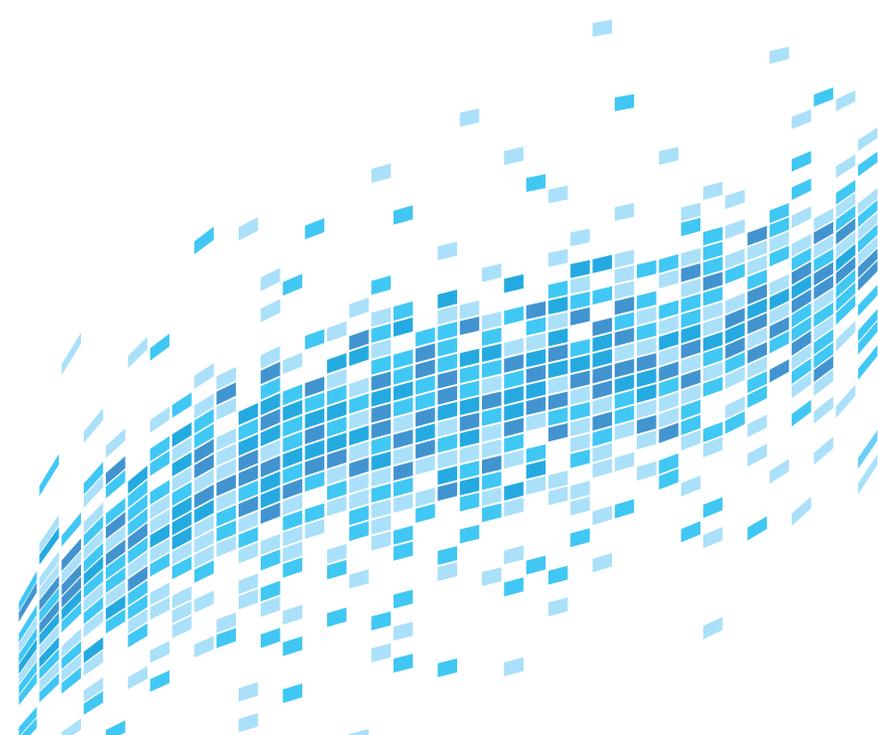




“Our relentless focus on our four key priorities – innovation, execution, cost reduction and disciplined capital allocation – is the reason we are optimistic about our future.”

GREG HAYES, CHAIRMAN & CEO



United Technologies Corp. (UTC) is a leader in the global building and aerospace businesses. Our company was founded by some of the world's greatest inventors. Our 200,000 employees continue their commitment to innovation. Our large investments in technology enable us to develop new and improved ways to keep people safe, comfortable, productive and on the move. By combining a passion for science with precision engineering, we create the smart, sustainable solutions that move the world forward.

Our commercial building businesses comprise Otis, the world's leading manufacturer of elevators, escalators and moving walkways; and UTC Climate, Controls & Security, a leading provider of heating, ventilating, air-conditioning, refrigeration, fire and security systems, and building automation and controls. Our aerospace businesses consist of Pratt & Whitney aircraft engines and UTC Aerospace Systems. We also operate a central research organization that pursues technologies for improving the performance, energy efficiency and cost of our products and processes.

To learn more, visit www.utc.com.

FINANCIALS

United Technologies provides high-technology products and services to the aerospace and commercial building industries worldwide. In 2016 UTC adjusted net sales were \$57.4 billion.

ADJUSTED NET SALES¹

Dollars in billions



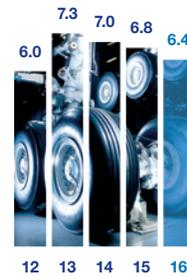
ADJUSTED DILUTED EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS¹

Dollars per share



CASH FLOW FROM OPERATIONS³

Dollars in billions



RESEARCH AND DEVELOPMENT²

Dollars in billions



DIVIDENDS PAID PER COMMON SHARE

Dollars per share



DEBT TO CAPITAL⁴

Percent



¹ Adjusted net sales and adjusted diluted earnings per share from continuing operations are non-GAAP financial measures. For the corresponding measures calculated in accordance with generally accepted accounting principles (GAAP) and a reconciliation of the differences between the non-GAAP and GAAP measures, please refer to page 71 in this Annual Report.

² Amounts include company- and customer-funded research and development.

³ Amounts presented for 2012 to 2015 have been restated to reflect the adoption in 2016 of Accounting Standards Updates No. 2016-15 and No. 2016-18. Refer to the financial section, which begins on page 9, for additional information.

⁴ The increase in the 2016 debt to capitalization ratio primarily reflects debt issuances in 2016 to fund share repurchases and for general corporate purposes.

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INSIDE BACK COVER

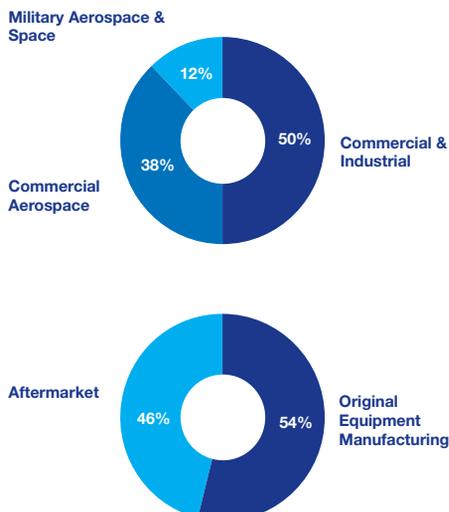
- Sustainability
- Recognition

BUSINESSES IN BALANCE

UTC's portfolio is balanced across customer segments, markets and geographies.

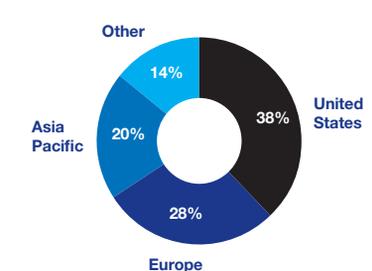
NET SALES BY TYPE

as a percent of total net sales



NET SALES BY GEOGRAPHY

as a percent of total net sales



DEAR

SHAREOWNER

2016 will be remembered as a solid year for our company. Importantly, it was a year in which United Technologies returned to its performance tenet to under promise and over deliver. We delivered adjusted earnings per share of \$6.61,* just above the full year expectations of \$6.30 to \$6.60 that we communicated in December 2015.



Greg Hayes
Chairman & CEO

Despite headwinds from our investments in inventory and capital to support the unprecedented production ramp up in our aerospace businesses, we generated \$4.7 billion of free cash flow.* We also delivered on our commitment to return value to our shareowners, raising our dividend for the 80th consecutive year. United Technologies remains on track to return more than \$22 billion to shareowners through dividends and share repurchases from 2015 through 2017.

Even as we returned record amounts to our shareowners, we continued to invest for the future in both our aerospace and commercial buildings businesses, spending \$3.7 billion on research and development and \$1.7 billion on capital expenditures. These investments will improve efficiency in our facilities and support organic growth in the coming years.

Throughout 2016 we achieved impressive milestones and strengthened the competitive position of our four global businesses: Otis, Pratt & Whitney, UTC Aerospace Systems and UTC Climate, Controls & Security. We aggressively managed costs in all of our businesses and moved forward on a multiyear, approximately \$1.5 billion restructuring plan.

Our 2016 results are due to a continuing focus on our four key priorities: innovation, execution, cost reduction and disciplined

capital allocation. These four priorities will continue to drive our performance over the coming years.

STRENGTH IN THE FACE OF GLOBAL UNCERTAINTY

These last few years have seen unprecedented global change. As we look ahead, rapid change will become the new normal for the world. 2016 brought us Brexit and a new U.S. administration as the tensions arising from globalization were manifested at the ballot box. With upcoming elections in Europe and slowing growth in China and emerging markets, these trends may continue in the coming year, creating uncertainty and instability in the global economy.

Our continued commitment to our four key priorities combined with our portfolio of industry-leading businesses, global footprint and scale, and a strong balance sheet provide us with sustainable competitive advantages. They also give us confidence in our ability to deliver even in the most challenging of environments.

We are well-positioned to achieve our long-term growth objectives. We have made the right investments, and we have the right management team in place. We will continue to invest in our people and our technologies so that we create value for customers and deliver the returns our investors expect.

A FOUNDATION FOR FUTURE GROWTH

We achieved several notable milestones during the year.

Otis continued to deliver solutions to the world's most iconic buildings. During the year Otis was awarded significant contracts in China and India where urbanization is occurring rapidly, including the

*Adjusted earnings per share and free cash flow are non-GAAP financial measures. For additional information regarding the use of these measures, the corresponding amounts prepared in accordance with generally accepted accounting principles (GAAP) and a reconciliation of the differences between the non-GAAP and GAAP measures, please refer to page 71 in this Annual Report.

Shenzhen Financial Centre and two properties for Taj Hotels Resorts and Palaces in Mumbai. It was also recently awarded a major contract to modernize elevators in Chicago's Willis Tower, the tallest building in the United States by highest occupied floor.

UTC Climate, Controls & Security launched 132 new products in 2016 that are expected to generate organic sales growth. With a strong portfolio of respected brands such as Carrier, Kidde, Chubb and Carrier Transicold, UTC Climate, Controls & Security has a reputation for providing customers with the most innovative, energy-efficient and cost-effective products on the market.

Pratt & Whitney's Geared Turbofan engine successfully entered into service early in the year, delivering on its promise of 16 percent greater fuel efficiency, 75 percent reduction in noise footprint and 50 percent reduction in regulated emissions. Customer demand for the GTF engine remains exceptionally strong with more than 8,000 orders, including options, at the end of 2016.

UTC Aerospace Systems enabled entry into service of the Airbus A320neo and Bombardier C Series and the first flights of the Embraer E2 and Boeing 737 MAX. With state-of-the-art systems and controls present on virtually every aircraft in service, UTC Aerospace Systems is well-positioned for growth.

Our strategy to continue providing innovative, cost-competitive and sustainable technologies for the aerospace and building industries and our relentless focus on our four key priorities are the reasons we are optimistic about our future.

AN INVESTMENT IN OUR PEOPLE

Urbanization and the resulting growth in large cities, an expanding middle class and growth in commercial air travel provide significant opportunities for our businesses over the next 15 years.

The urban population is projected to grow by 1 billion people by 2030, and the middle class is expected to double over the same period to almost 60 percent of the global population. These trends will drive the need for more housing, office buildings and mass transportation, along with demand for climate controls, food safety, elevators and moving walkways, and fire and security systems.

Another trend is the dramatic growth in commercial air travel. Today there are approximately 27,000 aircraft in service. By 2030 that number is expected to grow to 47,000. Our unique position on these new aircraft will allow us to benefit from the growing demand for jet engines and advanced aerospace systems.

AN INVESTMENT IN FUTURE TECHNOLOGY

Our investment in innovation continues both in research and development and in the execution of our digital strategies. In 2016 we launched initiatives in each of our businesses to capitalize on the significant opportunities presented by an increasingly connected world.

Otis services more than 1.9 million elevators and is deploying digital tools to its 31,000 mechanics to improve field productivity and service performance for customers. With 40 percent more

sensors than the V2500, Pratt & Whitney's GTF engine can generate approximately 4 million data points per engine per flight, allowing us to proactively monitor engine performance, minimize disruption and predict future maintenance needs.

These are just a few examples of how digital technology is advancing our company. By developing different solutions in each of our businesses to capture and analyze the vast amounts of data generated by our high-technology products and systems, we are able to drive efficiency into our businesses and create greater value for our customers.

As digitalization continues to change the way we approach our business, our ability to anticipate and adapt to change is critical. We continue to implement new and better ways to work faster and smarter to enable our future performance.

AN INVESTMENT IN OUR PEOPLE

While our investment in new technology is critical, I am reminded constantly that companies don't innovate, people do. Our most important investments, therefore, are the ones we make in our people.

We are proud to have celebrated the 20th anniversary of our Employee Scholar Program in 2016. Through the ESP we cover the costs for our employees to continue their education in whatever field they choose. Since its inception, more than 45,000 employees from more than 60 countries have participated in the ESP, earning more than 38,500 degrees. We encourage our employees to develop the skills they need, not only for their current jobs, but also for the jobs of tomorrow. The forces of globalization cannot be ignored or disputed, and the skills of today will not guarantee success in the future. At United Technologies we understand that only a highly educated, world-class workforce will enable us to survive and thrive in the competitive world in which we live. Education will be the differentiator of the future.

We also have a diverse and global workforce that embraces many different viewpoints, but we all share a common commitment to maintaining the highest ethical standards and creating a safe and healthy work environment. We are leaders in sustainability, working to solve tomorrow's environmental challenges in our facilities and with our products. And we partner with communities around the world to inspire the next generation of leaders.

I want to thank our 200,000 employees for their commitment and dedication throughout the year. Every day we strive to make United Technologies the best it can be. I look forward to another great year in 2017 and beyond.



Gregory J. Hayes
Chairman & CEO



DOING MORE

MORE TO DO

2016 was a good year for United Technologies. But no matter how much we accomplish, we recognize that there is always more to do. The competitive landscape is changing at a rapid pace, requiring companies to be flexible and adapt quickly. That is why we approach our work with a sense of urgency — so that no matter what the business environment, we deliver the results that our shareowners and customers expect of us.



INNOVATIVE ICONIC LANDMARKS

A city of skyscrapers, Chicago has long been defined by Willis Tower. Otis, the company that invented the modern elevator and sets the industry standard, has been selected to modernize elevators in this landmark building.

OTIS

67,396
EMPLOYEES

\$11.9B
NET SALES

\$2.2B*
ADJUSTED
OPERATING PROFIT

Otis is the world's leading manufacturer and maintainer of people-moving products, including elevators, escalators and moving walkways. Otis offers products and services in approximately 200 countries and territories, and maintains more than 1.9 million elevators and escalators worldwide.

Otis can be found in many of the world's most iconic buildings. In 2016 Otis was selected to modernize elevators in Chicago's Willis Tower, the tallest building in the United States by highest occupied floor.

Demonstrating its commitment to innovation, Otis increased its investment in research and development by 25 percent in 2016 and plans to double it over the next few years. The resources are directed at developing transformational technologies that deliver greater energy efficiency, enhanced service, and increased comfort, convenience and connectivity for passengers. As part of this effort Otis China will build a new engineering research center in Shanghai to develop new products and service technologies for the large China segment and other global markets. The center will include one of the world's tallest above-ground test towers.

Otis is working on new digital tools and technologies that will transform its elevator service network and enable greater connectivity with customers. In 2016 Otis began equipping its 31,000 mechanics with sophisticated digital tools and applications that will use big data

to drive condition-based monitoring and maintenance. Otis and UTC Climate, Controls & Security are exploring other opportunities to develop digital solutions for integrated, smart building equipment.

During the year Otis unveiled its new intelligent, connected elevator, the Gen2 Life. Based upon its proprietary Gen2 technology, the Gen2 Life offers higher energy efficiency, optimizes space requirements and enables greater connectivity for building owners and users. It also offers customers new interior design packages with more than 400,000 options.

Otis achieved a number of milestones in 2016, including the installation of the world's longest rise double-deck elevator in South Korea's Lotte World Tower, the country's tallest building. The elevator can carry 54 passengers from the ground to an observation deck on the 121st floor in one minute. Otis also marked the sale of its 500,000th Gen2 elevator during the year, one of its most energy-efficient and best-selling elevators. Otis continued to be awarded contracts for major projects in China and India where the building market is especially large.

*Adjusted operating profit is a non-GAAP financial measure. For additional information regarding the use of this measure, the corresponding amount prepared in accordance with generally accepted accounting principles (GAAP) and a reconciliation of the differences between the non-GAAP and GAAP measure, please refer to page 71 in this Annual Report.

SAFER SMARTER BUILDINGS

Backed by more than 80 of the world's most respected brands, UTC Climate, Controls & Security is at the forefront of developing digital products that can be connected to provide safety, comfort, convenience and greater productivity for a building's occupants. At the same time, it builds on a legacy of innovation, continuing to deliver products that are energy efficient, environmentally responsible and cost competitive.



**UTC CLIMATE,
CONTROLS &
SECURITY**

56,475
EMPLOYEES

\$16.9B
NET SALES

\$3.1B*
ADJUSTED
OPERATING PROFIT

UTC Climate, Controls & Security promotes safer and smarter sustainable buildings with state-of-the-art fire safety, security, building automation, heating, ventilating, air-conditioning and refrigeration systems and services.

UTC Climate, Controls & Security continues to build momentum for long-term growth in an increasingly urban and connected world. It is backed by a portfolio of more than 80 leading brands, a strong global presence and a commitment to operational excellence. Innovation is a key differentiator. This business consistently invests to deliver state-of-the-art products and to enhance the performance of existing lines.

The company's commitment to research and development can be seen in the 132 new products launched in 2016. Among them was Carrier's new AquaEdge 19DV centrifugal chiller that offers excellent performance and leading efficiency with a next-generation, environmentally sustainable refrigerant. Carrier introduced the Côr home automation system, which enables homeowners to secure, control and remotely manage their homes' most critical systems from a mobile app. Onity delivered its digital DirectKey mobile access solution, providing hotel guests a secure way to use their smartphone as a room key and access other controlled areas.

The company broke ground in transport refrigeration when U.K. food retailer Sainsbury's became the first customer to take delivery of Carrier Transicold's prototype natural refrigerant trailer unit. The new-generation system uses low global warming potential carbon dioxide refrigerant, a safe and non-ozone depleting gas that sets the

standard for refrigerants and supports advances toward a smart, sustainable cold chain.

Research and development investment remains a priority. The new Hyderabad Research & Design Center in India opened and is expected to become the largest center supporting R&D for UTC Climate, Controls & Security. The Center of Excellence in Culoz, France, also opened. The facility focuses on innovations that improve air quality and treatment, shorten new product development, and improve energy performance and user comfort. Along with Otis, UTC Climate, Controls & Security also announced plans to establish a research center of excellence with the University of Maryland.

UTC Climate, Controls & Security continues to expand its global presence. As one example, the acquisition of approximately 70 percent of Riello Group, S.p.A., a leading Italian heating company, has opened key segments in Europe and elsewhere.

In all of its work, UTC Climate, Controls & Security remains a leader in the green building movement. During the year it broke ground on the UTC Center for Intelligent Buildings, a state-of-the-art showcase designed to provide visitors a new way to interact with current and emerging building technologies. The center, scheduled for completion in 2017 and targeted to be LEED certified, will be located in Palm Beach Gardens, Fla.

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EVERY ENGINE

EVERY SECOND

EVERY PARAMETER

The Bombardier CS300 is powered by Pratt & Whitney's revolutionary Geared Turbofan engine. Equipped with state-of-the-art technologies, every engine is monitored every second from hundreds of data parameters. Massive amounts of data are generated, which are analyzed and used to predict an aircraft's performance and offer individualized service to customers.

PRATT & WHITNEY

35,104
EMPLOYEES

\$15.1B*
ADJUSTED
NET SALES

\$1.8B*
ADJUSTED
OPERATING PROFIT

Pratt & Whitney is a world leader in the design, manufacture and service of aircraft engines and auxiliary power units.

Pratt & Whitney is entering a new era of growth propelled by demand for its revolutionary Geared Turbofan commercial engines; Pratt & Whitney Canada's leading civil aircraft engines, including a powerful new line for business jets; and its military engines, including the F135 engine for the F-35 Lightning II aircraft, the most technologically advanced fighter jet in history.

The GTF engine is transforming the aviation industry as the most sustainable engine on the market. In 2016 GTF engine orders increased to more than 8,000, including options. Since its entry into service in early 2016 it has delivered its promised 16 percent reduction in fuel burn, 50 percent fewer environmental emissions and a noise footprint that is reduced by 75 percent.

As the GTF continues to enter service, Pratt & Whitney is taking steps to offer customers a strong maintenance, repair and overhaul network that provides global reach, choice and value. During the year it announced a \$65 million investment in its engine overhaul facility in Columbus, Georgia, a site with decades of high-volume engine maintenance experience. Other members of the GTF network include MTU Aero Engines, Japanese Aero Engines Corporation and Lufthansa Technik.

Pratt & Whitney Canada continues to prove why it sets the industry standard for civil aircraft engines. In 2016 it received two engine certifications and one aircraft certification. In addition its PW815GA engine powered the first flight of the Gulfstream G600, a next-generation business jet. To enhance customer service, Pratt & Whitney Canada introduced MyP&WC Power, an online portal that enables customers to connect with the company and access information and support tools.

On the military front, Pratt & Whitney was announced as the engine provider for the U.S. Air Force's B-21 Raider. The U.S. Air Force declared Initial Operational Capability on the F-35A, signaling that it had met all key criteria to be considered combat ready. The U.S. Air Force also awarded the company a contract for the development of a future combat engine through its Adaptive Engine Transition Program.

Late in the year the U.S. Army selected Advanced Turbine Engine Company, a joint venture of Pratt & Whitney and Honeywell, for the preliminary design of a new engine for Black Hawk and Apache helicopters.

*Adjusted net sales and adjusted operating profit are non-GAAP financial measures. For additional information regarding the use of these measures, the corresponding amount prepared in accordance with generally accepted accounting principles (GAAP) and a reconciliation of the differences between the non-GAAP and GAAP measure, please refer to page 71 in this Annual Report.



MORE ELECTRIC
MORE INTELLIGENT
MORE INTEGRATED

UTC Aerospace Systems is advancing modern flight with sophisticated systems that make aircraft more electric, more intelligent and more integrated. The vast amount of data generated by these systems is gathered, analyzed and delivered in real time to enhance the safety, efficiency and overall performance of an aircraft.

**UTC AEROSPACE
SYSTEMS**

40,959
EMPLOYEES

\$14.5B
NET SALES

\$2.3B*
**ADJUSTED
OPERATING PROFIT**

UTC Aerospace Systems is one of the world's largest suppliers of advanced aerospace products and systems for commercial, military and space customers.

UTC Aerospace Systems is on virtually every aircraft in service and is well-positioned to support the extraordinary growth forecast for the commercial aviation industry. During the year its advanced systems enabled the first flights of the Embraer E2, the Boeing 737 MAX and the Gulfstream G600 as well as the entry into service of the Airbus A320neo and the Bombardier C Series.

This business is at the forefront of more electric, more intelligent and more integrated aircraft. One example is the work it is doing for Hawaiian Airlines. During the year it was chosen to provide state-of-the-art electronic flight bag systems for enhanced functionality, greater safety and stronger cybersecurity. For flight crews, the new electronic flight bag systems enhance their ability to evaluate aircraft performance and weather conditions in real time.

UTC Aerospace Systems also has developed a revolutionary design approach to the secondary power distribution system, the "nerve center" of an airplane's power system. The patent-pending process enables a rapid development cycle for managing and protecting an aircraft's electrically powered devices. The new technology has been deployed on Embraer's E190-E2 regional jets.

Work is underway on an advanced mobile app to bring preflight and inflight information to a pilot's tablet. Users will be able to access

intelligent analytics wherever they are, allowing them to adjust aircraft operations based on real-time data. The easy access to information is expected to improve fuel consumption, on-time departures and arrivals, and eliminate paper-based processes.

Another major development is a lighter and more compact advanced integrated drive generator to provide electrical inflight power on Embraer's new E190-E2. The new generator supplies the constant frequency electric power needed for the aircraft — which is equivalent to the amount of electricity needed to power 48 homes — and does so with the added benefit of cost and fuel savings.

On the military front, UTC Aerospace Systems continues to move its MS-177 multi-spectral and long-range imaging sensor system to new heights. During the year the sensor completed a series of flight demonstrations from a high-altitude, long-endurance unmanned aerial system, performing successfully in both land and maritime mission environments. The U.S. Air Force awarded UTC Aerospace Systems a contract to expand and enhance the sensor's multi-spectral resolution reach.

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1. **Daniel Slowik** Pratt & Whitney POLAND
2. **Shobha Guggari** UTC Aerospace Systems INDIA
3. **George Deese** UTC Climate, Controls & Security UNITED STATES
4. **Sarah Dixon** Otis UNITED KINGDOM
5. **Galina Dineva** UTC Climate, Controls & Security BELGIUM
6. **Buyun Jing** United Technologies Research Center CHINA
7. **Courtney Dornell** Otis UNITED STATES
8. **Zhijun Ni** Otis CHINA
9. **Lily Fu** Pratt & Whitney CHINA
10. **John Sullivan** UTC Aerospace Systems UNITED STATES

EMPLOYEE SCHOLAR PROGRAM

38,500+
DEGREES EARNED

\$1.2B+
INVESTED

6,000+
EMPLOYEES CURRENTLY ENROLLED

“At United Technologies we understand that only a highly educated, world-class workforce will enable us to survive and thrive in a competitive world. Education will be the differentiator of the future.”

GREG HAYES
CHAIRMAN & CEO

We take pride in being known as a company that sets big goals and delivers big results. We do this by having a highly educated, engaged and motivated workforce. The Employee Scholar Program helps make that possible.

In 2016 we celebrated the 20th anniversary of the ESP, a program that has been recognized by educators and media for its generosity — but more important for its focus on helping employees stay abreast of their current field or develop skills in new ones. In today’s highly competitive business environment, it is essential that we have a workforce that can adapt quickly and recognize the opportunities that a changing business environment brings. By encouraging lifelong learning — and helping employees achieve it — we build a high-performance culture that is never satisfied with the status quo and is always looking for ways to improve. That is the essence of UTC’s success.

We invite you to learn more about the ESP and read the personal experiences of some of our recent alumni and participants by visiting www.utc.com/ESP20.

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Five-Year Summary

| (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-----------|-----------|-----------|-----------|-----------|
| For The Year | | | | | |
| Net sales | \$ 57,244 | \$ 56,098 | \$ 57,900 | \$ 56,600 | \$ 51,101 |
| Research and development | 2,337 | 2,279 | 2,475 | 2,342 | 2,193 |
| Restructuring costs | 290 | 396 | 354 | 431 | 537 |
| Net income from continuing operations ¹ | 5,436 | 4,356 | 6,468 | 5,655 | 4,692 |
| Net income from continuing operations attributable to common shareowners ¹ | 5,065 | 3,996 | 6,066 | 5,265 | 4,337 |
| Basic earnings per share — Net income from continuing operations attributable to common shareowners | 6.19 | 4.58 | 6.75 | 5.84 | 4.84 |
| Diluted earnings per share — Net income from continuing operations attributable to common shareowners | 6.13 | 4.53 | 6.65 | 5.75 | 4.78 |
| Cash dividends per common share | 2.62 | 2.56 | 2.36 | 2.20 | 2.03 |
| Average number of shares of Common Stock outstanding: | | | | | |
| Basic | 818 | 873 | 898 | 901 | 895 |
| Diluted | 826 | 883 | 912 | 915 | 907 |
| Cash flows provided by operating activities of continuing operations | 6,412 | 6,755 | 6,979 | 7,341 | 5,990 |
| Capital expenditures ^{2,3} | 1,699 | 1,652 | 1,594 | 1,569 | 1,295 |
| Acquisitions, including debt assumed | 712 | 556 | 530 | 151 | 18,620 |
| Repurchases of Common Stock ⁴ | 2,254 | 10,000 | 1,500 | 1,200 | — |
| Dividends paid on Common Stock (excluding ESOP) | 2,069 | 2,184 | 2,048 | 1,908 | 1,752 |
| At Year End | | | | | |
| Working capital ^{3,5} | \$ 6,644 | \$ 4,088 | \$ 5,921 | \$ 5,733 | \$ 3,948 |
| Total assets ³ | 89,706 | 87,484 | 86,338 | 85,029 | 83,499 |
| Long-term debt, including current portion ^{3,6} | 23,300 | 19,499 | 19,575 | 19,744 | 22,603 |
| Total debt ^{3,6} | 23,901 | 20,425 | 19,701 | 20,132 | 23,106 |
| Total debt to total capitalization ⁶ | 45% | 41% | 38% | 38% | 46% |
| Total equity ^{6,7} | 29,169 | 28,844 | 32,564 | 33,219 | 27,069 |
| Number of employees ⁸ | 201,600 | 197,200 | 211,500 | 212,400 | 218,300 |

Note 1 2016 amounts include a \$423 million pre-tax pension settlement charge resulting from defined benefit plan de-risking actions. 2015 amounts include pre-tax charges of: \$867 million as a result of a settlement with the Canadian government, \$295 million from customer contract negotiations at UTC Aerospace Systems, and \$237 million related to pending and future asbestos claims.

Note 2 Capital expenditures increased from 2012 through 2016 as we expanded capacity to meet expected demand within our aerospace businesses for the next generation engine platforms.

Note 3 Excludes assets and liabilities of discontinued operations held for sale, for all periods presented.

Note 4 Share repurchases in 2015 include share repurchases under accelerated repurchase agreements of \$2.6 billion in the first quarter of 2015 and \$6.0 billion in the fourth quarter of 2015. In connection with the acquisition of Goodrich, repurchases of common stock under our share repurchase program were suspended for 2012. We resumed our share repurchase program in 2013.

Note 5 Working capital in 2015 includes approximately \$2.4 billion of taxes payable related to the gain on the sale of Sikorsky, which were paid in 2016. As compared with 2014, 2015 working capital also reflects the reclassification of current deferred tax assets and liabilities to non-current assets and liabilities in connection with the adoption of Accounting Standards Update 2015-17.

Note 6 The increase in the 2016 debt to total capitalization ratio primarily reflects additional borrowings in 2016 to fund share repurchases and for general corporate purposes. The decrease in the 2013 debt to total capitalization ratio, as compared to 2012, reflects the repayment of approximately \$2.9 billion of long-term debt, most of which was used to finance the acquisition of Goodrich.

Note 7 The decrease in total equity in 2015, as compared with 2014, reflects the sale of Sikorsky and the share repurchase program. The decrease in total equity in 2014, as compared with 2013, reflects unrealized losses of approximately \$2.9 billion, net of taxes, associated with the effect of market conditions on our pension plans.

Note 8 The decrease in employees in 2015, as compared with 2014, primarily reflects the 2015 divestiture of Sikorsky.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS OVERVIEW

We are a global provider of high technology products and services to the building systems and aerospace industries. Our operations for the periods presented herein are classified into four principal business segments: Otis, UTC Climate, Controls & Security, Pratt & Whitney, and UTC Aerospace Systems. Otis and UTC Climate, Controls & Security are referred to as the "commercial businesses," while Pratt & Whitney and UTC Aerospace Systems are referred to as the "aerospace businesses." On November 6, 2015, we completed the sale of the Sikorsky Aircraft business (Sikorsky) to Lockheed Martin Corp. for approximately \$9.1 billion in cash. The results of operations and the related cash flows of Sikorsky have been reclassified to Discontinued Operations in our Consolidated Statements of Operations and Cash Flows for all periods presented.

The commercial businesses generally serve customers in the worldwide commercial and residential property industries, with UTC Climate, Controls & Security also serving customers in the commercial and transport refrigeration industries. The aerospace businesses serve commercial and government aerospace customers in both the original equipment and aftermarket parts and services markets. Our consolidated net sales were derived from the commercial and aerospace businesses as follows:

| | 2016 | 2015 | 2014 |
|------------------------------|------|------|------|
| Commercial and industrial | 50% | 52% | 52% |
| Military aerospace and space | 12% | 12% | 13% |
| Commercial aerospace | 38% | 36% | 35% |
| | 100% | 100% | 100% |

Our consolidated net sales were derived from original equipment manufacturing (OEM) and aftermarket parts and services as follows:

| | 2016 | 2015 | 2014 |
|--------------------------------|------|------|------|
| OEM | 54% | 56% | 56% |
| Aftermarket parts and services | 46% | 44% | 44% |
| | 100% | 100% | 100% |

Our worldwide operations can be affected by industrial, economic and political factors on both a regional and global level. To limit the impact of any one industry, or the economy of any single country on our consolidated operating results, our strategy has been, and continues to be, the maintenance of a balanced and diversified portfolio of businesses. Our operations include OEM and extensive related aftermarket parts and services in both our commercial and aerospace businesses. Our business mix also reflects the combination of shorter cycles at UTC Climate, Controls & Security and in our commercial aerospace spares businesses, and longer cycles at Otis and in our aerospace OEM and aftermarket maintenance businesses. Our customers include companies in both the public and private sectors, and our businesses reflect an extensive geographic diversification that has evolved with the continued globalization of world economies. The composition of net sales

from outside the U.S., including U.S. export sales, as a percentage of total segment sales, is as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
|-----------------------------|-----------|-----------|-----------|------|------|------|
| Europe | \$ 11,151 | \$ 10,945 | \$ 12,587 | 19% | 19% | 22% |
| Asia Pacific | 8,260 | 8,425 | 8,746 | 14% | 15% | 15% |
| Other Non-U.S. | 5,479 | 5,584 | 5,511 | 9% | 10% | 9% |
| U.S. Exports | 10,827 | 9,741 | 10,276 | 19% | 17% | 18% |
| International segment sales | \$ 35,717 | \$ 34,695 | \$ 37,120 | 61% | 61% | 64% |

As part of our growth strategy, we invest in businesses in certain countries that carry high levels of currency, political and/or economic risk, such as Argentina, Brazil, China, India, Indonesia, Mexico, Poland, Russia, South Africa and countries in the Middle East. As of December 31, 2016, the net assets in any one of these countries did not exceed 7% of consolidated shareowners' equity.

In a referendum on June 23, 2016, voters in the United Kingdom (the U.K.) voted in favor of the U.K.'s exiting the European Union (the EU). Since the vote, the pound sterling has weakened significantly, but most financial markets have recovered to the levels prior to the vote. However, the manner in which the U.K. decides to exit the EU could have negative macroeconomic consequences. Our 2016 full year sales in the U.K. were approximately \$3 billion and represented less than 5 percent of our overall sales, and we do not believe the U.K.'s withdrawal from the EU will significantly impact our businesses in the near term.

Organic sales growth was 2% in 2016 representing:

- higher commercial aftermarket sales at Pratt & Whitney
- higher commercial OEM and aftermarket sales volume at UTC Aerospace Systems
- higher service sales in the Americas and Asia and higher new equipment sales in North America, partially offset by lower new equipment sales in China at Otis
- lower commercial HVAC sales in the Middle East, lower fire products sales, and lower transport refrigeration sales partially offset by higher North America residential HVAC sales at UTC Climate, Controls & Security

Despite an uncertain global macro environment, we expect organic sales growth in 2017 to be 2% to 4%, with foreign exchange expected to have an unfavorable impact of approximately 1%. We continue to invest in new platforms and new markets to position the Company for long-term growth, while remaining focused on innovation for growth, structural cost reduction, disciplined capital allocation and the execution of customer and shareowner commitments.

As discussed below in "Results of Operations," operating profit in both 2016 and 2015 includes the impact from activities that are not expected to recur often or that are not otherwise reflective of the underlying operations, such as the adverse impact of asset impairment charges, unfavorable impact of contract negotiations with customers, the beneficial impact of net gains from business divestiture activities,

and other significant non-recurring and non-operational items discussed within the Results of Operations section, below. Our earnings growth strategy contemplates earnings from organic sales growth, including growth from new product development and product improvements, structural cost reductions, operational improvements, and incremental earnings from our investments in acquisitions.

Our investments in businesses in 2016 and 2015 totaled \$712 million (including debt assumed of \$2 million) and \$556 million (including debt assumed of \$18 million), respectively. Acquisitions completed in 2016 include the acquisition of a majority interest in an Italian-based heating products and services company by UTC Climate, Controls & Security, the acquisition of a Japanese services company by Otis and a number of small acquisitions primarily in our commercial businesses. Our investment in businesses in 2015 consisted of the acquisition of the majority interest in a UTC Climate, Controls & Security business, the acquisition of an imaging technology company by UTC Aerospace Systems, and a number of small acquisitions, primarily in our commercial businesses.

Both acquisition and restructuring costs associated with business combinations are expensed as incurred. Depending on the nature and level of acquisition activity, earnings could be adversely impacted due to acquisition and restructuring actions initiated in connection with the integration of businesses acquired. For additional discussion of acquisitions and restructuring, see "Liquidity and Financial Condition," "Restructuring Costs" and Notes 2 and 13 to the Consolidated Financial Statements.

Discontinued Operations

On November 6, 2015, we completed the sale of Sikorsky to Lockheed Martin Corp. for approximately \$9.1 billion in cash. As noted above, the results of operations and the related cash flows of Sikorsky have been reclassified to Discontinued Operations in our Consolidated Statements of Operations, Comprehensive Income and Cash Flows for all periods presented. Proceeds from the sale were used to fund \$6 billion of share repurchases through accelerated share repurchase (ASR) agreements entered into on November 11, 2015. In connection with the sale of Sikorsky, we have made tax payments of approximately \$2.5 billion in 2016.

Net income from discontinued operations attributable to common shareowners for the year ended December 31, 2016 reflects the final purchase price adjustment for the sale of Sikorsky, and the net effects of filing Sikorsky's 2015 tax returns. Net income from discontinued operations attributable to common shareowners for the year ended December 31, 2015 includes the gain on the sale of Sikorsky, net of tax expense, of \$3.4 billion and includes \$122 million of costs incurred in connection with the sale. Net income from discontinued operations attributable to common shareowners also includes income from Sikorsky's operations, net of tax expense, of \$169 million, including pension curtailment charges associated with our domestic pension plans. Net income from discontinued operations attributable to common shareowners for 2014 includes a previously disclosed cumulative adjustment related to a contract with the Canadian government for

the development by Sikorsky of the CH-148 derivative of the H-92 helicopter, a military variant of the S-92 helicopter. The cumulative adjustment resulted in the recognition of losses, net of tax benefit, of \$277 million in 2014.

RESULTS OF OPERATIONS

Net Sales

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|----------------------------------|-----------|-----------|-----------|
| Net sales | \$ 57,244 | \$ 56,098 | \$ 57,900 |
| Percentage change year-over-year | 2.0% | (3.1)% | 2.3% |

The factors contributing to the total percentage change year-over-year in total net sales are as follows:

| | 2016 | 2015 |
|------------------------------------|------|------|
| Organic volume | 2 % | 1 % |
| Foreign currency translation | (1)% | (4)% |
| Acquisitions and divestitures, net | 1 % | 1 % |
| Other | — | (1)% |
| Total % change | 2 % | (3)% |

Three of our four segments experienced organic sales growth during 2016, as organic sales growth at Pratt & Whitney (6%), UTC Aerospace Systems (2%), and Otis (1%), was partially offset by a decline at UTC Climate, Controls & Security (1%). The organic sales growth at Pratt & Whitney primarily reflects higher commercial aftermarket sales. The organic sales growth at UTC Aerospace Systems was primarily due to an increase in commercial OEM and aftermarket sales volume. The organic sales growth at Otis was primarily driven by higher service sales in the Americas and Asia and higher new equipment sales in North America partially offset by lower new equipment sales in China. The decline in sales at UTC Climate, Controls & Security was primarily driven by declines in commercial HVAC sales in the Middle East and lower fire products and transport refrigeration sales, partially offset by growth in North America residential HVAC. The sales increase from net acquisitions and divestitures was primarily a result of sales from newly acquired businesses at UTC Climate, Controls & Security.

Three of our four segments experienced organic sales growth during 2015, led by UTC Climate, Controls & Security (3%), UTC Aerospace Systems (3%), and Otis (1%). Pratt & Whitney experienced an organic sales decline (1%) during 2015. Organic sales growth at UTC Climate, Controls & Security was driven by the U.S. commercial and residential HVAC and transport refrigeration businesses. Organic sales growth at UTC Aerospace Systems was primarily due to growth in commercial aerospace OEM sales, while the organic sales growth at Otis was primarily due to higher new equipment sales in North America and Asia outside of China. The decline in sales at Pratt & Whitney was due to lower commercial and military engine sales. The sales increase from net acquisitions and divestitures was primarily a result of sales from newly acquired businesses at UTC Climate, Controls & Security, while the decrease in sales from Other is due to the unfavorable impact of significant customer contract negotiations at UTC Aerospace Systems.

Cost of Products and Services Sold

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|
| Cost of products sold | \$ 30,325 | \$ 29,771 | \$ 30,367 |
| Percentage of product sales | 74.4% | 74.8% | 73.1% |
| Cost of services sold | \$ 11,135 | \$ 10,660 | \$ 10,531 |
| Percentage of service sales | 67.4% | 65.4% | 64.4% |
| Total cost of products and services sold | \$ 41,460 | \$ 40,431 | \$ 40,898 |
| Percentage change year-over-year | 2.5% | (1.1)% | 1.1% |

The factors contributing to the total percentage change year-over-year in total cost of products and services sold are as follows:

| | 2016 | 2015 |
|------------------------------------|------|------|
| Organic volume | 3% | 3% |
| Foreign currency translation | (1)% | (5)% |
| Acquisitions and divestitures, net | 1% | 1% |
| Restructuring | — | — |
| Other | — | — |
| Total % change | 3% | (1)% |

The organic increase in total cost of products and services sold in 2016 was driven by the organic sales increase noted above, as well as unfavorable year-over-year contract performance, contract termination benefits and settlements at Pratt & Whitney, along with unfavorable commercial OEM mix at UTC Aerospace Systems. This adverse impact was partially offset by the impact of lower pension expense across all of the segments and lower commodity costs at UTC Climate, Controls & Security.

The organic increase in total cost of products and services sold of 3% in 2015 is attributable to the organic sales increase noted above and the unfavorable OEM sales mix and the related losses on OEM engine shipments, within Pratt & Whitney.

Gross Margin

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|-------------------------|-----------|-----------|-----------|
| Gross margin | \$ 15,784 | \$ 15,667 | \$ 17,002 |
| Percentage of net sales | 27.6% | 27.9% | 29.4% |

The 30 basis point decrease in gross margin as a percentage of sales in 2016, as compared with 2015, is primarily due to lower gross margin at Pratt & Whitney (60 basis points) driven by unfavorable year-over-year contract performance and contract termination benefits and settlements, and an increase in negative engine margin, partially offset by an increase in gross margin at UTC Aerospace Systems (30 basis points) primarily attributable to the absence of the prior year unfavorable impact of significant customer contract negotiations. Lower gross margin at Otis resulting from unfavorable pricing, was offset by higher gross margin at UTC Climate, Controls & Security primarily driven by lower commodities cost.

Gross margin as a percentage of sales declined 150 basis points in 2015, as compared with 2014, driven by lower gross margin at Pratt & Whitney related to a decline in the amount of favorable contract performance adjustments (20 basis points) and an increase in unfavorable OEM sales mix and the related losses on OEM engine sales (40 basis points), along with the unfavorable impact of significant

customer contract negotiations at UTC Aerospace Systems (40 basis points). The remaining decline is primarily driven by higher pension expense in 2015.

Research and Development

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|-------------------------|----------|----------|----------|
| Company-funded | \$ 2,337 | \$ 2,279 | \$ 2,475 |
| Percentage of net sales | 4.1% | 4.1% | 4.3% |
| Customer-funded | \$ 1,389 | \$ 1,589 | \$ 1,997 |
| Percentage of net sales | 2.4% | 2.8% | 3.4% |

Research and development spending is subject to the variable nature of program development schedules and, therefore, year-over-year variations in spending levels are expected. The majority of the company-funded spending is incurred by the aerospace businesses and relates largely to the next generation engine product family at Pratt & Whitney and the Embraer E-Jet E2, Bombardier CSeries, Mitsubishi Regional Jet, Airbus A320neo and Airbus A350 programs at UTC Aerospace Systems. The year-over-year increase in company-funded research and development (3%) is primarily driven by higher research and development costs within Pratt & Whitney (2%) as development programs progress towards certification, and higher spending at Otis (2%). These increases were partially offset by lower spend within UTC Aerospace Systems related to several commercial aerospace programs (1%). Customer-funded research and development declined (13%) due primarily to lower spending on U.S. Government and commercial engine programs at Pratt & Whitney (4%), and lower spend within UTC Aerospace Systems related to several commercial and military aerospace programs (9%).

The year-over-year decrease in company-funded research and development (8%) in 2015, compared with 2014, reflects lower research and development within Pratt & Whitney (5%) primarily related to lower development costs of multiple Geared TurboFan platforms as development is completed and certain of these engines enter into service, and within UTC Aerospace Systems related to several commercial aerospace programs (3%). Customer-funded research and development declined (20%) due to lower spending on U.S. Government and commercial engine programs at Pratt & Whitney.

Selling, General and Administrative

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|-------------------------------------|----------|----------|----------|
| Selling, general and administrative | \$ 6,060 | \$ 5,886 | \$ 6,172 |
| Percentage of net sales | 10.6% | 10.5% | 10.7% |

Selling, general and administrative expenses increased 3% in 2016 largely driven by a pension settlement charge resulting from pension de-risking actions (6%) and increased selling, general and administrative expenses at Otis (2%) reflecting higher labor and information technology costs. These increases were partially offset by lower spend at UTC Aerospace Systems (2%) and at UTC Climate, Controls & Security (1%) primarily driven by lower pension expense. Pratt & Whitney selling, general and administrative expenses were flat relative to the prior year as lower pension expense was largely offset by higher employee compensation related expenses driven by increased hiring.

The decrease in selling, general and administrative expenses in 2015, as compared with 2014 (5%), is due to the benefit of foreign exchange (5%), particularly within the commercial businesses. Higher pension costs (1%) were offset by lower employee compensation related expenses. The 20 basis point decrease in selling, general and administrative expense as a percentage of sales reflects the impact of organic sales growth, partially offset by higher pension expense across our business units.

Other Income, Net

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|-----------------------------|--------|----------|----------|
| Other (expense) income, net | \$ 785 | \$ (211) | \$ 1,238 |

Other (expense) income, net includes the operational impact of equity earnings in unconsolidated entities, royalty income, foreign exchange gains and losses as well as other ongoing and infrequently occurring items including the following:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|---|--------|----------|----------|
| Joint venture income | \$ 230 | \$ 207 | \$ 284 |
| Licensing and royalty income | 98 | 122 | 158 |
| Gain on sale of marketable equity securities | 101 | 55 | 31 |
| Charge related to a Canadian government settlement | — | (867) | — |
| Charge for pending and future asbestos claims | — | (237) | — |
| Impairment of certain UTC Aerospace System assets held for sale | (8) | (61) | — |
| Gain on re-measurement to fair value of previously held equity interest in UTC Climate, Controls & Security joint venture investments | — | 126 | — |
| (Charge) gain from a state taxing authority agreement for monetization of tax credits | — | (27) | 220 |
| Net gain primarily from fair value adjustments related to acquisition of majority interest in a Pratt & Whitney joint venture | — | — | 83 |
| Charge to adjust the fair value of a Pratt & Whitney joint venture investment | — | — | (60) |
| UTC Climate, Controls, & Security portfolio transformation gain | — | — | 30 |
| Other activity, net | 364 | 471 | 492 |
| | \$ 785 | \$ (211) | \$ 1,238 |

See Note 8 "Accrued Liabilities" of our Consolidated Financial Statements for further discussion of the charge related to a Canadian government settlement and Note 18 "Contingent Liabilities" for further discussion of the charge for pending and future asbestos claims.

Interest Expense, Net

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|---|----------|--------|----------|
| Interest expense | \$ 1,161 | \$ 945 | \$ 1,099 |
| Interest income | (122) | (121) | (218) |
| Interest expense, net | \$ 1,039 | \$ 824 | \$ 881 |
| Average interest expense rate — average outstanding borrowings during the year: | | | |
| Short-term borrowings | 1.3% | 0.6% | 0.8% |
| Total debt | 4.1% | 4.1% | 4.3% |
| Average interest expense rate — outstanding borrowings as of December 31: | | | |
| Short-term borrowings | 0.6% | 0.8% | 5.7% |
| Total debt | 3.7% | 4.4% | 4.6% |

The increase in interest expense during 2016, as compared with 2015, was primarily driven by a net extinguishment loss of approximately \$164 million related to the December 1, 2016 redemption of certain outstanding notes. See Note 9 "Borrowings and Lines of Credit" of our Consolidated Financial Statements for further discussion. The increase also includes additional interest expense on higher average outstanding long-term debt, primarily driven by debt issued in 2016, partially offset by lower average commercial paper balances and related interest expense.

Interest expense was lower in 2015, as compared with 2014, primarily due to the absence of approximately \$143 million of unfavorable pre-tax interest accruals in 2014 related to the ongoing dispute with German tax authorities concerning a 1998 reorganization of the corporate structure of Otis operations in Germany. Interest income declined in 2015, as compared with 2014, reflecting the absence of \$132 million favorable pre-tax interest adjustments in 2014 related to the settlement of outstanding tax matters. See Note 11 "Income Taxes" of our Consolidated Financial Statements for further discussion.

The increase in the weighted-average interest rates for short-term borrowings for 2016 was primarily due to lower average commercial paper borrowings as compared to 2015.

Income Taxes

| | 2016 | 2015 | 2014 |
|---------------------------|-------|-------|-------|
| Effective income tax rate | 23.8% | 32.6% | 25.8% |

The effective income tax rates for 2016, 2015, and 2014 reflect tax benefits associated with lower tax rates on international earnings for which we intend to permanently reinvest outside the United States. The 2016 effective tax rate reflects \$206 million of favorable adjustments related to the conclusion of the review by the Examination Division of the Internal Revenue Service of both the UTC 2011 and 2012 tax years and the Goodrich Corporation 2011 and 2012 tax years through the date of its acquisition as well as the absence of 2015 items described below. In addition, at the end of 2016 France enacted a tax law change reducing its corporate income tax rate which resulted in a tax benefit of \$25 million.

The effective tax rate for 2015 includes a charge of approximately \$274 million related to the repatriation of certain foreign earnings, the majority of which were current year earnings. It further includes a favorable impact of approximately \$45 million related to a non-taxable gain recorded in the first quarter. France, the U.K. and certain U.S. states enacted tax law changes in the fourth quarter which resulted in a net incremental cost of approximately \$68 million in 2015.

The effective income tax rate for 2014 includes the favorable settlement of certain tax matters during 2014 and the adverse impact of an approximately \$265 million income tax accrual related to the ongoing dispute with German tax authorities concerning a 1998 reorganization of the corporate structure of Otis operations in Germany, offset by the benefit from repatriation of highly taxed earnings. See Note 18 to the Consolidated Financial Statements for further discussion of the German tax litigation.

We estimate our full year annual effective income tax rate in 2017 will be approximately 27%. This rate may be impacted by restructuring and non-operational non-recurring items. We anticipate some variability in the tax rate quarter to quarter in 2017 from potential discrete items.

For additional discussion of income taxes and the effective income tax rate, see "Critical Accounting Estimates — Income Taxes" and Note 11 to the Consolidated Financial Statements.

Net Income Attributable to Common Shareowners from Continuing Operations

| (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | 2016 | 2015 | 2014 |
|--|----------|----------|----------|
| Net income attributable to common shareowners from continuing operations | \$ 5,065 | \$ 3,996 | \$ 6,066 |
| Diluted earnings per share from continuing operations | \$ 6.13 | \$ 4.53 | \$ 6.65 |

To help mitigate the volatility of foreign currency exchange rates on our operating results, we maintain foreign currency hedging programs, the majority of which are entered into by Pratt & Whitney Canada (P&WC). In 2016, foreign currency, including hedging at P&WC, had a favorable impact on our consolidated operational results of \$0.05 per diluted share. In 2015, foreign currency generated a net adverse impact on our consolidated operational results of \$0.19 per diluted share and did not result in a material impact on earnings per diluted share in 2014. For additional discussion of foreign currency exposure, see "Market Risk and Risk Management — Foreign Currency Exposures."

Net income from continuing operations attributable to common shareowners for the year ended December 31, 2016 includes restructuring charges, net of tax benefit, of \$192 million as well as a net charge for significant non-operational and/or non-recurring items, net of tax, of \$203 million. The effect of restructuring charges and non-recurring items on diluted earnings per share for the year ended December 31, 2016 was \$0.48 per share.

Net income attributable to common shareowners from continuing operations in 2015 includes restructuring charges, net of tax benefit, of \$274 million as well as a net charge from significant non-recurring and non-operational items, net of tax benefit, of \$1,293 million, which have been discussed above. The effect of restructuring charges on diluted earnings per share for 2015 was a charge of \$0.31 per share, while the

effect of significant non-operational items on diluted earnings per share for 2015 was a charge of \$1.46 per share.

Net income attributable to common shareowners from continuing operations in 2014 includes restructuring charges, net of tax benefit, of \$247 million as well as a net benefit from infrequently occurring items, net of tax expense, of \$122 million. The effect of restructuring charges on diluted earnings per share for 2014 was a charge of \$0.27 per share, which was offset by a net benefit from infrequently occurring items of \$0.13 per share.

Net (Loss) Income Attributable to Common Shareowners from Discontinued Operations

| (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | 2016 | 2015 | 2014 |
|---|-----------|----------|---------|
| Net (loss) income attributable to common shareowners from discontinued operations | \$ (10) | \$ 3,612 | \$ 154 |
| Diluted earnings per share from discontinued operations | \$ (0.01) | \$ 4.09 | \$ 0.17 |

Net loss from discontinued operations attributable to common shareowners for the year ended December 31, 2016 reflects the final purchase price adjustment for the sale of Sikorsky, and the net effects of filing Sikorsky's 2015 tax returns. Net income from discontinued operations attributable to common shareowners for the year ended December 31, 2015 includes the gain on the sale of Sikorsky, net of tax expense, of \$3.4 billion and \$122 million of costs incurred in connection with the sale, as well as income from Sikorsky's operations, net of tax expense, of \$169 million, including pension curtailment charges associated with our domestic pension plans. Net income from discontinued operations attributable to common shareowners for 2014 includes a previously disclosed cumulative adjustment related to a contract with the Canadian government for the development by Sikorsky of the CH-148 derivative of the H-92 helicopter, a military variant of the S-92 helicopter. The cumulative adjustment resulted in the recognition of losses, net of tax benefit, of \$277 million in 2014.

RESTRUCTURING COSTS

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|---|--------|--------|--------|
| Restructuring costs included within continuing operations | \$ 290 | \$ 396 | \$ 354 |
| Restructuring costs included within discontinued operations | — | 139 | 14 |
| Restructuring costs | \$ 290 | \$ 535 | \$ 368 |

Restructuring actions are an essential component of our operating margin improvement efforts and relate to both existing operations and those recently acquired. Charges generally relate to severance incurred on workforce reductions and facility exit and lease termination costs associated with the consolidation of field and manufacturing operations. We expect to incur additional restructuring costs in 2017 of approximately \$300 million, including trailing costs related to prior actions associated with our continuing cost reduction efforts and the integration of acquisitions. We continue to closely monitor the economic environment and may undertake further restructuring actions to keep our cost structure aligned with the demands of the prevailing market conditions. In 2015, restructuring costs included within discontinued operations

included approximately \$109 million of net settlement and curtailment losses for pension benefits.

2016 Actions. During 2016, we recorded net pre-tax restructuring charges of \$242 million relating to ongoing cost reduction actions initiated in 2016. We are targeting to complete in 2017 and 2018 the majority of the remaining workforce and facility related cost reduction actions initiated in 2016. Approximately 64% of the total pre-tax charge will require cash payments, which we have funded and expect to continue to fund with cash generated from operations. During 2016, we had cash outflows of approximately \$69 million related to the 2016 actions. We expect to incur additional restructuring and other charges of \$112 million to complete these actions. We expect recurring pre-tax savings to increase over the two-year period subsequent to initiating the actions to approximately \$170 million annually, of which, approximately \$42 million was realized in 2016.

2015 Actions. During 2016 and 2015, we recorded net pre-tax restructuring charges of \$40 million and \$326 million, respectively, for actions initiated in 2015. We are targeting to complete in 2017 the majority of the remaining workforce and all facility related cost reduction actions initiated in 2015. Approximately 71% of the total pre-tax charge will require cash payments, which we have and expect to continue to fund with cash generated from operations. During 2016, we had cash outflows of approximately \$165 million related to the 2015 actions. We expect to incur additional restructuring charges of \$42 million to complete these actions. We expect recurring pre-tax savings to increase over the two-year period subsequent to initiating the actions to approximately \$395 million annually.

For additional discussion of restructuring, see Note 13 to the Consolidated Financial Statements.

SEGMENT REVIEW

| (DOLLARS IN MILLIONS) | Net Sales | | | Operating Profits | | | Operating Profit Margin | | |
|----------------------------------|-----------|-----------|-----------|-------------------|----------|----------|-------------------------|-------|-------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Otis | \$ 11,893 | \$ 11,980 | \$ 12,982 | \$ 2,147 | \$ 2,338 | \$ 2,640 | 18.1% | 19.5% | 20.3% |
| UTC Climate, Controls & Security | 16,851 | 16,707 | 16,823 | 2,956 | 2,936 | 2,782 | 17.5% | 17.6% | 16.5% |
| Pratt & Whitney | 14,894 | 14,082 | 14,508 | 1,545 | 861 | 2,000 | 10.4% | 6.1% | 13.8% |
| UTC Aerospace Systems | 14,465 | 14,094 | 14,215 | 2,298 | 1,888 | 2,355 | 15.9% | 13.4% | 16.6% |
| Total segment | 58,103 | 56,863 | 58,528 | 8,946 | 8,023 | 9,777 | 15.4% | 14.1% | 16.7% |
| Eliminations and other | (859) | (765) | (628) | (368) | (268) | 304 | | | |
| General corporate expenses | — | — | — | (406) | (464) | (488) | | | |
| Consolidated | \$ 57,244 | \$ 56,098 | \$ 57,900 | \$ 8,172 | \$ 7,291 | \$ 9,593 | 14.3% | 13.0% | 16.6% |

Commercial Businesses

The financial performance of our commercial businesses can be influenced by a number of external factors including fluctuations in residential and commercial construction activity, regulatory changes, interest rates, labor costs, foreign currency exchange rates, customer attrition, raw material and energy costs, credit markets and other global and political factors. UTC Climate, Controls & Security's financial performance can also be influenced by production and utilization of transport equipment, and weather conditions for its residential business. Geographic and industry diversity across the commercial businesses help to balance the impact of such factors on our consolidated operating results, particularly in the face of uneven economic growth. At constant currency and excluding the effect of acquisitions and divestitures, UTC Climate, Controls & Security equipment orders for 2016 declined 3% in comparison to 2015 as declines in transport refrigeration (18%) and the commercial HVAC business in the Middle East (40%) were partially offset by an increase in residential HVAC orders (10%). Within the Otis segment, new equipment orders were flat in comparison to the prior year as order growth in Europe (13%), the Asia region excluding China (10%) and the Americas (2%) were offset by order declines in China (9%) and the Middle East (28%).

Total commercial business sales generated outside the U.S., including U.S. export sales were 63% and 65% in 2016 and 2015, respectively. The following table shows sales generated outside the U.S., including U.S. export sales, for each of the commercial business segments:

| | 2016 | 2015 |
|----------------------------------|------|------|
| Otis | 75% | 77% |
| UTC Climate, Controls & Security | 55% | 56% |

Otis is the world's largest elevator and escalator manufacturing, installation and service company. Otis designs, manufactures, sells and installs a wide range of passenger and freight elevators for low-, medium- and high-speed applications, as well as a broad line of escalators and moving walkways. In addition to new equipment, Otis provides modernization products to upgrade elevators and escalators, as well as maintenance and repair services for both its products and those of other manufacturers. Otis serves customers in the commercial and residential property industries around the world. Otis sells directly to the end customer and through sales representatives and distributors.

| (DOLLARS IN MILLIONS) | Total Increase (Decrease) Year-Over-Year for: | | | | | | |
|------------------------------|---|-----------|-----------|-------------------------|------|-------------------------|-------|
| | 2016 | 2015 | 2014 | 2016 Compared with 2015 | | 2015 Compared with 2014 | |
| Net Sales | \$ 11,893 | \$ 11,980 | \$ 12,982 | \$ (87) | (1)% | \$ (1,002) | (8)% |
| Cost of Sales | 8,072 | 8,122 | 8,756 | (50) | (1)% | (634) | (7)% |
| | 3,821 | 3,858 | 4,226 | | | | |
| Operating Expenses and Other | 1,674 | 1,520 | 1,586 | | | | |
| Operating Profits | \$ 2,147 | \$ 2,338 | \$ 2,640 | \$ (191) | (8)% | \$ (302) | (11)% |

| | Factors Contributing to Total % Increase (Decrease) Year-Over-Year in: | | | | | |
|------------------------------------|--|---------------|-------------------|-----------|---------------|-------------------|
| | 2016 | | | 2015 | | |
| | Net Sales | Cost of Sales | Operating Profits | Net Sales | Cost of Sales | Operating Profits |
| Organic / Operational | 1 % | 2 % | (7)% | 1 % | 3 % | (2)% |
| Foreign currency translation | (2)% | (3)% | (2)% | (9)% | (10)% | (9)% |
| Acquisitions and divestitures, net | — | — | — | — | — | — |
| Restructuring costs | — | — | — | — | — | 1 % |
| Other | — | — | 1 % | — | — | (1)% |
| Total % change | (1)% | (1)% | (8)% | (8)% | (7)% | (11)% |

2016 Compared with 2015

The organic sales increase of 1% primarily reflects higher service sales (1%), driven by growth in the Americas and Asia. New equipment sales growth in the Americas (2%) was offset by a decline in China (2%).

The operational profit decrease of 7% was driven by unfavorable price and mix (12%), primarily in China and Europe; higher selling, general and administrative expenses (5%), driven by higher labor and information technology costs; and higher research and development spending (2%); partially offset by favorable productivity and commodity costs (combined 8%) and higher volume (4%).

2015 Compared with 2014

Organic sales increased 1% primarily due to higher new equipment sales (2%), with growth in North America (2%) and Asia outside of China (1%), partially offset by a decline in China (1%), which was primarily driven by new equipment pricing headwind and volume declines. Service sales growth in the Americas and Asia (combined 1%) was offset by declines in Europe (1%), on lower volumes and unfavorable pricing and mix.

Operational profit decreased 2% primarily due to lower service contribution (3%) predominantly in Europe and higher selling, general and administrative expenses (1%), primarily due to sales growth in Americas and Asia outside of China, partially offset by higher new equipment contribution (3%).

UTC Climate, Controls & Security is a leading provider of HVAC and refrigeration solutions, including controls for residential, commercial, industrial and transportation applications. These products and services are sold under the Carrier name and other brand names to building contractors and owners, homeowners, transportation companies, retail stores and food service companies. UTC Climate, Controls & Security is also a global provider of security and fire safety products and services. UTC Climate, Controls & Security provides electronic security

products such as intruder alarms, access control systems and video surveillance systems, and designs and manufactures a wide range of fire safety products including specialty hazard detection and fixed suppression products, portable fire extinguishers, fire detection and life safety systems, and other firefighting equipment. Services provided to the electronic security and fire safety industries include systems integration, video surveillance, installation, maintenance, and inspection. In certain markets, UTC Climate, Controls & Security also provides monitoring and response services to complement its electronic security and fire safety businesses. Through its venture with Watsco, Inc., UTC Climate, Controls & Security distributes Carrier, Bryant, Payne and Totaline residential and light commercial HVAC products in the U.S. and selected territories in the Caribbean and Latin America. UTC Climate, Controls & Security sells directly to end customers and through manufacturers' representatives, distributors, wholesalers, dealers and retail outlets. Certain of UTC Climate, Controls & Security's HVAC businesses are seasonal and can be impacted by weather. UTC Climate, Controls & Security customarily offers its customers incentives to purchase products to ensure an adequate supply in the distribution channels. The principal incentive program provides reimbursements to distributors for offering promotional pricing on UTC Climate, Controls & Security products. We account for incentive payments made as a reduction in sales. UTC Climate, Controls & Security products and services are used by governments, financial institutions, architects, building owners and developers, security and fire consultants, homeowners and other end-users requiring a high level of security and fire protection for their businesses and residences. UTC Climate, Controls & Security provides its security and fire safety products and services under Chubb, Kidde and other brand names, and sells directly to customers as well as through manufacturer representatives, distributors, dealers and U.S. retail distribution.

| (DOLLARS IN MILLIONS) | | | | Total Increase (Decrease) Year-Over-Year for: | | | |
|------------------------------|-----------|-----------|-----------|---|----|-------------------------|------|
| | 2016 | 2015 | 2014 | 2016 Compared with 2015 | | 2015 Compared with 2014 | |
| Net Sales | \$ 16,851 | \$ 16,707 | \$ 16,823 | \$ 144 | 1% | \$ (116) | (1)% |
| Cost of Sales | 11,700 | 11,611 | 11,707 | 89 | 1% | (96) | (1)% |
| | 5,151 | 5,096 | 5,116 | | | | |
| Operating Expenses and Other | 2,195 | 2,160 | 2,334 | | | | |
| Operating Profits | \$ 2,956 | \$ 2,936 | \$ 2,782 | \$ 20 | 1% | \$ 154 | 6% |

| | Factors Contributing to Total % Increase (Decrease) Year-Over-Year in: | | | | | |
|------------------------------------|--|---------------|-------------------|-----------|---------------|-------------------|
| | 2016 | | | 2015 | | |
| | Net Sales | Cost of Sales | Operating Profits | Net Sales | Cost of Sales | Operating Profits |
| Organic / Operational | (1)% | (1)% | 5% | 3% | 3% | 6% |
| Foreign currency translation | (1)% | (1)% | (1)% | (6)% | (6)% | (5)% |
| Acquisitions and divestitures, net | 3% | 3% | 1% | 2% | 2% | — |
| Restructuring costs | — | — | 1% | — | — | — |
| Other | — | — | (5)% | — | — | 5% |
| Total % change | 1% | 1% | 1% | (1)% | (1)% | 6% |

2016 Compared with 2015

Organic sales decreased by 1% driven by declines in commercial HVAC sales in Europe and the Middle East, fire products, and transport refrigeration (combined 1%), partially offset by growth in North America HVAC (1%).

The 5% operational profit increase was driven by lower commodities cost (5%) and productivity and restructuring savings (combined 4%), partly offset by the impact of lower sales volume and adverse sales mix (combined 4%). The 5% decrease in "Other" is driven by the absence of a prior year gain as a result of a fair value adjustment related to acquisitions of a controlling interest in joint venture investments (5%). "Other" also includes current year gains related to the acquisition of a controlling interest in a joint venture investment in the Middle East and from the sale of an investment in Australia (combined 1%), which were offset by a prior year gain from an acquisition of a controlling interest in another joint venture investment.

2015 Compared with 2014

The organic sales increase (3%) primarily reflects growth in Americas (2%) driven by the U.S. commercial and residential HVAC businesses, and growth in refrigeration (1%) driven by the transport refrigeration business.

The 6% operational profit increase was primarily driven by favorable volume and price (combined 2%) on the sales increase noted above. The beneficial impact from lower commodity costs (2%) and net restructuring and cost productivity (2%) was partially offset by lower joint venture income (1%). The 5% increase in "Other" was primarily driven by a gain as a result of a fair value adjustment related to the acquisition of a controlling interest in a joint venture investment (5%) and a gain as a result of a fair value adjustment related to a separate acquisition of a controlling interest in another joint venture investment (1%), partially offset by the absence of a gain from UTC Climate, Controls & Security's portfolio transformation in 2014 (1%).

Aerospace Businesses

The financial performance of Pratt & Whitney and UTC Aerospace Systems is directly tied to the economic conditions of the commercial aerospace and defense aerospace industries. In particular, Pratt & Whitney experiences intense competition for new commercial airframe/engine combinations. Engine suppliers may offer substantial discounts and other financial incentives, performance and operating cost guarantees, and participate in financing arrangements, in an effort to compete for the aftermarket associated with these engine sales. These OEM engine sales may result in losses on the engine sales, which economically are recovered through the sales and profits generated over the engine's maintenance cycle. At times, the aerospace businesses also enter into development programs and firm fixed-price development contracts, which may require the company to bear cost overruns related to unforeseen technical and design challenges that arise during the development stage of the program. Customer selections of engines and components can also have a significant impact on later sales of parts and service. Predicted traffic levels, load factors, worldwide airline profits, general economic activity and global defense spending have been reliable indicators for new aircraft and aftermarket orders within the aerospace industry. Spare part sales and aftermarket service trends are affected by many factors, including usage, technological improvements, pricing, regulatory changes and the retirement of older aircraft. Our commercial aftermarket businesses continue to evolve as an increasing proportion of our aerospace businesses' customers are covered under Fleet Management Programs (FMPs). FMPs are comprehensive long-term spare part and maintenance agreements with our customers. We expect a continued shift to FMPs in lieu of transactional spare part sales as new engines enter customers' fleets on FMP and legacy fleets are retired. Performance in the general aviation sector is closely tied to the overall health of the economy. In 2016, as compared with 2015, total commercial aerospace aftermarket sales increased 10% at Pratt & Whitney and 2% at UTC Aerospace Systems.

Our long-term aerospace contracts are subject to strict safety and performance regulations which can affect our ability to estimate costs precisely. Contract cost estimation for the development of complex projects, in particular, requires management to make significant judgments and assumptions regarding the complexity of the work to be performed, availability of materials, the performance by subcontractors, the timing of funding from customers and the length of time to complete the contract. As a result, we review and update our cost estimates on significant contracts on a quarterly basis, and no less frequently than annually for all others, and when circumstances change and warrant a modification to a previous estimate. Changes in estimates relate to the current period impact of revisions to total estimated contract sales and costs at completion. We record changes in contract estimates primarily using the cumulative catch-up method. Operating profits included significant net unfavorable changes in aerospace contract estimates of approximately \$157 million in 2016 primarily the result of unexpected increases in estimated costs related to Pratt & Whitney long term after-market contracts. In accordance with our revenue recognition policy, losses, if any, on long-term contracts are provided for when anticipated. There were no material loss provisions recorded on OEM contracts in continuing operations in 2016 or 2015.

We continue to see growth in a strong commercial airline industry which is benefiting from traffic growth and lower fuel costs. Airline traffic, as measured by revenue passenger miles (RPMs), grew approximately 6% in the first eleven months of 2016, while jet fuel costs have declined approximately 18% relative to prices one year ago. Pratt & Whitney has developed the Geared TurboFan engine that will power currently-proposed and future aircraft and is building capacity to meet demand for orders of the new engines which are fuel efficient and have reduced noise levels and exhaust emissions. The PurePower® PW1100G-JM engine completed Federal Aviation Agency (FAA) certification for the Airbus A320neo platform on December 19, 2014, and entered into service in January 2016.

Our military sales are affected by U.S. Department of Defense spending levels. However, the sale of Sikorsky during 2015 reduced our U.S. Government defense-spending exposure. Excluding Sikorsky, total sales to the U.S. Government were \$5.6 billion in 2016, \$5.6 billion in 2015, and \$5.9 billion in 2014, and were 10% of total UTC sales in each year. The defense portion of our aerospace business is also affected by changes in market demand and the global political environment. Our participation in long-term production and development programs for the U.S. Government has contributed positively to our results in 2016 and is expected to continue to benefit results in 2017.

As previously disclosed, Pratt & Whitney's PurePower PW1500G engine models have been selected by Bombardier to power the new CSeries passenger aircraft, which entered into service on July 15, 2016. There have been multi-year delays in the development of the CSeries aircraft. Notwithstanding these delays, Bombardier reports that they have received over 300 orders for the aircraft, have certified the initial aircraft model and expect to close the certification process for all aircraft models in early 2017. We have made various investments in support of the production and delivery of our PW1500G engines and systems for

the CSeries program, which we currently expect to recover through future deliveries of PW1500G powered CSeries aircraft. We will continue to monitor the progress of the program and our ability to recover our investments.

Pratt & Whitney is among the world's leading suppliers of aircraft engines for the commercial, military, business jet and general aviation markets. Pratt & Whitney also provides fleet management services and aftermarket maintenance, repair and overhaul services, including the sale of spare parts and auxiliary power units. Pratt & Whitney produces and develops families of large engines for wide- and narrow-body and large regional aircraft in the commercial market and for fighter, bomber, tanker and transport aircraft in the military market. Pratt & Whitney Canada (P&WC) is a world leader in the production of engines powering general and business aviation, as well as regional airline, utility and military, airplanes and helicopters. Pratt & Whitney's products are sold principally to aircraft manufacturers, airlines and other aircraft operators, aircraft leasing companies, and the U.S. and foreign governments. Pratt & Whitney's products and services must adhere to strict regulatory and market-driven safety and performance standards. The frequently changing nature of these standards, along with the long duration of aircraft engine development, production and support programs, creates uncertainty regarding engine program profitability.

The development of new engines and improvements to current production engines present important growth opportunities. Pratt & Whitney is under contract with the U.S. Government's F-35 Joint Program Office to develop, produce and sustain the F135 engine, a derivative of Pratt & Whitney's F119 engine, to power the single-engine F-35 Lightning II aircraft (commonly known as the Joint Strike Fighter) being developed and produced by Lockheed Martin. The two F135 propulsion system configurations for the F-35A/F-35C and F-35B jets are certified for production and in use by the U.S. Air Force and the U.S. Marine Corps. F135 engines are also used on F-35 aircraft purchased by Joint Strike Fighter partner countries and foreign military sales countries.

In addition, Pratt & Whitney has developed the PurePower® PW1000G Geared TurboFan engine which entered into service in January 2016 and is intended to enable it to power both currently-proposed and future aircraft. The PurePower® PW1000G engine has demonstrated a significant reduction in fuel burn and noise levels with lower environmental emissions and operating costs than current production engines. Airbus has selected the PW1100G engine, a member of the PurePower® PW1000G engine family, as a new engine option to power its A320neo family of aircraft. The PW1100G-JM entered into service in January 2016, and is being developed as part of a collaboration with MTU Aero Engines (MTU) and Japanese Aero Engines Corporation (JAEC). Additionally, PurePower® PW1000G engine models have been selected by Bombardier to power the new CSeries passenger aircraft, Mitsubishi Aircraft Corporation to power the new Mitsubishi Regional Jet, Irkut Corporation to power the proposed new Irkut MC-21 passenger aircraft and Embraer to power the next generation of Embraer's E-Jet family of aircraft. In October 2014, Gulfstream announced the selection of the PurePower® PW800 engine

to exclusively power Gulfstream's new G500 and G600 business jets scheduled to enter service in 2018. The CSeries passenger aircraft entered into service on July 15, 2016. The Irkut MC-21 and Embraer's next generation of E-Jet family aircraft are scheduled to enter into service in 2018. The Mitsubishi Regional Jet is scheduled to enter into service in 2020. The success of these aircraft and the PurePower® family of engines is dependent upon many factors including technological accomplishments, program execution, aircraft demand, and regulatory approval. Based on these factors, as well as the level of success of aircraft program launches by aircraft manufacturers and other conditions, additional investment in the PurePower® program may be required.

In view of the risks and costs associated with developing new engines, Pratt & Whitney has entered into collaboration arrangements in which sales, costs and risks are shared. At December 31, 2016, the interests of third party participants in Pratt & Whitney-directed

commercial jet engine programs ranged from 14% to 50%. In addition, Pratt & Whitney has interests in other engine programs, including a 50% ownership interest in the Engine Alliance (EA), a joint venture with GE Aviation, which markets and manufactures the GP7000 engine for the Airbus A380 aircraft. Pratt & Whitney has entered into risk and revenue sharing arrangements with third parties for 40% of the products and services that Pratt & Whitney is responsible for providing to the EA. Pratt & Whitney accounts for its interests in the EA joint venture under the equity method of accounting. Pratt & Whitney holds a 61% net program share interest in the IAE International Aero Engines AG (IAE) collaboration with MTU and JAEC and a 49.5% ownership interest in IAE. Additionally, Pratt & Whitney holds a 59% net program interest in the International Aero Engines, LLC (IAE LLC) collaboration, and a 59% ownership interest in IAE LLC. Pratt & Whitney continues to pursue additional collaboration partners.

| (DOLLARS IN MILLIONS) | | | | Total Increase (Decrease) Year-Over-Year for: | | | |
|------------------------------|-----------|-----------|-----------|---|-----|-------------------------|-------|
| | 2016 | 2015 | 2014 | 2016 Compared with 2015 | | 2015 Compared with 2014 | |
| Net Sales | \$ 14,894 | \$ 14,082 | \$ 14,508 | \$ 812 | 6% | \$ (426) | (3)% |
| Cost of Sales | 11,805 | 10,910 | 10,926 | 895 | 8% | (16) | — |
| | 3,089 | 3,172 | 3,582 | | | | |
| Operating Expenses and Other | 1,544 | 2,311 | 1,582 | | | | |
| Operating Profits | \$ 1,545 | \$ 861 | \$ 2,000 | \$ 684 | 79% | \$ (1,139) | (57)% |

| | Factors Contributing to Total % Increase (Decrease) Year-Over-Year in: | | | | | |
|--|--|---------------|-------------------|-----------|---------------|-------------------|
| | 2016 | | | 2015 | | |
| | Net Sales | Cost of Sales | Operating Profits | Net Sales | Cost of Sales | Operating Profits |
| Organic* / Operational* | 6% | 9 % | (28)% | (1)% | 2 % | (12)% |
| Foreign currency (including P&WC net hedging)* | — | (1)% | 10 % | (1)% | (2)% | 3 % |
| Acquisitions and divestitures, net | — | — | — | — | 1 % | 1 % |
| Restructuring costs | — | — | (1)% | — | — | (2)% |
| Other | — | — | 98 % | (1)% | (1)% | (47)% |
| Total % change | 6% | 8 % | 79 % | (3)% | — | (57)% |

* As discussed further in the "Business Overview" and "Results of Operations" sections, for Pratt & Whitney only, the transactional impact of foreign exchange hedging at P&WC has been netted against the translational foreign exchange impact for presentation purposes in the above table. For all other segments, these foreign exchange transactional impacts are included within the organic sales/operational operating profit caption in their respective tables. Due to its significance to Pratt & Whitney's overall operating results, we believe it is useful to segregate the foreign exchange transactional impact in order to clearly identify the underlying financial performance.

2016 Compared with 2015

The organic sales increase of 6% primarily reflects higher commercial aftermarket sales (8%), and higher military engine and aftermarket sales (2%), partially offset by unfavorable year-over-year contract performance, contract termination benefits and contract settlements (2%) and lower commercial engine sales volume (1%).

Pratt & Whitney's operating profit includes lower pension cost and restructuring savings across its businesses. The operational profit decrease of 28% was primarily driven by:

- unfavorable year-over-year contract adjustments, contract termination benefits and contract settlements (38%)
- higher research and development spending (6%)
- lower large commercial engine profit contribution (8%) primarily driven by higher negative engine margin

- lower profit contribution at Pratt & Whitney Canada (3%) primarily driven by lower volume
- the absence of prior year licensing arrangements (5%)
- lower military engine profit contribution (1%) driven by adverse engine mix, partially offset by profit contribution from higher military aftermarket sales

These decreases were partially offset by:

- profit contribution from strong commercial aftermarket volume (33%)
- sales of legacy hardware (3%)

"Other" primarily reflects the absence of a prior year charge resulting from amendments to research and development support arrangements previously entered into with federal and provincial Canadian government agencies (101%) partially offset by the year-over-year profit impact associated with customer contract negotiations (2%).

2015 Compared with 2014

The organic sales decrease (1%) reflects lower military engine volume (1%) and lower commercial engine volume (2%), offset by higher commercial engine aftermarket sales (2%). "Other" reflects a sales reduction in connection with customer contract negotiations (1%).

Pratt & Whitney's operating profit includes higher pension cost partially offset by restructuring savings across its business. The operational profit decrease (12%) was due to:

- higher negative engine margin within the Large Commercial Engine business and lower volume within P&WC (15%)
- lower engine volume and unfavorable mix within the Military Engine business (2%)
- unfavorable aftermarket mix and a decline in the amount of favorable contract performance adjustments within the Military Engine business (4%)
- lower commercial developmental profit (2%)

These decreases were partially offset by:

- lower research and development spending (5%)
- higher aftermarket profits at P&WC (4%)
- an increase in favorable contract termination benefits (3%)

Operating profit increased 1% as a result of the acquisition of a majority interest in a joint venture in the third quarter of 2014. The "Other" operating profit decline reflects a charge resulting from amendments to research and development support arrangements previously entered into with federal and provincial Canadian government agencies (43%) and a charge resulting from customer contract negotiations (4%).

UTC Aerospace Systems is a leading global provider of technologically advanced aerospace products and aftermarket service solutions for aircraft manufacturers, airlines, regional, business and general aviation markets, military, space and undersea operations. UTC Aerospace Systems' product portfolio includes electric power generation, power management and distribution systems, air data and aircraft sensing systems, engine control systems, intelligence, surveillance and reconnaissance systems, engine components, environmental control systems, fire and ice detection and protection systems, propeller systems, engine nacelle systems, including thrust reversers and mounting pylons, interior and exterior aircraft lighting, aircraft seating and cargo systems, actuation systems, landing systems, including landing gear, wheels and brakes, and space products and subsystems. Aftermarket services include spare parts, overhaul and repair, engineering and technical support and fleet management solutions. UTC Aerospace Systems sells aerospace products to aircraft manufacturers, airlines and other aircraft operators, the U.S. and foreign governments, maintenance, repair and overhaul providers, and independent distributors.

| (DOLLARS IN MILLIONS) | | | | Total Increase (Decrease) Year-Over-Year for: | | | |
|------------------------------|-----------|-----------|-----------|---|-----|-------------------------|-------|
| | 2016 | 2015 | 2014 | 2016 Compared with 2015 | | 2015 Compared with 2014 | |
| Net Sales | \$ 14,465 | \$ 14,094 | \$ 14,215 | \$ 371 | 3% | \$ (121) | (1)% |
| Cost of Sales | 10,607 | 10,533 | 10,192 | 74 | 1% | 341 | 3% |
| | 3,858 | 3,561 | 4,023 | | | | |
| Operating Expenses and Other | 1,560 | 1,673 | 1,668 | | | | |
| Operating Profits | \$ 2,298 | \$ 1,888 | \$ 2,355 | \$ 410 | 22% | \$ (467) | (20)% |

| | Factors Contributing to Total % Increase (Decrease) Year-Over-Year in: | | | | | |
|------------------------------------|--|---------------|-------------------|-----------|---------------|-------------------|
| | 2016 | | | 2015 | | |
| | Net Sales | Cost of Sales | Operating Profits | Net Sales | Cost of Sales | Operating Profits |
| Organic / Operational | 2% | 3% | (3)% | 3% | 6% | (6)% |
| Foreign currency translation | — | (1)% | 3% | (2)% | (3)% | 2% |
| Acquisitions and divestitures, net | — | — | — | (1)% | (1)% | — |
| Restructuring costs | — | — | 3% | — | — | (1)% |
| Other | 1% | (1)% | 19% | (1)% | 1% | (15)% |
| Total % change | 3% | 1% | 22% | (1)% | 3% | (20)% |

2016 Compared with 2015

The organic sales growth of 2% primarily reflects an increase in commercial aerospace OEM and commercial aftermarket sales volume (3%), partially offset by lower military OEM and military aftermarket sales volume (1%). “Other” represents the absence of the prior year unfavorable impact of significant customer contract negotiations (1%).

The organic decrease in operational profit of 3% primarily reflects:

- the absence of the favorable impact from prior year customer contract negotiations, dispute resolution, contract terminations and other settlements (8%)
- lower military profit contribution (4%) driven primarily by lower sales volume
- lower commercial aerospace OEM profit contribution (4%), primarily due to adverse mix

These decreases were partially offset by:

- lower pension costs (8%)
- higher commercial aftermarket profit contribution (5%)
- lower research and development costs (1%)

“Other” primarily represents the absence of the prior year unfavorable impact from significant customer contract negotiations (16%) and the absence of a prior year impairment of certain assets held for sale (3%).

2015 Compared with 2014

The organic sales growth (3%) primarily reflects an increase in commercial aerospace OEM and commercial aftermarket sales volume (3%) and a benefit from a change in a customer relationship (2%), partially offset by the absence of the favorable impact of a prior year customer contract settlement (1%) and lower military OEM sales volume (1%). “Other” represents the unfavorable impact of significant customer contract negotiations (1%).

The organic decrease in operational profit (6%) primarily reflects:

- lower commercial aerospace OEM profit contribution (6%) primarily due to adverse mix
- higher pension costs (5%)
- lower military profit contribution (4%)
- the absence of the favorable impact of a prior year customer contract settlement (2%), partially offset by
- the favorable impact of several customer contract negotiations, dispute resolutions and other settlements (4%)
- lower research and development costs (3%)
- lower selling, general and administrative expenses (3%)
- the favorable impact of a contract termination (2%)

“Other” primarily represents the unfavorable impact of significant customer contract negotiations (13%) and the impairment of certain assets held for sale (2%).

Eliminations and other

| (DOLLARS IN MILLIONS) | Net Sales | | | Operating Profits | | |
|----------------------------|-----------|----------|----------|-------------------|----------|--------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Eliminations and other | \$ (859) | \$ (765) | \$ (628) | \$ (368) | \$ (268) | \$ 304 |
| General corporate expenses | — | — | — | (406) | (464) | (488) |

Eliminations and other reflects the elimination of sales, other income and operating profit transacted between segments, as well as the operating results of certain smaller businesses. The year-over-year increase in the amount of sales eliminations in 2016 as compared with 2015 reflects an increase in the amount of inter-segment sales eliminations, principally between our aerospace businesses. The year-over-year decrease in operating profit for 2016 as compared with 2015 is largely driven by a \$423 million pension settlement charge resulting from pension de-risking actions, partially offset by the absence of a \$237 million charge taken in 2015 for pending and future asbestos claims and higher proceeds from the sale of marketable securities of \$47 million. The year-over-year decline in general corporate expenses for 2016, as compared with 2015 primarily reflects lower expenses related to salaries, wages and employee benefits.

The change in sales in 2015, as compared with 2014, reflects an increase in the amount of inter-segment sales eliminations between our aerospace business segments. The decline in operating profit in 2015, as compared with 2014, reflects a \$237 million charge for pending and future asbestos claims through 2059, a \$27 million charge related to an agreement with a state taxing authority for the monetization of tax

credits, and the absence of a \$220 million gain on an agreement with a state taxing authority for the monetization of tax credits in 2014.

LIQUIDITY AND FINANCIAL CONDITION

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|--|----------|----------|
| Cash and cash equivalents | \$ 7,157 | \$ 7,075 |
| Total debt | 23,901 | 20,425 |
| Net debt (total debt less cash and cash equivalents) | 16,744 | 13,350 |
| Total equity | 29,169 | 28,844 |
| Total capitalization (total debt plus total equity) | 53,070 | 49,269 |
| Net capitalization (total debt plus total equity less cash and cash equivalents) | 45,913 | 42,194 |
| Total debt to total capitalization | 45% | 41% |
| Net debt to net capitalization | 36% | 32% |

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Our principal source of liquidity is operating cash flows from continuing operations, which, after netting out capital expenditures, we target to equal or exceed net income attributable to common shareowners from continuing operations. For 2017, we expect this to approximate 90% to 100%

of net income attributable to common shareowners from continuing operations. In addition to operating cash flows, other significant factors that affect our overall management of liquidity include: common stock repurchases, capital expenditures, customer financing requirements, investments in businesses, dividends, pension funding, access to the commercial paper markets, adequacy of available bank lines of credit, issuances and redemptions of debt, and the ability to attract long-term capital at satisfactory terms.

As part of our long-term strategy to de-risk our defined benefit pension plans, we entered into an agreement to purchase a group annuity contract to transfer approximately \$768 million of our outstanding pension benefit obligations related to certain U.S. retirees or beneficiaries, which was finalized on October 12, 2016. We also offered certain former U.S. employees or beneficiaries (generally all former U.S. participants not yet in receipt of their vested pension benefits) an option to take a one-time lump-sum distribution in lieu of future monthly pension payments, which has reduced our pension benefit obligations by approximately \$935 million as of December 31, 2016. These transactions reduced the assets of our defined benefit pension plans by approximately \$1.5 billion. As a result of these transactions, we recognized a one-time pre-tax pension settlement charge of approximately \$423 million in the fourth quarter of 2016. See Note 12 to the Consolidated Financial Statements for further discussion.

Our domestic pension funds experienced a positive return on assets of approximately 11.6% during 2016. Approximately 88% of these domestic pension plans are invested in readily-liquid investments, including equity, fixed income, asset-backed receivables and structured products. The balance of these domestic pension plans (12%) is invested in less-liquid but market-valued investments, including real estate and private equity. Across our global pension plans, the impact of the continued recognition of prior pension investment gains, 2016 actual returns on plan assets and lower discount rates for interest costs, offset by the lower discount rates for pension obligations, will result in a net periodic pension benefit in 2017 consistent with 2016 amounts.

Historically, our strong debt ratings and financial position have enabled us to issue long-term debt at favorable market rates. Our ability to obtain debt financing at comparable risk-based interest rates is partly a function of our existing debt-to-total-capitalization level as well as our credit standing. In September 2015, several external rating agencies downgraded our debt ratings ("A" to "A-", and "A2" to "A3") with a stable ratings outlook, primarily attributing their actions to the level of completed and projected share repurchase activity. Our debt-to-total-capitalization increased 400 basis points from 41% at December 31, 2015 to 45% at December 31, 2016 primarily reflecting additional borrowings in 2016 to fund share repurchases and for general corporate purposes. The average maturity of our long-term debt at December 31, 2016 is approximately ten years. We use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions, debt refinancing, and repurchases of our common stock. The need for commercial paper borrowings arises when the use of domestic cash for acquisitions, dividends, and share repurchases

exceeds the sum of domestic cash generation and foreign cash repatriated to the U.S.

On December 1, 2016, we redeemed all outstanding 5.375% notes due in 2017, representing \$1.0 billion in aggregate principal, and all outstanding 6.125% notes due in 2019, representing \$1.25 billion in aggregate principal, under our redemption notice issued on November 1, 2016. A combined net extinguishment loss of approximately \$164 million was recognized within Interest expense, net in the accompanying Consolidated Statement of Operations.

On November 1, 2016, we issued \$650 million aggregate principal amount of 1.500% notes due 2019, \$750 million aggregate principal amount of 1.950% notes due 2021, \$1,150 million aggregate principal amount of 2.650% notes due 2026, \$1,100 million aggregate principal amount of 3.750% notes due 2046 and \$350 million aggregate principal amount of floating rate notes due 2019. We used the net proceeds received from these issuances to fund the redemption price of the 5.375% notes due 2017 and the 6.125% notes due 2019, to fund the repayment of commercial paper, and for other general corporate purposes.

On February 22, 2016, we issued €950 million aggregate principal amount of 1.125% notes due 2021, €500 million aggregate principal amount of 1.875% notes due 2026 and €750 million aggregate principal amount of floating rate notes due 2018. The net proceeds from these debt issuances were used for general corporate purposes.

On May 4, 2015, we completed the optional remarketing of the 1.550% junior subordinated notes, which were originally issued as part of our equity units on June 18, 2012. As a result of the remarketing, these notes were redesignated as our 1.778% junior subordinated notes due May 4, 2018. On August 3, 2015, we received approximately \$1.1 billion from the proceeds of the remarketing, and issued approximately 11.3 million shares of Common Stock to settle the purchase obligation of the holders of the equity units under the purchase contract entered into at the time of the original issuance of the equity units.

During the quarter ended June 30, 2015, we repaid at maturity all 4.875% notes due in 2015 and all floating rate notes due in 2015, representing \$1.7 billion in aggregate principal. On May 4, 2015, we issued \$850 million aggregate principal amount of 4.150% notes due May 15, 2045. On May 22, 2015 we issued €750 million aggregate principal amount of 1.250% notes due May 22, 2023. The net proceeds from these debt issuances were used primarily to repay the 4.875% notes and floating rate notes maturing during the quarter ended June 30, 2015.

On March 13, 2015, we entered into accelerated share repurchase (ASR) agreements to repurchase an aggregate of \$2.65 billion of our common stock, which was largely funded by our commercial paper borrowings. Under the terms of the ASR agreements, we made the aggregate payments and received an initial delivery of approximately 18.6 million shares of our common stock, representing approximately 85% of the shares expected to be repurchased. On July 31, 2015, the shares associated with the remaining portion of the aggregate purchase were settled upon final delivery of approximately 4.2 million additional shares of common stock.

On November 6, 2015, we completed the sale of Sikorsky to Lockheed Martin Corp. for approximately \$9.1 billion in cash. In connection with the sale of Sikorsky, we made tax payments of approximately \$2.5 billion in 2016. On November 11, 2015, we entered into ASR agreements to repurchase an aggregate of \$6 billion of our common stock utilizing the net after-tax proceeds from the sale of Sikorsky. Under the terms of the ASR agreements, we made the aggregate payments and received an initial delivery of approximately 51.9 million shares of our common stock, representing approximately 85% of the shares expected to be repurchased. In 2016, the shares associated with the remaining portion of the aggregate purchase were settled upon final delivery to us of approximately 10.1 million additional shares of common stock.

At December 31, 2016, we had revolving credit agreements with various banks permitting aggregate borrowings of up to \$4.35 billion pursuant to a \$2.20 billion revolving credit agreement and a \$2.15 billion multicurrency revolving credit agreement, both of which expire in August 2021. As of December 31, 2016 and 2015, there were no borrowings under either of these revolving credit agreements. The undrawn portions of our revolving credit agreements are also available to serve as backup facilities for the issuance of commercial paper. As of December 31, 2016, our maximum commercial paper borrowing authority was \$4.35 billion.

At December 31, 2016, approximately 93% of our cash was held by UTC's foreign subsidiaries, due to our extensive international operations. We manage our worldwide cash requirements by reviewing available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences or be subject to capital controls; however, those balances are generally available without legal restrictions to fund ordinary business operations. In the quarter ended December 31, 2015, we recognized an income tax provision of approximately \$274 million related to the intended repatriation of foreign cash, the majority of which is from 2015 earnings of certain international subsidiaries. As discussed in Note 11, with few other exceptions, U.S. income taxes have not been provided on other undistributed earnings of international subsidiaries. Our intention is to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so.

We continue to be involved in litigation with the German Tax Office in the German Tax Court with respect to certain tax benefits that we have claimed related to a 1998 reorganization of the corporate structure of Otis operations in Germany. We made tax and interest payments of approximately \$300 million during 2015 to avoid additional interest accruals while we continue to litigate this matter. We do not expect to make significant additional tax or interest payments pending final resolution of this matter. See Note 18 for a further discussion of this German tax litigation.

On occasion, we are required to maintain cash deposits with certain banks with respect to contractual obligations related to acquisitions or divestitures or other legal obligations. As of December 31, 2016,

2015 and 2014, the amount of such restricted cash was approximately \$32 million, \$45 million and \$255 million, respectively. Approximately \$210 million of our restricted cash balance as of December 31, 2014 was utilized in cash investments in businesses in 2015.

We believe our future operating cash flows will be sufficient to meet our future operating cash needs. Further, we continue to have access to the commercial paper markets and our existing credit facilities, and our ability to obtain debt or equity financing, as well as the availability under committed credit lines, provides additional potential sources of liquidity should they be required or appropriate.

Cash Flow — Operating Activities of Continuing Operations

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|----------|----------|----------|
| Net cash flows provided by operating activities of continuing operations | \$ 6,412 | \$ 6,755 | \$ 6,979 |

2016 Compared with 2015

Cash generated from operating activities of continuing operations in 2016 was approximately \$343 million lower than 2015, driven primarily by \$392 million higher investment in working capital, \$156 million higher contributions to our global defined benefit pension plans, and the first of four annual payments of \$237 million related to the 2015 Canadian government settlement; partially offset by the absence of the noncash portion of other infrequently occurring items, as discussed in Results of Operations, which are included in Other operating activities, net in the Consolidated Statement of Cash Flows for the year ended December 31, 2015. The 2016 cash outflows for working capital were primarily driven by increases in inventory in our aerospace businesses to support deliveries and other contractual commitments, including approximately \$220 million of inventory costs attributable to new engine offerings recognized based on the average cost per unit expected over the life of each contract using the units-of-delivery method of percentage of completion accounting, as discussed in Note 6. Increases in accounts receivable at Pratt & Whitney and our commercial businesses were partially offset by increases in accounts payable and accrued liabilities across all of our businesses. Factoring activity in 2016 was approximately \$200 million lower than the prior year, excluding customer-funded factoring at Pratt & Whitney related to certain extensions of contractual payment terms. For 2015, cash outflows for working capital were primarily driven by increases in inventory in our aerospace businesses to support deliveries and other contractual commitments, and were partially offset by increases in accounts payable and accrued liabilities in these businesses. Increases in accounts receivable in our commercial businesses were largely offset by increases in accounts payable and customer advances in these businesses. Reductions in accrued liabilities also include payments of interest and taxes of approximately \$300 million related to the German tax matter, as discussed in Note 18.

The funded status of our defined benefit pension plans is dependent upon many factors, including returns on invested assets, the level of market interest rates and actuarial mortality assumptions. We can contribute cash or UTC shares to our plans at our discretion, subject to applicable regulations. Total cash contributions to our global defined

benefit pension plans were \$303 million, \$147 million and \$517 million during 2016, 2015 and 2014, respectively. In 2015, we made noncash contributions of \$250 million in UTC common stock to our defined benefit pension plans. As of December 31, 2016, the total investment by the global defined benefit pension plans in our securities was approximately 1% of total plan assets. Although our domestic defined benefit pension plans are approximately 90% funded on a projected benefit obligation basis as of December 31, 2016, and we are not required to make additional contributions through the end of 2021, we may elect to make discretionary contributions in 2017. We expect to make total contributions of approximately \$300 million to our global defined benefit pension plans in 2017, including discretionary contributions of approximately \$150 million to our domestic defined benefit pension plans. Contributions to our global defined benefit pension plans in 2017 are expected to meet or exceed the current funding requirements.

2015 Compared with 2014

Cash generated from operating activities of continuing operations in 2015 was \$224 million lower than 2014. Income from continuing operations and noncash deferred income tax provision and depreciation and amortization charges were approximately \$1.8 billion lower than 2014. This decline includes the noncash expense related to the Canadian government settlement of \$867 million and the noncash portion of other infrequently occurring items, as discussed in Results of Operations, which are included in Other operating activities, net in the Consolidated Statement of Cash Flows for the year ended December 31, 2015. The 2015 cash outflows for working capital were primarily driven by increases in inventory in our aerospace businesses to support deliveries and other contractual commitments, and were partially offset by increases in accounts payable and accrued liabilities in these businesses. Increases in accounts receivable in our commercial businesses were largely offset by increases in accounts payable and customer advances in these businesses. Reductions in accrued liabilities also include payments of interest and taxes of approximately \$300 million related to the German tax matter, as discussed in Note 18. For 2014, cash outflows for working capital were driven by increases in inventory to support deliveries and other contractual commitments across all business segments. Reductions in accounts receivable in our aerospace businesses, driven primarily by accelerated customer collections and selected factoring primarily at Pratt & Whitney, were partially offset by increases in accounts receivable in our commercial businesses.

Cash Flow — Investing Activities of Continuing Operations

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|------------|------------|------------|
| Net cash flows used in investing activities of continuing operations | \$ (2,509) | \$ (2,794) | \$ (1,967) |

2016 Compared with 2015

Cash flows used in investing activities of continuing operations for 2016 and 2015 primarily reflect capital expenditures, cash investments in businesses, and payments related to our collaboration intangible assets and contractual rights to provide product on new aircraft platforms.

In 2016, we increased our collaboration intangible assets by approximately \$388 million, of which \$345 million represented payments made under our 2012 agreement to acquire Rolls-Royce's ownership and collaboration interests in IAE. Capital expenditures for 2016 (\$1,699 million) primarily relate to investments in new programs at Pratt & Whitney and UTC Aerospace Systems, as well as new facilities at Pratt & Whitney and UTC Climate, Controls & Security. Cash investments in businesses in 2016 (\$710 million) consisted of the acquisition of a majority interest in an Italian heating products and services company by UTC Climate, Controls & Security, the acquisition of a Japanese services company by Otis and a number of small acquisitions, primarily in our commercial businesses. We expect total cash investments for acquisitions in 2017 to be \$1 billion to \$2 billion. However, actual acquisition spending may vary depending upon the timing, availability and appropriate value of acquisition opportunities. We expect capital expenditures in 2017 to be approximately \$1.8 billion.

As discussed in Note 14 to the Consolidated Financial Statements, we enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under the Derivatives and Hedging Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) and those utilized as economic hedges. We operate internationally and, in the normal course of business, are exposed to fluctuations in interest rates, foreign exchange rates and commodity prices. These fluctuations can increase the costs of financing, investing and operating the business. We have used derivative instruments, including swaps, forward contracts and options to manage certain foreign currency, interest rate and commodity price exposures. During the years ended December 31, 2016 and 2015, we had net cash receipts of approximately \$249 million and \$160 million, respectively, from the settlement of these derivative instruments.

Customer financing activities were a net use of cash of \$221 million and \$247 million in 2016 and 2015, respectively. We expect 2017 investments in customer financing assets to increase by approximately \$400 million, primarily due to increased levels of investment in commercial aircraft engines and products under lease. While we expect that 2017 customer financing activity will be a net use of funds, actual funding is subject to usage under existing customer financing commitments during the year. We may also arrange for third-party investors to assume a portion of our commitments. At December 31, 2016, we had commercial aerospace financing and other contractual commitments of approximately \$14.4 billion related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms, of which as much as \$1.3 billion may be required to be disbursed during 2017. As discussed in Note 1 to the Consolidated Financial Statements, we have entered into certain collaboration arrangements, which may include participation by our collaborators in these commitments. At December 31, 2016, our collaborators' share of these commitments was approximately \$4.6 billion of which as much as \$386 million may be required to be disbursed to us during 2017. Refer to Note 5 to the

Consolidated Financial Statements for additional discussion of our commercial aerospace industry assets and commitments.

2015 Compared with 2014

Cash flows used in investing activities of continuing operations for 2015 and 2014 primarily reflect capital expenditures, cash investments in businesses, and payments related to our collaboration intangible assets and contractual rights to provide product on new aircraft platforms. Investing cash outflows in 2014 were partially offset by net proceeds of approximately \$344 million from business dispositions, primarily a number of small dispositions in our commercial businesses.

Cash investments in businesses in 2015 (\$538 million) consisted of the acquisition of the majority interest in a UTC Climate, Controls & Security business, the acquisition of an imaging technology company by UTC Aerospace Systems and a number of small acquisitions, primarily in our commercial businesses, and were partially offset by net proceeds of approximately \$200 million from business dispositions. Cash investments in businesses in 2014 (\$402 million) included the acquisition of the majority interest in a Pratt & Whitney joint venture and a number of small acquisitions, primarily in our commercial businesses, and were partially offset by net proceeds of approximately \$344 million from business dispositions, primarily a number of small dispositions in our commercial businesses. Customer financing activities were a net use of cash of \$247 million in 2015 and a net source of cash of \$129 million in 2014.

Cash Flow – Financing Activities of Continuing Operations

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|------------|-------------|------------|
| Net cash flows used in financing activities of continuing operations | \$ (1,188) | \$ (10,776) | \$ (4,249) |

2016 Compared with 2015

The timing and levels of certain cash flow activities, such as acquisitions and repurchases of our stock, have resulted in the issuance of both long-term and short-term debt, including approximately \$4 billion of net long-term debt issuances in 2016. Commercial paper borrowings and revolving credit facilities provide short-term liquidity to supplement operating cash flows and are used for general corporate purposes, including the funding of potential acquisitions and repurchases of our stock. We had approximately \$522 million and \$727 million of outstanding commercial paper at December 31, 2016 and 2015, respectively. Commercial paper borrowings at December 31, 2016 were comprised of approximately €500 million (\$522 million) of Euro-denominated commercial paper.

At December 31, 2016, management had remaining authority to repurchase approximately \$3.7 billion of our common stock under the October 14, 2015 share repurchase program. Under this program, shares may be purchased on the open market, in privately negotiated transactions, under accelerated share repurchase programs, and under plans complying with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended. We may also reacquire shares outside of the program from time to time in connection with the surrender of shares to cover taxes on vesting of restricted stock. In addition to the transactions under the ASR agreements discussed above, we made

cash payments of approximately \$2.25 billion to repurchase approximately 22 million shares of our common stock during the year ended December 31, 2016, and we repurchased approximately 14 million shares of our common stock for approximately \$1.35 billion during the year ended December 31, 2015.

We expect 2017 share repurchases to be approximately \$3.5 billion, which we expect to fund with cash generated from operating activities of continuing operations as well as additional borrowings. Our share repurchases vary depending upon various factors including the level of our other investing activities. In 2016 and 2015, we paid aggregate dividends on common stock of approximately \$2.1 billion and \$2.2 billion, respectively.

On April 29, 2016, we renewed our universal shelf registration statement filed with the SEC for an indeterminate amount of debt and equity securities for future issuance, subject to our internal limitations on the amount of debt to be issued under this shelf registration statement.

2015 Compared with 2014

In 2015, we completed the optional remarketing of the 1.550% junior subordinated notes, which were originally issued as part of our equity units on June 18, 2012. As a result of the remarketing, these notes were redesignated as our 1.778% junior subordinated notes due May 4, 2018. We received approximately \$1.1 billion from the proceeds of the remarketing, and issued approximately 11.3 million shares of Common Stock to settle the purchase obligation of the holders of the equity units under the purchase contract entered into at the time of the original issuance of the equity units.

We made net repayments of long-term debt of \$20 million and \$206 million in 2015 and 2014, respectively. We had approximately \$727 million of outstanding commercial paper at December 31, 2015. We had no commercial paper outstanding at December 31, 2014. Financing cash outflows for 2014 included the repurchase of 13.5 million shares of our common stock for approximately \$1.5 billion.

In 2015, we paid aggregate dividends on common stock of approximately \$2.2 billion. During 2014, an aggregate \$2.0 billion of cash dividends were paid to common stock shareowners.

Cash Flow – Discontinued Operations

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|------------|----------|--------|
| Net cash flows (used in) provided by discontinued operations | \$ (2,526) | \$ 8,619 | \$ 217 |

2016 Compared with 2015

Cash flows used in operating activities of discontinued operations in 2016 primarily reflect the payment of taxes associated with the net gain realized on the sale of Sikorsky to Lockheed Martin Corp. in November 2015.

For the year ended December 31, 2015, cash flows provided by discontinued operations primarily reflect those from investing activities, which includes the proceeds of \$9.1 billion from the sale of Sikorsky to Lockheed Martin Corp. in November 2015, partially offset by capital expenditures of Sikorsky in 2015. Cash outflows from operating activities of discontinued operations for the year ended December 31, 2015 primarily reflect operating income and noncash expenses, as well as

net investments in working capital and other net operating assets of Sikorsky.

2015 Compared with 2014

Cash flows from discontinued operations for the year ended December 31, 2015 primarily reflect those from investing activities, which includes the proceeds of \$9.1 billion from the sale of Sikorsky to Lockheed Martin Corp. in November 2015, as discussed above.

For the year ended December 31, 2014, cash flows provided by discontinued operations primarily reflect cash provided by Sikorsky operating income of approximately \$150 million and noncash charges, including \$438 million of charges related to the change in estimate resulting from contract amendments signed with the Canadian government for the CH-148 derivative of the H-92 helicopter, a military variant of the S-92 helicopter (the Cyclone Helicopter program), partially offset by working capital investments in inventories. Cash flows used in investing activities of \$113 million were primarily related to capital expenditures of Sikorsky.

CRITICAL ACCOUNTING ESTIMATES

Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Consolidated Financial Statements describes the significant accounting policies used in preparation of the Consolidated Financial Statements. Management believes the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. The most significant areas involving management judgments and estimates are described below. Actual results in these areas could differ from management's estimates.

Long-Term Contract Accounting. We utilize percentage-of-completion accounting on certain of our long-term contracts. The percentage-of-completion method requires estimates of future revenues and costs over the full term of product and/or service delivery. We also utilize the completed-contract method of accounting on certain lesser value commercial contracts. Under the completed-contract method, sales and cost of sales are recognized when a contract is completed.

Losses, if any, on long-term contracts are provided for when anticipated. We recognize loss provisions on original equipment contracts to the extent that estimated inventoriable manufacturing, engineering, product warranty and product performance guarantee costs, as appropriate, exceed the projected revenue from the products and services contemplated under the contractual arrangement. For new commitments, we generally record loss provisions at the earlier of contract announcement or contract signing except for certain requirements contracts under which losses are recorded based upon receipt of the purchase order which obligates us to perform. For existing commitments, anticipated losses on contracts are recognized in the period in which losses become evident. Products contemplated under the contractual arrangement include products purchased under the contract and, in the large commercial engine and wheels and brakes

businesses, future highly probable sales of replacement parts required by regulation that are expected to be purchased subsequently for incorporation into the original equipment. Revenue projections used in determining contract loss provisions are based upon estimates of the quantity, pricing and timing of future product deliveries. We measure the extent of progress toward completion on our long-term commercial aerospace equipment contracts using units-of-delivery. In addition, we use the cost-to-cost method for elevator and escalator sales, installation and modernization contracts in the commercial businesses and certain aerospace development contracts. For long-term aftermarket contracts, we recognize revenue over the contract period in proportion to the costs expected to be incurred in performing services under the contract. Within commercial aerospace, inventory costs attributable to new engine offerings are recognized based on the average cost per unit expected over the life of each contract using the units-of-delivery method of percentage of completion accounting. Under this method, costs of initial engine deliveries in excess of the projected contract per unit average cost are capitalized, and these capitalized amounts are subsequently expensed as additional engine deliveries occur for engines with costs below the projected contract per unit average cost over the life of the contract. As of December 31, 2016 and 2015, inventories included \$233 million and \$13 million, respectively, of such capitalized amounts. Contract accounting also requires estimates of future costs over the performance period of the contract as well as an estimate of award fees and other sources of revenue.

Contract costs are incurred over a period of time, which can be several years, and the estimation of these costs requires management's judgment. The long-term nature of these contracts, the complexity of the products, and the strict safety and performance standards under which they are regulated can affect our ability to estimate costs precisely. As a result, we review and update our cost estimates on significant contracts on a quarterly basis, and no less frequently than annually for all others, and when circumstances change and warrant a modification to a previous estimate. We record changes in contract estimates primarily using the cumulative catch-up method in accordance with the Revenue Recognition Topic of the FASB ASC.

Income Taxes. The future tax benefit arising from deductible temporary differences and tax carryforwards was \$5.7 billion at December 31, 2016 and \$6.2 billion at December 31, 2015. Management believes that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits, which may be realized over an extended period of time. For those jurisdictions where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided.

In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event we were to determine that we would not be able to

realize all or a portion of our deferred tax assets in the future, we would reduce such amounts through an increase to tax expense in the period in which that determination is made or when tax law changes are enacted. Conversely, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through a decrease to tax expense in the period in which that determination is made.

In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. See Notes 1 and 11 to the Consolidated Financial Statements for further discussion. Also see Note 18 for discussion of UTC administrative review proceedings with the German Tax Office.

Goodwill and Intangible Assets. Our investments in businesses in 2016 totaled \$712 million (including debt assumed of \$2 million). The assets and liabilities of acquired businesses are recorded under the acquisition method of accounting at their estimated fair values at the dates of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying identifiable net assets of acquired businesses. Intangible assets consist of service portfolios, patents, trademarks/tradenames, customer relationships and other intangible assets including a collaboration asset established in connection with our 2012 agreement to acquire Rolls-Royce's ownership and collaboration interests in IAE, as discussed above and in Note 2 to the Consolidated Financial Statements.

Also included within other intangible assets are payments made to secure certain contractual rights to provide product on new commercial aerospace platforms. Such payments are capitalized when there are distinct rights obtained and there are sufficient incremental cash flows to support the recoverability of the assets established. Otherwise, the applicable portion of the payments are expensed. Capitalized payments made on these contractual commitments are amortized as a reduction of sales. We amortize these intangible assets based on the pattern of economic benefit, which typically results in an amortization method other than straight-line. In the aerospace industry, amortization based on the pattern of economic benefit generally results in lower amortization expense during the development period with increasing amortization expense as programs enter full production and aftermarket cycles. If a pattern of economic benefit cannot be reliably determined, a straight-line amortization method is used. The gross value of these contractual commitments at December 31, 2016 was approximately \$10.8 billion, of which approximately \$2.0 billion has been paid to date. We record these payments as intangible assets when such payments

are no longer conditional. The recoverability of these intangibles is dependent upon the future success and profitability of the underlying aircraft platforms including the associated aftermarket revenue streams.

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual, or more frequent if necessary, impairment testing using the guidance and criteria described in the Intangibles — Goodwill and Other Topic of the FASB ASC. This testing compares carrying values to fair values and, when appropriate, the carrying values of these assets are reduced to fair value. In developing our estimates for the fair value of our reporting units, significant judgment is required in the determination of the appropriateness of using a qualitative assessment or quantitative assessment. When quantitative assessments are required or elected to be performed, fair value is primarily based on income approaches using discounted cash flow models which have significant assumptions. Such assumptions are subject to variability from year to year and are directly impacted by global market conditions. We completed our annual impairment testing as of July 1, 2016 and determined that no significant adjustments to the carrying value of goodwill or indefinite lived intangible assets were necessary based on the results of the impairment tests. Although these assets are not currently impaired, there can be no assurance that future impairments will not occur. See Note 2 to the Consolidated Financial Statements for further discussion.

Contingent Liabilities. Our operating units include businesses which sell products and services and conduct operations throughout the world. As described in Note 18 to the Consolidated Financial Statements, contractual, regulatory and other matters, including asbestos claims, in the normal course of business may arise that subject us to claims or litigation. Additionally, we have significant contracts with the U.S. Government, subject to government oversight and audit, which may require significant adjustment of contract prices. We accrue for liabilities associated with these matters when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of then currently available facts with respect to each matter. When no amount within a range of estimates is more likely, the minimum is accrued. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution.

Employee Benefit Plans. We sponsor domestic and foreign defined benefit pension and other postretirement plans. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on plan assets, rate of increase in employee compensation levels, mortality rates, and health care cost increase projections. Assumptions are determined based on company data and appropriate market indicators, and are evaluated each year at December 31. A change in any of these assumptions would have an effect on net periodic pension and postretirement benefit costs reported in the Consolidated Financial Statements.

In the following table, we show the sensitivity of our pension and other postretirement benefit plan liabilities and net annual periodic cost

to a 25 basis point change in the discount rates for benefit obligations, interest cost and service cost as of December 31, 2016:

| (DOLLARS IN MILLIONS) | Increase in Discount Rate of 25 bps | Decrease in Discount Rate of 25 bps |
|---|---|---|
| Pension plans | | |
| Projected benefit obligation | \$ (976) | \$ 1,029 |
| Net periodic pension cost | (70) | 75 |
| Other postretirement benefit plans | | |
| Accumulated postretirement benefit obligation | (14) | 15 |
| Net periodic postretirement benefit cost | (1) | 1 |

These estimates assume no change in the shape or steepness of the company-specific yield curve used to plot the individual spot rates that will be applied to the future cash outflows for future benefit payments in order to calculate interest and service cost. A flattening of the yield curve, from a narrowing of the spread between interest and obligation discount rates, would increase our net periodic pension cost. Conversely, a steepening of the yield curve, from an increase in the spread between interest and obligation discount rates, would decrease our net periodic pension cost.

Pension expense is also sensitive to changes in the expected long-term rate of asset return. An increase or decrease of 25 basis points in the expected long-term rate of asset return would have decreased or increased 2016 pension expense by approximately \$71 million.

The weighted-average discount rates used to measure pension liabilities and costs is set by reference to UTC-specific analysis using each plan's specific cash flows and is then compared to high-quality bond indices for reasonableness. For our significant plans, we utilize a full yield curve approach in the estimation of the service cost and interest cost components by applying the specific spot rates along the yield curve used in determination of the benefit obligation to the relevant projected cash flows. Global market interest rates have decreased in 2016 as compared with 2015 and, as a result, the weighted-average discount rate used to measure pension liabilities decreased from 4.1% in 2015 to 3.8% in 2016. The weighted-average discount rates used to measure service cost and interest cost were 3.8% and 3.4% in 2016, respectively. In December 2009, we amended the salaried retirement plans (qualified and non-qualified) to change the retirement formula effective January 1, 2015. The formula changed from a final average earnings (FAE) and credited service formula to the existing cash balance formula that was adopted in 2003 for newly hired non-union employees and for other non-union employees who made a one-time voluntary election to have future benefit accruals determined under this formula. Employees hired after 2009 are not eligible for any defined benefit pension plan and will instead receive an enhanced benefit under the UTC Savings Plan. As of July 26, 2012 the same amendment was applied to legacy Goodrich salaried employees. Across our global pension plans, the impact of the continued recognition of prior pension investment gains, 2016 actual returns on plan assets and lower discount rates for interest costs, offset by the lower discount rates for pension obligations, will result in a net periodic pension benefit in 2017 consistent with 2016 amounts.

See Note 12 to the Consolidated Financial Statements for further discussion.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

We extend a variety of financial guarantees to third parties in support of unconsolidated affiliates and for potential financing requirements of commercial aerospace customers. We also have obligations arising from sales of certain businesses and assets, including indemnities for representations and warranties and environmental, health and safety, tax and employment matters. Circumstances that could cause the contingent obligations and liabilities arising from these arrangements to come to fruition include changes in an underlying transaction (e.g., hazardous waste discoveries, etc.), nonperformance under a contract, customer requests for financing, or deterioration in the financial condition of the guaranteed party.

A summary of our consolidated contractual obligations and commitments as of December 31, 2016 is as follows:

| (DOLLARS IN MILLIONS) | Total | Payments Due by Period | | | |
|--------------------------------------|------------------|------------------------|-----------|-----------|------------|
| | | 2017 | 2018–2019 | 2020–2021 | Thereafter |
| Long-term debt—principal | \$ 23,299 | \$ 1,603 | \$ 3,311 | \$ 3,494 | \$ 14,891 |
| Long-term debt—future interest | 13,287 | 855 | 1,637 | 1,424 | 9,371 |
| Operating leases | 2,094 | 462 | 640 | 354 | 638 |
| Purchase obligations | 13,882 | 8,145 | 5,034 | 631 | 72 |
| Other long-term liabilities | 3,731 | 1,126 | 1,382 | 404 | 819 |
| Total contractual obligations | \$ 56,293 | \$ 12,191 | \$ 12,004 | \$ 6,307 | \$ 25,791 |

Purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, delivery and termination liability. Approximately 14% of the purchase obligations disclosed above represent purchase orders for products to be delivered under firm contracts with the U.S. Government for which we have full recourse under customary contract termination clauses.

Other long-term liabilities primarily include those amounts on our December 31, 2016 balance sheet representing obligations under product service and warranty policies, performance and operating cost guarantees, estimated environmental remediation costs and expected contributions under employee benefit programs. The timing of expected cash flows associated with these obligations is based upon management's estimates over the terms of these agreements and is largely based upon historical experience.

In connection with the acquisition of Goodrich in 2012, we recorded assumed liabilities of approximately \$2.2 billion related to customer contractual obligations on certain OEM development programs where the expected costs exceeded the expected revenue under contract. These liabilities are being liquidated in accordance with the underlying economic pattern of obligations, as reflected by the net cash outflows incurred on the OEM contracts. Total consumption of the contractual obligations for the year ended December 31, 2016

was approximately \$213 million. Total future consumption of the contractual obligations is expected to be as follows: \$251 million in 2017, \$248 million in 2018, \$222 million in 2019, \$149 million in 2020, \$83 million in 2021 and \$250 million thereafter. These amounts are not included in the table above.

The above table also does not reflect unrecognized tax benefits of \$1,086 million, the timing of which is uncertain, except for approximately \$9 million that may become payable during 2017. Refer to Note 11 to the Consolidated Financial Statements for additional discussion on unrecognized tax benefits.

COMMERCIAL COMMITMENTS

The following table summarizes our commercial commitments outstanding as of December 31, 2016:

| (DOLLARS IN MILLIONS) | Committed | Amount of Commitment Expiration per Period | | | |
|--|-----------|--|-------------|-------------|------------|
| | | 2017 | 2018 – 2019 | 2020 – 2021 | Thereafter |
| Commercial aerospace financing commitments | \$ 2,358 | \$ 435 | \$ 937 | \$ 641 | \$ 345 |
| Other commercial aerospace commitments | 12,063 | 860 | 1,711 | 1,436 | 8,056 |
| Commercial aerospace financing arrangements | 348 | 8 | 2 | 21 | 317 |
| Credit facilities and debt obligations (expire 2017 to 2028) | 270 | 252 | 6 | — | 12 |
| Performance guarantees | 55 | 7 | — | 39 | 9 |
| Total commercial commitments | \$ 15,094 | \$ 1,562 | \$ 2,656 | \$ 2,137 | \$ 8,739 |

In connection with our 2012 agreement to acquire Rolls-Royce's ownership and collaboration interests in IAE, additional payments are due to Rolls-Royce contingent upon each hour flown through June 2027 by the V2500-powered aircraft in service as of the acquisition date. These flight hour payments, included in "Other commercial aerospace commitments" in the table above, are being capitalized as collaboration intangible assets.

We also have other contractual commitments, including commitments to secure certain contractual rights to provide product on new aircraft platforms, which are included in "Other commercial aerospace commitments" in the table above. Such payments are capitalized when distinct rights are obtained and there are sufficient incremental cash flows to support the recoverability of the assets established. Otherwise, the applicable portion of the payments are expensed. Capitalized payments made on these contractual commitments are included in intangible assets and are amortized over the term of underlying economic benefit.

Refer to Notes 1, 5 and 17 to the Consolidated Financial Statements for additional discussion on contractual and commercial commitments.

MARKET RISK AND RISK MANAGEMENT

We are exposed to fluctuations in foreign currency exchange rates, interest rates and commodity prices. To manage certain of those exposures, we use derivative instruments, including swaps, forward

contracts and options. Derivative instruments utilized by us in our hedging activities are viewed as risk management tools, involve little complexity and are not used for trading or speculative purposes. We diversify the counterparties used and monitor the concentration of risk to limit our counterparty exposure.

We have evaluated our exposure to changes in foreign currency exchange rates, interest rates and commodity prices in our market risk sensitive instruments, which are primarily cash, debt and derivative instruments, using a value at risk analysis. Based on a 95% confidence level and a one-day holding period, at December 31, 2016, the potential loss in fair value on our market risk sensitive instruments was not material in relation to our financial position, results of operations or cash flows. Our calculated value at risk exposure represents an estimate of reasonably possible net losses based on volatilities and correlations and is not necessarily indicative of actual results. Refer to Notes 1, 9 and 14 to the Consolidated Financial Statements for additional discussion of foreign currency exchange, interest rates and financial instruments.

Foreign Currency Exposures. We have a large volume of foreign currency exposures that result from our international sales, purchases, investments, borrowings and other international transactions. International segment sales, excluding U.S. export sales, averaged approximately \$26 billion over the last three years. We actively manage foreign currency exposures that are associated with committed foreign currency purchases and sales, and other assets and liabilities created in the normal course of business at the operating unit level. More than insignificant exposures that cannot be naturally offset within an operating unit are hedged with foreign currency derivatives. We also have a significant amount of foreign currency net asset exposures. As discussed in Note 9 to the Consolidated Financial Statements, at December 31, 2016 we have approximately €2.95 billion of Euro-denominated long-term debt and €500 million of outstanding Euro-denominated commercial paper borrowings, which qualify as a net investment hedge against our investments in European businesses. As of December 31, 2016, the net investment hedge is deemed to be effective. Currently, we do not hold any derivative contracts that hedge our foreign currency net asset exposures but may consider such strategies in the future.

Within aerospace, our sales are typically denominated in U.S. Dollars under accepted industry convention. However, for our non-U.S. based entities, such as P&WC, a substantial portion of their costs are incurred in local currencies. Consequently, there is a foreign currency exchange impact and risk to operational results as U.S. Dollars must be converted to local currencies such as the Canadian Dollar in order to meet local currency cost obligations. In order to minimize the exposure that exists from changes in the exchange rate of the U.S. Dollar against these other currencies, we hedge a certain portion of sales to secure the rates at which U.S. Dollars will be converted. The majority of this hedging activity occurs at P&WC, and hedging activity also occurs to a lesser extent at certain UTC Aerospace Systems businesses. At P&WC, firm and forecasted sales for both engines and spare parts are hedged at varying amounts for up to 48 months on the U.S. Dollar

sales exposure as represented by the excess of U.S. Dollar sales over U.S. Dollar denominated purchases. Hedging gains and losses resulting from movements in foreign currency exchange rates are partially offset by the foreign currency translation impacts that are generated on the translation of local currency operating results into U.S. Dollars for reporting purposes. While the objective of the hedging program is to minimize the foreign currency exchange impact on operating results, there are typically variances between the hedging gains or losses and the translational impact due to the length of hedging contracts, changes in the sales profile, volatility in the exchange rates and other such operational considerations.

Interest Rate Exposures. Our long-term debt portfolio consists mostly of fixed-rate instruments. From time to time, we may hedge to floating rates using interest rate swaps. The hedges are designated as fair value hedges and the gains and losses on the swaps are reported in interest expense, reflecting that portion of interest expense at a variable rate. We issue commercial paper, which exposes us to changes in interest rates. Currently, we do not hold any derivative contracts that hedge our interest exposures, but may consider such strategies in the future.

Commodity Price Exposures. We are exposed to volatility in the prices of raw materials used in some of our products and from time to time we may use forward contracts in limited circumstances to manage some of those exposures. In the future, if hedges are used, gains and losses may affect earnings. There were no significant outstanding commodity hedges as of December 31, 2016.

ENVIRONMENTAL MATTERS

Our operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. As a result, we have established, and continually update, policies relating to environmental standards of performance for our operations worldwide. We believe that expenditures necessary to comply with the present regulations governing environmental protection will not have a material effect upon our competitive position, results of operations, cash flows or financial condition.

We have identified 725 locations, mostly in the United States, at which we may have some liability for remediating contamination. We have resolved our liability at 346 of these locations. We do not believe that any individual location's exposure will have a material effect on our results of operations. Sites in the investigation, remediation or operation and maintenance stage represent approximately 93% of our accrued environmental remediation reserve.

We have been identified as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA or Superfund) at 127 sites. The number of

Superfund sites, in and of itself, does not represent a relevant measure of liability because the nature and extent of environmental concerns vary from site to site and our share of responsibility varies from sole responsibility to very little responsibility. In estimating our liability for remediation, we consider our likely proportionate share of the anticipated remediation expense and the ability of other potentially responsible parties to fulfill their obligations.

At December 31, 2016 and 2015, we had \$829 million and \$837 million reserved for environmental remediation, respectively. Cash outflows for environmental remediation were \$44 million in 2016, \$50 million in 2015 and \$63 million in 2014. We estimate that ongoing environmental remediation expenditures in each of the next two years will not exceed approximately \$84 million.

ASBESTOS MATTERS

As a result of the definitization of the insurance coverage for existing and potential future asbestos claims through the negotiation and establishment of settlement agreements during 2015, as well as the stabilization of company and industry experience, we established a reserve for our potential asbestos exposure, recording a noncash pretax charge to earnings of \$237 million in the fourth quarter of 2015.

Our estimated total liability to resolve all pending and unasserted potential future asbestos claims through 2059 is approximately \$374 million and is principally recorded in Other long-term liabilities on our Consolidated Balance Sheet as of December 31, 2016. This amount is on a pre-tax basis, not discounted, and excludes the Company's legal fees to defend the asbestos claims (which will continue to be expensed by the Company as they are incurred). In addition, the Company has an insurance recovery receivable for probable asbestos related recoveries of approximately \$124 million, which is included primarily in Other assets on our Consolidated Balance Sheet as of December 31, 2016. See Note 18 "Contingent Liabilities" of our Consolidated Financial Statements for further discussion of this matter.

GOVERNMENT MATTERS

As described in "Critical Accounting Estimates — Contingent Liabilities," our contracts with the U.S. Government are subject to audits. Such audits may recommend that certain contract prices should be reduced to comply with various government regulations, or that certain payments be delayed or withheld. We are also the subject of one or more investigations and legal proceedings initiated by the U.S. Government with respect to government contract matters. See "Legal Proceedings" in Item 1 to this Form 10-K, and Note 11 "Income Taxes" and Note 18 "Contingent Liabilities" of our Consolidated Financial Statements for further discussion of these and other government matters.

Cautionary Note Concerning Factors That May Affect Future Results

This 2016 Annual Report to Shareowners (2016 Annual Report) contains statements which, to the extent they are not statements of historical or present fact, constitute “forward-looking statements” under the securities laws. From time to time, oral or written forward-looking statements may also be included in other information released to the public. These forward-looking statements are intended to provide management’s current expectations or plans for our future operating and financial performance, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as “believe,” “expect,” “expectations,” “plans,” “strategy,” “prospects,” “estimate,” “project,” “target,” “anticipate,” “will,” “should,” “see,” “guidance,” “confident” and other words of similar meaning in connection with a discussion of future operating or financial performance. Forward-looking statements may include, among other things, statements relating to future sales, earnings, cash flow, results of operations, uses of cash, share repurchases and other measures of financial performance or potential future plans, strategies or transactions. All forward-looking statements involve risks, uncertainties and other factors that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995. Such risks, uncertainties and other factors include, without limitation:

- the effect of economic conditions in the industries and markets in which we operate in the U.S. and globally and any changes therein, including financial market conditions, fluctuations in commodity prices, interest rates and foreign currency exchange rates, levels of end market demand in construction and in both the commercial and defense segments of the aerospace industry, levels of air travel, financial condition of commercial airlines, the impact of weather conditions and natural disasters and the financial condition of our customers and suppliers;
- challenges in the development, production, delivery, support, performance and realization of the anticipated benefits of advanced technologies and new products and services;
- future levels of indebtedness and capital spending and research and development spending;
- future availability of credit and factors that may affect such availability, including credit market conditions and our capital structure;
- the timing and scope of future repurchases of our common stock, which may be suspended at any time due to various factors, including market conditions and the level of other investing activities and uses of cash;
- delays and disruption in delivery of materials and services from suppliers;
- company and customer- directed cost reduction efforts and restructuring costs and savings and other consequences thereof;
- the scope, nature, impact or timing of acquisition and divestiture activity, including among other things integration of acquired businesses into our existing businesses and realization of synergies and opportunities for growth and innovation;
- new business opportunities;
- our ability to realize the intended benefits of organizational changes;
- the anticipated benefits of diversification and balance of operations across product lines, regions and industries;
- the outcome of legal proceedings, investigations and other contingencies;
- pension plan assumptions and future contributions;
- the impact of the negotiation of collective bargaining agreements and labor disputes;
- the effect of changes in political conditions in the U.S. and other countries in which we operate, including the effect of changes in U.S. trade policies or the U.K.’s pending withdrawal from the EU, on general market conditions, global trade policies and currency exchange rates in the near term and beyond; and
- the effect of changes in tax, environmental, regulatory (including among other things import/export) and other laws and regulations in the U.S. and other countries in which we operate.

In addition, our Annual Report on Form 10-K for 2016 includes important information as to risks, uncertainties and other factors that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. See the “Notes to Consolidated Financial Statements” under the heading “Note 18: Contingent Liabilities,” the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Business Overview,” “Results of Operations,” “Liquidity and Financial Condition,” and “Critical Accounting Estimates,” and the section titled “Risk Factors.” Our Annual Report on Form 10-K for 2016 also includes important information as to these factors in the “Business” section under the headings “General,” “Description of Business by Segment” and “Other Matters Relating to Our Business as a Whole,” and in the “Legal Proceedings” section. Additional important information as to these factors is included in this 2016 Annual Report in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Restructuring Costs,” “Environmental Matters” and “Governmental Matters.” The forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. Additional information as to factors that may cause actual results to differ materially from those expressed or implied in the forward-looking statements is disclosed from time to time in our other filings with the SEC.

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Management's Report on Internal Control over Financial Reporting

The management of UTC is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of UTC's internal control over financial reporting as of December 31, 2016. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in its *Internal Control – Integrated Framework*, released in 2013. Management concluded that based on its assessment, UTC's internal control over financial reporting was effective as of December 31, 2016. The effectiveness of UTC's internal control over financial reporting, as of December 31, 2016, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.



Gregory J. Hayes

Chairman, President and Chief Executive Officer



Akhil Johri

Executive Vice President & Chief Financial Officer



Robert J. Bailey

Corporate Vice President, Controller

TO THE BOARD OF DIRECTORS AND SHAREOWNERS OF UNITED TECHNOLOGIES CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statement of operations, of comprehensive income, of cash flows and of changes in equity present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Corporation's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the

circumstances. We believe that our audits provide a reasonable basis for our opinions.

As disclosed in Note 1 to the consolidated financial statements, the Corporation changed the presentation and classification of certain cash receipts and cash payments and the presentation of restricted cash in the statement of cash flows, as well as the classification and presentation of certain employee share-based payment transactions and the tax-related cash flows resulting from these payments.

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

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

Hartford, Connecticut
February 9, 2017

Consolidated Statement of Operations

| (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS; SHARES IN MILLIONS) | 2016 | 2015 | 2014 |
|---|------------------|-----------|-----------|
| Net Sales: | | | |
| Product sales | \$ 40,735 | \$ 39,801 | \$ 41,545 |
| Service sales | 16,509 | 16,297 | 16,355 |
| | 57,244 | 56,098 | 57,900 |
| Costs and Expenses: | | | |
| Cost of products sold | 30,325 | 29,771 | 30,367 |
| Cost of services sold | 11,135 | 10,660 | 10,531 |
| Research and development | 2,337 | 2,279 | 2,475 |
| Selling, general and administrative | 6,060 | 5,886 | 6,172 |
| | 49,857 | 48,596 | 49,545 |
| Other income (expense), net | 785 | (211) | 1,238 |
| Operating profit | 8,172 | 7,291 | 9,593 |
| Interest expense, net | 1,039 | 824 | 881 |
| Income from continuing operations before income taxes | 7,133 | 6,467 | 8,712 |
| Income tax expense | 1,697 | 2,111 | 2,244 |
| Net income from continuing operations | 5,436 | 4,356 | 6,468 |
| Less: Noncontrolling interest in subsidiaries' earnings from continuing operations | 371 | 360 | 402 |
| Income from continuing operations attributable to common shareowners | 5,065 | 3,996 | 6,066 |
| Discontinued operations (Note 3): | | | |
| Income from operations | 1 | 252 | 175 |
| Gain on disposal | 13 | 6,042 | — |
| Income tax expense | (24) | (2,684) | (20) |
| Net (loss) income from discontinued operations | (10) | 3,610 | 155 |
| Less: Noncontrolling interest in subsidiaries' (loss) earnings from discontinued operations | — | (2) | 1 |
| (Loss) Income from discontinued operations attributable to common shareowners | (10) | 3,612 | 154 |
| Net income attributable to common shareowners | \$ 5,055 | \$ 7,608 | \$ 6,220 |
| Earnings Per Share of Common Stock — Basic: | | | |
| Net income from continuing operations attributable to common shareowners | \$ 6.19 | \$ 4.58 | \$ 6.75 |
| Net income attributable to common shareowners | \$ 6.18 | \$ 8.72 | \$ 6.92 |
| Earnings Per Share of Common Stock — Diluted: | | | |
| Net income from continuing operations attributable to common shareowners | \$ 6.13 | \$ 4.53 | \$ 6.65 |
| Net income attributable to common shareowners | \$ 6.12 | \$ 8.61 | \$ 6.82 |
| Dividends Per Share of Common Stock | \$ 2.62 | \$ 2.56 | \$ 2.36 |
| Weighted average number of shares outstanding: | | | |
| Basic shares | 818.2 | 872.7 | 898.3 |
| Diluted shares | 826.1 | 883.2 | 911.6 |

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|-----------------|----------|----------|
| Net income from continuing operations | \$ 5,436 | \$ 4,356 | \$ 6,468 |
| Net (loss) income from discontinued operations | (10) | 3,610 | 155 |
| Net income | 5,426 | 7,966 | 6,623 |
| Other comprehensive loss, net of tax | | | |
| Foreign currency translation adjustments | | | |
| Foreign currency translation adjustments arising during period | (1,089) | (1,502) | (1,302) |
| Reclassification adjustments from sale of an investment in a foreign entity recognized in net income | — | 42 | 7 |
| | (1,089) | (1,460) | (1,295) |
| Pension and postretirement benefit plans | | | |
| Net actuarial loss arising during period | (785) | (284) | (4,362) |
| Prior service cost arising during period | (13) | (37) | (5) |
| Other | 542 | 326 | 121 |
| Amortization of actuarial loss and prior service cost | 535 | 867 | 416 |
| | 279 | 872 | (3,830) |
| Tax (expense) benefit | (189) | (298) | 1,388 |
| | 90 | 574 | (2,442) |
| Unrealized gain (loss) on available-for-sale securities | | | |
| Unrealized holding gain arising during period | 190 | 28 | 35 |
| Reclassification adjustments for gain included in Other income, net | (94) | (54) | (20) |
| | 96 | (26) | 15 |
| Tax (expense) benefit | (36) | 11 | (3) |
| | 60 | (15) | 12 |
| Change in unrealized cash flow hedging | | | |
| Unrealized cash flow hedging gain (loss) arising during period | 75 | (415) | (263) |
| Loss reclassified into Product sales | 171 | 234 | 96 |
| | 246 | (181) | (167) |
| Tax (expense) benefit | (69) | 51 | 37 |
| | 177 | (130) | (130) |
| Other comprehensive loss, net of tax | (762) | (1,031) | (3,855) |
| Comprehensive income | 4,664 | 6,935 | 2,768 |
| Less: comprehensive income attributable to noncontrolling interest | (324) | (285) | (329) |
| Comprehensive income attributable to common shareowners | \$ 4,340 | \$ 6,650 | \$ 2,439 |

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheet

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS; SHARES IN THOUSANDS)

| | 2016 | 2015 |
|---|-----------|-----------|
| Assets | | |
| Cash and cash equivalents | \$ 7,157 | \$ 7,075 |
| Accounts receivable (net of allowance for doubtful accounts of \$450 and \$504) | 11,481 | 10,653 |
| Inventories and contracts in progress, net | 8,704 | 8,135 |
| Other assets, current | 1,208 | 843 |
| Total Current Assets | 28,550 | 26,706 |
| Customer financing assets | 1,398 | 1,018 |
| Future income tax benefits | 1,809 | 1,961 |
| Fixed assets, net | 9,158 | 8,732 |
| Goodwill | 27,059 | 27,301 |
| Intangible assets, net | 15,684 | 15,603 |
| Other assets | 6,048 | 6,163 |
| Total Assets | \$ 89,706 | \$ 87,484 |
| Liabilities and Equity | | |
| Short-term borrowings | \$ 601 | \$ 926 |
| Accounts payable | 7,483 | 6,875 |
| Accrued liabilities | 12,219 | 14,638 |
| Long-term debt currently due | 1,603 | 179 |
| Total Current Liabilities | 21,906 | 22,618 |
| Long-term debt | 21,697 | 19,320 |
| Future pension and postretirement benefit obligations | 5,612 | 6,022 |
| Other long-term liabilities | 11,026 | 10,558 |
| Total Liabilities | 60,241 | 58,518 |
| Commitments and contingent liabilities (Notes 5 and 18) | | |
| Redeemable noncontrolling interest | 296 | 122 |
| Shareowners' Equity: | | |
| Capital Stock: | | |
| Preferred Stock, \$1 par value; 250,000 shares authorized; None issued or outstanding | — | — |
| Common Stock, \$1 par value; 4,000,000 shares authorized; 1,440,982 and 1,438,497 shares issued | 17,285 | 16,033 |
| Treasury Stock — 632,281 and 600,153 common shares at average cost | (34,150) | (30,907) |
| Retained earnings | 52,873 | 49,956 |
| Unearned ESOP shares | (95) | (105) |
| Total Accumulated other comprehensive loss | (8,334) | (7,619) |
| Total Shareowners' Equity | 27,579 | 27,358 |
| Noncontrolling interest | 1,590 | 1,486 |
| Total Equity | 29,169 | 28,844 |
| Total Liabilities and Equity | \$ 89,706 | \$ 87,484 |

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|---|-----------------|----------|----------|
| Operating Activities of Continuing Operations: | | | |
| Income from continuing operations | \$ 5,436 | \$ 4,356 | \$ 6,468 |
| Adjustments to reconcile income from continuing operations to net cash flows provided by operating activities of continuing operations: | | | |
| Depreciation and amortization | 1,962 | 1,863 | 1,820 |
| Deferred income tax provision | 398 | 662 | 403 |
| Stock compensation cost | 152 | 158 | 219 |
| Canadian government settlement | (237) | 867 | — |
| Change in: | | | |
| Accounts receivable | (941) | (438) | 111 |
| Inventories and contracts in progress | (719) | (766) | (636) |
| Other current assets | 49 | (55) | (115) |
| Accounts payable and accrued liabilities | 450 | 490 | (89) |
| Global pension contributions | (303) | (147) | (517) |
| Other operating activities, net | 165 | (235) | (685) |
| Net cash flows provided by operating activities of continuing operations | 6,412 | 6,755 | 6,979 |
| Investing Activities of Continuing Operations: | | | |
| Capital expenditures | (1,699) | (1,652) | (1,594) |
| Increase in customer financing assets | (438) | (364) | (202) |
| Decrease in customer financing assets | 217 | 117 | 331 |
| Investments in businesses | (710) | (538) | (402) |
| Dispositions of businesses | 211 | 200 | 344 |
| Increase in collaboration intangible assets | (388) | (437) | (593) |
| Receipts from settlements of derivative contracts | 249 | 160 | 93 |
| Other investing activities, net | 49 | (280) | 56 |
| Net cash flows used in investing activities of continuing operations | (2,509) | (2,794) | (1,967) |
| Financing Activities of Continuing Operations: | | | |
| Issuance of long-term debt | 6,469 | 1,744 | 98 |
| Repayment of long-term debt | (2,452) | (1,764) | (304) |
| (Decrease) increase in short-term borrowings, net | (331) | 795 | (346) |
| Proceeds from Common Stock issuance — equity unit settlement | — | 1,100 | — |
| Proceeds from Common Stock issued under employee stock plans | 13 | 41 | 187 |
| Dividends paid on Common Stock | (2,069) | (2,184) | (2,048) |
| Repurchase of Common Stock | (2,254) | (10,000) | (1,500) |
| Other financing activities, net | (564) | (508) | (336) |
| Net cash flows used in financing activities of continuing operations | (1,188) | (10,776) | (4,249) |
| Discontinued Operations: | | | |
| Net cash (used in) provided by operating activities | (2,532) | (372) | 342 |
| Net cash provided by (used in) investing activities | 6 | 9,000 | (113) |
| Net cash used in financing activities | — | (9) | (12) |
| Net cash flows (used in) provided by discontinued operations | (2,526) | 8,619 | 217 |
| Effect of foreign exchange rate changes on cash and cash equivalents | (120) | (174) | (156) |
| Net increase in cash, cash equivalents and restricted cash | 69 | 1,630 | 824 |
| Cash, cash equivalents and restricted cash, beginning of year | 7,120 | 5,490 | 4,666 |
| Cash, cash equivalents and restricted cash, end of year | 7,189 | 7,120 | 5,490 |
| Less: Cash and cash equivalents of businesses held for sale | — | — | 6 |
| Less: Restricted cash, included in Other assets | 32 | 45 | 255 |
| Cash and cash equivalents of continuing operations, end of year | \$ 7,157 | \$ 7,075 | \$ 5,229 |
| Supplemental Disclosure of Cash Flow Information: | | | |
| Interest paid, net of amounts capitalized | \$ 1,157 | \$ 1,057 | \$ 1,076 |
| Income taxes paid, net of refunds | \$ 4,096 | \$ 2,060 | \$ 2,024 |
| Noncash investing and financing activities include: | | | |
| Contributions of UTC Common Stock to domestic defined benefit pension plans | \$ — | \$ 250 | \$ — |

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Changes in Equity

| (DOLLARS IN MILLIONS) | Common Stock |
|--|------------------|
| Balance at December 31, 2013 | \$ 14,764 |
| Comprehensive income (loss): | |
| Net income | |
| Redeemable noncontrolling interest in subsidiaries' earnings | |
| Other comprehensive loss, net of tax | |
| Common Stock issued under employee plans (6.2 million shares), net of tax benefit of \$103 | 607 |
| Common Stock repurchased (13.5 million shares) | |
| Dividends on Common Stock | |
| Dividends on ESOP Common Stock | |
| Dividends attributable to noncontrolling interest | |
| Purchase of subsidiary shares from noncontrolling interest | (75) |
| Sale of subsidiary shares in noncontrolling interest | 4 |
| Redeemable noncontrolling interest reclassification to noncontrolling interest | |
| Other | |
| Balance at December 31, 2014 | \$ 15,300 |
| Comprehensive income (loss): | |
| Net income | |
| Redeemable noncontrolling interest in subsidiaries' earnings | |
| Other comprehensive loss, net of tax | |
| Common Stock issued — equity unit settlement (11.3 million shares) | 1,100 |
| Common Stock issued under employee plans (3.7 million shares), net of tax benefit of \$64 | 379 |
| Common Stock contributed to defined benefit pension plans (2.7 million shares) | 112 |
| Common Stock repurchased (88.7 million shares) | (870) |
| Dividends on Common Stock | |
| Dividends on ESOP Common Stock | |
| Dividends attributable to noncontrolling interest | |
| Purchase of subsidiary shares from noncontrolling interest | (12) |
| Sale of subsidiary shares in noncontrolling interest | 24 |
| Acquisition of noncontrolling interest | |
| Disposition of noncontrolling interest | |
| Redeemable noncontrolling interest fair value adjustment | |
| Balance at December 31, 2015 | \$ 16,033 |
| Comprehensive income (loss): | |
| Net income | |
| Redeemable noncontrolling interest in subsidiaries' earnings | |
| Other comprehensive loss, net of tax | |
| Common Stock issued under employee plans (2.5 million shares) | 262 |
| Common Stock repurchased (32.3 million shares) | 998 |
| Dividends on Common Stock | |
| Dividends on ESOP Common Stock | |
| Dividends attributable to noncontrolling interest | |
| Purchase of subsidiary shares from noncontrolling interest | (8) |
| Sale of subsidiary shares in noncontrolling interest | |
| Acquisition of noncontrolling interest | |
| Redeemable noncontrolling interest fair value adjustment | |
| Redeemable noncontrolling interest reclassification to noncontrolling interest | |
| Other | |
| Balance at December 31, 2016 | \$ 17,285 |

See accompanying Notes to Consolidated Financial Statements

| Shareowners' Equity | | | | | | |
|---------------------|-------------------|----------------------|---|-------------------------|------------------|------------------------------------|
| Treasury Stock | Retained Earnings | Unearned ESOP Shares | Accumulated Other Comprehensive (Loss) Income | Noncontrolling Interest | Total Equity | Redeemable Noncontrolling Interest |
| \$ (20,431) | \$ 40,539 | \$ (126) | \$ (2,880) | \$ 1,353 | \$ 33,219 | \$ 111 |
| | 6,220 | | | 403 | 6,623 | |
| | | | | (9) | (9) | 9 |
| | | | (3,781) | (67) | (3,848) | (7) |
| 9 | (29) | 11 | | | 598 | |
| (1,500) | | | | | (1,500) | |
| | (2,048) | | | | (2,048) | |
| | (71) | | | | (71) | |
| | | | | (318) | (318) | (3) |
| | | | | (18) | (93) | |
| | | | | 11 | 15 | |
| | | | | (16) | (16) | 16 |
| | | | | 12 | 12 | 14 |
| \$ (21,922) | \$ 44,611 | \$ (115) | \$ (6,661) | \$ 1,351 | \$ 32,564 | \$ 140 |
| | 7,608 | | | 358 | 7,966 | |
| | | | | (4) | (4) | 4 |
| | | | (958) | (61) | (1,019) | (12) |
| | | | | | 1,100 | |
| 7 | (2) | 10 | | | 394 | |
| 138 | | | | | 250 | |
| (9,130) | | | | | (10,000) | |
| | (2,184) | | | | (2,184) | |
| | (75) | | | | (75) | |
| | | | | (337) | (337) | (3) |
| | | | | (5) | (17) | (9) |
| | | | | 15 | 39 | |
| | | | | 173 | 173 | |
| | | | | (4) | (4) | |
| | (2) | | | | (2) | 2 |
| \$ (30,907) | \$ 49,956 | \$ (105) | \$ (7,619) | \$ 1,486 | \$ 28,844 | \$ 122 |
| | 5,055 | | | 371 | 5,426 | |
| | | | | (6) | (6) | 6 |
| | | | (715) | (27) | (742) | (20) |
| 9 | | 10 | | | 281 | |
| (3,252) | | | | | (2,254) | |
| | (2,069) | | | | (2,069) | |
| | (74) | | | | (74) | |
| | | | | (345) | (345) | (2) |
| | | | | (1) | (9) | (4) |
| | | | | 25 | 25 | |
| | | | | 98 | 98 | 189 |
| | (1) | | | | (1) | 1 |
| | | | | (12) | (12) | 12 |
| | 6 | | | 1 | 7 | (8) |
| \$ (34,150) | \$ 52,873 | \$ (95) | \$ (8,334) | \$ 1,590 | \$ 29,169 | \$ 296 |

NOTE 1: SUMMARY OF ACCOUNTING PRINCIPLES

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

Consolidation. The Consolidated Financial Statements include the accounts of United Technologies Corporation (UTC) and its controlled subsidiaries. Intercompany transactions have been eliminated.

Cash and Cash Equivalents. Cash and cash equivalents includes cash on hand, demand deposits and short-term cash investments that are highly liquid in nature and have original maturities of three months or less.

On occasion, we are required to maintain cash deposits with certain banks with respect to contractual obligations related to acquisitions or divestitures or other legal obligations. As of December 31, 2016 and 2015, the amount of such restricted cash was approximately \$32 million and \$45 million, respectively.

Accounts Receivable. Current and long-term accounts receivable as of December 31, 2016 include retainage of \$106 million and unbilled receivables of \$2,786 million, which includes approximately \$1,169 million of unbilled receivables under commercial aerospace long-term aftermarket contracts. Current and long-term accounts receivable as of December 31, 2015 include retainage of \$141 million and unbilled receivables of \$2,318 million, which includes approximately \$1,091 million of unbilled receivables under commercial aerospace long-term aftermarket contracts. See Note 5 for discussion of commercial aerospace industry assets and commitments.

Retainage represents amounts that, pursuant to the applicable contract, are not due until project completion and acceptance by the customer. Unbilled receivables represent revenues that are not currently billable to the customer under the terms of the contract. These items are expected to be billed and collected in the normal course of business.

Marketable Equity Securities. Equity securities that have a readily determinable fair value and that we do not intend to trade are classified as available-for-sale and carried at fair value. Unrealized holding gains and losses are recorded as a separate component of shareowners' equity, net of deferred income taxes.

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, *Financial Instruments — Credit Losses (Topic 328): Measurement of Credit Losses on Financial Instruments*. This ASU requires that certain financial assets, including those measured at amortized cost basis, be presented at the net amount expected to be collected, utilizing an impairment model known as the current expected credit loss model. In addition, available-for-sale debt securities will no longer use the concept of "other than temporary" when considering credit losses. Under this ASU, entities must use an allowance approach for credit losses on available-for-sale debt securities, and the allowance must be limited to the amount at which a security's fair value is below the amortized cost of the asset. The provisions of this ASU are effective for years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of this ASU.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Upon adoption, investments that do not result in consolidation and are not accounted for under the equity method generally must be carried at fair value, with changes in fair value recognized in net income. As discussed in Note 10, we have approximately \$353 million of unrealized gains on these securities recorded in Accumulated other comprehensive loss in our Consolidated Balance Sheet as of December 31, 2016. To the extent currently unrealized gains or losses on these investments are not realized through sale or other actions prior to the date of adoption, these amounts would be recorded directly to retained earnings upon adoption. The provisions of this ASU are effective for years beginning after December 15, 2017.

Inventories and Contracts in Progress. Inventories and contracts in progress are stated at the lower of cost or estimated realizable value and are primarily based on first-in, first-out (FIFO) or average cost methods; however, certain UTC Aerospace Systems and UTC Climate, Controls & Security entities use the last-in, first-out (LIFO) method. If inventories that were valued using the LIFO method had been valued under the FIFO method, they would have been higher by \$114 million and \$127 million at December 31, 2016 and 2015, respectively.

Costs accumulated against specific contracts or orders are at actual cost. Valuation reserves for excess, obsolete, and slow-moving inventory are estimated by comparing the inventory levels of individual parts to both future sales forecasts or production requirements and historical usage rates in order to identify inventory where the resale value or replacement value is less than inventoriable cost. Other factors that management considers in determining the adequacy of these reserves include whether individual inventory parts meet current specifications and cannot be substituted for a part currently being sold or used as a service part, overall market conditions, and other inventory management initiatives. Manufacturing costs are allocated to current production and firm contracts. Within commercial aerospace, inventory costs attributable to new engine offerings are recognized based on the average cost per unit expected over the life of each contract using the units-of-delivery method of percentage of completion accounting. Under this method, costs of initial engine deliveries in excess of the projected contract per unit average cost are capitalized, and these capitalized amounts are subsequently expensed as additional engine deliveries occur for engines with costs below the projected contract per unit average cost over the life of the contract.

Equity Method Investments. Investments in which we have the ability to exercise significant influence, but do not control, are accounted for under the equity method of accounting and are included in Other assets on the Consolidated Balance Sheet. Under this method of accounting, our share of the net earnings or losses of the investee is included in Other income, net on the Consolidated Statement of Operations since the activities of the investee are closely aligned with the operations of the business segment holding the investment. We evaluate our equity method investments whenever events or changes

in circumstance indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an equity method investment is determined to be other than temporary, a loss is recorded in earnings in the current period.

Goodwill and Intangible Assets. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized. Goodwill and indefinite-lived intangible assets are subject to annual impairment testing using the guidance and criteria described in the Intangibles — Goodwill and Other Topic of the FASB ASC. This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value.

Intangible assets consist of service portfolios, patents, trademarks/tradenames, customer relationships and other intangible assets including a collaboration asset, as discussed further in Note 2. Acquired intangible assets are recognized at fair value in purchase accounting and then amortized to cost of sales and selling, general & administrative expenses over the applicable useful lives. Also included within other intangible assets are commercial aerospace payments made to secure certain contractual rights to provide product on new aircraft platforms. We classify amortization of such payments as a reduction of sales. Such payments are capitalized when there are distinct rights obtained and there are sufficient incremental cash flows to support the recoverability of the assets established. Otherwise, the applicable portion of the payments are expensed. Consideration paid on these contractual commitments is capitalized when it is no longer conditional.

Useful lives of finite-lived intangible assets are estimated based upon the nature of the intangible asset and the industry in which the intangible asset is used. These intangible assets are amortized based on the pattern in which the economic benefits of the intangible assets are consumed. For both our commercial aerospace collaboration assets and exclusivity arrangements, the pattern of economic benefit generally results in lower amortization during the development period with increasing amortization as programs enter full rate production and aftermarket cycles. If a pattern of economic benefit cannot be reliably determined, a straight-line amortization method is used. The range of estimated useful lives is as follows:

| | |
|---|---------------|
| Collaboration assets | 30 years |
| Customer relationships and related programs | 1 to 50 years |
| Purchased service contracts | 5 to 25 years |
| Patents & trademarks | 4 to 40 years |
| Exclusivity assets | 5 to 25 years |

Other Long-Lived Assets. We evaluate the potential impairment of other long-lived assets when appropriate. If the carrying value of other long-lived assets held and used exceeds the sum of the undiscounted expected future cash flows, the carrying value is written down to fair value.

Long-Term Financing Receivables. Our long-term financing receivables primarily represent balances related to the aerospace businesses such as long-term trade accounts receivable, leases, and notes receivable. We also have other long-term receivables in our commercial businesses; however, both the individual and aggregate amounts of those other receivables are not significant.

Long-term trade accounts receivable, including unbilled receivables related to long-term aftermarket contracts, are principally amounts arising from the sale of goods and services with a contractual maturity date or realization period of greater than one year and are recognized as “Other assets” in our Consolidated Balance Sheet. Notes and leases receivable represent notes and lease receivables other than receivables related to operating leases, and are recognized as “Customer financing assets” in our Consolidated Balance Sheet. The following table summarizes the balance by class of aerospace business-related long-term receivables as of December 31, 2016 and 2015:

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|-------------------------------------|----------|----------|
| Long-term trade accounts receivable | \$ 926 | \$ 903 |
| Notes and leases receivable | 430 | 451 |
| Total long-term receivables | \$ 1,356 | \$ 1,354 |

We determine a receivable is impaired when, based on current information and events, it is probable that we will be unable to collect amounts due according to the contractual terms of the receivable agreement. Factors considered in assessing collectability and risk include, but are not limited to, examination of credit quality indicators and other evaluation measures, underlying value of any collateral or security interests, significant past due balances, historical losses, and existing economic conditions.

We determine credit ratings for each customer in our portfolio based upon public information and information obtained directly from our customers. We conduct a review of customer credit ratings, published historical credit default rates for different rating categories, and multiple third party aircraft value publications as a basis to validate the reasonableness of the allowance for losses on these balances quarterly or when events and circumstances warrant. Customer credit ratings range from customers with an extremely strong capacity to meet financial obligations, to customers whose uncollateralized receivable is in default. There can be no assurance that actual results will not differ from estimates or that consideration of these factors in the future will not result in an increase or decrease to the allowance for credit losses on long-term receivables. Based upon the customer credit ratings, approximately 13% of our long-term receivables were considered to bear high credit risk as of both December 31, 2016 and 2015. See Note 5 for further discussion of commercial aerospace industry assets and commitments.

Reserves for credit losses on receivables relate to specifically identified receivables that are evaluated individually for impairment. For notes and leases receivable, we determine a specific reserve for

exposure based on the difference between the carrying value of the receivable and the estimated fair value of the related collateral in connection with the evaluation of credit risk and collectability. For long-term trade accounts receivable, we evaluate credit risk and collectability individually to determine if an allowance is necessary. Our long-term receivables reflected in the table above, which include reserves of \$17 million and \$18 million as of December 31, 2016 and 2015, respectively, are individually evaluated for impairment. At both December 31, 2016 and 2015, we did not have any significant balances that are considered to be delinquent, on non-accrual status, past due 90 days or more, or considered to be impaired.

Income Taxes. In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest expense has also been recognized. We recognize accrued interest related to unrecognized tax benefits in interest expense. Penalties, if incurred, would be recognized as a component of income tax expense.

Revenue Recognition. As a result of our diverse product and service mix and customer base, we use multiple revenue recognition practices. We recognize sales for products and services in accordance with the provisions of Staff Accounting Bulletin (SAB) Topic 13, Revenue Recognition, as applicable. Products and services included within the scope of this SAB Topic include heating, ventilating, air-conditioning and refrigeration systems, certain alarm and fire detection and suppression systems, commercially funded research and development contracts and certain aerospace components. Sales within the scope of this SAB Topic are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable and collectability is reasonably assured. Subsequent changes in service contracts are accounted for prospectively.

Contract Accounting and Separately Priced Maintenance and Extended Warranty Aftermarket Contracts: For our construction-type and certain production-type contracts, sales are recognized on a percentage-of-completion basis following contract accounting methods. Contracts consist of enforceable agreements which form the basis of our unit of accounting for measuring sales, accumulating costs and recording loss provisions as necessary. Contract accounting requires estimates of award fees and other sources of variable consideration as well as future costs over the performance period of the contract. Cost estimates also include the estimated cost of satisfying our offset obligations required under certain contracts. Cost estimates are subject to change and result in adjustments to margins on contracts in progress.

The extent of progress toward completion on our long-term commercial aerospace equipment is measured using units of delivery or other contractual milestones. The extent of progress towards completion on our development and other cost reimbursement contracts in our aerospace businesses and elevator and escalator sales, installation, modernization and other construction contracts in our commercial businesses is measured using cost-to-cost based input measures. Contract costs include estimated inventoriable manufacturing, engineering, product warranty and product performance guarantee costs, as appropriate.

For separately priced product maintenance and extended warranty aftermarket contracts, sales are recognized over the contract period. In the commercial businesses, sales are primarily recognized on a straight-line basis. In the aerospace businesses, sales are primarily recognized in proportion to cost as sufficient historical evidence indicates that costs of performing services under the contract are incurred on an other than straight-line basis.

Loss provisions on original equipment contracts are recognized to the extent that estimated contract costs exceed the estimated consideration from the products contemplated under the contractual arrangement. For new commitments, we generally record loss provisions at the earlier of contract announcement or contract signing except for certain requirements contracts under which losses are recorded upon receipt of the purchase order which obligates us to perform. For existing commitments, anticipated losses on contracts are recognized in the period in which losses become evident. Products contemplated under contractual arrangements include firm quantities of products sold under contract and, in the large commercial engine and wheels and brakes businesses, future highly probable sales of replacement parts required by regulation that are expected to be sold subsequently for incorporation into the original equipment. In the large commercial engine and wheels and brakes businesses, when the combined original equipment and aftermarket arrangements for each individual sales campaign are profitable, we record original equipment product losses, as applicable, at the time of delivery.

We review our cost estimates on significant contracts on a quarterly basis, and for others, no less frequently than annually or when circumstances change and warrant a modification to a previous estimate. We record changes in contract estimates using the cumulative catch-up method in accordance with the Revenue Recognition Topic of the FASB ASC. Operating profits included significant net unfavorable changes in aerospace contract estimates of approximately \$157 million in 2016, primarily the result of unexpected increases in estimated costs related to Pratt & Whitney long term aftermarket contracts.

Collaborations: Sales generated from engine programs, spare parts sales, and aftermarket business under collaboration arrangements are recorded consistent with our revenue recognition policies in our consolidated financial statements. Amounts attributable to our collaborators for their share of sales are recorded as cost of sales in our financial statements based upon the terms and nature of the arrangement. Costs associated with engine programs under collaborative arrangements are expensed as incurred. Under these arrangements, collaborators contribute their program share of engine parts, incur their

own production costs and make certain payments to Pratt & Whitney for shared or joint program costs. The reimbursement of a collaborator's share of program costs is recorded as a reduction of the related expense item at that time.

Cash Payments to Customers: UTC Climate, Controls & Security customarily offers its customers incentives to purchase products to ensure an adequate supply of its products in the distribution channels. The principal incentive program provides reimbursements to distributors for offering promotional pricing for our products. We account for incentive payments made as a reduction in sales. In our aerospace businesses, we may make participation payments to certain customers to secure certain contractual rights. To the extent these rights are incremental and are supported by the incremental cash flows obtained, they are capitalized as intangible assets. Otherwise, such payments are expensed. We classify the subsequent amortization of the capitalized acquired intangible assets from our customers as a reduction in sales. Contractually stated prices in arrangements with our customers that include the acquisition of intangible rights within the scope of the Intangibles — Goodwill and Other Topic of the FASB ASC and deliverables within the scope of the Revenue Recognition Topic of the FASB ASC are not presumed to be representative of fair value for determining the amounts to allocate to each element of an arrangement.

Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. In 2015 and 2016, the FASB issued various updates to this ASU as follows:

- ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* — delays the effective date of ASU 2014-09 by one year.
- ASU 2016-08, *Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* — clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements.
- ASU 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing* — clarifies the guidance surrounding licensing arrangements and the identification of performance obligations.
- ASU 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients* — addresses implementation issues raised by stakeholders concerning collectability, noncash consideration, presentation of sales tax, and transition.
- ASU 2016-20, *Revenue from Contracts with Customers (Topic 606), Technical Corrections and Improvements* — addresses loan guarantee fees, impairment testing of contract costs, provisions for losses on certain contracts, and various disclosures.

ASU 2014-09 and its related amendments (collectively, the New Revenue Standard) are effective for reporting periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods; (i) a full retrospective adoption reflecting the application of the standard in each prior reporting period, or (ii) a modified retrospective approach with the cumulative effect of adopting recognized through retained earnings at the date of adoption.

The New Revenue Standard is expected to change the revenue recognition practices for a number of revenue streams across our businesses, although the most significant impacts will be concentrated within our aerospace units. Several businesses, which currently account for revenue on a “point-in-time basis,” will be required to use an “over time” model as they meet one or more of the mandatory criteria established in the New Revenue Standard. Revenue will be recognized based on percentage-of-completion for repair contracts within both Otis and UTC Climate, Controls & Security; certain U.S. Government aerospace contracts; and aerospace aftermarket service work performed on a time and materials basis. For these businesses, unrecognized sales and operating profits related to the satisfied portion of the performance obligations of contracts in process as of the date of adoption will be recorded through retained earnings. The ongoing effect of recording revenue on a percentage-of-completion basis within these businesses is not expected to be material.

In addition to the forgoing, our aerospace businesses will also incur changes related to the timing of manufacturing cost recognition and certain engineering and development costs. In most circumstances, our commercial aerospace businesses will identify the performance obligation, or the unit of accounting, as the individual original equipment (OEM) unit; revenues and costs to manufacture each unit will be recognized upon OEM unit delivery. Under current practice, the unit of accounting is the contract, and early-contract OEM unit costs in excess of the average expected over the contract are capitalized and amortized over lower-cost units later in the contract. With the adoption of the New Revenue Standard, any deferred unit costs in excess of the contract average will be eliminated through retained earnings and will not be amortized into future earnings. As of December 31, 2016, capitalized deferred unit costs in excess of the contract average are \$233 million, which is expected to increase in 2017 prior to adoption of the New Revenue Standard.

In regards to costs incurred for the engineering and development of aerospace products under contract with customers, we generally expense as incurred unless there is a contractually guaranteed right of recovery. Any customer funding received for such efforts is recognized when earned, with the corresponding costs recognized as cost of sales. Under the New Revenue Standard, customer funding of OEM product engineering and development must be deferred and recognized as revenue as the OEM products are delivered to the customer. There is currently less clarity regarding the accounting for the associated product engineering and development costs. As such, we are continuing to evaluate whether such costs should continue to be expensed or

capitalized as contract fulfillment costs and subsequently amortized. For contracts that are open as of the adoption date, previously recognized customer funding will be established as a contract liability.

We continue to evaluate the implications of the standard change. We intend to adopt the New Revenue Standard effective January 1, 2018 using the modified retrospective approach.

Research and Development. Research and development costs not specifically covered by contracts and those related to the company sponsored share of research and development activity in connection with cost-sharing arrangements are charged to expense as incurred. Government research and development support, not associated with specific contracts, is recorded as a reduction to research and development expense in the period earned. See Note 8 for a discussion of amendments of certain government research and development support arrangements concluded in December 2015 between Pratt & Whitney Canada and the Canadian government.

Research and development costs incurred under contracts with customers are included as a contract cost and reported as a component of cost of products sold when revenue from such contracts is recognized. Research and development costs in excess of contractual consideration is expensed as incurred.

Foreign Exchange. We conduct business in many different currencies and, accordingly, are subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of our foreign subsidiaries are measured using the local currency as the functional currency. Foreign currency denominated assets and liabilities are translated into U.S. Dollars at the exchange rates existing at the respective balance sheet dates, and income and expense items are translated at the average exchange rates during the respective periods. The aggregate effects of translating the balance sheets of these subsidiaries are deferred as a separate component of shareholders' equity.

Derivatives and Hedging Activity. We have used derivative instruments, including swaps, forward contracts and options, to help manage certain foreign currency, interest rate and commodity price exposures. Derivative instruments are viewed as risk management tools by us and are not used for trading or speculative purposes. By their nature, all financial instruments involve market and credit risks. We enter into derivative and other financial instruments with major investment grade financial institutions and have policies to monitor the credit risk of those counterparties. We limit counterparty exposure and concentration of risk by diversifying counterparties. While there can be no assurance, we do not anticipate any material non-performance by any of these counterparties. We enter into transactions that are subject to enforceable master netting arrangements or other similar agreements with various counterparties. However, we have not elected to offset multiple contracts with a single counterparty and, as a result, the fair value of the derivative instruments in a loss position is not offset against the fair value of derivative instruments in a gain position.

Derivatives used for hedging purposes may be designated and effective as a hedge of the identified risk exposure at the inception of

the contract. All derivative instruments are recorded on the balance sheet at fair value. Derivatives used to hedge foreign-currency-denominated balance sheet items are reported directly in earnings along with offsetting transaction gains and losses on the items being hedged. Derivatives used to hedge forecasted cash flows associated with foreign currency commitments or forecasted commodity purchases may be accounted for as cash flow hedges, as deemed appropriate. Gains and losses on derivatives designated as cash flow hedges are recorded in other comprehensive income and reclassified to earnings as a component of product sales or expenses, as applicable, when the hedged transaction occurs. To the extent that a previously designated hedging transaction is no longer an effective hedge, any ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period it occurs. As discussed in Note 14, at December 31, 2016 we have approximately €2.95 billion of Euro-denominated long-term debt and €500 million of outstanding Euro-denominated commercial paper borrowings, which qualify as a net investment hedge against our investments in European businesses.

To the extent the hedge accounting criteria are not met, the foreign currency forward contracts are utilized as economic hedges and changes in the fair value of these contracts are recorded currently in earnings in the period in which they occur. Additional information pertaining to foreign currency forward contracts and net investment hedging is included in Note 14.

Environmental. Environmental investigatory, remediation, operating and maintenance costs are accrued when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, including existing technology, current laws and regulations and prior remediation experience. Where no amount within a range of estimates is more likely, the minimum is accrued. For sites with multiple responsible parties, we consider our likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. Liabilities with fixed or reliably determinable future cash payments are discounted. Accrued environmental liabilities are not reduced by potential insurance reimbursements. See Note 18 for additional details on the environmental remediation activities.

Pension and Postretirement Obligations. Guidance under the Compensation — Retirement Benefits Topic of the FASB ASC requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under this guidance, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost.

Product Performance Obligations. We extend performance and operating cost guarantees beyond our normal service and warranty policies for extended periods on some of our products, particularly commercial aircraft engines. Liability under such guarantees is based upon future product performance and durability. We accrue for such costs that are probable and can be reasonably estimated. In addition, we incur discretionary costs to service our products in connection with product performance issues. The costs associated with these product performance and operating cost guarantees require estimates over the full terms of the agreements, and require management to consider factors such as the extent of future maintenance requirements and the future cost of material and labor to perform the services. These cost estimates are largely based upon historical experience. See Note 17 for further discussion.

Collaborative Arrangements. In view of the risks and costs associated with developing new engines, Pratt & Whitney has entered into certain collaboration arrangements in which sales, costs and risks are shared. Sales generated from engine programs, spare parts, and aftermarket business under collaboration arrangements are recorded as earned in our financial statements. Amounts attributable to our collaborators for their share of sales are recorded as an expense in our financial statements based upon the terms and nature of the arrangement. Costs associated with engine programs under collaborative arrangements are expensed as incurred. Under these arrangements, collaborators contribute their program share of engine parts, incur their own production costs and make certain payments to Pratt & Whitney for shared or joint program costs. The reimbursement of the collaborators' share of program costs is recorded as a reduction of the related expense item at that time. As of December 31, 2016, the collaborators' interests in all commercial engine programs ranged from 14% to 50%, inclusive of a portion of Pratt & Whitney's interests held by other participants. Pratt & Whitney is the principal participant in all existing collaborative arrangements. There are no individually significant collaborative arrangements and none of the collaborators exceed a 31% share in an individual program. The following table illustrates the income statement classification and amounts attributable to transactions arising from the collaborative arrangements between participants for each period presented:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|----------|----------|----------|
| Collaborator share of sales: | | | |
| Cost of products sold | \$ 1,700 | \$ 1,547 | \$ 1,778 |
| Cost of services sold | 675 | 652 | 354 |
| Collaborator share of program costs (reimbursement of expenses incurred): | | | |
| Cost of products sold | (108) | (104) | (103) |
| Research and development | (184) | (248) | (122) |
| Selling, general and administrative | (5) | (5) | (4) |

Accounting Pronouncements. In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This ASU requires the income tax consequences of an intra-entity transfer of an asset, other than inventory, to be recognized when the transfer occurs. Two common examples of

assets included in the scope of this update are intellectual property and property, plant, and equipment. The provisions of this ASU are effective for years beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the impact of this ASU.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to reduce diversity in practice in presentation and classification of certain cash receipts and cash payments by providing guidance on eight specific cash flow issues, including requirements that 1) cash payments for debt prepayment or debt extinguishment costs be classified as cash outflows for financing activities; and 2) for cash receipts and payments that have aspects of more than one class of cash flows, each separately identifiable source or use within the cash receipts and payments should be classified on the basis of their underlying nature in financing, investing, or operating activities. In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that restricted cash be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-15 and ASU 2016-18 are effective for years beginning after December 15, 2017, with early adoption permitted. We have elected to early adopt the requirements of these ASUs effective December 31, 2016. Cash flow amounts for all periods presented have been updated to comply with the retrospective transition method, required by these ASUs upon adoption. As discussed in Note 9, for the year ended December 31, 2016, approximately \$164 million in debt extinguishment costs have been classified as financing cash outflows in accordance with these updates. Additionally, cash flows provided by operating activities of continuing operations, attributable to changes in inventories and contracts in progress, and cash flows used in investing activities of continuing operations attributable to increases in customer financing assets for the year ended December 31, 2015 increased by approximately \$78 million as a result of the required retrospective transition method of these updates. Other updates made as a result of adoption of these ASUs had an immaterial impact to the Consolidated Statement of Cash Flows.

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which amends the accounting for employee share-based payment transactions to require recognition of the tax effects resulting from the settlement of stock-based awards as income tax expense or benefit in the income statement in the reporting period in which they occur. The ASU also requires that all tax-related cash flows resulting from share-based payments, including the excess tax benefits related to the settlement of stock-based awards, be classified as cash flows from operating activities, and that cash paid by directly withholding shares for tax withholding purposes be classified as a financing activity in the statement of cash flows. In addition, the ASU also allows companies to make an accounting policy election to either estimate the number of awards that are expected to vest,

consistent with current U.S. GAAP, or account for forfeitures when they occur. The new standard is effective for annual reporting periods beginning after December 15, 2016 with early adoption permitted. We elected to early adopt the requirements of the amended standard in the third quarter of 2016 and are therefore required to report the impacts as though adopted on January 1, 2016. Accordingly, we recognized additional income tax benefits of approximately \$22 million for the year ended December 31, 2016. In addition, we recognized the additional income tax benefits and cash paid by directly withholding shares for tax withholding purposes of approximately \$19 million for the year ended December 31, 2016 as an increase in net cash flows provided by operating activities of continuing operations, and an increase in net cash flows used in financing activities of continuing operations. There is no change to our accounting policy with respect to estimation of forfeitures.

In February 2016, the FASB issued ASU 2016- 02, *Leases (Topic 842)*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the Consolidated Statement of Operations. In addition, this standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor doesn't convey risks and rewards or control, the lease is treated as operating.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases and lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. While we are still evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, we expect that upon adoption we will recognize ROU assets and lease liabilities and that the amounts could be material. We do not expect the ASU to have a material impact on our cash flows or results of operations.

NOTE 2: BUSINESS ACQUISITIONS, DISPOSITIONS, GOODWILL AND INTANGIBLE ASSETS

Business Acquisitions and Dispositions. As discussed further in Note 3, on November 6, 2015, we completed the sale of Sikorsky to Lockheed Martin Corp. for approximately \$9.1 billion in cash.

Our investments in businesses in 2016, 2015 and 2014 totaled \$712 million (including debt assumed of \$2 million), \$556 million (including debt assumed of \$18 million) and \$530 million (including debt assumed of \$128 million), respectively. Our investments in businesses in 2016 consisted of the acquisition of a majority interest in an Italian heating products and services company by UTC Climate, Controls & Security, the acquisition of a Japanese services company by Otis and a number of small acquisitions, primarily in our commercial businesses. Our investments in businesses in 2015 consisted of the acquisition of the majority interest in a UTC Climate, Controls & Security business, the acquisition of an imaging technology company by UTC Aerospace Systems, and a number of small acquisitions, primarily in our commercial businesses. Our investments in businesses in 2014 consisted of the acquisition of the majority interest in a Pratt & Whitney joint venture and a number of small acquisitions, primarily in our commercial businesses.

Goodwill. The changes in the carrying amount of goodwill, by segment, in 2016 are as follows:

| (DOLLARS IN MILLIONS) | Balance as of January 1, 2016 | Goodwill resulting from business combinations | Foreign currency translation and other | Balance as of December 31, 2016 |
|----------------------------------|-------------------------------|---|--|---------------------------------|
| Otis | \$ 1,566 | \$ 60 | \$ (51) | \$ 1,575 |
| UTC Climate, Controls & Security | 9,458 | 473 | (444) | 9,487 |
| Pratt & Whitney | 1,515 | — | (4) | 1,511 |
| UTC Aerospace Systems | 14,759 | 35 | (311) | 14,483 |
| Total Segments | 27,298 | 568 | (810) | 27,056 |
| Eliminations and other | 3 | — | — | 3 |
| Total | \$ 27,301 | \$ 568 | \$ (810) | \$ 27,059 |

Intangible Assets. Identifiable intangible assets are comprised of the following:

| (DOLLARS IN MILLIONS) | 2016 | | 2015 | |
|----------------------------------|--------------|--------------------------|--------------|--------------------------|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Amortized: | | | | |
| Service portfolios | \$ 1,995 | \$ (1,344) | \$ 1,977 | \$ (1,307) |
| Patents and trademarks | 378 | (201) | 361 | (189) |
| Collaboration intangible assets | 3,724 | (211) | 3,336 | (86) |
| Customer relationships and other | 12,798 | (3,480) | 12,430 | (2,988) |
| | 18,895 | (5,236) | 18,104 | (4,570) |
| Unamortized: | | | | |
| Trademarks and other | 2,025 | — | 2,069 | — |
| Total | \$ 20,920 | \$ (5,236) | \$ 20,173 | \$ (4,570) |

Customer relationship intangible assets include payments made to our customers to secure certain contractual rights. Such payments are capitalized when there are distinct rights obtained and there are sufficient incremental cash flows to support the recoverability of the assets established. Otherwise, the applicable portion of the payments are expensed. We amortize these intangible assets based on the underlying pattern of economic benefit, which typically results in an amortization method other than straight-line. We classify amortization of such payments as a reduction of sales. Amortization of intangible assets was \$778 million, \$722 million and \$713 million in 2016, 2015 and 2014, respectively. The collaboration intangible assets are amortized based upon the economic pattern of benefits as represented by the underlying cash flows. The following is the expected amortization of intangible assets for 2017 through 2021, which reflects the pattern of economic benefit on certain aerospace intangible assets:

| (DOLLARS IN MILLIONS) | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------|--------|--------|--------|--------|--------|
| Amortization expense | \$ 809 | \$ 865 | \$ 878 | \$ 859 | \$ 829 |

NOTE 3: DISCONTINUED OPERATIONS

On November 6, 2015 we completed the sale of Sikorsky to Lockheed Martin Corp. for \$9.1 billion in cash. Accordingly, the results of operations and the cash flows related to Sikorsky have been classified in Discontinued Operations in our Consolidated Statements of Operations, Comprehensive Income and Cash Flows for all periods presented. In 2016, we recognized approximately \$13 million of additional gain on the disposal, primarily resulting from the settlement of working capital adjustments. In 2016, we recognized approximately \$24 million of income tax expense, including the impacts related to filing Sikorsky's 2015 tax returns. Net cash outflows from discontinued operations of approximately \$2.5 billion for the year ended December 31, 2016 were primarily due to the payment of taxes related to the 2015 gain realized on the sale of Sikorsky.

The following summarized financial information has been segregated from continuing operations and reported as Discontinued Operations:

| INCOME (EXPENSE) (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|---------|----------|----------|
| Discontinued Operations: | | | |
| Net Sales | \$ — | \$ 4,949 | \$ 7,452 |
| Cost of Sales | — | (4,152) | (6,801) |
| Research and development | — | (150) | (160) |
| Selling, general and administrative | 1 | (315) | (328) |
| Pension curtailment | — | (110) | — |
| Other income, net | — | 30 | 12 |
| Income from operations | 1 | 252 | 175 |
| Gain on disposal | 13 | 6,042 | — |
| Income tax expense | (24) | (2,684) | (20) |
| (Loss) income from discontinued operations | \$ (10) | \$ 3,610 | \$ 155 |

UTC and its business segments have historically had sales to Sikorsky and purchases from Sikorsky, in the normal course of business, which were eliminated in consolidation. Net sales to Sikorsky were \$138 million and \$235 million for the years ended December 31, 2015 and 2014, respectively. Purchases from Sikorsky included in cost of products and services sold were \$25 million and \$17 million for the years ended December 31, 2015 and 2014, respectively.

NOTE 4: EARNINGS PER SHARE

| (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS; SHARES IN MILLIONS) | 2016 | 2015 | 2014 |
|---|----------|----------|----------|
| Net income attributable to common shareowners: | | | |
| Net income from continuing operations | \$ 5,065 | \$ 3,996 | \$ 6,066 |
| Net (loss) income from discontinued operations | (10) | 3,612 | 154 |
| Net income attributable to common shareowners | \$ 5,055 | \$ 7,608 | \$ 6,220 |
| Basic weighted average number of shares outstanding | 818.2 | 872.7 | 898.3 |
| Stock awards | 7.9 | 10.5 | 13.3 |
| Diluted weighted average number of shares outstanding | 826.1 | 883.2 | 911.6 |
| Earnings Per Share of Common Stock — Basic: | | | |
| Net income from continuing operations | \$ 6.19 | \$ 4.58 | \$ 6.75 |
| Net (loss) income from discontinued operations | (0.01) | 4.14 | 0.17 |
| Net income attributable to common shareowners | 6.18 | 8.72 | 6.92 |
| Earnings Per Share of Common Stock — Diluted: | | | |
| Net income from continuing operations | \$ 6.13 | \$ 4.53 | \$ 6.65 |
| Net (loss) income from discontinued operations | (0.01) | 4.09 | 0.17 |
| Net income attributable to common shareowners | 6.12 | 8.61 | 6.82 |

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock appreciation rights and stock options, when the average market price of the common stock is lower than the exercise price of the related stock awards during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. For 2016, 2015 and 2014, there were 14.5 million, 9.7 million and 3.5 million anti-dilutive stock awards excluded from the computation, respectively.

NOTE 5: COMMERCIAL AEROSPACE INDUSTRY ASSETS AND COMMITMENTS

We have receivables and other financing assets with commercial aerospace industry customers totaling \$7,222 million and \$6,143 million at December 31, 2016 and 2015, respectively. These include customer financing assets related to commercial aerospace industry customers, consisting of products under lease of \$939 million and \$537 million, and notes and leases receivable of \$497 million and \$566 million, at December 31, 2016 and 2015, respectively.

Aircraft financing commitments, in the form of debt, guarantees or lease financing, are provided to commercial aerospace customers. The extent to which the financing commitments will be utilized is not currently known, since customers may be able to obtain more favorable terms from other financing sources. We may also arrange for third-party investors to assume a portion of these commitments. If financing commitments are exercised, debt financing is generally secured by assets with fair market values equal to or exceeding the financed amounts consistent with market terms and conditions. We may also lease aircraft and subsequently sublease the aircraft to customers under long-term non-cancelable operating leases. Lastly, we have made residual value

and other guarantees related to various commercial aerospace customer financing arrangements. The estimated fair market values of the guaranteed assets equal or exceed the value of the related guarantees, net of existing reserves.

We also have other contractual commitments, including commitments to secure certain contractual rights to provide products on new aircraft platforms, which are included in "Other commercial aerospace commitments" in the table below. Such payments are capitalized when there are distinct rights obtained and there are sufficient incremental cash flows to support the recoverability of the assets established. Otherwise, the applicable portion of the payments are expensed. Payments capitalized are included in intangible assets and are amortized over the term of underlying economic benefit. Our commercial aerospace financing and other contractual commitments as of December 31, 2016 were approximately \$14.4 billion. We have entered into certain collaboration arrangements, which may include participation by our collaboration partners in these commitments.

The following is the expected maturity of commercial aerospace industry assets and commitments as of December 31, 2016:

| (DOLLARS IN MILLIONS) | Committed | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
|--|-----------|--------|----------|--------|--------|--------|------------|
| Notes and leases receivable | \$ 497 | \$ 51 | \$ 24 | \$ 47 | \$ 79 | \$ 32 | \$ 264 |
| Commercial aerospace financing commitments | \$ 2,358 | \$ 435 | \$ 521 | \$ 416 | \$ 354 | \$ 287 | \$ 345 |
| Other commercial aerospace commitments | 12,063 | 860 | 973 | 738 | 706 | 730 | 8,056 |
| Collaboration partners' share | (4,608) | (386) | (479) | (322) | (271) | (250) | (2,900) |
| Total commercial commitments | \$ 9,813 | \$ 909 | \$ 1,015 | \$ 832 | \$ 789 | \$ 767 | \$ 5,501 |

In connection with our 2012 agreement to acquire Rolls-Royce's ownership and collaboration interests in IAE, additional payments are due to Rolls-Royce contingent upon each hour flown through June 2027 by the V2500-powered aircraft in service as of the acquisition date. These flight hour payments, included in "Other commercial aerospace commitments" in the table above, are being capitalized as collaboration intangible assets.

Our financing commitments with customers are contingent upon maintenance of certain levels of financial condition by the customers. In addition, we have residual value and other guarantees of \$348 million as of December 31, 2016.

We have long-term aftermarket maintenance contracts with commercial aerospace industry customers for which revenue is recognized in proportion to actual costs incurred relative to total expected costs to be incurred over the respective contract periods. Billings, however, are typically based on factors such as engine flight hours. The timing differences between the billings and the maintenance costs incurred generates both unbilled receivables and deferred revenues. Unbilled receivables under these long-term aftermarket contracts totaled \$1,169 million and \$1,091 million at December 31, 2016 and 2015, respectively, and are included in Accounts receivable and Other assets in the accompanying Consolidated Balance Sheet. Deferred revenues totaled \$4,288 million and \$3,502 million at December 31, 2016 and

2015, respectively, and are included in Accrued liabilities and Other long-term liabilities in the accompanying Consolidated Balance Sheet.

Reserves related to aerospace notes and leases receivable were \$16 million and \$17 million at December 31, 2016 and 2015, respectively. Reserves related to aerospace receivables and other financing assets were \$157 million and \$200 million at December 31, 2016 and 2015, respectively. Reserves related to financing commitments and guarantees were \$36 million and \$47 million at December 31, 2016 and 2015, respectively.

In addition, in connection with the 2012 Goodrich acquisition, we recorded assumed liabilities of approximately \$2.2 billion related to customer contractual obligations on certain OEM development programs where the expected costs exceeded the expected revenue under contract. These liabilities are being liquidated in accordance with the underlying economic pattern of obligations, as reflected by the net cash outflows incurred on the OEM contracts. Total consumption of the contractual obligations was approximately \$213 million and \$193 million in 2016 and 2015, respectively. Expected consumption of the contractual obligations is as follows: \$251 million in 2017, \$248 million in 2018, \$222 million in 2019, \$149 million in 2020, \$83 million in 2021 and \$250 million thereafter.

NOTE 6: INVENTORIES & CONTRACTS IN PROGRESS

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|--|-----------------|----------|
| Raw materials | \$ 2,040 | \$ 2,037 |
| Work-in-process | 2,787 | 2,422 |
| Finished goods | 3,305 | 3,183 |
| Contracts in progress | 9,395 | 8,668 |
| | 17,527 | 16,310 |
| Less: | | |
| Progress payments, secured by lien, on U.S. Government contracts | (130) | (239) |
| Billings on contracts in progress | (8,693) | (7,936) |
| | \$ 8,704 | \$ 8,135 |

Raw materials, work-in-process and finished goods are net of valuation reserves of \$877 million and \$760 million as of December 31, 2016 and 2015, respectively. Contracts in progress principally relate to elevator and escalator contracts and include costs of manufactured components, accumulated installation costs and estimated earnings on incomplete contracts.

Inventories also include capitalized contract development costs related to certain aerospace programs at UTC Aerospace Systems. As of December 31, 2016 and 2015, these capitalized costs were \$140 million and \$152 million, respectively, which are being liquidated as production units are delivered to the customer. In addition, within commercial aerospace, inventory costs attributable to new engine offerings are recognized based on the average cost per unit expected over the life of each contract using the units-of-delivery method of percentage of completion accounting. Under this method, costs of initial engine deliveries in excess of the projected contract per unit average cost are capitalized, and these capitalized amounts are subsequently expensed as additional engine deliveries occur for engines with costs below the projected contract per unit average cost over the life of the contract. As of December 31, 2016 and 2015, inventories included \$233 million and \$13 million, respectively, of such capitalized amounts.

Our sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months. At December 31, 2016 and 2015, approximately 68% and 67% respectively, of total inventories and contracts in progress have been acquired or manufactured under such long-term contracts, with approximately 41% scheduled for delivery within the succeeding twelve months for both 2016 and 2015.

NOTE 7: FIXED ASSETS

| (DOLLARS IN MILLIONS) | Estimated Useful Lives | 2016 | 2015 |
|--|------------------------|-----------------|----------|
| Land | | \$ 392 | \$ 384 |
| Buildings and improvements | 12–40 years | 5,180 | 5,030 |
| Machinery, tools and equipment | 3–20 years | 12,471 | 11,717 |
| Other, including assets under construction | | 1,426 | 1,363 |
| | | 19,469 | 18,494 |
| Accumulated depreciation | | (10,311) | (9,762) |
| | | \$ 9,158 | \$ 8,732 |

Depreciation expense was \$1,105 million in 2016, \$1,068 million in 2015 and \$1,043 million in 2014.

NOTE 8: ACCRUED LIABILITIES

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|--|------------------|-----------|
| Advances on sales contracts and service billings | \$ 4,217 | \$ 3,952 |
| Accrued salaries, wages and employee benefits | 1,608 | 1,543 |
| Service and warranty accruals | 555 | 546 |
| Litigation and contract matters | 488 | 482 |
| Interest payable | 395 | 391 |
| Income taxes payable | 382 | 2,498 |
| Accrued property, sales and use taxes | 289 | 292 |
| Canadian government settlement – current portion | 245 | 241 |
| Insurance accruals | 217 | 204 |
| Accrued restructuring costs | 210 | 334 |
| Accrued workers compensation | 208 | 212 |
| Other | 3,405 | 3,943 |
| | \$ 12,219 | \$ 14,638 |

Income taxes payable as of December 31, 2015 includes taxes payable related to the gain on the sale of Sikorsky, which were substantially paid in 2016.

The Canadian government has historically provided research and development support under certain Pratt & Whitney Canada programs, where repayment, if any, is made in the form of royalties, conditioned upon the achievement of certain financial targets including specific aircraft engine sales, total aircraft engine sales volume and total year-over-year sales growth of the entity receiving the government funding. On December 30, 2015, Pratt & Whitney Canada and federal and provincial Canadian government agencies entered into amendments of certain government research and development support arrangements. Under the amendments, Pratt & Whitney Canada agreed to make four annual payments of approximately \$327 million Canadian (approximately \$245 million at December 2016) each, commencing in the first quarter of 2016, to fully settle and terminate Pratt & Whitney Canada's future contractual obligations to pay royalties to these agencies that had previously been contingent upon future engine deliveries and Pratt & Whitney Canada sales; to maintain its commitments to perform certain assembly, test and manufacturing operations in Canada; and to provide support of innovation and research and development through initiatives with post-secondary institutions and key industry associations in Canada over a fourteen year period. As a result of the amendments to these contractual arrangements, Pratt & Whitney recorded a charge and related discounted obligation of \$867 million in the fourth quarter of 2015.

The Canadian government settlement included in the table above represents amounts expected to be paid under this agreement in 2017, with the remaining provision of approximately \$477 million and \$626 million included in Other long-term liabilities in the accompanying Consolidated Balance Sheet as of December 31, 2016 and 2015, respectively.

NOTE 9: BORROWINGS AND LINES OF CREDIT

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|-----------------------------|--------|--------|
| Short-term borrowings: | | |
| Commercial paper | \$ 522 | \$ 727 |
| Other borrowings | 79 | 199 |
| Total short-term borrowings | \$ 601 | \$ 926 |

At December 31, 2016, we had revolving credit agreements with various banks permitting aggregate borrowings of up to \$4.35 billion pursuant to a \$2.20 billion revolving credit agreement and a \$2.15 billion multicurrency revolving credit agreement, both of which expire in August 2021. As of December 31, 2016, there were no borrowings under either of these revolving credit agreements. The undrawn portions of these revolving credit agreements are also available to serve as backup facilities for the issuance of commercial paper. As of December 31, 2016, our maximum commercial paper borrowing limit was \$4.35 billion. Commercial paper borrowings at December 31, 2016 reflect approximately €500 million (\$522 million) of Euro-denominated commercial paper. We use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions and repurchases of our common stock. The need for commercial paper borrowings arises when the use of domestic cash for acquisitions, dividends, and share repurchases exceeds the sum of domestic cash generation and foreign cash repatriated to the U.S.

At December 31, 2016, approximately \$1.5 billion was available under short-term lines of credit with local banks at our various domestic and international subsidiaries. The weighted-average interest rates applicable to short-term borrowings and total debt were as follows:

| | 2016 | 2015 |
|---|------|------|
| Average interest expense rate — average outstanding borrowings during the year: | | |
| Short-term borrowings | 1.3% | 0.6% |
| Total debt | 4.1% | 4.1% |
| Average interest expense rate — outstanding borrowings as of December 31: | | |
| Short-term borrowings | 0.6% | 0.8% |
| Total debt | 3.7% | 4.4% |

Long-term debt consisted of the following as of December 31:

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|---|-----------|-----------|
| 5.375% notes due 2017 ¹ | \$ — | \$ 1,000 |
| 1.800% notes due 2017 ¹ | 1,500 | 1,500 |
| EURIBOR plus 0.80% floating rate notes due 2018 (€750 million principal value) ² | 783 | — |
| 1.778% junior subordinated notes due 2018 | 1,100 | 1,100 |
| 6.800% notes due 2018 | 99 | 99 |
| LIBOR plus 0.350% floating rate notes due 2019 ³ | 350 | — |
| 1.500% notes due 2019 ¹ | 650 | — |
| 6.125% notes due 2019 ¹ | — | 1,250 |
| 8.875% notes due 2019 | 271 | 271 |
| 4.500% notes due 2020 ¹ | 1,250 | 1,250 |
| 4.875% notes due 2020 | 171 | 171 |
| 1.950% notes due 2021 ¹ | 750 | — |
| 1.125% notes due 2021 (€950 million principal value) ⁴ | 992 | — |
| 8.750% notes due 2021 | 250 | 250 |
| 3.100% notes due 2022 ¹ | 2,300 | 2,300 |
| 1.250% notes due 2023 (€750 million principal value) ⁴ | 783 | 817 |
| 1.875% notes due 2026 (€500 million principal value) ⁴ | 522 | — |
| 2.650% notes due 2026 ¹ | 1,150 | — |
| 7.100% notes due 2027 | 141 | 141 |
| 6.700% notes due 2028 | 400 | 400 |
| 7.500% notes due 2029 ¹ | 550 | 550 |
| 5.400% notes due 2035 ¹ | 600 | 600 |
| 6.050% notes due 2036 ¹ | 600 | 600 |
| 6.800% notes due 2036 | 134 | 134 |
| 7.000% notes due 2038 | 159 | 159 |
| 6.125% notes due 2038 ¹ | 1,000 | 1,000 |
| 5.700% notes due 2040 ¹ | 1,000 | 1,000 |
| 4.500% notes due 2042 ¹ | 3,500 | 3,500 |
| 4.150% notes due 2045 ¹ | 850 | 850 |
| 3.750% notes due 2046 ¹ | 1,100 | — |
| Project financing obligations | 155 | 191 |
| Other (including capitalized leases) | 189 | 306 |
| Total principal long-term debt | 23,299 | 19,439 |
| Other (fair market value adjustments, discounts and debt issuance costs) | 1 | 60 |
| Total long-term debt | 23,300 | 19,499 |
| Less: current portion | 1,603 | 179 |
| Long-term debt, net of current portion | \$ 21,697 | \$ 19,320 |

1 We may redeem the above notes, in whole or in part, at our option at any time at a redemption price in U.S. Dollars equal to the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed, discounted to the redemption date on a semiannual basis at the adjusted treasury rate plus 10-50 basis points. The redemption price will also include interest accrued to the date of redemption on the principal balance of the notes being redeemed.

2 The three-month EURIBOR rate as of December 30, 2016 was approximately -0.319%. The notes may be redeemed at our option in whole, but not in part, at any time in the event of certain developments affecting U.S. taxation.

3 The three-month LIBOR rate as of December 30, 2016 was approximately 0.998%.

4 We may redeem these notes, in whole or in part, at our option at any time. If redeemed earlier than three months prior to the stated maturity date, the redemption price in Euro shall equal the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed, discounted to the redemption date on an annual basis at a rate based upon a comparable German federal government bond whose maturity is closest to the maturity of the notes plus 15-30 basis points. In addition, the notes may be redeemed at our option in whole, but not in part, at any time in the event of certain developments affecting U.S. taxation.

On December 1, 2016, we redeemed all outstanding 5.375% notes due in 2017, representing \$1.0 billion in aggregate principal, and all outstanding 6.125% notes due in 2019, representing \$1.25 billion in aggregate principal, under our redemption notice issued on November 1, 2016. A combined net extinguishment loss of approximately \$164 million was recognized within Interest expense, net in the accompanying Consolidated Statement of Operations.

On November 1, 2016, we issued \$650 million aggregate principal amount of 1.500% notes due 2019, \$750 million aggregate principal amount of 1.950% notes due 2021, \$1,150 million aggregate principal amount of 2.650% notes due 2026, \$1,100 million aggregate principal amount of 3.750% notes due 2046 and \$350 million aggregate principal amount of floating rate notes due 2019. We used the net proceeds received from these issuances to fund the redemption price of the 5.375% notes due 2017 and the 6.125% notes due 2019, to fund the repayment of commercial paper, and for other general corporate purposes.

On February 22, 2016, we issued €950 million aggregate principal amount of 1.125% notes due 2021, €500 million aggregate principal amount of 1.875% notes due 2026 and €750 million aggregate principal amount of floating rate notes due 2018. The net proceeds from these debt issuances were used for general corporate purposes.

On May 4, 2015, we completed the previously announced optional remarketing of the 1.550% junior subordinated notes, which were originally issued as part of our equity units on June 18, 2012. As a result of the remarketing, these notes were redesignated as our 1.778% junior subordinated notes due May 4, 2018. The 1.778% junior subordinated notes are effectively subordinated to existing or future preferred stock and indebtedness, guarantees and other liabilities, and are not redeemable prior to maturity. On August 3, 2015, we received approximately \$1.1 billion from the proceeds of the remarketing, and issued approximately 11.3 million shares of Common Stock to settle the purchase obligation of the holders of the equity units under the purchase contract entered into at the time of the original issuance of the equity units.

On May 1, 2015, we repaid all 4.875% notes due in 2015, representing \$1.2 billion in aggregate principal. On June 1, 2015, we repaid all floating rate notes due in 2015, representing \$500 million in aggregate principal. On May 4, 2015, we issued \$850 million aggregate principal amount of 4.150% notes due May 15, 2045. On May 22, 2015 we issued €750 million aggregate principal amount of 1.250% notes due May 22, 2023. The net proceeds from these debt issuances were used primarily to repay the 4.875% notes and floating rate notes that matured during the quarter ended June 30, 2015.

The project financing obligations included in the table above are associated with the sale of rights to unbilled revenues related to the ongoing activity of an entity owned by UTC Climate, Controls & Security. The percentage of total short-term borrowings and long-term debt at variable interest rates was 7% and 5% at December 31, 2016 and 2015, respectively. Interest rates on our commercial paper

borrowings are considered variable due to their short-term duration and high-frequency of turnover.

The average maturity of our long-term debt at December 31, 2016 is approximately ten years. The schedule of principal payments required on long-term debt for the next five years and thereafter is:

| (DOLLARS IN MILLIONS) | |
|-----------------------|------------------|
| 2017 | \$ 1,603 |
| 2018 | 2,012 |
| 2019 | 1,299 |
| 2020 | 1,460 |
| 2021 | 2,034 |
| Thereafter | 14,891 |
| Total | \$ 23,299 |

On April 29, 2016, we renewed our universal shelf registration statement filed with the Securities and Exchange Commission (SEC) for an indeterminate amount of equity and debt securities for future issuance, subject to our internal limitations on the amount of equity and debt to be issued under this shelf registration statement.

NOTE 10: EQUITY

On November 11, 2015, we entered into ASR agreements to repurchase an aggregate of \$6.0 billion of our common stock utilizing the net after-tax proceeds from the sale of Sikorsky. Under the terms of the ASR agreements, we made the aggregate payments and received an initial delivery of approximately 51.9 million shares of our common stock, representing approximately 85% of the shares expected to be repurchased. In 2016, the shares associated with the remaining portion of the aggregate purchase were settled upon final delivery to us of approximately 10.1 million additional shares of common stock. Including the remaining shares settled in 2016, the final price under the November 11, 2015 ASR was \$96.74 per share.

On March 13, 2015, we entered into ASR agreements to repurchase an aggregate of \$2.65 billion of our common stock. Under the terms of the ASR agreements, we made the aggregate payments and received an initial delivery of approximately 18.6 million shares of our common stock, representing approximately 85% of the shares expected to be repurchased. On July 31, 2015, the shares associated with the remaining portion of the aggregate purchase were settled upon final delivery of approximately 4.2 million additional shares of common stock. Including the remaining shares settled on July 31, 2015, the final price under the ASR was \$116.11 per share.

As discussed in Note 9, on August 3, 2015, we received approximately \$1.1 billion from the proceeds of the remarketing of our 1.550% junior subordinated notes, which were originally issued as part of our equity units on June 18, 2012, and issued approximately 11.3 million shares of common stock to settle the purchase obligation of the holders of the equity units under the purchase contract entered into at the time of the original issuance of the equity units.

A summary of the changes in each component of accumulated other comprehensive (loss) income, net of tax for the years ended December 31, 2016 and 2015 is provided below:

| (DOLLARS IN MILLIONS) | Foreign Currency Translation | Defined Benefit Pension and Postretirement Plans | Unrealized Gains (Losses) on Available-for- Sale Securities | Unrealized Hedging (Losses) Gains | Accumulated Other Comprehensive (Loss) Income |
|---|------------------------------------|---|--|--|--|
| Balance at December 31, 2014 | \$ (1,051) | \$ (5,709) | \$ 308 | \$ (209) | \$ (6,661) |
| Other comprehensive (loss) income before reclassifications, net | (1,429) | 32 | 16 | (298) | (1,679) |
| Amounts reclassified, pre-tax | 42 | 867 | (54) | 234 | 1,089 |
| Tax (benefit) expense reclassified | — | (325) | 23 | (66) | (368) |
| Balance at December 31, 2015 | \$ (2,438) | \$ (5,135) | \$ 293 | \$ (339) | \$ (7,619) |
| Other comprehensive (loss) income before reclassifications, net | (1,042) | (247) | 119 | 54 | (1,116) |
| Amounts reclassified, pre-tax | — | 535 | (94) | 171 | 612 |
| Tax (benefit) expense reclassified | — | (198) | 35 | (48) | (211) |
| Balance at December 31, 2016 | \$ (3,480) | \$ (5,045) | \$ 353 | \$ (162) | \$ (8,334) |

Amounts reclassified related to our defined benefit pension and postretirement plans include amortization of prior service costs and actuarial net losses recognized during each period presented. These costs are recorded as components of net periodic pension cost for each period presented (see Note 12 for additional details).

Changes in noncontrolling interests that do not result in a change of control, and where there is a difference between fair value and carrying value, are accounted for as equity transactions. The pro-forma (decrease) increase in Net income attributable to common shareowners would have been \$(8) million, \$12 million and \$(71) million for the years ended December 31, 2016, 2015 and 2014, respectively, had they been recorded through net income.

NOTE 11: INCOME TAXES

Income Before Income Taxes. The sources of income from continuing operations before income taxes are:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|-----------------------|-----------------|-----------------|-----------------|
| United States | \$ 2,534 | \$ 2,782 | \$ 4,165 |
| Foreign | 4,599 | 3,685 | 4,547 |
| | \$ 7,133 | \$ 6,467 | \$ 8,712 |

With few exceptions, U.S. income taxes have not been provided on undistributed earnings of UTC's international subsidiaries. These earnings relate to ongoing operations and were approximately \$31 billion as of December 31, 2016. It is not practicable to estimate the amount of tax that might be payable. We intend to reinvest these earnings permanently outside the U.S. or to repatriate the earnings only when it is tax effective to do so.

Provision for Income Taxes. The income tax expense (benefit) for the years ended December 31, 2016, 2015 and 2014 consisted of the following components:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|-----------------|-----------------|-----------------|
| Current: | | | |
| United States: | | | |
| Federal | \$ 30 | \$ 328 | \$ 319 |
| State | (21) | (37) | 38 |
| Foreign | 1,290 | 1,158 | 1,484 |
| | 1,299 | 1,449 | 1,841 |
| Future: | | | |
| United States: | | | |
| Federal | 318 | 712 | 421 |
| State | 134 | 109 | (23) |
| Foreign | (54) | (159) | 5 |
| | 398 | 662 | 403 |
| Income tax expense | \$ 1,697 | \$ 2,111 | \$ 2,244 |
| Attributable to items credited (charged) to equity | \$ (299) | \$ (114) | \$ 1,535 |

Reconciliation of Effective Income Tax Rate. Differences between effective income tax rates and the statutory U.S. federal income tax rate are as follows:

| | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|
| Statutory U.S. federal income tax rate | 35.0 % | 35.0 % | 35.0 % |
| Tax on international activities | (8.1)% | (2.0)% | (3.3)% |
| Tax audit settlements | (2.9)% | — | (4.3)% |
| Other | (0.2)% | (0.4)% | (1.6)% |
| Effective income tax rate | 23.8 % | 32.6 % | 25.8 % |

The 2016 effective tax rate reflects \$206 million of favorable adjustments related to the conclusion of the review by the Examination Division of the Internal Revenue Service of both the UTC 2011 and 2012 tax years and the Goodrich Corporation 2011 and 2012 tax years through the date of its acquisition as well as the absence of 2015 items described below. In addition, at the end of 2016 France enacted a tax law change reducing its corporate income tax rate which resulted in a tax benefit of \$25 million.

The 2015 effective tax rate reflects an unfavorable tax adjustment of \$274 million related to the repatriation of certain foreign earnings, the majority of which were 2015 current year earnings, and a favorable adjustment of approximately \$45 million related to a non-taxable gain recorded in the first quarter. France, the U.K. and certain U.S. states enacted tax law changes in the fourth quarter which resulted in a net incremental cost of approximately \$68 million in 2015.

The 2014 effective tax rate reflects favorable tax adjustments of \$371 million related to the conclusion of the examination of UTC's 2009–2010 tax years, the resolution of disputed tax matters with the Appeals Division of the IRS for UTC's 2006–2008 tax years, the conclusion of the State of Connecticut's review of UTC's 2010–2012 tax years and the conclusion of the Canada Revenue Agency's examination of the company's research credits claimed in 2006–2012. Also included was a favorable tax adjustment of \$175 million associated with management's decision to repatriate additional high taxed dividends from the current year. These were partially offset by an unfavorable tax adjustment of approximately \$265 million related to the 1998 reorganization of the corporate structure of Otis operations in Germany, a matter which is currently in litigation. This is reported in the table above in tax on international activities.

Deferred Tax Assets and Liabilities. Future income taxes represent the tax effects of transactions which are reported in different periods for tax and financial reporting purposes. These amounts consist of the tax effects of temporary differences between the tax and financial reporting balance sheets and tax carryforwards. Future income tax benefits and payables within the same tax paying component of a particular jurisdiction are offset for presentation in the Consolidated Balance Sheet.

The tax effects of temporary differences and tax carryforwards which gave rise to future income tax benefits and payables at December 31, 2016 and 2015 are as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|-----------------------------------|----------|----------|
| Future income tax benefits: | | |
| Insurance and employee benefits | \$ 2,382 | \$ 2,650 |
| Other asset basis differences | 1,098 | 1,199 |
| Other liability basis differences | 1,403 | 1,543 |
| Tax loss carryforwards | 494 | 528 |
| Tax credit carryforwards | 873 | 872 |
| Valuation allowances | (545) | (591) |
| | \$ 5,705 | \$ 6,201 |
| Future income taxes payable: | | |
| Other asset basis differences | \$ 5,376 | \$ 5,324 |
| Other items, net | 364 | 531 |
| | \$ 5,740 | \$ 5,855 |

Valuation allowances have been established primarily for tax credit carryforwards, tax loss carryforwards, and certain foreign temporary differences to reduce the future income tax benefits to expected realizable amounts.

Tax Credit and Loss Carryforwards. At December 31, 2016, tax credit carryforwards, principally state and foreign, and tax loss carryforwards, principally state and foreign, were as follows:

| (DOLLARS IN MILLIONS) | Tax Credit Carryforwards | Tax Loss Carryforwards |
|-----------------------|--------------------------|------------------------|
| Expiration period: | | |
| 2017-2021 | \$ 12 | \$ 317 |
| 2022-2026 | 13 | 187 |
| 2027-2036 | 219 | 363 |
| Indefinite | 629 | 1,780 |
| Total | \$ 873 | \$ 2,647 |

Unrecognized Tax Benefits. At December 31, 2016, we had gross tax-effected unrecognized tax benefits of \$1,086 million, all of which, if recognized, would impact the effective tax rate. A reconciliation of the beginning and ending amounts of unrecognized tax benefits and interest expense related to unrecognized tax benefits for the years ended December 31, 2016, 2015 and 2014 is as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|---|----------|----------|----------|
| Balance at January 1 | \$ 1,169 | \$ 1,089 | \$ 1,223 |
| Additions for tax positions related to the current year | 69 | 206 | 164 |
| Additions for tax positions of prior years | 167 | 99 | 435 |
| Reductions for tax positions of prior years | (61) | (101) | (47) |
| Settlements | (258) | (124) | (686) |
| Balance at December 31 | \$ 1,086 | \$ 1,169 | \$ 1,089 |
| Gross interest expense related to unrecognized tax benefits | \$ 41 | \$ 39 | \$ 180 |
| Total accrued interest balance at December 31 | \$ 185 | \$ 176 | \$ 292 |

Included in the balance at December 31, 2014 is \$87 million of tax positions whose tax characterization is highly certain but for which there is uncertainty about the timing of tax return inclusion. Because of the impact of deferred tax accounting, other than interest and penalties, the timing would not impact the annual effective tax rate but could accelerate the payment of cash to the taxing authority to an earlier period.

We conduct business globally and, as a result, UTC or one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, Netherlands, Poland, Singapore, South Korea, Spain, Switzerland, and the United Kingdom and the United States. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2005.

During the quarter ended December 31, 2016, the Company recognized a noncash gain of approximately \$172 million, including a pre-tax interest adjustment of \$22 million, as a result of the closure of the audit by the Examination Division of the Internal Revenue Service (IRS) of UTC tax years 2011 and 2012. The IRS has notified the Company of its intention to begin an audit of tax year 2014 during the first quarter of 2017.

During the quarter ended September 30, 2016, the Company recognized a noncash gain of approximately \$58 million, primarily tax, as a result of the closure of the audit by the Examination Division of the IRS of Goodrich Corporation tax years 2011 and 2012 through the date of acquisition by UTC.

During 2014, the Company resolved various tax audit, appeal and litigation activity with the IRS, Connecticut Department of Revenue, and French and Canadian taxing authorities resulting in approximately \$508 million of primarily noncash tax gains, including pre-tax interest adjustments of \$132 million. During 2014, the Company also reached an agreement with a state taxing authority for the monetization of tax credits resulting in a gain of approximately \$220 million through Other Income.

It is reasonably possible that over the next 12 months the amount of unrecognized tax benefits may change within a range of a net increase of \$50 million to a net decrease of \$495 million as a result of additional worldwide uncertain tax positions, the revaluation of current uncertain tax positions arising from developments in examinations, in appeals, or in the courts, or the closure of tax statutes.

See Note 18 "Contingent Liabilities" for discussion regarding uncertain tax positions, included in the above range, related to pending litigation with respect to certain deductions claimed in Germany.

NOTE 12: EMPLOYEE BENEFIT PLANS

We sponsor numerous domestic and foreign employee benefit plans, which are discussed below.

Employee Savings Plans. We sponsor various employee savings plans. Our contributions to employer sponsored defined contribution plans were \$318 million, \$356 million and \$330 million for 2016, 2015 and 2014, respectively.

Our non-union domestic employee savings plan uses an Employee Stock Ownership Plan (ESOP) for employer matching contributions. External borrowings were used by the ESOP to fund a portion of its purchase of ESOP stock from us. The external borrowings have been extinguished and only re-amortized loans remain between UTC and the ESOP Trust. As ESOP debt service payments are made, common stock is released from an unreleased shares account. ESOP debt may be prepaid or re-amortized to either increase or decrease the number of shares released so that the value of released shares equals the value of plan benefit. We may also, at our option, contribute additional common stock or cash to the ESOP.

Shares of common stock are allocated to employees' ESOP accounts at fair value on the date earned. Cash dividends on common stock held by the ESOP are used for debt service payments. Participants may choose to have their ESOP dividends reinvested or distributed in cash. Common stock allocated to ESOP participants is included in the average number of common shares outstanding for both basic and diluted earnings per share. At December 31, 2016, 27.8 million common shares had been allocated to employees, leaving 11.7 million unallocated common shares in the ESOP Trust, with an approximate fair value of \$1.3 billion.

Pension Plans. We sponsor both funded and unfunded domestic and foreign defined benefit pension plans that cover a large number of our employees. Our largest plans are generally closed to new participants. Our plans use a December 31 measurement date consistent with our fiscal year.

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|---|------------|------------|
| Change in Benefit Obligation: | | |
| Beginning balance | \$ 35,428 | \$ 37,853 |
| Service cost | 383 | 493 |
| Interest cost | 1,183 | 1,399 |
| Actuarial loss (gain) | 1,831 | (1,716) |
| Total benefits paid | (1,660) | (1,796) |
| Net settlement, curtailment and special termination benefits | (1,566) | (55) |
| Plan amendments | 17 | 39 |
| Other | (693) | (789) |
| Ending balance | \$ 34,923 | \$ 35,428 |
| Change in Plan Assets: | | |
| Beginning balance | \$ 31,011 | \$ 32,738 |
| Actual return on plan assets | 3,202 | 265 |
| Employer contributions | 384 | 520 |
| Benefits paid | (1,660) | (1,796) |
| Settlements | (1,632) | (59) |
| Other | (750) | (657) |
| Ending balance | \$ 30,555 | \$ 31,011 |
| Funded Status: | | |
| Fair value of plan assets | \$ 30,555 | \$ 31,011 |
| Benefit obligations | (34,923) | (35,428) |
| Funded status of plan | \$ (4,368) | \$ (4,417) |
| Amounts Recognized in the Consolidated Balance Sheet Consist of: | | |
| Noncurrent assets | \$ 451 | \$ 742 |
| Current liability | (72) | (71) |
| Noncurrent liability | (4,747) | (5,088) |
| Net amount recognized | \$ (4,368) | \$ (4,417) |
| Amounts Recognized in Accumulated Other Comprehensive Loss Consist of: | | |
| Net actuarial loss | \$ 7,941 | \$ 8,224 |
| Prior service credit | (6) | (57) |
| Net amount recognized | \$ 7,935 | \$ 8,167 |

At the end of fiscal 2015, we changed the approach we use to estimate the service and interest components of net periodic pension cost for our significant pension plans. This change compared to the previous approach resulted in a net decrease in the service and interest components of our annual net periodic pension cost of approximately \$215 million for 2016. Historically, we estimated the service and interest cost components utilizing a single-weighted average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in determination of the benefit obligation to the relevant projected cash flows. We have made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change does not materially affect the measurement of our total benefit obligations.

As part of our long-term strategy to de-risk our defined benefit pension plans, we entered into an agreement to purchase a group

annuity contract to transfer approximately \$768 million of our outstanding pension benefit obligations related to certain U.S. retirees or beneficiaries, which was finalized on October 12, 2016. We also offered certain former U.S. employees or beneficiaries (generally all former U.S. participants not yet in receipt of their vested pension benefits) an option to take a one-time lump-sum distribution in lieu of future monthly pension payments, which reduced our pension benefit obligations by approximately \$935 million. These transactions reduced the assets of our defined benefit pension plans by approximately \$1.5 billion. As a result of these transactions, we recognized a one-time pre-tax pension settlement charge of approximately \$423 million in the fourth quarter of 2016.

The amounts included in "Other" in the above table primarily reflect the impact of foreign exchange translation, primarily for plans in the U.K. and Canada.

As approved in 2016, effective January 1, 2017, a voluntary lump-sum option is available for the frozen final average earnings benefits of certain U.S. salaried employees upon termination of employment after 2016. This option provides participants with the choice of electing to receive a lump-sum payment in lieu of receiving a future monthly pension benefit. This plan change reduced the projected benefit obligation by \$170 million.

In 2014, we offered a voluntary lump-sum pension payout program to certain eligible terminated vested participants (generally any terminated vested participant with a lump-sum value of \$50,000 or less) that settled our obligation to those participants who accepted the offer. The program provided participants with a one-time choice of electing to receive a lump-sum settlement in lieu of receiving a future monthly pension benefit. Payments to participants who accepted the offer began in 2014 and were completed in 2015. As part of this voluntary lump-sum program, the Company settled \$147 million and \$311 million of its projected benefit obligation in 2015 and 2014, respectively.

Qualified domestic pension plan benefits comprise approximately 75% of the projected benefit obligation. Benefits for union employees are generally based on a stated amount for each year of service. For non-union employees, benefits for service up to December 31, 2014 are generally based on an employee's years of service and compensation through December 31, 2014. Benefits for service after December 31, 2014 are based on the existing cash balance formula that was adopted in 2003 for newly hired non-union employees and for other non-union employees who made a one-time voluntary election to have future benefit accruals determined under this formula. Certain foreign plans, which comprise approximately 24% of the projected benefit obligation, are considered defined benefit plans for accounting purposes. Nonqualified domestic pension plans provide supplementary retirement benefits to certain employees and are not a material component of the projected benefit obligation.

We made \$100 million of cash contributions to our domestic defined benefit pension plans and made \$203 million of cash contributions to our foreign defined benefit pension plans in 2016. In 2015, we contributed \$250 million in UTC common stock to our domestic defined

benefit pension plans and made \$147 million of cash contributions to our foreign defined benefit pension plans.

Information for pension plans with accumulated benefit obligations in excess of plan assets:

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|--------------------------------|-----------|-----------|
| Projected benefit obligation | \$ 32,732 | \$ 30,915 |
| Accumulated benefit obligation | 32,095 | 30,362 |
| Fair value of plan assets | 27,943 | 25,827 |

The accumulated benefit obligation for all defined benefit pension plans was \$34.2 billion and \$34.6 billion at December 31, 2016 and 2015, respectively.

The components of the net periodic pension cost are as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|---|---------|---------|---------|
| Pension Benefits: | | | |
| Service cost | \$ 383 | \$ 493 | \$ 487 |
| Interest cost | 1,183 | 1,399 | 1,517 |
| Expected return on plan assets | (2,202) | (2,264) | (2,215) |
| Amortization of prior service credit | (33) | (11) | (8) |
| Recognized actuarial net loss | 572 | 882 | 429 |
| Net settlement, curtailment and special termination benefits loss | 498 | 150 | 13 |
| Net periodic pension cost — employer | \$ 401 | \$ 649 | \$ 223 |

Net settlement and curtailment losses for pension benefits includes curtailment losses of approximately \$109 million and \$1 million related to, and recorded in, discontinued operations for the years ended December 31, 2015 and 2014, respectively. In addition, total net periodic pension cost includes approximately \$98 million and \$96 million related to, and recorded in, discontinued operations for the years ended December 31, 2015 and 2014, respectively.

Other changes in plan assets and benefit obligations recognized in other comprehensive loss in 2016 are as follows:

| (DOLLARS IN MILLIONS) | |
|--|----------|
| Current year actuarial loss | \$ 831 |
| Amortization of actuarial loss | (572) |
| Current year prior service cost | 17 |
| Amortization of prior service credit | 33 |
| Net settlement and curtailment loss | (436) |
| Other | (105) |
| Total recognized in other comprehensive loss | \$ (232) |
| Net recognized in net periodic pension cost and other comprehensive loss | \$ 169 |

The estimated amount that will be amortized from accumulated other comprehensive loss into net periodic pension cost in 2017 is as follows:

| (DOLLARS IN MILLIONS) | |
|-----------------------|--------|
| Net actuarial loss | \$ 571 |
| Prior service credit | (36) |
| | \$ 535 |

Major assumptions used in determining the benefit obligation and net cost for pension plans are presented in the following table as weighted-averages:

| | Benefit Obligation | | Net Cost | | |
|--------------------------------|--------------------|------|----------|------|------|
| | 2016 | 2015 | 2016 | 2015 | 2014 |
| Discount rate | | | | | |
| PBO | 3.8% | 4.1% | 4.1% | 3.8% | 4.7% |
| Interest cost ¹ | — | — | 3.4% | — | — |
| Service cost ¹ | — | — | 3.8% | — | — |
| Salary scale | 4.1% | 4.2% | 4.2% | 4.2% | 4.2% |
| Expected return on plan assets | — | — | 7.3% | 7.6% | 7.6% |

Note 1 The 2016 discount rates used to measure the service cost and interest cost applies to our significant plans. The PBO discount rate is used for the service cost and interest cost measurements for non-significant plans.

In determining the expected return on plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes, and economic and other indicators of future performance. In addition, we may consult with and consider the opinions of financial and other professionals in developing appropriate capital market assumptions. Return projections are also validated using a simulation model that incorporates yield curves, credit spreads and risk premiums to project long-term prospective returns.

The plans' investment management objectives include providing the liquidity and asset levels needed to meet current and future benefit payments while maintaining a prudent degree of portfolio diversification considering interest rate risk and market volatility. Globally, investment strategies target a mix of 55% to 65% of growth seeking assets and 35% to 45% income generating and hedging assets using a wide diversification of asset types, fund strategies and investment managers. The growth seeking allocation consists of global public equities in developed and emerging countries, private equity, real estate and balanced market risk strategies. Within public equities, approximately 11% of the total investment portfolio is an enhanced equity strategy that invests in publicly traded equity and fixed income securities, derivatives and foreign currency. Investments in private equity are primarily via limited partnership interests in buy-out strategies with smaller allocations to distressed debt funds. The real estate strategy is principally concentrated in directly held U.S. core investments with some smaller investments in international, value-added and opportunistic strategies. Within the income generating assets, the fixed income portfolio consists of mainly government and broadly diversified high quality corporate bonds.

The plans have continued their pension risk management techniques designed to reduce the plans' interest rate risk. More specifically, the plans have incorporated liability hedging programs that include the adoption of a risk reduction objective as part of the long-term investment strategy. Under this objective the interest rate hedge is dynamically increased as funded status improves. The hedging programs incorporate a range of assets and investment tools, each with ranging interest rate sensitivity. The investment portfolios are currently hedging approximately 35% to 45% of the interest rate sensitivity of the pension plan liabilities.

The fair values of pension plan assets at December 31, 2016 and 2015 by asset category are as follows:

| (DOLLARS IN MILLIONS) | Quoted Prices in Active Markets For Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Not Subject to Leveling | Total |
|---|---|---|--|----------------------------|------------------|
| Asset Category: | | | | | |
| Public Equities | | | | | |
| Global Equities | \$ 4,682 | \$ 3 | \$ — | \$ — | \$ 4,685 |
| Global Equity Commingled Funds ¹ | — | 367 | — | — | 367 |
| Enhanced Global Equities ² | 168 | 1,494 | — | — | 1,662 |
| Global Equity Funds at net asset value ⁸ | — | — | — | 7,090 | 7,090 |
| Private Equities ^{3,8} | — | — | 122 | 1,239 | 1,361 |
| Fixed Income Securities | | | | | |
| Governments | 260 | 54 | — | — | 314 |
| Corporate Bonds | — | 7,637 | — | — | 7,637 |
| Fixed Income Securities ⁸ | — | — | — | 2,788 | 2,788 |
| Real Estate ^{4,8} | — | 17 | 1,285 | 513 | 1,815 |
| Other ^{5,8} | — | 289 | — | 1,819 | 2,108 |
| Cash & Cash Equivalents ^{6,8} | 100 | 75 | — | 121 | 296 |
| Subtotal | \$ 5,210 | \$ 9,936 | \$ 1,407 | \$ 13,570 | 30,123 |
| Other Assets & Liabilities ⁷ | | | | | 432 |
| Total at December 31, 2016 | | | | | \$ 30,555 |
| Public Equities | | | | | |
| Global Equities | \$ 5,884 | \$ — | \$ — | \$ — | \$ 5,884 |
| Global Equity Commingled Funds ¹ | — | 779 | — | — | 779 |
| Enhanced Global Equities ² | 237 | 616 | — | — | 853 |
| Global Equity Funds at net asset value ⁸ | — | — | — | 6,475 | 6,475 |
| Private Equities ^{3,8} | — | — | 182 | 1,335 | 1,517 |
| Fixed Income Securities | | | | | |
| Governments | 365 | 53 | — | — | 418 |
| Corporate Bonds | — | 7,013 | — | — | 7,013 |
| Fixed Income Securities ⁸ | — | — | — | 2,992 | 2,992 |
| Real Estate ^{4,8} | — | 10 | 1,165 | 1,079 | 2,254 |
| Other ^{5,8} | — | 334 | — | 1,706 | 2,040 |
| Cash & Cash Equivalents ^{6,8} | — | 159 | — | 334 | 493 |
| Subtotal | \$ 6,486 | \$ 8,964 | \$ 1,347 | \$ 13,921 | 30,718 |
| Other Assets & Liabilities ⁷ | | | | | 293 |
| Total at December 31, 2015 | | | | | \$ 31,011 |

Note 1 Represents commingled funds that invest primarily in common stocks.

Note 2 Represents enhanced equity separate account and commingled fund portfolios. A portion of the portfolio may include long-short market neutral and relative value strategies that invest in publicly traded, equity and fixed income securities, as well as derivatives of equity and fixed income securities and foreign currency.

Note 3 Represents limited partner investments with general partners that primarily invest in debt and equity.

Note 4 Represents investments in real estate including commingled funds and directly held properties.

Note 5 Represents insurance contracts and global balanced risk commingled funds consisting mainly of equity, bonds and some commodities.

Note 6 Represents short-term commercial paper, bonds and other cash or cash-like instruments.

Note 7 Represents trust receivables and payables that are not leveled.

Note 8 In accordance with ASU 2015-07, *Fair Value Measurement (Topic 820)*, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented for the total pension benefits plan assets.

Derivatives in the plan are primarily used to manage risk and gain asset class exposure while still maintaining liquidity. Derivative instruments mainly consist of equity futures, interest rate futures, interest rate swaps and currency forward contracts.

Our common stock represents approximately 1% and 3% of total plan assets at December 31, 2016 and 2015, respectively. We review our assets at least quarterly to ensure we are within the targeted asset allocation ranges and, if necessary, asset balances are adjusted back within target allocations. We employ a broadly diversified investment manager structure that includes diversification by active and passive management, style, capitalization, country, sector, industry and number of investment managers.

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed due to the following:

| (DOLLARS IN MILLIONS) | Private Equities | Real Estate | Total |
|---|------------------|-----------------|-----------------|
| Balance, December 31, 2014 | \$ 145 | \$ 975 | \$ 1,120 |
| Realized gains (losses) | 3 | (4) | (1) |
| Unrealized gains relating to instruments still held in the reporting period | 42 | 105 | 147 |
| Purchases, sales, and settlements, net | (8) | 89 | 81 |
| Balance, December 31, 2015 | 182 | 1,165 | 1,347 |
| Realized gains | 46 | 19 | 65 |
| Unrealized gains relating to instruments still held in the reporting period | 5 | 18 | 23 |
| Purchases, sales, and settlements, net | (111) | 83 | (28) |
| Balance, December 31, 2016 | \$ 122 | \$ 1,285 | \$ 1,407 |

Quoted market prices are used to value investments when available. Investments in securities traded on exchanges, including listed futures and options, are valued at the last reported sale prices on the last business day of the year or, if not available, the last reported bid prices. Fixed income securities are primarily measured using a market approach pricing methodology, where observable prices are obtained by market transactions involving identical or comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar investments. Investment contracts are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations. Real estate investments are valued on a quarterly basis using discounted cash flow models which consider long-term lease estimates, future rental receipts and estimated residual values. Valuation estimates are supplemented by third-party appraisals on an annual basis.

Private equity limited partnerships are valued quarterly using discounted cash flows, earnings multiples and market multiples. Valuation adjustments reflect changes in operating results, financial condition, or prospects of the applicable portfolio company. Over-the-counter securities and government obligations are valued at the bid prices or the average of the bid and ask prices on the last business day of the year from published sources or, if not available, from other sources considered reliable, generally broker quotes. Temporary cash investments are stated at cost, which approximates fair value.

Although we are not required to make additional contributions to our domestic defined benefit pension plans through the end of 2021, we may elect to make discretionary contributions in 2017. We expect to make total contributions of approximately \$300 million to our global defined benefit pension plans in 2017, including discretionary contributions of approximately \$150 million to our domestic defined benefit pension plans. Contributions do not reflect benefits to be paid directly from corporate assets.

Benefit payments, including amounts to be paid from corporate assets, and reflecting expected future service, as appropriate, are expected to be paid as follows: \$1,930 million in 2017, \$1,847 million in 2018, \$1,896 million in 2019, \$1,948 million in 2020, \$1,994 million in 2021, and \$10,545 million from 2022 through 2026.

Postretirement Benefit Plans. We sponsor a number of postretirement benefit plans that provide health and life benefits to eligible retirees. Such benefits are provided primarily from domestic plans, which comprise approximately 87% of the benefit obligation. The postretirement plans are unfunded.

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|---|----------|----------|
| Change in Benefit Obligation: | | |
| Beginning balance | \$ 890 | \$ 952 |
| Service cost | 3 | 3 |
| Interest cost | 34 | 34 |
| Actuarial gain | (48) | — |
| Total benefits paid | (97) | (104) |
| Other | 23 | 5 |
| Ending balance | \$ 805 | \$ 890 |
| Change in Plan Assets: | | |
| Beginning balance | \$ — | \$ — |
| Employer contributions | 80 | 84 |
| Benefits paid | (97) | (104) |
| Other | 17 | 20 |
| Ending balance | \$ — | \$ — |
| Funded Status: | | |
| Fair value of plan assets | \$ — | \$ — |
| Benefit obligations | (805) | (890) |
| Funded status of plan | \$ (805) | \$ (890) |
| Amounts Recognized in the Consolidated Balance Sheet Consist of: | | |
| Current liability | \$ (78) | \$ (84) |
| Noncurrent liability | (727) | (806) |
| Net amount recognized | \$ (805) | \$ (890) |
| Amounts Recognized in Accumulated Other Comprehensive Loss Consist of: | | |
| Net actuarial gain | \$ (152) | \$ (109) |
| Prior service credit | (5) | (1) |
| Net amount recognized | \$ (157) | \$ (110) |

The components of net periodic benefit cost are as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|--|-------|-------|-------|
| Other Postretirement Benefits: | | | |
| Service cost | \$ 3 | \$ 3 | \$ 3 |
| Interest cost | 34 | 34 | 41 |
| Amortization of prior service credit | — | — | (1) |
| Recognized actuarial net gain | (4) | (4) | (4) |
| Net settlement and curtailment gain | — | (1) | — |
| Net periodic other postretirement benefit cost | \$ 33 | \$ 32 | \$ 39 |

Other changes in plan assets and benefit obligations recognized in other comprehensive loss in 2016 are as follows:

| (DOLLARS IN MILLIONS) | |
|---|---------|
| Current year actuarial gain | \$ (46) |
| Current year prior service credit | (4) |
| Amortization of actuarial net gain | 4 |
| Other | (1) |
| Total recognized in other comprehensive loss | \$ (47) |
| Net recognized in net periodic other postretirement benefit cost and other comprehensive loss | \$ (14) |

The estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2017 include actuarial net gains of \$10 million and prior service credits of \$1 million.

Major assumptions used in determining the benefit obligation and net cost for postretirement plans are presented in the following table as weighted-averages:

| | Benefit Obligation | | Net Cost | | |
|---------------|--------------------|------|----------|------|------|
| | 2016 | 2015 | 2016 | 2015 | 2014 |
| Discount rate | 3.8% | 4.0% | 4.0% | 3.8% | 4.4% |

Assumed health care cost trend rates are as follows:

| | 2016 | 2015 |
|--|------|------|
| Health care cost trend rate assumed for next year | 6.5% | 6.5% |
| Rate that the cost trend rate gradually declines to | 5.0% | 5.0% |
| Year that the rate reaches the rate it is assumed to remain at | 2022 | 2022 |

| (DOLLARS IN MILLIONS) | | Pension Protection Act Zone Status | | FIP/ RP Status | Contributions | | | Surcharge Imposed | Expiration Date of Collective-Bargaining Agreement |
|---|-------------------------|------------------------------------|-------|----------------------|---------------|--------|--------|-------------------|--|
| Pension Fund | EIN/Pension Plan Number | 2016 | 2015 | Pending/ Implemented | 2016 | 2015 | 2014 | | |
| National Elevator Industry Pension Plan | 23-2694291 | Green | Green | No | \$ 100 | \$ 88 | \$ 79 | No | July 8, 2017 |
| Other funds | | | | | 31 | 32 | 34 | | |
| | | | | | \$ 131 | \$ 120 | \$ 113 | | |

For the plan years ended June 30, 2015 and 2014, respectively, we were listed in the National Elevator Industry Pension Plan's Forms 5500 as providing more than 5% of the total contributions for the plan. At the date these financial statements were issued, Forms 5500 were not available for the plan year ending June 30, 2016.

In addition, we participate in several multiemployer arrangements that provide postretirement benefits other than pensions, with the National Elevator Industry Health Benefit Plan being the most significant.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| (DOLLARS IN MILLIONS) | 2016 One-Percentage-Point | |
|---|---------------------------|----------|
| | Increase | Decrease |
| Effect on total service and interest cost | \$ 3 | \$ (2) |
| Effect on postretirement benefit obligation | 46 | (39) |

Benefit payments, including net amounts to be paid from corporate assets and reflecting expected future service, as appropriate, are expected to be paid as follows: \$78 million in 2017, \$75 million in 2018, \$70 million in 2019, \$65 million in 2020, \$60 million in 2021, and \$242 million from 2022 through 2026.

Multiemployer Benefit Plans. We contribute to various domestic and foreign multiemployer defined benefit pension plans. The risks of participating in these multiemployer plans are different from single-employer plans in that assets contributed are pooled and may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Lastly, if we choose to stop participating in some of our multiemployer plans, we may be required to pay those plans a withdrawal liability based on the underfunded status of the plan.

Our participation in these plans for the annual periods ended December 31 is outlined in the table below. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2016 and 2015 is for the plan's year-end at June 30, 2015, and June 30, 2014, respectively. The zone status is based on information that we received from the plan and is certified by the plan's actuary. Our significant plan is in the green zone which represents a plan that is at least 80% funded and does not require a financial improvement plan (FIP) or a rehabilitation plan (RP). An extended amortization provision of ten years is utilized to recognize investment gains or losses for our significant plan.

These arrangements generally provide medical and life benefits for eligible active employees and retirees and their dependents. Contributions to multiemployer plans that provide postretirement benefits other than pensions were \$17 million, \$15 million and \$14 million for 2016, 2015 and 2014, respectively.

Stock-based Compensation. UTC's long-term incentive plan authorizes various types of market and performance based incentive awards that may be granted to officers and employees. Our Long-Term

Incentive Plan (LTIP) was last amended on February 5, 2016. Since the LTIP's inception in 2005, a total of 149 million shares have been authorized for issuance pursuant to awards under the LTIP. All equity-based compensation awards are made exclusively through the LTIP. As of December 31, 2016, approximately 38 million shares remain available for awards under the LTIP. The LTIP does not contain an aggregate annual award limit. We expect that the shares awarded on an annual basis will range from 1.0% to 1.5% of shares outstanding. The LTIP will expire after all authorized shares have been awarded or April 30, 2020, whichever is sooner.

Under the LTIP and predecessor long-term incentive plans, the exercise price of awards is set on the grant date and may not be less than the fair market value per share on that date. Generally, stock appreciation rights and stock options have a term of ten years and a minimum three-year vesting period. In the event of retirement, awards held for more than one year may become vested and exercisable subject to certain terms and conditions. LTIP awards with performance-based vesting generally have a minimum three-year vesting period and vest based on performance against pre-established metrics. In the event of retirement, vesting for awards held more than one year does not accelerate but may vest as scheduled based on actual performance relative to target metrics. We have historically repurchased shares of our common stock in an amount at least equal to the number of shares issued under our equity compensation arrangements and will continue to evaluate this policy in conjunction with our overall share repurchase program.

We measure the cost of all share-based payments, including stock options, at fair value on the grant date and recognize this cost in the Consolidated Statement of Operations as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|------------------------------------|--------|--------|--------|
| Continuing operations | \$ 152 | \$ 158 | \$ 219 |
| Discontinued operations | 1 | 17 | 21 |
| Total compensation cost recognized | \$ 153 | \$ 175 | \$ 240 |

A summary of the transactions under all long-term incentive plans for the year ended December 31, 2016 follows:

| (SHARES AND UNITS IN THOUSANDS) | Stock Options | | Stock Appreciation Rights | | Performance Share Units | | Other Incentive Shares/Units |
|---------------------------------|---------------|-----------------|---------------------------|-----------------|-------------------------|------------------|------------------------------|
| | Shares | Average Price* | Shares | Average Price* | Units | Average Price** | |
| Outstanding at: | | | | | | | |
| December 31, 2015 | 1,879 | \$ 86.19 | 38,111 | \$ 83.58 | 2,170 | \$ 101.78 | 1,467 |
| Granted | 397 | 95.57 | 4,740 | 95.40 | 687 | 95.29 | 698 |
| Exercised/earned | (239) | 71.57 | (5,760) | 69.19 | (372) | 84.03 | (339) |
| Cancelled/Other | (14) | 92.02 | (678) | 95.03 | (518) | 85.92 | 207 |
| December 31, 2016 | 2,023 | \$ 89.72 | 36,413 | \$ 87.18 | 1,967 | \$ 107.05 | 2,033 |

* weighted-average exercise price

** weighted-average grant stock price

The weighted-average grant date fair value of stock options and stock appreciation rights granted during 2016, 2015 and 2014 was \$14.02, \$18.69 and \$28.36, respectively. The weighted-average grant date fair value of performance share units, which vest upon achieving certain performance metrics, granted during 2016, 2015 and 2014

The associated future income tax benefit recognized was \$49 million, \$57 million and \$80 million for the years ended December 31, 2016, 2015 and 2014, respectively.

For the years ended December 31, 2016, 2015 and 2014, the amount of cash received from the exercise of stock options was \$17 million, \$41 million and \$187 million, respectively, with an associated tax benefit realized of \$69 million, \$89 million and \$125 million, respectively. In addition, for the years ended December 31, 2016, 2015 and 2014, the associated tax benefit realized from the vesting of performance share units and other restricted awards was \$17 million, \$48 million and \$49 million, respectively. Also, as described in Note 1 "Summary of Accounting Principles," during 2016, we early adopted the provisions of ASU 2016-09, "Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." Please refer to Note 1 for additional information regarding the impact of the early adoption on the 2016 financial statements. As part of that adoption, we elected to apply the prospective transition method and therefore, did not revise prior years' disclosure. As such, for the years ended December 31, 2015 and 2014, based on existing guidance prior to the issuance of ASU 2016-09, \$64 million and \$103 million, respectively, of certain tax benefits have been reported as operating cash outflows with corresponding cash inflows from financing activities.

At December 31, 2016, there was \$157 million of total unrecognized compensation cost related to non-vested equity awards granted under long-term incentive plans. This cost is expected to be recognized ratably over a weighted-average period of 3.1 years.

was \$91.63, \$120.36 and \$125.41, respectively. The total fair value of awards vested during the years ended December 31, 2016, 2015 and 2014 was \$165 million, \$247 million and \$226 million, respectively. The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of stock options

and stock appreciation rights exercised during the years ended December 31, 2016, 2015 and 2014 was \$214 million, \$281 million and \$425 million, respectively. The total intrinsic value (which is the stock

price at vesting) of performance share units and other restricted awards vested was \$61 million, \$151 million and \$154 million during the years ended December 31, 2016, 2015 and 2014, respectively.

The following table summarizes information about equity awards outstanding that are vested and expected to vest and equity awards outstanding that are exercisable at December 31, 2016:

| (SHARES IN THOUSANDS; AGGREGATE INTRINSIC VALUE IN MILLIONS) | Equity Awards Vested and Expected to Vest | | | | Equity Awards That Are Exercisable | | | |
|--|---|----------------|---------------------------|------------------|------------------------------------|----------------|---------------------------|------------------|
| | Awards | Average Price* | Aggregate Intrinsic Value | Remaining Term** | Awards | Average Price* | Aggregate Intrinsic Value | Remaining Term** |
| Stock Options/Stock Appreciation Rights | 38,314 | \$ 86.58 | \$ 917 | 5.4 years | 25,574 | \$ 77.64 | \$ 824 | 4.2 years |
| Performance Share Units/Restricted Stock | 2,376 | — | 260 | 2.8 years | | | | |

* weighted-average exercise price per share

** weighted-average contractual remaining term in years

The fair value of each option award is estimated on the date of grant using a binomial lattice model. The following table indicates the assumptions used in estimating fair value for the years ended December 31, 2016, 2015 and 2014. Lattice-based option models incorporate ranges of assumptions for inputs, those ranges are as follows:

| | 2016 | 2015 | 2014 |
|-----------------------------|-----------|-----------|-----------|
| Expected volatility | 20% | 20%–23% | 22%–26% |
| Weighted-average volatility | 20% | 21% | 26% |
| Expected term (in years) | 6.5 | 6.0–6.8 | 7.6–8.0 |
| Expected dividend yield | 2.7% | 2.2% | 2.2% |
| Risk-free rate | 0.2%–2.6% | 0.0%–2.2% | 0.0%–3.1% |

Expected volatilities are based on the returns of our stock, including implied volatilities from traded options on our stock for the binomial lattice model. We use historical data to estimate equity award exercise and employee termination behavior within the valuation model. Prior to 2016, separate employee groups and equity award characteristics were considered separately for valuation purposes. The expected term represents an estimate of the period of time equity awards are expected to remain outstanding. The risk-free rate is based on the term structure of interest rates at the time of equity award grant.

NOTE 13: RESTRUCTURING COSTS

During 2016, we recorded net pre-tax restructuring costs totaling \$290 million for new and ongoing restructuring actions. We recorded charges in the segments as follows:

| (DOLLARS IN MILLIONS) | |
|----------------------------------|--------|
| Otis | \$ 59 |
| UTC Climate, Controls & Security | 65 |
| Pratt & Whitney | 111 |
| UTC Aerospace Systems | 49 |
| Eliminations and other | 6 |
| Total | \$ 290 |

Restructuring charges incurred in 2016 primarily relate to actions initiated during 2016 and 2015, and were recorded as follows:

| (DOLLARS IN MILLIONS) | |
|-----------------------------------|--------|
| Cost of sales | \$ 187 |
| Selling, general & administrative | 78 |
| Other expense | 25 |
| Total | \$ 290 |

2016 Actions. During 2016, we recorded net pre-tax restructuring costs totaling \$242 million for restructuring actions initiated in 2016, consisting of \$149 million in cost of sales, \$67 million in selling, general and administrative expenses, and \$26 million in other expense. The 2016 actions relate to ongoing cost reduction efforts, including workforce reductions, consolidation of field operations, and costs to exit legacy programs.

We are targeting to complete in 2017 and 2018 the majority of the remaining workforce and all facility related cost reduction actions initiated in 2016. No specific plans for significant other actions have been finalized at this time. The following table summarizes the accrual balances and utilization by cost type for the 2016 restructuring actions:

| (DOLLARS IN MILLIONS) | Severance | Facility Exit, Lease Termination & Other Costs | Total |
|-------------------------------------|--------------|--|---------------|
| Net pre-tax restructuring costs | \$ 166 | \$ 76 | \$ 242 |
| Utilization and foreign exchange | (103) | (30) | (133) |
| Balance at December 31, 2016 | \$ 63 | \$ 46 | \$ 109 |

The following table summarizes expected, incurred and remaining costs for the 2016 restructuring actions by segment:

| (DOLLARS IN MILLIONS) | Expected Costs | Cost Incurred During 2016 | Remaining Costs at December 31, 2016 |
|----------------------------------|----------------|---------------------------|--------------------------------------|
| Otis | \$ 57 | \$ (48) | \$ 9 |
| UTC Climate, Controls & Security | 87 | (45) | 42 |
| Pratt & Whitney | 118 | (118) | — |
| UTC Aerospace Systems | 92 | (31) | 61 |
| Total | \$ 354 | \$ (242) | \$ 112 |

2015 Actions. During 2016, we recorded net pre-tax restructuring costs totaling \$40 million for restructuring actions initiated in 2015, consisting of \$36 million in cost of sales and \$4 million in selling, general and administrative expenses. The 2015 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations. The following table summarizes the accrual balances and utilization by cost type for the 2015 restructuring actions:

| (DOLLARS IN MILLIONS) | Severance | Facility Exit, Lease Termination and Other Costs | Total |
|---|--------------|--|--------------|
| Restructuring accruals at January 1, 2016 | \$ 183 | \$ 23 | \$ 206 |
| Net pre-tax restructuring costs | 17 | 23 | 40 |
| Utilization and foreign exchange | (158) | (22) | (180) |
| Balance at December 31, 2016 | \$ 42 | \$ 24 | \$ 66 |

The following table summarizes expected, incurred and remaining costs for the 2015 programs by segment:

| (DOLLARS IN MILLIONS) | Expected Costs | Costs Incurred During 2015 | (Costs Incurred) Reversals During 2016 | Remaining Costs at December 31, 2016 |
|----------------------------------|----------------|----------------------------|--|--------------------------------------|
| Otis | \$ 51 | \$ (35) | \$ (14) | \$ 2 |
| UTC Climate, Controls & Security | 139 | (83) | (24) | 32 |
| Pratt & Whitney | 62 | (82) | 20 | — |
| UTC Aerospace Systems | 129 | (105) | (16) | 8 |
| Eliminations and other | 27 | (21) | (6) | — |
| Total | \$ 408 | \$ (326) | \$ (40) | \$ 42 |

During 2016, we had reversals of previously accrued restructuring reserves for 2015 programs of approximately \$65 million, which includes a Pratt & Whitney business that was sold in the third quarter of 2016 after originally being scheduled for closure, and a UTC Climate, Controls & Security facility that will remain operational after originally being scheduled for closure.

NOTE 14: FINANCIAL INSTRUMENTS

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under the Derivatives and Hedging Topic of the FASB ASC and those utilized as economic hedges. We operate internationally and, in the normal course of business, are exposed to fluctuations in interest rates, foreign exchange rates and commodity prices. These fluctuations can increase the costs of financing, investing and operating the business. We have used derivative instruments, including swaps, forward contracts and options to manage certain foreign currency, interest rate and commodity price exposures.

The four quarter rolling average of the notional amount of foreign exchange contracts hedging foreign currency transactions was \$18.3 billion and \$15.6 billion at December 31, 2016 and 2015,

respectively. Additional information pertaining to foreign exchange and hedging activities is included in Note 1.

The following table summarizes the fair value of derivative instruments as of December 31, 2016 and 2015 which consist solely of foreign exchange contracts:

| (DOLLARS IN MILLIONS) | Asset Derivatives | | Liability Derivatives | |
|---|-------------------|------|-----------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Derivatives designated as hedging instruments | \$ 15 | \$ 4 | \$ 196 | \$ 428 |
| Derivatives not designated as hedging instruments | 155 | 97 | 158 | 105 |

As discussed in Note 9, at December 31, 2016 we have approximately €2.95 billion of Euro-denominated long-term debt and €500 million of outstanding Euro-denominated commercial paper borrowings, which qualify as a net investment hedge against our investments in European businesses. As of December 31, 2016, the net investment hedge is deemed to be effective.

The impact from foreign exchange derivative instruments that qualified as cash flow hedges was as follows:

| (DOLLARS IN MILLIONS) | Year Ended December 31, | |
|--|-------------------------|----------|
| | 2016 | 2015 |
| Gain (loss) recorded in Accumulated other comprehensive loss | \$ 75 | \$ (415) |
| Loss reclassified from Accumulated other comprehensive loss into Product sales (effective portion) | \$ 171 | \$ 234 |

Assuming current market conditions continue, a \$59 million pre-tax loss is expected to be reclassified from Accumulated other comprehensive loss into Product sales to reflect the fixed prices obtained from foreign exchange hedging within the next 12 months. At December 31, 2016, all derivative contracts accounted for as cash flow hedges mature by November 2022.

The effect on the Consolidated Statement of Operations of foreign exchange contracts not designated as hedging instruments was as follows:

| (DOLLARS IN MILLIONS) | Year Ended December 31, | |
|--------------------------------------|-------------------------|-------|
| | 2016 | 2015 |
| Gain recognized in Other income, net | \$ 56 | \$ 63 |

We received \$249 million, \$160 million, and \$93 million from settlements of derivative contracts during the years ended December 31, 2016, 2015 and 2014, respectively.

NOTE 15: FAIR VALUE MEASUREMENTS

In accordance with the provisions of ASC 820, the following tables provide the valuation hierarchy classification of assets and liabilities that are carried at fair value and measured on a recurring and non-recurring

basis in our Consolidated Balance Sheet as of December 31, 2016 and 2015:

| 2016 (DOLLARS IN MILLIONS) | Total | Level 1 | Level 2 | Level 3 |
|------------------------------------|--------|---------|---------|---------|
| Recurring fair value measurements: | | | | |
| Available-for-sale securities | \$ 987 | \$ 987 | \$ — | \$ — |
| Derivative assets | 170 | — | 170 | — |
| Derivative liabilities | (354) | — | (354) | — |

| 2015 (DOLLARS IN MILLIONS) | Total | Level 1 | Level 2 | Level 3 |
|------------------------------------|--------|---------|---------|---------|
| Recurring fair value measurements: | | | | |
| Available-for-sale securities | \$ 951 | \$ 951 | \$ — | \$ — |
| Derivative assets | 101 | — | 101 | — |
| Derivative liabilities | (533) | — | (533) | — |

During 2015, we recorded net gains of approximately \$126 million as a result of a fair value adjustment related to the acquisition of a controlling interest in a UTC Climate, Controls & Security joint venture investment, and an impairment charge of \$61 million, related to certain assets held for sale by UTC Aerospace Systems.

Valuation Techniques. Our available-for-sale securities include equity investments that are traded in active markets, either domestically or internationally and are measured at fair value using closing stock prices from active markets. Our derivative assets and liabilities include foreign exchange contracts and commodity derivatives that are measured at fair value using internal models based on observable market inputs such as forward rates, interest rates, our own credit risk and our counterparties' credit risks. As of December 31, 2016, there were no significant transfers in and out of Level 1 and Level 2.

As of December 31, 2016, there has not been any significant impact to the fair value of our derivative liabilities due to our own credit risk. Similarly, there has not been any significant adverse impact to our derivative assets based on our evaluation of our counterparties' credit risks.

The following table provides carrying amounts and fair values of financial instruments that are not carried at fair value at December 31, 2016 and 2015:

| (DOLLARS IN MILLIONS) | December 31, 2016 | | December 31, 2015 | |
|---|-------------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term receivables | \$ 127 | \$ 121 | \$ 122 | \$ 107 |
| Customer financing notes receivable | 437 | 420 | 403 | 403 |
| Short-term borrowings | (600) | (600) | (926) | (926) |
| Long-term debt (excluding capitalized leases) | (23,280) | (25,110) | (19,476) | (21,198) |
| Long-term liabilities | (457) | (427) | (458) | (419) |

The following table provides the valuation hierarchy classification of assets and liabilities that are not carried at fair value in our Consolidated Balance Sheet as of December 31, 2016:

| (DOLLARS IN MILLIONS) | Total | Level 1 | Level 2 | Level 3 |
|---|----------|---------|----------|---------|
| Long-term receivables | \$ 121 | \$ — | \$ 121 | \$ — |
| Customer financing notes receivable | 420 | — | 420 | — |
| Short-term borrowings | (600) | — | (522) | (78) |
| Long-term debt (excluding capitalized leases) | (25,110) | — | (24,906) | (204) |
| Long-term liabilities | (427) | — | (427) | — |

NOTE 16: VARIABLE INTEREST ENTITIES

In 2012, Pratt & Whitney, Rolls-Royce plc (Rolls-Royce), MTU Aero Engines AG (MTU) and Japanese Aero Engines Corporation (JAEC), participants in the IAE International Aero Engines AG (IAE) collaboration, completed a restructuring of their interests in IAE. As a result of this transaction, Pratt & Whitney holds a 61% net interest in the collaboration and a 49.5% ownership interest in IAE. IAE's business purpose is to coordinate the design, development, manufacturing and product support of the V2500 program through involvement with the collaborators. Additionally, Pratt & Whitney, JAEC and MTU are participants in International Aero Engines, LLC (IAE LLC), whose business purpose is to coordinate the design, development, manufacturing and product support for the PW1100G-JM engine for the Airbus A320neo aircraft and the PW1400G-JM engine for the Irkut MC21 aircraft. Pratt & Whitney holds a 59% net interest in the collaboration and a 59% ownership interest in IAE LLC. IAE and IAE LLC retain limited equity with the primary economics of the programs passed to the participants. As such, we have determined that IAE and IAE LLC are variable interest entities with Pratt & Whitney the primary beneficiary. IAE and IAE LLC have, therefore, been consolidated. The carrying amounts and classification of assets and liabilities for variable interest entities in our Consolidated Balance Sheet as of December 31, 2016 and 2015 are as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|------------------------|----------|----------|
| Current assets | \$ 2,722 | \$ 1,920 |
| Noncurrent assets | 1,334 | 1,102 |
| Total assets | \$ 4,056 | \$ 3,022 |
| Current liabilities | \$ 2,422 | \$ 1,931 |
| Noncurrent liabilities | 1,636 | 1,355 |
| Total liabilities | \$ 4,058 | \$ 3,286 |

NOTE 17: GUARANTEES

We extend a variety of financial guarantees to third parties. As of December 31, 2016 and 2015, the following financial guarantees were outstanding:

| (DOLLARS IN MILLIONS) | December 31, 2016 | | December 31, 2015 | |
|--|---------------------------|------------------------------|---------------------------|------------------------------|
| | Maximum Potential Payment | Carrying Amount of Liability | Maximum Potential Payment | Carrying Amount of Liability |
| Commercial aerospace financing arrangements (see Note 5) | \$ 348 | \$ 14 | \$ 365 | \$ 12 |
| Credit facilities and debt obligations (expire 2017 to 2028) | 270 | 15 | 241 | — |
| Performance guarantees | 55 | 4 | 55 | 3 |

We also have obligations arising from sales of certain businesses and assets, including those from representations and warranties and related indemnities for environmental, health and safety, tax and employment matters. The maximum potential payment related to these obligations is not a specified amount as a number of the obligations do not contain financial caps. The carrying amount of liabilities related to these obligations was \$171 million at December 31, 2016 and 2015. For additional information regarding the environmental indemnifications, see Note 18.

We accrue for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued. In accordance with the Guarantees Topic of the FASB ASC we record these liabilities at fair value.

We provide service and warranty policies on our products and extend performance and operating cost guarantees beyond our normal service and warranty policies on some of our products, particularly commercial aircraft engines. In addition, we incur discretionary costs to service our products in connection with specific product performance issues. Liabilities for performance and operating cost guarantees are based upon future product performance and durability, and are largely estimated based upon historical experience. Adjustments are made to accruals as claim data and historical experience warrant. The changes in the carrying amount of service and product warranties and product performance guarantees for the years ended December 31, 2016 and 2015 are as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 |
|--|----------|----------|
| Balance as of January 1 | \$ 1,212 | \$ 1,264 |
| Warranties and performance guarantees issued | 246 | 291 |
| Settlements made | (240) | (259) |
| Other | (19) | (84) |
| Balance as of December 31 | \$ 1,199 | \$ 1,212 |

NOTE 18: CONTINGENT LIABILITIES

Except as otherwise noted, while we are unable to predict the final outcome, based on information currently available, we do not believe that resolution of any of the following matters will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition.

Leases. We occupy space and use certain equipment under lease arrangements. Rental commitments of \$2,094 million at December 31, 2016 under long-term non-cancelable operating leases are payable as follows: \$462 million in 2017, \$354 million in 2018, \$286 million in 2019, \$209 million in 2020, \$145 million in 2021 and \$638 million thereafter. Rent expense was \$386 million in 2016, \$386 million in 2015 and \$434 million in 2014.

Additional information pertaining to commercial aerospace rental commitments is included in Note 5 to the Consolidated Financial Statements.

Environmental. Our operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. As described in Note 1 to the Consolidated Financial Statements, we have accrued for the costs of environmental remediation activities, including but not limited to investigatory, remediation, operating and maintenance costs and performance guaranties, and periodically reassess these amounts. We believe that the likelihood of incurring losses materially in excess of amounts accrued is remote. As of December 31, 2016 and 2015, we had \$829 million and \$837 million reserved for environmental remediation, respectively. Additional information pertaining to environmental matters is included in Note 1 to the Consolidated Financial Statements.

Government. In the ordinary course of business, the Company and its subsidiaries and our properties are subject to regulatory and governmental examinations, information gathering requests, inquiries, investigations and threatened legal actions and proceedings. For example, we are now, and believe that, in light of the current U.S. Government contracting environment, we will continue to be the subject of one or more U.S. Government investigations. Such U.S. Government investigations often take years to complete and could result in administrative, civil or criminal liabilities, including repayments, fines, treble and other damages, forfeitures, restitution or penalties, or could lead to suspension or debarment of U.S. Government contracting or of export privileges. For instance, if we or one of our business units were charged with wrongdoing as a result of any of these investigations or other government investigations (including violations of certain environmental or export laws) the U.S. Government could suspend us from bidding on or receiving awards of new U.S. Government contracts pending the completion of legal proceedings. If convicted or found liable, the U.S. Government could fine and debar us from new U.S. Government contracting for a period generally not to exceed three years. The U.S. Government also reserves the right to debar a contractor from receiving new government contracts for fraudulent, criminal or other seriously improper conduct. The U.S. Government could void any contracts found to be tainted by fraud.

Our contracts with the U.S. Government are also subject to audits. Like many defense contractors, we have received audit reports, which recommend that certain contract prices should be reduced to comply with various government regulations, including because cost or pricing data we submitted in negotiation of the contract prices or cost accounting practices may not have conformed to government regulations, or that certain payments be delayed or withheld. Some of these audit reports involved substantial amounts. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and, in some cases, continue to negotiate and/or litigate. In addition, we accrue for liabilities associated with those matters that are probable and can be reasonably estimated. The most likely settlement amount to be incurred is accrued based upon a range of estimates. Where no amount within a range of estimates is more likely, then we accrued the minimum amount.

Legal Proceedings. Cost Accounting Standards Claim: As previously disclosed, in December 2013, a Divisional Administrative Contracting Officer of the United States Defense Contract Management Agency asserted a claim against Pratt & Whitney to recover overpayments of approximately \$177 million plus interest (approximately \$63 million through December 31, 2016). The claim is based on Pratt & Whitney's alleged noncompliance with cost accounting standards from January 1, 2005 to December 31, 2012, due to its method of determining the cost of collaborator parts used in the calculation of material overhead costs for government contracts. On March 18, 2014, Pratt & Whitney filed an appeal to the Armed Services Board of Contract Appeals. Pratt & Whitney's appeal is still pending and we continue to believe the government's claim is without merit.

German Tax Litigation: As previously disclosed, UTC has been involved in administrative review proceedings with the German Tax Office, which concern approximately €215 million (approximately \$225 million) of tax benefits that we have claimed related to a 1998 reorganization of the corporate structure of Otis operations in Germany. Upon audit, these tax benefits were disallowed by the German Tax Office. UTC estimates interest associated with the aforementioned tax benefits is an additional approximately €118 million (approximately \$123 million). On August 3, 2012, we filed suit in the local German Tax Court (Berlin-Brandenburg). In March 2016, the local German Tax Court dismissed our suit, and we have appealed this decision to the German Federal Tax Court (FTC). In 2015, UTC made tax and interest payments to German tax authorities of €275 million (approximately \$300 million) in order to avoid additional interest accruals pending final resolution of this matter. In the meantime, we continue vigorously to litigate this matter.

Asbestos Matters: As previously disclosed, like many other industrial companies, we and our subsidiaries have been named as defendants in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain of our products or business premises. While we have never manufactured asbestos and no longer incorporate it in any currently-manufactured products, certain of our historical products, like those of many other manufacturers, have contained components incorporating asbestos. A substantial majority of these asbestos-related claims have been dismissed without payment or were covered in full or in part by insurance or other forms of indemnity. Additional cases were litigated and settled without any insurance reimbursement. The amounts involved in asbestos related claims were not material individually or in the aggregate in any year.

Our estimated total liability to resolve all pending and unasserted potential future asbestos claims through 2059 is approximately \$374 million and is principally recorded in Other long-term liabilities on our Consolidated Balance Sheet as of December 31, 2016. This amount is on a pre-tax basis, not discounted, and excludes the Company's legal fees to defend the asbestos claims (which will continue to be expensed by the Company as they are incurred). In addition,

the Company has an insurance recovery receivable for probable asbestos related recoveries of approximately \$124 million, which is included primarily in Other assets on our Consolidated Balance Sheet as of December 31, 2016.

The amounts recorded by UTC for asbestos-related liabilities and insurance recoveries are based on currently available information and assumptions that we believe are reasonable. Our actual liabilities or insurance recoveries could be higher or lower than those recorded if actual results vary significantly from the assumptions. Key variables in these assumptions include the number and type of new claims to be filed each year, the outcomes or resolution of such claims, the average cost of resolution of each new claim, the amount of insurance available, allocation methodologies, the contractual terms with each insurer with whom we have reached settlements, the resolution of coverage issues with other excess insurance carriers with whom we have not yet achieved settlements, and the solvency risk with respect to our insurance carriers. Other factors that may affect our future liability include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, legal rulings that may be made by state and federal courts, and the passage of state or federal legislation. At the end of each year, the Company will evaluate all of these factors and, with input from an outside actuarial expert, make any necessary adjustments to both our estimated asbestos liabilities and insurance recoveries.

Other. As described in Note 17 to the Consolidated Financial Statements, we extend performance and operating cost guarantees beyond our normal warranty and service policies for extended periods on some of our products. We have accrued our estimate of the liability that may result under these guarantees and for service costs that are probable and can be reasonably estimated.

We also have other commitments and contingent liabilities related to legal proceedings, self-insurance programs and matters arising out of the normal course of business. We accrue contingencies based upon a range of possible outcomes. If no amount within this range is a better estimate than any other, then we accrue the minimum amount.

In the ordinary course of business, the Company and its subsidiaries are also routinely defendants in, parties to or otherwise subject to many pending and threatened legal actions, claims, disputes and proceedings. These matters are often based on alleged violations of contract, product liability, warranty, regulatory, environmental, health and safety, employment, intellectual property, tax and other laws. In some of these proceedings, claims for substantial monetary damages are asserted against the Company and its subsidiaries and could result in fines, penalties, compensatory or treble damages or non-monetary relief. We do not believe that these matters will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition.

NOTE 19: SEGMENT FINANCIAL DATA

Our operations for the periods presented herein are classified into four principal segments. The segments are generally determined based on the management structure of the businesses and the grouping of similar operating companies, where each management organization has general operating autonomy over diversified products and services.

As discussed in Note 3, on November 6, 2015, we completed the sale of Sikorsky to Lockheed Martin Corp. The tables below exclude amounts attributable to Sikorsky, which have been reclassified to Discontinued Operations in the accompanying Consolidated Statement of Operations and to Assets held for sale in the accompanying Consolidated Balance Sheet for all periods presented.

Otis products include elevators, escalators, moving walkways and service sold to customers in the commercial and residential property industries around the world.

UTC Climate, Controls & Security products and related services include HVAC and refrigeration systems, building controls and automation, fire and special hazard suppression systems and equipment, security monitoring and rapid response systems, provided to a diversified international customer base principally in the industrial, commercial and residential property and commercial transportation sectors.

Pratt & Whitney products include commercial, military, business jet and general aviation aircraft engines, parts and services sold to a diversified customer base, including international and domestic

commercial airlines and aircraft leasing companies, aircraft manufacturers, and U.S. and foreign governments. Pratt & Whitney also provides product support and a full range of overhaul, repair and fleet management services.

UTC Aerospace Systems provides aerospace products and aftermarket services for commercial, military, business jet and general aviation customers worldwide. Products include electric power generation, power management and distribution systems, air data and flight sensing and management systems, engine control systems, electric systems, intelligence, surveillance and reconnaissance systems, engine components, environmental control systems, fire and ice detection and protection systems, propeller systems, aircraft aerostructures including engine nacelles, thrust reversers, and mounting pylons, interior and exterior aircraft lighting, aircraft seating and cargo systems, actuation systems, landing systems, including landing gears, wheels and brakes, and space products and subsystems. Aftermarket services include spare parts, overhaul and repair, engineering and technical support and fleet management solutions.

We have reported our financial and operational results for the periods presented herein under the four principal segments noted above, consistent with how we have reviewed our business operations for decision-making purposes, resource allocation and performance assessment during 2016.

Segment Information. Total sales by segment include intersegment sales, which are generally made at prices approximating those that the selling entity is able to obtain on external sales. Segment information for the years ended December 31 is as follows:

| (DOLLARS IN MILLIONS) | Net Sales | | | Operating Profits | | |
|----------------------------------|-----------|-----------|-----------|-------------------|----------|----------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Otis | \$ 11,893 | \$ 11,980 | \$ 12,982 | \$ 2,147 | \$ 2,338 | \$ 2,640 |
| UTC Climate, Controls & Security | 16,851 | 16,707 | 16,823 | 2,956 | 2,936 | 2,782 |
| Pratt & Whitney | 14,894 | 14,082 | 14,508 | 1,545 | 861 | 2,000 |
| UTC Aerospace Systems | 14,465 | 14,094 | 14,215 | 2,298 | 1,888 | 2,355 |
| Total segment | 58,103 | 56,863 | 58,528 | 8,946 | 8,023 | 9,777 |
| Eliminations and other | (859) | (765) | (628) | (368) | (268) | 304 |
| General corporate expenses | — | — | — | (406) | (464) | (488) |
| Consolidated | \$ 57,244 | \$ 56,098 | \$ 57,900 | \$ 8,172 | \$ 7,291 | \$ 9,593 |

| (DOLLARS IN MILLIONS) | Total Assets | | | Capital Expenditures | | | Depreciation & Amortization | | |
|----------------------------------|--------------|-----------|-----------|----------------------|----------|----------|-----------------------------|----------|----------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Otis | \$ 8,867 | \$ 8,846 | \$ 9,313 | \$ 94 | \$ 83 | \$ 87 | \$ 171 | \$ 176 | \$ 209 |
| UTC Climate, Controls & Security | 21,787 | 21,287 | 21,217 | 340 | 261 | 228 | 354 | 337 | 349 |
| Pratt & Whitney | 22,971 | 20,336 | 18,143 | 725 | 692 | 692 | 550 | 476 | 390 |
| UTC Aerospace Systems | 34,093 | 34,736 | 35,034 | 452 | 537 | 533 | 807 | 796 | 807 |
| Total segment | 87,718 | 85,205 | 83,707 | 1,611 | 1,573 | 1,540 | 1,882 | 1,785 | 1,755 |
| Eliminations and other | 1,988 | 2,279 | 2,631 | 88 | 79 | 54 | 80 | 78 | 65 |
| Consolidated | \$ 89,706 | \$ 87,484 | \$ 86,338 | \$ 1,699 | \$ 1,652 | \$ 1,594 | \$ 1,962 | \$ 1,863 | \$ 1,820 |

Geographic External Sales and Operating Profit. Geographic external sales and operating profits are attributed to the geographic regions based on their location of origin. U.S. external sales include export sales to commercial customers outside the U.S. and sales to the U.S. Government, commercial and affiliated customers, which are known to be for resale to customers outside the U.S. Long-lived assets are net fixed assets attributed to the specific geographic regions.

| (DOLLARS IN MILLIONS) | External Net Sales | | | Operating Profits | | | Long-Lived Assets | | |
|--------------------------|--------------------|-----------|-----------|-------------------|----------|----------|-------------------|----------|----------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| United States Operations | \$ 32,335 | \$ 30,989 | \$ 30,814 | \$ 4,566 | \$ 4,391 | \$ 5,067 | \$ 4,822 | \$ 4,517 | \$ 4,211 |
| International Operations | | | | | | | | | |
| Europe | 11,151 | 10,945 | 12,587 | 1,933 | 1,882 | 2,238 | 1,538 | 1,525 | 1,577 |
| Asia Pacific | 8,260 | 8,425 | 8,746 | 1,484 | 1,641 | 1,712 | 999 | 994 | 995 |
| Other | 5,479 | 5,584 | 5,511 | 963 | 109 | 760 | 1,325 | 1,273 | 1,379 |
| Eliminations and other | 19 | 155 | 242 | (774) | (732) | (184) | 474 | 423 | 430 |
| Consolidated | \$ 57,244 | \$ 56,098 | \$ 57,900 | \$ 8,172 | \$ 7,291 | \$ 9,593 | \$ 9,158 | \$ 8,732 | \$ 8,592 |

Sales from U.S. operations include export sales as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|-----------------------|------------------|----------|-----------|
| Europe | \$ 5,065 | \$ 4,366 | \$ 4,137 |
| Asia Pacific | 3,449 | 2,902 | 3,469 |
| Other | 2,313 | 2,473 | 2,670 |
| | \$ 10,827 | \$ 9,741 | \$ 10,276 |

Major Customers. Net Sales include sales under prime contracts and subcontracts to the U.S. Government, primarily related to Pratt & Whitney and UTC Aerospace Systems products, as follows:

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 |
|-----------------------|-----------------|----------|----------|
| Pratt & Whitney | \$ 3,187 | \$ 2,945 | \$ 3,126 |
| UTC Aerospace Systems | 2,301 | 2,409 | 2,459 |
| Other | 138 | 276 | 294 |
| | \$ 5,626 | \$ 5,630 | \$ 5,879 |

Net sales by Sikorsky under prime contracts and subcontracts to the U.S. Government of approximately \$3.1 billion and \$3.8 billion have been reclassified to Discontinued Operations in our Consolidated Statement of Operations for the years ended December 31, 2015 and 2014, respectively.

Net sales to Airbus, primarily related to Pratt & Whitney and UTC Aerospace Systems products, were approximately \$7,688 million, \$7,624 million and \$7,757 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Selected Quarterly Financial Data (Unaudited)

| (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | 2016 QUARTERS | | | | 2015 QUARTERS | | | |
|---|---------------|-----------|-----------|-----------|---------------|-----------|-----------|-----------|
| | First | Second | Third | Fourth | First | Second | Third | Fourth |
| Net Sales | \$ 13,357 | \$ 14,874 | \$ 14,354 | \$ 14,659 | \$ 13,320 | \$ 14,690 | \$ 13,788 | \$ 14,300 |
| Gross margin | 3,703 | 4,133 | 4,012 | 3,936 | 3,814 | 4,218 | 3,988 | 3,647 |
| Net income attributable to common shareowners | 1,183 | 1,379 | 1,480 | 1,013 | 1,426 | 1,542 | 1,362 | 3,278 |
| Earnings per share of Common Stock: | | | | | | | | |
| Basic — net income | \$ 1.43 | \$ 1.67 | \$ 1.80 | \$ 1.26 | \$ 1.60 | \$ 1.76 | \$ 1.55 | \$ 3.86 |
| Diluted — net income | \$ 1.42 | \$ 1.65 | \$ 1.78 | \$ 1.25 | \$ 1.58 | \$ 1.73 | \$ 1.54 | \$ 3.86 |

COMPARATIVE STOCK DATA (UNAUDITED)

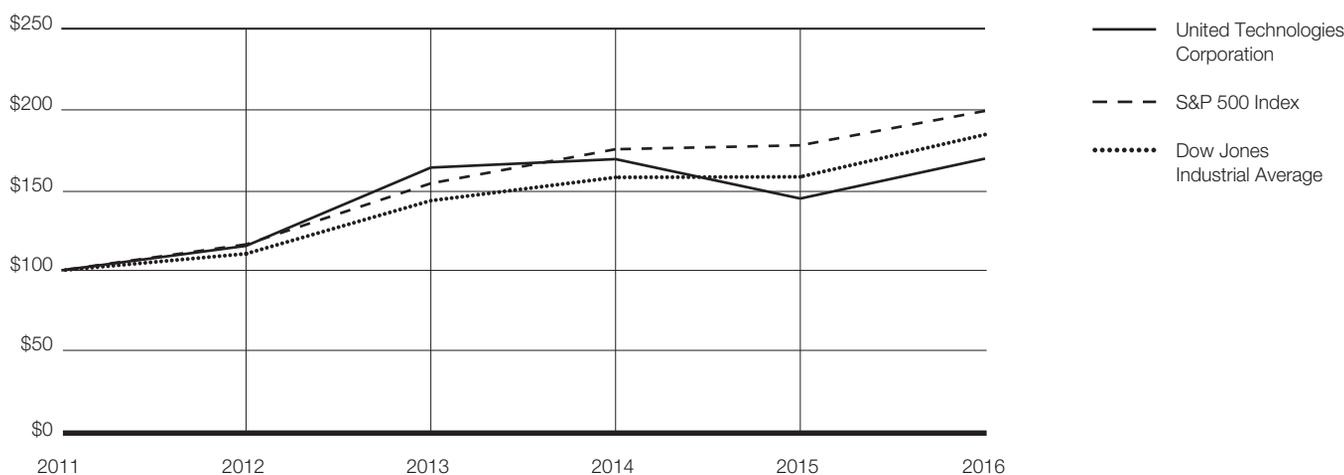
| (COMMON STOCK) | 2016 | | | 2015 | | |
|----------------|-----------|-----------|----------|-----------|-----------|----------|
| | High | Low | Dividend | High | Low | Dividend |
| First quarter | \$ 100.25 | \$ 84.66 | \$ 0.64 | \$ 124.11 | \$ 111.52 | \$ 0.64 |
| Second quarter | \$ 105.89 | \$ 97.21 | \$ 0.66 | \$ 119.14 | \$ 110.93 | \$ 0.64 |
| Third quarter | \$ 109.69 | \$ 100.10 | \$ 0.66 | \$ 111.58 | \$ 86.82 | \$ 0.64 |
| Fourth quarter | \$ 110.98 | \$ 98.67 | \$ 0.66 | \$ 100.80 | \$ 88.36 | \$ 0.64 |

Our common stock is listed on the New York Stock Exchange. The high and low prices are based on the Composite Tape of the New York Stock Exchange. There were approximately 19,126 registered shareholders at January 31, 2017.

PERFORMANCE GRAPH (UNAUDITED)

The following graph presents the cumulative total shareholder return for the five years ending December 31, 2016 for our common stock, as compared to the Standard & Poor's 500 Stock Index and to the Dow Jones 30 Industrial Average. Our common stock price is a component of both indices. These figures assume that all dividends paid over the five-year period were reinvested, and that the starting value of each index and the investment in common stock was \$100.00 on December 31, 2011.

COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN



| | December | | | | | |
|---------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| United Technologies Corporation | \$ 100.00 | \$ 115.10 | \$ 163.30 | \$ 168.50 | \$ 144.23 | \$ 168.81 |
| S&P 500 Index | \$ 100.00 | \$ 116.00 | \$ 153.57 | \$ 174.60 | \$ 177.01 | \$ 198.18 |
| Dow Jones Industrial Average | \$ 100.00 | \$ 110.24 | \$ 142.93 | \$ 157.28 | \$ 157.61 | \$ 183.61 |

Reconciliation of Non-GAAP Measures to Corresponding GAAP Measures

RECONCILIATION OF NET SALES TO ADJUSTED NET SALES

| (DOLLARS IN MILLIONS) | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|-----------|-----------|-----------|-----------|-----------|
| Net sales | \$ 57,244 | \$ 56,098 | \$ 57,900 | \$ 56,600 | \$ 51,101 |
| Adjustments to net sales: | | | | | |
| Pratt & Whitney — charge resulting from ongoing customer contract negotiations | 184 | 142 | — | — | — |
| UTC Aerospace Systems — charge resulting from customer contract negotiations | — | 210 | — | — | — |
| Adjusted net sales | \$ 57,428 | \$ 56,450 | \$ 57,900 | \$ 56,600 | \$ 51,101 |

RECONCILIATION OF DILUTED EARNINGS PER SHARE TO ADJUSTED DILUTED EARNINGS PER SHARE

| (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | 2016 | 2015 | 2014 | 2013 | 2012 |
|--|----------|----------|----------|----------|----------|
| Net income from continuing operations attributable to common shareowners | \$ 5,065 | \$ 3,996 | \$ 6,066 | \$ 5,265 | \$ 4,337 |
| Adjustments to net income from continuing operations attributable to common shareowners: | | | | | |
| Restructuring costs | 290 | 396 | 354 | 431 | 537 |
| Significant non-recurring and non-operational charges (gains) | 690 | 1,446 | (240) | (271) | (221) |
| Income tax benefit on restructuring costs and significant non-recurring and non-operational items | (354) | (617) | (7) | (38) | (105) |
| Significant non-recurring and non-operational (gains) charges recorded within income tax expense | (231) | 342 | (284) | (154) | (237) |
| Total adjustments to net income from continuing operations attributable to common shareowners | 395 | 1,567 | (177) | (32) | (26) |
| Adjusted net income from continuing operations attributable to common shareowners | \$ 5,460 | \$ 5,563 | \$ 5,889 | \$ 5,233 | \$ 4,311 |
| Weighted average diluted shares outstanding | 826 | 883 | 912 | 915 | 907 |
| Diluted earnings per share — Net income from continuing operations attributable to common shareowners | \$ 6.13 | \$ 4.53 | \$ 6.65 | \$ 5.75 | \$ 4.78 |
| Impact of non-recurring and non-operational charges (gains) on diluted earnings per share | 0.48 | 1.77 | (0.19) | (0.03) | (0.03) |
| Adjusted diluted earnings per share — Net income from continuing operations attributable to common shareowners | \$ 6.61 | \$ 6.30 | \$ 6.46 | \$ 5.72 | \$ 4.75 |

RECONCILIATION OF SEGMENT RESULTS TO ADJUSTED SEGMENT RESULTS

| (DOLLARS IN MILLIONS) | Otis | UTC Climate, Controls & Security | Pratt & Whitney | UTC Aerospace Systems |
|--|-----------|----------------------------------|-----------------|-----------------------|
| 2016 Segment sales | \$ 11,893 | \$ 16,851 | \$ 14,894 | \$ 14,465 |
| Adjustments to segment sales: | | | | |
| Charge resulting from ongoing customer contract negotiations | — | — | 184 | — |
| Adjusted 2016 segment sales | \$ 11,893 | \$ 16,851 | \$ 15,078 | \$ 14,465 |
| 2016 Segment operating profit | \$ 2,147 | \$ 2,956 | \$ 1,545 | \$ 2,298 |
| Adjustments to segment operating profit: | | | | |
| Restructuring costs | 59 | 65 | 111 | 49 |
| Acquisition and integration costs related to current period acquisitions | — | 32 | — | — |
| Charge resulting from customer contract negotiations | — | — | 95 | — |
| Adjusted 2016 segment operating profit | \$ 2,206 | \$ 3,053 | \$ 1,751 | \$ 2,347 |

RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES OF CONTINUING OPERATIONS TO FREE CASH FLOW

| (DOLLARS IN MILLIONS) | 2016 |
|--|----------|
| Net cash flows provided by operating activities of continuing operations | \$ 6,412 |
| Less: Capital expenditures | 1,699 |
| Free Cash Flow | \$ 4,713 |

Use and Definitions of Non-GAAP Financial Measures.

Adjusted net sales, adjusted net income, adjusted operating profit and adjusted diluted EPS are non-GAAP financial measures. Adjusted net sales represents consolidated net sales from continuing operations (a GAAP measure), excluding significant items of a non-recurring and nonoperational nature (hereinafter referred to as "other significant items"). Adjusted net income represents net income from continuing operations (a GAAP measure), excluding restructuring costs and other significant items. Adjusted operating profit represents income from continuing operations (a GAAP measure), excluding restructuring costs and other significant items. Adjusted diluted EPS represents diluted earnings per share from continuing operations (a GAAP measure), excluding restructuring costs and other significant items. For the business segments, when applicable, adjustments of net sales and operating profit similarly reflect continuing operations, excluding restructuring and other significant items. Management believes that the non-GAAP measures just mentioned are useful in providing period-to-period comparisons of the results of the Company's ongoing operational performance.

Free cash flow is a non-GAAP financial measure that represents cash flow from operations (a GAAP measure) less capital expenditures. Management believes free cash flow is a useful measure of liquidity and an additional basis for assessing UTC's ability to fund its activities, including the financing of acquisitions, debt service, repurchases of UTC's common stock and distribution of earnings to shareholders.

A reconciliation of the non-GAAP measures to the corresponding amounts prepared in accordance with GAAP appears in the tables above. The tables above provide additional information as to the items and amounts that have been excluded from the adjusted measures.

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Data Center Group
Intel Corporation
(Technology and Digital Services)

John V. Faraci

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Chief Executive Officer
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*(Aerospace and Defense Systems
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Benchmark Interest Rate)*

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The Whitman Strategy Group
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Chairman & CEO

Elizabeth B. Amato*

Executive Vice President &
Chief Human Resources Officer

Robert J. Bailey*

Corporate Vice President,
Controller

Vincent M. Campisi

Senior Vice President, Digital &
Chief Information Officer

Nora R. Dannehy

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Global Compliance

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UTC Aerospace Systems

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Akhil Johri*

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Susan Mackiewicz

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Internal Audit

Timothy J. McBride

Senior Vice President,
Government Relations

Robert J. McDonough*

President,
UTC Climate, Controls & Security

J. Michael McQuade

Senior Vice President,
Science & Technology

David R. Whitehouse*

Corporate Vice President,
Treasurer

*Executive Officer

Shareowner Information

CORPORATE OFFICE

United Technologies Corporation
10 Farm Springs Road
Farmington, CT 06032
Telephone: 860.728.7000

This report is made available to shareowners in advance of the annual meeting of shareowners to be held at 8 a.m., April 24, 2017, in Charlotte, N.C. The proxy statement will be made available to shareowners on or about March 10, 2017, at which time proxies for the meeting will be requested.

Information about UTC, including financial information, can be found at our website: www.utc.com.

STOCK LISTING

New York Stock Exchange

TICKER SYMBOL

UTX

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A., is the transfer agent, registrar and dividend disbursing agent for UTC's common stock. Questions and communications regarding transfer of stock, replacement of lost certificates, dividends, address changes and the Stock Purchase and Dividend Reinvestment Plan administered by Computershare should be directed to:

Computershare Trust Company, N.A.
250 Royall Street
Canton, MA 02021
Telephone:

Within the U.S.: 1.800.488.9281

Outside the U.S.: 1.781.575.2724

Website: www.computershare.com/investor

TDD: 1.800.952.9245

Telecommunications device for the hearing impaired

DIVIDENDS

Dividends are usually paid on the 10th day of March, June, September and December.

ELECTRONIC ACCESS

Rather than receiving mailed copies, registered shareowners may sign up at the following website for electronic communications, including annual meeting materials, stock plan statements and tax documents:

www.computershare-na.com/green.

For annual meeting materials, your enrollment is revocable until a week before each year's record date for the annual meeting. Beneficial shareowners may be able to request electronic access by contacting their broker or bank, or Broadridge Financial Solutions at:

<http://enroll.icsdelivery.com/utc>.

ADDITIONAL INFORMATION

Shareowners may obtain, without charge, a copy of the UTC Annual Report on Form 10-K for fiscal year 2016 filed with the Securities and Exchange Commission by writing to:

Corporate Secretary
United Technologies Corporation
10 Farm Springs Road
Farmington, CT 06032

For additional information about UTC, please contact Investor Relations at the above corporate office address or visit our website at:

www.utc.com.

SHAREOWNER INFORMATION SERVICES

Shareowners may call our toll-free telephone service 24 hours a day, which includes pre-recorded shareowner information on UTC's transfer agent, stock price information and material requests.

To access the service, dial 1.800.881.1914 from any touchtone phone and follow the recorded instructions.

For additional shareowner information, you may visit our website at: www.utc.com.

DIRECT REGISTRATION SYSTEM

If your shares are held in street name through a broker and you are interested in participating in the Direct Registration System, you may have your broker transfer the shares to Computershare Trust Company, N.A., electronically through the Direct Registration System.

ENVIRONMENTALLY FRIENDLY REPORT

This annual report is printed on recycled and recyclable paper.

www.utc.com

www.ccs.utc.com

www.otis.com

www.pw.utc.com

www.utcaerospacesystems.com

SUSTAINABILITY

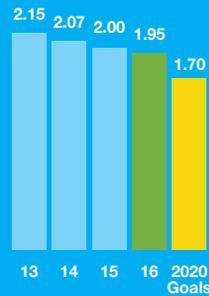
From the world's most fuel-efficient jet engines and sustainable aerospace components, to leading green building technologies that save energy, to refrigeration innovations that extend the world's food supply to feed a growing population, United Technologies continues to deliver solutions the world needs to urbanize in a sustainable manner.

We engage with stakeholders to advance sustainable outcomes across our global communities. Within our own operations, we tripled our revenues over the past 20 years while reducing our greenhouse gas emissions by 34 percent and water consumption 60 percent. For us, sustainability means we can do good for the planet while we do good for our employees, communities, customers and shareowners.

To learn more, visit www.naturalleader.com.

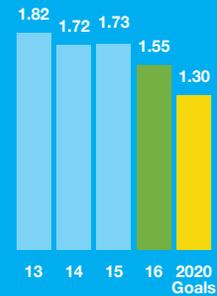
GREENHOUSE GAS EMISSIONS

Million metric tons CO₂e



WORLDWIDE WATER CONSUMPTION

Billion gals



Consistent with The Green House Gas Protocol, UTC's Environment, Health & Safety goals and targets are adjusted to reflect the impacts of acquired companies at the time of acquisition and to remove divested companies from UTC's measured performance.

RECOGNITION

Among world's most respected companies
(2016, *BARRON'S*)

19th largest public U.S. manufacturer
(2016, *INDUSTRY WEEK*)

45th largest U.S. corporation
(2016, *FORTUNE*)

89th among Barron's 500 ranking
(2016, *BARRON'S*)

95th largest public company in the world
(2016, *FORBES Global 2000*)

136th largest global corporation
(2016, *FORTUNE Global 500*)

No. 3 most admired aerospace and defense company
(2016, *FORTUNE*)

Among world's greenest companies
(2016, *NEWSWEEK*)

No. 2 most honored company in aerospace and defense electronics sector
All-America Executive Team
(2017, *INSTITUTIONAL INVESTOR*)

Named No. 8 company to "Change the World"
(2016, *FORTUNE*)

Among Best Places to Work on the Disability Equality Index
(2016, American Association of People with Disabilities and the U.S. Business Leadership Network)

This report and its associated Web content at www.utc.com/annualreport provide detailed examples of how our approach to integrating responsibility into our operations fosters a culture of innovation and delivers results.

United Technologies Corporation and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are either the registered or unregistered trademarks or trade names of United Technologies Corporation and its subsidiaries. Names of other companies, abbreviations thereof, logos of other companies, and product and service designators of other companies are either the registered or unregistered trademarks or trade names of their respective owners.

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United Technologies

10 Farm Springs Road
Farmington, CT 06032 USA
www.utc.com

Otis
Pratt & Whitney
UTC Aerospace Systems
UTC Climate, Controls & Security

