HONEYWELL INTERNATIONAL INC
Form 10-K
February 10, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-8974

Honeywell International Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-2640650 (I.R.S. Employer Identification No.)
115 Tabor Road Morris Plains, New Jersey (Address of principal executive offices)	07950 (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1 per share*	New York Stock Exchange
Floating Rate Senior Notes due 2018	New York Stock Exchange
0.650% Senior Notes due 2020	New York Stock Exchange
1.300% Senior Notes due 2023	New York Stock Exchange
2.250% Senior Notes due 2028	New York Stock Exchange

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $88.6 billion at June 30, 2016.

There were 761,194,241 shares of Common Stock outstanding at January 27, 2017.

Documents Incorporated by Reference

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 24, 2017.

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PART I.

Item 1. Business

Honeywell International Inc. (Honeywell or the Company) invents and commercializes technologies that address some of the world's most critical challenges around energy, safety, security, productivity and global urbanization. As a diversified technology and manufacturing company, we are uniquely positioned to blend physical products with software to serve customers worldwide with aerospace products and services, turbochargers, energy efficient products and solutions for homes, businesses and transportation, specialty chemicals, electronic and advanced materials, process technology for refining and petrochemicals, and productivity, sensing, safety and security technologies for buildings, homes and industries. Our products and solutions enable a safer, more comfortable and more productive world, enhancing the quality of life of people around the globe. Honeywell was incorporated in Delaware in 1985.

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports, are available free of charge on our website (www.honeywell.com) under the heading Investor Relations (see SEC Filings and Reports) immediately after they are filed with, or furnished to, the Securities and Exchange Commission (SEC). In addition, in this Annual Report on Form 10-K, the Company incorporates by reference certain information from parts of its Proxy Statement for the 2017 Annual Meeting of Stockholders, which we expect to file with the SEC on or about March 9, 2017, and which will also be available free of charge on our website.

Major Businesses

We globally manage our business operations through four operating segments: Aerospace, Home and Building Technologies, Performance Materials and Technologies, and Safety and Productivity Solutions. Financial information related to our operating segments is included in Note 21 Segment Financial Data of Notes to Financial Statements.

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

Aerospace

Aerospace is a leading global supplier of products, software and services for aircraft and vehicles that it sells to original equipment manufacturers (OEMs) and other customers in a variety of end markets: air transport, regional, business and general aviation aircraft, airlines, aircraft operators, defense and space contractors and automotive and truck manufacturers. Aerospace is a leading provider of aircraft engines, integrated avionics, systems and service solutions, and related products and services for aircraft manufacturers, and turbochargers to improve the performance and efficiency of passenger cars and commercial vehicles. Aerospace also provides spare parts, repair, overhaul and maintenance services (principally to aircraft operators) for the aftermarket. Aerospace products and services include auxiliary power units, propulsion engines, environmental control systems, wireless connectivity services, electric power systems, engine controls, flight safety, communications, navigation hardware and software, radar and surveillance systems, aircraft lighting, management and technical services, advanced systems and instruments, satellite and space components, aircraft wheels and brakes, repair and overhaul services, turbochargers and thermal systems.

Home and Building Technologies

Home and Building Technologies is a leading global provider of products, software, solutions and technologies that help owners of homes stay connected and in control of their comfort, security and energy use; enable commercial building owners and occupants to ensure their facilities are safe, energy efficient, sustainable and productive; and help electricity, gas and water providers supply customers and communities more efficiently. Home and Building Technologies products and services include controls and displays for heating, cooling, indoor air quality, ventilation, humidification, combustion, lighting and home automation; advanced software applications for home/building control and optimization; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature and electrical current; products, services and solutions for measurement, regulation, control and metering of gases and electricity; metering and communications systems for water utilities and industries; access control; video surveillance; fire products; remote patient monitoring systems; and installation, maintenance and upgrades of systems that keep buildings safe, comfortable and productive.

Performance Materials and Technologies

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

Safety and Productivity Solutions

Safety and Productivity Solutions is a leading global provider of products, software and connected solutions to customers around the globe that improve productivity, workplace safety and asset performance. Safety products include personal protection equipment and footwear designed for work, play and outdoor activities. Productivity Solutions products and services include gas detection technology; mobile devices and software for computing, data collection and thermal printing; supply chain and warehouse automation equipment, software and solutions; custom-engineered sensors, switches and controls for sensing and productivity solutions; and software-based data and asset management productivity solutions.

Competition

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

- Aerospace: Borg-Warner (automotive), Garmin, General Electric, Rockwell Collins, Thales and United Technologies
- Home and Building Technologies: Emerson Electric, Itron, Johnson Controls, Schneider and Siemens
- Performance Materials and Technologies: Albemarle, BASF, Dow, Dupont, Emerson and Sinopec

- Safety and Productivity Solutions: 3M, Mine Safety Appliances, Kion Group, TE Connectivity and Zebra Technologies

Our businesses compete on a variety of factors such as price, quality, reliability, delivery, customer service, performance, applied technology, product innovation and product recognition. Brand identity, service to customers and quality are important competitive factors for our products and services, and there is considerable price competition. Other competitive factors include breadth of product line, research and development efforts and technical and managerial capability. While our competitive position varies among our products and services, we believe we are a significant competitor in each of our major product and service classes. Many of our competitors have substantial financial resources and significant technological capabilities. In addition, some of our products compete with the captive component divisions of OEMs.

Aerospace Sales

Our Aerospace segment sales were 38%, 39% and 39% of our total sales in 2016, 2015 and 2014. Our sales to commercial aerospace OEMs were 6%, 8% and 6% of our total sales in 2016, 2015 and 2014. In addition, our sales to commercial aftermarket customers of aerospace products and services were 12%, 12% and 11% of our total sales in 2016, 2015 and 2014.

U.S. Government Sales

Sales to the U.S. Government (principally by Aerospace), acting through its various departments and agencies and through prime contractors, amounted to $3,330 million, $3,743 million and $3,693 million in 2016, 2015 and 2014, which included sales to the U.S. Department of Defense, as a prime contractor and subcontractor, of $2,647 million, $2,680 million and $2,792 million in 2016, 2015 and 2014. U.S. defense spending decreased in 2016 compared to 2015. We do not expect our overall operating results to be significantly affected by any proposed changes in 2017 federal defense spending due principally to the varied mix of the government programs which impact us (OEMs' production, engineering development programs, aftermarket spares and repairs and overhaul programs), as well as our diversified commercial businesses.

Backlog

Our total backlog at December 31, 2016 and 2015 was $19,075 million and $18,183 million. We anticipate that approximately $12,022 million of the 2016 backlog will be filled in 2017. We believe that backlog is not necessarily a reliable indicator of our future sales because a substantial portion of the orders constituting this backlog may be canceled at the customer's option.

International Operations

We are engaged in manufacturing, sales, service and research and development (R&D) globally. U.S. exports and non-U.S. manufactured products are significant to our operations. U.S. exports comprised 13% of our total sales in 2016 and 14% in each of 2015 and 2014. Non-U.S. manufactured products and services, mainly in Europe and Asia, were 43% of our total sales in 2016, 39% in 2015 and 41% in 2014.

	Year Ended December 31, 2016			
Manufactured Products and Systems and Performance of Services	Aerospace	Home and Building Technologies	Performance Materials and Technologies	Safety and Productivity Solutions
	(% of Total Sales)			
U.S. Exports	21%	2 %	18 %	5 %
Non-U.S.	33%	50 %	48 %	46 %

Information related to risks attendant to our foreign operations is included in Item 1A. Risk Factors under the caption "Macroeconomic and Industry Risks."

Raw Materials

The principal raw materials used in our operations are generally readily available. Although we occasionally experience disruption in raw materials supply, we experienced no significant problems in the purchase of key raw materials or commodities in 2016. We are not dependent on any one supplier for a material amount of our raw materials.

The costs of certain key raw materials, including R240, fluorspar, copper, ethylene and perchloroethylene in Performance Materials and Technologies and nickel, steel, titanium and other metals in Aerospace, are expected to continue to fluctuate. We will continue to attempt to offset raw material cost increases with formula or long-term supply agreements, price increases and hedging activities where feasible. We do not presently anticipate that a shortage of raw materials will cause any material adverse impacts during 2017.

Patents, Trademarks, Licenses and Distribution Rights

Our segments are not dependent upon any single patent or related group of patents, or any licenses or distribution rights. In our judgment, our intellectual property rights are adequate for the conduct of our business. We believe that, in the aggregate, the rights under our patents, trademarks and licenses are generally important to our operations, but we do not consider any individual patent, trademark or any licensing or distribution rights related to a specific process or product to be of material importance in relation to our total business.

Research and Development

The Company's principal research and development activities are in the U.S., India, Europe and China. Research and development expense totaled $2,143 million, $1,856 million and $1,892 million in 2016, 2015 and 2014. R&D expense was 5% of sales in each of 2016, 2015 and 2014. Customer-sponsored (principally by the U.S. Government) R&D activities amounted to an additional $967 million, $998 million and $1,034 million in 2016, 2015 and 2014.

Environment

We are subject to various federal, state, local and foreign government requirements regarding protection of human health and the environment. We believe that, as a general matter, our policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage, and of resulting financial liability, in connection with our business. Some risk of environmental damage is, however, inherent in some of our operations and products, as it is with other companies engaged in similar businesses.

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

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

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

Employees

We have approximately 131,000 employees at December 31, 2016, of whom approximately 45,000 are located in the United States.

Executive Officers of the Registrant

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

Name, Age, Date First Elected an Executive Officer	**Business Experience**
David M. Cote, 64 2002[(a)]	Chairman of the Board and Chief Executive Officer since July 2002.
Darius Adamczyk, 51 2014[(a)]	President and Chief Operating Officer since April 2016. President and Chief Executive Officer Performance Materials and Technologies from April 2014 to April 2016. President of Honeywell Process Solutions from April 2012 to April 2014. President of Honeywell Scanning & Mobility from July 2008 to April 2012.
Katherine L. Adams, 52 2009	Senior Vice President and General Counsel since April 2009.
Roger Fradin, 63 2004[(b)]	Vice Chairman since April 2014. President and Chief Executive Officer Automation and Control Solutions from January 2004 to April 2014.
Rajeev Gautam, 64 2016	President and Chief Executive Officer Performance Materials and Technologies since April 2016. President of Honeywell UOP from January 2009 to April 2016.
Terrence S. Hahn, 50 2013	President and Chief Executive Officer Home and Building Technologies since July 2016. President and Chief Executive Officer Transportation Systems from May 2013 to July 2016. Vice President and General Manager of Fluorine Products from March 2007 to May 2013.
Mark R. James, 55 2007	Senior Vice President Human Resources, Procurement and Communications since November 2007.
Andreas C. Kramvis, 64 2008[(b)]	Vice Chairman since April 2014. President and Chief Executive Officer Performance Materials and Technologies from March 2008 to April 2014.
Timothy O. Mahoney, 60 2009	President and Chief Executive Officer Aerospace since September 2009.

Krishna Mikkilineni, 57 2010	Senior Vice President Engineering, Operations and Information Technology since April 2013. Senior Vice President Engineering and Operations from April 2010 to April 2013 and President Honeywell Technology Solutions from January 2009 to April 2013.
Thomas A. Szlosek, 53 2014	Senior Vice President and Chief Financial Officer since April 2014. Vice President of Corporate Finance from April 2013 to April 2014. Chief Financial Officer of Automation and Control Solutions from February 2007 to April 2013.
John F. Waldron, 41 2016	President and Chief Executive Officer, Safety and Productivity Solutions since July 2016. President of Sensing and Productivity Solutions from July 2015 to July 2016. President of Scanning and Mobility from April 2012 to July 2015. Vice President and General Manager of Americas Scanning and Mobility from January 2012 to April 2012.

(a) Also a Director.
(b) Retiring from Honeywell on February 15, 2017.

Item 1A. Risk Factors

Cautionary Statement About Forward-Looking Statements

We describe many of the trends and other factors that drive our business and future results in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in other parts of this report (including this Item 1A). Such discussions contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements are those that address activities, events or developments that management intends, expects, projects, believes or anticipates will or may occur in the future. They are based on management's assumptions and assessments in light of past experience and trends, current economic and industry conditions, expected future developments and other relevant factors. They are not guarantees of future performance, and actual results, developments and business decisions may differ significantly from those envisaged by our forward-looking statements. We do not undertake to update or revise any of our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties that can affect our performance in both the near-and long-term. These forward-looking statements should be considered in light of the information included in this Form 10-K, including, in particular, the factors discussed below. These factors may be revised or supplemented in subsequent reports on Forms 10-Q and 8-K.

Risk Factors

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

<u>Macroeconomic and Industry Risks</u>

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

- ***Aerospace***—Operating results of Aerospace are directly tied to cyclical industry and economic conditions, as well as changes in customer buying patterns of aftermarket parts, supplier stability, factory transitions and capacity constraints. The operating results of our Commercial Aviation business unit may be adversely affected by downturns in the global demand for air travel which impacts new aircraft production or the delay or cancellation of new aircraft orders, delays in launch schedules for new aircraft, the retirement of aircraft and global flying hours, which impact air transport, regional, business and general aviation aircraft utilization rates. Operating results could also be impacted by changes in overall trends related to end market demand for the product portfolio. Operating results in our Defense and Space business unit may be affected by the mix of U.S. and foreign government appropriations for defense and space programs and by compliance risks. Results may also be impacted by the potential introduction of counterfeit parts into our global supply chain. Operating results in our Transportation Systems business unit may be affected by the level of production and demand for automobiles and trucks equipped with turbochargers, regulatory changes regarding automobile and truck emissions and fuel economy, consumer demand and spending for automotive aftermarket products and delays in launch schedules for new automobile and truck platforms.

- ***Home and Building Technologies***—Operating results may be adversely impacted by downturns in the level of global residential and commercial construction activity (including retrofits and upgrades), lower capital spending and operating expenditures on building projects, less industrial plant expansion, changes in the competitive landscape including new market entrants and new technologies, and fluctuations in inventory levels in distribution channels.

- ***Performance Materials and Technologies***—Operating results may be adversely impacted by downturns in capacity utilization for chemical, industrial, refining, petrochemical and semiconductor plants, our customers' availability of capital for refinery construction and expansion, raw material demand and supply volatility, product commoditization, and our ability to maximize our facilities' production capacity and minimize downtime. In particular, the volatility in oil and natural gas prices have and will continue to impact our customers' operating levels and capital spending and thus demand for our products and services.

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- ***Safety and Productivity Solutions***—Operating results may be adversely impacted by downturns in the level of global capital spending and operating expenditures, including in the oil and gas industry, reduced investments in process automation, safety monitoring, and plant capacity utilization initiatives, fluctuations in retail markets, lower customer demand due to the failure to anticipate and respond to overall trends related to end market demand, changes in the competitive landscape including new market entrants and technology that may lead to product commoditization, and adverse industry economic conditions, all of which could result in lower market share, reduced selling prices and lower margins.

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

Our international operations, including U.S. exports, represent more than half of the Company's sales. Risks related to international operations include exchange control regulations, wage and price controls, antitrust regulations, employment regulations, foreign investment laws, import, export and other trade restrictions (such as embargoes), violations by our employees of anti-corruption laws (despite our efforts to mitigate these risks), changes in regulations regarding transactions with state-owned enterprises, nationalization of private enterprises, acts of terrorism, and our ability to hire and maintain qualified staff and maintain the safety of our employees in these regions. Instability and uncertainties arising from the global geopolitical environment, including the United Kingdom referendum in favor of exiting the European Union and the evolving U.S. political, regulatory and economic landscape following the 2016 elections, and the cost of compliance with increasingly complex and often conflicting regulations worldwide can impair our flexibility in modifying product, marketing, pricing or other strategies for growing our businesses, as well as our ability to improve productivity and maintain acceptable operating margins.

Operating outside of the United States also exposes us to foreign exchange risk, which we monitor and seek to reduce through hedging activities. However, foreign exchange hedging activities bear a financial cost and may not always be available to us or be successful in eliminating such volatility. Finally, we generate significant amounts of cash outside of the United States that is invested with financial and non-financial counterparties. While we employ comprehensive controls regarding global cash management to guard against cash or investment loss and to ensure our ability to fund our operations and commitments, a material disruption to the counterparties with whom we transact business could expose Honeywell to financial loss.

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

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

Operational Risks

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

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

Many major components, product equipment items and raw materials, particularly in Aerospace, are procured or subcontracted on a single or sole-source basis. Although we maintain a qualification and performance surveillance process and we believe that sources of supply for raw materials and components are generally adequate, it is difficult to predict what effects shortages or price increases may have in the future. Our ability to manage inventory and meet delivery requirements may be constrained by our suppliers' inability to scale production and adjust delivery of long-lead time products during times of volatile demand. Our inability to fill our supply needs would jeopardize our ability to fulfill obligations under commercial and government contracts, which could, in turn, result in reduced sales and profits, contract penalties or terminations, and damage to customer relationships.

We may be unable to successfully execute or effectively integrate acquisitions, and divestitures may not occur as planned.

We regularly review our portfolio of businesses and pursue growth through acquisitions and seek to divest non-core businesses. We may not be able to complete transactions on favorable terms, on a timely basis, or at all, and during integration we may discover cybersecurity and compliance issues. In addition, our results of operations and cash flows may be adversely impacted by (i) the failure of acquired businesses to meet or exceed expected returns including risk of impairment; (ii) the failure to integrate multiple acquired businesses into Honeywell simultaneously and on schedule and/or to achieve expected synergies; (iii) the inability to dispose of non-core assets and businesses on satisfactory terms and conditions; and (iv) the discovery of unanticipated liabilities, labor relations difficulties or other problems in acquired businesses for which we lack contractual protections, insurance or indemnities, or with regard to divested businesses, claims by purchasers to whom we have provided contractual indemnification.

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

Our future growth rate depends upon a number of factors, including our ability to (i) identify emerging technological trends in our target end-markets, (ii) develop and maintain competitive products, (iii) defend our market share against an ever-expanding number of competitors including many new and non-traditional competitors, (iv) enhance our products by adding innovative features that differentiate our products from those of our competitors and prevent commoditization of our products, (v) develop, manufacture and bring compelling new products to market quickly and cost-effectively, and (vi) attract, develop and retain individuals with the requisite technical expertise and understanding of customers’ needs to develop new technologies and introduce new products.

The failure of our technologies or products to gain market acceptance due to more attractive offerings by our competitors could significantly reduce our revenues and adversely affect our competitive standing and prospects.

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

Our profitability and margin growth are dependent upon our ability to drive sustainable improvements. In addition, we seek productivity and cost savings benefits through repositioning actions and projects, such as consolidation of manufacturing facilities, transitions to cost-competitive regions and product line rationalizations. Risks associated with these actions include delays in execution of the planned initiatives, additional unexpected costs, realization of fewer than estimated productivity improvements and adverse effects on employee morale. We may not realize the full operational or financial benefits we expect, the recognition of these benefits may be delayed and these actions may potentially disrupt our operations. In addition, organizational changes, attrition, labor relations difficulties, or workforce stoppage could have a material adverse effect on our business, reputation, financial position and results of operations.

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

U.S. Government contracts are subject to termination by the government, either for the convenience of the government or for our failure to perform consistent with the terms of the applicable contract. Our contracts with the U.S. Government are also subject to government audits that may recommend downward price adjustments and other changes. When appropriate and prudent, we have made adjustments and paid voluntary refunds in the past and may do so in the future.

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

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

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

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

Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology (IT) systems to sophisticated and targeted measures known as advanced persistent threats, directed at the Company, its products, its customers and/or its third party service providers including cloud providers. Our customers, including the U.S. government, are increasingly requiring cybersecurity protections and mandating cybersecurity standards in our products, and we may incur additional costs to comply with such demands. While we have experienced, and expect to continue to experience, these types of threats and incidents, none of them to date have been material to the Company. We seek to deploy comprehensive measures to deter, prevent, detect, respond to and mitigate these threats, including identity and access controls, data protection, vulnerability assessments, product software designs which we believe are less susceptible to cyber attacks, continuous monitoring of our IT networks and systems and maintenance of backup and protective systems. Despite these efforts, cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties) and the disruption of business operations. Cybersecurity incidents aimed at the software imbedded in our products could lead to third party claims that our product failures have caused a similar range of damages to our customers, and this risk is enhanced by the increasingly connected nature of our products. The potential consequences of a material cybersecurity incident include financial loss, reputational damage, litigation with third parties, theft of intellectual property, fines levied by the Federal Trade Commission, diminution in the value of our investment in research, development and engineering, and increased cybersecurity protection and remediation costs due to the increasing sophistication and proliferation of threats, which in turn could adversely affect our competitiveness and results of operations.

Legal and Regulatory Risks

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

Our future results of operations could be adversely affected by changes in the effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in tax laws, regulations and judicial rulings (or changes in the interpretation thereof), changes in generally accepted accounting principles, changes in the valuation of deferred tax assets and liabilities, changes in the amount of earnings permanently reinvested offshore, the results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures and various other governmental enforcement initiatives. Our tax expense includes estimates of tax reserves and reflects other estimates and assumptions, including assessments of future earnings of the Company which could impact the valuation of our deferred tax assets. Changes in tax laws or regulations, including multi-jurisdictional changes enacted in response to the guidelines provided by the Organization for Economic Co-operation and Development (OECD) to address base erosion and profit shifting, and potential comprehensive U.S. tax reform which, among other things, might change certain U.S. tax rules impacting the way U.S based multinationals are taxed, will increase tax uncertainty and may adversely impact our provision for income taxes.

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

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

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

We are subject to a number of lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising out of the conduct of our business, including matters relating to commercial transactions, government contracts, product liability (including asbestos), prior acquisitions and divestitures, employment, employee benefits plans, intellectual property, antitrust, import and export, and environmental, health and safety matters. Our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary requirements, and we may become subject to or be required to pay damage awards or settlements that could have a material adverse effect on our results of operations, cash flows and financial condition. While we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover the total amount of all insured claims and liabilities. The incurrence of significant liabilities for which there is no or insufficient insurance coverage could adversely affect our results of operations, cash flows, liquidity and financial condition.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We have approximately 1,346 locations, of which 305 are plants. Our properties and equipment are in good operating condition and are adequate for our present needs. We do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

Item 3. Legal Proceedings

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See a discussion of environmental, asbestos and other litigation matters in Note 19 Commitments and Contingencies of Notes to Financial Statements.

Item 4. Mine Safety Disclosures

Not applicable.

Part II.

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

Honeywell’s common stock is listed on the New York Stock Exchange. Market and dividend information for Honeywell’s common stock is included in Note 24 Unaudited Quarterly Financial Information of Notes to Financial Statements.

The number of record holders of our common stock at December 31, 2016 was 50,891.

Information regarding securities authorized for issuance under equity compensation plans is included in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters under the caption “Equity Compensation Plans.”

Honeywell purchased 2,000,000 shares of its common stock, par value $1 per share, in the quarter ending December 31, 2016. Under the Company’s previously reported $5 billion share repurchase program, of which $4.1 billion remained available as of December 31, 2016 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time to generally offset the dilutive impact of employee stock based compensation plans, including option exercises, restricted unit vesting and matching contributions under our savings plans. The amount and timing of future repurchases may vary depending on market conditions and the level of our operating, financing and other investing activities.

The following table summarizes Honeywell’s purchase of its common stock for the three months ended December 31, 2016:

Issuer Purchases of Equity Securities

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs (Dollars in millions)**

October 2016	2,000,000	$106.56	2,000,000	$4,077

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Performance Graph

The following graph compares the five-year cumulative total return on our common stock to the total returns on the Standard & Poor's (S&P) 500 Stock Index and a composite of S&P's Industrial Conglomerates and Aerospace and Defense indices, on a 65%/35% weighted basis (the Composite Index). The weighting of the components of the Composite Index are based on our segments' relative contribution to total segment profit. The selection of the Industrial Conglomerates component of the Composite Index reflects the diverse and distinct range of non-aerospace businesses conducted by Honeywell. The annual changes for the five-year period shown in the graph are based on the assumption that $100 had been invested in Honeywell stock and each index on December 31, 2011 and that all dividends were reinvested.

	Dec 2011	Dec 2012	Dec 2013	Dec 2014	Dec 2015	Dec 2016
Honeywell	100	119.85	176.23	196.52	208.00	239.26
S&P 500 Index®	100	116.00	153.57	174.60	177.01	198.18
Composite Index	100	117.94	172.09	180.52	203.72	228.82

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HONEYWELL INTERNATIONAL INC.

This selected financial data should be read in conjunction with Honeywell's Consolidated Financial Statements and related Notes included elsewhere in this Annual Report as well as the section of this Annual Report titled Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 6. Selected Financial Data

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in millions, except per share amounts)				
Results of Operations					
Net sales	$39,302	$38,581	$40,306	$39,055	$37,665
Net income attributable to Honeywell	4,809	4,768	4,239	3,924	2,926
Earnings Per Common Share					
Earnings from continuing operations:					
Basic	6.29	6.11	5.40	4.99	3.74
Assuming dilution	6.20	6.04	5.33	4.92	3.69
Dividends per share	2.45	2.15	1.87	1.68	1.53
Financial Position at Year-End					
Property, plant and equipment-net	5,793	5,789	5,383	5,278	5,001
Total assets	54,146	49,316	45,451	45,435	41,853
Short-term debt	3,593	6,514	2,637	2,028	1,101
Long-term debt	12,182	5,554	6,046	6,801	6,395
Total debt	15,775	12,068	8,683	8,829	7,496
Redeemable noncontrolling interest	3	290	219	167	150
Shareowners' equity	19,547	18,418	17,784	17,579	13,065

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

(Dollars in millions, except per share amounts)

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand the results of operations and financial condition of Honeywell International Inc. and its consolidated subsidiaries (Honeywell or the Company) for the three years ended December 31, 2016. All references to Notes relate to Notes to Financial Statements in Item 8. Financial Statements and Supplementary Data.

In July 2016, the Company announced the realignment of the business units comprising its Automation and Control Solutions reporting segment by forming two new reportable operating segments: Home and Building Technologies and Safety and Productivity Solutions. Home and Building Technologies includes Environmental & Energy Solutions, Security and Fire, and Building Solutions and Distribution. Additionally, the Industrial Combustion/Thermal business, previously part of Environmental & Energy Solutions in Automation and Control Solutions, became part of Performance Materials and Technologies. Safety and Productivity Solutions includes Sensing & Productivity Solutions and Industrial Safety, as well as the Intelligrated business. Under the realigned segment reporting structure, the Company has four reportable operating segments: Aerospace, Home and Building Technologies, Performance Materials and Technologies, and Safety and Productivity Solutions. The Company has reported its financial performance based on this realignment for all periods presented.

These realignments have no impact on the Company's historical consolidated financial position, results of operations or cash flows. Prior period amounts have been reclassified to conform to current period segment presentation.

On September 16, 2016, the Company completed the sale of the Aerospace government services business, Honeywell Technology Solutions Inc. The assets and liabilities associated with Honeywell Technology Solutions Inc. have been removed from the Company's Consolidated Balance Sheet as of the effective date of the sale. The results of operations for Honeywell Technology Solutions are included in the Consolidated Statement of Operations through the effective date of the sale.

On October 1, 2016, the Company completed the tax-free spin-off of its Resins and Chemicals business, part of Performance Materials and Technologies, into a standalone, publicly-traded company (named AdvanSix) to Honeywell shareowners. The assets and liabilities associated with AdvanSix have been removed from the Company's Consolidated Balance Sheet as of the effective date of the spin-off. The results of operations for AdvanSix are included in the Consolidated Statement of Operations through the effective date of the spin-off.

Executive summary

In 2016, Honeywell successfully navigated a challenging macro-economic environment. We grew net sales 2% to $39,302 million, grew earnings per share of common stock – assuming dilution 3% to $6.20 and grew net income attributable to Honeywell 1% to $4,809 million. We executed on cost reduction activities, accelerated our capital deployment strategy and improved the growth portfolio through acquisitions and divestitures, including the divestiture of Honeywell Technology Solutions Inc. and the tax-free spin-off of AdvanSix. We also announced the realignment of the business units comprising our Automation and Control Solutions segment to two new reportable operating segments, as previously mentioned. The Company also announced a leadership succession plan for our Chief Executive Officer and successfully executed leadership transitions in three of our four reportable operating segments.

We continued our balanced long-term focus on enhancing shareowner value without sacrificing growth investment, including maintaining R&D spending at 5% of sales, new product introductions aligned with global macroeconomic trends in energy, safety, security, productivity and global urbanization, over $300 million of new repositioning investments to improve our operations and increased investment in High Growth Regions. We also continued to enhance our software capabilities through the creation of a software center in the United States to staff more than 730 full-time product software engineers, who are in addition to the more than 11,000 software engineers already part of Honeywell.

In 2016 we deployed capital of over $7.5 billion, including the following:

- ***Mergers and Acquisitions—***we deployed over $2.5 billion during 2016, acquiring businesses that will be integrated into each of our four operating segments. These acquisitions all share a software and technology focus and increase our existing deep alignment with enduring macro trends such as energy efficiency, clean energy generation, safety, security, productivity and global urbanization.

- ***Dividend***—after a 15% dividend rate increase in 2015, we increased our annual dividend rate by 12% in 2016, as we seek to continue to grow the dividend faster than earnings, marking the 12th dividend increase in the past 11 years.

- ***Share Repurchases***—we continue to opportunistically repurchase our shares with the goal of generally keeping share count flat and seeking to offset the dilutive impact of employee stock based compensation and savings plans. In 2016, we repurchased 19.3 million shares for $2.1 billion.

- ***Capital Investment in Facilities***—we invested over $1 billion in capital expenditures focused on high return investments such as the expansion of facilities to manufacture our Solstice® low global-warming potential refrigerant products and building new production facilities to make UOP catalyst and absorbent products.

Honeywell also completed refinancing of long-term debt through the issuance of €4,000 million Senior Notes in February and an additional $4,500 million Senior Notes in October. The proceeds from the offerings of Senior Notes were used to repurchase $2,200 million of Senior Notes outstanding, as well as repay outstanding commercial paper. We expect these refinancing activities will reduce our ongoing annual interest expense.

CONSOLIDATED RESULTS OF OPERATIONS

Net Sales

	2016	2015	2014
Net sales	$39,302	$38,581	$40,306
% change compared with prior period	2 %	(4)%	

The change in net sales is attributable to the following:

	2016 Versus 2015	2015 Versus 2014
Volume	(2)%	1 %

Price	-	(1)%
Acquisitions/Divestitures	5 %	(1)%
Foreign Currency Translation	(1)%	(4)%
Other	-	1 %
	2 %	(4)%

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

The foreign currency translation impact in 2016 compared with 2015 is principally driven by the weakening of the British Pound, Chinese Renminbi and Canadian Dollar, partially offset by the strengthening of the Japanese Yen against the U.S. Dollar.

The foreign currency translation impact in 2015 compared with 2014 is principally driven by the weakening of the Euro and Canadian Dollar against the U.S. Dollar.

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Cost of Products and Services Sold

	2016	2015	2014
Cost of products and services sold	$27,150	$26,747	$28,957
% change compared with prior period	2 %	(8)%	
Gross Margin percentage	30.9 %	30.7 %	28.2 %

Cost of products and services sold increased in 2016 compared with 2015 principally due to increased direct material costs of approximately $380 million (driven primarily by acquisitions, net of divestitures, partially offset by the favorable impact of productivity, net of inflation, and foreign currency translation), higher depreciation and amortization attributable to acquisitions of approximately $135 million and increased pension mark-to-market expense allocated to cost of products and services sold of $70 million, partially offset by higher pension and other postretirement benefits income allocated to cost of products and services sold of $200 million.

Gross margin percentage increased in 2016 compared with 2015 principally due to higher gross margin in Performance Materials and Technologies (approximately 0.6 percentage point impact) and higher pension and other postretirement benefits income allocated to cost of products and services sold (approximately 0.5 percentage point impact), partially offset by lower gross margin in Aerospace, Home and Building Solutions and Safety and Productivity Solutions (approximately 0.7 percentage point impact collectively) and increased pension mark-to-market expense allocated to cost of products and services sold (approximately 0.2 percentage point impact).

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

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

Selling, General and Administrative Expenses

	2016	2015	2014
Selling, general and administrative expense	$5,469	$5,006	$5,518

% of sales	13.9 %	13.0 %	13.7 %

Selling, general and administrative expenses (SG&A) increased in 2016 compared with 2015 primarily due to increased labor costs (driven primarily by acquisitions, net of divestitures, investment for growth and merit increases), increased pension mark-to-market expense allocated to SG&A and higher repositioning charges, partially offset by the favorable impact from foreign currency translation and increased pension income allocated to SG&A.

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

Tax Expense

	2016	2015	2014
Tax expense	$1,601	$1,739	$1,489
Effective tax rate	24.8 %	26.4 %	25.6 %

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

The effective tax rates for 2016, 2015 and 2014 are lower than the U.S. statutory rate of 35% primarily due to lower tax rates on non-U.S. earnings, the vast majority of which we intend to permanently reinvest outside the United States.

The Company currently expects the effective tax rate for 2017 to be approximately 25%. The effective tax rate can vary from quarter to quarter due to unusual or infrequently occurring items, the resolution of income tax audits, changes in tax laws or other items such as pension mark-to-market adjustments and the tax impact from employee share-based payments.

Net Income Attributable to Honeywell

	2016	2015	2014
Net income attributable to Honeywell	$4,809	$4,768	$4,239
Earnings per share of common stock – assuming dilution	$6.20	$6.04	$5.33

Earnings per share of common stock – assuming dilution increased in 2016 compared with 2015 primarily driven by increased pension and other postretirement income, higher segment profit in Home and Building Technologies and Performance Materials and Technologies, the gain related to the Honeywell Technology Solutions, Inc. divestiture, a decrease in the weighted average shares outstanding and the tax benefit from adoption of the FASB’s accounting standard related to employee share-based payment accounting, partially offset by lower segment profit in Aerospace and Safety and Productivity Solutions, increased pension mark-to-market expense and higher repositioning and other charges.

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

BUSINESS OVERVIEW

Our consolidated results are principally impacted by:

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

- Ability of recently acquired businesses to integrate and continue to operate and grow in accordance with the assumptions utilized in determining the acquisition purchase price;
- The impact of fluctuations in foreign currency exchange rates (in particular the Euro), relative to the U.S. Dollar;
- The extent to which cost savings from productivity actions are able to offset or exceed the impact of material and non-material inflation; and
- The impact of the pension discount rate and asset returns on pension expense, including mark-to-market adjustments, and funding requirements.

Our 2017 areas of focus which are generally applicable to each of our operating segments include:

- Ensuring the successful completion of the leadership transition, which includes the Chief Executive Officer and leaders for three of our operating segments, and continuing to execute on the realignment of our Home and Building Technologies and Safety and Productivity Solutions operating segments;

- Driving profitable organic growth through R&D and technological excellence to deliver innovative products that customers value and expansion and localization of our footprint in high growth regions;

- Executing on our strategy to become a software-industrial company, which for us means products and services that facilitate the connected plane, home, building and factory;

- Executing disciplined, rigorous M&A and integration processes to deliver growth through previously announced acquisitions;

- Expanding margins by maintaining and improving the Company's cost structure through manufacturing and administrative process improvements, repositioning, and other productivity actions;

- Controlling corporate and other non-operating costs, including costs incurred for asbestos and environmental matters, pension and other post-retirement and income tax expense;

- Increasing availability of capital through strong cash flow conversion from effective working capital management and proactively managing debt levels to enable the Company to smartly deploy capital for strategic acquisitions, dividends, share repurchases and capital expenditures.

Review of Business Segments

	Years Ended December 31,			% Change 2016 Versus 2015	% Change 2015 Versus 2014
	2016	2015	2014		
Aerospace Sales					
Commercial Aviation Original Equipment	$2,525	$2,905	$2,607	(13)%	11 %
Commercial Aviation Aftermarket	4,796	4,656	4,578	3 %	2 %
Defense and Space	4,375	4,715	4,754	(7)%	(1)%
Transportation Systems	3,055	2,961	3,659	3 %	(19)%
Total Aerospace Sales	14,751	15,237	15,598		
Home and Building Technologies Sales					
Home and Building Products	5,967	4,711	4,868	27 %	(3)%
Home and Building Distribution	4,687	4,450	4,617	5 %	(4)%
Total Home and Building Technologies Sales	10,654	9,161	9,485		
Performance Materials and Technologies Sales					
UOP	2,469	2,976	3,195	(17)%	(7)%
Process Solutions	3,476	2,989	3,378	16 %	(12)%
Advanced Materials	3,327	3,510	3,904	(5)%	(10)%
Total Performance Materials and Technologies Sales	9,272	9,475	10,477		
Safety and Productivity Solutions Sales					
Safety	2,075	2,135	2,339	(3)%	(9)%
Productivity Solutions	2,550	2,573	2,407	(1)%	7 %
Total Safety and Productivity Solutions Sales	4,625	4,708	4,746		

Net Sales	$39,302	$38,581	$40,306

Aerospace

	2016	2015	Change	2014	Change
Net sales	$14,751	$15,237	(3)%	$15,598	(2)%
Cost of products and services sold	10,820	11,068		11,699	
Selling, general and administrative expenses	620	643		712	
Other	320	308		272	
Segment profit	$2,991	$3,218	(7)%	$2,915	10 %

	2016 vs. 2015		2015 vs. 2014	
Factors Contributing to Year-Over-Year Change	Sales	Segment Profit	Sales	Segment Profit
Organic growth/ Operational segment profit	(3)%	(6)%	2 %	8 %
Foreign currency translation	-	(1)%	(3)%	(4)%
Acquisitions, divestitures and other, net	-	-	(1)%	6 %
Total % Change	(3)%	(7)%	(2)%	10 %

2016 compared with 2015

Aerospace sales decreased primarily due to higher incentives to original equipment manufacturers (OEM Incentives), a decrease in organic sales volumes and the Honeywell Technology Solutions Inc. divestiture, which was partially offset by growth from acquisitions.

- Commercial Original Equipment sales decreased by 13% (decreased 12% organic) primarily due to higher OEM incentives and decreased demand from business and general aviation original equipment manufacturers (OEMs), partially offset by higher shipments to air transport OEMs. Consistent with broader aerospace industry trends, we expect the continuation of lower business and general aviation OEM sales volumes.

- Commercial Aftermarket sales increased by 3% (increased 3% organic) primarily driven by higher repair and overhaul activities and increased spares shipments.

- Defense and Space sales decreased by 7% (decreased 6% organic) primarily due to declines in U.S. space and international defense programs, lower U.S. government services revenue, largely attributable to the impact of divestitures, and decreased demand from commercial helicopter OEMs, partially offset by sales from acquisitions.

- Transportation Systems sales increased by 3% (increased 4% organic) primarily driven by new platform launches and higher global turbo gas penetration.

Aerospace segment profit decreased primarily due to a 6% decrease in operational segment profit and a 1% unfavorable impact from foreign currency translation. The decrease in operational segment profit is primarily due to product mix, higher OEM incentives and lower sales volumes, partially offset by productivity and price, net of inflation. Cost of products and services sold decreased primarily driven by productivity, net of inflation, and lower sales volumes, partially offset by acquisitions, net of divestitures.

2015 compared with 2014

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

- Commercial Original Equipment sales increased by 11% (increased by 5% organic) primarily driven by a decrease in OEM Incentives and higher business and general aviation engine shipments.

- Commercial Aftermarket sales increased by 2% (increased 2% organic) primarily driven by higher repair and overhaul activities, partially offset by lower retrofits, modifications and upgrades for business and general aviation customers.

- Defense and Space sales decreased by 1% (flat organic) primarily due to lower U.S. government revenue, partially offset by growth in international programs.

- Transportation Systems sales decreased by 19% (increased 3% organic) primarily due to the unfavorable impact from foreign currency translation and the Friction Materials divestiture, partially offset by continued growth from new platform launches and higher global turbo gas penetration.

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

Home and Building Technologies

	2016	2015	Change	2014	Change
Net sales	$10,654	$9,161	16 %	$9,485	(3)%
Cost of products and services sold	7,079	5,961		6,231	
Selling, general and administrative expenses	1,680	1,488		1,618	
Other	212	200		181	
Segment profit	$1,683	$1,512	11 %	$1,455	4 %

	2016 vs. 2015		2015 vs. 2014	
Factors Contributing to Year-Over-Year Change	Sales	Segment Profit	Sales	Segment Profit
Organic growth/ Operational segment profit	4 %	7 %	3 %	10 %
Foreign currency translation	(2)%	(2)%	(6)%	(6)%
Acquisitions and divestitures, net	14%	6 %	-	-
Total % Change	16%	11 %	(3)%	4 %

2016 compared with 2015

Home and Building Technologies sales increased primarily due to growth from acquisitions and organic sales growth partially offset by the unfavorable impact of foreign currency translation.

- Sales in Home and Building Products increased by 27% (increased 2% organic) principally driven by acquisitions. Organic sales growth was primarily attributable to new product introductions in our Environmental and Energy Solutions business and volume growth in our Security and Fire business.

- Sales in Home and Building Distribution increased by 5% (increased 7% organic) principally due to organic sales growth partially offset by the unfavorable impact of foreign currency translation. Organic sales growth was primarily driven by volume in our Distribution and Building Solutions Energy businesses.

Home and Building Technologies segment profit increased due to an increase in operational segment profit and acquisitions partially offset by the unfavorable impact of foreign currency translation. The increase in operational segment profit was primarily driven by productivity net of inflation and price. Cost of products and services increased due to acquisitions and inflation partially offset by the favorable impact of foreign currency translation.

2015 compared with 2014

Home and Building Technologies sales decreased primarily due to the unfavorable impact of foreign currency translation partially offset by organic sales growth.

- Sales in Home and Building Products decreased by 3% (increased 3% organic) principally due to the unfavorable impact of foreign currency translation partially offset by volume growth in our Security and Fire business.

- Sales in Home and Building Distribution decreased by 4% (increased 3% organic) principally due to the unfavorable impact of foreign currency translation. Organic sales growth was primarily due to increased sales volume in Distribution partially offset by softness in the project installation and U.S. energy retrofit businesses.

Home and Building Technologies segment profit increased primarily due to the positive impact of price and productivity, net of inflation, partially offset by continued investment for growth, higher sales volumes and the unfavorable impact of foreign currency translation. Cost of products and services sold decreased primarily due to the favorable impact of foreign currency translation and productivity partially offset by higher organic sales volume.

Performance Materials and Technologies

	2016	2015	Change	2014	Change
Net sales	$9,272	$9,475	(2)%	$10,477	(10)%
Cost of products and services sold	6,051	6,414		7,385	
Selling, general and administrative expenses	1,026	936		1,082	
Other	145	135		134	
Segment profit	$2,050	$1,990	3 %	$1,876	6 %

	2016 vs. 2015		2015 vs. 2014	
Factors Contributing to Year-Over-Year Change	Sales	Segment Profit	Sales	Segment Profit
Organic growth/ Operational segment profit	(3)%	2 %	(6)%	10 %
Foreign currency translation	(1)%	(2)%	(4)%	(4)%
Acquisitions and divestitures, net	2 %	3 %	-	-
Total % Change	(2)%	3 %	(10)%	6 %

2016 compared with 2015

Performance Materials and Technologies sales decreased due to a decrease in organic sales volumes and the unfavorable impact of foreign currency translation, partially offset by growth from acquisitions, net of divestitures.

- UOP sales decreased by 17% (decreased 16% organic) driven primarily by lower gas processing revenues due to a significant slowdown in customer projects and decreased catalyst volumes in the first nine months, partially offset by increased catalyst, licensing and equipment sales in the fourth quarter.

- Process Solutions sales increased by 16% (increased 4% organic) driven primarily by increased volumes driven by the Elster acquisition and higher revenues in projects, partially offset by lower field products sales.

- Advanced Materials sales decreased by 5% (increased 3% organic) driven primarily by the impact of the October 1, 2016 spin-off of AdvanSix and lower market pricing, as well as lower raw material pass-through pricing in AdvanSix in the first nine months, partially offset by increased volumes in fluorine and specialty products.

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

2015 compared with 2014

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

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

- Process Solutions sales decreased by 12% (decreased 3% organic) driven primarily by the unfavorable impact of foreign currency translation and lower volumes primarily due to weakness in projects and field products.

- Advanced Materials sales decreased by 10% (decreased 7% organic) primarily driven by lower raw material pass-through pricing and unplanned plant outages in resins and chemicals partially offset by increased volumes in fluorine products.

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

Safety and Productivity Solutions

	2016	2015	Change	2014	Change
Net sales	$4,625	$4,708	(2)%	$4,746	(1)%
Cost of products and services sold	3,001	3,020		3,052	
Selling, general and administrative expenses	841	851		933	
Other	103	91		75	

Segment profit	$680	$746	(9)%	$686	9 %

	2016 vs. 2015		2015 vs. 2014	
Factors Contributing to Year-Over-Year Change	Sales	Segment Profit	Sales	Segment Profit
Organic growth/ Operational segment profit	(7)%	(8)%	2 %	11 %
Foreign currency translation	(1)%	(2)%	(5)%	(4)%
Acquisitions and divestitures, net	6 %	1 %	2 %	2 %
Total % Change	(2)%	(9)%	(1)%	9 %

2016 compared with 2015

Safety and Productivity Solutions sales decreased primarily due to decreased sales volumes and the unfavorable impact of foreign currency translation, partially offset by growth from acquisitions.

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- Sales in Safety decreased by 3% (decreased 2% organic) due to decreased sales volume in the Industrial Safety business, lower distribution in the Retail business, and the unfavorable impact of foreign currency translation.

- Sales in Productivity Solutions decreased by 1% (decreased 11% organic) principally due to declines in the Productivity Products business, partially offset by growth from acquisitions.

Safety and Productivity Solutions segment profit decreased due to a decrease in operational segment profit and the unfavorable impact of foreign currency translation, partially offset by growth from acquisitions. The decrease in operational segment profit is due to decreased sales volumes, partially offset by price and productivity, net of inflation, and growth from acquisitions. Cost of products and services decreased primarily due to productivity, net of inflation, decreased sales volumes, and the favorable impact of foreign currency translation partially offset by growth from acquisitions.

2015 compared with 2014

Safety and Productivity Solutions sales decreased primarily due to the unfavorable impact of foreign currency translation partially offset by acquisitions and organic sales growth.

- Sales in Safety decreased by 9% (decreased 3% organic) principally due to decreased sales volumes in Industrial Safety and the unfavorable impact of foreign currency translation, partially offset by increased sales volume in the Retail business.

- Sales in Productivity Solutions increased by 7% (increased 8% organic) principally due to acquisitions and increased sales volumes in the Productivity Products business, partially offset by the unfavorable impact of foreign currency translation.

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

Repositioning Charges

See Note 3 Repositioning and Other Charges of Notes to Financial Statements for a discussion of our repositioning actions and related charges incurred in 2016, 2015 and 2014. These repositioning actions are expected to generate incremental pretax savings of $200 million to $300 million in 2017 compared with 2016 principally from planned workforce reductions. Cash spending related to our repositioning actions was $228 million, $118 million and $161 million in 2016, 2015 and 2014, and was funded through operating cash flows. In 2017, we expect cash spending for repositioning actions to be approximately $225 million and to be funded through operating cash flows.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows, are summarized as follows:

	Years Ended December 31,		
	2016	2015	2014
Cash provided by (used for):			
Operating activities	$5,498	$5,519	$5,080
Investing activities	(3,342)	(6,514)	(1,876)
Financing activities	346	37	(2,328)
Effect of exchange rate changes on cash	(114)	(546)	(339)
Net increase (decrease) in cash and cash equivalents	$2,388	$(1,504)	$537

2016 compared with 2015

Cash provided by operating activities decreased by $21 million primarily due to a $958 million unfavorable impact from working capital, partially offset by (i) a $395 million improvement in customer advances and deferred income, (ii) a $171 million increase in net income before the non-cash pension mark-to-market adjustment, (iii) the absence of $151 million in OEM incentive payments and (iv) lower cash tax payments of $50 million.

Cash used for investing activities decreased by $3,172 million primarily due to (i) a decrease in cash paid for acquisitions of $2,655 million, most significantly Elster in 2015, (ii) an increase in proceeds from the sales of businesses of $295 million (most significantly Honeywell Technology Solutions Inc.) and (iii) a $384 million favorable change in settlements of foreign currency exchange contracts used as economic hedges on certain non-functional currency denominated monetary assets and liabilities. The decreases were partially offset by a net $146 million increase in investments, primarily short-term marketable securities.

Cash provided by financing activities increased by $309 million primarily due to an increase in the net proceeds from debt issuances of $497 million, partially offset by an increase in cash dividends paid of $189 million including amounts paid to the former UOP Russell LLC noncontrolling shareholder.

2015 compared with 2014

Cash provided by operating activities increased by $439 million primarily due to a $489 million favorable impact from working capital and a $382 million increase in net income before the non-cash pension mark-to-market adjustment, partially offset by (i) a $175 million decrease in customer advances and deferred income, (ii) $151 million in OEM incentives and (iii) increased cash tax payments of $50 million.

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

Cash provided by financing activities increased by $2,365 million primarily due to an increase in the net proceeds from debt issuances of $3,648 million, partially offset by an increase in net repurchases of common stock of $1,039 million and an increase in cash dividends paid of $216 million.

Liquidity

Each of our businesses is focused on implementing strategies to increase operating cash flows through revenue growth, margin expansion and improved working capital turnover. Considering the current economic environment in which each of the businesses operate and their business plans and strategies, including the focus on growth, cost reduction and productivity initiatives, we believe that cash balances and operating cash flow will continue to be our principal source of liquidity. In addition to the available cash and operating cash flows, additional sources of liquidity include committed credit lines, short-term debt from the commercial paper markets, long-term borrowings, and access to the public debt and equity markets. At December 31, 2016, a substantial portion of the Company’s cash and cash equivalents were held by foreign subsidiaries. If the amounts held outside of the U.S. were to be repatriated, under current law, they would be subject to U.S. federal income taxes, less applicable foreign tax credits. However, our intent is to permanently reinvest the vast majority of these funds outside of the U.S. It is not practicable to estimate the amount of tax that might be payable if some or all of such earnings were to be repatriated, and the amount of foreign tax credits that would be available to reduce or eliminate the resulting U.S. income tax liability.

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

A source of liquidity is our ability to issue short-term debt in the commercial paper market. Commercial paper notes are sold at a discount and have a maturity of not more than 365 days from date of issuance. Borrowings under the commercial paper program are available for general corporate purposes as well as for financing acquisitions. The weighted average interest rate on short-term borrowings and commercial paper outstanding as of December 31, 2016 was (0.13%) and as of December 31, 2015 was 0.26%.

Our ability to access the commercial paper market, and the related cost of these borrowings, is affected by the strength of our credit rating and market conditions. Our credit ratings are periodically reviewed by the major independent debt-rating agencies. As of December 31, 2016, Standard and Poor's (S&P), Fitch, and Moody's have ratings on our long-term debt of A, A and A2 and short-term debt of A-1, F1 and P1. S&P, Fitch and Moody's have Honeywell's rating outlook as "stable." To date, the Company has not experienced any limitations in our ability to access these sources of liquidity.

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

See Note 2 Acquisitions and Divestitures and Note 12 Long-term Debt and Credit Agreements of Notes to Financial Statements for additional discussion of items impacting our liquidity.

In 2016, the Company repurchased $2,079 million of outstanding shares to offset the dilutive impact of employee stock based compensation plans, including option exercises, restricted unit vesting and matching contributions under our savings plans. In April 2016, the Board of Directors authorized the repurchase of up to a total of $5 billion of Honeywell common stock, of which $4.1 billion remained available as of December 31, 2016 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time to generally offset the dilutive impact of employee stock based compensation plans, including option exercises, restricted unit vesting and matching contributions under our savings plans.

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

Specifically, we expect our primary cash requirements in 2017 to be as follows:

- § Capital expenditures—we expect to spend approximately $1.1 billion for capital expenditures in 2017 primarily for growth, production and capacity expansion, cost reduction, maintenance, and replacement.

- § Share repurchases— under the Company's share repurchase program, $4.1 billion is available as of December 31, 2016 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time to generally offset the dilutive impact of employee stock-based compensation plans, including option exercises, restricted unit vesting and matching contributions under our savings plans. The amount and timing of future repurchases may vary depending on market conditions and our level of operating, financing and other investing activities.

- § Dividends—we increased our quarterly dividend rate by 12% to $.6650 per share of common stock effective with the fourth quarter 2016 dividend. The Company intends to continue to pay quarterly dividends in 2017.

- § Asbestos claims—we expect our cash spending for asbestos claims and our cash receipts for related insurance recoveries to be approximately $546 million and $23 million in 2017.

- § Pension contributions—in 2017, we are not required to make contributions to our U.S. pensi