

# Statement on NARCO Trust

November 18, 2022

On November 18, 2022, Honeywell entered into a definitive agreement (the “Buyout Agreement”) with the North American Refractories Asbestos Personal Injury Settlement Trust (the “Trust”) providing for the elimination of Honeywell’s funding obligations to the Trust.

The Trust, with the consent of Honeywell, has filed a motion in Bankruptcy Court, which if approved, would allow for the buyout of our obligation to fund the Trust. Honeywell currently has an ongoing obligation to the NARCO Trust to fund asbestos-related claims and the Trust’s operating expenses, which obligations currently have no expiration date. If approved by the Bankruptcy Court, the buyout would extinguish those obligations.

The proposed buyout involves an upfront cash payment to the Trust of \$1.325 billion (the “Buyout Amount”), subject to certain adjustments as further explained below, in return for extinguishing our ongoing evergreen obligation to fund [1] claims against the Trust, which comprise Honeywell's NARCO asbestos-related claims liability, as well as [2] the Trust’s annual operating expenses, including its legal fees (approximately \$21M in 2021). The Buyout Closing is subject to the satisfaction of certain conditions, including a final order from the Bankruptcy Court that (A) approves the Buyout Agreement, and (B) declares that the NARCO Channeling Injunction (which bars all present and future individual actions in state or federal courts based on exposure to NARCO asbestos-containing products and requires all such claims to be made against the Trust) will remain in full force and effect without modification. The Buyout Closing is also subject to each of the NARCO Trust Advisory Committee and Lawrence Fitzpatrick, in his capacity as the NARCO Asbestos Future Claimants Representative, becoming a party to the Buyout Agreement. Should the Buyout Agreement be approved by the Bankruptcy Court, the Buyout Closing would also resolve all outstanding litigation currently ongoing between Honeywell and the Trust.

The Buyout Agreement provides that the Trust will retain its equity interest in HarbisonWalker International Holdings, Inc. (“HWI”). The economic rights of the Trust in such equity interest (including any dividends or sale proceeds) will continue to inure to the benefit of Honeywell. Honeywell will also continue to have the right to collect proceeds in connection with its NARCO asbestos-related insurance policies and will accordingly continue recognizing such receivables.

Should the Buyout Agreement be approved by the Bankruptcy Court, the current NARCO reserve of \$695 million as of September 30, 2022 (which reflects the Company’s estimate for the resolution of NARCO asbestos-related claims for all years of epidemiological disease projection through 2059 but does not account for potential benefits related to HWI or insurance recoveries) would be removed from Honeywell’s balance sheet, and Honeywell would recognize a charge associated with the settlement of the Honeywell Obligations pursuant to the Buyout Agreement.

Honeywell is hopeful that the Bankruptcy Court will approve the buyout so that we can permanently extinguish the liability on our books as well as our ongoing evergreen obligation to fund the Trust’s expenses each year. There can be no guarantee that the Bankruptcy Court will approve the buyout on terms acceptable to us or that all conditions of the buyout will be satisfied. Honeywell will continue to manage our ongoing litigation and manage our liabilities accordingly if the buyout is not approved.

For additional information, please refer to our Current Report on Form 8-K filed with the Securities and Exchange Commission on November 18, 2022.

This document contains certain statements that may be deemed “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, except as required by applicable securities law. Our forward-looking statements are also subject to risks and uncertainties that can affect our performance in both the near- and long-term. In addition, no assurance can be given that any plan, initiative, projection, goal commitment, expectation, or prospect set forth in this statement can or will be achieved. Any forward-looking plans described herein are not final and may be modified or abandoned. We identify the principal risks and uncertainties that affect our performance in our Form 10-K, Form 10-Qs, and other filings with the Securities and Exchange Commission.

## Update as of November 21, 2022

On November 20, 2022, in exchange for the NARCO Trust Advisory Committee (the “TAC”) and Lawrence Fitzpatrick, in his capacity as the NARCO Asbestos Future Claimants Representative (the “FCR”), becoming parties to the Buyout Agreement, Honeywell, the Trust, the TAC, and the FCR entered into an Amended and Restated Buyout Agreement to remove the provision providing for the automatic termination of the Buyout Agreement if the Buyout Closing has not occurred by March 31, 2023, and instead provide for a dollar for dollar credit against the Buyout Amount for the dollar amount of claims against the Trust entered into a payment queue and funded by Honeywell, in each case after March 31, 2023, until the Buyout Closing, as well as HWI Net Dividends (as defined in the Amended Buyout Agreement) actually received by the Trust after March 31, 2023 until the Buyout Closing.

## **FREQUENTLY ASKED QUESTIONS (FAQs)**

How did Honeywell acquire this liability?

- NARCO (North American Refractories Company) manufactured high-grade, heat-resistant, refractory products for various industries. Refractory materials are typically used in furnaces, kilns, incinerators,

and reactors. Honeywell's predecessor, Allied Corporation, owned NARCO from 1979 to 1986.

- Allied sold the NARCO business in 1986 and entered into an agreement under which Allied, and later Honeywell, shared liability with NARCO for asbestos claims arising primarily from alleged occupational exposure to asbestos-containing refractory brick and mortar sold or manufactured by NARCO.
- Honeywell established its initial liability for NARCO asbestos claims in 2002.

What is the history of the Trust?

- NARCO filed for bankruptcy in 2002, and emerged from bankruptcy in April 2013, at which time a federally authorized trust was established to evaluate and resolve all existing NARCO asbestos claims (the "Trust"). Honeywell is protected by a channeling injunction, which bars all present and future individual actions in state or federal courts and requires all asbestos-related claims based on exposure to NARCO asbestos-containing products to be made against the Trust.
- The NARCO Trust Agreement ("TA") and the NARCO Trust Distribution Procedures ("TDP") set forth the structure and operating rules of the Trust and established Honeywell's evergreen funding obligations to fund, among other things,
  - Claims against the Trust; and
  - The Trust's annual operating expenses, which were \$21M in 2021; this number can vary year-to-year based on claims processing, legal, and other fees.

Why have we pursued litigation against the Trust?

- The TDP operating rules define criteria claimants must meet to establish that their asbestos-related claims are valid. Once the Trust became operational in 2014, it began processing and paying claims. Honeywell identified several issues with the way the Trust was operating, and consistently raised its concerns with the Trust that the Trust was improperly paying claimants who have not demonstrated the requisite exposure to NARCO asbestos-containing products in violation of the TDP.
- The Trust refused to alter its practices for payment of claims, and in September 2021, Honeywell filed suit against the Trust in Bankruptcy

Court alleging that the Trust has breached its duties in managing the Trust, including breaches of certain provisions of the TA and TDP. Honeywell's lawsuit seeks appropriate relief preventing the Trust from continuing these practices.

- The Bankruptcy Court conducted a trial on these matters during May 2022.
- Should the Buyout Agreement be approved by the Bankruptcy Court, the consummation of the transactions contemplated in the Buyout Agreement (the "Buyout Closing") would also resolve all outstanding litigation currently ongoing between Honeywell and the Trust.
- In the event Bankruptcy Court approval is not obtained, Honeywell will continue to preserve all its available rights.

What will happen if there is no buyout?

- If the buyout is not consummated, Honeywell will continue to manage our ongoing litigation with the Trust until concluded, and will continue to comply with our obligations to fund the Trust in accordance with the operative Trust agreements, to manage the liabilities accordingly, and to preserve all of our available rights.

Why does the upfront cash payment exceed the existing NARCO reserve?

- The upfront cash payment (the "Buyout Amount") will exceed our current NARCO reserve. The reserve represents the Company's estimate for the resolution of NARCO asbestos-related claims for all years of epidemiological disease projection through 2059 but does not account for potential benefits related to HWI or insurance recoveries. The reserve does not include any of Honeywell's obligations associated with the Trust's operating expenses. In addition to its obligations to fund NARCO asbestos-related claims, Honeywell has an ongoing evergreen obligation to pay the Trust's annual operating expenses, including its legal fees (which operating expenses, for reference, were approximately \$21 million in 2021). Though this number fluctuates year over year based on the Trust's claims and litigation activity, this provides a general sense for what is expensed in recent years.
- The Buyout Agreement provides that the Trust will retain its equity interest in HWI, unless and until such equity interest is sold, and that the economic rights of the Trust in such equity interest (including any

dividends or sale proceeds) will continue to inure to the benefit of Honeywell.

- Following the Buyout Closing, Honeywell will continue to have the right to collect proceeds in connection with its NARCO asbestos-related insurance policies.

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