respect to a Plan of any Borrower or any of its ERISA Affiliates and the sum (determined as of the date of occurrence of such ERISA Event) of the Insufficiency of such Plan and the Insufficiency of any and all other Plans of the Borrowers and their ERISA Affiliates with respect to which an ERISA Event shall have occurred and then exist (or the liability of the Borrowers and their ERISA Affiliates related to such ERISA Event) exceeds \$150,000,000; or (ii) any Borrower or any of its ERISA Affiliates shall be in default, as defined in Section 4219(c)(5) of ERISA, with respect to any payment of Withdrawal Liability and the sum of the outstanding balance of such Withdrawal Liability and the outstanding balance of any other Withdrawal Liability that any Borrower or any of its ERISA Affiliates has incurred exceeds 6% of Net Tangible Assets of the Company and its Consolidated Subsidiaries; or (iii) any Borrower or any of its ERISA Affiliates shall have been notified by the sponsor of a Multiemployer Plan of such Borrower or any of its ERISA Affiliates that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, and as a result of such reorganization or termination the aggregate annual contributions of the Borrowers and their ERISA Affiliates to all Multiemployer Plans that are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the plan years of such Multiemployer Plans immediately preceding the plan year in which such reorganization or termination occurs by an amount exceeding \$150,000,000; or

then, and (i) in any such event (except as provided in clause (ii) below), the Agent (A) shall at the request, or may with the consent, of the Majority Lenders, by notice to the Company, declare the obligation of each Lender to make Advances (other than Advances by an Issuing Bank or a Lender pursuant to Section 2.04(c)) and of the Issuing Banks to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, and (B) shall at the request, or may with the consent, of the Majority Lenders, by notice to the Company, declare the Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrowers and (ii) in the case of the occurrence of any Event of Default described in clause (i) or (ii) of Section 6.01(a), the Agent shall, at the request, or may with the consent, of the Lenders which have made or assumed under this Agreement at least 66-2/3% of the aggregate principal amount (based in respect of Competitive Bid Advances denominated in Foreign Currencies on the Equivalent in Dollars on the date of such request) of Competitive Bid Advances then outstanding and to whom such Advances are owed, by notice to the Company, declare the full unpaid principal of and accrued interest on all Competitive Bid Advances hereunder and all other obligations of the Borrowers hereunder to be immediately due and payable, whereupon such Advances and such obligations shall be immediately due and payable, without presentment, demand, protest or other further notice of any kind, all of which are hereby expressly waived by the Borrowers; provided, however, that in

the event of an actual or deemed entry of an order for relief with respect to any Borrower under the United States Bankruptcy Code of 1978, as amended, (x) the obligation of each Lender to make Advances (other than Advances by an Issuing Bank or a Lender pursuant to Section 2.04(c)) and of the Issuing Banks to issue Letters of Credit shall automatically be terminated and (y) the Advances, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrowers.

SECTION 6.02. Actions in Respect of the Letters of Credit upon Default. If any Event of Default shall have occurred and be continuing, the Agent may with the consent, or shall at the request, of the Required Lenders, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, make demand upon the Company to, and forthwith upon such demand the Company will, (a) pay to the Agent on behalf of the Lenders in same day funds at the Agent's office designated in such demand, for deposit in the L/C Cash Deposit Account, an amount equal to the aggregate Available Amount of all Letters of Credit then outstanding or (b) make such other reasonable arrangements in respect of the outstanding Letters of Credit as shall be acceptable to the Required Lenders; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to any Borrower under the United States Bankruptcy Code of 1978, as amended, the Borrowers shall immediately pay to the Agent on behalf of the Lenders for deposit in the L/C Cash Deposit Account, an amount equal to the aggregate Available Amount of all Letters of Credit then outstanding, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrowers. If at any time the Agent reasonably determines that any funds held in the L/C Cash Deposit Account are subject to any right or interest of any Person other than the Agent and the Lenders or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrowers will, forthwith upon demand by the Agent, pay to the Agent, as additional funds to be deposited and held in the L/C Cash Deposit Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the L/C Cash Deposit Account that are free and clear of any such right and interest. Upon the drawing of any Letter of Credit, to the extent funds are on deposit in the L/C Cash Deposit Account, such funds shall be applied to reimburse the Issuing Banks to the extent permitted by applicable law, and if so applied, then such reimbursement shall be deemed a repayment of the corresponding Advance in respect of such Letter of Credit. After all such Letters of Credit shall have expired or been fully drawn upon and all other obligations of the Borrowers hereunder and under the Notes shall have been paid in full, the balance, if any, in such L/C Cash Deposit Account shall be promptly returned to the Company.

#### ARTICLE VII

##### GUARANTEE

SECTION 7.01. Unconditional Guarantee. For valuable consideration, receipt whereof is hereby acknowledged, and to induce each Lender to make Advances to the Designated Subsidiaries and to induce the Agent to act hereunder, the Company hereby unconditionally and irrevocably guarantees to each Lender and the Agent that:

(a) the principal of and interest on each Advance to each Designated Subsidiary shall be promptly paid in full when due (whether at stated maturity, by acceleration or otherwise) in accordance with the terms hereof, and, in case of any extension of time of payment, in whole or in part, of such Advance, that all such sums shall be promptly paid when due (whether at stated maturity, by acceleration or otherwise) in accordance with the terms of such extension; and

(b) all other amounts payable hereunder by any Designated Subsidiary to any Lender or the Agent or the Sub-Agent, as the case may be, shall be promptly paid in full when due in accordance with the terms hereof (the obligations of the Designated Subsidiaries under these subsections (a) and (b) of this Section 7.01 being the "Obligations").

In addition, the Company hereby unconditionally and irrevocably agrees that upon default in the payment when due (whether at stated maturity, by acceleration or otherwise) of any principal of, or interest on, any Advance to any Designated Subsidiary or such other amounts payable by any Designated Subsidiary to any Lender or the Agent, the Company will forthwith pay the same, without further notice or demand.

SECTION 7.02. Guarantee Absolute. The Company guarantees that the Obligations will be paid strictly in accordance with the terms of this Agreement, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of any Lender or the Agent with respect thereto. The liability of the Company under this guarantee shall be absolute and unconditional irrespective of:

(a) any lack of validity or enforceability of this Agreement or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from this Agreement;

(c) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Obligations; or

(d) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Company, any Borrower or a guarantor.

This guarantee shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by any of the Lenders or the Agent upon the insolvency, bankruptcy or reorganization of the Company or any Borrower or otherwise, all as though such payment had not been made.

SECTION 7.03. Waivers. The Company hereby expressly waives diligence, presentment, demand for payment, protest, any requirement that any right or power be exhausted or any action be taken against any Designated Subsidiary or against any other guarantor of all or any portion of the Advances, and all other notices and demands whatsoever.

SECTION 7.04. Remedies. Each of the Lenders and the Agent may pursue its respective rights and remedies under this Article VII and shall be entitled to payment hereunder notwithstanding any other guarantee of all or any part of the Advances to the Designated Subsidiaries, and notwithstanding any action taken by any such Lender or the Agent to enforce any of its rights or remedies under such other guarantee, or any payment received thereunder. The Company hereby irrevocably waives any claim or other right that it may now or hereafter acquire against any Designated Subsidiary that arises from the existence, payment, performance or enforcement of the Company's obligations under this Article VII, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Agent or the Lenders against any Designated Subsidiary, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including, without limitation, the right to take or receive from the Designated Subsidiary, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right. If any amount shall be paid to the Company in violation of the preceding sentence at any time when all the Obligations shall not have been paid in full, such amount shall be held in trust for the benefit of the Lenders and the Agent and shall forthwith be paid to the Agent for its own account and the accounts of the respective Lenders to be credited and applied to the Obligations, whether matured or unmatured, in accordance with the terms of this Agreement, or to be held as collateral for any Obligations or other amounts payable under this Agreement thereafter arising. The Company acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by this Agreement and that the waiver set forth in this section is knowingly made in contemplation of such benefits.

SECTION 7.05. No Stay. The Company agrees that, as between (a) the Company and (b) the Lenders and the Agent, the Obligations of any Designated Subsidiary guaranteed by the Company hereunder may be declared to be forthwith due and payable as provided in Article VI hereof for purposes of this Article VII by declaration to the Company as guarantor notwithstanding any stay, injunction or other prohibition preventing such declaration as against such Designated Subsidiary and that, in the event of such declaration to the Company as guarantor, such Obligations (whether or not due and payable by such Designated Subsidiary), shall forthwith become due and payable by the Company for purposes of this Article VII.

SECTION 7.06. Survival. This guarantee is a continuing guarantee and shall (a) remain in full force and effect until payment in full (after the Termination Date) of the Obligations and all other amounts payable under this guaranty, (b) be binding upon the Company, its successors and assigns, (c) inure to the benefit of and be enforceable by each Lender (including each assignee Lender pursuant to Section 9.06) and the Agent and their respective successors, transferees and assigns and (d) shall be reinstated if at any time any payment to a Lender or the Agent hereunder is required to be restored by such Lender or the Agent. Without limiting the generality of the foregoing clause (c), each Lender may assign or otherwise transfer its interest in any Advance to any other person or entity, and such other person or entity shall thereupon become vested with all the rights in respect thereof granted to such Lender herein or otherwise.

ARTICLE VIII

THE AGENT

SECTION 8.01. Authorization and Action. Each Lender (in its capacities as a Lender and an Issuing Bank, as applicable) hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt notice of each notice given to it by any Borrower pursuant to the terms of this Agreement.

SECTION 8.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (a) may treat the Lender that made any Advance as the holder of the Debt resulting therefrom until the Agent receives and accepts an Assignment and Acceptance entered into by such Lender, as assignor, and an Eligible Assignee, as assignee, as provided in Section 9.06; (b) may consult with legal counsel (including counsel for the Company), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement on the part of any Borrower or to inspect the property (including the books and records) of any Borrower; (e) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, this Agreement or any other instrument or document furnished pursuant hereto; and (f) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 8.03. CUSA and Affiliates. With respect to its Commitments, the Advances made by it and the Note issued to it, CUSA shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include CUSA in its individual capacity. CUSA and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Company, any of its Subsidiaries and any Person who

may do business with or own securities of the Company or any such Subsidiary, all as if CUSA were not the Agent and without any duty to account therefor to the Lenders.

SECTION 8.04. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 8.05. Indemnification. (a) Each Lender severally agrees to indemnify the Agent (to the extent not reimbursed by a Borrower), from and against such Lender's Ratable Share of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent, in its capacity as such, under this Agreement, provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its Ratable Share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by a Borrower.

(b) Each Lender severally agrees to indemnify the Issuing Banks (to the extent not promptly reimbursed by the Company) from and against such Lender's Ratable Share of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against any such Issuing Bank, in its capacity as such, in any way relating to or arising out of this Agreement or any action taken or omitted by such Issuing Bank, in its capacity as such, hereunder or in connection herewith; provided, however, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from such Issuing Bank's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse any such Issuing Bank promptly upon demand for its Ratable Share of any costs and expenses (including, without limitation, fees and expenses of counsel) payable by the Company under Section 9.04, to the extent that such Issuing Bank is not promptly reimbursed for such costs and expenses by the Company.

(c) The failure of any Lender to reimburse the Agent or any Issuing Bank promptly upon demand for its Ratable Share of any amount required to be paid by the Lenders to the Agent as provided herein shall not relieve any other Lender of its obligation hereunder to reimburse the Agent or any Issuing Bank for its Ratable Share of such amount, but no Lender

shall be responsible for the failure of any other Lender to reimburse the Agent or any Issuing Bank for such other Lender's Ratable Share of such amount. Without prejudice to the survival of any other agreement of any Lender hereunder, the agreement and obligations of each Lender contained in this Section 8.05 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes. Each of the Agent and each Issuing Bank agrees to return to the Lenders their respective Ratable Shares of any amounts paid under this Section 8.05 that are subsequently reimbursed by the Company or any Borrower. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 8.04 applies whether any such investigation, litigation or proceeding is brought by the Agent, any Lender or a third party.

SECTION 8.06. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Company and may be removed at any time with or without cause by the Majority Lenders. The Company may at any time, by notice to the Agent, propose a successor Agent (which shall meet the criteria described below) specified in such notice and request that the Lenders be notified thereof by the Agent with a view to their removal of the Agent and their appointment of such successor Agent; the Agent agrees to forward any such notice to the Lenders promptly upon its receipt by the Agent. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 8.07. Sub-Agent. The Sub-Agent has been designated under this Agreement to carry out duties of the Agent. When acting on behalf of the Agent, the Sub-Agent shall be subject to each of the obligations in this Agreement to be performed by the Sub-Agent, and each of the Borrowers and the Lenders agrees that when acting on behalf of the Agent, the Sub-Agent shall be entitled to exercise each of the rights and shall be entitled to each of the benefits of the Agent under this Agreement as relate to the performance of its obligations hereunder.

SECTION 8.08. Other Agents. Each Lender hereby acknowledges that none of the syndication agent or any documentation agent nor any other Lender designated as any "Agent" on the signature pages hereof (other than the Agent) has any liability hereunder other than in its capacity as a Lender.

#### ARTICLE IX

MISCELLANEOUS

SECTION 9.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Revolving Credit Notes, nor consent to any departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders, do any of the following: (a) increase the Commitments of the Lenders or subject the Lenders to any additional obligations, (b) reduce the principal of, or interest on, the Revolving Credit Advances or any fees or other amounts payable hereunder, (c) postpone any date fixed for any payment of principal of, or interest on, the Revolving Credit Advances or any fees or other amounts payable hereunder, (d) release the Company from any of its obligations under Article VII, (e) require the duration of an Interest Period to be nine months if such period is not available to all Lenders or (f) amend this Section 9.01; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement or any Note and no amendment, waiver or consent shall, unless in writing and signed by the Issuing Banks in addition to the Lenders required above to take such action, adversely affect the rights or obligations of the Issuing Banks in their capacities as such under this Agreement.

SECTION 9.02. Notices, Etc. (a) All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic or telex communication) and mailed (return receipt requested), telecopied, telegraphed, telexed or delivered, if to the Company or to any Designated Subsidiary, at the Company's address at 101 Columbia Road, Morristown, New Jersey 07962-1219, Attention: Assistant Treasurer; if to any Initial Lender, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at Two Penns Way, New Castle, Delaware 19720, Attention: Bank Loan Syndications Department, with a copy to 388 Greenwich Street, New York, New York 10013, Attention: Diane Pockaj; or, as to any Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Company and the Agent; provided that materials as may be agreed between the Borrowers and the Agent may be delivered to the Agent in accordance with clause (b) below. All such notices and communications shall, when mailed, telecopied, telegraphed or telexed, be effective when deposited in the mails, telecopied, delivered to the telegraph company or confirmed by telex answerback, respectively, except that notices and communications to the Agent pursuant to Article II, III or VIII shall not be effective until received by the Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

(b) So long as CUSA or any of its Affiliates is the Agent, such materials required to be delivered pursuant to Section 5.01(h)(i), (ii), (iii) and (iv) as may be agreed between the Borrowers and the Agent may be delivered to the Agent in an electronic



medium in a format acceptable to the Agent and the Lenders by e-mail at oploanswebadmin@citigroup.com. The Borrowers agree that the Agent may make such materials (the "Communications") available to the Lenders by posting such notices on Intralinks or a substantially similar electronic system (the "Platform"). The Borrowers acknowledge that (i) the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution, (ii) the Platform is provided "as is" and "as available" and (iii) neither the Agent nor any of its Affiliates warrants the accuracy, adequacy or completeness of the Communications or the Platform and each expressly disclaims liability for errors or omissions in the Communications or the Platform. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by the Agent or any of its Affiliates in connection with the Platform.

(c) Each Lender agrees that notice to it (as provided in the next sentence) (a "Notice") specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Lender for purposes of this Agreement; provided that if requested by any Lender the Agent shall deliver a copy of the Communications to such Lender by email or telecopier. Each Lender agrees (i) to notify the Agent in writing of such Lender's e-mail address(es) to which a Notice may be sent by electronic transmission (including by electronic communication) on or before the date such Lender becomes a party to this Agreement (and from time to time thereafter to ensure that the Agent has on record an effective e-mail address for such Lender) and (ii) that any Notice may be sent to such e-mail address(es).

SECTION 9.03. No Waiver; Remedies. No failure on the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 9.04. Costs and Expenses. (a) The Company agrees to pay on demand all reasonable costs and expenses of the Agent in connection with the administration, modification and amendment of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, (i) all due diligence, syndication (including printing, distribution and bank meetings), transportation, computer, duplication, appraisal, consultant, and audit expenses and (ii) the reasonable fees and expenses of counsel for the Agent with respect thereto. The Company further agrees to pay on demand all costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 9.04(a).

(b) Each Borrower agrees to indemnify and hold harmless the Agent and each Lender and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of, or in connection with the preparation for a defense of, any investigation, litigation or proceeding arising out of, related to or in connection with the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances whether or not such investigation, litigation or proceeding is brought by the Company, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated, except to the extent any such claim, damage, loss, liability or expense has resulted from such Indemnified Party's gross negligence or willful misconduct.

The Company also agrees not to assert any claim against any Indemnified Party on any theory of liability for special, indirect, consequential or punitive damages arising out of or otherwise relating to the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances.

(c) If any payment of principal of, or Conversion of, any Eurocurrency Rate Advance or LIBO Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of a payment or Conversion pursuant to Section 2.03(d), 2.06(b), 2.10(a) or (b) or 2.12, acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason, the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

(d) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.11, 2.14 and 9.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes and the termination in whole of any Commitment hereunder.

SECTION 9.05. Binding Effect. This Agreement shall become effective (other than Sections 2.01 and 2.03, which shall only become effective upon satisfaction of the conditions precedent set forth in Section 3.01) when it shall have been executed by the Company and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of each Borrower, the Agent and each Lender and their respective successors and assigns, except that no Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 9.06. Assignments and Participations. (a) Each Lender may at any time, with notice to the Company prior to making any proposal to any potential assignee and with the consent of the Company, which consent shall not be unreasonably withheld (and shall at any time, if requested to do so by the Company pursuant to Section 2.06(b), 2.11 or 2.14) assign to one or more Persons all or a portion of its rights and obligations under a Facility or all Facilities under this Agreement (including, without limitation, all or a portion of its Revolving Credit Commitment, Unissued Letter of Credit Commitment, the Revolving Credit Advances owing to it, its participations in Letters of Credit and the Revolving Credit Note or Notes held by it); provided, however, that (i) the Company's consent shall not be required (A) in the case of an assignment of Revolving Credit Commitment, Revolving Credit Advances and participations in Letters of Credit to an Affiliate of such Lender, provided that notice thereof shall have been given to the Company and the Agent or (B) in the case of an assignment of the type described in subsection (g) below; (ii) each such assignment shall be of a constant, and not a varying, percentage of the rights and obligations under this Agreement specified in the applicable Assignment and Acceptance; (iii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of (x) the Revolving Credit Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof and (y) Unissued Letter of Credit Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$1,000,000 or an integral multiple thereof; (iv) each such assignment shall be to an Eligible Assignee, (v) each such assignment made as a result of a demand by the Company pursuant to this Section 9.06(a) shall be arranged by the Company after consultation with, and subject to the approval of, the Agent, and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this Agreement, (vi) no Lender shall be obligated to make any such assignment as a result of a demand by the Borrower pursuant to this Section 9.06(a) unless and until such Lender shall have received one or more payments from either the Borrower or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement and all of the obligations of the Borrower to such Lender shall have been satisfied; and (vii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with a processing and recordation fee of \$3,500 and, if the assigning Lender is not retaining a Commitment hereunder, any Revolving Credit Note subject to such assignment. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its

obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto, provided, however, that such assigning Lender's rights under Sections 2.11, 2.14 and 9.04, and its obligations under Section 8.05, shall survive such assignment as to matters occurring prior to the effective date of such assignment).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any other instrument or document furnished pursuant hereto or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or the performance or observance by such Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(c) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Revolving Credit Note or Notes subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Company and to each other Borrower.

(d) The Agent shall maintain at its address referred to in Section 9.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Company, each other Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register

shall be available for inspection by the Company, any other Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Each Lender may sell participations to one or more banks or other entities (other than the Company or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and any Note or Notes held by it); provided, however, that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment to the Company and the other Borrowers hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Company, any other Borrower, the Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by any Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation and (vi) within 30 days of the effective date of such participation, such Lender shall provide notice of such participation to the Company.

(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.06, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Company or any Borrower furnished to such Lender by or on behalf of such Borrower; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any confidential information relating to such Borrower received by it from such Lender.

(g) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time assign or create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and any Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 9.07. Designated Subsidiaries. (a) Designation. The Company may at any time, and from time to time, by delivery to the Agent of a Designation Letter duly executed by the Company and the respective Subsidiary and substantially in the form of Exhibit D hereto, designate such Subsidiary as a "Designated Subsidiary" for purposes of this Agreement and such Subsidiary shall thereupon become a "Designated Subsidiary" for purposes of this Agreement and, as such, shall have all of the rights and obligations of a Borrower hereunder. The Agent shall promptly notify each Lender of each such designation by the Company and the identity of the respective Subsidiary.

(b) Termination. Upon the payment and performance in full of all of the indebtedness, liabilities and obligations under this Agreement and the Notes of any Designated Subsidiary then, so long as at the time no Notice of Revolving Credit Borrowing or Notice of Competitive Bid Borrowing in respect of such Designated Subsidiary is outstanding, such Subsidiary's status as a "Designated Subsidiary" shall terminate upon notice to such effect from the Agent to the Lenders (which notice the Agent shall give promptly upon its receipt of a request therefor from the Company). Thereafter, the Lenders shall be under no further obligation to make any Advance hereunder to such Designated Subsidiary.

SECTION 9.08. Confidentiality. Each of the Lenders and the Agent hereby agrees that it will use reasonable efforts (e.g., procedures substantially comparable to those applied by such Lender or the Agent in respect of non-public information as to the business of such Lender or the Agent) to keep confidential any financial reports and other information from time to time supplied to it by the Company hereunder to the extent that such information is not and does not become publicly available and which the Company indicates at the time is to be treated confidentially, provided, however, that nothing herein shall affect the disclosure of any such information (i) by the Agent to any Lender, (ii) to the extent required by law (including statute, rule, regulation or judicial process), (iii) to counsel for any Lender or the Agent or to their respective independent public accountants, (iv) to bank examiners and auditors and appropriate government examining authorities, (v) to the Agent or any other Lender, (vi) in connection with any litigation to which any Lender or the Agent is a party, (vii) to actual or prospective assignees and participants as contemplated by Section 9.06(f), (viii) to any Affiliate of the Agent or any Lender or to such Affiliate's officers, directors, employees, agents and advisors, provided that, prior to any such disclosure, such Affiliate or such Affiliate's officers, directors, employees, agents or advisors, as the case may be, shall agree to preserve the confidentiality of any confidential information relating to the Company received by it or (ix) any actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrowers, any Subsidiary of the Company, and the Obligations; a determination by a Lender or the Agent as to the application of the circumstances described in the foregoing clauses (i)-(viii) being conclusive if made in good faith; and each of the Lenders and the Agent agrees that it will follow procedures which are intended to put any transferee of such confidential information on notice that such information is confidential.

SECTION 9.09. Mitigation of Yield Protection. Each Lender hereby agrees that, commencing as promptly as practicable after it becomes aware of the occurrence of any event giving rise to the operation of Section 2.11(a), 2.12 or 2.14 with respect to such Lender, such Lender will give notice thereof through the Agent to the respective Borrower. A Borrower may at any time, by notice through the Agent to any Lender, request that such Lender change its Applicable Lending Office as to any Advance or Type of Advance or that it specify a new Applicable Lending Office with respect to its Commitment and any Advance held by it or that it rebook any such Advance with a view to avoiding or mitigating the consequences of an occurrence such as described in the preceding sentence, and such Lender will use reasonable efforts to comply with such request unless, in the opinion of such Lender, such change or specification or rebooking is inadvisable or might have an adverse effect, economic or otherwise, upon it, including its reputation. In addition, each Lender agrees that, except for changes or specifications or rebookings required by law or effected pursuant to the preceding sentence, if the result of any change or change of specification of Applicable Lending Office or rebooking

would, but for this sentence, be to impose additional costs or requirements upon the respective Borrower pursuant to Section 2.11(a), Section 2.12 or Section 2.14 (which would not be imposed absent such change or change of specification or rebooking) by reason of legal or regulatory requirements in effect at the time thereof and of which such Lender is aware at such time, then such costs or requirements shall not be imposed upon such Borrower but shall be borne by such Lender. All expenses incurred by any Bank in changing an Applicable Lending Office or specifying another Applicable Lending Office of such Lender or rebooking any Advance in response to a request from a Borrower shall be paid by such Borrower. Nothing in this Section 9.09 (including, without limitation, any failure by a Lender to give any notice contemplated in the first sentence hereof) shall limit, reduce or postpone any obligations of the respective Borrower under Section 2.11(a), Section 2.12 or Section 2.14, including any obligations payable in respect of any period prior to the date of any change or specification of a new Applicable Lending Office or any rebooking of any Advance.

SECTION 9.10. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 9.11. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.12. Jurisdiction, Etc. (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the Notes, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. Each Designated Subsidiary hereby agrees that service of process in any such action or proceeding brought in the any such New York State court or in such federal court may be made upon CT Corporation System at its offices at 1633 Broadway, New York, New York 10019 (the "Process Agent") and each Designated Subsidiary hereby irrevocably appoints the Process Agent its authorized agent to accept such service of process, and agrees that the failure of the Process Agent to give any notice of any such service shall not impair or affect the validity of such service or of any judgment rendered in any action or proceeding based thereon. Each Borrower hereby further irrevocably consents to the service of process in any action or proceeding in such courts by the mailing thereof by any parties hereto by registered or certified mail, postage prepaid, to such Borrower at its address specified pursuant to Section 9.02. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any party may otherwise have to serve legal process in any other manner permitted by law or to bring any action or proceeding relating to this Agreement or the Notes in the courts of any jurisdiction. To the extent that each Designated

Subsidiary has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, each Designated Subsidiary hereby irrevocably waives such immunity in respect of its obligations under this Agreement.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Notes in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 9.13. Substitution of Currency. If a change in any Foreign Currency occurs pursuant to any applicable law, rule or regulation of any governmental, monetary or multi-national authority, this Agreement (including, without limitation, the definitions of Eurocurrency Rate and LIBO Rate) will be amended to the extent determined by the Agent (acting reasonably and in consultation with the Company) to be necessary to reflect the change in currency and to put the Lenders and the Borrowers in the same position, so far as possible, that they would have been in if no change in such Foreign Currency had occurred.

SECTION 9.14. Final Agreement. This written agreement represents the full and final agreement between the parties with respect to the matters addressed herein and supercedes all prior communications, written or oral, with respect thereto. There are no unwritten agreements between the parties.

SECTION 9.15. Judgment. (a) If for the purposes of obtaining judgment in any court it is necessary to convert a sum due hereunder or under the Notes in any currency (the "Original Currency") into another currency (the "Other Currency"), the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Agent could purchase the Original Currency with the Other Currency at 9:00 A.M. (New York City time) on the first Business Day preceding that on which final judgment is given.

(b) The obligation of each Borrower in respect of any sum due in the Original Currency from it to any Lender or the Agent hereunder or under the Revolving Credit Note or Revolving Credit Notes held by such Lender shall, notwithstanding any judgment in any Other Currency, be discharged only to the extent that on the Business Day following receipt by such Lender or the Agent (as the case may be) of any sum adjudged to be so due in such Other Currency, such Lender or the Agent (as the case may be) may in accordance with normal banking procedures purchase Dollars with such Other Currency; if the amount of Dollars so purchased is less than the sum originally due to such Lender or the Agent (as the case may be) in the Original Currency, such Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such Lender or the Agent (as the case may be) against such loss, and if the amount of Dollars so purchased exceeds the sum originally due to any Lender or the Agent (as the case may be) in the Original Currency, such Lender or the Agent (as the case may be) agrees to remit to such Borrower such excess.



SECTION 9.16. No Liability of the Issuing Banks. None of the Agent, the Lenders nor any Issuing Bank, nor any of their Affiliates, or the respective directors, officers, employees, agents and advisors of such Person or such Affiliate, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder, or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the applicable Issuing Bank; provided that the foregoing shall not be construed to excuse any Issuing Bank from liability to the applicable Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrowers to the extent permitted by applicable law) suffered by such Borrower that are caused by such Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof or any failure to honor a Letter of Credit where such Issuing Bank is, under applicable law, required to honor it. The parties hereto expressly agree that, as long as the Issuing Bank has not acted with gross negligence or willful misconduct, such Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, an Issuing Bank may, in its reasonable discretion, either accept and make payment upon such documents without responsibility for further investigation or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

SECTION 9.17. Patriot Act Notice. Each Lender hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies each borrower, guarantor or grantor (the "Loan Parties"), which information includes the name and address of each Loan Party and other information that will allow such Lender to identify such Loan Party in accordance with the Act.

SECTION 9.18. Waiver of Jury Trial. Each Borrower, the Agent and each Lender hereby irrevocably waive all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the Notes or the actions of the Agent or any Lender in the negotiation, administration, performance or enforcement thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

HONEYWELL INTERNATIONAL INC.

By: /s/ John J. Tus  
Title: Treasurer

CITICORP USA, INC., as Agent

By: /s/ Judith Green  
Title: Vice President

LETTER OF CREDIT COMMITMENT  
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\$66,666,667

CITIBANK, N.A.

By: /s/ Judith Green  
Title: Vice President

\$66,666,666

BANK OF AMERICA, N.A.

By: John W. Pocalyko  
Title: Managing Director

\$66,666,666

JPMORGAN CHASE BANK

By: /s/ Stephanie Parker  
Title: Vice President

\$200,000,000 TOTAL OF LETTER OF CREDIT COMMITMENTS

REVOLVING CREDIT COMMITMENT  
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\$105,000,000.00

ARRANGER AND ADMINISTRATIVE AGENT  
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CITICORP USA, INC.

By: /s/ Judith Green  
Title: Vice President

ARRANGER AND SYNDICATION AGENT

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\$105,000,000.00

JPMORGAN CHASE BANK

By: /s/ Stephanie Parker  
Title: Vice President

DOCUMENTATION AGENTS

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\$75,000,000.00

BANK OF AMERICA, N.A.

By: John W. Pocalyko  
Title: Managing Director

\$75,000,000.00

BARCLAYS BANK PLC

By: /s/ Nicholas A. Bell  
Title: Director

\$75,000,000.00

DEUTSCHE BANK AG NEW YORK BRANCH

By: /s/ Joel Makowsky  
Title: Director

By: /s/ Oliver Riedinger  
Title: Vice President

\$75,000,000.00

UBS LOAN FINANCE LLC

By: /s/ Barbara Ezell-McMichael  
Title: Associate Director

By: /s/ Winslowe Ogbourne  
Title: Associate Director

SENIOR MANAGING AGENTS

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\$50,000,000.00

ABN AMRO BANK N.V.

By: /s/ Eric Oppenheimer  
Title: Director

By: /s/ Alexander M. Blodi  
Title: Director

\$50,000,000.00

BANK OF TOKYO-MITSUBISHI TRUST  
COMPANY

By: /s/ P. Shah  
Title: Vice President

\$50,000,000.00

BNP PARIBAS

By: /s/ Bruno Lavole  
Title: Managing Director

By: /s/ Richard Pace  
Title: Managing Director

\$50,000,000.00

THE ROYAL BANK OF SCOTLAND PLC

By: /s/ Philippe Sandmeier  
Title: Senior Vice President

\$50,000,000.00

WACHOVIA BANK, N.A.

By: Robert G. McGill, Jr.  
Title: Director

MANAGING AGENTS  
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\$34,000,000.00

ING CAPITAL LLC

By: /s/ Willem Pijpers  
Title: Managing Director

\$34,000,000.00

THE NORTHERN TRUST COMPANY

By: /s/ Ashish S. Bhagwat  
Title: Vice President

LENDERS

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\$20,000,000.00

CREDIT INDUSTRIEL ET COMMERCIAL

By: /s/ Eric Dulot  
Title: Vice President

\$20,000,000.00

MIZUHO CORPORATE BANK, LTD.

By: /s/ Bertram H. Tang  
Title: Senior Vice President & Team Leader

\$20,000,000.00

ROYAL BANK OF CANADA

By: /s/ Howard Lee  
Title: Authorized Signatory

\$20,000,000.00

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ Edward McColly  
Title: Vice President and Department Head

\$20,000,000.00

UNICREDITO ITALIANO S.p.A., NEW YORK BRANCH

By: /s/ Christopher J. Eldin  
Title: First Vice President and Deputy Manager

By: /s/ Saiyed A. Abbas  
Title: Vice President

\$12,000,000.00

BANCO BILBAO VIZCAYA ARGENTARIA S.A.

By: /s/ John Martin  
Title: Vice President

\$12,000,000.00	SANTANDER CENTRAL HISPANO, S.A., NEW YORK BRANCH
	By: /s/ Luis Pastor Title: Vice President
	By: /s/ Dom Rodriguez Title: Vice President
\$12,000,000.00	DANSKE BANK A/S, CAYMAN ISLANDS BRANCH
	By: /s/ Angelor J. Balestrieri Title: Vice President
	By: /s/ John A. O'Neill Title: Assistant General Manager
\$12,000,000.00	SKANDINAVISKA ENSKILDA BANKEN AB (PUBL)
	By: Michael Dicks Title: Authorized Signatory
	By: Martin Lindeberg Title: Authorized Signatory
\$12,000,000.00	SOCIETE GENERALE
	By: /s/ Ambrish D. Thanawala Title: Director
\$12,000,000.00	WESTPAC BANKING CORPORATION
	By: /s/ Robert Bosse Title: Vice President
\$1,000,000,000	TOTAL OF COMMITMENTS

SCHEDULE I  
 APPLICABLE LENDING OFFICES

NAME OF INITIAL LENDER	DOMESTIC LENDING OFFICE	EURODOLLAR LENDING OFFICE
ABN AMRO Bank N.V.	208 South LaSalle Street Suite 1500 Chicago, IL 60604 Attn: Credit Administration Phone: (312) 992-51521 Fax: (312) 992-5157	208 South LaSalle Street Suite 1500 Chicago, IL 60604 Attn: Credit Administration Phone: (312) 992-51521 Fax: (312) 992-5157
Banco Bilbao Vizcaya Argentarie S.A.	1345 Avenue of the Americas 45th Floor New York, NY 10105 Attn: Miguel Lara Phone: (212) 728-1664 Fax: (212) 333-2904	1345 Avenue of the Americas 45th Floor New York, NY 10105 Attn: Miguel Lara Phone: (212) 728-1664 Fax: (212) 333-2904
Bank of America, N.A.	101 N. Tryon Street Charlotte, NC 28255 Attn: Carrie Cunder Phone: (704) 386-8382 Fax: (704) 409-0064	101 N. Tryon Street Charlotte, NC 28255 Attn: Carrie Cunder Phone: (704) 386-8382 Fax: (704) 409-0064
The Bank of Tokyo-Mitsubishi	1251 Avenue of the Americas 12th Floor New York, NY 10020 Attn: Rolando Uy Phone: (201) 413-8570 Fax: (201) 521-2304	1251 Avenue of the Americas 12th Floor New York, NY 10020 Attn: Rolando Uy Phone: (201) 413-8570 Fax: (201) 521-2304
Barclays Bank PLC	200 Park Avenue New York, NY 10163 Attn: Martin Duran Phone: (212) 412 6831 Fax: (212) 412 5306	200 Park Avenue New York, NY 10163 Attn: Martin Duran Phone: (212) 412 6831 Fax: (212) 412 5306
BNP Paribas	499 Park Avenue New York, NY 10022 Attn: Andree Mitton/Robin Jackson-Bogner Phone: (212) 415-9617/9616 Fax: (212) 415-9606	499 Park Avenue New York, NY 10022 Attn: Andree Mitton/Robin Jackson-Bogner Phone: (212) 415-9617/9616 Fax: (212) 415-9606
Citicorp USA, Inc.	388 Greenwich Street New York, NY 10013 Attn: Carolyn Sheridan Phone: (212) 559-3245 Fax: (212) 826-2371	388 Greenwich Street New York, NY 10013 Attn: Carolyn Sheridan Phone: (212) 559-3245 Fax: (212) 826-2371
Credit Industriel et Commercial	520 Madison Avenue New York, NY 10022 Attn: Eric Dulot Phone: (212) 715-4430	520 Madison Avenue New York, NY 10022 Attn: Eric Dulot Phone: (212) 715-4430

Danske Bank A/S, Cayman Islands Branch	299 Park Avenue, 14th Floor New York, NY 10171 Attn: Loan Administration Phone: (212) 984-8462 Fax: (212) 984-9570	299 Park Avenue, 14th Floor New York, NY 10171 Attn: Loan Administration Phone: (212) 984-8462 Fax: (212) 984-9570
Deutsche Bank AG New York Branch	90 Hudson Street, Floor 1 Jersey City, NJ 07302 Attn: Joe Cusmai Phone: (201) 593-2202 Fax: (201) 593-2313	90 Hudson Street, Floor 1 Jersey City, NJ 07302 Attn: Joe Cusmai Phone: (201) 593-2202 Fax: (201) 593-2313
ING Capital LLC	1325 Avenue of the Americas New York, NY 10019 Attn: Jason Gallea Phone: (646) 424-7214 Fax: (646) 424-7229	1325 Avenue of the Americas New York, NY 10019 Attn: Jason Gallea Phone: (646) 424-7214 Fax: (646) 424-7229
JPMorgan Chase Bank	111 Fannin 10th Floor Houston, TX 77002 Attn: Autumn Mashue Phone: (713) 427-6199 Fax: (713) 750-2932	111 Fannin 10th Floor Houston, TX 77002 Attn: Autumn Mashue Phone: (713) 427-6199 Fax: (713) 750-2932
Mizuho Corporate Bank, Ltd.	1251 Avenue of the Americas New York, NY 10020 Phone: (212) 282-3000 Fax: (212) 282-4250	1251 Avenue of the Americas New York, NY 10020 Phone: (212) 282-3000 Fax: (212) 282-4250
The Northern Trust Company	50 S. LaSalle Street Chicago, IL 60675 Attn: Linda Honda Phone: (312) 444-3532 Fax: (312) 630-1566	50 S. LaSalle Street Chicago, IL 60675 Attn: Linda Honda Phone: (312) 444-3532 Fax: (312) 630-1566
Royal Bank of Canada	One Liberty Plaza, 3rd Floor New York, NY 10006 Attn: Karim Amr Phone: (212) 428-6369 Fax: (212) 428-2372	One Liberty Plaza, 3rd Floor New York, NY 10006 Attn: Karim Amr Phone: (212) 428-6369 Fax: (212) 428-2372
	with a copy to:  Attn: N. Delph Phone: (212) 428-6249 Fax: (212) 428-2319	with a copy to:  Attn: N. Delph Phone: (212) 428-6249 Fax: (212) 428-2319
The Royal Bank of Scotland plc	101 Park Avenue New York, NY 10178 Attn: Juanita Baird Phone: (212) 401-1420 Fax: (212) 401-1494	101 Park Avenue New York, NY 10178 Attn: Juanita Baird Phone: (212) 401-1420 Fax: (212) 401-1494
Santander Central Hispano, S.A., New York Branch	45 East 53rd Street New York, NY 10022 Attn: Uгла Castro Phone: (212) 350-3677 Fax: (212) 350-3647	45 East 53rd Street New York, NY 10022 Attn: Uгла Castro Phone: (212) 350-3677 Fax: (212) 350-3647



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Skandinaviska Enskilda Banken AB Publ.	106 40 Stockholm Sweden Attn: Foreign Credit Administration Phone: (46) 8 763-3642 Fax: (46) 8 611-0984	106 40 Stockholm Sweden Attn: Foreign Credit Administration Phone: (46) 8 763-3642 Fax: (46) 8 611-0984
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Societe Generale	2001 Ross Avenue Suite 4800 Dallas, TX 75201 Attn: Lori Murphy Phone: (214) 979-2770 Fax: (214) 754-0171	2001 Ross Avenue Suite 4800 Dallas, TX 75201 Attn: Lori Murphy Phone: (214) 979-2770 Fax: (214) 754-0171
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Sumitomo Mitsui Banking Corporation	277 Park Avenue New York, NY 10172 Attn: Edward McColly Phone: (212) 224-4139 Fax: (212) 224-4384	277 Park Avenue New York, NY 10172 Attn: Edward McColly Phone: (212) 224-4139 Fax: (212) 224-4384
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UBS Loan Finance LLC	677 Washington Blvd. 6th Floor South Stamford, CT 05901 Attn: Christopher Aitkin Phone: (203) 719-3845 Fax: (203) 719-3888	677 Washington Blvd. 6th Floor South Stamford, CT 05901 Attn: Christopher Aitkin Phone: (203) 719-3845 Fax: (203) 719-3888
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Unicredito Italiano	375 Park Avenue New York, NY 10152 Attn: Evangeline Blanco Phone: (212) 546-9615 Fax: (212) 546-9675	375 Park Avenue New York, NY 10152 Attn: Evangeline Blanco Phone: (212) 546-9615 Fax: (212) 546-9675
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Wachovia Bank, N.A.	201 S. College Street Charlotte, NC Attn: Romonia Lester Phone: (704) 383-5364 Fax: (704) 715-0096	201 S. College Street Charlotte, NC Attn: Romonia Lester Phone: (704) 383-5364 Fax: (704) 715-0096
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Westpac Banking Corporation	GMO Nightshift Operations 255 Elizabeth St. 3rd Floor Sydney, NSW 2000 Australia Attn: Matt Healey Phone: 011 612 9284-8241 Fax: 011 44 207 621 7608	GMO Nightshift Operations 255 Elizabeth St. 3rd Floor Sydney, NSW 2000 Australia Attn: Matt Healey Phone: 011 612 9284-8241 Fax: 011 44 207 621 7608
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SCHEDULE 2.01 (b)

EXISTING LETTERS OF CREDIT

None

SCHEDULE 3.01(b)

DISCLOSED LITIGATION

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While not giving an opinion as to whether any item is "reasonably likely to have a Material Adverse Effect," we hereby disclose the litigation matters as stated in our Form 10-Q for the quarter ended June 30, 2004, under the heading "Legal Proceedings," as follows.

Shareowner Litigation -- Honeywell and three of its former officers are defendants in a class action lawsuit filed in the United States District Court for the District of New Jersey. Plaintiffs allege, among other things, that the defendants violated federal securities laws by purportedly making false and misleading statements and by failing to disclose material information concerning Honeywell's financial performance, thereby allegedly causing the value of Honeywell's stock to be artificially inflated. The Court has certified a class consisting of all purchasers of Honeywell stock between December 20, 1999 and June 19, 2000. On June 4, 2004 Honeywell and the lead plaintiffs agreed to a settlement of this matter which requires a payment to the class of \$100 million. Honeywell's contribution to the settlement is \$15 million, which amount had previously been fully reserved. Honeywell's insurance carriers will pay the remainder of the settlement. The settlement is subject to court approval and other contingencies. A court hearing on the terms of the settlement is scheduled for August 16, 2004. Although members of the class may opt out of the settlement, Honeywell believes that any such claims would be fully insured.

ERISA Class Action Lawsuit -- Honeywell and several of its current and former officers and directors are defendants in a purported class action lawsuit filed in the United States District Court for the District of New Jersey. The complaint principally alleges that the defendants breached their fiduciary duties to participants in the Honeywell Savings and Ownership Plan (the "Savings Plan") by purportedly making false and misleading statements, failing to disclose material information concerning Honeywell's financial performance, and failing to diversify the Savings Plan's assets and monitor the prudence of Honeywell stock as a Savings Plan investment. In September 2003, Honeywell filed a motion to dismiss this matter.

Although it is not possible at this time to predict the outcome of this matter, we believe that the allegations in this matter are without merit and we expect to prevail. An adverse litigation outcome could, however, be material to our consolidated financial position or results of operations. As a result of the uncertainty regarding the outcome of this matter, no provision has been made in our financial statements with respect to this contingent liability.

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

containing toxic substances. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future.

With respect to environmental matters involving site contamination, we continually conduct studies, individually at our owned sites, and jointly as a member of industry groups at non-owned sites, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy to record appropriate liabilities for environmental matters when environmental assessments are made or remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. With respect to site contamination, the timing of these accruals is generally no later than the completion of feasibility studies. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of litigation and settlements of personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

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

In the matter entitled Interfaith Community Organization, et al. v. Honeywell International Inc., et al., the United States District Court for the District of New Jersey held in May 2003 that a predecessor Honeywell site located in Jersey City, New Jersey constituted an imminent and substantial endangerment and ordered Honeywell to conduct the excavation and transport for offsite disposal of approximately one million tons of chromium residue present at the site. Honeywell strongly disagrees with the Court's determinations and has appealed the Court's decision to the Third Circuit Court of Appeals. In October 2003, the District Court denied Honeywell's motion for a stay of certain aspects of its May 2003 order, and we have appealed the ruling to the Third Circuit. The site at issue is one of twenty-one sites located in Jersey City, New Jersey which are the subject of an Administrative Consent Order (ACO) entered into with the New Jersey Department of Environmental Protection (NJDEP) in 1993. Under the ACO, Honeywell agreed to study and remediate these sites in accordance with NJDEP's directions, provided that the total costs of such studies and remediation do not exceed \$60 million. Honeywell has cooperated with the NJDEP under the ACO and believes that decisions regarding site cleanups should be made by the NJDEP under the ACO. We are confident that proceeding under the ACO will ensure a safe remediation and allow the property to be placed back into productive use much faster and at a cost significantly less than the remedies required by the Court's order. We have submitted a remedial action plan for the excavation and offsite disposal directed under the Court's order to the Special Master appointed by the Court, for which the estimated cost of implementing such plan would be approximately \$316 million. At trial, plaintiff's expert testified that the excavation and offsite disposal cost might be \$400 million. However, there are significant variables in the implementation of the Court's order and depending on the method of implementation chosen, the estimate could increase or decrease. Provisions have been made in our financial statements for remedial costs

consistent with the ACO, additional costs which are likely to be incurred during the pendency of our appeal and a potential resolution of the principal issues in dispute related to such matter. Such provisions do not assume excavation and offsite removal of chromium. There are alternative outcomes and remedies beyond the scope of the ACO that could result from the remanding, reversal or replacement of the Court's decision and order. At this time, we can neither identify a probable alternative outcome nor reasonably estimate the cost of an alternative remedy. Although we expect the Court's decision and order to be remanded, reversed or replaced, should the remedies prescribed in the Court's decision and order ultimately be upheld, such outcome could have a material adverse impact on our consolidated results of operations or operating cash flows in the periods recognized or paid. We do not expect that this matter will have a material adverse effect on our consolidated financial position.

In accordance with a 1992 consent decree with the State of New York, Honeywell is studying environmental conditions in and around Onondaga Lake (the Lake) in Syracuse, New York. The purpose of the study is to identify, evaluate and propose remedial measures that can be taken to remedy historic industrial contamination in the Lake. A predecessor company to Honeywell operated a chemical plant which is alleged to have contributed mercury and other contaminants to the Lake. In May 2003, Honeywell submitted to the New York State Department of Environmental Conservation (DEC) a draft Feasibility Study for the Lake. In November 2003, the DEC issued formal comments on the Feasibility Study. Those comments included a request for further evaluation of remedies for the Lake. Pursuant to the consent decree, Honeywell submitted a revised Feasibility Study on May 3, 2004 (the May 2004 Feasibility Study). Provisions have been made in our financial statements based on the remedy proposed by Honeywell in the May 2004 Feasibility Study. On July 30, 2004, the DEC requested that Honeywell provide certain additional information regarding alternative remedial approaches, site modeling and other technical questions raised by DEC, and advised Honeywell that, upon receipt of such information, the May 2004 Feasibility Study would be sufficiently complete for DEC to prepare its proposed remedial action plan for the Lake. When DEC issues its proposed remedial action plan for the Lake, there will be a public comment period of at least sixty days during which time Honeywell can also submit comments. Should Honeywell be required to undertake a substantially more extensive remedy than that which we proposed in the May 2004 Feasibility Study, such outcome could have a material adverse impact on our consolidated results of operations and operating cash flows in the periods recognized or paid. However, we do not expect that this matter will have a material adverse effect on our consolidated financial position.

Asbestos Matters -- Like many other industrial companies, Honeywell is a defendant in personal injury actions related to asbestos. We did not mine or produce asbestos, nor did we make or sell insulation products or other construction materials that have been identified as the primary cause of asbestos related disease in the vast majority of claimants. Products containing asbestos previously manufactured by Honeywell or by previously owned subsidiaries fall into two general categories; refractory products and friction products.

Refractory Products -- Honeywell owned North American Refractories Company (NARCO) from 1979 to 1986. NARCO produced refractory products (high temperature bricks and cement) which were sold largely to the steel industry in the East and Midwest. Less than 2 percent of NARCO's products contained asbestos.

When we sold the NARCO business in 1986, we agreed to indemnify NARCO with respect to personal injury claims for products that had been discontinued prior to the sale (as defined in the sale agreement). NARCO retained all liability for all other claims. NARCO had resolved approximately 176,000 claims through January 4, 2002, the date NARCO filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, at an average cost per claim of two thousand two hundred dollars. Of those claims, 43 percent were dismissed on the ground that there was insufficient evidence that NARCO was responsible for the claimant's asbestos exposure. As of the date of NARCO's bankruptcy filing, there were approximately 116,000 remaining claims pending against NARCO, including approximately 7 percent in which Honeywell was also named as a defendant. Since 1983, Honeywell and our insurers have contributed to the defense and settlement costs associated with NARCO claims.

As a result of the NARCO bankruptcy filing, all of the claims pending against NARCO are automatically stayed pending the reorganization of NARCO, except one claim which is not material as to which the stay was lifted in August 2003. Because the claims pending against Honeywell necessarily will impact the liabilities of NARCO, because the insurance policies held by Honeywell are essential to a successful NARCO reorganization, and because Honeywell has offered to commit the value of those policies to the reorganization, the bankruptcy court has temporarily enjoined any claims against Honeywell, current or future, related to NARCO. Although the stay has been extended twenty-nine times since January 4, 2002, there is no assurance that such stay will remain in effect. In connection with NARCO's bankruptcy filing, we paid NARCO's parent company \$40 million and agreed to provide NARCO with up to \$20 million in financing. We also agreed to pay \$20 million to NARCO's parent company upon the filing of a plan of reorganization for NARCO acceptable to Honeywell, and to pay NARCO's parent company \$40 million, and to forgive any outstanding NARCO indebtedness, upon the confirmation and consummation of such a plan.

As a result of negotiations with counsel representing NARCO related asbestos claimants regarding settlement of all pending and potential NARCO related asbestos claims against Honeywell, we have reached definitive agreements with approximately 260,000 claimants, which represents in excess of 90 percent of the approximately 275,000 current claimants who are now expected to file a claim as part of the NARCO reorganization process. We are also in discussions with the NARCO Committee of Asbestos Creditors on Trust Distribution Procedures for NARCO. We believe that, as part of the NARCO plan of reorganization, a trust will be established pursuant to these Trust Distribution Procedures for the benefit of all asbestos claimants, current and future. If the trust is put in place and approved by the Court as fair and equitable, Honeywell as well as NARCO will be entitled to a permanent channeling injunction barring all present and future individual actions in state or federal courts and requiring all asbestos related claims based on exposure to NARCO products to be made against the federally-supervised trust. We expect the NARCO plan of reorganization and the NARCO trust to be approved by the Court in 2004. As part of its ongoing settlement negotiations, Honeywell has reached agreement in principle with the representative for future NARCO claimants to cap its annual contributions to the trust with respect to future claims at a level that would not have a material impact on Honeywell's operating cash flows. Given the substantial progress of negotiations between Honeywell and NARCO related asbestos claimants and between Honeywell and the Committee of Asbestos Creditors during the fourth quarter of 2002, Honeywell developed an estimated liability for settlement of pending and future asbestos claims

and recorded a charge of \$1.4 billion for NARCO related asbestos litigation charges, net of insurance recoveries. This charge consisted of the estimated liability to settle current asbestos related claims, the estimated liability related to future asbestos related claims through 2018 and obligations to NARCO's parent, net of insurance recoveries of \$1.8 billion.

The estimated liability for current claims is based on terms and conditions, including evidentiary requirements, in definitive agreements with in excess of 90 percent of current claimants. Settlement payments with respect to current claims are expected to be made through 2007.

The liability for future claims estimates the probable value of future asbestos related bodily injury claims asserted against NARCO through 2018 and obligations to NARCO's parent as discussed above. The estimate is based upon the disease criteria and payment values contained in the NARCO Trust Distribution Procedures negotiated with the NARCO Committee of Asbestos Creditors and the NARCO future claimants representative. In light of the uncertainties inherent in making long-term projections we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018 under Statement of Financial Accounting Standards No. 5. Honeywell retained the expert services of Hamilton, Rabinovitz and Alschuler, Inc. (HR&A) to project the probable number and value, including trust claim handling costs, of asbestos related future liabilities based upon historical experience with similar trusts. The methodology used to estimate the liability for future claims has been commonly accepted by numerous courts and is the same methodology that is utilized by an expert who is routinely retained by the asbestos claimants committee in asbestos related bankruptcies. The valuation methodology includes an analysis of the population likely to have been exposed to asbestos containing products, epidemiological studies to estimate the number of people likely to develop asbestos related diseases, NARCO claims filing history, the pending inventory of NARCO asbestos related claims and payment rates expected to be established by the NARCO trust.

Honeywell has approximately \$1.4 billion in insurance limits remaining that reimburses it for portions of the costs incurred to settle NARCO related claims and court judgments as well as defense costs. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. At June 30, 2004, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. This includes agreements with a substantial majority of the London-based insurance companies entered into primarily in the first quarter of 2004. We conduct analyses to determine the amount of insurance that we estimate is probable that we will recover in relation to payment of current and projected future claims. 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. In the second quarter of 2004, based on our ongoing evaluation of our ability to enforce our rights under the various insurance policies, we concluded that we had additional probable insurance recoveries of \$47 million, net of solvency reserves, which has been reflected in insurance receivables. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs.

Projecting future events is subject to many uncertainties that could cause the NARCO related asbestos liabilities to be higher or lower than those projected and recorded. There is no assurance that a plan of reorganization will be proposed or confirmed, that insurance recoveries will be timely or whether there will be any NARCO related asbestos claims beyond 2018. Given the inherent uncertainty in predicting future events, we review our estimates periodically, and update them based on our experience and other relevant factors. Similarly we will reevaluate our projections concerning our probable insurance recoveries in light of any changes to the projected liability or other developments that may impact insurance recoveries.

Friction Products -- Honeywell's Bendix Friction Materials (Bendix) business manufactured automotive brake pads that contained chrysotile asbestos in an encapsulated form. There is a group of existing and potential claimants consisting largely of individuals that allege to have performed brake replacements.

From 1981 through June 30, 2004, we have resolved approximately 69,000 Bendix related asbestos claims including trials covering 120 plaintiffs, which resulted in 115 favorable verdicts. Trials covering five individuals resulted in adverse verdicts; however, two of these verdicts were reversed on appeal and the remaining three claims were settled.

Through the second quarter of 2002, Honeywell had no out-of-pocket costs for Bendix related asbestos claims since its insurance deductible was satisfied many years ago. Beginning with claim payments made in the third quarter of 2002, Honeywell began advancing indemnity and defense claim costs. During the first six months of 2004, those indemnity and defense costs were approximately \$72 million. During the years ended December 31, 2003 and 2002, those indemnity and defense costs amounted to approximately \$112 and \$70 million, respectively. Approximately 50 percent of these amounts are deemed probable to be reimbursed by insurance. During the year ended December 31, 2003 Honeywell collected \$90 million in insurance reimbursements and settlements related to asbestos claims. See further discussion of insurance coverage below.

The following tables present information regarding Bendix related asbestos claims activity:

Claims Activity -----	Six Months Ended June 30, 2004 -----	Years Ended December 31, -----	
		2003 ----	2002 ----
Claims Unresolved at the beginning of period	72,976	50,821	47,000
Claims Filed	5,999	25,765	10,000
Claims Resolved	(4,797)	(3,610)	(6,179)
	-----	-----	-----
Claims Unresolved at the end of period	74,178	72,976	50,821
	=====	=====	=====
		December 31, -----	
Disease Distribution of Unresolved Claims -----	June 30, 2004 -----	2003 ----	2002 ----
Mesothelioma and Other Cancer Claims	3,731	3,277	3,810



Other Claims	70,447 -----	69,699 -----	47,011 -----
Total Claims	74,178 =====	72,976 =====	50,821 =====

Approximately 30 percent of the 74,000 pending claims at June 30, 2004 are on the inactive, deferred, or similar dockets established in some jurisdictions for claimants who allege minimal or no impairment. The approximately 74,000 pending claims also include claims filed in jurisdictions such as Texas, Virginia and Mississippi that allow for consolidated filings. In these jurisdictions, plaintiffs are permitted to file complaints against a pre-determined master list of defendants, regardless of whether they have claims against each individual defendant. Many of these plaintiffs may not actually have claims against Honeywell. Based on state rules and prior experience in these jurisdictions, we anticipate that many of these claims will ultimately be dismissed. During 2003, Honeywell was served with numerous complaints filed in Mississippi in advance of the January 1, 2003 effective date for tort reform in that state. Also during 2003, Honeywell experienced an increase in nonmalignancy filings that we believe were in response to the possibility of federal legislation. Based on prior experience, we anticipate that many of these claims will be placed on deferred, inactive or similar dockets or be dismissed. Honeywell has experienced average resolution values excluding legal costs for malignant claims of approximately ninety five thousand and one hundred sixty six thousand dollars in 2003 and 2002, respectively. Honeywell has experienced average resolution values excluding legal costs for nonmalignant claims of approximately three thousand five hundred and one thousand three hundred dollars in 2003 and 2002, respectively. It is not possible to predict whether resolution values for Bendix related asbestos claims will increase, decrease or stabilize in the future.

We have accrued for the estimated cost of pending asbestos related claims. The estimate is based on the number of pending claims at June 30, 2004, disease classifications, expected settlement values and historic dismissal rates. Honeywell retained the expert services of HR&A (see discussion of HR&A under Refractory products above) to assist in developing the estimated expected settlement values and historic dismissal rates. We cannot reasonably estimate losses which could arise from future Bendix related asbestos claims because we cannot predict how many additional claims may be brought against us, the allegations in such claims or their probable outcomes and resulting settlement values in the tort system.

Honeywell presently has approximately \$1.9 billion of insurance coverage remaining with respect to pending Bendix related asbestos claims as well as claims which may be filed against us in the future. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. Although Honeywell has approximately \$1.9 billion in insurance, there are gaps in our coverage due to insurance company insolvencies, a comprehensive policy buy-back settlement with Equitas in 2003 and certain uninsured periods. We analyzed the amount of insurance that we estimate is probable that we will recover in relation to payment of asbestos related claims and determined that approximately 50 percent of expenditures for such claims are recoverable by insurance. 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. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our

insurance programs. Based on our analysis, at June 30, 2004 we had amounts receivable from our insurers of approximately \$300 million representing probable reimbursements associated with our liability for pending claims as well as amounts due to us for previously settled and paid claims related to the estimated liabilities for pending claims.

Honeywell believes it has sufficient insurance coverage and reserves to cover all pending Bendix related asbestos claims. Although it is impossible to predict the outcome of pending claims or to reasonably estimate losses which could arise from future Bendix related asbestos claims, we do not believe that such claims would have a material adverse effect on our consolidated financial position in light of our insurance coverage and our prior experience in resolving such claims. If the rate and types of claims filed, the average indemnity cost of such claims and the period of time over which claim settlements are paid (collectively, the "Variable Claims Factors") do not substantially change, Honeywell would not expect future Bendix related asbestos claims to have a material adverse effect on our results of operations or operating cash flows in any fiscal year. No assurances can be given, however, that the Variable Claims Factors will not substantially change.

Refractory and Friction Products -- NARCO and Bendix asbestos related balances are included in the following balance sheet accounts:

	June 30, 2004 ----	December 31, 2003 ----
Other current assets	\$ 145	\$ 130
Insurance recoveries for asbestos related liabilities	1,401	1,317
	-----	-----
	\$1,546	\$1,447
	=====	=====
Accrued liabilities	\$ 756	\$ 730
	-----	-----
Asbestos related liabilities	2,096	2,279
	-----	-----
	\$2,852	\$3,009
	=====	=====

During the first six months of 2004, we paid \$323 million in indemnity and defense costs related to NARCO and Bendix claims. Additionally, we recognized a charge of \$9 million for Bendix related asbestos claims filed and defense costs incurred during the second quarter of 2004 including an update of expected resolution values with respect to claims pending as of June 30, 2004. The charge is net of probable Bendix related insurance recoveries and an additional \$47 million of NARCO insurance deemed probable of recovery.

We are monitoring proposals for federal asbestos legislation pending in the United States Congress. Due to the uncertainty surrounding the proposed legislation, it is not possible at this point in time to determine what impact such legislation would have on the NARCO bankruptcy strategy or our asbestos liabilities and related insurance recoveries.

EXHIBIT A-1 - FORM OF  
REVOLVING CREDIT  
PROMISSORY NOTE

Dated: \_\_\_\_\_, 200\_

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a \_\_\_\_\_ corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ (the "Lender") for the account of its Applicable Lending Office on the Termination Date (each as defined in the Credit Agreement referred to below) the aggregate principal amount of the Revolving Credit Advances made by the Lender to the Borrower pursuant to the Five Year Credit Agreement dated as of October 22, 2004 among Honeywell International Inc., the Lender and certain other lenders parties thereto, and Citicorp USA, Inc., as Agent for the Lender and such other lenders (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined) outstanding on such date.

The Borrower promises to pay interest on the unpaid principal amount of each Revolving Credit Advance from the date of such Revolving Credit Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest in respect of each Revolving Credit Advance (i) in Dollars are payable in lawful money of the United States of America to Citicorp USA, Inc., as Agent, at 388 Greenwich Street, New York, New York, 10013, in same day funds and (ii) in any Major Currency are payable in such currency at the applicable Payment Office in same day funds. Each Revolving Credit Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Revolving Credit Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Revolving Credit Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the Dollar amount first above mentioned or the Equivalent thereof in one or more Major Currencies, the indebtedness of the Borrower resulting from each such Revolving Credit Advance being evidenced by this Promissory Note, (ii) contains provisions for determining the Dollar Equivalent of Revolving Credit Advances denominated in Major Currencies and (iii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

This promissory note shall be governed by, and construed in accordance with the laws of the State of New York.

[NAME OF BORROWER]

By

-----  
Name:  
Title:



EXHIBIT A-2 - FORM OF  
COMPETITIVE BID  
PROMISSORY NOTE

Dated: \_\_\_\_\_, 200\_

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a \_\_\_\_\_ corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of \_\_\_\_\_ (the "Lender") for the account of its Applicable Lending Office (as defined in the Five Year Credit Agreement dated as of October 22, 2004 among Honeywell International Inc., the Lender and certain other lenders parties thereto, and Citicorp USA, Inc., as Agent for the Lender and such other lenders (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined)), on \_\_\_\_\_, the principal amount of [U.S.\$ \_\_\_\_\_] [for a Competitive Bid Advance in a Foreign Currency, list currency and amount of such Advance].

The Borrower promises to pay interest on the unpaid principal amount hereof from the date hereof until such principal amount is paid in full, at the interest rate and payable on the interest payment date or dates provided below:

Interest Rate: [\_\_\_\_% per annum (calculated on the basis of a year of \_\_\_\_\_ days for the actual number of days elapsed)].

Interest Payment Date or Dates: \_\_\_\_\_

Both principal and interest are payable in lawful money of \_\_\_\_\_ to Citicorp USA, Inc., as Agent, for the account of the Lender at the office of \_\_\_\_\_, at \_\_\_\_\_ in same day funds.

This Promissory Note is one of the Competitive Bid Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

This Promissory Note shall be governed by, and construed in accordance with, the laws of the State of New York.

[NAME OF BORROWER]

By \_\_\_\_\_

Name:  
Title:

EXHIBIT B-1 - FORM OF NOTICE OF  
REVOLVING CREDIT BORROWING

Citicorp USA, Inc., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
Two Penns Way  
New Castle, Delaware 19720

[Date]

Attention: Bank Loan Syndication

Ladies and Gentlemen:

The undersigned, [Name of Borrower], refers to the Five Year Credit Agreement, dated as of October 22, 2004 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, and Citicorp USA, Inc., as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Revolving Credit Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Revolving Credit Borrowing (the "Proposed Revolving Credit Borrowing") as required by Section 2.02(a) of the Credit Agreement:

(i) The Business Day of the Proposed Revolving Credit Borrowing is \_\_\_\_\_.

(ii) The Type of Advances comprising the Proposed Revolving Credit Borrowing is [Base Rate Advances] [Eurocurrency Rate Advances].

(iii) The aggregate amount of the Proposed Revolving Credit Borrowing is [\$ \_\_\_\_\_] [for a Revolving Credit Borrowing in a Major Currency, list currency and amount of Revolving Credit Borrowing].

[(iv) The initial Interest Period for each Eurocurrency Rate Advance made as part of the Proposed Revolving Credit Borrowing is \_\_\_\_\_ month[s].]

The undersigned hereby certifies that the conditions precedent to this Revolving Credit Borrowing set forth in Section 3.04 of the Credit Agreement have been satisfied and the applicable statements contained therein are true on the date hereof, and will be true on the date of the Proposed Revolving Credit Borrowing.

Very truly yours,

[NAME OF BORROWER]

By \_\_\_\_\_

Name:

Title:



EXHIBIT B-2 - FORM OF NOTICE OF  
COMPETITIVE BID BORROWING

Citicorp USA, Inc., as Agent  
for the Lenders parties  
to the Credit Agreement  
referred to below  
Two Penns Way  
New Castle, Delaware 19720

[Date]

Attention: Bank Loan Syndication

Ladies and Gentlemen:

The undersigned, [Name of Borrower], refers to the Five Year Credit Agreement, dated as of October 22, 2004 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among Honeywell International Inc., certain Lenders parties thereto and Citicorp USA, Inc., as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.03 of the Credit Agreement that the undersigned hereby requests a Competitive Bid Borrowing under the Credit Agreement, and in that connection sets forth the terms on which such Competitive Bid Borrowing (the "Proposed Competitive Bid Borrowing") is requested to be made:

(A)	Date of Competitive Bid Borrowing	_____
(B)	Aggregate Amount of Competitive Bid Borrowing	_____
(C)	[Maturity Date] [Interest Period]	_____
(D)	Interest Rate Basis	_____
(E)	Day Count Convention	_____
(F)	Interest Payment Date(s)	_____
(G)	[Currency]	_____
(H)	Borrower's Account Location	_____
(I)	_____	_____

The undersigned hereby certifies that the conditions precedent to this Competitive Bid Borrowing set forth in Section 3.05 of the Credit Agreement have been satisfied and the applicable statements contained therein are true on the date hereof, and will be true on the date of the Proposed Competitive Bid Borrowing.

The undersigned hereby confirms that the Proposed Competitive Bid Borrowing is to be made available to it in accordance with Section 2.03(a) (v) of the Credit Agreement.

Very truly yours,

[NAME OF BORROWER]

By

-----  
Name:  
Title:

EXHIBIT C - FORM OF  
ASSIGNMENT AND ACCEPTANCE

Dated: \_\_\_\_\_

Reference is made to the Five Year Credit Agreement dated as of October 22, 2004 (as amended or modified from time to time, the "Credit Agreement") among Honeywell International Inc., a Delaware corporation (the "Borrower"), the Lenders (as defined in the Credit Agreement), and Citicorp USA, Inc., as agent (the "Agent") for the Lenders. Terms defined in the Credit Agreement are used herein with the same meaning.

\_\_\_\_\_ (the "Assignor") and \_\_\_\_\_ (the "Assignee")  
agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement as of the date hereof (other than in respect of Competitive Bid Advances and Competitive Bid Notes) equal to the percentage interest specified on Schedule 1 hereto of the outstanding rights and obligations under the Credit Agreement (including, in the case of an assignment of any Revolving Credit Commitment, participations in Letters of Credit held by the Assignor on the date hereof) set forth on Schedule 1 hereto. After giving effect to such sale and assignment, the Assignee's Revolving Credit Commitment and Letter of Credit Commitment and the amount of the Revolving Credit Advances in each relevant currency owing to the Assignee will be as set forth on Schedule 1 hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or any other instrument or document furnished pursuant thereto or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, the Credit Agreement or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or the performance or observance by such Borrower of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto; [and (iv) attaches the Revolving Credit Note held by the Assignor and requests that the Agent obtain from the Borrower a new Revolving Credit Note payable to the order of the Assignee with respect to the aggregate principal amount of the Revolving Credit Advances assumed by such Assignee pursuant hereto, substantially in the form of Exhibit A-1 to the Credit Agreement].

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01(e) thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based

on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Lender; and (vi) attaches any U.S. Internal Revenue Service forms required under Section 2.14 of the Credit Agreement.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance and recording by the Agent. The effective date for this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by the Agent, unless otherwise specified on Schedule 1 hereto.

5. Upon such acceptance and recording by the Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement, provided, however, that the Assignor's rights under Sections 2.11, 2.14 and 9.04 of the Credit Agreement, and its obligations under Section 8.05 of the Credit Agreement, shall survive the assignment pursuant to this Assignment and Acceptance as to matters occurring prior to the Effective Date.

6. Upon such acceptance and recording by the Agent, from and after the Effective Date, the Agent shall make all payments under the Credit Agreement and the Revolving Credit Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and facility fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and any Revolving Credit Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

Schedule 1  
to  
Assignment and Acceptance

Dated: \_\_\_\_\_

Section 1.

Percentage interest assigned: \_\_\_\_\_ %

Assignee's Revolving Credit Commitment: \$ \_\_\_\_\_

Assignee's Letter of Credit Commitment: \$ \_\_\_\_\_

Section 2.

(a) Assigned Advances

Aggregate outstanding principal amount of Revolving Credit

Advances in Dollars assigned: \$ \_\_\_\_\_

Aggregate outstanding principal amount of Revolving Credit  
Advances in lawful currency of the United Kingdom of Great  
Britain and Northern Ireland assigned: 'L' \_\_\_\_\_

Aggregate outstanding principal amount of Revolving Credit  
Advances in lawful currency of Japan assigned: 'Y' \_\_\_\_\_

Aggregate outstanding principal amount of Revolving Credit  
Advances in Euros assigned: 'E' \_\_\_\_\_

(b) Retained Advances

Aggregate outstanding principal amount of Revolving Credit  
Advances in Dollars retained: \$ \_\_\_\_\_

Aggregate outstanding principal amount of Revolving Credit  
Advances in lawful currency of the United Kingdom of Great  
Britain and Northern Ireland retained: 'L' \_\_\_\_\_

Aggregate outstanding principal amount of Revolving Credit  
Advances in lawful currency of Japan retained: 'Y' \_\_\_\_\_

Aggregate outstanding principal amount of Revolving Credit  
Advances in Euros retained: 'E' \_\_\_\_\_

Effective Date(1): \_\_\_\_\_

[NAME OF ASSIGNOR], as Assignor

By \_\_\_\_\_  
Title:

Dated: \_\_\_\_\_

[NAME OF ASSIGNEE], as Assignee

By \_\_\_\_\_  
Title:

Dated: \_\_\_\_\_

Domestic Lending Office:  
[Address]

Eurocurrency Lending Office:  
[Address]

Consented to this \_\_\_\_\_ day  
of \_\_\_\_\_

[NAME OF BORROWER]

By \_\_\_\_\_ ]  
Name:  
Title:

-----  
(1) This date should be no earlier than five Business Days after the delivery  
of this Assignment and Acceptance to the Agent.

[DATE]

To each of the Lenders  
parties to the  
Credit Agreement (as defined  
below) and to Citicorp USA, Inc.,  
as Agent for such Lenders

Ladies and Gentlemen:

Reference is made to the Five Year Credit Agreement dated as of October 22, 2004 among Honeywell International Inc. (the "Company"), the Lenders named therein, and Citicorp USA, Inc., as Agent for said Lenders (the "Credit Agreement"). For convenience of reference, terms used herein and defined in the Credit Agreement shall have the respective meanings ascribed to such terms in the Credit Agreement.

Please be advised that the Company hereby designates its undersigned Subsidiary, \_\_\_\_\_ ("Designated Subsidiary"), as a "Designated Subsidiary" under and for all purposes of the Credit Agreement.

The Designated Subsidiary, in consideration of each Lender's agreement to extend credit to it under and on the terms and conditions set forth in the Credit Agreement, does hereby assume each of the obligations imposed upon a "Designated Subsidiary" and a "Borrower" under the Credit Agreement and agrees to be bound by the terms and conditions of the Credit Agreement. In furtherance of the foregoing, the Designated Subsidiary hereby represents and warrants to each Lenders as follows:

1. The Designated Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of \_\_\_\_\_ and is duly qualified to transact business in all jurisdictions in which such qualification is required.

2. The execution, delivery and performance by the Designated Subsidiary of this Designation Letter, the Credit Agreement, its Notes and the consummation of the transactions contemplated thereby, are within the Designated Subsidiary's corporate powers, have been duly authorized by all necessary corporate action, and do not and will not cause or constitute a violation of any provision of law or regulation or any provision of the charter or by-laws of the Designated Subsidiary or result in the breach of, or constitute a default or require any consent under, or result in the creation of any lien, charge or encumbrance upon any of the properties, revenues, or assets of the Designated Subsidiary pursuant to, any indenture or other agreement or instrument to which the Designated Subsidiary is a party or by which the Designated Subsidiary or its property may be bound or affected.

3. This Designation Agreement and each of the Notes of the Designated Subsidiary, when delivered, will have been duly executed and delivered, and this

Designation Letter, the Credit Agreement and each of the Notes of the Designated Subsidiary, when delivered, will constitute a legal, valid and binding obligation of the Designated Subsidiary enforceable against the Designated Subsidiary in accordance with their respective terms except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally.

4. There is no action, suit, investigation, litigation or proceeding including, without limitation, any Environmental Action, pending or to the knowledge of the Designated Subsidiary Threatened affecting the Designated Subsidiary before any court, governmental agency or arbitration that (i) is reasonably likely to have a Material Adverse Effect, or (ii) purports to effect the legality, validity or enforceability of this Designation Letter, the Credit Agreement, any Note of the Designated Subsidiary or the consummation of the transactions contemplated thereby.

5. No authorizations, consents, approvals, licenses, filings or registrations by or with any governmental authority or administrative body are required in connection with the execution, delivery or performance by the Designated Subsidiary of this Designation Letter, the Credit Agreement or the Notes of the Designated Subsidiary except for such authorizations, consents, approvals, licenses, filings or registrations as have heretofore been made, obtained or effected and are in full force and effect.

6. The Designated Subsidiary is not, and immediately after the application by the Designated Subsidiary of the proceeds of each Advance will not be, (a) an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or (b) a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

Very truly yours,

HONEYWELL INTERNATIONAL INC.

By \_\_\_\_\_  
Name:  
Title:

[THE DESIGNATED SUBSIDIARY]

By \_\_\_\_\_  
Name:  
Title:



EXHIBIT E - FORM OF ACCEPTANCE BY PROCESS AGENT  
[Letterhead of Process Agent]

[Date]

To each of the Lenders parties  
to the Credit  
Agreement (as defined  
below) and to Citicorp USA, Inc.,  
as Agent for said Lenders

[Name of Designated Subsidiary]  
-----

Ladies and Gentlemen:

Reference is made to (i) that certain Five Year Credit Agreement dated as of October 22, 2004 among Honeywell International Inc., the Lenders named therein, and Citicorp USA, Inc., as Agent (such Credit Agreement as it may hereafter be amended, supplemented or otherwise modified from time to time, being the "Credit Agreement"; the terms defined therein being used herein as therein defined), and (ii) to the Designation Letter, dated \_\_\_\_\_, pursuant to which \_\_\_\_\_ has become a Borrower.

Pursuant to Section 9.12 of the Credit Agreement to which \_\_\_\_\_ has become subject pursuant to its Designation Letter, \_\_\_\_\_ has appointed the undersigned (with an office on the date hereof at 1633 Broadway, New York, New York 10019, United States) as Process Agent to receive on behalf of \_\_\_\_\_ and its property service of copies of the summons and complaint and any other process which may be served in any action or proceeding in any New York State or Federal court sitting in New York City arising out of or relating to the Credit Agreement.

The undersigned hereby accepts such appointment as Process Agent and agrees with each of you that (i) the undersigned will not terminate or abandon the undersigned agency as such Process Agent without at least six months prior notice to the Agent (and hereby acknowledges that the undersigned has been retained for its services as Process Agent through \_\_\_\_\_, 2009), (ii) the undersigned will maintain an office in New York City through such date and will give the Agent prompt notice of any change of address of the undersigned, (iii) the undersigned will perform its duties as Process Agent to receive on behalf of \_\_\_\_\_ and its property service of copies of the summons and complaint and any other process which may be served in any action or proceeding in any New York State or Federal court sitting in New York City arising out of or relating to the Credit Agreement and (iv) the undersigned will forward forthwith to \_\_\_\_\_ at its address at \_\_\_\_\_ or, if different, its then current address, copies of any summons, complaint and other process which the undersigned receives in connection with its appointment as Process Agent.

This acceptance and agreement shall be binding upon the undersigned and all successors of the undersigned.

Very truly yours,

[PROCESS AGENT]

By \_\_\_\_\_

EXHIBIT F - FORM OF OPINION  
OF GAIL E. LEHMAN,  
ASSISTANT GENERAL COUNSEL FOR THE COMPANY

\_\_\_\_\_, 2004

To each of the Lenders parties  
to the Credit Agreement  
(as defined below),  
and to Citicorp USA, Inc.,  
as Agent for said Lenders

Honeywell International Inc.  
-----

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 3.01(e)(iv) of the Five Year Credit Agreement dated as of October 22, 2004 among Honeywell International Inc. (the "Company"), the Lenders parties thereto, and Citicorp USA, Inc., as Agent for said Lenders (the "Credit Agreement"). Terms defined in the Credit Agreement are, unless otherwise defined herein, used herein as therein defined.

I have acted as counsel for the Company in connection with the preparation, execution and delivery of the Credit Agreement.

In that connection I have examined:

- (1) The Credit Agreement.
- (2) The documents furnished by the Company pursuant to Article III of the Credit Agreement, including the Certificate of Incorporation of the Company and all amendments thereto (the "Charter") and the By-laws of the Company and all amendments thereto (the "By-laws").
- (3) A certificate of the Secretary of State of the State of Delaware, dated \_\_\_\_\_, 2004, attesting to the continued corporate existence and good standing of the Company in that State.

I have also examined the originals, or copies certified to my satisfaction, of such corporate records of the Company (including resolutions adopted by the Board of Directors of the Company), certificates of public officials and of officers of the Company, and agreements, instruments and documents, as I have deemed necessary as a basis for the opinions hereinafter expressed. As to questions of fact material to such opinions, I have, when relevant facts were not

independently established by me, relied upon certificates of the Company or its officers or of public officials. I have assumed the due execution and delivery, pursuant to due authorization, of the Credit Agreement by the Initial Lenders and the Agent.

I am qualified to practice law in the State of New York, and I do not purport to be expert in, or to express any opinion herein concerning, any laws other than the laws of the State of New York, the General Corporation Law of the State of Delaware and the Federal laws of the United States.

Based upon the foregoing and upon such investigation as I have deemed necessary, I am of the following opinion:

1. The Company (a) is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, (b) is duly qualified as a foreign corporation in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed and (c) has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted.

2. The execution, delivery and performance by the Company of the Credit Agreement and the Notes of the Company, and the consummation of the transactions contemplated thereby, are within the Company's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene the Charter or the By-laws or (ii) violate any law (including, without limitation, the Securities Exchange Act of 1934 and the Racketeer Influenced and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970), rule, regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or any material order, writ, judgment, decree, determination or award or (iii) conflict with or result in the breach of, or constitute a default under, any material indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note or any similar document. The Credit Agreement and the Notes of the Company have been duly executed and delivered on behalf of the Company.

3. No authorization, approval, or other action by, and no notice to or filing with, any governmental authority, administrative agency or regulatory body, or any third party is required for the due execution, delivery and performance by the Company of the Credit Agreement or the Notes of the Company, or for the consummation of the transactions contemplated thereby.

4. The Credit Agreement is, and each Note of the Company when delivered under the Credit Agreement will be, the legal, valid and binding obligation of the Company enforceable against the Company in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization or moratorium or other similar laws relating to the enforcement of creditors' rights generally or by the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and

except that I express no opinion as to (i) the subject matter jurisdiction of the District Courts of the United States of America to adjudicate any controversy relating to the Credit Agreement or the Notes of the Company or (ii) the effect of the law of any jurisdiction (other than the State of New York) wherein any Lender or Applicable Lending Office may be located or wherein enforcement of the Credit Agreement or the Notes of the Company may be sought which limits rates of interest which may be charged or collected by such Lender.

5. There is no action, suit, investigation, litigation or proceeding against the Company or any of its Subsidiaries before any court, governmental agency or arbitrator now pending or, to the best of my knowledge, Threatened that is reasonably likely to have a Material Adverse Effect (other than the Disclosed Litigation) or that purports to affect the legality, validity or enforceability of the Credit Agreement or any Note of the Company or the consummation of the transactions contemplated thereby, and there has been no adverse change in the status, or financial effect on the Company or any of its Subsidiaries, of the Disclosed Litigation from that described on Schedule 3.01(b) of the Credit Agreement.

6. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

7. The Company is not a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

In connection with the opinions expressed by me above in paragraph 4, I wish to point out that (i) provisions of the Credit Agreement that permit the Agent or any Lender to take action or make determinations may be subject to a requirement that such action be taken or such determinations be made on a reasonable basis and in good faith, (ii) that a party to whom an advance is owed may, under certain circumstances, be called upon to prove the outstanding amount of the Advances evidenced thereby and (iii) the rights of the Agent and the Lenders provided for in Section 9.04(b) of the Credit Agreement may be limited in certain circumstances.

Very truly yours,

EXHIBIT G - FORM OF OPINION OF COUNSEL  
TO A DESIGNATED SUBSIDIARY

\_\_\_\_\_, 20\_\_

To each of the Lenders parties  
to the Credit Agreement  
(as defined below),  
and to Citicorp USA, Inc., as Agent  
for said Lenders

Ladies and Gentlemen:

In my capacity as counsel to \_\_\_\_\_ ("Designated  
Subsidiary"), I have reviewed that certain Five Year Credit Agreement dated as  
of October 22, 2004 among Honeywell International Inc., the Lenders named  
therein, and Citicorp USA, Inc., as Agent for such Lenders (the "Credit  
Agreement"). In connection therewith, I have also examined the following  
documents:

(i) The Designation Letter (as defined in the Credit Agreement)  
executed by the Designated Subsidiary.

[such other documents as counsel may wish to refer to]

I have also reviewed such matters of law and examined the original,  
certified, conformed or photographic copies of such other documents, records,  
agreements and certificates as I have considered relevant hereto.

Except as expressly specified herein all terms used herein and  
defined in the Credit Agreement shall have the respective meanings ascribed to  
them in the Credit Agreement.

Based upon the foregoing, I am of the opinion that:

1. The Designated Subsidiary (a) is a corporation duly incorporated,  
validly existing and in good standing under the laws of  
\_\_\_\_\_, (b) is duly qualified in each other  
jurisdiction in which it owns or leases property or in which the conduct  
of its business requires it to so qualify or be licensed and (c) has all  
requisite corporate power and authority to own or lease and operate its  
properties and to carry on its business as now conducted and as proposed  
to be conducted.

2. The execution, delivery and performance by the Designated  
Subsidiary of its Designation Letter, the Credit Agreement and its Notes,  
and the consummation of the transactions contemplated thereby, are within  
the Designated Subsidiary's corporate powers, have been duly authorized by  
all necessary corporate action, and do not and will

not cause or constitute a violation of any provision of law or regulation or any material order, writ, judgment, decree, determination or award or any provision of the charter or by-laws or other constituent documents of the Designated Subsidiary or result in the breach of, or constitute a default or require any consent under, or result in the creation of any lien, charge or encumbrance upon any of the properties, revenues, or assets of the Designated Subsidiary pursuant to, any material indenture or other agreement or instrument to which the Designated Subsidiary is a party or by which the Designated Subsidiary or its property may be bound or affected. The Designation Letter and each Note of the Designated Subsidiary has been duly executed and delivered on behalf of the Designated Subsidiary.

3. The Credit Agreement and the Designation Letter of the Designated Subsidiary are, and each Note of the Designated Subsidiary when delivered under the Credit Agreement will be, the legal, valid and binding obligation of the Designated Subsidiary enforceable in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization or moratorium or other similar laws relating to the enforcement of creditors' rights generally or by the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and except that I express no opinion as to (i) the subject matter jurisdiction of the District Courts of the United States of America to adjudicate any controversy relating to the Credit Agreement, the Designation Letter of the Designated Subsidiary or the Notes of the Designated Subsidiary or (ii) the effect of the law of any jurisdiction (other than the State of New York) wherein any Lender or Applicable Lending Office may be located or wherein enforcement of the Credit Agreement, the Designation Letter of the Designated Subsidiary or the Notes of the Designated Subsidiary may be sought which limits rates of interest which may be charged or collected by such Lender.

4. There is no action, suit, investigation, litigation or proceeding at law or in equity before any court, governmental agency or arbitration now pending or, to the best of my knowledge and belief, Threatened against the Designated Subsidiary that is reasonably likely to have a Material Adverse Effect or that purports to affect the legality, validity or enforceability of the Designation Letter of the Designated Subsidiary, the Credit Agreement or any Note of the Designated Subsidiary or the consummation of the transactions contemplated thereby.

5. No authorizations, consents, approvals, licenses, filings or registrations by or with any governmental authority or administrative body are required for the due execution, delivery and performance by the Designated Subsidiary of its Designation Letter, the Credit Agreement or the Notes of the Designated Subsidiary except for such authorizations, consents, approvals, licenses, filings or registrations as have heretofore been made, obtained or affected and are in full force and effect.

6. The Designated Subsidiary is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

7. The Designated Subsidiary is not a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

In connection with the opinions expressed by me above in paragraph 3, I wish to point out that (i) provisions of the Credit Agreement which permit the Agent or any Lender to take action or make determinations may be subject to a requirement that such action be taken or such determinations be made on a reasonable basis and in good faith, (ii) a party to whom an advance is owed may, under certain circumstances, be called upon to prove the outstanding amount of the Advances evidenced thereby and (iii) the rights of the Agent and the Lenders provided for in Section 9.04(b) of the Credit Agreement may be limited in certain circumstances.

Very truly yours,



EXHIBIT H - FORM OF OPINION  
OF SHEARMAN & STERLING LLP,  
COUNSEL TO THE AGENT

[S&S LETTERHEAD]

\_\_\_\_\_, 2004

To the Initial Lenders party to the Credit  
Agreement referred to below and to  
Citicorp USA, Inc., as Agent

Honeywell International Inc.  
-----

Ladies and Gentlemen:

We have acted as counsel to Citicorp USA, Inc., as Agent (the "Agent"), in connection with the Credit Agreement, dated as of October 22, 2004 (the "Credit Agreement"), among Honeywell International Inc., a Delaware corporation (the "Borrower"), and each of you. Unless otherwise defined herein, terms defined in the Credit Agreement are used herein as therein defined.

In that connection, we have reviewed originals or copies of the following documents:

- (a) The Credit Agreement.
- (b) The Notes executed by the Borrower and delivered on the date hereof.

The documents described in the foregoing clauses (a) and (b) are collectively referred to herein as the "Opinion Documents."

We have also reviewed originals or copies of such other agreements and documents as we have deemed necessary as a basis for the opinion expressed below.

In our review of the Opinion Documents and other documents, we have assumed:

- (A) The genuineness of all signatures.
- (B) The authenticity of the originals of the documents submitted to us.
- (C) The conformity to authentic originals of any documents submitted to us as copies.

- (D) As to matters of fact, the truthfulness of the representations made in the Credit Agreement.
- (E) That each of the Opinion Documents is the legal, valid and binding obligation of each party thereto, other than the Borrower, enforceable against each such party in accordance with its terms.
- (F) That:

(1) The Borrower is an entity duly organized and validly existing under the laws of the jurisdiction of its organization.

(2) The Borrower has full power to execute, deliver and perform, and has duly executed and delivered, the Opinion Documents.

(3) The execution, delivery and performance by the Borrower of the Opinion Documents have been duly authorized by all necessary action (corporate or otherwise) and do not:

(a) contravene its certificate or articles of incorporation, by-laws or other organizational documents;

(b) except with respect to Generally Applicable Law, violate any law, rule or regulation applicable to it; or

(c) result in any conflict with or breach of any agreement or document binding on it.

(4) Except with respect to Generally Applicable Law, no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or (to the extent the same is required under any agreement or document binding on it of which an addressee hereof has knowledge, has received notice or has reason to know) any other third party is required for the due execution, delivery or performance by the Borrower of any Opinion Document or, if any such authorization, approval, action, notice or filing is required, it has been duly obtained, taken, given or made and is in full force and effect.

We have not independently established the validity of the foregoing assumptions.

"Generally Applicable Law" means the federal law of the United States of America, and the law of the State of New York (including the rules or regulations promulgated thereunder or pursuant thereto), that a New York lawyer exercising customary professional diligence would reasonably be expected to recognize as being applicable to the Borrower, the Opinion Documents or the transactions governed by the Opinion Documents. Without limiting the generality of the foregoing definition of Generally Applicable Law, the term "Generally Applicable Law" does not include any law, rule or regulation that is applicable to the Borrower,

the Opinion Documents or such transactions solely because such law, rule or regulation is part of a regulatory regime applicable to the specific assets or business of any party to any of the Opinion Documents or any of its affiliates.

Based upon the foregoing and upon such other investigation as we have deemed necessary and subject to the qualifications set forth below, we are of the opinion that each Opinion Document is the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms.

Our opinion expressed above is subject to the following qualifications:

(a) Our opinion is subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally (including without limitation all laws relating to fraudulent transfers).

(b) Our opinion is subject to the effect of general principles of equity, including without limitation concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law).

(c) We express no opinion with respect to the enforceability of indemnification provisions, or of release or exculpation provisions, contained in the Opinion Documents to the extent that enforcement thereof is contrary to public policy regarding the indemnification against or release or exculpation of criminal violations, intentional harm or violations of securities laws.

(d) We express no opinion with respect to the enforceability of any indemnity against loss in converting into a specified currency the proceeds or amount of a court judgment in another currency.

(e) Our opinion is limited to Generally Applicable Law.

A copy of this opinion letter may be delivered by any of you to any person that becomes a Lender in accordance with the provisions of the Credit Agreement. Any such person may rely on the opinion expressed above as if this opinion letter were addressed and delivered to such person on the date hereof.

This opinion letter is rendered to you in connection with the transactions contemplated by the Opinion Documents. This opinion letter may not be relied upon by you or any person entitled to rely on this opinion pursuant to the preceding paragraph for any other purpose without our prior written consent.

This opinion letter speaks only as of the date hereof. We expressly disclaim any responsibility to advise you of any development or circumstance of any kind, including any change of law or fact, that may occur after the date of this opinion letter that might affect the opinion expressed herein.

Very truly yours,

U.S. \$1,000,000,000

FIVE YEAR CREDIT AGREEMENT

Dated as of October 22, 2004

Among

HONEYWELL INTERNATIONAL INC.,

as Borrower,  
-----

and

THE INITIAL LENDERS NAMED HEREIN,

as Initial Lenders,  
-----

and

CITICORP USA, INC.,

as Administrative Agent  
-----

and

JPMORGAN CHASE BANK

as Syndication Agent  
-----

and

BANK OF AMERICA, N.A.

BARCLAYS BANK PLC

DEUTSCHE BANK AG NEW YORK BRANCH

and

UBS SECURITIES LLC

as Documentation Agents  
-----

and

CITIGROUP GLOBAL MARKETS INC.

and

J.P.MORGAN SECURITIES INC.

as Joint Lead Arrangers and Co-Book Managers  
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Exhibit B-1 - Form of Notice of Revolving Credit Borrowing

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Exhibit G - Form of Opinion of Counsel to a Designated Subsidiary

Exhibit H - Form of Opinion of Shearman & Sterling LLP, Counsel to the Agent

2003 Stock Incentive Plan  
for Employees  
of Honeywell International Inc. and its Affiliates

Restricted Unit Agreement

RESTRICTED UNIT AGREEMENT made in Morris Township, New Jersey, as of the \_\_\_\_ day of \_\_\_\_\_ (the "Date of Grant"), between Honeywell International Inc. (the "Company") and \_\_\_\_\_ (the "Employee").

1. Grant of Award. The Company has granted you \_\_\_\_\_ Restricted Units, subject to the provisions of this Agreement. The Company will hold the Restricted Units in a bookkeeping account on your behalf until they become payable or are forfeited or cancelled.
2. Payment Amount. Each Restricted Unit represents one (1) Share of Common Stock. Except as otherwise determined by the Management Development and Compensation Committee (the "Committee"), in its sole discretion, you will be paid a Dividend Equivalent in an amount equal to any cash or stock dividends paid by the Company upon one Share of Common Stock for each Restricted Unit credited to your account.
3. Vesting. Except in the event of your Full Retirement, death, Disability, or a Change in Control, or as otherwise provided in this Agreement, the restrictions on the Restricted Units will lapse incrementally as follows: \_\_\_\_\_ (vesting schedule within seven-year period). Your vested right will be calculated on the relevant anniversary of the Date of Grant or upon your Termination of Employment, other than by reason of your Full Retirement, death, Disability, or a Change in Control if earlier. No partial credit will be given for partial years of employment.
4. Form of Payment. Vested Restricted Units will be redeemed solely for Shares. Dividend Equivalents will always be paid in cash.
5. Deferral of Payment. If you would like to defer payment on the Restricted Units, you may, in the calendar year prior to the date on which the restrictions on the Restricted Units lapse or terminate, make a request to the Committee in writing. You must submit a suggested payment schedule with the request for deferral, and may specify whether payment will continue to be deferred in the event of a Change in Control prior to the scheduled payment date. The Committee may, in its sole discretion, determine whether to permit deferral of payment in the manner requested. If the Committee does not accept your proposed payment schedule, then payment will be made as provided in paragraph 4.
6. Termination of Employment. Any Restricted Units that have not vested as of your Termination of Employment, other than by reason of your Full Retirement, death, Disability, or a Change in

Control will immediately be forfeited, and your rights with respect to these Restricted Units will end.

7. Retirement, Death or Disability. If your employment with the Company terminates because of your Full Retirement, death or Disability, any remaining restrictions on Restricted Units will lapse, and payment on the Award will be made as soon as practicable. If you are deceased, the Company will make a payment to your estate only after the Committee has determined that the payee is the duly appointed executor or administrator of your estate.
8. Change in Control. In the event of a Change in Control, any restrictions on Restricted Units that have not lapsed or terminated as of the date of Change in Control will immediately lapse. No later than 90 days after the date of Change in Control, you will receive for the Restricted Units a single payment in cash equal to the product of the number of outstanding Restricted Units as of the date of Change in Control (including any Restricted Units whose restrictions have terminated pursuant to this paragraph 8) and a multiplication factor, as set forth in the Plan. Any Restricted Units on which you elected to defer payment will also be paid in full as soon as practicable after the effective date of the Change in Control, unless you made a contrary election prior to the date of Change in Control. If you elected not to have the Award immediately paid in full, then the Restricted Units will continue to be deferred in accordance with paragraph 5.
9. Withholdings. The Company will have the right, prior to any issuance or delivery of Shares on Restricted Units, to withhold or require from you the amount necessary to satisfy applicable tax requirements, as determined by the Committee.
10. Transfer of Award. You may not transfer any interest in Restricted Units except by will or the laws of descent and distribution. Any other attempt to dispose of your interest in Restricted Units will be null and void.
11. Forfeiture of Awards.
  - (a) By accepting the Award, you expressly agree and acknowledge that the forfeiture provisions of subparagraph (b) will apply if, from the Date of Grant of these Restricted Units until the date that is twenty-four (24) months after your Termination of Employment, for any reason, you enter into an employment or consultation agreement or arrangement (including any arrangement for service as an agent, partner, stockholder, consultant, officer or director) with any entity or person engaged in a business in which the Company or any Affiliate is engaged if the business is competitive (in the sole judgment of the Committee) with the Company or an Affiliate and the Committee has not approved the arrangement in writing.
  - (b) If the Committee determines, in its sole judgment, that you have engaged in an act that violates subparagraph (a) prior to the 24-month anniversary of your Termination of Employment, your outstanding Restricted Units will immediately be rescinded, and you will forfeit any rights you have with respect to these Restricted Units as of the date of the Committee's determination. In addition, you hereby agree and promise immediately to deliver to the Company, Shares equal in value to the amount of any Restricted Units you received payment for during the period beginning six (6) months prior to your Termination of Employment and ending on the date of the Committee's determination.

12. Restrictions on Payment of Shares. Payment of Shares for your Restricted Units is subject to the conditions that, to the extent required at the time of exercise, (a) the Shares underlying the Restricted Units will be duly listed, upon official notice of redemption, upon the NYSE, and (b) a Registration Statement under the Securities Act of 1933 with respect to the Shares will be effective. The Company will not be required to deliver any Common Stock until all applicable federal and state laws and regulations have been complied with and all legal matters in connection with the issuance and delivery of the Shares have been approved by counsel for the Company.
13. Adjustments. In the event of any stock split, reverse stock split, dividend or other distribution (whether in the form of cash, Shares, other securities or other property), extraordinary cash dividend, recapitalization, merger, consolidation, split-up, spin-off, reorganization, combination, repurchase or exchange of Shares or other securities, the issuance of warrants or other rights to purchase Shares or other securities, or other similar corporate transaction or event, the Committee may, in its sole discretion, adjust the number and kind of Shares covered by the Restricted Units and other relevant provisions to the extent necessary to prevent dilution or enlargement of the benefits or potential benefits intended to be provided by the Restricted Units. Any such determinations and adjustments made by the Committee will be binding on all persons.
14. Disposition of Securities. By accepting the Award, you acknowledge that you have read and understand the Company's policy, and are aware of and understand your obligations under applicable securities laws in respect of trading in the Company's securities. The Company will have the right to recover, or receive reimbursement for, any compensation or profit you realize on the disposition of Shares received for Restricted Units to the extent that the Company has a right of recovery or reimbursement under applicable securities laws.
15. Plan Terms Govern. The vesting and redemption of Restricted Units, the disposition of any Shares received for Restricted Units, and the treatment of gain on the disposition of these Shares are subject to the provisions of the Plan and any rules that the Committee may prescribe. The Plan document, as may be amended from time to time, is incorporated into this Agreement. Capitalized terms used in this Agreement have the meaning set forth in the Plan, unless otherwise stated in this Agreement. In the event of any conflict between the terms of the Plan and the terms of this Agreement, the Plan will control. By accepting the Award, you acknowledge receipt of the Plan and the prospectus, as in effect on the date of this Agreement.

16. Personal Data.

- (a) By entering into this Agreement, and as a condition of the grant of the Restricted Units, you expressly consent to the collection, use, and transfer of personal data as described in this Section to the full extent permitted by and in full compliance with applicable law.
- (b) You understand that your local employer holds, by means of an automated data file, certain personal information about you, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company, details of all Restricted Units or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in your favor, for the purpose of managing and administering the Plan ("Data").
- (c) You further understand that part or all of your Data may be also held by the Company and/or its Subsidiaries and Affiliates, pursuant to a transfer made in the past with your consent, in respect of any previous grant of restricted units or awards, which was made for the same purposes of managing and administering of previous award/incentive plans, or for other purposes.
- (d) You further understand that your local employer will transfer Data to the Company and/or its Subsidiaries and Affiliates among themselves as necessary for the purposes of implementation, administration, and management of the your participation in the Plan, and that the Company and/or its Subsidiaries and Affiliates may transfer data among themselves, and/or each, in turn, further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan ("Data Recipients").
- (e) You understand that the Company and/or its Subsidiaries and Affiliates, as well as the Data Recipients, are or may be located in your country of residence or elsewhere, such as the United States. You authorize the Company and/or its Subsidiaries and Affiliates, as well as Data Recipients, to receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing your participation in the Plan, including any transfer of such Data, as may be required for the administration of the Plan and/or the subsequent holding of Shares on your behalf, to a broker or third party with whom the Shares may be deposited.
- (f) You understand that you may show your opposition to the processing and transfer of your Data, and, may at any time, review the Data, request that any necessary amendments be made to it, or withdraw your consent herein in writing by contacting the Company. You further understand that withdrawing consent may affect your ability to participate in the Plan.

17. Discretionary Nature and Acceptance of Award. By accepting this Award, you agree to be bound by the terms of this Agreement and acknowledge that:

- (a) The Company (and not your local employer) is granting your Restricted Units. Furthermore, this Agreement is not derived from any preexisting labor relationship between you and the Company, but rather from a mercantile relationship.
- (b) The Company may administer the Plan from outside your country of residence and that United States law will govern all Restricted Units granted under the Plan.
- (c) That benefits and rights provided under the Plan are wholly discretionary and, although provided by the Company, do not constitute regular or periodic payments.
- (d) The benefits and rights provided under the Plan are not to be considered part of your salary or compensation under your employment with your local employer for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. You waive any and all rights to compensation or damages as a result of the termination of employment with your local employer for any reason whatsoever insofar as those rights result, or may result, from the loss or diminution in value of such rights under the Plan or your ceasing to have any rights under, or ceasing to be entitled to any rights under, the Plan as a result of such termination.
- (e) The grant of Restricted Units hereunder, and any future grant of Restricted Units under the Plan, is entirely voluntary, and at the complete discretion of the Company. Neither the grant of the Restricted Units nor any future grant of any Restricted Units by the Company shall be deemed to create any obligation to grant any further Restricted Units, whether or not such a reservation is explicitly stated at the time of such a grant. The Company has the right, at any time and/or on an annual basis, to amend, suspend or terminate the Plan; provided, however, that no such amendment, suspension, or termination shall adversely affect your rights hereunder.
- (f) The Plan shall not be deemed to constitute, and shall not be construed by you to constitute, part of the terms and conditions of employment. The Company shall not incur any liability of any kind to you as a result of any change or amendment, or any cancellation, of the Plan at any time.
- (g) Participation in the Plan shall not be deemed to constitute, and shall not be deemed by you to constitute, an employment or labor relationship of any kind with the Company.

18. Limitations. Nothing in this Agreement or the Plan gives you any right to continue in the employ of the Company or any of its Affiliates or to interfere in any way with the right of the Company or any Affiliate to terminate your employment at any time. Payment of your Restricted Units is not secured by a trust, insurance contract or other funding medium, and you do not have any interest in any fund or specific asset of the Company by reason of this Award or the account established on your behalf. You have no rights as a shareowner of the Company pursuant to the Restricted Units until Shares are actually delivered to you.

19. Incorporation of Other Agreements. This Agreement and the Plan constitute the entire understanding between you and the Company regarding the Restricted Units. This Agreement supersedes any prior agreements, commitments or negotiations concerning the Restricted Units.

20. Severability. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of the other provisions of the Agreement, which will remain in full force and effect. Moreover, if any provision is found to be excessively broad in duration, scope or covered activity, the provision will be construed so as to be enforceable to the maximum extent compatible with applicable law.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by the facsimile signature of its Chairman of the Board and Chief Executive Officer as of the day and year first above written. By consenting to this Agreement, you agree to the following: (i) you have carefully read, fully understand and agree to all of the terms and conditions described in this Agreement and the Plan; and (ii) you understand and agree that this Agreement and the Plan constitute the entire understanding between you and the Company regarding the Award, and that any prior agreements, commitments or negotiations concerning the Restricted Units are replaced and superseded. You will be deemed to consent to the application of the terms and conditions set forth in this Agreement and the Plan unless you contact Honeywell International Inc., Executive Compensation/AB-1D, 101 Columbia Road, Morristown, NJ 07962 in writing within thirty (30) days of the date of this Agreement.

Honeywell International Inc.

By: David M. Cote  
Chairman of the Board and  
Chief Executive Officer

-----  
Participant's Signature

Date

2003 Stock Incentive Plan  
for Employees  
of Honeywell International Inc. and its Affiliates

GROWTH PLAN AGREEMENT

GROWTH PLAN AGREEMENT made in Morris Township, New Jersey, United States of America, as of the \_\_\_\_ day of \_\_\_\_\_ between Honeywell International Inc. (which together with its subsidiaries and affiliates, when the context so indicates, is hereinafter referred to as the "Company") and \_\_\_\_\_ (the "Employee").

1. Grant of Awards. The Company has granted to you \_\_\_\_\_ Growth Plan Units, subject to the terms of this Agreement and the terms of the 2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates (the "Stock Plan").
2. Target and Actual Award. The number of Growth Plan Units awarded to you represents a target award for the Performance Cycle (as defined below). Each Growth Plan Unit has a target value of \$100 ("Target Value"). Your actual award value (the "Actual Award") is equal to the product of (i) the Target Value, (ii) the Plan Payout Percentage, and (iii) the number of Growth Plan Units awarded to you under this Agreement. For purposes of this Agreement, the "Plan Payout Percentage" shall be based on the achievement of the Performance Measures described in Section 3 below and may range from zero to a maximum of 200%.
3. Performance Measures. The Plan Payout Percentage shall be determined based on revenue growth and return on investment (collectively the "Performance Measures") for the Performance Cycle. Performance Measures shall be determined at the Company level for eligible employees not assigned to one of the Company's four strategic business groups ("SBG"), and at both the Company and SBG level for other eligible employees. For purposes of this determination, if you transfer from one of the Company's businesses during the Performance Cycle, your award will be prorated for the number of days actively employed in that business.

Notwithstanding anything in this Agreement to the contrary, except in the event of a Change in Control (as defined in the Stock Plan), no Growth Plan Unit awards will be paid unless the Company attains a minimum level of earnings per share growth during the Performance Cycle. The minimum level of earnings per share growth shall be a \_\_\_\_% compound annual growth rate over the Performance Cycle. In determining earnings per share for this purpose, the Management Development and Compensation Committee of the Company's Board of Directors (the "Committee") shall exclude from its calculations unusual, infrequently occurring, and extraordinary items.

4. Performance Cycles. The \_\_\_\_ year performance cycle to which this Agreement applies commences on \_\_\_\_\_ and ends on \_\_\_\_\_ (performance cycle between 12 months and 5 years) (the "Performance Cycle").



5. Timing of Payments. The payment of Growth Plan Unit awards is contingent upon (i) the achievement of the performance criteria outlined in Section 3 above, and (ii) you remaining actively employed by the Company on the applicable payment dates. Thus, for example, if you are receiving pay from the Company but not actively performing services therefore (including, but not limited to, severance periods, notice periods, grandfathered vacation periods, short or long-term disability periods), you will not be considered "active" for purposes of the payment of Growth Plan Unit awards. To the extent a Growth Plan Unit award is earned, you will receive it in two installments (subject, of course, to the active employment criteria described herein). One-half of your Actual Award will be paid in \_\_\_\_\_; the second half of your Actual Award will be paid in \_\_\_\_\_; provided, however, that in no event will a payment be made later than two and one-half months from the end of the year in which the payment vests.
6. Form of Payment. Growth Plan Units may be paid out in either cash or shares of the Company's common stock ("Shares"), at the discretion of the Committee. Payment shall be made in the same currency as your pay ("Local Currency"). In the event you receive pay in more than one currency, the currency used for payment will be at the discretion of the party responsible for payment. The Company will normalize your award value for any fluctuation in exchange rates between U.S. dollars and your Local Currency. The exchange rate used will be that which is in effect for compensation planning at the beginning of this Performance Cycle. Your award will be expressed in U.S. dollars. If your Actual Award is paid in Shares, the number of Shares shall be determined by dividing the Actual Award by the Fair Market Value (as defined in the Stock Plan) of the Shares as of the date the Committee determines the amount of your Actual Award. Fractional Shares will always be paid in cash. No payment amounts will be credited with interest, and you may not defer the payment of any awards hereunder.
7. Termination of Employment. If your employment with the Company is terminated for any reason other than death or Disability prior to the date a Growth Plan Unit payment is to be made pursuant to Section 5 above, any unpaid amounts shall be forfeited and your rights with respect to any Growth Plan Units will terminate unless the Committee, or its designee, determines otherwise in its sole and absolute discretion.
8. Death or Disability. If your employment with the Company terminates because of death or Disability (as defined in the Stock Plan) prior to the first installment payment of your Actual Award, you or your estate will receive the prorated value of your Actual Award. The prorated value of the Actual Award shall be determined by multiplying the Actual Award by a fraction, the numerator of which is the number of days you were actively employed by the Company during the Performance Cycle prior to your death or Disability, and the denominator of which is 730. Such prorated Actual Award shall be payable in a single lump sum at the time the first installment payment is paid to other Growth Plan grantees. If your death or Disability occurs after the first installment payment of your Actual Award has been made but before the second installment payment has been made, the Company shall pay the second installment payment in a lump sum as soon as practicable after the date of death or Disability.
9. Change in Control. In the event of a Change in Control (as defined in the Stock Plan), you will be deemed to have earned an Actual Award at a Performance Payout Percentage

of 100%. In such case, you shall receive both installments of your Actual Award in a single sum payment no later than the earlier of 90 days after the date of the Change in Control or two and one-half months after the end of the calendar year in which the Change in Control occurs. Such single sum payment may be in cash or Shares, as determined by the Committee.

10. Change in Status. If your role within the Company changes during the Performance Cycle such that you would no longer be eligible to receive Growth Plan Units, this Agreement shall remain in full force and effect as if no such change had occurred.
11. Transfer of Awards. You may not transfer any interest in your Growth Plan Units. Any attempt to dispose of your interest in your Growth Plan Units shall be null and void.
12. Personal Data. By accepting the Growth Plan Unit award under this Agreement, you hereby consent to the Company's use, dissemination and disclosure of any information pertaining to you that the Company determines to be necessary or desirable for the implementation, administration, and management of the Stock Plan.
13. Discretionary Nature and Acceptance of Award. By accepting this Growth Plan Unit award, you agree to be bound by the terms of this Agreement and acknowledge that:
  - a) The benefits and rights provided under the Stock Plan are not to be considered part of your salary or compensation with the Company for purposes of calculating any (i) severance, resignation, redundancy or termination related payments, (ii) vacation amounts, (iii) bonus amounts, (iv) long-term service awards, (v) pension or retirement benefits, or (vi) any other payments, benefits or rights of any kind. You hereby waive any and all rights to compensation or damages as a result of the termination of your employment with the Company for any reason whatsoever insofar as those rights result, or may result, from the loss or diminution in value of such rights under the Stock Plan or your ceasing to have any rights under, or ceasing to be entitled to any rights under, the Stock Plan as a result of such termination.
  - b) The grant of Growth Plan Units hereunder, and any future grant of Growth Plan Units under the Stock Plan, is entirely voluntary and at the complete and sole discretion of the Company. Neither the grant of these Growth Plan Units nor any future grant of Growth Plan Units by the Company shall be deemed to create any obligation to grant any further Growth Plan Units, whether or not such a reservation is explicitly stated at the time of such grant. The Company has the right, at any time and for any reason, to amend, suspend or terminate the Stock Plan; provided, however, that no such amendment, suspension, or termination shall adversely affect your rights hereunder.
14. Limitations. Nothing in this Agreement or the Stock Plan gives you any right to continue in the employ of the Company or to interfere in any way with the right of the Company to terminate your employment at any time.
15. Agreement Changes. The Company reserves the right to change the terms of this Agreement without your consent to the extent necessary or desirable to comply with the requirements of Code section 409A, the Treasury regulations and other guidance thereunder.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by the facsimile signature of its Chairman of the Board and Chief Executive Officer as of the day and year first above written. By consenting to this Agreement, you agree that (i) you have carefully read, fully understand and agree to all of the terms and conditions described in this Agreement and the Stock Plan; and (ii) you understand and agree that this Agreement and the Stock Plan constitute the entire understanding between you and the Company regarding your award of Growth Plan Units, and that any prior agreements, commitments or negotiations concerning such Growth Plan Units are hereby replaced and superseded. You will be deemed to consent to the application of the terms and conditions set forth in this Agreement and the Stock Plan unless you contact Honeywell International Inc., Executive Compensation/AB-1D, 101 Columbia Road, Morristown, NJ 07962, in writing, within thirty (30) days of the date of this Agreement.

HONEYWELL INTERNATIONAL INC.

By: David M. Cote  
Chairman of the Board and  
Chief Executive Officer

\_\_\_\_\_  
Participant's signature

This Agreement and the underlying Stock Plan represent the entire agreement between the Company and you regarding your Growth Plan Units. This Agreement and the Stock Plan should be read in conjunction so that they are not in conflict. Nevertheless, in the event this Agreement and the Stock Plan cannot be harmonized with each other, the terms of the Stock Plan shall control. You should consult the Stock Plan for additional information with respect to your rights, responsibilities and entitlements.

The Company reserves the right to amend, modify or terminate the Stock Plan at its sole and absolute discretion, subject to shareholder approval if required.

This Agreement does not guarantee your eligibility for any Stock Plan benefit now or in the future. Please keep in mind that neither the Stock Plan nor this Agreement, or any amendments thereto, constitute a contract of employment with the Company or otherwise give you the right to be retained in the employment of the Company.

**HONEYWELL INTERNATIONAL INC.**  
**STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

	2004	2003	2002	2001	2000
	(In millions)				
<b>Determination of Earnings:</b>					
Income (loss) before taxes	\$ 1,680	\$ 1,640	\$ (945)	\$ (422)	\$ 2,398
Add (Deduct):					
Amortization of capitalized interest	24	24	24	25	25
Fixed charges	438	448	435	512	583
Equity income, net of distributions	(75)	(38)	(42)	199	132
<b>Total earnings, as defined</b>	<b>\$ 2,067</b>	<b>\$ 2,066</b>	<b>\$ (528)</b>	<b>\$ 314</b>	<b>\$ 3,138</b>
<b>Fixed Charges:</b>					
Rents(a)	\$ 107	\$ 105	\$ 91	\$ 107	\$ 102
Interest and other financial charges	331	335	344	405	481
	438	440	435	512	583
Capitalized interest	18	15	21	17	16
<b>Total fixed charges</b>	<b>\$ 456</b>	<b>\$ 455</b>	<b>\$ 456</b>	<b>\$ 529</b>	<b>\$ 599</b>
Ratio of earnings to fixed charges	4.53	4.54	(1.16)(b)	0.59(b)	5.24

(a) Denotes the equivalent of an appropriate portion of rentals representative of the interest factor on all rentals other than for capitalized leases.

(b) The ratio of earnings to fixed charges was less than 1:1 for the years ended December 31, 2002 and 2001. In order to have achieved a ratio of earnings to fixed charges of 1:1, we would have had to have generated an additional \$984 and \$215 million of earnings in the years ended December 31, 2002 and 2001, respectively.

## SUBSIDIARIES OF THE REGISTRANT

Name	Country or State of Incorporation	Securities Owned	
		Class	Percent Ownership
Honeywell Electronic Materials Inc.	Washington	Common Stock	100
Honeywell HomeMed L.L.C.	Delaware	Common Stock	100
Honeywell Nylon L.L.C.	Delaware	Common Stock	100
Honeywell Technology Solutions Inc.	Delaware	Common Stock	100
Honeywell Intellectual Properties Inc.	Arizona	Common Stock	100
Honeywell Specialty Wax & Additives Inc.	Delaware	Common Stock	100
Honeywell Specialty Materials, L.L.C.	Delaware	Common Stock	100
Grimes Aerospace Company	Delaware	Common Stock	100
Prestone Products Corporation	Delaware	Common Stock	100

The names of Honeywell's other consolidated subsidiaries, which are primarily totally-held by Honeywell, are not listed because all such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 33-14071, 33-55425, 333-22355, 333-49455, 333-68847, 333-74075, 333-34760, 333-86874 and 333-101455), Form S-8 (Nos. 33-09896, 33-51455, 33-55410, 33-58347, 333-57515, 333-57517, 333-57519, 333-83511, 333-34764, 333-49280, 333-57868, 333-91582, 333-91736, 333-105065 and 333-108461), and Form S-4 (No. 333-82049) of Honeywell International Inc. of our report dated February 25, 2005 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

Florham Park, New Jersey  
February 25, 2005

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POWER OF ATTORNEY  
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I, David M. Cote, a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David J. Anderson, Peter M. Kreindler, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 2004,

(ii) to sign any amendment to the Annual Report referred to in (i) above,  
and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ David M. Cote  
-----  
David M. Cote

Dated: February 1, 2005



POWER OF ATTORNEY

-----

I, David M. Cote, a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David J. Anderson, Peter M. Kreindler, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact to sign on my behalf in my capacity as a director of the Company one or more registration statements under the Securities Act of 1933, or any amendment or post-effective amendment to any registration statement heretofore or hereafter filed by the Company:

(a) on Form S-8 or other appropriate form for the registration of shares of the Company's Common Stock (or participations where appropriate) to be offered under the savings, stock or other benefit plans of the Company, its affiliates or any predecessor thereof, including the Honeywell Savings and Ownership Plan I, Honeywell Savings and Ownership Plan II, the Honeywell Supplemental Savings Plan, the Honeywell Executive Supplemental Savings Plan, the UK Share Purchase Plan of the Company, the Ireland Employees Share Ownership program of the Company, the Employee Stock Purchase Plan of the Company, the Stock Plan for Non-Employee Directors of the Company, the 1993 Honeywell Stock Plan for Employees of the Company and its Affiliates, the 2003 Stock Incentive Plan of Honeywell International Inc., and any plan which is a successor to such plans or is a validly authorized plan pursuant to which securities of the Corporation are issued to employees, and

(b) on Form S-3 or other appropriate form for the registration of shares of the Company's Common Stock to be offered under the Dividend Reinvestment and Share Purchase Plan of the Company and any plan which is a successor to such plan.

I hereby grant to each such attorney full power and authority to perform every act necessary to be done as fully as I might do in person.

I hereby revoke any or all prior appointments of attorneys-in-fact to sign the above-described documents.

/s/ David M. Cote

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David M. Cote

Dated: February 1, 2005

POWER OF ATTORNEY

-----

I, David M. Cote, a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David J. Anderson, Peter M. Kreindler, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact to sign on my behalf in my capacity as a director of the Company one or more registration statements under the Securities Act of 1933, or any amendment or post-effective amendment to any registration statement heretofore or hereafter filed by the Company on Form S-3 or other appropriate form for the registration of:

(i) debt securities of the Company (which may be convertible into or exchangeable for or accompanied by warrants to purchase debt or equity securities of the Company, its subsidiaries, joint ventures or affiliates or another person or entity, provided the number of shares of the Company's Common Stock into or for which such debt securities may be converted or exchanged or which may be issued upon exercise of such warrants shall not exceed 25,000,000, as adjusted for stock splits and dividends) with aggregate proceeds not to exceed \$3 billion (or the equivalent thereof in any foreign currency), including any accompanying warrants and any guarantees by the Company of such debt securities of its subsidiaries, joint ventures or affiliates;

(ii) preferred stock of the Company (which may be convertible into or redeemable or exchangeable for Common Stock or other securities or property of the Company) with proceeds not to exceed \$500 million;

(iii) debt securities, Common Stock or preferred stock of the Company or warrants to purchase such securities to be issued in exchange for debt or equity securities of the Company, its subsidiaries, joint ventures or affiliates with an aggregate principal amount, liquidation, preference or value not to exceed \$815,740,000;

(iv) any securities into or for which any of the securities specified in clauses (i), (ii) or (iii) are convertible or exchangeable or which may be issued upon exercise thereof; and

(v) shares of Common Stock of the Company sold or otherwise disposed of to carry out transactions (a) which have been specifically authorized by the Board of Directors, and any warrants to purchase such shares, or (b) not requiring specific authorization by the Board of Directors (not to exceed in any one transaction the lesser of (1) two percent of the Common Stock of the Company issued and outstanding at the end of the preceding fiscal year, as adjusted for stock splits and stock dividends, or (2) shares having a market value of \$200,000,000), and any warrants to purchase such shares.

I hereby grant to each such attorney full power and authority to perform every act necessary to be done as fully as I might do in person.

I hereby revoke any or all prior appointments of attorneys-in-fact to the extent that they confer authority to sign the above-described documents.

/s/ David M. Cote

-----  
David M. Cote

Dated: February 1, 2005

POWER OF ATTORNEY

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Each of the undersigned, as a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David M. Cote, Peter M. Kreindler, David J. Anderson, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 2004,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

This Power of Attorney may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

/s/ Hans W. Becherer  
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Hans W. Becherer, Director

/s/ Gordon M. Bethune  
-----  
Gordon M. Bethune, Director

/s/ Marshall N. Carter  
-----  
Marshall N. Carter, Director

/s/ Jaime Chico Pardo  
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Jaime Chico Pardo, Director

/s/ Clive R. Hollick  
-----  
Clive R. Hollick, Director

/s/ James J. Howard  
-----  
James J. Howard, Director

/s/ Bruce Karatz  
-----  
Bruce Karatz, Director

/s/ Russell E. Palmer  
-----  
Russell E. Palmer, Director

/s/ Ivan G. Seidenberg  
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Ivan G. Seidenberg, Director

/s/ Bradley T. Sheares  
-----  
Bradley T. Sheares, Director

/s/ Eric K. Shinseki  
-----  
Eric K. Shinseki, Director

/s/ John R. Stafford  
-----  
John R. Stafford, Director

/s/ Michael W. Wright  
-----  
Michael W. Wright, Director

Dated: February 1, 2005

POWER OF ATTORNEY

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(a) on Form S-8 or other appropriate form for the registration of shares of the Company's Common Stock (or participations where appropriate) to be offered under the savings, stock or other benefit plans of the Company, its affiliates or any predecessor thereof, including the Honeywell Savings and Ownership Plan I, Honeywell Savings and Ownership Plan II, the Honeywell Supplemental Savings Plan, the Honeywell Executive Supplemental Savings Plan, the UK Share Purchase Plan of the Company, the Ireland Employees Share Ownership program of the Company, the Employee Stock Purchase Plan of the Company, the Stock Plan for Non-Employee Directors of the Company, the 1993 Honeywell Stock Plan for Employees of the Company and its Affiliates, the 2003 Stock Incentive Plan of Honeywell International Inc., and any plan which is a successor to such plans or is a validly authorized plan pursuant to which securities of the Corporation are issued to employees, and

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/s/ Hans W. Becherer  
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Hans W. Becherer, Director

/s/ Bruce Karatz  
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Bruce Karatz, Director

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John R. Stafford, Director

/s/ Michael W. Wright  
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Michael W. Wright, Director

Dated: February 1, 2005

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(i) debt securities of the Company (which may be convertible into or exchangeable for or accompanied by warrants to purchase debt or equity securities of the Company, its subsidiaries, joint ventures or affiliates or another person or entity, provided the number of shares of the Company's Common Stock into or for which such debt securities may be converted or exchanged or which may be issued upon exercise of such warrants shall not exceed 25,000,000, as adjusted for stock splits and dividends) with aggregate proceeds not to exceed \$3 billion (or the equivalent thereof in any foreign currency), including any accompanying warrants and any guarantees by the Company of such debt securities of its subsidiaries, joint ventures or affiliates;

(ii) preferred stock of the Company (which may be convertible into or redeemable or exchangeable for Common Stock or other securities or property of the Company) with proceeds not to exceed \$500 million;

(iii) debt securities, Common Stock or preferred stock of the Company or warrants to purchase such securities to be issued in exchange for debt or equity securities of the Company, its subsidiaries, joint ventures or affiliates with an aggregate principal amount, liquidation, preference or value not to exceed \$815,740,000;

(iv) any securities into or for which any of the securities specified in clauses (i), (ii) or (iii) are convertible or exchangeable or which may be issued upon exercise thereof; and

(v) shares of Common Stock of the Company sold or otherwise disposed of to carry out transactions (a) which have been specifically authorized by the Board of Directors, and any warrants to purchase such shares, or (b) not requiring specific authorization by the Board of Directors (not to exceed in any one transaction the lesser of (1) two percent of the Common Stock of the Company issued and outstanding at the end of the preceding fiscal year, as adjusted for stock splits and stock dividends, or (2) shares having a market value of \$200,000,000), and any warrants to purchase such shares.

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/s/ Hans W. Becherer  
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Hans W. Becherer, Director

/s/ Gordon M. Bethune  
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Gordon M. Bethune, Director

/s/ Marshall N. Carter  
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/s/ Bradley T. Sheares  
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Bradley T. Sheares, Director

/s/ Eric K. Shinseki  
-----  
Eric K. Shinseki, Director

/s/ John R. Stafford  
-----  
John R. Stafford, Director

/s/ Michael W. Wright  
-----  
Michael W. Wright, Director

Dated: February 1, 2005

**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, David M. Cote, Chief Executive Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Honeywell International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2005

By: \_\_\_\_\_  
/s/ DAVID M. COTE

David M. Cote  
Chief Executive Officer

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**CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, David J. Anderson, Chief Financial Officer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Honeywell International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2005

By:

/s/ DAVID J. ANDERSON

\_\_\_\_\_  
David J. Anderson  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Honeywell International Inc. (the Company) on Form 10-K for the year ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David M. Cote, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: \_\_\_\_\_  
/s/ DAVID M. COTE

David M. Cote  
Chief Executive Officer

February 25, 2005

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Honeywell International Inc. (the Company) on Form 10-K for the year ending December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David J. Anderson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: \_\_\_\_\_  
/s/ DAVID J. ANDERSON

David J. Anderson  
Chief Financial Officer

February 25, 2005

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