


A New Look At Global Employee Stock Purchase Plans

Sean Trotman
Deloitte

Charlene Arje
Honeywell





Agenda

- Trends and Survey Data
- The Honeywell Experience
 - Honeywell GESPP
 - Managing the plan
 - Measuring Performance – Customer Satisfaction
- Program Implementation / Operation
 - Managing a Global Plan
 - Taxation issues
 - Regulatory and legal issues
- Honeywell GESPP – Plan Stats
- Initiative & Accomplishments
- The Future
- Q&A

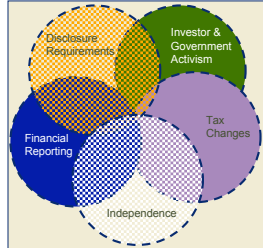


Trends And Survey Data



Global Warming

- Unprecedented change
- Complex interactions
- The world of compensation is changing
- Equity programs are changing
- Accounting is no longer the major driver



Need To Rationalize Equity Programs

- What are the objectives of the plan?
- Does the current plan meet those objectives?
- Is there a plan that might better meet the objectives?
- What message has been communicated to employees and shareholders?
- What are the employees' perceptions?
- How does the ESPP cost compare to the cost of other programs (equity or other)?
- Would other benefits be valued more?



Global Ramifications



- End to "one-size-fits-all" practice
- More imagination with respect to plan design
- Financial modeling takes on greater importance
- Administration systems become more responsive to greater global complexity
- Effective cost control becomes an integral part of plan design rather than an ancillary issue
 - More use of chargebacks
 - More locally tax-qualified plans e.g., France, UK
 - Modification of ESPP design to lessen expense



Deloitte Stock Compensation Survey (April 05)



- Purpose of survey: understand reactions to current environment around equity compensation
 - Company philosophy and practices
 - Reaction to recent FASB ruling
 - Employee stock purchase plans
 - Global equity practices
- Demographics: 343 responses
- 54% of respondents are public companies

33%	Technology	3%	Media & Entertainment
10%	Life Sciences	48%	Other
6%	Telecommunications		



Deloitte Stock Compensation Survey (April 05)

Major Concerns Regarding Compensation	Percentage of respondents that ranked issues 1st or 2nd in importance
Providing competitive compensation	71%
Motivating executives & employees	69%
Managing compensation expense for income statement purposes	40%
Managing constraints of existing/approved equity plans/available shares	33%
Complying with institutional shareholder guidelines for compensation practice	33%

Future Intentions For Global Stock Purchase Plans

Intention	U.S.	non-U.S.
Eliminate ESPP	~6%	~1%
Conform to FASB's safe harbor	~27%	~26%
Eliminate/shorten look-back, but retain 15% discount	~33%	~28%
Eliminate/shorten look-back and reduce discount, but not to 5%	~18%	~10%
Keep look-back, but reduce discount	~8%	~4%
Increase benefits under ESPP to make up for decreases in other stock-based comp programs	~2%	~5%
Other/unsure at this time	~6%	~8%

The Honeywell Experience



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- 109,000 employees in nearly 100 countries
- A Fortune 100 company – sales of \$25.6 billion in 2004
- One of 30 select companies represented by the Dow Jones Industrial Average
- On the Fortune magazine 2004 list of “Most Admired Companies” - # 3 in Aerospace and Defense Industry
- On the 2004 Best Practices in Corporate Communications list of 25 Best Practices Web Sites
- Winner of the Control Engineering magazines 2004 Editors Choice Award for Instrumentation and Process Sensors, and the 2004 Breakthrough Product of the Year award from Processing magazine for Honeywell’s XYR 5000 Wireless Transmitters
- Winner of the Environmental Protection Agency’s Landfill Methane Outreach Program 2004 “Project of the Year” Award



Honeywell – Our Brand Promise

We are building a world that’s safer and more secure ...

More comfortable and energy efficient ...

More innovative and productive.

We are **Honeywell**.



Honeywell's 5 Initiatives

- Growth
- Productivity
- Cash
- People
- Enablers: Digital Works & Six Sigma




Honeywell's 12 Behaviors




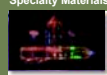
12
Behaviors



1. Growth and Customer Focus
2. Leadership Impact
3. Gets Results
4. Makes People Better
5. Champions Change and Six Sigma
6. Fosters Teamwork and Diversity
7. Global Mindset
8. Intelligent Risk Taking
9. Self-Awareness/Learner
10. Effective Communicator
11. Integrative Thinker
12. Technical or Functional Excellence

The 12 Behaviors support our Five Initiatives




A snapshot of Honeywell

Aerospace	Automation & Control Solutions	Transportation	Specialty Materials
			
<p>Honeywell is a leading global supplier of aircraft components, engines, avionics, and related products and services for commercial airlines, business and regional aircraft, and spacecraft.</p> <p style="text-align: right; font-weight: bold; color: red;">\$9.8B</p>	<p>Honeywell makes homes, buildings, industrial sites, and airport facilities more efficient, safe and comfortable. Our products, solutions, and services are prominent in growth areas such as sensors, wireless technology, and real-time data management.</p> <p style="text-align: right; font-weight: bold; color: red;">\$8.0B</p>	<p>As a leading automotive supplier, Honeywell enhances vehicle performance, efficiency, and appearance through state-of-the-art technologies, world-class brands, and global solutions to our customers' needs.</p> <p style="text-align: right; font-weight: bold; color: red;">\$4.3B</p>	<p>Honeywell produces high-performance specialty materials such as fluorocarbons, specialty films, advanced fibers, customized research chemicals and intermediates for applications as diverse as telecommunications, ballistic protection, pharmaceutical packaging, and counterfeiting avoidance.</p> <p style="text-align: right; font-weight: bold; color: red;">\$3.5B</p>

Honeywell Stock Performance



Honeywell's Key Operating Stats

Key Operating Stats	2003	2004
Revenues	\$23.1B	\$25.6B
Revenue Growth	4%	11%
Earnings Per Share	\$1.54	\$1.49
Cash	\$2.2B	\$2.3B



Honeywell GESPP



Stock Plan Administration

- Plan Administered from Canada with “Super Coordinators” located in each region”
- 125 Payroll Centres
- 70 Coordinators
- Reliance on local business units around the global to help administer



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Administration Requirements

Ongoing Administrative requirements for local units:

Owner	Responsibility	Timing
Business Unit / Local Affiliate	Agreement and approval required to proceed with rollout of the GESPP to employees	Project Start
	Identify resources (contacts) for each centre with roles and responsibilities in the following areas: 1. Financial – billing responsibility 2. Payroll – responsible for payroll deductions and money transfer 3. Coordinator – providing employee assistance and submitting monthly file, participate in monthly communication sessions	Project Start



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GESPP Contact Information

Contact	Information
Stock Coordinator Asia	Lily Fan
Stock Coordinator Canada	Kimberley Tam
Stock Coordinator Mexico & South America	Dulce Ramirez
Stock Coordinator Europe, Middle East, Africa	Danielle Doyle
Mourant	Mourant Plan Inquiries
Project Lead	Lorna McLean
Champion	Charlene Arje



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On-Line Capabilities

E-stock

- Employees with EID's and Honeywell Email accounts will automatically have access to e-stock - our online GESPP web site
- Completely secure
- Accessible 24 hours a day, directly from your home or work PC
- Participants can now sell or transfer your Honeywell stock on-line
 - Up to date information on the number of shares you hold
 - Current valuations of your holdings
 - Details on the number of shares available for you to sell or transfer
 - History of share transactions and monthly contributions on your Statement detail
 - Electronic Confirmation (emails) of your transactions made on-line

Access from Work

- Links to be added to Inside Honeywell globally over next six months. Links currently available at Inside Honeywell – Canada and Latin America – Global Employee Stock Purchase Plan. Click on the e-stock banner for access to your account.

**Honeywell GESPP –
Managing the plan**




Managing a Global Plan

- Employee Expectations
- Supplier Partnerships
- Corporation Commitment




Managing a Global Plan

- Meeting **Employee Expectations**
 - Effective Communication – language capabilities
 - Education
 - Service Levels
 - Execute
 - Answer Questions






Specific Benefits to Employees

To take some of the risk out of shareowning, the Employee Stock Purchase Plan also offers a number of preferential conditions:

The lowest price The purchase price you pay is the lower price in effect on either the first trading day of the year or the last day of the stock plan period - end of October. A 15% discount is provided in addition which represents an immediate gain for you if you chose to sell on November 1st.

No hidden costs You pay no brokerage fees at the time of purchase. (If you sell the shares through our plan administrator, you will pay a transaction fee at the time of sale).






Specific Benefits to Employees

Reinvest dividend payments When the company is successful, not only can the value of shares increase, but you will also be entitled to dividend payments at Honeywell's discretion. In recent history Honeywell has issued dividends every quarter. These dividends will be automatically reinvested into your plan account.

Sell anytime Your shares can also be quickly converted into cash if you prefer. There are Bulk Sales dates, one per month, to minimize brokerage fees upon sale.

Managing your shares Mourant & Co, located in UK, is the centralized administrator for Honeywell shares. An online, web based tool (Honeywell E-stock) is available for Honeywell employees to view their account balances and initiate transactions.

Honeywell GESPP – Measuring Performance (Customer Satisfaction)

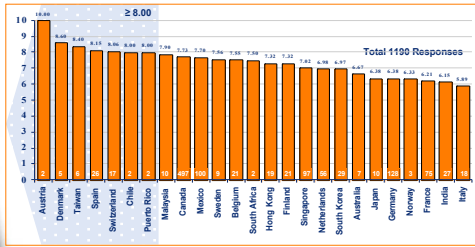


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2004 Survey Results: GESPP

Overall Satisfaction (As at March 16, 2005)

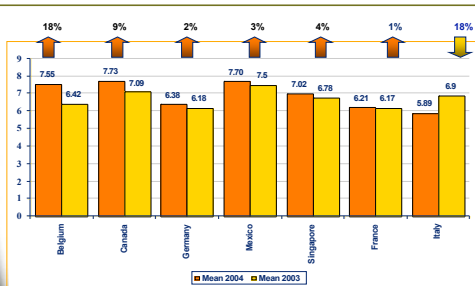


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2004 - 7.30 2003 - 6.76 2002 - 6.32

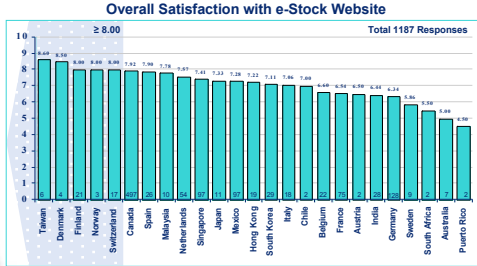
2004 Survey Results: GESPP 03&04



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2004 Survey Results: e-Stock



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Managing a Global Plan

- Managing **Supplier Partners**
 - Developing a Partnership
 - Importance of Communication
 - Developing and Meeting Service Level Commitments
 - Understand and share corporate culture
 - Proactive and Customer Centric
 - Partnership



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Managing a Global Plan

- Meeting **Corporate Commitments**
 - Control Costs
 - Identified value proposition for HR and Employees
 - Tax Compliance
 - Regulatory Compliance

GESPP needs to assist Honeywell in meeting goals



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Managing a Global Plan

Cost Control

- Analyze all cost buckets including:
 - Postage
 - Interest on bank accounts
 - Currency Conversion
 - Brokerage Costs
- Streamline Processes
- Digitize Transactions
- Partnerships are key

GESPP needs to assist Honeywell in meeting goals


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Managing a Global Plan

Identified value proposition for HR and Employees

- GESPP needs to provide value to employees
- Needs to be a recognized benefit

GESPP needs to assist Honeywell in meeting goals

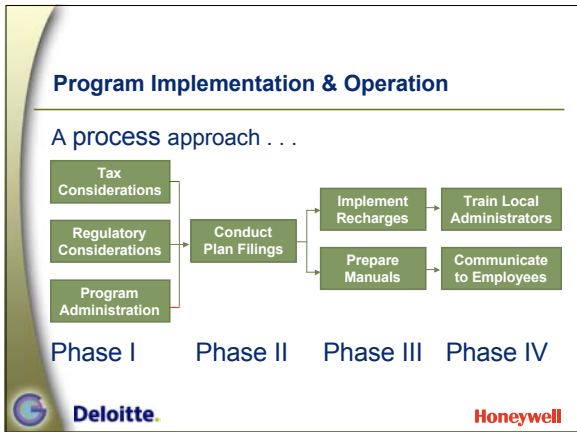
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Managing a Global Plan

- Tax Compliance
- Legal and Regulatory Compliance

GESPP needs to be Tax and Legal Compliant

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- ### Tax Considerations
- Understand country-specific tax rules
 - Incidence and amount of tax
 - Elections, exemptions etc.
 - Withholding and reporting requirements
 - Requirements to file plan with local tax office
 - Consider local tax-favored arrangements
 - Minimize social tax costs
 - Maximize after-tax income to participants
 - Administrative complexity
 - Understand corporate tax benefits
 - Necessity for recharge
 - Impact on tax treatment of participant
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- ### Tax-Favored Arrangements
- Tax-favored plans available in some countries
 - Need to consider filing requirements and costs
 - Deviations required from “core” plan design?
 - Acceptance/cultural expectations locally?
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Tax-Favored Arrangements (continued)

Country	Plan Name	Contribution Amount (Max)	Discount/Match/Benefit	Mandatory Holding Period	Intermediary Required
France	Plan d'Épargne d'Entreprise	25%	€3,450 / year	5 years	Investment Account
Hungary	AESP	N/A	First HRP 500,000 of benefit tax free	2, 3 years	Securities Account
India	Central Government	N/A	N/A	None	None
Ireland	SAYE	€377 / month	20%	3, 5 years	Savings Bank
	APSS	N/A	€12,000 / year	2 years	Trust
Israel	Approved Trustee Plan	N/A	N/A	1, 2 years depends on taxation	Yes
United Kingdom	SAYE	£250 / month	20%	3, 5, 7 years	Savings Bank
	Share Incentive Plan	£1,000 / year	£3,000 / year	3 years	Trust
United States	S. 402 Plan	\$25,000 / year	15%	1 year	None



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Corporate Tax Deduction – The Issue

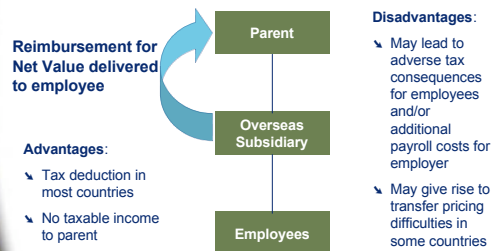
- Distribution of Shares:
 - Fair Market Value of Stock Delivered
 - - Price Paid by Employee to Acquire Shares
 - "Net Value Delivered to Employee"
- For US and UK Companies, the "Net Value Delivered" is deductible as compensation expense - generating tax savings
- For stock issuances to employees of foreign subsidiaries, the "Net Value Delivered" is generally NOT deductible - a lost opportunity
- **The Solution:** Implement Inter-company recharges



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Typical Recharge Structure





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Corporate Tax Deductibility Considerations

- The potential benefits depend on the tax rules in each country, considerations include:
 - Whether the recharge is deductible *E.g. Canada does not allow a deduction*
 - How much is deductible *E.g. France only allows a deduction for the capital loss*
 - Impact of the recharge on:
 - Tax treatment of employee
 - Employee and employer social taxes
 - Employer and employee reporting requirements
 - Employer withholding requirements
- Cash repatriation needs
- Transfer pricing and cost-sharing agreements

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Regulatory and Legal Considerations



More care is required than with any other equity program in the following areas:

- Labor Laws
- Securities Laws
- Exchange Controls
- Data Privacy

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Regulatory and Legal Considerations

- More care is required with a stock purchase plan than any other equity program
- Legal framework/case law differs from country to country
- Employees' interests are in general better protected in Europe than in the US
- Common guidelines are, however, possible

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Guidelines to Protect Employer

- Provide restrictive covenants in the plan such as
 - Right to modify the terms and conditions unilaterally
 - No acquired right for the future, etc.
- Examine enforceability of such covenants on a country by country basis
- Translate plan documents in local language to ensure enforceability of restrictive covenants
 - Mandatory in some countries, e.g., Belgium, France
 - Not mandatory in most but highly recommended
- Individual waiver agreements recommended to avoid any claims

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Labor Law Issues

- Deductions from Salary
 - Some countries require salary to be paid in full (e.g., Belgium and Hong Kong)
 - Need employees to pay contributions from bank account
 - Some require approval from Authorities
 - Approval from Director General of Labor must be obtained for Malaysian employees covered by Malaysian Employment Act
- Automatic re-enrollment
 - Generally possible if employee advised in advance
 - Some countries require signed enrollment forms in advance (e.g., Hungary)

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Securities Law Issues

- Continuous changes and new regimes globally
 - New Saudi Arabia Capital Markets Law
 - Italian CONSOB Financial Intermediary ruling
- European Prospectus Directive
- Committee of European Securities Regulators
 - Equivalency of US, Canadian and Japanese GAAP to IAS
- European Commission / US SEC Roadmap

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Exchange Control Issues

- Plan may need to be registered e.g., South Africa
- Proceeds from sale of shares may need to be remitted back to certain countries e.g., India
- May apply to limit ability of subsidiary to remit payment to settle any recharge from parent
- Simplified rules in Brazil, effective March 14, 2005:
 - Central Bank approval no longer needed for remittances outside Brazil to purchase shares
 - No longer necessary to return proceeds to Brazil if employment terminated

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Data Privacy Issues

- Increasing regulation in this area globally
 - European countries have very stringent requirements in this area
 - New legislation on the protection of personal information being implemented globally all the time
 - Subsidiaries may need to be registered
- Data protection waivers should be obtained by all plan participants

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Summary

- Review of drafting/language of plan documents is essential
- Difficult to reduce/eliminate existing plans
- Relatively easy to avoid any acquired right issue for the future
- Local legislation and case law should always be checked

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Honeywell GESPP – Plan Stats



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GESPP – Global Stock Plan Stats



REGION/CONTINENT	2004	2005
AFRICA	2	3
ASIA	1,159	1,307
CARIBBEAN	6	8
EUROPE	1,278	1,280
NORTH AMERICA	2,023	2,102
OCEANIA	173	200
SOUTH AMERICA	44	68
Total	4,685	4,968

Country	2004	2005
Australia	161	180
Austria	21	25
Belgium	52	51
Canada	1,007	1,093
China	3	1
Colombia	15	25
Denmark	7	1
France	285	251
Germany	697	498
Hong Kong	86	92
India	119	123
Italy	98	85
Japan	44	45
Malaysia	22	23
Mexico	215	200
Netherlands	134	151
New Zealand	10	14
Norway	14	14
Portugal	-	12
South Africa	6	8
Singapore	872	731
Spain	2	1
South Korea	204	203
Sweden	86	71
Switzerland	24	23
Taiwan	35	71
Thailand	32	32
United Kingdom	41	61
USA	4,685	4,968



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GESPP – Global Stock Plan Stats

Stock Plan Stats	2003	2004	2005
Number of countries participating	26	28	28
Number of employees who purchased stock	3700	4685	4968*
Total Employee Contributions (US)	\$7.5M	\$9.7M	
Purchase Price of Stock	\$21.23	\$28.33	
Market value on last day of stock plan period	\$30.61	\$33.68	
Discount or income per share to employees	\$9.38	\$5.35	
Average purchase per employee	Shares	95.1	77.4
	Value	\$2019.00	\$2190.00
Number of employees that sold their stock	1,740	1,760	
% that used new e-stock website to sell	0	690 or 39%	



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Honeywell GESPP – Initiatives & Accomplishments




GESPP – Accomplishments



Accomplishments in past 18 months

- Rolled out e-stock website in mid 2004; 40% of sales transactions were processed online in 1st year
- Introduced GESPP in Finland, Puerto Rico and Portugal; we rolled out to 11 new locations in 2005
- Increased participation by 30% from 2003 to 2005
- Solidified relations with Deloitte as Tax Consultants; By end of May, will have tax and legal summaries for all countries participating in the plan
- Established Regional Super Coordinators for Asia Pac / Europe / Latin America and Canada as well




GESPP – 2005 Initiatives

- Develop the GESPP Intranet Web Page for all regions
- Increase use of E-stock Web Site
- Coordinator Communication Sessions to increase GESPP understanding
- Improve contribution file submissions
- Communicate country tax information to coordinators and employees
- Customer Sat - address top issues
- Prepare to roll out to new countries for 2006

Honeywell GESPP – The Future




GESPP – Plans for 2006

Rollout to locations across Central & Eastern Europe and Middle East



Country

- ★ Czech Republic
- ★ Romania
- ★ Hungary
- ★ Russia
- ★ Poland
- ★ Turkey
- ★ Slovakia
- ★ Ukraine
- ★ Bulgaria
- ★ Kazakhstan


Country

- ★ United Arab Emirates
- ★ Egypt
- ★ Oman
- ★ Qatar

- Investigate possibility for China Stock Plan
- Decide on how to handle countries where additional social taxes are incurred when the benefit or income is charged to local affiliate. Very few countries have this legislation.
- Rollout GESPP program to Novar locations for 2006



Honeywell Investors



The success of our company results from the hard work and determination of Honeywell employees.

Many Honeywell employees have already chosen to become shareowners in the company.



Now it's your turn to take advantage of this opportunity and take a share in Honeywell

Honeywell
www.honeywell.com

Questions?

Thank you for your participation

Contact Details

Sean Trotman
Deloitte
☎ +1 (212) 436-2211
✉ strotman@deloitte.com

Charlene Arje
Honeywell
☎ +1 (905) 608-6011
✉ charlene.arje@honeywell.com