

Dear Shareowner:

The past 20 months have been challenging and turbulent for Honeywell. We're not happy with how we've performed during this period and neither are you. But we've taken substantial actions to turn things around and the results should be obvious in 2002....

2000

Annual Report and Form 10-K

Status of Honeywell-GE Merger Agreement

Honeywell and General Electric entered into a merger agreement on Oct. 22, 2000, under which GE would acquire Honeywell, subject to regulatory approvals. The agreement was approved by Honeywell shareowners on Jan. 10, 2001.

On May 2, 2001, the companies reached an agreement in principle with the U.S. Department of Justice. But on July 3, 2001, the European Commission prohibited the combination. The commission said that "the merger would create or strengthen dominant positions on several markets and that the remedies proposed by GE were insufficient to resolve the competition concerns resulting from the proposed acquisition of Honeywell."

On July 17, 2001, the two companies consented to allow each other to engage in certain activities that otherwise would have been prohibited by the merger agreement. The consent covers employment-related issues, acquisitions or dispositions of assets or businesses, and the issuance or acquisition of securities; it otherwise preserves both parties' rights under the merger agreement. Under the terms of the agreement, Honeywell has the right to terminate the merger agreement on Nov. 30, 2001.



Dear Shareowner,



Lawrence A. Bossidy
Chairman and CEO

The past 20 months have been challenging and turbulent for Honeywell. We're not happy with how we've performed during this period and neither are you. But we've taken substantial actions to turn things around and the results should be obvious in 2002.

The tremendous distraction of the proposed General Electric-Honeywell merger is behind us now and we're wasting no time in transforming Honeywell into the premier, performance-driven enterprise we envisioned when Honeywell and AlliedSignal merged nearly two years ago.

We still possess all the strengths that made our combination so powerful: unique and well-established global franchises, a high-performance productivity culture, unequalled systems-solutions capabilities, world-class technology and applications expertise, valuable global brands, and a talented and engaged workforce.

Picking up the tempo. Now we're picking up the tempo and are moving quickly across Honeywell to restore the vitality, confidence and will-to-win that has always distinguished our company.

Resuming our long history of reliable earnings-per-share growth is our top priority. Despite increasing economic challenges, we believe our aggressive action plan will deliver solid year-over-year improvements in key financial metrics in 2002. We continue to restructure and have reduced our workforce by more than 20,000 (about 15 percent) since the Honeywell-AlliedSignal merger. Our business leaders are re-energizing Six Sigma *Plus*, accelerating digitization, driving productivity improvement, generating more cash, and identifying growth opportunities across our operations.

To propel a company-wide resurgence, we intensified the rigor of our key business processes — a robust strategic planning effort, ambitious annual operating plans and a disciplined talent review process. We moved quickly to streamline and flatten the organization — sharpening leadership accountability and eliminating a redundant regional reporting structure. Proven leaders returned to several corporate positions and we have highly motivated and capable executives in charge at every business unit. We recommitted to global shared services to manage customer-responsive, cost-effective systems and administrative processes across the company.

Four initiatives are fundamental to the success of our renewal:

- **Revitalizing Six Sigma *Plus*.** Every company talks about productivity improvement, but few have made it a part of their culture like Honeywell has. Fewer still can match our results — more than \$2 billion in real savings over the past decade. Even so, we learned a lot from the GE integration planning experience. With this expanded perspective and our relentless drive to improve, we're taking Six Sigma *Plus* to a new level.

Our immediate focus is on putting our 3,000-plus Black Belts, Master Black Belts and Lean Experts on priority projects where they can improve processes and reduce costs right away. We will train and certify hundreds more Black Belts and thousands of Green Belts in the coming year — part of our continuing drive to make every employee in the company a Six Sigma *Plus* disciple. This work is essential as we face a difficult economic environment.

- **Accelerating Digitization.** The marriage of Six Sigma *Plus* and digitization creates a powerful force to streamline processes, cut costs and help our customers succeed. We anticipate that digitization will trim our selling, general and administrative (SG&A) expenses by 5 percent per year — and that's just for starters.

We are already seeing great returns on our digitization investment. For example, using a web-based tool to manage credit and collections and resolve billing discrepancies, Honeywell Aerospace collected more than \$8 million in past-due receivables in just three months. And the Internet is improving

delivery of information and services to our employees: it's already the preferred way for people to access their savings plan accounts (with 150,000 hits a month); and our migration to on-line savings-plan statements and paycheck stubs will generate significant savings.

- **Recommitting to Learning.** Employee learning is a hallmark of Honeywell and a personal priority for me. During merger integration planning our learning efforts slowed, so we have some catching up to do. We wasted no time in reopening the Learning Center in Morristown and are relocating the Arizona center to make it more accessible to employees. Our commitment to at least 40 hours of learning each year for every Honeywell employee is unwavering.

A robust curriculum is essential as we continue to drive a growth and productivity mindset across Honeywell. We're rebuilding a broader, more diverse menu of courses that will expand opportunities for employees to grow, develop and increase their contributions to Honeywell. As part of our digitization push, we will supplement traditional classroom education with on-line learning opportunities, which will provide global reach, the ability to quickly change content in response to business needs, and more cost-effective course delivery.

- **Stimulating New Product Development.** Honeywell continues to develop innovative products that solve customers' problems and respond to the worldwide demand for efficiency, safety and environmental responsibility. Examples include enhanced weather-avoidance navigation systems, aircraft telecommunications architectures and fuel-efficient variable geometry automotive turbochargers. Our intellectual property portfolio continued to grow in 2000 — we were granted 473 U.S. patents, a 27 percent increase over 1999 — and we now hold more than 11,000 active patents in the U.S. and other countries, ranking us among the world's leading patent-holders.

But our customers' demands are almost insatiable and the pace of technology advancement continues to accelerate, so the business units and our Honeywell Laboratories have been challenged to fill our development pipeline with exciting new products that will drive growth and performance.

Investing for Growth. Our near-term emphasis is on refocusing and restructuring the company to create a faster, leaner, more agile Honeywell. But at the end of the day, we must grow and we're going to aggressively focus investment on parts of the business with the greatest potential.

We will continue to actively manage our business portfolio to create value for the company and its shareowners. This will include sharpening our focus with niche acquisitions that add capabilities and accelerate growth in our core businesses and the divestiture of some non-core units.

In this climate of economic uncertainty and widespread business malaise, we see both challenges and opportunities across all four businesses:

AEROSPACE

The seamless integration of former Honeywell and AlliedSignal units has left our Aerospace business in great shape. With our strengths in engines and systems, avionics, landing systems and services, and a dedicated solutions-partner approach, we've created one of the world's most valuable aerospace franchises.

Our customer relationships have never been better and we continue to work hard on our organization and cost structure to manage through the projected slowdown in the air transport original equipment market — which today represents just 15 percent of our aerospace revenue. Aerospace is winning programs with a variety of new products including our Primus Epic® avionics offering, the AS900 engine and our promising airline services initiative, and we continue to apply our upgrade and retrofit expertise to help customers extend the lives of their aircraft.

AUTOMATION AND CONTROL SOLUTIONS

Automation and Control Solutions combines Honeywell's Home and Building Control and Industrial Control operations into one powerful enterprise with worldwide reach and accountability. With great distribution channels, a huge installed base and visibility in millions of homes, buildings and plants worldwide, this is one of Honeywell's best-known and most valuable franchises. A streamlined global organization with Control Products, Industry Solutions, Security and Fire, and Services units will improve efficiency, drive down costs and expand profit margins. We have an excellent opportunity to trim overhead costs in this global business.

Softness in the world economy continues to affect our customers' investments in industrial automation upgrades, while we continue to grow in fire and security and sensing and control. Innovative offerings, including the web-based Atrium™ commercial building solution and the ManageAbility™ industrial automation concept, are getting great reception from customers looking to improve efficiency and reduce costs.

SPECIALTY MATERIALS

We believe we're seeing the bottom of a steep decline in Specialty Materials, brought on by depressed conditions in the electronics and telecommunications markets, historically high raw material prices, declining demand, and price pressures caused by commoditization. Specialty Materials' leaders have done an exceptional job of anticipating and managing through this extremely difficult cycle by attacking costs, consolidating businesses and closing facilities.

We continue to take aggressive steps to reposition this business and focus on our Fluorines and Chemical Specialties units, which have performed well, and Electronic Materials, which will rebound with the electronics and telecommunications industries it serves. Our investment in environmentally friendly CFC substitutes continues to pay off.

TRANSPORTATION AND POWER SYSTEMS

Garrett Engine Boosting Systems remains one of Honeywell's premier franchises, with a leading share of turbochargers for cars and trucks. Growing demand for vehicles that are both powerful and fuel-efficient will help us build on our strong position in Europe and around the world with new, even more efficient products. Our automotive Consumer Products Group builds on its world-class brands — such as Fram®, Prestone® and Autolite® — to command premium shelf space in leading retail stores.

The market we anticipated for our Parallon® 75 turbogenerator has not materialized. The turbogenerator was a promising idea but, in the end, a "swing and miss" for us; we are examining our options for this product and our future position in the distributed power-generation field.

Leading resurgence. I'm proud and excited to be back to lead this resurgence at Honeywell. But make no mistake: I have zero interest in launching another career. My mission is to get the company on track,

run it vigorously, position it for the long term, and turn the reins over to a highly capable and motivated successor by the middle of 2002.

When the Board of Directors called, I agreed to take on this task because I believe in Honeywell and its outstanding potential and, most of all, because I feel obligated to the employees who have worked so hard and accomplished so much. Through our industry-best savings and ownership plans, I want Honeywell people and their families to share in the wealth we intend to create for all shareowners.

I didn't come back to sell Honeywell, either. Of course the Board of Directors has the responsibility to consider any offer that we believe is in shareowners' best interests. But we believe Honeywell is a strong and dynamic company, comprised of excellent businesses — we don't need to merge to be successful. We can create maximum shareowner value as an independent enterprise and that's how we intend to operate.

With the actions we are taking, we will emerge from this period of renewal a stronger company, ready to deliver improved results in 2002, well positioned for the eventual economic recovery, and with a foundation for sustained and consistent growth and superior performance in the years ahead.

In closing, my thanks to our shareowners for your perseverance and patience. Thanks also to my Honeywell colleagues who held steady through a difficult period in our company's history. This experience has galvanized us into a united company, unconcerned with our Honeywell or AlliedSignal lineage or with anything else that could distract us from a laser focus on renewal, performance and achieving our full potential.

Sincerely,



Lawrence A. Bossidy
Chairman and Chief Executive Officer

Sept. 1, 2001

Honeywell At A Glance

AEROSPACE



Honeywell is the world's premier supplier of aircraft engines and systems, avionics and other products and services for commercial transport, regional and business aviation, military aircraft and spacecraft.

Our industry-leading technology and customer focus have consistently earned us high ranking among the world's most-respected aerospace companies. We partner with the industry's leading customers to produce superior products such as turbofan, turboprop and turboshaft propulsion engines; auxiliary power units; integrated avionics systems and products; environmental control systems; and aircraft landing systems. We also provide repair and overhaul services, aerospace spare parts, hardware and logistics support, and management and technical services for space and communications facilities.

Representative Customers: Airbus, Boeing, Bombardier, British Aerospace, Cessna, Dassault, Embraer, Fairchild Dornier, Gulfstream, Learjet, Lockheed-Martin, Northrup Grumman, Raytheon, TRW, leading airlines and airports, Department of Defense, NASA, Department of Energy.

Competitive Strengths: Unrivalled breadth of products and services, ability to provide nose-to-tail integrated solutions, superior technology, unsurpassed systems integration expertise.

2000 sales: \$9.99 billion

AUTOMATION AND CONTROL SOLUTIONS



More than 100 million households around the world trust Honeywell to create efficient, safe, comfortable indoor environments. Managers of commercial buildings — from arenas, to office complexes, to restaurants — turn to us to reduce operating expenses and improve safety and efficiency. We offer controls for ventilation, humidification and air-conditioning equipment, security and fire alarm systems, home automation systems, energy-efficient lighting and building management systems and services.

We are a global leader in solutions for industrial plants, offering advanced software and automation systems that integrate, control and monitor complex processes in many types of industrial settings. We provide sensors, switches, control systems and instruments that measure pressure, airflow, temperature, electrical current and more. Our customers are from such industries as manufacturing, oil and gas production, food processing and utilities.

Representative Customers: Alcoa, ExxonMobil, Citgo, Phillips, Totalfina, Chevron, PDVSA, DuPont, BASF, General Motors, Boeing, Sinopec, original equipment manufacturers, homeowners, building owners and managers.

Competitive Strengths: Large installed base, open systems solutions and integration expertise, well-developed distribution channels, wide brand recognition, broad range of products, systems and services.

2000 sales: \$7.38 billion

SPECIALTY MATERIALS



Honeywell is a world leader in producing high-performance specialty materials for use by our customers in industries as diverse as telecommunications, electronics, carpet-manufacturing and candle-making.

One of the top five providers of materials and solutions to the electronics industry, we manufacture a full line of products for producing advanced integrated circuits. Honeywell's Genetron® chemicals are among the leading environmentally responsible fluorocarbons, used in air-conditioning, refrigeration and insulation to replace ozone-depleting chemicals.

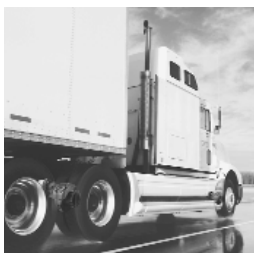
We're a world leader in the production of nylon, polyester, polyethylene, fluoropolymer, caprolactam and specialty and fine chemicals. Our Anso® carpet-fiber brand is one of the world's best known and Spectra® is the world's strongest and lightest manmade fiber, used in bullet-proof vests and boat sails. Our innovative AstorLite® additive changes the crystal structure of wax to make candles stronger, more colorful and longer lasting.

Representative Customers: Cisco, Ford, General Motors, IBM, Intel, Isola Laminate, Mohawk, Motorola, Nokia, Shaw Industries, 3M.

Competitive Strengths: Strong customer relationships, well-known product brands, leader in fluorine technologies, low-cost production capabilities.

2000 sales: \$4.06 billion

TRANSPORTATION AND POWER SYSTEMS



Innovative and well-known products from Honeywell improve the performance, safety, efficiency and appearance of cars, trucks and other vehicles around the world.

Our Garrett® Engine Boosting Systems unit is the world's leading provider of turbochargers for passenger cars, light trucks and commercial vehicles. Our engine boosting expertise saves fuel and reduces emissions without sacrificing engine performance.

Consumer automotive products from Honeywell are industry leaders. Prestone® antifreeze/coolant is the best-selling brand in North America. Autolite® platinum spark plugs are driving new growth by setting the standard for precision and longevity. FRAM® automotive filters stand as the market leader and prime innovator. Holt Lloyd, the leading European retail automotive product supplier, has helped us expand our international market presence. Our Bendix® Commercial Vehicle Systems joint venture is a leading supplier of braking systems for trucks and other commercial vehicles. Honeywell Friction Materials are used by the world's major car, truck and brake manufacturers.

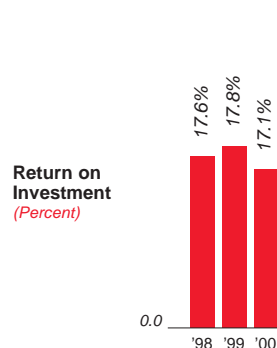
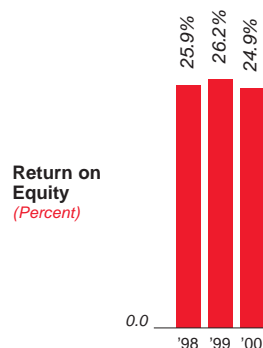
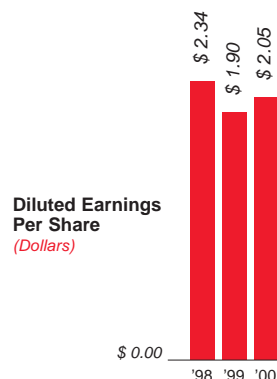
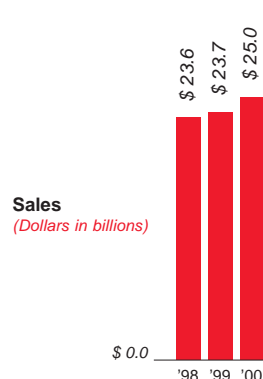
Representative Customers: Auto Zone, Bosch, BMW, Canadian Tire, Caterpillar, DDC, Daimler Chrysler, Ford, General Motors, Honda, Nissan, TRW, Volkswagen, Wal-Mart.

Competitive Strengths: Superior brand recognition, global manufacturing/engineering presence, broad distribution network, original equipment experience.

2000 sales: \$3.53 billion

Note: The names of Honeywell reporting segments have changed since the attached Form 10-K was originally published. "Aerospace Solutions" is now "Aerospace," "Automation and Control" is now "Automation and Control Solutions," "Performance Materials" is now "Specialty Materials," and "Power and Transportation Products" is now "Transportation and Power Systems."

Financial Highlights



(Dollars and Shares in Millions Except Per Share Amounts)

	2000	1999	1998
Sales	\$ 25,023	\$ 23,735	\$ 23,555
Net Income ¹	\$ 1,659	\$ 1,541	\$ 1,903
Diluted Earnings Per Common Share	\$ 2.05	\$ 1.90	\$ 2.34
Cash Dividends Per Common Share	\$ 0.75	\$ 0.68	\$ 0.60
Book Value Per Common Share	\$ 12.03	\$ 10.82	\$ 10.17
Common Shares Outstanding at Year-end	807	795	795
Total Assets	\$ 25,175	\$ 23,527	\$ 22,738
Employees at Year-end	125,000	120,000	127,400

¹ In 2000, includes a net provision for asset impairments, repositioning and other charges, and a gain on the sale of the Traffic Alert/Collision Avoidance (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.

Statements contained in this report concerning our goals, strategies and expectations for business and financial results are “forward-looking statements” based on current expectations. No assurances can be given that the results in any forward-looking statements will be achieved and actual results could differ materially. Please review our Annual Report on Form 10-K as well as other reports we file periodically with the Securities and Exchange Commission for information concerning factors which could affect our businesses.

Following is our Annual Report on Form 10-K for the year ended Dec. 31, 2000, as filed with the Securities and Exchange Commission on March 30, 2001.

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

Form 10-K

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

For the fiscal year ended December 31, 2000

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

(State or other jurisdiction of
incorporation or organization)

101 Columbia Road
P.O. Box 4000
Morristown, New Jersey

(Address of principal executive offices)

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

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

22-2640650

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

07962-2497

(Zip Code)

Title of Each Class
Common Stock, par value \$1 per share*

Name of Each Exchange
on Which Registered

New York Stock Exchange
Chicago Stock Exchange
Pacific Exchange
New York Stock Exchange
New York Stock Exchange
New York Stock Exchange
New York Stock Exchange

9 $\frac{7}{8}$ % Debentures due June 1, 2002

9.20% Debentures due February 15, 2003

Zero Coupon Serial Bonds due 2009

9 $\frac{1}{2}$ % Debentures due June 1, 2016

* 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 ☐

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately \$38.2 billion at December 31, 2000.

There were 807,291,445 shares of Common Stock outstanding at December 31, 2000.

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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.

PART I.

Item 1. Business

On October 22, 2000, Honeywell entered into a merger agreement with General Electric Company (GE). Under the terms of the merger agreement, each share of Honeywell common stock will be exchangeable for 1.055 shares of GE common stock at the effective time of the merger, with fractional shares paid in cash, and Honeywell will become a wholly owned subsidiary of GE. The transaction was approved by Honeywell's shareowners on January 10, 2001, and it remains subject to regulatory reviews. GE and Honeywell are working with regulatory agencies to complete the required reviews so that the transaction can close as early as possible in 2001.

Major Businesses

Honeywell is a diversified technology and manufacturing company, serving customers worldwide with aerospace products and services, control technologies for buildings, homes and industry, automotive products, power generation systems, specialty chemicals, fibers, plastics and electronic and advanced materials. Our operations are conducted by strategic business units, which have been aggregated under four reportable segments: Aerospace Solutions, Automation & Control, Performance Materials and Power & Transportation Products. Financial information related to our reportable segments is included in "Item 8. Financial Statements and Supplementary Data" in Note 24 of Notes to Financial Statements.

Following is a description of our strategic business units:

<u>Strategic Business Units</u>	<u>Product Classes</u>	<u>Major Products/Services</u>	<u>Major Customers/Uses</u>	<u>Key Competitors</u>
Aerospace Solutions				
Engines & Systems	Turbine propulsion engines	TFE731 turbofan TPE331 turboprop TFE1042 turbofan F124 turbofan LF502 turbofan LF507 turbofan CFE738 turbofan AS907 turbofan T53, T55 turboshaft LT101 turboshaft T800 turboshaft TF40 turboshaft TF50 turboshaft AGT1500 turboshaft Retrofits Repair, overhaul and spare parts	Business, regional and military trainer aircraft Commercial and military helicopters Military vehicles Commercial and military marine craft	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	Pratt & Whitney Canada Sundstrand Power Systems
	Industrial power	ASE 8 turboshaft ASE 40/50 turboshaft	Ground based utilities, industrial or mechanical drives	European Gas Turbines Rolls Royce/ Allison Solar

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Aerospace Electronic Systems	Environmental control systems	Air management systems: Air conditioning Bleed air systems Cabin pressure control systems Air purification and treatment De-icing systems Electrical power systems: Power distribution and control Emergency power generation Fuel cells Repair, overhaul and spare parts	Commercial, regional and general aviation aircraft Military aircraft Ground vehicles Spacecraft	Auxilec Barber Colman Dukes Eaton-Vickers Hamilton Sundstrand Liebherr Litton Breathing Systems Lucas Pacific Scientific Parker Hannifin 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 air transport, regional and general aviation Military aircraft	BAE Controls Goodrich (Chandler-Evans) Parker Hannifin TRW (Lucas Aerospace) UTC (Hamilton Sundstrand)
	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 Communication, navigation and surveillance systems: Air-to-ground telephones Global positioning systems Automatic flight control systems Surveillance systems Integrated systems Flight management systems Cockpit display systems Data management and aircraft performance monitoring systems Vehicle management systems Inertial sensor systems for guidance, stabilization, navigation and control	Commercial, business and general aviation aircraft Government aviation	Century Garmin Goodrich Kaiser Litton Lockheed Martin Narco Rockwell Collins Smiths S-tec Thales Sextant Trimble/Terra Universal
Aerospace Electronic Systems	Automatic test systems	Computer-controlled automatic test systems Functional testers and ancillaries Portable test and diagnostic systems Advanced battery analyzer/charger	U.S. Government and international logistics centers Military aviation	GDE Systems Litton Lockheed Martin Northrop Grumman
	Inertial sensor	Gyroscopes, accelerometers, inertial measurement units and thermal switches	Military and commercial vehicles Commercial spacecraft and launch vehicles Energy utility boring Transportation Missiles Munitions	Astronautics-Kearfott Ball BEI GEC Litton Rockwell Collins

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
	Radar systems	Aircraft precision landing Ground surveillance Target detection devices	Global and U.S. airspace agencies Military aviation Military missiles	Hughes Motorola Raytheon Rockwell Collins Thales
Aerospace Services	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. and foreign government space communications, logistics and information services Commercial space ground segment systems and services	Boeing Computer Sciences Dyncorp ITT Lockheed Martin SAIC United Space Alliance
	Aircraft hardware distribution	Consumable hardware, including fasteners, bearings, bolts and o-rings Adhesives, sealants, lubricants, cleaners and paints Electrical connectors, switches, relays and circuit breakers Value-added services, repair and overhaul kitting and point-of-use replenishment	Commercial and military aviation and space programs	Arrow Pemco Avnet Dixie Fairchild Direct Jamaica Bearings M&M Aerospace Pentacon Wesco Aircraft
Aircraft Landing Systems	Landing systems	Wheels and brakes Friction products Brake control systems Wheel and brake overhaul services Aircraft landing systems integration	Commercial and military aircraft	Aircraft Braking Systems Dunlop Goodrich Messier-Bugatti Messier-Dowty
Federal Manufacturing & Technologies	Management services	Maintenance/operation of facilities	U.S. government	Bechtel Lockheed Martin The Washington Group
Automation & Control				
Home and Building Control	Products	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 Security products and systems Consumer household products including heaters, fans, humidifiers, air cleaners and thermostats Water controls Fire products & systems	Original equipment manufacturers (OEMs) Distributors Contractors Retailers System integrators Commercial customers and homeowners served by the distributor, wholesaler, contractor, retail and utility channels	Danfoss DSC Emerson EST Holmes Interlogix Invensys Johnson Controls Siemens

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
	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 Critical environment control solutions and 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	Carrier GroupMac Invensys Johnson Controls Local contractors and utilities Simplex Trane
Industrial Control	Industrial automation solutions	Advanced control software and industrial automation systems for control and monitoring of continuous, batch and hybrid operations Process control instrumentation Field instrumentation Production management software Communications systems for Industrial Control equipment and systems Consulting, networking engineering and installation	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	Allen-Bradley Asea Brown Boveri Aspentech Banner Fisher-Rosemount Invensys Siemens Yokogawa
	Sensors, electromechanical switches, control components	Sensors, measurement, control and industrial components Analytical instrumentation Recorders Controllers Datacom components Flame safeguard equipment	Package and materials handling operations Appliance manufacturers Automotive companies Aviation companies Food and beverage processors Medical equipment Heat treat processors Flame safeguard equipment Computer and business equipment manufacturers Data acquisition companies	Cherry Eaton Omron Optek Phillips Telemechanique Turck Yokogawa
Performance Materials				
Performance Polymers & Chemicals	Nylon products and services	Nylon filament and staple yarns Bulk continuous filament Nylon polymer Caprolactam Ammonium sulfate Hydroxylamine Cyclohexanol Cyclohexanone	Commercial, residential and specialty carpet markets Nylon for fibers, engineered resins and film Fertilizer ingredients Specialty chemicals Vitamins	BASF DSM DuPont Enichem Rhodia Solutia UBE
	Performance fibers	Industrial nylon and polyester yarns Extended-chain polyethylene composites	Passenger car and truck tires Passenger car and light truck seatbelts and airbags Broad woven fabrics Ropes and mechanical rubber goods Luggage Sports gear Bullet resistant vests, helmets and heavy armor Cut-resistant industrial upholstery and workwear Sailcloth	Acordis Akra DSM DuPont Hyosung Kolon Kosa Solutia

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
	Engineered applications and solutions	Thermoplastic nylon Thermoplastic alloys and blends Post-consumer recycled PET resins Recycled nylon resins Cast nylon Biaxially oriented nylon film Fluoropolymer film	Food and pharmaceutical packaging Housings (e.g., electric hand tools, chain saws) Industrial applications Automotive components Office furniture Electrical and electronics	BASF Bayer DuPont Hoechst Kolon Monsanto Rexam Custom Toyobo
	Fluorocarbons	Genetron® refrigerants, aerosol and insulation foam blowing agents Genesolv® solvents Oxyfume sterilant gases	Refrigeration Air conditioning Polyurethane foam Precision cleaning Optical Metalworking Hospitals Medical equipment manufacturers	Atochem DuPont ICI
	Hydrofluoric acid (HF)	Anhydrous and aqueous hydrofluoric acid	Fluorocarbons Steel Oil refining Chemical intermediates	Ashland Atochem DuPont Hashimoto Merck Norfluor Quimica Fluor
	Fluorine specialties	Sulfur hexafluoride (SF ₆) Iodine pentafluoride (IF ₅) Antimony pentafluoride (SbF ₅)	Electric utilities Magnesium Gear manufacturers	Air Products Asahi Glass Atochem Ausimont Kanto Denko Kogyo Solvay Fluor
	Nuclear services	UF ₆ conversion services	Nuclear fuel Electric utilities	British Nuclear Fuels Cameco Cogema Tennex
	Pharmaceutical and agricultural chemicals	Active pharmaceutical ingredients Oxime-based fine chemicals Fluoroaromatics Bromoaromatics	Agrichemicals Pharmaceuticals	Cambrex DSM Lonza Zeneca
	High purity chemicals	Ultra high purity HF Solvents Inorganic acids High purity solvents	Semiconductors	LaPorte Merck Olin
	Industrial specialties Imaging Luminescence and plastic additives Chemical processing Materials and surface treatment Sealants	HF derivatives Fluoroaromatics Photodyes Phosphors Catalysts Oxime silanes	Diverse by product type	Varies by product line
	Specialty waxes	Polyethylene waxes Petroleum waxes and blends	Coatings Inks Candles Tire/Rubber Personal care Packaging	BASF Clariant Eastman Exxon IGI Leuna Schumann-Sasol
	Specialty additives	Polyethylene waxes Petroleum waxes and blends PVC lubricant systems Plastic additives	PVC Plastics	Eastman Geon Henkel

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
	UOP (joint venture)	Processes Catalysts Molecular sieves Adsorbents Design of process plants and equipment Customer catalyst manufacturing	Petroleum, petrochemical, gas processing and chemical industries	ABB Lummus Criterion IFP Mobil Procatalyse Stone & Webster Zeochem
Electronic Materials	Wafer fabrication materials and services	Interconnect-dielectrics Interconnect-metals Semiconductor packaging materials Advanced polymers Global services	Semiconductors Microelectronics Telecommunications	Applied Materials Dow Chemical Dow Corning Japan Energy JSR Material Research Tokyo-Ohka Tosoh SMD VMC/Ulvac
	Specialty electronic materials	Amorphous metal ribbons and components	Electrical distribution transformers High frequency electronics Metal joining Theft deterrent systems Printed circuit boards	ARMCO/Allegheny CF Lux Gould Morgan/VAC
	Advanced circuits	Printed circuit boards (PCBs); high density interconnect solutions, complex rigid PCBs, high-layer count/multilayer PCBs	Computers Telecommunications Handsets & infrastructure Networking equipment	JVC Merix Sanmina TTM Unicap ViaSystems
Power & Transportation Products				
Transportation and Power Systems	Charge-air systems	Turbochargers Superchargers Remanufactured components	Passenger car, truck and off-highway OEMs Engine manufacturers Aftermarket distributors and dealers	Aisin Seiki Borg-Warner Hitachi Holset IHI KKK MHI Schwitzer
	Thermal systems	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
	Power generation	Microturbine generators	Users of electricity	Bowman Capstone Elliot GenSet OEMs Ebarra Electric Utilities Mitsubishi Toyota Turbec
	Air brake systems (joint venture)	Anti-lock brake systems (ABS) Air disc brakes Air compressors Air valves Air dryers Actuators Truck electronics Competitive remanufactured products	On-highway medium and heavy truck, bus and trailer OEMs Off-highway equipment OEMs Aftermarket distributors and dealers/original equipment service (OES)	Arvin Meritor Eaton Midland-Haldex WABCO

Strategic Business Units	Product Classes	Major Products/Services	Major Customers/Uses	Key Competitors
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 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 Automotive Italy S.r.l. JBI Nissinbo Pagid Sumitomo TMD

Aerospace Sales

Our sales to aerospace customers were 40, 42 and 42 percent of our total sales in 2000, 1999 and 1998, respectively. Our sales to aerospace original equipment manufacturers were 14, 15 and 16 percent of our total sales in 2000, 1999 and 1998, respectively. If there were a large decline in sales of aircraft that use our components, operating results could be negatively impacted. In addition, our sales to aftermarket customers of aerospace products and services were 19, 19 and 18 percent of our total sales in 2000, 1999 and 1998, respectively. If there were a large decline in the number of flight hours for aircraft that use our components or services, operating results could be negatively impacted.

U.S. Government Sales

Sales to the U.S. Government (principally by our Aerospace Solutions segment), acting through its various departments and agencies and through prime contractors, amounted to \$2,219, \$2,383 and \$2,693 million in 2000, 1999 and 1998, respectively, which includes sales to the U.S. Department of Defense of \$1,548, \$1,415 and \$1,658 million in 2000, 1999 and 1998, respectively. We are affected by U.S. Government budget constraints for defense and space programs. U.S. defense spending increased slightly in 2000 and is also expected to increase slightly in 2001.

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.

We, like other government contractors, are subject to government investigations of business practices and compliance with government procurement regulations. Although such regulations provide that a contractor may be suspended or barred from government contracts under certain circumstances, and the outcome of pending government investigations cannot be predicted with certainty, we are not

currently aware of any such investigations that we expect, individually or in the aggregate, will have a material adverse effect on us. In addition, we have a proactive business compliance program designed to ensure compliance and sound business practices.

Backlog

Our total backlog at year-end 2000 and 1999 was \$8,094 and \$8,736 million, respectively. We anticipate that approximately \$5,090 million of the 2000 backlog will be filled in 2001. 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. Such 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 factor in each of our major product and service classes. However, certain 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 and/or research and development mainly in the U.S., Europe, Canada, Asia and Latin America. U.S. exports and foreign manufactured products are significant to our operations.

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. However, we have limited exposure in high risk countries and have taken action to mitigate such risks.

Financial information related to geographic areas is included in "Item 8. Financial Statements and Supplementary Data" in Note 25 of Notes to Financial Statements.

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 2000. 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. However, at present, we have no reason to believe a shortage of raw materials will cause any material adverse impact during 2001.

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 thereon and 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 the judgment of management, such rights are adequate for the conduct of the business being done by us. We believe that, in the aggregate, the rights under such patents, trademarks and licenses are generally important to our operations, but we do not consider that any patent, trademark or related group of patents, or any licensing or distribution rights related to a specific process or product are of material importance in relation to our total business. See Item 3 at page 10 of this Form 10-K for information concerning litigation relating to patents in which we are involved.

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

Research and Development

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

Research and development expense totaled \$818, \$909 and \$876 million in 2000, 1999 and 1998, respectively. Customer-sponsored (principally the U.S. Government) research and development activities amounted to an additional \$560, \$682 and \$718 million in 2000, 1999 and 1998, respectively.

Environment

We are subject to various federal, state and local 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 certain 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 or disposal of many substances classified as hazardous or toxic by one or more regulatory agencies. We believe that, as a general matter, our handling, manufacture, use and disposal of such substances are in accord with environmental 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 thereunder, could bring into question our handling, manufacture, use or disposal of such substances.

Among other environmental requirements, we are subject to the federal superfund law, and similar state laws, 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.

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 125,000 employees at December 31, 2000. Approximately 86,000 were located in the United States, and, of these employees, about 17% were unionized employees represented by various local or national unions.

Item 2. Properties

We have over 1,000 locations consisting of plants, research laboratories, sales offices and other facilities. The plants are generally located to serve large marketing areas and to provide accessibility to raw materials and labor pools. The 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. The facilities, together with planned expansions, are expected to meet our needs for the foreseeable future. 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 headquarters and administrative complex is located at Morristown, New Jersey.

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

Aerospace Solutions

Glendale, AZ (partially leased)	South Bend, IN	Rocky Mount, NC
Phoenix, AZ	Olathe, KS (leased)	Redmond, WA
Tempe, AZ	Coon Rapids, MN (leased)	Yeovil, Somerset
Tucson, AZ	Minneapolis, MN	United Kingdom
Torrance, CA (partially leased)	Teterboro, NJ	
Clearwater, FL	Albuquerque, NM	

Automation & Control

Phoenix, AZ	Freeport, IL	Syosset, NY
San Diego, CA	Golden Valley, MN	El Paso, TX (leased)
Northford, CT	Plymouth, MN	Offenbach, Germany

Performance Materials

Baton Rouge, LA	Pottsville, PA	Hopewell, VA
Geismar, LA	Columbia, SC	Seelze, Germany
Roseville, MN	Orange, TX	
Moncure, NC	Chesterfield, VA	

Power & Transportation Products

Torrance, CA	Thaon-Les-Vosges, France	Atessa, Italy
Huntington, IN	Glinde, Germany	Skelmersdale, United Kingdom

Item 3. Legal Proceedings

Details of Legal Proceedings are included in "Item 8. Financial Statements and Supplementary Data" under the headings "Litton Litigation", "Shareowner Litigation" and "Other Matters" in Note 22 of Notes to Financial Statements.

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

At the Special Meeting of Shareowners of Honeywell held on January 10, 2001, the proposed merger to be implemented pursuant to the Agreement and Plan of Merger, dated as of October 22, 2000, between General Electric Company and Honeywell International Inc. as set forth in Honeywell's proxy statement dated December 4, 2000, which was filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, was approved with 592,168,926 votes cast FOR, 8,187,890 votes cast AGAINST, 6,826,897 abstentions and no broker non-votes.

Part II.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

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

The number of record holders of our common stock at December 31, 2000 was 92,313.

Item 6. Selected Financial Data

HONEYWELL INTERNATIONAL INC.

	Years ended December 31,					
	2000	1999	1998	1997	1996	1995
	(Dollars and shares in millions except per share amounts)					
Results of Operations						
Net sales	\$25,023	\$23,735	\$23,555	\$22,499	\$21,283	\$21,077
Net income(1)	1,659	1,541	1,903	1,641	1,423	1,209
Earnings Per Common Share						
Net earnings:						
Basic	2.07	1.95	2.38	2.04	1.77	1.50
Assuming dilution	2.05	1.90	2.34	2.00	1.73	1.48
Dividends	0.75	0.68	0.60	0.52	0.45	0.39
Financial Position At Year-End						
Property, plant and equipment-net ..	5,230	5,630	5,600	5,380	5,353	5,841
Total assets	25,175	23,527	22,738	20,118	18,322	17,525
Short-term debt	1,682	2,609	2,190	1,238	867	956
Long-term debt	3,941	2,457	2,776	2,394	2,034	1,848
Total debt	5,623	5,066	4,966	3,632	2,901	2,804
Shareowners' equity	9,707	8,599	8,083	6,775	6,385	5,632

(1) In 2000, includes a net provision for asset impairments, repositioning, environmental 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 common stock resulting in a net after-tax charge of \$624 million, or \$0.78 per share. In 1998, includes repositioning charges, a gain on settlement of litigation claims and a tax benefit resulting from the favorable resolution of certain prior-year research and development tax claims resulting in a net after-tax charge of \$4 million, with no impact on the per share amount. In 1997, includes repositioning and other charges, gains on the sales of our automotive Safety Restraints and certain Industrial Control businesses and a charge related to the 1996 sale of our automotive Braking Systems business resulting in a net after-tax charge of \$5 million, with no impact on the per share amount. In 1996, includes repositioning and other charges and a gain on the sale of our automotive Braking Systems business resulting in a net after-tax gain of \$9 million, or \$0.01 per share.

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

RESULTS OF OPERATIONS

	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(Dollars in millions)		
Net Sales			
Aerospace Solutions.....	\$ 9,988	\$ 9,908	\$ 9,890
Automation & Control.....	7,384	6,115	5,957
Performance Materials.....	4,055	4,007	4,169
Power & Transportation Products.....	3,527	3,581	3,387
Corporate.....	69	124	152
	<u>\$25,023</u>	<u>\$23,735</u>	<u>\$23,555</u>
Segment Profit			
Aerospace Solutions.....	\$ 2,195	\$ 1,918	\$ 1,587
Automation & Control.....	986	767	705
Performance Materials.....	334	439	634
Power & Transportation Products.....	274	322	234
Corporate.....	(160)	(175)	(248)
	<u>\$ 3,629</u>	<u>\$ 3,271</u>	<u>\$ 2,912</u>

See "Item 8. Financial Statements and Supplementary Data" in Note 24 of Notes to Financial Statements for further information on our reportable segments.

Net sales in 2000 were \$25,023 million, an increase of \$1,288 million, or 5 percent compared with 1999. Net sales in 1999 were \$23,735 million, an increase of \$180 million, or 1 percent compared with 1998. The increase in sales in both 2000 and 1999 is attributable to the following:

	<u>2000 Versus 1999</u>	<u>1999 Versus 1998</u>
Acquisitions/Divestitures.....	6%	1%
Foreign Exchange.....	(2)	(1)
Volume/Price.....	<u>1</u>	<u>1</u>
	<u>5%</u>	<u>1%</u>

Total segment profit in 2000 was \$3,629 million, an increase of \$358 million, or 11 percent compared with 1999. Segment profit margin for 2000 was 14.5 percent compared with 13.8 percent in 1999. The increase in segment profit in 2000 was led by a significant improvement by the Aerospace Solutions and Automation & Control segments and lower Corporate expenses. The increase was partially offset by lower segment profit by the Performance Materials and Power & Transportation Products segments. Total segment profit in 1999 was \$3,271 million, an increase of \$359 million, or 12 percent compared with 1998. Segment profit margin for 1999 was 13.8 percent compared with 12.4 percent in 1998. The increase in segment profit in 1999 was led by a substantial improvement by the Aerospace Solutions segment with the Power & Transportation Products and Automation & Control segments also contributing solid gains. Lower Corporate expenses also contributed to the increase. The increase was partially offset by a substantial decrease in segment profit by the Performance Materials segment.

Postretirement benefit plans contributed cost reductions of \$282 and \$61 million in 2000 and 1999, respectively, principally due to workforce reductions and the funding status of our pension plans (described in "Item 8. Financial Statements and Supplementary Data" in Note 23 of Notes to Financial Statements). Future effects on operating results depend on economic conditions and investment performance.

A discussion of net sales and segment profit by reportable segment can be found in the Review of Business Segments section below.

(Gain) on sale of non-strategic businesses of \$112 million in 2000 represents the pretax gain on the government-mandated divestiture of the TCAS product line of Honeywell Inc. (the former Honeywell) following the merger of AlliedSignal Inc. and Honeywell Inc. in December 1999. (Gain) on sale of non-strategic businesses of \$106 million in 1999 represents the pretax gain on the sale of our Laminate Systems business. Refer to "Item 8. Financial Statements and Supplementary Data" in Note 6 of Notes to Financial Statements for further information.

Equity in (income) loss of affiliated companies was a loss of \$89 million in 2000 compared with income of \$76 million in 1999. The decrease of \$165 million in equity income reflects that the current year includes a charge of \$136 million for costs associated with closing an affiliate's chemical manufacturing operations and for an equity investee's customer claims. The prior year also included a charge of \$40 million related to the writedown of an equity investment and an equity investee's severance actions. Refer to "Item 8. Financial Statements and Supplementary Data" in Note 5 of Notes to Financial Statements for further discussion of the charges in both 2000 and 1999. Excluding these charges in both periods, equity in (income) loss of affiliated companies was income of \$47 million in 2000, a decrease of \$69 million compared with 1999. This decrease was due mainly to lower earnings from our UOP process technology (UOP) joint venture partially offset by the gain on the sale of our interest in an automotive aftermarket joint venture. Equity in (income) loss of affiliated companies was income of \$76 million in 1999 compared with income of \$162 million in 1998. The decrease of \$86 million resulted from the charge of \$40 million relating to the writedown of an equity investment and an equity investee's severance actions as well as lower earnings from UOP.

Other (income) expense, \$57 million of income in 2000, decreased by \$250 million compared with 1999. The decrease principally reflects the 1999 net gain of \$268 million on our disposition of our investment in AMP Incorporated (AMP) common stock. Refer to "Item 8. Financial Statements and Supplementary Data" in Note 7 of Notes to Financial Statements for further information. Excluding this net gain, other (income) expense was \$57 million of income in 2000, compared with \$39 million of income in 1999. This increase in other income of \$18 million in 2000 was due principally to lower minority interest expense and increased benefits from foreign exchange hedging. Other (income) expense, \$307 million of income in 1999, increased by \$280 million compared with 1998. The increase principally reflects the net gain of \$268 million on our disposition of our investment in AMP common stock.

Interest and other financial charges of \$481 million in 2000 increased by \$216 million, or 82 percent compared with 1999. The increase results from higher average levels of debt during the current year due principally to the Pittway acquisition and our share repurchase program, higher average interest rates and the impact of tax interest expense. Interest and other financial charges of \$265 million in 1999 decreased by \$10 million, or 4 percent compared with 1998. The decrease resulted from lower interest rates and tax interest expense somewhat offset by the effects of higher average debt outstanding during 1999.

The effective tax rate was 30.8, 31.5 and 31.3 percent in 2000, 1999 and 1998, respectively. Refer to "Item 8. Financial Statements and Supplementary Data" in Note 9 of Notes to Financial Statements for further information.

Net income in 2000 of \$1,659 million, or \$2.05 per share, was 8 percent higher than 1999 net income of \$1,541 million, or \$1.90 per share. Net income in 2000 included the gain on the disposition of the TCAS product line of the former Honeywell and asset impairments, repositioning, environmental and other charges. Adjusted for these items, net income in 2000 was \$634 million, or \$0.78 per share, higher than reported. Net income in 1999 included the gains on our dispositions of our Laminate Systems business and our investment in AMP and merger, repositioning and other charges. Adjusted for these items, net income in 1999 was \$624 million, or \$0.78 per share, higher than reported. Net income in 2000 increased by 6 percent compared with 1999 if both years are adjusted for these items. Net income in 1999 of \$1,541 million, or \$1.90 per share, was 19 percent lower than 1998 net income of \$1,903 million, or \$2.34 per share. Net income in 1998 included repositioning charges, litigation

settlements and a tax settlement. Net income in 1999 increased by 14 percent compared with 1998 if both years are adjusted for these items.

Review of Business Segments

Aerospace Solutions sales in 2000 were \$9,988 million, an increase of \$80 million, or 1 percent compared with 1999. Higher sales to the aftermarket, particularly repair and overhaul and the military, and increased original equipment sales to business, regional and general aviation customers were partially offset by lower original equipment sales to air transport manufacturers and a decline in engineering services revenues. Sales also decreased due to the effects of government-mandated divestitures in connection with the merger of AlliedSignal and the former Honeywell. Aerospace Solutions sales in 1999 were \$9,908 million or basically flat compared with 1998. Sales of avionics products were higher due principally to continued strong demand for flight safety products. Sales to the aftermarket, particularly repair and overhaul and the military, were also higher. The acquisition in 1998 of a controlling interest in the Normalair-Garrett Ltd. environmental controls joint venture also increased sales. This increase was offset by lower sales to air transport and military original equipment manufacturers, and the effects of divestitures and a restructuring of a government technical services contract.

Aerospace Solutions segment profit in 2000 was \$2,195 million, an increase of \$277 million, or 14 percent compared with 1999 due principally to cost structure improvements, primarily from workforce and benefit cost reductions, and merger-related savings. Increased sales of higher-margin aftermarket products and services also contributed to the improvement in segment profit. Aerospace Solutions segment profit in 1999 was \$1,918 million, an increase of \$331 million, or 21 percent compared with 1998 due principally to increased sales of higher-margin aftermarket and avionics products and cost structure improvements primarily from workforce and benefit cost reductions.

Automation & Control sales in 2000 were \$7,384 million, an increase of \$1,269 million, or 21 percent compared with 1999. Sales for our Home and Building Control business were substantially higher as increased sales in our security products business, due to the acquisition of Pittway, were partially offset by lower sales in our solutions and services business. Sales for our Industrial Control business declined moderately as growth in our sensing and control business was more than offset by lower sales in our industrial automation and control business. Our industrial automation and control business continues to be adversely affected by weakness in the hydrocarbon processing industry. Sales for the segment were also adversely impacted by foreign currency fluctuations due to the strong dollar. Automation & Control sales in 1999 were \$6,115 million, an increase of \$158 million, or 3 percent compared with 1998. Sales increased for our Home and Building Control business driven by growth in our control products and building services, and security businesses. Acquisitions also contributed to the increase partially offset by lower sales from our energy retrofit and installed systems businesses. Sales for our Industrial Control business were basically flat compared with 1998. Higher sales due to acquisitions and growth in our sensing and control business were offset by the effects of continued weakness in our industrial automation and control business.

Automation & Control segment profit in 2000 was \$986 million, an increase of \$219 million, or 29 percent compared with 1999. Segment profit for both our Home and Building Control and Industrial Control businesses improved primarily as a result of lower costs due to workforce and benefit cost reductions and merger-related savings. The acquisition of Pittway and other portfolio changes also contributed to the improvement in segment profit. Automation & Control segment profit in 1999 was \$767 million, an increase of \$62 million, or 9 percent compared with 1998. Segment profit for our Home and Building Control business increased significantly due to improvement in our control products business and the contraction of our lower-margin energy retrofit and installed systems businesses. Cost savings from workforce reductions also contributed to the improvement. This increase was offset somewhat by lower segment profit for our Industrial Control business as growth in our higher-margin sensing and control business and cost structure improvements were more than offset by the effects of continued weakness in certain key end markets in our industrial automation and control business.

Performance Materials sales in 2000 were \$4,055 million, an increase of \$48 million, or 1 percent compared with 1999. Higher sales of advanced circuitry and wafer-fabrication products by our

Electronic Materials business were largely offset by the effect of divestitures, principally our Laminate Systems business. Performance Materials sales in 1999 were \$4,007 million, a decrease of \$162 million, or 4 percent compared with 1998 due principally to divestitures including our environmental catalyst, Laminate Systems and phenol businesses. Lower sales for our carpet fibers business also contributed to the decrease. This decrease was partially offset by higher sales for our specialty films, engineering plastics and waxes businesses and increased sales from the acquisitions of Johnson Matthey Electronics and Pharmaceutical Fine Chemicals.

Performance Materials segment profit in 2000 was \$334 million, a decrease of \$105 million, or 24 percent compared with 1999. The decrease principally reflects higher raw material costs in certain Performance Polymers and Chemicals businesses and higher operating losses in our chip packaging and pharmaceutical chemicals businesses. The decrease was partially offset by cost structure improvements and price increases in certain Performance Polymers and Chemicals businesses. Performance Materials segment profit in 1999 was \$439 million, a decrease of \$195 million, or 31 percent compared with 1998. The decrease principally reflects the effects of pricing pressures in our Performance Polymers and Electronic Materials businesses and higher raw material costs in certain Performance Polymers businesses. The impact of 1998 divestitures also contributed to the decrease. The effect of improved sales volume for our specialty films, engineering plastics and waxes businesses was a partial offset.

Power & Transportation Products sales in 2000 were \$3,527 million, a decrease of \$54 million, or 2 percent compared with 1999 due mainly to lower sales for our Commercial Vehicle Systems and Friction Materials businesses. Sales for our Commercial Vehicles Systems business were negatively impacted by decreased heavy-duty truck builds. Sales for our Friction Materials business were lower mainly due to foreign currency fluctuations. This decrease was partially offset by higher sales for our Turbocharging Systems business as continued strong world-wide demand more than offset the adverse impact of foreign currency fluctuations. Power & Transportation Products sales in 1999 were \$3,581 million, an increase of \$194 million, or 6 percent compared with 1998. Sales for our Turbocharging Systems business increased significantly due primarily to continued strong sales in Europe reflecting the turbodiesel's increased penetration of the passenger car market. Sales for our Commercial Vehicle Systems business also increased due principally to increased North American truck builds. Sales for our Consumer Products Group business also increased, led by higher sales of Prestone® products and FRAM® filters. Lower sales for our Friction Materials business due to pricing pressures, weakness in the European market and foreign currency fluctuations were a partial offset.

Power & Transportation Products segment profit in 2000 was \$274 million, a decrease of \$48 million, or 15 percent compared with 1999. The decrease primarily reflects costs associated with a product recall and lower sales in our Commercial Vehicle Systems business, costs related to the ramp-up of our Turbogenerator product line and costs associated with a supplier issue in our Turbocharging Systems business. The decrease was partially offset by the effects of cost structure improvements in our Friction Materials and Consumer Products Group businesses and higher sales in our Turbocharging Systems business. Power & Transportation Products segment profit in 1999 was \$322 million, an increase of \$88 million, or 38 percent compared with 1998. The increase reflects higher sales for our Turbocharging Systems, Commercial Vehicle Systems and Consumer Products Group businesses. Cost structure improvements in these businesses, materials procurement savings and workforce reductions also contributed to the increase.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Total assets at December 31, 2000 were \$25,175 million, an increase of \$1,648 million, or 7 percent from December 31, 1999. The increase relates principally to our acquisition of Pittway. Total assets at December 31, 1999 were \$23,527 million, an increase of \$789 million, or 3 percent from December 31, 1998.

Cash provided by operating activities of \$1,989 million during 2000 decreased by \$385 million compared with 1999 due principally to spending related to merger and repositioning actions, a decrease in working capital and higher non-cash pension income. This decrease was partially offset by higher net income, excluding one-time items as previously described, and lower taxes paid on sales of

businesses and investments. Cash provided by operating activities of \$2,374 million during 1999 increased by \$400 million compared with 1998 due principally to higher net income, excluding one-time items as previously described.

Cash used for investing activities of \$2,714 million during 2000 increased by \$2,423 million compared with 1999. The acquisition of Pittway, the fact that the prior year included the net proceeds from our disposition of our investment in AMP and lower proceeds from sales of businesses were principally responsible for the increase. This increase was partially offset by lower capital spending. Cash used for investing activities of \$291 million during 1999 decreased by \$1,302 million compared with 1998. The decrease relates principally to the proceeds from our disposition of our investment in AMP and an increase in proceeds from sales of businesses, primarily Laminate Systems. This decrease was partially offset by higher spending for acquisitions, mainly Johnson Matthey Electronics, and the liquidation in 1998 of short-term investments.

We continuously assess the relative strength of each business in our portfolio as to strategic fit, market position and profit contribution in order to upgrade our combined portfolio and identify operating 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 operating units that do not fit into our long-term strategic plan based on their market position, relative profitability or growth potential. These operating units are considered for potential divestiture, restructuring or other repositioning action subject to regulatory constraints.

Capital expenditures were \$853, \$986 and \$1,037 million in 2000, 1999 and 1998, respectively. Spending by the reportable segments and Corporate since 1998 is shown in "Item 8. Financial Statements and Supplementary Data" in Note 24 of Notes to Financial Statements. Our total capital expenditures in 2001 are currently projected at approximately \$1 billion. These expenditures are expected to be financed principally by internally generated funds and are primarily planned for expansion and cost reduction.

Cash used for financing activities of \$70 million during 2000 decreased by \$1,040 million compared with 1999 led principally by a decrease in stock repurchases and higher net issuances of debt. During 2000, we repurchased 4.3 million shares of our common stock for \$166 million in connection with our share repurchase program. As a result of the pending merger with General Electric (see Item 8. "Financial Statements and Supplementary Data" in Note 4 of Notes to Financial Statements), Honeywell rescinded its share repurchase program effective October 21, 2000. Total debt of \$5,623 million at December 31, 2000 was \$557 million, or 11 percent higher than at December 31, 1999 due to the acquisition of Pittway. Cash used for financing activities of \$1,110 million during 1999 increased by \$1,002 million compared with 1998. The increase relates principally to lower net issuances of debt partially offset by lower net stock repurchases. Total debt of \$5,066 million at year-end 1999 was \$100 million, or 2 percent higher than at December 31, 1998.

We maintain a \$2 billion bank revolving credit facility which is comprised of (a) a \$1 billion Five-Year Credit Agreement; and, (b) a \$1 billion 364-Day Credit Agreement. The credit agreements were established for general corporate purposes including support for the issuance of commercial paper. There was \$1,192 and \$2,023 million of commercial paper outstanding at year-end 2000 and 1999, respectively. See "Item 8. Financial Statements and Supplementary Data" in Note 16 of Notes to Financial Statements for details of long-term debt and a discussion of the Credit Agreements.

We believe that our available cash, committed credit lines, and access to the public debt markets using debt securities and commercial paper, provide adequate short-term and long-term liquidity.

Merger and Repositioning Charges

In 2000, we recognized a charge of \$239 million related to announced global workforce reductions in each of our reportable segments, costs to close a chip package manufacturing plant and related workforce reductions in our Electronic Materials business, and other asset impairments principally associated with the completion of previously announced plant shut-downs in our Performance Polymers and Chemicals business. The components of the charge included severance costs of \$151 million and asset impairments of \$88 million. The workforce reductions consisted of approximately 2,800 manufacturing and administrative positions and are expected to be substantially completed by

the end of the second quarter of 2001. Asset impairments were 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. Also, \$46 million of accruals established in 1999, principally for severance, were returned to income in 2000 due to higher than expected voluntary employee attrition (approximately 650 positions) resulting in reduced severance liabilities principally in our Automation & Control and Aerospace Solutions reportable segments. We also recognized a charge of \$99 million in equity in (income) loss of affiliated companies for costs to close an affiliate's chemical manufacturing operations. The components of the charge included severance costs of \$6 million, asset impairments of \$53 million, and other environmental exit costs and period expenses of \$40 million.

In 1999, upon completion of the merger between AlliedSignal and the former Honeywell, we recognized a charge of \$642 million for the cost of actions designed to improve our combined competitiveness, productivity and future profitability. The merger-related actions included the elimination of redundant corporate offices and functional administrative overhead; elimination of redundant and excess facilities and workforce in our combined aerospace businesses; adoption of six sigma productivity initiatives at the former Honeywell businesses; and, the transition to a global shared services model. The components of the charge included severance costs of \$342 million, asset impairments of \$108 million, other exit costs of \$57 million and merger-related transaction and period expenses of \$135 million. Planned global workforce reductions consisted of approximately 6,500 administrative and manufacturing positions and are substantially complete. Asset impairments were principally related to the elimination of redundant or excess corporate and aerospace facilities and equipment. Other exit costs were related to lease terminations and contract cancellation losses negotiated or subject to reasonable estimation at year-end. Merger-related transaction and period expenses consisted of investment banking and legal fees, former Honeywell deferred compensation vested upon change in control and other direct merger-related expenses incurred in the period the merger was completed. All merger-related actions are substantially complete.

In 1999, we also recognized a pretax charge of \$321 million for the costs of actions designed to reposition principally the AlliedSignal businesses for improved productivity and future profitability. These repositioning actions included the organizational realignment of our aerospace businesses to strengthen market focus and simplify business structure; elimination of an unprofitable product line, closing of a wax refinery and carbon materials plant and rationalization of manufacturing capacity and infrastructure in our Performance Polymers and Chemicals business; a reduction in the infrastructure in our Turbocharging Systems business; elimination of two manufacturing facilities in our Electronic Materials business; a plant closure and outsourcing activity in our automotive Consumer Products Group business; and related and general workforce reductions in all AlliedSignal businesses and our Industrial Control business. The components of the charge included severance costs of \$140 million, asset impairments of \$149 million, and other exit costs of \$32 million. Global workforce reductions consisted of approximately 5,100 manufacturing, administrative, and sales positions and are substantially complete. Asset impairments were 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. Other exit costs principally consisted of environmental exit costs associated with chemical plant shutdowns. All repositioning actions, excluding environmental remediation, are substantially complete.

The merger and repositioning actions committed to in 2000 and 1999 generated pretax savings of over \$270 million in 2000 principally from planned workforce reductions and facility consolidations. We expect these actions to generate pretax savings of over \$600 million in 2001 and \$780 million in 2002. Cash expenditures for severance, other exit costs, and future period expenses necessary to execute these actions will exceed \$500 million and were principally incurred in 2000. Such expenditures have been funded through operating cash flows, proceeds from government required divestitures resulting from the merger of AlliedSignal and the former Honeywell and sale of merger-related, excess or duplicate facilities and equipment.

We are currently formulating a detailed plan to effect further actions designed to improve our competitiveness, productivity and future profitability. The cost of these actions will result in a charge against earnings in the first quarter of 2001.

In 1998, we recognized a charge of \$54 million related to productivity initiatives which included workforce reductions of 1,200 employees and facility consolidations principally in our Home and Building Control and Industrial Control businesses. These actions were completed by December 31, 1999, with substantially all reserve spending occurring in 1999.

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 that our handling, manufacture, use and disposal of hazardous or toxic substances are in accord with environmental laws and regulations. However, mainly because of past operations and operations of predecessor companies, we, like other companies engaged in similar businesses, are a party to lawsuits and claims and have incurred remedial response and voluntary cleanup costs associated with environmental matters. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future. 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 such matters when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated. The timing of these accruals is generally no later than the completion of feasibility studies.

Remedial response and voluntary cleanup expenditures were \$75, \$78 and \$77 million in 2000, 1999 and 1998, respectively, and are currently estimated to be approximately \$69 million in 2001. We expect that we will be able to fund such expenditures from operating cash flow. The timing of expenditures depends on a number of factors, including regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

In 2000 we charged \$110 million against pretax income for remedial response and voluntary cleanup costs. At December 31, 2000 and 1999, the recorded liability for environmental matters was \$386 and \$349 million, respectively. In addition, in 2000 and 1999 we incurred operating costs for ongoing businesses of approximately \$80 and \$89 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 or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined, they may be significant to our consolidated results of operations. We do not expect that environmental matters will have a material adverse effect on our consolidated financial position.

See "Item 8. Financial Statements and Supplementary Data" in Note 22 of Notes to Financial Statements for a discussion of our commitments and contingencies, including those related to environmental matters.

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, which may adversely affect our operating results and financial position. We minimize our risks from interest and foreign currency exchange rate 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 "Item 8. Financial Statements and Supplementary Data" in Note 1 of Notes to Financial Statements.

Our exposure to market risk from changes in interest rates relates primarily to our debt obligations. As described in "Item 8. Financial Statements and Supplementary Data" in Notes 16 and 18 of Notes to Financial Statements, we issue both fixed and variable rate debt and use interest rate swaps to manage our exposure to interest rate movements and reduce borrowing costs.

Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries and foreign currency denominated receivables, payables, and firm commitments arising from international transactions. We attempt to have such transaction exposures hedged with internal natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency forward and option agreements with third parties. We also use derivative financial instruments to hedge the impact of exchange rate movements on the translated U.S. dollar value of the net income for a number of foreign subsidiaries. Foreign currency forward and option agreements used to hedge net income are marked-to-market, with gains or losses recognized immediately in income. Our principal foreign currency exposures relate to the Belgian franc, the French franc, the German mark (collectively the Euro countries), the British pound, the Canadian dollar, and the U.S. dollar. At December 31, 2000, we held or had written foreign currency forward and option agreements maturing through 2001.

Derivative financial instruments expose us to counterparty credit risk for nonperformance and to market risk related to changes in interest or currency exchange rates. We manage 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 and the potential change in fair value for foreign exchange rate sensitive instruments based on a 10 percent increase in U.S. dollar per local currency exchange rates across all maturities at December 31, 2000 and 1999.

	<u>Face or Notional Amount</u>	<u>Carrying Value(1)</u> (Dollars in millions)	<u>Fair Value(1)</u>	<u>Estimated Increase (Decrease) In Fair Value</u>
December 31, 2000				
Interest Rate Sensitive Instruments				
Long-term debt (including current maturities)(2)	\$ (4,295)	\$ (4,291)	\$ (4,517)	\$ (183)
Interest rate swaps	1,600	16	68	(67)
Foreign Exchange Rate Sensitive Instruments				
Foreign currency exchange contracts(3)	1,542	—	3	(3)
December 31, 1999				
Interest Rate Sensitive Instruments				
Long-term debt (including current maturities)(2)	(2,712)	(2,705)	(2,702)	(120)
Interest rate swaps	1,100	(4)	(36)	(22)
Foreign Exchange Rate Sensitive Instruments				
Foreign currency exchange contracts(3)	1,445	4	6	25

(1) Asset or (liability).

(2) Excludes capitalized leases.

(3) Increases in the fair value of foreign currency exchange contracts are substantially offset by changes in the fair value of net underlying hedged foreign currency 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

Litton Litigation—On March 13, 1990, Litton Systems, Inc. filed a legal action against the former Honeywell in U.S. District Court, Central District of California, Los Angeles, with claims that were subsequently split into two separate cases. One alleges patent infringement under federal law for using an ion-beam process to coat mirrors incorporated in the former Honeywell's ring laser gyroscopes, and tortious interference under state law for interfering with Litton's prospective advantage with customers and contractual relationships with an inventor and his company, Ojai Research, Inc. The other case alleges monopolization and attempted monopolization under federal antitrust laws by the former Honeywell in the sale of inertial reference systems containing ring laser gyroscopes into the commercial aircraft market. The former Honeywell generally denied Litton's allegations in both cases. In the patent/tort case, the former Honeywell also contested the validity as well as the infringement of the patent, alleging, among other things, that the patent had been obtained by Litton's inequitable conduct before the United States Patent and Trademark Office.

In 1993 and 1995, trials were held in each case and juries initially awarded Litton significant monetary damages. However, those verdicts were set aside by the trial court judge who ordered, at a minimum, new trials on the issue of damages in each case.

Following cross-appeals by the parties of various issues to the Federal Circuit and the U.S. Supreme Court in the patent/tort case, it was remanded to the trial court for further legal and perhaps factual review with respect to both liability and damages. On September 23, 1999, the trial court issued dispositive rulings in the case, granting the former Honeywell's Motion for Judgment as a Matter of Law and Summary Judgment on the Patent claims on various grounds; granting the former Honeywell's Motion for Judgment as a Matter of Law on the state law claims on the grounds of insufficient evidence; and denying Litton's Motion for Partial Summary Judgment. The trial court entered a final judgment in Honeywell's favor on January 31, 2000, and Litton appealed that judgment to the U.S. Court of Appeals for the Federal Circuit. On February 5, 2001, a three judge panel of the Federal Circuit court affirmed the trial court's rulings granting the former Honeywell's Motion for Judgment as a Matter of Law and Summary Judgment on the patent claims, agreeing that the former Honeywell did not infringe. On the state law claims, the panel vacated the jury's verdict in favor of Litton, reversed the trial court's grant of judgment as a matter of law for the former Honeywell, and remanded the case to the trial court for further proceedings under state law to resolve certain factual issues that it held should have been submitted to the jury. Litton may now seek review of this decision by the U.S. Supreme Court.

A retrial of damages in the antitrust case commenced October 29, 1998, and on December 9, 1998, a jury returned a verdict against Honeywell for actual damages in the amount of \$250 million. Following post trial motions, on September 24, 1999, the trial court issued rulings denying the former Honeywell's Motion for Judgment as a Matter of Law and Motion for New Trial and Remittitur as they related to Litton Systems, Inc., but granting the former Honeywell's Motion for Judgment as a Matter of Law as it relates to Litton Systems, Canada, Limited. The net effect of these rulings was to reduce the existing judgment against the former Honeywell of \$750 million to \$660 million, plus attorney fees and costs of approximately \$35 million. We believe that there is no factual or legal basis for the magnitude of the jury's award and believe that it should be overturned. We also believe we have very strong arguments that the liability portion of the jury verdict in the first antitrust trial was erroneous. Both parties have appealed this judgment, as to both liability and damages, to the U.S. Court of Appeals for the Ninth Circuit. Execution of the trial court's judgment is stayed pending resolution of the former Honeywell's post-judgment motions and disposition of any appeals filed by the parties.

Although it is not possible at this time to predict the result of any further appeals in this case, potential does remain for an adverse outcome which could be material to our financial position or results of operations. As a result of the uncertainty regarding the outcome of this matter, no provision has been made in the financial statements with respect to this contingent liability.

For a detailed discussion of this litigation, see "Item 8. Financial Statements and Supplementary Data" in Note 22 of Notes to the Financial Statements.

Shareowner Litigation—Honeywell and seven of its officers were named as defendants in several purported class action lawsuits filed in the United States District Court for the District of New Jersey

(the Securities Law Complaints). The Securities Law Complaints principally allege 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 purported class period for which damages are sought is December 20, 1999 to June 19, 2000.

In addition, Honeywell, seven of its officers and its Board of Directors have been named as defendants in a purported shareowner derivative action which was filed on November 27, 2000 in the United States District Court for the District of New Jersey (the Derivative Complaint). The Derivative Complaint alleges a single claim for breach of fiduciary duty based on nearly identical allegations to those set forth in the Securities Law Complaints.

We believe that there is no factual or legal basis for the allegations in the Securities Law Complaints and the Derivative Complaint. Although it is not possible at this time to predict the result of these cases, we expect to prevail. However, an adverse outcome could be material to our financial position or results of operations. No provision has been made in our financial statements with respect to this contingent liability.

Euro Conversion

On January 1, 1999, certain member countries of the European Union established fixed conversion rates between their existing currencies and the European Union's common currency (Euro). The transition period for the introduction of the Euro is between January 1, 1999 and January 1, 2002. We have identified and are ensuring that all Euro conversion compliance issues are addressed and do not expect any adverse consequences.

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 \$2,219, \$2,383 and \$2,693 million in 2000, 1999 and 1998, respectively. This included sales to the Department of Defense (DoD), as a prime contractor and subcontractor, of \$1,548, \$1,415 and \$1,658 million in 2000, 1999 and 1998, respectively. Sales to the DoD accounted for 6.2, 6.0 and 7.0 percent of our total sales in 2000, 1999 and 1998, respectively. We are affected by U.S. Government budget constraints for defense and space programs. U.S. defense spending increased slightly in 2000 and is also expected to increase slightly in 2001.

Backlog

Our total backlog at year-end 2000 and 1999 was \$8,094 and \$8,736 million, respectively. We anticipate that approximately \$5,090 million of the 2000 backlog will be filled in 2001. 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 cost of our purchased materials. Cost increases for materials and labor have generally been low, and productivity enhancement programs, including Six Sigma initiatives, have largely offset any impact.

New Accounting Pronouncement

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended (SFAS No. 133), is effective for Honeywell as of January 1, 2001. SFAS No. 133 requires all derivatives to be recorded on the balance sheet as assets or liabilities, measured at fair value. The accounting for gains or losses resulting from changes in values of such derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. We estimate that, at January 1, 2001, the effect on our consolidated financial statements of adopting SFAS No. 133 will not be material.

Item 7A. Quantitative and Qualitative Disclosure 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 INCOME

	Years Ended December 31,		
	2000	1999	1998
	(Dollars in millions, except per share amounts)		
Net sales	\$25,023	\$23,735	\$23,555
Costs, expenses and other			
Cost of goods sold	19,090	18,495	17,689
Selling, general and administrative expenses	3,134	3,216	3,008
(Gain) on sale of non-strategic businesses	(112)	(106)	—
Equity in (income) loss of affiliated companies	89	(76)	(162)
Other (income) expense	(57)	(307)	(27)
Interest and other financial charges	481	265	275
	<u>22,625</u>	<u>21,487</u>	<u>20,783</u>
Income before taxes on income	2,398	2,248	2,772
Taxes on income	739	707	869
Net income	<u>\$ 1,659</u>	<u>\$ 1,541</u>	<u>\$ 1,903</u>
Earnings per share of common stock—basic	<u>\$ 2.07</u>	<u>\$ 1.95</u>	<u>\$ 2.38</u>
Earnings per share of common stock—assuming dilution	<u>\$ 2.05</u>	<u>\$ 1.90</u>	<u>\$ 2.34</u>

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

HONEYWELL INTERNATIONAL INC.

CONSOLIDATED BALANCE SHEET

	December 31,	
	2000	1999
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 1,196	\$ 1,991
Accounts and notes receivable	4,623	3,896
Inventories.....	3,734	3,436
Other current assets	1,108	1,099
Total current assets.....	10,661	10,422
Investments and long-term receivables	748	782
Property, plant and equipment—net.....	5,230	5,630
Goodwill and other intangible assets—net	5,898	4,660
Other assets.....	2,638	2,033
Total assets	<u>\$25,175</u>	<u>\$23,527</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 2,364	\$ 2,129
Short-term borrowings.....	110	302
Commercial paper	1,192	2,023
Current maturities of long-term debt	380	284
Accrued liabilities	3,168	3,534
Total current liabilities.....	7,214	8,272
Long-term debt	3,941	2,457
Deferred income taxes	1,173	864
Postretirement benefit obligations other than pensions	1,887	1,968
Other liabilities	1,253	1,367
CONTINGENCIES		
SHAREOWNERS' EQUITY		
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	2,782	2,318
Common stock held in treasury, at cost:		
2000—150,308,455 shares; 1999—162,466,000 shares.....	(4,296)	(4,254)
Accumulated other nonowner changes	(729)	(355)
Retained earnings.....	10,992	9,932
Total shareowners' equity	9,707	8,599
Total liabilities and shareowners' equity	<u>\$25,175</u>	<u>\$23,527</u>

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

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2000	1999	1998
	(Dollars in millions)		
Cash Flows from Operating Activities			
Net income	\$ 1,659	\$ 1,541	\$ 1,903
Adjustments to reconcile net income to net cash provided by operating activities:			
(Gain) on sale of non-strategic businesses	(112)	(106)	—
(Gain) on disposition of investment in AMP Incorporated	—	(268)	—
Merger, repositioning and other charges	966	1,287	54
Depreciation and amortization	995	881	897
Undistributed earnings of equity affiliates	(4)	(39)	(24)
Deferred income taxes	414	(11)	221
Net taxes paid on sales of businesses and investments	(97)	(246)	(300)
Retirement benefit plans	(509)	(313)	(239)
Other	(199)	148	63
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts and notes receivable	(560)	(54)	(154)
Inventories	(45)	90	(96)
Other current assets	(73)	(39)	3
Accounts payable	186	121	35
Accrued liabilities	(632)	(618)	(389)
Net cash provided by operating activities	<u>1,989</u>	<u>2,374</u>	<u>1,974</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(853)	(986)	(1,037)
Proceeds from disposals of property, plant and equipment	127	67	150
Decrease in investments	88	—	—
(Increase) in investments	(3)	(20)	(1)
Disposition (purchase) of investment in AMP Incorporated	—	1,164	(890)
Cash paid for acquisitions	(2,523)	(1,311)	(581)
Proceeds from sales of businesses	467	784	335
(Increase) decrease in short-term investments	(17)	11	431
Net cash (used for) investing activities	<u>(2,714)</u>	<u>(291)</u>	<u>(1,593)</u>
Cash Flows from Financing Activities			
Net (decrease) increase in commercial paper	(831)	250	909
Net (decrease) increase in short-term borrowings	(191)	156	16
Proceeds from issuance of common stock	296	419	216
Proceeds from issuance of long-term debt	1,810	25	687
Payments of long-term debt	(389)	(375)	(366)
Repurchases of common stock	(166)	(1,058)	(1,089)
Cash dividends on common stock	(599)	(527)	(481)
Net cash (used for) financing activities	<u>(70)</u>	<u>(1,110)</u>	<u>(108)</u>
Net (decrease) increase in cash and cash equivalents	(795)	973	273
Cash and cash equivalents at beginning of year	<u>1,991</u>	<u>1,018</u>	<u>745</u>
Cash and cash equivalents at end of year	<u>\$ 1,196</u>	<u>\$ 1,991</u>	<u>\$ 1,018</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)							
Balance at December 31, 1997	953.1	\$953	\$1,199	(158.1)	\$(2,665)	\$(208)	\$ 7,496	\$ 6,775
Net income							1,903	1,903
Foreign exchange translation adjustments						34		34
Minimum pension liability adjustment...						(10)		(10)
Unrealized holding gain on marketable securities						90		90
Nonowner changes in shareowners' equity								2,017
Common stock issued for acquisitions ...			322	11.1	98			420
Common stock issued for employee benefit plans (including related tax benefits of \$91)	3.8	4	348	11.0	96			448
Repurchases of common stock	(3.9)	(4)	(156)	(22.0)	(942)			(1,102)
Cash dividends on common stock (\$.60 per share)							(481)	(481)
Other	0.3		6					6
Balance at December 31, 1998	953.3	953	1,719	(158.0)	(3,413)	(94)	8,918	8,083
Net income							1,541	1,541
Foreign exchange translation adjustments						(126)		(126)
Minimum pension liability adjustment...						(43)		(43)
Unrealized holding loss on marketable securities						(92)		(92)
Nonowner changes in shareowners' equity								1,280
Common stock issued for employee benefit plans (including related tax benefits of \$237)	4.7	5	602	14.5	125			732
Repurchases of common stock				(18.9)	(966)			(966)
Cash dividends on common stock (\$.68 per share)							(527)	(527)
Other	(0.4)		(3)					(3)
Balance at December 31, 1999	957.6	958	2,318	(162.4)	(4,254)	(355)	9,932	8,599
Net income							1,659	1,659
Foreign exchange translation adjustments						(377)		(377)
Unrealized holding gain on marketable securities						3		3
Nonowner changes in shareowners' equity								1,285
Common stock issued for employee benefit plans (including related tax benefits of \$139)			464	16.0	120			584
Repurchases of common stock				(4.3)	(166)			(166)
Cash dividends on common stock (\$.75 per share)							(599)	(599)
Other				0.4	4			4
Balance at December 31, 2000	957.6	\$958	\$2,782	(150.3)	\$(4,296)	\$(729)	\$10,992	\$ 9,707

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

HONEYWELL INTERNATIONAL INC.

NOTES TO FINANCIAL STATEMENTS

(Dollars in millions except per share amounts)

Note 1—Summary of Significant Accounting Policies

Honeywell International Inc. is a diversified technology and manufacturing company, serving customers worldwide with aerospace products and services, control technologies for buildings, homes and industry, automotive products, power generation systems, specialty chemicals, fibers, plastics and electronic and advanced materials. As described in Note 2, Honeywell International Inc. was formed upon the merger of AlliedSignal Inc. and Honeywell Inc. 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 in which a controlling interest is maintained. All intercompany transactions and balances are eliminated in consolidation.

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.

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 Other Intangible Assets—Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired and is amortized on a straight-line basis over appropriate periods up to 40 years. Goodwill, net, was \$5,600 and \$4,282 million at December 31, 2000 and 1999, respectively. Accumulated amortization was \$974 and \$804 million at December 31, 2000 and 1999, respectively.

Other intangible assets includes patents, trademarks, customer lists and other items amortized on a straight-line basis over appropriate periods up to 24 years. Other intangible assets, net, were \$298 and \$378 million at December 31, 2000 and 1999, respectively. Accumulated amortization was \$437 and \$398 million at December 31, 2000 and 1999, respectively.

Long-Lived Assets—We periodically evaluate the recoverability of the carrying amount of long-lived assets (including property, plant, and equipment, goodwill and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. 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 operating results. 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 an agreement of sale exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Sales under long-term contracts in the Aerospace Solutions and Automation & Control 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.

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 assessments are made or remedial efforts are probable and the costs

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

can be reasonably estimated. The timing of these accruals is generally no later than the completion of feasibility studies.

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 in shareowners' equity. 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 operations are included in net income.

Financial Instruments—Interest rate swap, foreign currency forward and option agreements are accounted for as a hedge of the related asset, liability, firm commitment or anticipated transaction when designated and effective as a hedge of such items. Agreements qualifying for hedge accounting are accounted for as follows:

- Changes in the amount to be received or paid under interest rate swap agreements are recognized in Interest and Other Financial Charges.
- Gains and losses on foreign currency exchange contracts used to hedge assets, liabilities and net income are recognized in Other (Income) Expense.
- Gains and losses on foreign currency exchange contracts to hedge net investments in foreign subsidiaries are recognized in the Cumulative Foreign Exchange Translation Adjustment.
- Gains and losses on foreign currency exchange contracts used to hedge firm foreign currency commitments, and purchased foreign currency options used to hedge anticipated foreign currency transactions, are recognized in the measurement of the hedged transaction when the transaction occurs.

Changes in the fair value of agreements not qualifying for hedge accounting are recognized in Other (Income) Expense. Gains and losses on terminated interest rate swap agreements are amortized over the shorter of the remaining term of the agreement or the hedged liability.

The carrying value of each agreement is reported in Accounts and Notes Receivable, Other Current Assets, Accounts Payable or Accrued Liabilities, as appropriate.

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 for any deferred tax asset for which realization is not likely.

Research and Development—Research and development costs for company-sponsored research and development projects are expensed as incurred. Such costs are classified as part of Cost of Goods Sold and were \$818, \$909 and \$876 million in 2000, 1999 and 1998, respectively.

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. All earnings per share data in this report reflect earnings per share—assuming dilution, unless otherwise indicated.

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

Use of Estimates—The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions

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

that affect the reported amounts in the financial statements and related disclosures in the accompanying notes. Actual results could differ from those estimates.

New Accounting Pronouncement—Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended (SFAS No. 133), is effective for Honeywell as of January 1, 2001. SFAS No. 133 requires all derivatives to be recorded on the balance sheet as assets or liabilities, measured at fair value. The accounting for gains or losses resulting from changes in values of such derivatives depends on the use of the derivative and whether it qualifies for hedge accounting. We estimate that, at January 1, 2001, the effect on our consolidated financial statements of adopting SFAS No. 133 will not be material.

Note 2—AlliedSignal—Honeywell Merger

On December 1, 1999, AlliedSignal Inc. (AlliedSignal) and Honeywell Inc. (former Honeywell) completed a merger under an Agreement and Plan of Merger (Merger Agreement) dated as of June 4, 1999. Under the Merger Agreement, a wholly-owned subsidiary of AlliedSignal merged with and into the former Honeywell. As a result of the merger, the former Honeywell has become a wholly-owned subsidiary of AlliedSignal. At the effective time of the merger AlliedSignal was renamed Honeywell International Inc. (Honeywell).

The former Honeywell shareowners received 1.875 shares of Honeywell common stock for each share of the former Honeywell common stock with cash paid in lieu of any fractional shares. As a result, former Honeywell shareowners received approximately 241 million shares of Honeywell common stock valued at approximately \$15 billion at the merger date. In addition, outstanding former Honeywell employee stock options were converted at the same exchange factor into options to purchase approximately 10 million shares of Honeywell common stock.

The merger qualified as a tax-free reorganization and was accounted for under the pooling-of-interests accounting method. Accordingly, Honeywell's consolidated financial statements have been restated for all periods prior to the merger to include the results of operations, financial position and cash flows of the former Honeywell as though it had always been a part of Honeywell.

There were no material transactions between AlliedSignal and the former Honeywell prior to the merger and there were no material adjustments to conform the accounting policies of the combining companies.

The net sales and net income previously reported by the separate companies and the combined amounts presented in the accompanying Consolidated Statement of Income are as follows:

	Nine Months Ended September 30, 1999 (unaudited)	Year Ended December 31, 1998
Net sales		
AlliedSignal	\$11,252	\$15,128
Former Honeywell	<u>6,324</u>	<u>8,427</u>
Combined	<u>\$17,576</u>	<u>\$23,555</u>
Net income		
AlliedSignal	\$ 1,121	\$ 1,331
Former Honeywell	<u>413</u>	<u>572</u>
Combined	<u>\$ 1,534</u>	<u>\$ 1,903</u>

As described in Note 5, fees and expenses related to the merger and costs to integrate the combined companies were expensed in the fourth quarter of 1999.

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

Note 3—Acquisitions

In addition to the pooling-of-interests transaction discussed in Note 2, we acquired businesses for an aggregate cost of \$2,646, \$1,314 and \$1,191 million in 2000, 1999 and 1998, respectively. The following table presents information about the more significant acquisitions:

	<u>Acquisition Date</u>	<u>Aggregate Cost</u>	<u>Goodwill</u>	<u>Annual Net Sales</u>
2000				
Pittway Corporation(1)	2/00	\$2,200	\$1,500	\$1,600
1999				
Johnson Matthey Electronics(2)	8/99	655	331	670
TriStar Aerospace Co.(3)	12/99	300	147	200
1998				
Banner Aerospace(4)	1/98	350	175	250
Pharmaceutical Fine Chemicals(5)	6/98	390	297	110

- (1) Pittway Corporation designs, manufactures and distributes security and fire systems for homes and buildings.
- (2) Johnson Matthey Electronics supplies wafer fabrication materials and interconnect products to the electronics and telecommunications industries.
- (3) TriStar Aerospace Co. distributes fasteners, fastening systems and related hardware and provides customized inventory management services to original equipment manufacturers of aircraft and aircraft components, commercial airlines and aircraft maintenance, repair and overhaul facilities.
- (4) Banner Aerospace distributes FAA-certified aircraft hardware principally to the commercial air transport and general aviation markets.
- (5) Pharmaceutical Fine Chemicals manufactures and distributes active and intermediate pharmaceutical chemicals.

All the 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. The excess of purchase price over the estimated fair values of the net assets acquired, of \$1,678, \$678 and \$883 million in 2000, 1999 and 1998, respectively, was recorded as goodwill and is amortized over estimated useful lives. In connection with these acquisitions the amounts recorded for transaction costs and the costs of integrating the acquired businesses into Honeywell were not material. The results of operations of the acquired businesses have been included in the consolidated results of Honeywell from their respective acquisition dates. The pro forma results for 2000, 1999 and 1998, assuming these acquisitions had been made at the beginning of the year, would not be materially different from reported results.

Note 4—Honeywell-General Electric Merger

On October 22, 2000, Honeywell and General Electric Company (GE) entered into an Agreement and Plan of Merger (Merger Agreement) providing for a business combination between Honeywell and GE. When the merger is effective, a wholly-owned subsidiary of GE will be merged with and into Honeywell, and Honeywell will become a wholly-owned subsidiary of GE and each issued and outstanding share of common stock of Honeywell will be converted into the right to receive 1.055 shares of common stock of GE, with fractional shares paid in cash. The merger, which was approved by Honeywell shareowners on January 10, 2001, is subject to certain remaining conditions, which include review or approval of the transaction by various governmental authorities. GE and Honeywell are working with regulatory agencies to complete the required reviews or obtain required approvals so that the transaction can close as early as possible in 2001. The Merger Agreement provides for payment of a \$1.35 billion termination fee by Honeywell under certain circumstances. In connection with the execution of the Merger Agreement, Honeywell and GE entered into a stock option agreement

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

pursuant to which Honeywell granted to GE an option to purchase up to 19.9 percent of Honeywell's outstanding shares of common stock. The option is exercisable in the same circumstances under which Honeywell is required to pay to GE the \$1.35 billion termination fee.

Note 5—Merger, Repositioning and Other Charges

In 2000, we recognized a charge of \$239 million related to announced global workforce reductions in each of our reportable segments, costs to close a chip package manufacturing plant and related workforce reductions in our Electronic Materials business, and other asset impairments principally associated with the completion of previously announced plant shut-downs in our Performance Polymers and Chemicals business. The components of the charge included severance costs of \$151 million and asset impairments of \$88 million. The workforce reductions consisted of approximately 2,800 manufacturing and administrative positions and are expected to be substantially completed by the end of the second quarter of 2001. Asset impairments were 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. Also, \$46 million of accruals established in 1999, principally for severance, were returned to income in 2000 due to higher than expected voluntary employee attrition (approximately 650 positions) resulting in reduced severance liabilities principally in our Automation & Control and Aerospace Solutions reportable segments. We also recognized a charge of \$99 million in equity in (income) loss of affiliated companies for costs to close an affiliate's chemical manufacturing operations. The components of the charge included severance costs of \$6 million, asset impairments of \$53 million, and other environmental exit costs and period expenses of \$40 million.

In 1999, upon completion of the merger between AlliedSignal and the former Honeywell, we recognized a charge of \$642 million for the cost of actions designed to improve our combined competitiveness, productivity and future profitability. The merger-related actions included the elimination of redundant corporate offices and functional administrative overhead; elimination of redundant and excess facilities and workforce in our combined aerospace businesses; adoption of six sigma productivity initiatives at the former Honeywell businesses; and, the transition to a global shared services model. The components of the charge included severance costs of \$342 million, asset impairments of \$108 million, other exit costs of \$57 million and merger-related transaction and period expenses of \$135 million. Planned global workforce reductions consisted of approximately 6,500 administrative and manufacturing positions and are substantially complete. Asset impairments were principally related to the elimination of redundant or excess corporate and aerospace facilities and equipment. Other exit costs were related to lease terminations and contract cancellation losses negotiated or subject to reasonable estimation at year-end. Merger-related transaction and period expenses consisted of investment banking and legal fees, former Honeywell deferred compensation vested upon change in control and other direct merger-related expenses incurred in the period the merger was completed. All merger-related actions are substantially complete.

In 1999, we also recognized a charge of \$321 million for the cost of actions designed to reposition principally the AlliedSignal businesses for improved productivity and future profitability. These repositioning actions included the organizational realignment of our aerospace businesses to strengthen market focus and simplify business structure; elimination of an unprofitable product line, closing of a wax refinery and carbon materials plant and rationalization of manufacturing capacity and infrastructure in our Performance Polymers and Chemicals business; a reduction in the infrastructure in our Turbocharging Systems business; elimination of two manufacturing facilities in our Electronic Materials business; a plant closure and outsourcing activity in our automotive Consumer Products Group business; and related and general workforce reductions in all AlliedSignal businesses and our Industrial Control business. The components of the charge included severance costs of \$140 million, asset impairments of \$149 million, and other exit costs of \$32 million. Global workforce reductions consisted of approximately 5,100 manufacturing, administrative, and sales positions and are substantially complete. Asset impairments were principally related to manufacturing plant and

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

equipment held for sale and capable of being taken out of service and actively marketed in the period of impairment. Other exit costs principally consisted of environmental exit costs associated with chemical plant shutdowns. All repositioning actions, excluding environmental remediation, are substantially complete.

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

	<u>Severance Costs</u>	<u>Asset Impairments</u>	<u>Exit Costs</u>	<u>Merger Fees and Expenses</u>	<u>Total</u>
1999 charges	\$ 482	\$ 257	\$ 89	\$135	\$ 963
1999 usage	(58)	(257)	(4)	(77)	(396)
Balance at December 31, 1999	<u>424</u>	<u>—</u>	<u>85</u>	<u>58</u>	<u>567</u>
2000 charges	157	141	40	—	338
2000 usage	(303)	(141)	(41)	(58)	(543)
Adjustments	(42)	—	(4)	—	(46)
Balance at December 31, 2000	<u>\$ 236</u>	<u>\$ —</u>	<u>\$ 80</u>	<u>\$ —</u>	<u>\$ 316</u>

In 2000, we identified certain business units and manufacturing facilities as non-core to our business strategy. As a result of this assessment, we implemented cost reduction initiatives and conducted discussions with potential acquirers of these businesses and assets. As part of this process, we evaluated the businesses and assets for possible impairment. As a result of our analysis, we recognized impairment charges of \$245 and \$165 million principally related to the write-down of property, plant and equipment, goodwill and other identifiable intangible assets of our Friction Materials business and a chemical manufacturing facility, respectively. We recognized other charges consisting of probable and reasonably estimable environmental liabilities of \$87 million, and contract claims, merger related period expenses, other contingencies, and write-offs of tangible assets removed from service, including inventory, totaling \$140 million. In addition, we recognized a charge of \$37 million in equity in (income) loss of affiliated companies for costs principally related to an equity investee's customer claims.

In 1999, we recognized other charges consisting of losses on aerospace engine maintenance contracts and a contract cancellation penalty totaling \$45 million, customer and employee claims of \$69 million, contract settlements and contingent liabilities of \$18 million, and other write-offs principally related to tangible and intangible assets removed from service, including inventory, of \$152 million. We also recognized a \$36 million charge resulting from an other than temporary decline in value of an equity investment due to a significant deterioration in market conditions and a \$4 million charge related to an equity investee's severance action involving approximately 220 employees. The investee's severance action was completed by December 31, 1999.

In 1998, we recognized a charge of \$54 million related to productivity initiatives which included workforce reductions and facility consolidations principally in our Home and Building Control and Industrial Control businesses. The components of the charge included severance costs of \$46 million and other exit costs of \$8 million. Global workforce reductions included approximately 1,200 sales, marketing, manufacturing and other administrative positions. Other exit costs consisted of lease termination penalties to consolidate field office locations and other period costs incurred to rationalize product lines. These actions were completed by December 31, 1999, with substantially all reserve spending occurring in 1999.

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

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Aerospace Solutions	\$ 91	\$ 315	\$ 1
Automation & Control	108	215	52
Performance Materials	399	251	—
Power & Transportation Products	263	129	—
Corporate	<u>105</u>	<u>377</u>	<u>1</u>
	<u>\$966</u>	<u>\$1,287</u>	<u>\$54</u>

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Cost of goods sold	\$830	\$ 947	\$54
Selling, general and administrative expenses	—	300	—
Equity in (income) loss of affiliated companies	<u>136</u>	<u>40</u>	<u>—</u>
	<u>\$966</u>	<u>\$1,287</u>	<u>\$54</u>

Note 6—Gain on Sale of Non-strategic Businesses

In 2000, as a result of a government mandate in connection with the merger of AlliedSignal and the former Honeywell, we sold the TCAS product line of the former Honeywell. We received approximately \$215 million in cash resulting in a pretax gain of \$112 million. The TCAS product line had annual sales of approximately \$100 million.

In 1999, we sold our Laminate Systems business for approximately \$425 million in cash resulting in a pretax gain of \$106 million. The Laminate Systems business had annual sales of about \$400 million.

Note 7—Other (Income) Expense

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Interest income and other	\$(79)	\$ (76)	\$(57)
Minority interests	34	46	37
Foreign exchange (gain) loss	(12)	(9)	17
Gain on disposition of investment in AMP Incorporated	—	(268)	—
Litigation settlements	<u>—</u>	<u>—</u>	<u>(24)</u>
	<u>\$(57)</u>	<u>\$(307)</u>	<u>\$(27)</u>

In April 1999, we reached an agreement with Tyco International Ltd. (Tyco) and AMP Incorporated (AMP), settling AMP's claim to the gain we would realize on the disposition of our investment in AMP common stock. We made a payment to AMP of \$50 million, and the parties released all claims that they had against each other relating to AMP. Subsequently, we converted our investment in AMP common stock into Tyco common stock and sold the Tyco common stock for net cash proceeds of \$1.2 billion resulting in a pretax gain of \$268 million, net of the settlement payment.

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

Note 8—Interest and Other Financial Charges

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Total interest and other financial charges	\$497	\$287	\$300
Less—Capitalized interest	(16)	(22)	(25)
	<u>\$481</u>	<u>\$265</u>	<u>\$275</u>

Cash payments of interest during the years 2000, 1999 and 1998 were \$573, \$328 and \$426 million, respectively.

The weighted average interest rate on short-term borrowings and commercial paper outstanding at December 31, 2000 and 1999 was 6.60 and 5.97 percent, respectively.

Note 9—Taxes on Income

Income before taxes on income

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
United States	\$1,842	\$1,742	\$2,085
Foreign	556	506	687
	<u>\$2,398</u>	<u>\$2,248</u>	<u>\$2,772</u>

Taxes on income

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
United States	\$ 508	\$ 531	\$ 616
Foreign	231	176	253
	<u>\$ 739</u>	<u>\$ 707</u>	<u>\$ 869</u>

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Taxes on income consist of:			
Current:			
United States	\$ 126	\$ 416	\$ 424
State	2	113	49
Foreign	197	189	175
	<u>325</u>	<u>718</u>	<u>648</u>
Deferred:			
United States	325	37	81
State	55	(35)	62
Foreign	34	(13)	78
	<u>414</u>	<u>(11)</u>	<u>221</u>
	<u>\$ 739</u>	<u>\$ 707</u>	<u>\$ 869</u>

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

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
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	(.7)	(1.2)	1.0
Asset basis differences	2.5	(1.6)	(1.5)
Nondeductible amortization	2.8	3.3	1.3
State income taxes	1.3	2.2	2.5
Tax benefits of Foreign Sales Corporation	(5.0)	(4.4)	(2.2)
ESOP dividend tax benefit	(.7)	(.7)	(.6)
Tax credits	(3.5)	(1.2)	(1.1)
All other items—net	(.9)	.1	(3.1)
	<u>30.8%</u>	<u>31.5%</u>	<u>31.3%</u>

Deferred income taxes

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Included in the following balance sheet accounts:		
Other current assets	\$ 734	\$ 789
Other assets	151	143
Accrued liabilities	(5)	(13)
Deferred income taxes	(1,173)	(864)
	<u>\$ (293)</u>	<u>\$ 55</u>

Deferred tax assets (liabilities)

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
The principal components of deferred tax assets and (liabilities) are as follows:		
Property, plant and equipment basis differences	\$(934)	\$(648)
Postretirement benefits other than pensions and postemployment benefits	847	869
Investment and other asset basis differences	(375)	(328)
Other accrued items	377	552
Net operating losses	207	184
Deferred foreign gain	(17)	(27)
Undistributed earnings of subsidiaries	(35)	(33)
All other items—net	(319)	(491)
	<u>(249)</u>	<u>78</u>
Valuation allowance	(44)	(23)
	<u>\$(293)</u>	<u>\$ 55</u>

The amount of federal tax net operating loss carryforwards available at December 31, 2000 was \$111 million. The majority of these loss carryforwards were generated by certain subsidiaries prior to their acquisition in 1997 and have expiration dates through the year 2011. 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. We also have foreign net operating losses of \$595 million which are available to reduce future income tax payments in several countries, subject to varying expiration rules.

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

Deferred income taxes have not been provided on approximately \$2.1 billion of undistributed earnings of foreign affiliated companies, which are considered to be permanently reinvested. It is not practicable to estimate the amount of tax that might be payable on the eventual remittance of such earnings.

Cash payments of income taxes during the years 2000, 1999 and 1998 were \$442, \$625 and \$729 million, respectively.

Note 10—Earnings Per Share

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

	<u>Income</u>	<u>Average Shares</u>	<u>Per Share Amount</u>
2000			
Earnings per share of common stock—basic	\$1,659	800,317,543	\$2.07
Dilutive securities issuable in connection with stock plans		<u>9,149,959</u>	
Earnings per share of common stock—assuming dilution	<u>\$1,659</u>	<u>809,467,502</u>	<u>\$2.05</u>
1999			
Earnings per share of common stock—basic	\$1,541	792,010,145	\$1.95
Dilutive securities issuable in connection with stock plans		<u>16,979,863</u>	
Earnings per share of common stock—assuming dilution	<u>\$1,541</u>	<u>808,990,008</u>	<u>\$1.90</u>
1998			
Earnings per share of common stock—basic	\$1,903	798,390,836	\$2.38
Dilutive securities issuable in connection with stock plans		<u>15,608,334</u>	
Earnings per share of common stock—assuming dilution	<u>\$1,903</u>	<u>813,999,170</u>	<u>\$2.34</u>

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 2000, 1999 and 1998, the number of stock options not included in the computations was 14,563,673, 868,631 and 3,688,074, respectively. These stock options were outstanding at the end of each of the respective years.

Note 11—Accounts and Notes Receivable

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Trade	\$3,967	\$3,545
Other	<u>755</u>	<u>435</u>
	4,722	3,980
Less—Allowance for doubtful accounts and refunds	<u>(99)</u>	<u>(84)</u>
	<u>\$4,623</u>	<u>\$3,896</u>

Unbilled receivables related to long-term contracts were \$423 and \$359 million at December 31, 2000 and 1999, respectively, and are generally billable and collectible within one year.

We are a party to agreements under which we can sell undivided interests in designated pools of trade accounts receivable. At both December 31, 2000 and 1999, trade accounts receivable on the

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Consolidated Balance Sheet have been reduced by approximately \$500 million reflecting such sales. We act as an agent for the purchasers in the collection and administration of the receivables.

Note 12—Inventories

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Raw materials	\$1,262	\$1,027
Work in process	809	973
Finished products	<u>1,797</u>	<u>1,589</u>
	3,868	3,589
Less—		
Progress payments	(5)	(44)
Reduction to LIFO cost basis	<u>(129)</u>	<u>(109)</u>
	<u>\$3,734</u>	<u>\$3,436</u>

Inventories valued at LIFO amounted to \$167 million at both December 31, 2000 and 1999. Had such LIFO inventories been valued at current costs, their carrying values would have been approximately \$129 and \$109 million higher at December 31, 2000 and 1999, respectively.

Inventories related to long-term contracts, net of progress payments and customer advances, were \$220 and \$271 million at December 31, 2000 and 1999, respectively.

Note 13—Investments and Long-term Receivables

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Investments	\$548	\$664
Long-term receivables	<u>200</u>	<u>118</u>
	<u>\$748</u>	<u>\$782</u>

Note 14—Property, Plant and Equipment

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Land and improvements	\$ 337	\$ 371
Machinery and equipment	9,484	9,574
Buildings and improvements	2,134	2,192
Construction in progress	<u>505</u>	<u>566</u>
	12,460	12,703
Less—Accumulated depreciation and amortization	<u>(7,230)</u>	<u>(7,073)</u>
	<u>\$ 5,230</u>	<u>\$5,630</u>

Note 15—Accrued Liabilities

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
Compensation and benefit costs	\$ 728	\$ 828
Customer advances	453	511
Income taxes	92	186
Environmental costs	171	104
Other	<u>1,724</u>	<u>1,905</u>
	<u>\$3,168</u>	<u>\$3,534</u>

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Note 16—Long-term Debt and Credit Agreements

	<u>December 31,</u>	
	<u>2000</u>	<u>1999</u>
6.60% notes due 2001	\$ —	\$ 100
5¾% dealer remarketable securities due 2001	—	200
6.75% notes due 2002	200	200
9⅞% debentures due 2002	171	171
6.875% notes due 2005	750	—
8⅝% debentures due 2006	100	100
7.0% notes due 2007	350	350
7⅛% 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
7.50% notes due 2010	1,000	—
Industrial development bond obligations, 4.40%–6.75%, maturing at various dates through 2027	92	107
6⅝% debentures due 2028	216	216
9.065% debentures due 2033	51	51
Other (including capitalized leases), 1.54%–12.50%, maturing at various dates through 2033	511	462
	<u>\$3,941</u>	<u>\$2,457</u>

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

	<u>At December 31, 2000</u>
2001	\$ 380
2002	465
2003	77
2004	63
2005	921
Thereafter	2,415
	4,321
Less—Current portion	(380)
	<u>\$3,941</u>

We maintain \$2 billion of bank revolving credit facilities with a group of banks which are comprised of: (a) a \$1 billion Five-Year Credit Agreement and (b) a \$1 billion 364-Day Credit Agreement. The credit agreements are maintained for general corporate purposes including support for the issuance of commercial paper. We had no balance outstanding under either agreement at December 31, 2000.

Neither of the credit agreements restrict our ability to pay dividends and neither contain 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 and interest thereon, (b) non-compliance with the terms of the credit agreement covenants, (c) cross-default with other debt in certain circumstances, (d) bankruptcy and (e) defaults upon obligations under the Employee Retirement Income Security Act. Additionally, each of the banks has the right to terminate its commitment to lend 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).

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Loans under the Five-Year Credit Agreement are required to be repaid no later than December 2, 2004. We have agreed to pay a facility fee of 0.065 percent per annum on the aggregate commitment for the Five-Year Credit Agreement, subject to increase or decrease in the event of changes in our long-term debt ratings.

Interest on borrowings under the Five-Year Credit Agreement would be determined, at our option, by (a) an auction bidding procedure; (b) the highest of the floating base rate of the agent bank, 0.5 percent above the average CD rate, or 0.5 percent above the Federal funds rate or (c) the average Eurocurrency rate of three reference banks plus 0.135 percent (applicable margin). The applicable margin over the Eurocurrency rate on the Five-Year Credit Agreement is subject to increase or decrease if our long-term debt ratings change.

The commitments under the 364-Day Credit Agreement terminate on November 29, 2001. Annually, prior to the Agreement's anniversary date, we may request that the termination date of the 364-Day Credit Agreement be extended by 364 days. We have agreed to pay a facility fee of 0.055 percent per annum on the aggregate commitment for the 364-Day Credit Agreement.

Interest on borrowings under the 364-Day Credit Agreement would be determined, at our option, by (a) an auction bidding procedure; (b) the highest of the floating base rate of the agent bank, 0.5 percent above the average CD rate, or 0.5 percent above the Federal funds rate or (c) the average Eurocurrency rate of three reference banks plus 0.145 percent (applicable margin).

Note 17—Lease Commitments

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

	<u>At December 31, 2000</u>
2001	\$ 233
2002	191
2003	147
2004	108
2005	92
Thereafter	313
	<u>\$1,084</u>

Rent expense was \$306, \$291 and \$262 million in 2000, 1999 and 1998, respectively.

Note 18—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, which may adversely affect our operating results and financial position. We minimize our risks from interest and foreign currency exchange rate 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.

Interest rate swap agreements are used to manage interest rate risk by adjusting our ratio of fixed to floating interest rates payable on our outstanding debt. At December 31, 2000 and 1999, interest rate swap agreements effectively changed \$1,600 and \$850 million, respectively, of fixed rate debt at an average rate of 7.1 and 6.6 percent, respectively, to LIBOR and commercial paper based floating rate debt. Other interest rate swaps at December 31, 1999 effectively changed \$250 million of LIBOR and commercial paper based floating rate swaps and debt to fixed rate swaps and debt with an average fixed rate of 6.3 percent. Our interest rate swaps mature through the year 2007.

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Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, and foreign currency denominated receivables, payables, and firm commitments arising from international transactions. We attempt to have such transaction exposure hedged with internal natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency forward and option agreements with third parties. We also use derivative financial instruments to hedge the impact of exchange rate movements on the translated U.S. dollar value of the net income for a number of foreign subsidiaries. Foreign currency forward and option agreements used to hedge net income are marked-to-market, with gains or losses recognized immediately in income. Our principal foreign currency exposures relate to the Belgian franc, the French franc, the German mark (collectively the Euro countries), the British pound, the Canadian dollar, and the U.S. dollar. At December 31, 2000, we held or had written foreign currency forward and option agreements maturing through 2001.

Derivative financial instruments 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 values of our outstanding derivative financial instruments at December 31, 2000 and 1999 follows:

	<u>Notional Principal Amount</u>	<u>Carrying Value</u>	<u>Fair Value(1)</u>
<u>December 31, 2000</u>			
Interest rate swap agreements	\$1,600	\$ 16	\$ 68
Foreign currency exchange contracts	1,542	—	3
<u>December 31, 1999</u>			
Interest rate swap agreements	\$1,100	\$ (4)	\$ (36)
Foreign currency exchange contracts	1,445	4	6

(1) The fair value of financial instruments is based on quoted market prices or other valuation techniques, as appropriate.

Other financial instruments that are not carried on the Consolidated Balance Sheet at amounts, which approximate fair values, are certain debt instruments. The carrying value of long-term debt and related current maturities (excluding capitalized leases of \$30 and \$36 million at December 31, 2000 and 1999, respectively) were \$4,291 and \$2,705 million and the fair values were \$4,517 and \$2,702 million at December 31, 2000 and 1999, respectively. The fair values are estimated based on the quoted market price for the issues (if traded) or based on current rates offered to us for debt of the same remaining maturity and characteristics.

Note 19—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

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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.

On July 21, 2000, our Board authorized a share repurchase program to purchase up to 40 million shares of our common stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. During 2000, we repurchased 4.3 million shares of our common stock for \$166 million in connection with our share repurchase program. As a result of the pending merger with General Electric Company (See Note 4), Honeywell rescinded its share repurchase program effective October 21, 2000.

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. As of December 31, 2000, there was no preferred stock outstanding.

Note 20—Other Nonowner Changes in Shareowners' Equity

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

	<u>Pretax</u>	<u>Tax</u>	<u>After-Tax</u>
<u>Year ended December 31, 2000</u>			
Unrealized gains on securities available for sale	\$ 4	\$ (1)	\$ 3
Reclassification adjustment for gains on securities available for sale included in net income	<u>—</u>	<u>—</u>	<u>—</u>
Net unrealized gains arising during the year	4	(1)	3
Foreign exchange translation adjustments	<u>(377)</u>	<u>—</u>	<u>(377)</u>
	<u><u>\$(373)</u></u>	<u><u>\$ (1)</u></u>	<u><u>\$(374)</u></u>
<u>Year ended December 31, 1999</u>			
Unrealized gains on securities available for sale	\$ —	\$ —	\$ —
Reclassification adjustment for gains on securities available for sale included in net income	<u>(152)</u>	<u>60</u>	<u>(92)</u>
Net unrealized losses arising during the year	(152)	60	(92)
Foreign exchange translation adjustments	<u>(126)</u>	<u>—</u>	<u>(126)</u>
Minimum pension liability adjustment	<u>(70)</u>	<u>27</u>	<u>(43)</u>
	<u><u>\$(348)</u></u>	<u><u>\$ 87</u></u>	<u><u>\$(261)</u></u>
<u>Year ended December 31, 1998</u>			
Unrealized gains on securities available for sale	\$ 149	\$ (59)	\$ 90
Reclassification adjustment for gains on securities available for sale included in net income	<u>—</u>	<u>—</u>	<u>—</u>
Net unrealized gains arising during the year	149	(59)	90
Foreign exchange translation adjustments	<u>34</u>	<u>—</u>	<u>34</u>
Minimum pension liability adjustment	<u>(16)</u>	<u>6</u>	<u>(10)</u>
	<u><u>\$ 167</u></u>	<u><u>\$ (53)</u></u>	<u><u>\$ 114</u></u>

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The components of Accumulated Other Nonowner Changes are as follows:

	December 31,		
	2000	1999	1998
Cumulative foreign exchange translation adjustment	\$(672)	\$(295)	\$(169)
Unrealized holding gains on securities available for sale	3	—	92
Minimum pension liability	(60)	(60)	(17)
	<u>\$(729)</u>	<u>\$(355)</u>	<u>\$ (94)</u>

Note 21—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 the 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.

The following table summarizes information about stock option activity for the three years ended December 31, 2000:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 1997	59,962,780	\$22.47
Granted	9,819,362	34.33
Exercised	(10,708,194)	20.28
Lapsed or canceled	(4,352,142)	26.33
Outstanding at December 31, 1998	54,721,806	25.66
Granted	20,580,611	54.93
Exercised	(16,956,945)	23.04
Lapsed or canceled	(2,304,969)	35.38
Outstanding at December 31, 1999	56,040,503	36.81
Granted	4,506,804	45.68
Exercised	(12,115,659)	23.22
Lapsed or canceled	(2,431,324)	52.87
Outstanding at December 31, 2000	<u>46,000,324</u>	40.36

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Life(1)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 7.18—\$29.98	12,808,606	3.5	\$19.64	11,513,126	\$19.52
\$30.41—\$39.93	9,591,295	7.1	36.64	7,970,175	36.71
\$40.02—\$49.97	11,659,185	8.0	43.39	5,801,237	41.84
\$50.13—\$66.73	11,941,238	8.9	62.63	1,713,808	61.62
	<u>46,000,324</u>	6.8	40.36	<u>26,998,346</u>	32.06

(1) Average remaining contractual life in years.

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There were 30,927,704 and 33,530,799 options exercisable at weighted average exercise prices of \$27.21 and \$20.38 at December 31, 1999 and 1998, respectively. There were 3,627,101 shares available for future grants under the terms of our stock option plans at December 31, 2000.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS No. 123) requires that the cost of stock-based compensation be measured using a fair value based method. As permitted by SFAS No. 123, we elected to continue to account for stock-based compensation using the intrinsic value based method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, no compensation cost has been recognized for our fixed stock option plans. The following table sets forth pro forma information, including related assumptions, as if compensation cost had been determined consistent with the requirements of SFAS No. 123.

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Weighted average fair value per share of options granted during the year(1)	\$18.21	\$12.70	\$9.24
Reduction of:			
Net income	\$ 75	\$ 65	\$ 48
Earnings per share of common stock—basic	\$.09	\$.08	\$.06
Earnings per share of common stock—assuming dilution ..	\$.09	\$.08	\$.06
Assumptions:			
Historical dividend yield	1.4%	1.3%	1.6%
Historical volatility	27.8%	24.6%	20.7%
Risk-free rate of return	6.4%	5.2%	5.3%
Expected life (years)	5.0	5.0	5.0

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

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 1,374,640, 1,175,127 and 942,143 in 2000, 1999 and 1998, respectively. There were 2,449,749, 2,657,561 and 3,117,736 RSU's outstanding, with a weighted average grant date fair value per share of \$47.33, \$37.81 and \$28.84 at December 31, 2000, 1999 and 1998, 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 certain restrictions. In addition, each director will be granted an option to purchase 2,000 shares of common stock each year on the date of the annual meeting of shareowners. 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.

Employee Stock Match 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 3.9, 2.6 and 3.4 million in 2000, 1999 and 1998, respectively, at a cost of \$161, \$142 and \$139 million, respectively.

Note 22—Commitments and Contingencies

Litton Litigation—On March 13, 1990, Litton Systems, Inc. (Litton) filed a legal action against the former Honeywell in U.S. District Court, Central District of California, Los Angeles (the trial court) with claims that were subsequently split into two separate cases. One alleges patent infringement under

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federal law for using an ion-beam process to coat mirrors incorporated in the former Honeywell's ring laser gyroscopes, and tortious interference under state law for interfering with Litton's prospective advantage with customers and contractual relationships with an inventor and his company, Ojai Research, Inc. The other case alleges monopolization and attempted monopolization under federal antitrust laws by the former Honeywell in the sale of inertial reference systems containing ring laser gyroscopes into the commercial aircraft market. The former Honeywell generally denied Litton's allegations in both cases. In the patent/tort case, the former Honeywell also contested the validity as well as the infringement of the patent, alleging, among other things, that the patent had been obtained by Litton's inequitable conduct before the United States Patent and Trademark Office.

Patent/Tort Case—U.S. District Court Judge Mariana Pfaelzer presided over a three-month patent infringement and tortious interference trial in 1993. On August 31, 1993, a jury returned a verdict in favor of Litton, awarding damages against the former Honeywell in the amount of \$1.2 billion on three claims. The former Honeywell filed post-trial motions contesting the verdict and damage award. On January 9, 1995, the trial court set them all aside, ruling, among other things, that the Litton patent was invalid due to obviousness, unenforceable because of Litton's inequitable conduct before the Patent and Trademark Office, and in any case, not infringed by the former Honeywell's current process. It further ruled that Litton's state tort claims were not supported by sufficient evidence. The trial court also held that if its rulings concerning liability were vacated or reversed on appeal, the former Honeywell should at least be granted a new trial on the issue of damages because the jury's award was inconsistent with the clear weight of the evidence and based upon a speculative damage study.

The trial court's rulings were appealed to the U.S. Court of Appeals for the Federal Circuit, and on July 3, 1996, in a two to one split decision, a three judge panel of that court reversed the trial court's rulings of patent invalidity, unenforceability and non-infringement, and also found the former Honeywell to have violated California law by intentionally interfering with Litton's consultant contracts and customer prospects. However, the panel upheld two trial court rulings favorable to the former Honeywell, namely that the former Honeywell was entitled to a new trial for damages on all claims, and also to a grant of intervening patent rights which are to be defined and quantified by the trial court. After unsuccessfully requesting a rehearing of the panel's decision by the full Federal Circuit appellate court, the former Honeywell filed a petition with the U.S. Supreme Court on November 26, 1996, seeking review of the panel's decision. In the interim, Litton filed a motion and briefs with the trial court seeking injunctive relief against the former Honeywell's commercial ring laser gyroscope sales. After the former Honeywell and certain aircraft manufacturers filed briefs and made oral arguments opposing the injunction, the trial court denied Litton's motion on public interest grounds on December 23, 1996, and then scheduled the patent/tort damages retrial for May 6, 1997.

On March 17, 1997, the U.S. Supreme Court granted the former Honeywell's petition for review and vacated the July 3, 1996 Federal Circuit panel decision. The case was remanded to the Federal Circuit panel for reconsideration in light of a recent decision by the U.S. Supreme Court in the *Warner-Jenkinson vs. Hilton Davis* case, which refined the law concerning patent infringement under the doctrine of equivalents. On March 21, 1997, Litton filed a notice of appeal to the Federal Circuit of the trial court's December 23, 1996 decision to deny injunctive relief, but the Federal Circuit stayed any briefing or consideration of that matter until such time as it completed its reconsideration of liability issues ordered by the U.S. Supreme Court.

The liability issues were argued before the same three judge Federal Circuit panel on September 30, 1997. On April 7, 1998, the panel issued its decision:

- (i) affirming the trial court's ruling that the former Honeywell's hollow cathode and RF ion-beam processes do not literally infringe the asserted claims of Litton's '849 reissue patent (Litton's patent);
- (ii) vacating the trial court's ruling that the former Honeywell's RF ion-beam process does not infringe the asserted claims of Litton's patent under the doctrine of equivalents, but also

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vacating the jury's verdict on that issue and remanding that issue to the trial court for further proceedings in accordance with the *Warner-Jenkinson* decision;

- (iii) vacating the jury's verdict that the former Honeywell's hollow cathode process infringes the asserted claims of Litton's patent under the doctrine of equivalents and remanding that issue to the trial court for further proceedings;
- (iv) reversing the trial court's ruling with respect to the torts of intentional interference with contractual relations and intentional interference with prospective economic advantage, but also vacating the jury's verdict on that issue, and remanding the issue to the trial court for further proceedings in accordance with California state law;
- (v) affirming the trial court's grant of a new trial to the former Honeywell on damages for all claims, if necessary;
- (vi) affirming the trial court's order granting intervening rights to the former Honeywell in the patent claim;
- (vii) reversing the trial court's ruling that the asserted claims of Litton's patent were invalid due to obviousness and reinstating the jury's verdict on that issue; and
- (viii) reversing the trial court's determination that Litton had obtained Litton's patent through inequitable conduct.

Litton's request for a rehearing of the panel's decision by the full Federal Circuit court was denied and its appeal of the denial of an injunction was dismissed. The case was remanded to the trial court for further legal and perhaps factual review. The parties filed motions with the trial court to dispose of the remanded issues as matters of law, which were argued before the trial court on July 26, 1999. On September 23, 1999, the trial court issued dispositive rulings in the case, granting the former Honeywell's Motion for Judgment as a Matter of Law and Summary Judgment on the patent claims on various grounds; granting the former Honeywell's Motion for Judgment as a Matter of Law on the state law claims on the grounds of insufficient evidence; and denying Litton's Motion for Partial Summary Judgment. The trial court entered a final judgment in Honeywell's favor on January 31, 2000, and Litton appealed that judgment to the U.S. Court of Appeals for the Federal Circuit.

On February 5, 2001, a three judge panel of the Federal Circuit court affirmed the trial court's rulings granting the former Honeywell's Motion for Judgment as a Matter of Law and Summary Judgment on the patent claims, agreeing that the former Honeywell did not infringe. On the state law claims, the panel vacated the jury's verdict in favor of Litton, reversed the trial court's grant of judgment as a matter of law for the former Honeywell, and remanded the case to the trial court for further proceedings under state law to resolve certain factual issues that it held should have been submitted to the jury. Litton may now attempt to seek review of this decision by the U.S. Supreme Court.

When preparing for the patent/tort damages retrial that was scheduled for May 1997, Litton had submitted a revised damage study to the trial court, seeking damages as high as \$1.9 billion. We do not expect that if Litton files an appeal to the U.S. Supreme Court it will ultimately succeed. We do not expect that in the absence of any patent infringement Litton will be able to prove any tortious conduct by the former Honeywell under state law that interfered with Litton's contracts or business prospects. We believe that it is reasonably possible that no damages will ultimately be awarded to Litton.

Although it is not possible at this time to predict whether Litton will seek review by the U.S. Supreme Court and whether such an appeal would succeed, potential does remain for an adverse outcome which could be material to our financial position or results of operations. We believe however, that any potential award of damages for an adverse judgment of infringement or interference should be based upon a reasonable royalty reflecting the value of the ion-beam coating process, and further that such an award would not be material to our financial position or results of operations. As a result of the uncertainty regarding the outcome of this matter, no provision has been made in the financial statements with respect to this contingent liability.

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

Antitrust Case—Preparations for, and conduct of, the trial in the antitrust case have generally followed the completion of comparable proceedings in the patent/tort case. The antitrust trial did not begin until November 20, 1995. Judge Pfaelzer also presided over the trial, but it was held before a different jury. At the close of evidence and before jury deliberations began, the trial court dismissed, for failure of proof, Litton's contentions that the former Honeywell had illegally monopolized and attempted to monopolize by:

- (i) engaging in below-cost predatory pricing;
- (ii) tying and bundling product offerings under packaged pricing;
- (iii) misrepresenting its products and disparaging Litton products; and
- (iv) acquiring the Sperry Avionics business in 1986.

On February 2, 1996, the case was submitted to the jury on the remaining allegations that the former Honeywell had illegally monopolized and attempted to monopolize by:

- (i) entering into certain long-term exclusive dealing and penalty arrangements with aircraft manufacturers and airlines to exclude Litton from the commercial aircraft market, and
- (ii) failing to provide Litton with access to proprietary software used in the cockpits of certain business jets.

On February 29, 1996, the jury returned a \$234 million single damages verdict against the former Honeywell for illegal monopolization, which verdict would have been automatically trebled. On March 1, 1996, the jury indicated that it was unable to reach a verdict on damages for the attempt to monopolize claim, and a mistrial was declared as to that claim.

The former Honeywell subsequently filed a motion for judgment as a matter of law and a motion for a new trial, contending, among other things, that the jury's partial verdict should be overturned because the former Honeywell was prejudiced at trial, and Litton failed to prove essential elements of liability or submit competent evidence to support its speculative, all-or-nothing \$298.5 million damage claim. Litton filed motions for entry of judgment and injunctive relief. On July 24, 1996, the trial court denied the former Honeywell's alternative motions for judgment as a matter of law or a complete new trial, but concluded that Litton's damage study was seriously flawed and granted the former Honeywell a retrial on damages only. The court also denied Litton's two motions. At that time, Judge Pfaelzer was expected to conduct the retrial of antitrust damages sometime following the retrial of patent/tort damages. However, after the U.S. Supreme Court remanded the patent/tort case to the Federal Circuit in March 1997, Litton moved to have the trial court expeditiously schedule the antitrust damages retrial. In September 1997, the trial court rejected that motion, indicating that it wished to know the outcome of the current patent/tort appeal before scheduling retrials of any type.

Following the April 7, 1998 Federal Circuit panel decision in the patent/tort case, Litton again petitioned the trial court to schedule the retrial of antitrust damages. The trial court tentatively scheduled the trial to commence in the fourth quarter of 1998, and reopened limited discovery and other pretrial preparations. Litton then filed another antitrust damage claim of nearly \$300 million.

The damages only retrial began October 29, 1998 before Judge Pfaelzer and a new jury. On December 9, 1998, the jury returned verdicts against the former Honeywell totaling \$250 million, \$220 million of which is in favor of Litton and \$30 million of which is in favor of its sister corporation, Litton Systems, Canada, Limited.

On January 27, 1999, the court vacated its prior mistrial ruling with respect to the attempt to monopolize claim and entered a treble damages judgment in the total amount of \$750 million for actual and attempted monopolization. The former Honeywell filed appropriate post-judgment motions with the trial court and Litton filed motions seeking to add substantial attorney's fees and costs to the judgment. A hearing on the post-judgment motions was held before the trial court on May 20, 1999. On September 24, 1999, the trial court issued rulings denying the former Honeywell's Motion for Judgment as a Matter of Law and Motion for New Trial and Remittitur as they related to Litton Systems Inc., but

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

granting the former Honeywell's Motion for Judgment as a Matter of Law as it relates to Litton Systems, Canada, Limited. The net effect of these rulings was to reduce the existing judgment against the former Honeywell of \$750 million to \$660 million, plus attorney fees and costs of approximately \$35 million. Both parties have appealed the judgment, as to both liability and damages, to the U.S. Court of Appeals for the Ninth Circuit. Execution of the trial court's judgment is stayed pending resolution of the former Honeywell's post-judgment motions and the disposition of any appeals filed by the parties.

We expect to obtain substantial relief from the current adverse judgment in the antitrust case by an appeal to the Ninth Circuit, based upon sound substantive and procedural legal grounds. We believe that there was no factual or legal basis for the magnitude of the jury's award in the damages retrial and that, as was the case in the first trial, the jury's award should be overturned. We also believe there are serious questions concerning the identity and nature of the business arrangements and conduct which were found by the first antitrust jury in 1996 to be anti-competitive and damaging to Litton, and the verdict of liability should be overturned as a matter of law.

Although it is not possible at this time to predict the result of the appeals, potential remains for an adverse outcome which could be material to our financial position or results of operations. As a result of the uncertainty regarding the outcome of this matter, no provision has been made in the financial statements with respect to this contingent liability. We also believe that it would be inappropriate for Litton to obtain recovery of the same damages, e.g. losses it suffered due to the former Honeywell's sales of ring laser gyroscope-based inertial systems to OEMs and airline customers, under multiple legal theories, claims, and cases, and that eventually any duplicative recovery would be eliminated from the antitrust and patent/tort cases.

Shareowner Litigation—Honeywell and seven of its officers were named as defendants in several purported class action lawsuits filed in the United States District Court for the District of New Jersey (the Securities Law Complaints). The Securities Law Complaints principally allege 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 purported class period for which damages are sought is December 20, 1999 to June 19, 2000.

In addition, Honeywell, seven of its officers and its Board have been named as defendants in a purported shareowner derivative action which was filed on November 27, 2000 in the United States District Court for the District of New Jersey (the Derivative Complaint). The Derivative Complaint alleges a single claim for breach of fiduciary duty based on nearly identical allegations to those set forth in the Securities Law Complaints.

We believe that there is no factual or legal basis for the allegations in the Securities Law Complaints and the Derivative Complaint. Although it is not possible at this time to predict the result of these cases, we expect to prevail. However, an adverse outcome could be material to our financial position or results of operations. No provision has been made in our financial statements with respect to this contingent liability.

Environmental Matters—In accordance with our accounting policy (see Note 1), liabilities are recorded for environmental matters generally no later than the completion of feasibility studies. Although we do not currently possess sufficient information to reasonably estimate the amounts of the liabilities to be recorded upon future completion of studies, they may be significant to the consolidated results of operations, but we do not expect that they will have a material adverse effect on our consolidated financial position. The liabilities for environmental costs recorded in Accrued Liabilities and Other Liabilities at December 31, 2000 were \$171 and \$215 million, respectively, and at December 31, 1999 were \$104 and \$245 million, respectively.

Other Matters—We are subject to a number of other lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. With respect to all these other matters, including those relating to commercial transactions, government contracts, product

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

liability and non-environmental health and safety matters, while the ultimate results of these lawsuits, investigations and claims cannot be determined, we do not expect that these matters will have a material adverse effect on our consolidated results of operations or financial position.

We have issued or are a party to various direct and indirect guarantees, bank letters of credit and customer guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated results of operations or financial position.

Note 23—Pension and Other Postretirement Benefits

We maintain pension plans covering the majority of our employees and retirees, and postretirement benefit plans for retirees that include health care benefits and life insurance coverage. Pension benefits for substantially all U.S. employees are provided through non-contributory, defined benefit pension plans. Employees in foreign countries, 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. Our retiree medical plans cover U.S. and Canadian employees who retire with pension eligibility for hospital, professional and other medical services. 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. The retiree medical and life insurance plans are not funded. Claims and expenses are paid from our general assets.

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

	Pension Benefits			Other Postretirement Benefits		
	2000	1999	1998	2000	1999	1998
Service cost	\$ 193	\$ 229	\$ 233	\$ 23	\$ 32	\$ 30
Interest cost	702	710	721	131	125	121
Assumed return on plan assets	(1,151)	(1,062)	(951)	—	—	—
Amortization of transition asset	(13)	(13)	(14)	—	—	—
Amortization of prior service cost (credit)	53	50	45	(18)	(18)	(18)
Recognition of actuarial (gains) losses	(114)	10	3	(4)	(4)	(8)
Settlements and curtailments	(50)	(45)	(29)	(34)	(75)	(44)
Benefit cost (income)	<u>\$ (380)</u>	<u>\$ (121)</u>	<u>\$ 8</u>	<u>\$ 98</u>	<u>\$ 60</u>	<u>\$ 81</u>

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

The following table summarizes the balance sheet impact, including the benefit obligations, assets, funded status and actuarial assumptions associated with our significant pension and other postretirement benefit plans.

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 9,938	\$11,101	\$ 1,708	\$ 1,867
Service cost	193	229	23	32
Interest cost	702	710	131	125
Plan amendments	41	29	(69)	(16)
Actuarial (gains) losses	409	(1,223)	333	(114)
Acquisitions	72	95	—	—
Benefits paid	(786)	(794)	(165)	(144)
Settlements and curtailments	(77)	(128)	(9)	(42)
Other	(360)	(81)	—	—
Benefit obligation at end of year	<u>10,132</u>	<u>9,938</u>	<u>1,952</u>	<u>1,708</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	13,022	11,560	—	—
Actual return on plan assets	233	2,232	—	—
Company contributions	62	108	—	—
Acquisitions	102	57	—	—
Settlements	—	(80)	—	—
Benefits paid	(786)	(794)	—	—
Other	(369)	(61)	—	—
Fair value of plan assets at end of year	<u>12,264</u>	<u>13,022</u>	<u>—</u>	<u>—</u>
Funded status of plans	2,132	3,084	(1,952)	(1,708)
Unrecognized transition (asset)	(21)	(27)	—	—
Unrecognized net (gain) loss	(1,276)	(2,742)	89	(257)
Unrecognized prior service cost (credit)	258	305	(170)	(145)
Prepaid (accrued) benefit cost	<u>\$ 1,093</u>	<u>\$ 620</u>	<u>\$ (2,033)</u>	<u>\$ (2,110)</u>
Actuarial assumptions at December 31:				
Discount rate	7.75%	8.00%	7.75%	8.00%
Assumed rate of return on plan assets	10.00%	10.00%	—	—
Assumed annual rate of compensation increase	4.00%	4.00%	—	—

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for our pension plans with accumulated benefit obligations in excess of plan assets were \$350, \$310 and \$44 million, respectively, as of December 31, 2000 and \$608, \$534 and \$210 million, respectively, as of December 31, 1999.

For measurement purposes, we assumed an annual health-care cost trend rate of 6 percent for 2001 and beyond. Assumed health-care cost trend rates have a significant effect on the amounts reported for our retiree health-care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components ...	\$ 11	\$ (10)
Effect on postretirement benefit obligation	\$ 130	\$ (119)

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

Note 24—Segment Financial Data

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), establishes standards for reporting information about operating segments. The following information is provided in accordance with the requirements of SFAS No. 131 and is consistent with how business results are reported internally to management.

We globally manage our business operations through strategic business units (SBUs) offering products and services to the aerospace, automation and control, chemicals, and automotive industries. Based on similar economic and operational characteristics, our SBUs are aggregated into the following four reportable segments:

- Aerospace Solutions includes Engines & Systems (auxiliary power units; propulsion engines; environmental control systems; engine controls; and power generation systems); Aerospace Electronic Systems (flight safety communications, navigation, radar and surveillance systems; aircraft and airfield lighting; and advanced systems and instruments); Aerospace Services (repair and overhaul services; hardware; logistics; and management and technical services); and Aircraft Landing Systems (aircraft wheels and brakes).
- Automation & Control includes Home and Building Control (controls for heating, ventilating, humidification and air-conditioning equipment; energy-efficient lighting controls; home consumer products; security and fire alarm systems; home automation systems; and building management systems and services); and Industrial Control (systems for the automation and control of process operations; solid-state sensors for position, pressure, air flow, temperature and current; precision electromechanical switches; control products; advanced vision-based sensors; and fiber-optic components).
- Performance Materials includes Performance Polymers and Chemicals (fibers; plastic resins; specialty films; intermediate chemicals; fluorine-based products; pharmaceutical and agricultural chemicals; specialty waxes, adhesives and sealants; and process technology); and Electronic Materials (wafer fabrication materials and services; advanced circuits; and amorphous metals).
- Power & Transportation Products includes Transportation and Power Systems (turbochargers; charge-air coolers; portable power systems; air brake and anti-lock braking systems); the Consumer Products Group (car care products including anti-freeze, filters, spark plugs, cleaners, waxes and additives); and Friction Materials (friction material and related brake system components).

The accounting policies of the segments are the same as those described in Note 1. We evaluate segment performance based on segment profit, which excludes general corporate unallocated expenses, gains on sales of non-strategic businesses, equity income, other (income) expense, interest and other financial charges, merger, repositioning and other charges and other. We do not disaggregate assets on a products and services basis for internal management reporting and, therefore, such information is not presented. Intersegment sales approximate market and are not significant. Reportable segment data were as follows:

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

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Net sales			
Aerospace Solutions	\$ 9,988	\$ 9,908	\$ 9,890
Automation & Control	7,384	6,115	5,957
Performance Materials	4,055	4,007	4,169
Power & Transportation Products	3,527	3,581	3,387
Corporate	69	124	152
	<u>\$25,023</u>	<u>\$23,735</u>	<u>\$23,555</u>
Depreciation and amortization			
Aerospace Solutions	\$ 328	\$ 291	\$ 304
Automation & Control	264	192	194
Performance Materials	244	214	212
Power & Transportation Products	107	106	111
Corporate	52	78	76
	<u>\$ 995</u>	<u>\$ 881</u>	<u>\$ 897</u>
Segment profit			
Aerospace Solutions	\$ 2,195	\$ 1,918	\$ 1,587
Automation & Control	986	767	705
Performance Materials	334	439	634
Power & Transportation Products	274	322	234
Corporate	(160)	(175)	(248)
	<u>\$ 3,629</u>	<u>\$ 3,271</u>	<u>\$ 2,912</u>
Capital expenditures			
Aerospace Solutions	\$ 225	\$ 270	\$ 287
Automation & Control	193	212	212
Performance Materials	261	282	308
Power & Transportation Products	145	143	149
Corporate	29	79	81
	<u>\$ 853</u>	<u>\$ 986</u>	<u>\$ 1,037</u>

A reconciliation of segment profit to consolidated income before taxes on income is as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Segment profit	\$ 3,629	\$ 3,271	\$ 2,912
Gain on sale of non-strategic businesses	112	106	—
Equity in income of affiliated companies	47	116	162
Other income	57	39	3
Interest and other financial charges	(481)	(265)	(275)
Merger, repositioning and other charges	(966)	(1,287)	(54)
Other(1)	—	268	24
Income before taxes on income	<u>\$ 2,398</u>	<u>\$ 2,248</u>	<u>\$ 2,772</u>

(1) Other represents the gain on our disposition of our investment in AMP common stock in 1999 and litigation settlements in 1998.

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

Note 25—Geographic Areas—Financial Data

		<u>United States</u>	<u>Europe</u>	<u>Other International</u>	<u>Total</u>
Net sales(1)	2000	\$18,007	\$4,313	\$2,703	\$25,023
	1999	16,913	4,608	2,214	23,735
	1998	17,082	4,510	1,963	23,555
Long-lived assets(2)	2000	8,994	1,617	517	11,128
	1999	7,837	1,840	613	10,290
	1998	7,346	1,944	675	9,965

(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 \$3,194, \$3,715 and \$3,824 million in 2000, 1999 and 1998, respectively. Our sales are not materially dependent on a single customer or a small group of customers.

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

Note 26—Unaudited Quarterly Financial Information

	<u>2000</u>					<u>1999</u>				
	<u>Mar. 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	<u>Year</u>	<u>Mar. 31</u>	<u>June 30</u>	<u>Sept. 30</u>	<u>Dec. 31</u>	<u>Year</u>
Net sales	\$6,044	\$6,309	\$6,216	\$6,454	\$25,023	\$5,582	\$5,958	\$6,036	\$6,159	\$23,735
Gross profit	1,594	1,638(1)	1,371(3)(4)	1,330(5)	5,933	1,390	1,333(6)	1,462(8)	1,055(10)	5,240
Net income	506	617(1)(2)	282(3)(4)	254(5)	1,659	440	540(6)(7)	554(8)(9)	7(10)(11)	1,541
Earnings per share— basic .....	.64	.77	.35	.32	2.07	.55	.68	.70	.01	1.95
Earnings per share— assuming dilution ...	.63	.76(1)(2)	.35(3)(4)	.31(5)	2.05	.55	.67(6)(7)	.68(8)(9)	.01(10)(11)	1.90
Dividends paid(12) ....	.1875	.1875	.1875	.1875	.75	.17	.17	.17	.17	.68
Market price(13)										
High	60.50	59.13	41.75	55.69	60.50	50.94	68.63	67.56	63.75	68.63
Low	40.31	32.13	33.25	33.38	32.13	37.81	49.25	57.50	52.38	37.81

(1) Includes \$96 million, after-tax \$59 million, or \$0.08 per share for repositioning charges. See Note 5 of Notes to Financial Statements for further information.

(2) Includes an after-tax gain of \$71 million, or \$0.09 per share on the sale of the TCAS product line of the former Honeywell. See Note 6 of Notes to Financial Statements for further information.

(3) Gross profit includes a \$116 million charge for repositioning and other charges. Gross profit does not include an equity charge of \$99 million for closing an affiliate's operations. The total charge is \$215 million, after-tax \$133 million, or \$0.16 per share. See Note 5 of Notes to Financial Statements for further information.

(4) Includes an impairment charge of \$245 million, after-tax \$198 million, \$0.25 per share related to long-lived assets of our Friction Materials business. See Note 5 of Notes to Financial Statements for further information.

(5) Gross profit includes a \$373 million charge for asset impairment, environmental and other charges. Gross profit does not include an equity charge of \$37 million related to an equity investee's customer claims. The total charge is \$410 million, after-tax \$315 million, or \$0.39 per share. See Note 5 of Notes to Financial Statements for further information.

(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)

- (6) Gross profit includes a \$222 million charge for repositioning and other charges. Gross profit does not include an equity charge of \$36 million related to the writedown of an equity investment. The total charge is \$258 million, after-tax \$156 million, or \$0.19 per share. See Note 5 of Notes to Financial Statements for further information.
- (7) Includes an after-tax gain of \$161 million, or \$0.20 per share on the disposition of our investment in AMP common stock. See Note 7 of Notes to Financial Statements for further information.
- (8) Gross profit includes a \$103 million charge for repositioning and other charges. Gross profit does not include an equity charge of \$4 million related to an equity investee's severance actions. The total charge is \$107 million, after-tax \$65 million, or \$0.08 per share. See Note 5 of Notes to Financial Statements for further information.
- (9) Includes an after-tax gain of \$59 million, or \$0.07 per share on the sale of our Laminate Systems business. See Note 6 of Notes to Financial Statements for further information.
- (10) Includes \$622 million, after-tax \$395 million, or \$0.49 per share for repositioning and other charges. See Note 5 of Notes to Financial Statements for further information.
- (11) Includes \$300 million, after-tax \$228 million, or \$0.28 per share for repositioning and other charges. See Note 5 of Notes to Financial Statements for further information.
- (12) Represents the historical dividends of AlliedSignal up to December 1, 1999 and of Honeywell subsequent to that date.
- (13) Represents the historical market price of AlliedSignal up to December 1, 1999, and of Honeywell subsequent to that date. From composite tape-stock is primarily traded on the New York Stock Exchange.

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 63 present fairly, in all material respects, the financial position of Honeywell International Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Honeywell Inc., a wholly-owned subsidiary, which statements reflect total sales of \$8,426.7 million for the year ended December 31, 1998. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it related to the amounts included for Honeywell Inc., is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 and the report of other auditors provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Florham Park, New Jersey
February 9, 2001

INDEPENDENT AUDITORS' REPORT

TO THE SHAREOWNERS OF HONEYWELL INC.:

We have audited the statement of financial position of Honeywell Inc. and subsidiaries as of December 31, 1998, and the related statements of income, shareowners' equity, and cash flows for the year then ended (not separately included herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Honeywell Inc. and subsidiaries at December 31, 1998 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Minneapolis, Minnesota
February 10, 1999

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

Not Applicable

Part III.

Item 10. Directors and Executive Officers of the Registrant

Information with respect to the directors and executive officers of Honeywell International Inc. is set forth below:

<u>Name, Age, Date First Elected a Director/Officer</u>	<u>Business Experience</u>
Directors:	
Michael R. Bonsignore (a), 59 1999	Chairman of the Board and Chief Executive Officer since April 2000. Chief Executive Officer from December 1999 through March 2000. Chairman of the Board and Chief Executive Officer of Honeywell Inc. from April 1993 through November 1999. Mr. Bonsignore is also a director of Medtronic, Inc. He was a director of Honeywell Inc. from November 1990 to December 1999.
Hans W. Becherer, 65 1991	Formerly Chairman and Chief Executive Officer of Deere & Company (manufacturer of mobile power machinery and supplier of financial services) from 1990 to 2000. Mr. Becherer is also a director of J.P. Morgan Chase & Co. and Schering-Plough Corporation.
Gordon M. Bethune, 59 1999	Chairman of the Board and Chief Executive Officer of Continental Airlines, Inc. (international commercial airline company) since 1996. President and Chief Executive Officer of Continental Airlines, Inc. from November 1994 to 1996. He was a director of Honeywell Inc. from April 1999 to December 1999.
Marshall N. Carter, 60 1999	Senior Fellow at the Center for Business and Government, John F. Kennedy School of Government, Harvard University, since January 2001. Chairman and Chief Executive Officer of State Street Corporation (provider of services to institutional investors worldwide) from 1993 to 2000.
Jaime Chico Pardo, 51 1999	Vice Chairman and Chief Executive Officer of Telefonos de México, S.A. de C.V. (TELMEX) (a telecommunications company based in Mexico City) since 1995. Mr. Chico Pardo is also Vice-Chairman of Carso Global Telecom and a director of America Movil, Grupo Carso, Grupo Financiero Inbursa and Prodigy Communications Corp. He was a director of Honeywell Inc. from September 1998 to December 1999.
Ann M. Fudge, 49 1993	President, Kraft's Beverages, Desserts & Post Divisions and Group Vice President, Kraft Foods, Inc. (packaged foods) from 2000 to February 2001. President of Kraft General Foods' Maxwell House Coffee Company from 1994 to 2000. Ms. Fudge is a director of General Electric Company and the Federal Reserve Bank of New York.

(a) Also an officer.

Name, Age, Date First Elected a Director/Officer	Business Experience
James J. Howard, 65 1999	Chairman of the Board of Xcel Energy Inc. (formerly known as Northern States Power Company, an energy company) since August 2000. Chairman of the Board, President and Chief Executive Officer of Northern States Power Company from 1994 to 2000. Mr. Howard is also a director of Ecolab, Inc., the Federal Reserve Bank of Minneapolis and Walgreen Company. He was a director of Honeywell Inc. from July 1990 to December 1999.
Bruce Karatz, 55 1999	Chairman of the Board, President and Chief Executive Officer of KB Home (an international residential and commercial builder) since 1993. Mr. Karatz is also a director of the Kroger Co. and National Golf Properties, Inc. He was a director of Honeywell Inc. from July 1992 to December 1999.
Robert P. Luciano, 67 1989	Chairman Emeritus of Schering-Plough Corporation (a manufacturer and marketer of pharmaceuticals and consumer products) since October 1999. Chairman of the Board of Schering-Plough Corporation from 1984 to October 1998. Mr. Luciano is a director of C.R. Bard, Inc., Merrill Lynch & Co. and Schering-Plough Corporation.
Russell E. Palmer, 66 1987	Chairman and Chief Executive Officer of the Palmer Group (a private investment firm) since 1990. Mr. Palmer is a director of Federal Home Loan Mortgage Corporation, The May Department Stores Company, Safeguard Scientifics, Inc. and Verizon Communications.
Ivan G. Seidenberg, 54 1995	President and Co-Chief Executive Officer of Verizon Communications (telecommunications and information services provider) since June 2000 when Bell Atlantic Corporation and GTE Corporation merged and Verizon Communications was created. Chairman and Chief Executive Officer of Bell Atlantic Corporation from 1999 to June 2000. Vice Chairman, President and Chief Executive Officer since June 1998, and Vice Chairman, President and Chief Operating Officer following the merger of NYNEX Corporation and Bell Atlantic in 1997. Chairman and Chief Executive Officer of NYNEX Corporation from 1995 to 1997. Mr. Seidenberg is also a director of American Home Products Corporation, Boston Properties, Inc., CVS Corporation and Viacom Inc.
John R. Stafford, 63 1993	Chairman, President and Chief Executive Officer of American Home Products Corporation (a manufacturer of pharmaceutical, health care, animal health and agricultural products) since 1986. Mr. Stafford is also a director of Deere & Company, J.P. Morgan Chase & Co. and Verizon Communications.
Michael W. Wright, 62 1999	Chairman of the Board, President and Chief Executive Officer, SUPERVALUE Inc. (a major food distributor and retailer) since 1982. Mr. Wright is also a director of Cargill, Inc. and Wells Fargo and Company. He was a director of Honeywell Inc. from April 1987 to December 1999.

Name, Age, Date First Elected a Director/Officer	Business Experience
Executive Officers:	
Giannantonio Ferrari, 61 1999	Chief Operating Officer and Executive Vice President, Performance Products and Solutions, since December 1999. President and Chief Operating Officer of Honeywell Inc. from April 1997 to November 1999. President, Honeywell Europe S.A. from January 1992 to March 1997. Mr. Ferrari is a citizen of Italy.
Robert D. Johnson, 53 1998	Chief Operating Officer and Executive Vice President, Aerospace Businesses, since December 1999. President and Chief Executive Officer of AlliedSignal Aerospace from April 1999 to November 1999. President—Aerospace Marketing, Sales and Service from January 1999 to March 1999. President—Electronic & Avionics Systems from October 1997 to December 1998. Vice President and General Manager, Aerospace Services from 1994 to 1997.
Barry C. Johnson, 57 2000	Senior Vice President, Chief Technology Officer since July 2000. Corporate Vice President of Motorola Inc. and Chief Technology Officer of Motorola's Semiconductor Product Sector from September 1998 to June 2000. Vice President and Director, Global New Product and Technology Operations of Motorola Inc. from May 1997 to August 1998. Vice President and Director, Manufacturing Technology Development of Motorola Inc. from July 1994 to April 1997.
Peter M. Kreindler, 55 1992	Senior Vice President and General Counsel since March 1992. Secretary from December 1994 through November 1999.
James T. Porter, 49 1999	Senior Vice President and Chief Administrative Officer since October 2000. Senior Vice President—Information and Business Services from December 1999 to September 2000. Vice President and Chief Administrative Officer of Honeywell Inc. from January 1998 through November 1999. Corporate Vice President, Human Resources of Honeywell Inc. from May 1993 to December 1997.
Richard F. Wallman, 49 1995	Senior Vice President and Chief Financial Officer since March 1995. Vice President and Controller of International Business Machines Corp. from April 1994 to February 1995.

The executive officers of Honeywell, listed above, are elected annually. There are no family relationships among them.

Section 16(a) Beneficial Ownership Reporting Compliance

The rules of the Securities and Exchange Commission require that we disclose late filings of reports of stock ownership (and changes in stock ownership) by our directors and executive officers. To the best of Honeywell's knowledge, all of the filings for our executive officers and directors were made on a timely basis in 2000 except that the sale of 33,422 shares by Donald Redlinger, a former executive officer, was reported two weeks after the filing deadline.

Item 11. Executive Compensation

Summary Compensation Table

The following table provides a summary of cash and non-cash compensation with respect to Honeywell's Chief Executive Officer and the other four most highly compensated officers of Honeywell.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation			
		Salary(\$)	Bonus(\$)	Awards Restricted Stock Units\$(1)	Options (Shares)	Payouts LTIP Payouts(\$)	All Other Compensation(2)
Michael R. Bonsignore(3) <i>Chairman of the Board and Chief Executive Officer</i>	2000	\$1,500,000	\$ 975,000	—	—	—	\$ 356,551
	1999	1,087,817	2,000,000	\$22,781,250	1,781,249	\$2,565,000	1,039,122
Giannantonio Ferrari(4) <i>Chief Operating Officer and Executive Vice President</i>	2000	628,387	325,000	—	—	—	338,669
	1999	536,896	775,000	2,039,375	612,251	1,282,500	272,915
Robert D. Johnson <i>Chief Operating Officer and Executive Vice President</i>	2000	550,000	400,000	—	—	1,187,840(5)	58,913
	1999	370,833	625,000	1,882,500	400,000	—	36,469
	1998	267,917	300,000	—	190,000	—	31,505
Peter M. Kreindler <i>Sr. Vice President and General Counsel</i>	2000	480,000	275,000	—	250,000	—	209,625
	1999	462,500	640,000	1,098,125	333,000	—	386,986
	1998	445,000	550,000	—	—	—	105,705
Richard F. Wallman <i>Sr. Vice President and Chief Financial Officer</i>	2000	480,000	235,000	—	437,500	—	211,042
	1999	455,833	590,000	1,098,125	333,000	—	352,478
	1998	410,000	500,000	—	—	—	79,136

- (1) The total number of units held and their value as of December 31, 2000 were as follows: Mr. Bonsignore, 375,000 (\$17,742,188); Mr. Ferrari, 32,500 (\$1,537,656); Mr. Johnson, 30,000 (\$1,419,375); Mr. Kreindler, 17,500 (\$827,969); Mr. Wallman, 17,500 (\$827,969). Common stock dividend equivalents are payable on each unit. Restricted units will vest in increments of one-third each on April 1, 2001, 2002 and 2003 if Honeywell achieves specified operating margin targets.
- (2) Amounts shown for 2000 consists of matching contributions made by Honeywell under the Savings Plan and Supplemental Savings Plan: for Mr. Bonsignore, \$171,705; Mr. Johnson, \$30,475; Mr. Kreindler, \$38,269; and Mr. Wallman, \$19,195; the value of life insurance premiums: for Mr. Bonsignore, \$98,447; Mr. Johnson, \$28,200; Mr. Kreindler, \$21,300; above-market interest earned on deferred compensation: for Mr. Bonsignore, \$22,589; Mr. Johnson, \$238; Mr. Kreindler, \$150,056; and Mr. Wallman, \$191,847; the value of perquisites for Mr. Bonsignore, \$63,810 which includes a \$38,000 cash flexible perquisite payment and \$22,730 for the value of personal use of company provided aircraft; and relocation allowances in connection with foreign assignments for Mr. Ferrari, \$338,669.
- (3) Mr. Bonsignore became an executive officer on December 1, 1999.
- (4) Mr. Ferrari became an executive officer on December 1, 1999.
- (5) Payment made in 2000 from the Long Term Performance Plan for Key Executives for the 1998 and 1999 performance period. The plan was discontinued at the time of the merger of AlliedSignal and the former Honeywell.

Option Grants in Last Fiscal Year

The stock options included in the following table were all granted with an exercise price equal to 100 percent of the fair market value of the common stock on the date of grant.

<u>Name</u>	<u>Number of Securities Underlying Options Granted(#)</u>	<u>% of Total Options Granted to Employees in Fiscal Year</u>	<u>Exercise Price (\$/Sh)</u>	<u>Expiration Date</u>	<u>Grant Date Present Value(1)</u>
M. R. Bonsignore	—	—	—	—	—
G. Ferrari.....	—	—	—	—	—
R. D. Johnson	—	—	—	—	—
P. M. Kreindler.....	250,000(2)	6%	\$47.8500	03/23/10	\$4,510,335
R. F. Wallman	437,500(2)	10%	47.8500	03/23/10	7,893,086

(1) Options are valued using a Black-Scholes option pricing model which assumes a historic five-year average volatility of 32.25 percent, the average dividend yield for the three years ended December 31, 2000 (1.43 percent), a 6.5 percent risk-free rate of return (based on the average zero coupon five-year U.S. Treasury note yield for the month of grant), and an expected option life of 5.0 years based on past experience. No adjustments are made for non-transferability or risk of forfeiture. Options will have no actual value unless, and then only to the extent that, the common stock price appreciates from the grant date to the exercise date. If the grant date present values are realized, total shareowner value will have appreciated by approximately \$14.6 billion, and the value of the granted options reflected in the table will be less than 0.09 percent of the total shareowner appreciation.

(2) Vests 40 percent on January 1, 2001 and 30 percent on each of January 1, 2002 and 2003.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

<u>Name</u>	<u>Shares Acquired on Exercise(#)</u>	<u>Value Realized(\$)</u>	<u>Number of Securities Underlying Unexercised Options at Year-End(#)</u>		<u>Value of Unexercised In-the-Money Options at Year-End(\$)</u>	
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
M. R. Bonsignore	286,326	\$10,445,920	1,490,986	1,100,000	\$11,075,709	—
G. Ferrari.....	253,834	3,836,353	38,626	433,000	—	—
R. D. Johnson	100,000	1,722,335	—	502,000	—	\$ 973,635
P. M. Kreindler.....	540,000	15,244,247	40,000	723,000	236,100	4,312,800
R. F. Wallman	550,000	15,657,340	89,000	895,500	1,313,733	3,982,913

Employment and Termination Arrangements

Mr. Bonsignore's employment agreement provides for his employment as Chairman and Chief Executive Officer through December 31, 2004. During the term of the agreement, Mr. Bonsignore will have an annual salary of at least \$1,500,000 and will have an annual target bonus equal to 100 percent of base salary. If his employment is terminated without good cause, he will be entitled to a severance payment of three times his annual salary and bonus.

When Mr. Ferrari became President of Honeywell Europe in 1992, he entered into an employment agreement with Honeywell Europe that provided for certain salary and benefits in accordance with Belgian law. Mr. Ferrari's current position is considered to be an international assignment under his Belgian employment contract; therefore, the contract remains in effect until his retirement from Honeywell. As an executive of Honeywell Inc., Mr. Ferrari was also a party to a change of control agreement, which remains in effect until September 2002. Under this agreement, he is entitled to a lump sum payment of three times his salary and target incentive bonus if either his employment is terminated (other than for cause) or his duties are diminished.

Under the Severance Plan for Senior Executives, the current executive officers named in the Summary Compensation Table (other than Messrs. Bonsignore and Ferrari) would be entitled to

payments equivalent to base salary and annual incentive bonus (and continuation of certain benefits, such as group life and medical insurance coverage) for a period of 36 months if their employment is terminated other than for "gross cause" (which includes fraud and criminal conduct). The payments would be made in a lump sum following a change in control. The Severance Plan provides for an additional payment sufficient to eliminate the effect of any applicable excise tax on severance payments in excess of an amount determined under Section 280G of the Internal Revenue Code. Payments subject to the excise tax would not be deductible by Honeywell.

Retirement Benefits

The following table illustrates the estimated annual pension benefits which would be provided on retirement at age 65 under Honeywell's retirement program and an unfunded supplemental retirement plan, after applicable deductions for Social Security benefits, to salaried employees having specified average annual remuneration and years of service.

Average Annual Remuneration	Pension Table Years of Credited Service						
	5	10	15	20	25-30	35	40
\$ 600,000	\$ 48,995	\$108,995	\$ 168,995	\$ 228,995	\$ 288,995	\$ 310,372	\$ 354,710
800,000	68,995	148,995	228,995	308,995	388,995	415,372	474,710
1,000,000	88,995	188,995	288,995	388,995	488,995	520,372	594,710
1,200,000	108,995	228,995	348,995	468,995	588,995	625,372	714,710
2,000,000	188,995	388,995	588,995	788,995	988,995	1,045,372	1,194,710
3,000,000	288,995	588,995	888,995	1,188,995	1,488,995	1,570,372	1,794,710
4,000,000	388,995	788,995	1,188,995	1,588,995	1,988,995	2,095,372	2,394,710

The benefit amounts shown in the Pension Table are computed on a straight life annuity basis. At January 1, 2001, the following individuals had the indicated number of years of credited service for pension purposes: Mr. Bonsignore, 31; Mr. Johnson, 6; Mr. Kreindler, 9; and Mr. Wallman, 5. Mr. Ferrari has 40 years of service, but is covered under a separate Belgian pension arrangement described below.

The amounts in the Salary and Bonus columns of the Summary Compensation Table would be included in computing remuneration for pension purposes as well as any payroll based reward and recognition awards. Average annual remuneration under the Pension Plan is calculated based on the highest paid 60 consecutive months of an employee's last 120 months of employment.

Under his employment agreement, Mr. Bonsignore is entitled to receive during his lifetime, commencing on retirement, Honeywell facilities and services comparable to those provided prior to his retirement, and a retirement benefit equivalent to 60 percent of final average compensation (based on his highest three years of salary and bonus) payable annually for life. Benefits under his agreement will be reduced by any retirement benefits payable under Honeywell's retirement and supplemental retirement plans.

Mr. Ferrari is covered by the Belgian pension arrangement, which provides a benefit of 55 percent of final average compensation after 30 years of service, through a combination of the plan and equivalent pension plans in other countries. This arrangement also provides for an additional benefit of 15 percent of final average compensation which is funded by contributions from Mr. Ferrari.

Director Compensation

Directors who are employees of Honeywell receive no compensation for service on the Board. Each non-employee director receives an annual Board retainer of \$65,000, of which \$20,000 is automatically credited to the director's account in the Deferred Compensation Plan for Non-Employee Directors in the form of common stock equivalents (which are only payable after termination of Board service). They also receive a fee of \$2,000 for Board meetings attended on any day (ten during 2000), an annual retainer of \$7,000 for each Board Committee served, and an additional Committee Chair retainer of \$5,000 for the Audit and Management Development and Compensation Committees and \$3,000 for all other Board Committees. While no fees are generally paid for attending Committee meetings, a \$1,000 fee is paid for attendance at a Committee meeting, or other extraordinary meeting related to Board business which occurs apart from a Board meeting. Non-employee directors are also

provided with \$350,000 in business travel accident insurance and are eligible to elect \$100,000 in term life insurance and medical and dental coverage for themselves and their eligible dependents.

Directors may elect to defer, until a specified calendar year or retirement from the Board, all or any portion of their annual retainers and fees that are not automatically deferred and to have such compensation credited to their account in the Deferred Compensation Plan. Amounts credited either accrue interest (11 percent for 2001) or are valued as if invested in common stock equivalents or one of the other funds available to participants in our savings plan. Amounts deferred in a common stock account earn amounts equivalent to dividends. Upon a change of control, a director will be entitled to a lump-sum payment of all deferred amounts.

Under the Stock Plan for Non-Employee Directors, each new director receives a one-time grant of 3,000 shares of common stock, which are subject to transfer restrictions until the director's service terminates with the consent of a majority of the Board, provided termination occurs at or after 65. During the restricted period, the director is entitled to one-fifth of the shares granted for each year of service (up to five). However, the shares will be forfeited if the director's service terminates (other than for death or disability) prior to the end of the restricted period. The Plan also provides for an annual grant to each director of options to purchase 2,000 shares of common stock at 100 percent of the fair market value on the date of grant. Option grants vest in cumulative installments of 40 percent on April 1 of the year following the grant date and an additional 30 percent on April 1 of each of the next two years.

Management Development and Compensation Committee

The primary functions of the Management Development and Compensation Committee of the Board of Directors are to review and recommend the compensation arrangements for officers; approve compensation arrangements for other senior level employees; consider matters related to management development and succession and recommend individuals for election as officers; and review or take such other action as may be required in connection with the bonus, stock and other benefit plans of Honeywell and its subsidiaries. The members of the Committee are: Robert P. Luciano (Chair), Hans W. Becherer, Gordon M. Bethune, Bruce Karatz, Ivan G. Seidenberg and John R. Stafford.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Stock Ownership of Certain Beneficial Owners

As of December 31, 2000, State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts, 02101 held 69,227,941 shares or approximately 8.6 percent of the outstanding common stock as trustee of certain of Honeywell's savings plans. Under the terms of the plans, State Street is required to vote shares attributable to any participant in accordance with instructions received from the participant and to vote all shares for which it does not receive instructions in the same ratio as the shares for which instructions were received. State Street disclaims beneficial ownership of the shares referred to above. State Street also held 15,430,034 shares, or approximately 1.9 percent of the outstanding common stock in various other fiduciary capacities.

As of December 31, 2000, AXA or its affiliates, including the Mutuelles AXA, AXA Financial, Inc., Alliance Capital Management L.P. and The Equitable Life Assurance Society of the United States beneficially owned 42,369,312 shares of common stock (including 379,000 shares of common stock issuable upon exercise of options), representing approximately 5.2 percent of the outstanding common stock. The address of AXA is 25, Avenue Matignon, 75008 Paris, France, and the address of AXA Financial, Inc. is 1290 Avenue of the Americas, New York, New York 10104.

Stock Ownership of Directors and Executive Officers

In general, "beneficial ownership" includes those shares a director or executive officer has the power to vote or transfer, and stock options that are exercisable currently or within 60 days. On December 31, 2000, the directors and executive officers of Honeywell beneficially owned, in the aggregate, 2,968,499 shares of common stock which are included in the table below. Directors and executive officers also have interests in stock-based units under Honeywell's plans. While these units

may not be voted or transferred, we have included them in the table below as they represent the total economic interest of the directors and executive officers in Honeywell stock.

<u>Name</u>	<u>Number of Shares(1)(2)(3)</u>
Hans W. Becherer	30,276
Gordon M. Bethune	3,436
Michael R. Bonsignore	1,696,942
Marshall N. Carter	22,247
Jaime Chico Pardo	5,279
Giannantonio Ferrari	234,379
Ann M. Fudge	18,021
James J. Howard	9,174
Robert D. Johnson	131,199
Bruce Karatz	11,680
Peter M. Kreindler	263,569
Robert M. Luciano	23,161
Russell E. Palmer	17,904
Ivan G. Seidenberg	19,486
John R. Stafford	25,894
Richard F. Wallman	437,892
Michael W. Wright	7,696

- (1) The total beneficial ownership for any individual is less than 0.5 percent, and the total for the group is less than 0.9 percent, of the shares of common stock outstanding.
- (2) Includes the following number of shares or share-equivalents in deferred accounts, as to which no voting or investment power exists: Mr. Becherer, 14,076; Mr. Bethune, 436; Mr. Bonsignore, 2,476; Mr. Carter, 3,447; Mr. Chico Pardo, 2,279; Ms. Fudge, 1,821; Mr. Howard, 1,338; Mr. Johnson, 515; Mr. Karatz, 2,289; Mr. Kreindler, 21,449; Mr. Luciano, 4,961; Mr. Palmer, 4,704; Mr. Seidenberg, 8,286; Mr. Stafford, 9,694; Mr. Wallman, 71,445; Mr. Wright, 2,446; and all directors and executive officers as a group, 152,175.
- (3) Includes shares which the following have the right to acquire within 60 days through the exercise of vested stock options: Mr. Becherer, 10,200; Mr. Bonsignore, 1,490,986; Mr. Carter, 800; Mr. Ferrari, 168,626; Ms. Fudge, 10,200; Mr. Johnson, 120,000; Mr. Kreindler, 240,000; Mr. Luciano, 10,200; Mr. Palmer, 6,200; Mr. Seidenberg, 8,200; Mr. Stafford, 10,200; Mr. Wallman, 364,000; and all directors and executive officers as a group, 2,599,612.

Item 13. Certain Relationships and Related Transactions

In connection with certain tax planning, we secured supplemental retirement payments for three executives by funding them through an escrow arrangement. The amounts funded through an escrow arrangement in 2000 were \$4,000,000 for Mr. Bonsignore, \$2,100,000 for Mr. Wallman, and \$1,400,000 for Dr. Barry C. Johnson. By securing the payments, the executive's tax liability was accelerated. We loaned each executive an amount equal to the related withholding tax obligation. We will also loan each executive additional amounts as necessary to cover the balance of taxes related to securing the payments.

The loans bear interest at 5.53 percent compounded semiannually and are due December 31, 2004. On December 31, 2000, the amount of loans outstanding totaled \$2,977,590, of which \$1,635,200 was loaned to Mr. Bonsignore, \$765,450 to Mr. Wallman and \$576,940 to Dr. Johnson.

Part IV.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1.) All Financial Statements:

The following items are included in "Item 8. Financial Statements and Supplementary Data" in Part II of this report:

Consolidated Statement of Income for the years ended December 31, 2000, 1999 and 1998

Consolidated Balance Sheet at December 31, 2000 and 1999

Consolidated Statement of Cash Flows for the years ended December 31, 2000, 1999 and 1998

Consolidated Statement of Shareowners' Equity for the years ended December 31, 2000, 1999 and 1998

Notes to Financial Statements

Report of Independent Accountants

(a)(2.) Consolidated Financial Statement Schedules

The two financial statement schedules applicable to us have been omitted because of the absence of the conditions under which they are required.

(a)(3.) Exhibits

See the Exhibit Index to this Form 10-K Annual Report. The following exhibits listed on the Exhibit Index are filed with this Form 10-K Annual Report:

<u>Exhibit No.</u>	<u>Description</u>
10.6	Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries, as amended and restated
10.7	AlliedSignal Inc. Severance Plan for Senior Executives, as amended and restated
10.8	Salary Deferral Plan for Selected Employees of Honeywell International Inc. and its Affiliates, as amended and restated
10.10	Amended and Restated 364-Day Credit Agreement dated as of November 30, 2000 among Honeywell, the initial lenders named therein, Citibank, N.A., as administrative agent, The Chase Manhattan Bank, Deutsche Bank AG and Bank of America, N.A., as syndication agents, and Salomon Smith Barney Inc., as lead arranger and book manager, which amends the agreement set forth in Exhibit 10.11 which was previously filed
10.13	Honeywell International Inc. Supplemental Pension Plan, as amended and restated
10.16	Honeywell International Inc. Supplemental Executive Retirement Plan for Executives in Career Band 6 and Above
10.17	Honeywell Supplemental Defined Benefit Retirement Plan, as amended and restated
10.18	Form of Escrow Agreement used to secure certain supplemental retirement benefits for certain executive officers of Honeywell
10.19	Form of Promissory Note representing loans to certain executive officers of Honeywell of required withholding taxes relating to the securing of certain supplemental retirement benefits
10.20	Honeywell International Inc. Severance Plan for Corporate Staff Employees (Involuntary Termination Following a Change in Control), as amended and restated
21	Subsidiaries of the Registrant
23.1	Consent of PricewaterhouseCoopers LLP
23.2	Consent of Deloitte & Touche LLP
24	Powers of Attorney

(b) Reports on Form 8-K

During the three months ended December 31, 2000, Current Report on Form 8-K was filed on October 25 reporting that Honeywell and General Electric Company entered into an Agreement and Plan of Merger.

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.

March 30, 2001

By: /s/ PHILIP M. PALAZZARI
Philip M. Palazzari
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:

<u>Name</u>	<u>Name</u>
*	*
_____ Michael R. Bonsignore Chairman of the Board, Chief Executive Officer and Director	_____ Bruce Karatz Director
*	*
_____ Hans W. Becherer Director	_____ Robert P. Luciano Director
*	*
_____ Gordon M. Bethune Director	_____ Russell E. Palmer Director
*	*
_____ Marshall N. Carter Director	_____ Ivan G. Seidenberg Director
*	*
_____ Jaime Chico Pardo Director	_____ John R. Stafford Director
*	*
_____ Ann M. Fudge Director	_____ Michael W. Wright Director
*	*
_____ James J. Howard Director	_____ /s/ PHILIP M. PALAZZARI
_____ /s/ RICHARD F. WALLMAN	_____ Philip M. Palazzari Vice President and Controller (Principal Accounting Officer)
_____ Richard F. Wallman Senior Vice President and Chief Financial Officer (Principal Financial Officer)	

*By: /s/ RICHARD F. WALLMAN
(Richard F. Wallman
Attorney-in-fact)

March 30, 2001

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of October 22, 2000, between Honeywell and General Electric Company (incorporated by reference to Annex A to Honeywell's Proxy Statement, dated December 4, 2000, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
2.2	Stock Option Agreement, dated as of October 22, 2000, between General Electric Company and Honeywell (incorporated by reference to Annex B to Honeywell's Proxy Statement, dated December 4, 2000, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
3(i)	Restated Certificate of Incorporation of Honeywell (incorporated by reference to Exhibit 3(i) to Honeywell's Form 8-K filed December 3, 1999)
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 June 30, 2000)
4	Honeywell 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	Master Support Agreement, dated February 26, 1986, as amended and restated January 27, 1987, as further amended July 1, 1987 and as again amended and restated December 7, 1988, by and among Honeywell, Wheelabrator Technologies Inc., certain subsidiaries of Wheelabrator Technologies Inc., The Henley Group, Inc. and Henley Newco Inc. (incorporated by reference to Exhibit 10.1 to Honeywell's Form 10-K for the year ended December 31, 1988)
10.2*	Deferred Compensation Plan for Non-Employee Directors of AlliedSignal Inc., as amended (incorporated by reference to Exhibit 10.2 to Honeywell's Form 10-K for the year ended December 31, 1996)
10.3*	Stock Plan for Non-Employee Directors of AlliedSignal Inc., as amended (incorporated by reference to Exhibit C to Honeywell's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
10.4*	1985 Stock Plan for Employees of Allied-Signal 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-6 of the Securities Exchange Act of 1934, and to 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 (filed herewith)
10.7*	AlliedSignal Inc. Severance Plan for Senior Executives, as amended and restated (filed herewith)
10.8*	Salary Deferral Plan for Selected Employees of Honeywell International Inc. and its Affiliates, as amended and restated (filed herewith)

<u>Exhibit No.</u>	<u>Description</u>
10.9*	1993 Stock Plan for Employees of Honeywell International Inc. and its Affiliates (incorporated by reference to Exhibit A to Honeywell's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities Exchange Act of 1934)
10.10	Amended and Restated 364-Day Credit Agreement dated as of November 30, 2000 among Honeywell, the initial lenders named therein, Citibank, N.A., as administrative agent, The Chase Manhattan Bank, Deutsche Bank AG and Bank of America, N.A., as syndication agents, and Salomon Smith Barney Inc., as lead arranger and book manager, which amends the agreement set forth in Exhibit 10.11 hereto (filed herewith)
10.11	364-Day Credit Agreement dated as of December 2, 1999 among Honeywell, the initial lenders named therein, Citibank, N.A., as administrative agent, Morgan Guaranty Trust Company of New York, as syndication agent, and Salomon Smith Barney Inc. and J.P. Morgan Securities Inc., as arrangers (incorporated by reference to Exhibit 10.11 to Honeywell's Form 10-K for the year ended December 31, 1999)
10.12	Five-Year Credit Agreement dated as of December 2, 1999 among Honeywell, the initial lenders named therein, Citibank, N.A., as administrative agent, The Chase Manhattan Bank, Deutsche Bank AG and Bank of America, N.A., as syndication agents, and Salomon Smith Barney Inc., as lead arranger and book manager (incorporated by reference to Exhibit 10.12 to Honeywell's Form 10-K for the year ended December 31, 1999)
10.13*	Honeywell International Inc. Supplemental Pension Plan, as amended and restated (filed herewith)
10.14*	Employment Agreement dated as of December 1, 1999 between Honeywell and Michael R. Bonsignore (incorporated by reference to Exhibit 10.14 to Honeywell's Form 8-K filed December 3, 1999)
10.15*	Long Term Performance Plan for Key Executives of Honeywell International Inc. (incorporated by reference to Exhibit 10.16 to Honeywell's Form 10-Q for the quarter ended March 31, 2000)
10.16*	Honeywell International Inc. Supplemental Executive Retirement Plan for Executives in Career Band 6 and Above (filed herewith)
10.17*	Honeywell Supplemental Defined Benefit Retirement Plan, as amended and restated (filed herewith)
10.18*	Form of Escrow Agreement used to secure certain supplemental retirement benefits for certain executive officers of Honeywell (filed herewith)
10.19*	Form of Promissory Note representing loans to certain executive officers of Honeywell of required withholding taxes relating to the securing of certain supplemental retirement benefits (filed herewith)
10.20*	Honeywell International Inc. Severance Plan for Corporate Staff Employees (Involuntary Termination Following a Change in Control), as amended and restated (filed herewith)
11	Omitted (Inapplicable)
12	Omitted (Inapplicable)
16	Omitted (Inapplicable)
18	Omitted (Inapplicable)

<u>Exhibit No.</u>	<u>Description</u>
21	Subsidiaries of the Registrant (filed herewith)
22	Omitted (Inapplicable)
23.1	Consent of PricewaterhouseCoopers LLP (filed herewith)
23.2	Consent of Deloitte & Touche LLP (filed herewith)
24	Powers of Attorney (filed herewith)
28	Omitted (Inapplicable)
99	Omitted (Inapplicable)

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

Leadership Team

Lawrence A. Bossidy
Chairman and Chief Executive Officer

Dean M. Flatt
President, Specialty Materials

Robert J. Gillette
President, Transportation and Power Systems

J. Kevin Gilligan
President, Automation and Control Solutions

Robert D. Johnson
President, Aerospace

Barry C. Johnson
Senior Vice President and Chief Technology Officer

Larry E. Kittelberger
Senior Vice President, Information Technology and Administration

Peter M. Kreindler
Senior Vice President and General Counsel

Donald J. Redlinger
Senior Vice President, Human Resources and Communications

Richard F. Wallman
Senior Vice President and Chief Financial Officer

Steven R. Loranger
President, Engines, Systems and Services

Michael A. Smith
President, Aerospace Electronic Systems

Thomas L. Buckmaster
Vice President, Communications

James V. Gelly
Vice President and Treasurer

Michael W. Naylor
Vice President, Government Relations

Victor P. Patrick
Vice President, Secretary and Deputy General Counsel

William L. Ramsey
Vice President, Six Sigma and Operations

Jay B. Stephens
Vice President and Deputy General Counsel

Edward T. Tokar
Vice President - Investments

John J. Tus
Vice President and Controller

Board of Directors

Lawrence A. Bossidy
*Chairman of the Board and Chief Executive Officer
Honeywell International Inc.
Age 66; elected in 2001*

Hans W. Becherer^{1,2,4}
*Former Chairman and Chief Executive Officer
Deere & Company
(mobil power machinery and financial services)
Age 66; elected in 1991*

Gordon M. Bethune^{3,4}
*Chairman and Chief Executive Officer
Continental Airlines, Inc.
(international commercial airline company)
Age 60; elected in 1999*

Marshall N. Carter^{1,3}
*Senior Fellow at the Center for Business and Government, John F. Kennedy School of Government, Harvard University
Age 61; elected 1999*

Jaime Chico Pardo^{2,5}
*Vice Chairman and Chief Executive Officer
Telefonos de Mexico S.A. de C.V. (TELMEX)
(telecommunications)
Age 51; elected in 1999*

Ann M. Fudge^{1,3,5}
*Former President
Beverages, Desserts and Post divisions
Kraft Foods, Inc.
(packaged foods)
Age 50; elected in 1993*

James J. Howard^{1,3}
*Chairman of the Board
Xcel Energy Inc. (f/k/a Northern States Power Company
(energy company)
Age 66; elected in 1999*

Bruce Karatz^{2,4}
*Chairman, President and Chief Executive Officer
KB Home
(residential and commercial builder)
Age 55; elected in 1999*

Robert P. Luciano^{2,4,5}
*Chairman Emeritus
Schering-Plough Corporation
(pharmaceuticals and consumer products)
Age 67; elected in 1989*

Russell E. Palmer^{1,2,5}
*Chairman and Chief Executive Officer
The Palmer Group
(private investment firm)
Age 67; elected in 1987*

Ivan G. Seidenberg^{2,4}
*President and Co-Chief Executive Officer
Verizon Communications
(telecommunications and information services provider)
Age 54; elected in 1995*

John R. Stafford^{1,4,5}
*Chairman of the Board
American Home Products Corporation
(pharmaceutical and health care products)
Age 63; elected in 1993*

Michael W. Wright^{1,2,5}
*Chairman of the Board
SUPERVALU INC.
(food distributor and retailer)
Age 63; elected in 1999*

Committees of the Board

- ¹Audit Committee
Russell E. Palmer, Chair
- ²Corporate Governance Committee
Bruce Karatz, Chair
- ³Corporate Responsibility Committee
Ann M. Fudge, Chair
- ⁴Management Development and Compensation Committee
Robert P. Luciano, Chair
- ⁵Retirement Plans Committee
Michael W. Wright, Chair

Annual Meeting

The Annual Meeting of Shareowners will be held at 10:00 a.m. on Friday, Dec. 7, 2001, at Honeywell's corporate headquarters, 101 Columbia Road, Morristown, New Jersey.

Dividends/Shareowner Matters

Honeywell's Dividend Reinvestment and Share Purchase Plan provides for automatic reinvestment of common stock dividends at market price. Participants also may add cash for the purchase of additional shares of common stock without payment of any brokerage commission or service charge.

Honeywell offers Direct Registration, or paperless stock ownership. This means that instead of getting a paper stock certificate to represent your shares, your shares are held in your name and tracked electronically on our records.

The Company has established a Direct Deposit of Dividends service enabling registered shareowners to have their quarterly dividend payments sent electronically to their bank accounts on the payment date.

For more information on these services or for answers to questions about dividend checks, stock transfers or other shareowner matters, please contact Honeywell's transfer agent and registrar:

The Bank of New York
Church Street Station
P.O. Box 11258
New York, New York 10286
(800) 647-7147
<http://stock.bankofny.com>
Shareowner-svcs@Email.bankofny.com

Form 10-K

Shareowners may request a copy of Form 10-K, which the company files with the Securities and Exchange Commission, by contacting:

Honeywell International Inc.
Corporate Publications
P.O. Box 2245
Morristown, New Jersey 07962-2245
(973) 455-5402

Stock Exchange Listings

Honeywell's Common Stock is listed on the New York, Chicago and Pacific stock exchanges under the symbol HON. It is also listed on the London stock exchange. Shareowners of record as of Dec. 31, 2000, totaled 92,313.

General Inquiries

For additional shareowner inquiries, please contact Honeywell's Shareowner Services at (800) 647-7147. For information on Honeywell's products, please call the company's Customer Support Center at (800) 421-2133 or (602) 365-2180. The company's Internet address is "www.honeywell.com".

Honeywell International Inc.
101 Columbia Road
P.O. Box 2245
Morristown, NJ 07962-2245

*For more information about our company,
visit our internet site at:*

<http://www.honeywell.com>

Honeywell