



United Technologies

2014 ANNUAL REPORT

Financial and Corporate
Responsibility Performance

United Technologies Corporation (UTC)

A global leader in the aerospace and commercial building industries, United Technologies provides products that set the standard for performance, reliability and energy efficiency. Our aerospace businesses include Pratt & Whitney aircraft engines, UTC Aerospace Systems products and services, and Sikorsky helicopters. UTC is the world's largest provider of building technologies. Our commercial businesses include Otis elevators and escalators; Carrier heating, air-conditioning and refrigeration systems; and fire and security solutions from brands such as Kidde and Chubb. The company also operates a central research organization that pursues technologies for improving the performance, energy efficiency and cost of UTC products and processes.

To learn more, visit www.utc.com.

CONTENTS

Shareowner Letter	1
At a Glance	2
Corporate Responsibility	4
Business Highlights	6
Financials	11
Cautionary Note Concerning Factors That May Affect Future Results	33
Board of Directors	68
Leadership	69
Shareowner Information	70

DEAR SHAREOWNER

It is an honor to write to you for the first time as United Technologies' President and Chief Executive Officer, and I am extremely proud and excited to lead this exceptional company.

Having served in a number of roles since joining UTC more than 25 years ago, including most recently as Senior Vice President and Chief Financial Officer since 2008, I know our company well. Looking to the future, I'm confident our global scale, industry-leading franchises, world-class technologies, strong leadership team and talented workforce position us for continued success. At UTC, we are committed to creating shareowner value for the long term by delivering innovative, cost-effective and value-creating products and solutions for our customers around the globe and by the disciplined deployment of our shareowners' capital.

As one of the world's largest providers of high-technology building and aerospace products and systems, we are extremely well positioned to deliver sustainable growth. Urbanization and an expanding global middle-class population are driving rapid growth in the global construction and building industry, creating demand for elevators, air conditioning, and fire and security systems offered by our UTC Building & Industrial Systems businesses. By the end of this decade, the addressable market for our commercial businesses is expected to increase more than 30 percent, from \$160 billion today to \$210 billion. With our global scale and market-leading brands, including Otis, Carrier, Chubb and Kidde, UTC is uniquely positioned to offer the smart technologies and more integrated solutions needed for tomorrow's sustainable cities and urban areas.

Projected growth in commercial aircraft deliveries and revenue passenger miles present a tremendous opportunity for our Pratt & Whitney and UTC Aerospace Systems businesses. With more than 6,200 orders to date, including options, for the Geared Turbofan (GTF) engine, Pratt & Whitney has significantly expanded its share in the fast-growing single-aisle and regional aircraft segments. We have also expanded our share in the large business jet segment with the new PW800 engine, built on the core GTF technology. The GTF's substantial improvements in fuel burn, noise reduction and emissions have revolutionized the commercial aerospace



industry and demonstrate both our technology leadership and the value of our long-term investment strategy. Including the new family of GTF engines, we have more than 50 engine and aerospace systems entering service over the next few years, collectively representing more than \$900 billion of potential future sales over the life of these programs.

Sikorsky has also positioned itself for future growth with a remarkable 2014 that resulted in a record backlog. It won all of its major strategic competitions, including contracts to develop the next generation of Marine One presidential helicopters, the U.S. Air Force's new Combat Rescue Helicopter, and one of the Army's Joint Multi-Role Technology Demonstrator air vehicles. It also won major international campaigns, including contracts for the Turkish Utility Helicopter Program and selection by the Indian Navy.

We will continue to review our portfolio aggressively, pursuing opportunities and investments that add scale to our core businesses in high-growth, high-margin end markets with significant recurring revenues, thereby creating sustainable shareowner value. We also will continue to fully leverage our combined capabilities in engineering, operations and supply chain to develop game-changing products that deliver superior value to our customers and shareowners.

In closing, I want to recognize and thank our incredibly talented employees. With the passion, commitment and creativity of my 211,000 colleagues around the world, I'm confident in UTC's future and proud to have the opportunity to build upon our company's impressive legacy.

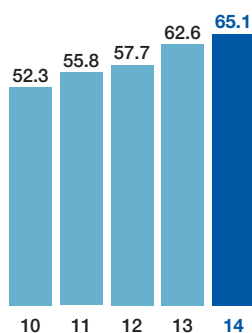
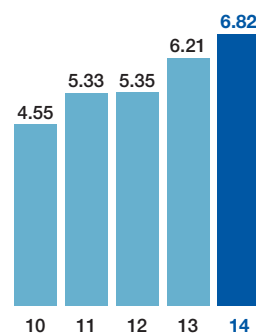
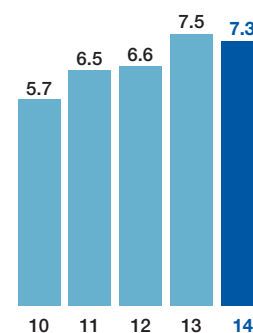
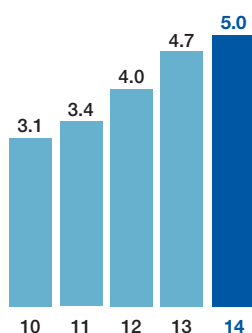
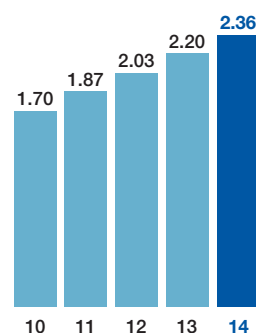
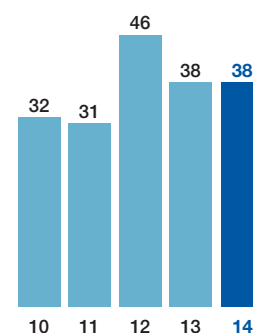
A handwritten signature in black ink, appearing to read 'Greg J Hayes'.

Gregory J. Hayes
President and Chief Executive Officer

FINANCIALS

United Technologies Corporation

provides high-technology products and services for the aerospace and commercial building industries worldwide. In 2014, UTC net sales were \$65.1 billion.

NET SALES
Dollars in billions**DILUTED EARNINGS PER COMMON SHARE**
Dollars per share**CASH FLOW FROM OPERATIONS**
Dollars in billions**RESEARCH AND DEVELOPMENT¹**
Dollars in billions**DIVIDENDS PAID PER COMMON SHARE**
Dollars per share**DEBT TO CAPITAL²**
Percent

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

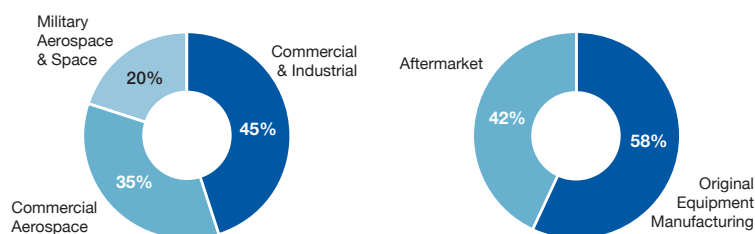
2 The increase in the 2012 debt to capitalization ratio reflects debt issuances to finance the Goodrich acquisition.

BUSINESSES IN BALANCE

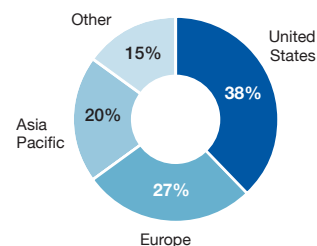
UTC's portfolio is balanced across customer segments, markets and geographies.

NET SALES BY TYPE

as a percent of total net sales

**NET SALES BY GEOGRAPHY**

as a percent of total net sales



SUSTAINABILITY

At UTC, sustainability means

profitable, responsible operations that do not compromise the environmental or economic health of future generations. Twenty years ago, we were among the first companies to set sustainability targets, and we continue to improve our environmental performance — steadily reducing greenhouse gas and chemical emissions, energy and water consumption, and industrial waste in our operations and supply chain.

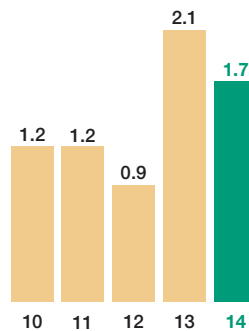
We apply the same disciplined approach to product development, designing energy-efficient products while minimizing the amount of material used to make them and their environmental impact.

A leading voice in promoting sustainable building design, we are the only company in the world to be a founding member of Green Building Councils on four continents. In 2014, our Carrier business convened its inaugural World Cold Chain Summit to Reduce Food Waste, bringing together experts to develop strategies for decreasing the estimated one-third of the world's food that goes to waste each year.

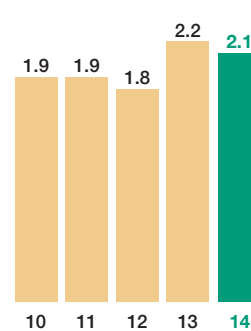
At UTC, responsible operations begin with protecting and promoting the health and well-being of our employees. We continue to invest in the tools, processes and training necessary to allow employees to do their jobs safely and to promote a healthy work environment.

Across the company, we continue to look for ways to improve our products, our environment and our world.

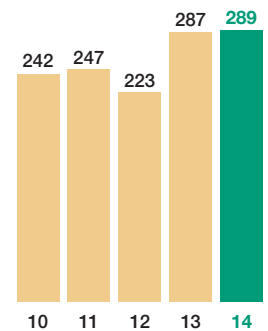
NON-GREENHOUSE GAS EMISSIONS Million lbs



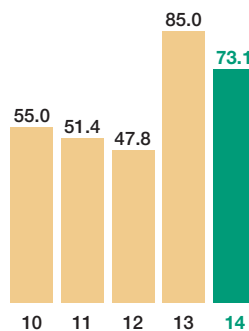
GREENHOUSE GAS EMISSIONS Million metric tons CO₂e



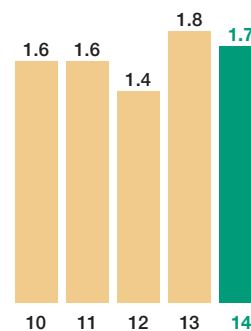
INDUSTRIAL PROCESS WASTE Million lbs



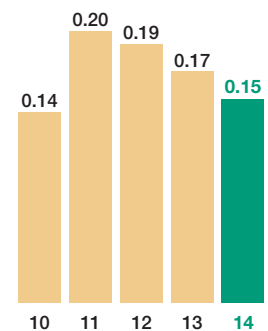
NON-RECYCLED INDUSTRIAL PROCESS WASTE Million lbs



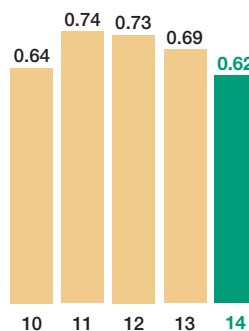
WORLDWIDE WATER CONSUMPTION Billion gals



LOST WORKDAY INCIDENT RATE Cases/100 employees



TOTAL RECORDABLE INCIDENT RATE Cases/100 employees



KEY PERFORMANCE INDICATORS measure UTC's sustainability performance for current operations.

The increases in our 2013 environmental performance results reflect the addition of 100 former Goodrich sites to our EH&S management system.

UTC reporting standards include the ongoing analysis and correction of data, as applicable, following the close of a reporting period. Consequently, previously reported annual metric results may change between annual reporting periods, and UTC may include any prior-year data revisions in current reporting.

Learn more about our progress in protecting the environment and the health and safety of our employees at www.utc.com/Corporate-Responsibility.

OUR APPROACH

As United Technologies continues to grow in markets around the world, we bring with us a belief that financial performance and corporate responsibility go hand in hand.

Leading in our communities. We celebrate and encourage volunteerism. We believe United Technologies and our employees can have a positive impact in communities around the world.

01 Junior Achievement (JA): Employee volunteers like Krista Lu, UTC Aerospace China, share their knowledge of global commerce, business ethics and the importance of cultural awareness with students as part of UTC's strategic global exchange partnership with JA.

02 FIRST Robotics: To inspire students to pursue careers in science and technology, employee mentors like Stephen Yanczura of UTC Operations supported nearly 100 FIRST Robotics teams globally in 2014, building on nearly two decades of collaboration.

03 Green Apple Day of Service: To transform schools into healthy, safe and productive learning environments, employees of UTC companies worldwide participate each year in Green Apple Day of Service projects sponsored by the U.S. Green Building Council. Pictured here are UTC Building & Industrial Systems employees from Farmington, Connecticut.



CITIZENSHIP

As a responsible corporate citizen, we are committed to minimizing the environmental impact of our products, our operations and our supply chain. We provide a safe work environment and support lifelong learning for all employees. We support charitable and social causes in the communities where we live and work. Everywhere we do business, we apply the highest standards of corporate responsibility and measure success with the same set of ethical, environmental and safety metrics.

COMMUNITY

At United Technologies, we are committed to making things better in our communities and our world. We partner with leading nonprofit organizations focused on areas that are important to our business and our stakeholders: promoting sustainable building practices; educating the next generation of engineers and scientists; honoring the courage and sacrifice of veterans and military families; and improving the well-being of the communities where we operate.

To learn more about our commitment to the community, visit www.utc.com/Corporate-Responsibility.

One world. One code. Our Code of Ethics applies everywhere we do business and provides a framework to help employees make the right decision in any situation. The integrity, reputation and profitability of United Technologies depend on the individual actions of our directors, officers, employees and representatives all over the world. Each is responsible and accountable for compliance with our Code of Ethics. Across the company, we expect high performance with high integrity. And we will never sacrifice the latter to achieve the former.

Acting with integrity. Every day our employees make decisions to uphold our Code of Ethics and the fundamental values that guide our way of doing business. Here are a few examples.



**Jian Zhang, GST Sales Manager
UTC BUILDING & INDUSTRIAL SYSTEMS**

It looked like UTC had lost a large fire-security contract after Jian refused a demand for gifts from a developer's purchasing team. When the developer's general manager discovered Jian's principled response, he awarded UTC the job.

"We do not achieve our sales targets by engaging in illegal behavior or by violating our ethical standards."

**YaNing "Anny" Han, Procurement
and Supply Chain Manager
UTC AEROSPACE SYSTEMS**

Anny refused a bribe from a contractor she discovered was inflating tax rebates and pocketing the difference. She reported the incident to UTC legal counsel and her local Ethics & Compliance officer, resulting in the contractor's termination and upholding UTC's ethical culture.

"Fortunately, UTC provides employees the guidance and resources for handling any situation."



**Thomas Rogers, Engineer
PRATT & WHITNEY**

During a meeting, a supplier attempted to show Thomas another company's clearly labeled proprietary documents. Thomas refused and reported the matter to Pratt & Whitney's legal department, upholding UTC's Code of Ethics and commitment to fair competition.

"I knew immediately that this data belonged to another company and that it would be unethical for me to view it."



INTEGRITY

We earn the respect of our customers, partners and other stakeholders not just on the merits of our technologies but on the merits of how we do business. Acting ethically and in accordance with all applicable laws is critical to our future success.

We remain vigilant in our commitment to doing the right thing. We provide employees the necessary training and resources to reinforce our culture of trust, respect and integrity.

Supporting our efforts is a community of nearly 500 Ethics & Compliance officers who advise our 211,000 employees in upholding our Code of Ethics and commitment to doing the right thing, everywhere, every time.

UTC BUILDING & INDUSTRIAL SYSTEMS



Making the world smarter, safer, more sustainable

UTC BUILDING & INDUSTRIAL SYSTEMS, the world's largest provider of building technologies, makes modern life possible with products that promote intelligent, sustainable buildings: elevators and escalators; fire-safety and security systems; building automation technology; and heating, ventilating, air-conditioning and refrigeration systems and services.

The organization, which combines Otis and UTC Climate, Controls & Security, enables UTC to build on existing customer relationships and offer more integrated solutions to win a larger share of major projects. In Hong Kong, the iconic iSQUARE shopping complex, already equipped with Otis elevators, Carrier chillers and Chubb security solutions, chose UTC Building & Industrial Systems to provide intelligent systems, including video analytics, remote monitoring and energy management systems.

In the Middle East, the new Midfield Terminal Complex of Abu Dhabi International Airport, one of the world's largest airport construction projects, will be equipped with Carrier chillers and Otis elevators and escalators.

St. Patrick's Cathedral in New York City chose Marioff's HI-FOG system, which suppresses fire with significantly less water than traditional sprinkler systems, reducing water damage, cleanup time and operational downtime.

The business maintained the momentum of UTC Climate, Controls & Security, which has grown earnings over the last four years while increasing margins from 9.9 percent in 2010 to 16.5 percent in 2014.

It also continued progress on improving the growth trajectory of Otis, where equipment orders have risen 22 percent over the last two years, including 7 percent in 2014 on a constant currency basis.

Otis won the largest new equipment contract in its history in 2014, to supply and install 411 escalators and 167 Gen2 elevators for a mass transit project in Singapore. It will also supply 107 high-rise elevators and escalators for the Abu Dhabi Plaza in Kazakhstan, which at 1,050 feet will be the tallest building in central Asia when completed in 2017.



01 The Otis Gen2 system with ReGen drive technology captures energy generated during an elevator's ascent and descent and recycles it back into a building's power grid, reducing energy consumption by up to 75 percent.

02 Kidde's Worries-Free product line features smoke, carbon monoxide and combination alarms, each proven to provide a decade of protection.

03 Carrier Transicold and Refrigeration Systems' cold-chain solutions preserve food from field to point of sale, helping to reduce global food waste.

04 Hong Kong's iconic iSQUARE shopping complex is being equipped with intelligent systems from UTC Building & Industrial Systems, designed to reduce the building's energy consumption, predict maintenance needs and manage people flow.

05 Ben Dixon is a CCTV agent for Chubb in Nottingham, United Kingdom. Founded in 1818 as a lock manufacturer, Chubb today is a global leader in security and fire protection.

06 The expanded-capacity AquaEdge water-cooled chiller provides environmentally responsible, reliable and quiet operation for large-scale projects, including data centers, commercial buildings and infrastructure projects.

In early 2015, Otis won the contract to provide 73 elevators and escalators for 30 Hudson Yards, a 92-story office tower that will be among the first buildings constructed as part of Hudson Yards on Manhattan's West Side — the largest development in New York City since construction of Rockefeller Center in the 1930s.

Innovation remains core to our mission. As an example of our smart technologies, Lenel's OnGuard security platform can now be integrated with the Otis CompassPlus building destination management system, Edwards life safety systems and Interlogix TruVision video recorders. This offers customers enhanced elevator dispatching, added safety and security capabilities, and a centralized platform for building management.

Carrier Transicold's new line of Citifresh truck refrigeration units are designed to meet the challenges of transporting fresh food long distances in India, where an estimated \$2 billion worth of fruits and vegetables go to waste each year because of a lack of an integrated cold chain. Carrier introduced the expanded-capacity AquaEdge water-cooled chiller, designed to meet the high-efficiency cooling needs of large-scale projects in today's fast-growing cities.

118,369
EMPLOYEES¹

\$29.8 BILLION
NET SALES²

\$5.4 BILLION
OPERATING PROFIT³



Otis and UTC Climate, Controls & Security (CCS) report their financial and operational results as separate segments:

	EMPLOYEES ¹	NET SALES ²	OPERATING PROFIT ³
Otis	64,741	\$13.0 billion	\$2.6 billion
CCS	53,628	\$16.8 billion	\$2.8 billion

PRATT & WHITNEY



01 Successfully completing its first flight in September, the Airbus A320neo is powered by Pratt & Whitney's PurePower PW1100G-JM engines and equipped with nacelles, thrust reversers, wheels and carbon brakes, and other systems from UTC Aerospace Systems.

02 Pratt & Whitney secured contracts for the seventh and eighth lots of F135 engines for the F-35 Lightning II, the next-generation fighter for the United States and its allies. UTC Aerospace Systems is supplying multiple systems for the aircraft.

03 Darby Capone, an assembly and test mechanic at Pratt & Whitney's new state-of-the-art engine assembly and test facility in West Palm Beach, Florida, which will play a key role in supporting production of the F135 engine for the F-35 Lightning II and the PurePower PW1100G-JM engine for the Airbus A320neo aircraft.



Powering the future of aviation

PRATT & WHITNEY celebrated numerous wins and milestones with customers around the world in 2014, validating our past investments and demonstrating our technology leadership.

In France, the Airbus A320neo made its maiden flight powered by Pratt & Whitney's PurePower PW1100G-JM engines, which also received Federal Aviation Administration type certification in 2014 — marking a key milestone in the development program and positioning the engine to enter service well ahead of the competition. Pratt & Whitney also delivered its first PurePower PW1200G engines to Mitsubishi Aircraft for the MRJ regional jet, Japan's first new commercial jet in 50 years.

Gulfstream Aerospace announced the selection of Pratt & Whitney Canada's PurePower PW800 engine to exclusively power its new G500 and G600 family of business jets. The PW800 engine is optimized for long-range business jets and shares the same proven core technology used in Pratt & Whitney's Geared Turbofan commercial engines. AVIC Xi'an Aircraft Industry Company, China, selected Pratt & Whitney Canada's PW150C turboprop engine to power its new MA700 regional turboprop aircraft.

In the Military Engines business, the F-35B Lightning II fighter, powered by the company's F135 engine, is on track to be declared combat ready in 2015. By the end of 2014, the F135 engine had

completed more than 26,000 ground test hours and 21,500 flight hours, proving its durability and performing flawlessly in sea trials conducted by the U.S. Navy. In Brazil, Embraer rolled out its KC-390 military transport, powered by V2500-E5 engines. The V2500 is the most technologically advanced engine in its class, with 5,350 in service today.

As it prepares to double engine production over the next five years, Pratt & Whitney is investing in smart manufacturing technologies and expanding capacity at facilities around the world. In 2014, it celebrated the grand opening of its new 97,000-square-foot, state-of-the-art engine center in West Palm Beach, Florida.

In its aftermarket business, Pratt & Whitney continues its move to Fleet Management Programs, which benefit customers by improving reliability and keeping engines on wing longer.

33,591
EMPLOYEES

\$14.5 BILLION
NET SALES

\$2.0 BILLION
OPERATING PROFIT



UTC AEROSPACE SYSTEMS



01

01 Gulfstream's new G500 and G600 long-range business jets will be equipped with aircraft landing gear from UTC Aerospace Systems and PurePower PW800 engines from Pratt & Whitney Canada.



02

02 Air-data probes from UTC Aerospace Systems on the Airbus A350 XWB commercial jet supply critical information to the aircraft's flight control and pilot display systems.

03 Krzysztof Walawender, a mill operator for complex cylindrical components at UTC Aerospace Systems in Rzeszów, Poland, where landing gear components for multiple aircraft are manufactured, including the Boeing 737 and 777, and the Airbus A380 and A350.



03

Developing more integrated, more intelligent systems

UTC AEROSPACE SYSTEMS, celebrating its second anniversary, continued building momentum as the world's leading supplier of integrated aerospace solutions. Every second, a commercial flight takes off equipped with our systems, designed to make aircraft safer, lighter, more reliable and more efficient. UTC Aerospace Systems anticipates that current programs offer the potential for future sales of more than \$200 billion over the life of those programs.

The company designed and built systems that supported numerous industry milestones, including the entry into service of the Boeing 787-9 Dreamliner; first flight of the Airbus A320neo; and rollout of the Mitsubishi MRJ regional jet, the Gulfstream G500 and G600 business jets, and the Embraer KC-390 military transport. Technology from UTC Aerospace Systems was integral to the fly-by-wire control systems used to enhance flight handling and reduce pilot workload on two high-performance military aircraft rolled out by Sikorsky: the S-97 RAIDER armed reconnaissance helicopter and the CH-53K King Stallion heavy-lift helicopter.

UTC Aerospace Systems also won significant content on new platforms, including the Boeing 777X, 787-10 and 737 MAX; the second generation of the Embraer E-Jet aircraft family; and the AVIC MA700 regional turboprop aircraft. In the aftermarket, the business signed long-term agreements with premier customers, including All Nippon Airways, China Airlines and JetBlue Airways.

UTC Aerospace Systems also expanded its global footprint to be closer to customers and increase operational efficiency. New locations included a Global Engineering Center in Wrocław, Poland, and a facility in Toulouse, France, to support thrust reverser production for the Airbus A350 XWB. In China, the UTC Aerospace Systems joint venture with AVIC EM began operations to develop and manufacture the electric power system for the new C919 jetliner, built by the Commercial Aircraft Corporation of China.

42,550
EMPLOYEES

\$14.2 BILLION
NET SALES

\$2.4 BILLION
OPERATING PROFIT



**UTC Aerospace
Systems**

GOODRICH®



SIKORSKY AIRCRAFT



01



02



03

01 The S-97 RAIDER helicopter with X2 Technology has a cruising speed twice that of conventional helicopters.

02 The new CH-53K King Stallion heavy-lift helicopter will effectively triple the external load-carrying capacity of its predecessor.

03 The U.S. Navy selected Sikorsky to develop the next fleet of Marine One helicopters to carry the president of the United States — a responsibility that has been entrusted to Sikorsky since the administration of Dwight D. Eisenhower, who in 1957 became the first U.S. president to fly in a helicopter. The next Marine One will be built on the proven Sikorsky S-92 platform.

Pioneering flight solutions that bring people home — every time

SIKORSKY, whose name has been synonymous with helicopters for nearly 80 years, today remains an industry leader through its commitment to innovation, excellence and safety, serving commercial and military markets worldwide.

In 2014, Sikorsky secured every strategic competition it entered — a string of wins that contributed to a record backlog and sets the stage for long-term organic growth.

The company won contracts to develop the next fleet of Marine One helicopters for the U.S. president and combat rescue helicopters for the U.S. Air Force. The U.S. Army also selected the Sikorsky-Boeing SB-1 Defiant demonstrator, a medium-lift helicopter configured to Sikorsky's X2 coaxial design, as one of two finalists in the Joint Multi-Role Technology Demonstrator program to compete for a future next-generation vertical-lift aircraft program.

Sikorsky continued its momentum in international markets. It signed agreements with the Turkish government and key aerospace companies there to license production of 109 helicopters — the Turkish variant of the S-70i BLACK HAWK helicopter. India's Navy selected the S-70B SEAHAWK for its multi-role helicopter needs, representing a major strategic win in an important growth market.

Sikorsky rolled out two new advanced military helicopters — the CH-53K heavy-lift helicopter for the U.S. Marine Corps and the X2-based S-97 RAIDER armed reconnaissance helicopter, both scheduled to begin flight tests in 2015. These two programs will set new standards for helicopter performance and represent the future of vertical flight.

On the commercial side, the company delivered a record number of its best-selling S-92 helicopters, with the global fleet growing to 220 aircraft and accruing nearly 769,000 flight hours since its introduction. The new S-76D helicopter has quickly spread to markets around the world, including the United States, China, Japan and South Africa. The Yunnan Jingcheng Group took delivery of China's first S-76D helicopter, configured for transportation of corporate and government VIPs. Sikorsky also delivered the first search-and-rescue variant of the S-76D to the Japanese Coast Guard. The worldwide legacy S-76 fleet has now flown more than 6.6 million hours.

15,264
EMPLOYEES

\$7.5 BILLION
NET SALES

\$219 MILLION
OPERATING PROFIT



12	Five-Year Summary
13	Management's Discussion and Analysis
33	Cautionary Note Concerning Factors That May Affect Future Results
34	Management's Report on Internal Control Over Financial Reporting
35	Report of Independent Registered Public Accounting Firm
36	Consolidated Statement of Operations
37	Consolidated Statement of Comprehensive Income
38	Consolidated Balance Sheet
39	Consolidated Statement of Cash Flows
40	Consolidated Statement of Changes in Equity
42	Notes to Consolidated Financial Statements
67	Selected Quarterly Financial Data
68	Board of Directors
68	Permanent Committees
69	Leadership
70	Shareowner Information

FIVE-YEAR SUMMARY

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	2014	2013	2012	2011	2010
For The Year					
Net sales	\$ 65,100	\$ 62,626	\$ 57,708	\$ 55,754	\$ 52,275
Research and development ⁴	2,635	2,529	2,371	1,951	1,656
Restructuring costs	368	481	590	315	387
Net income from continuing operations	6,623	6,074	5,200	5,216	4,523
Net income from continuing operations attributable to common shareowners	6,220	5,686	4,847	4,831	4,195
Basic earnings per share—Net income from continuing operations attributable to common shareowners	6.92	6.31	5.41	5.41	4.62
Diluted earnings per share—Net income from continuing operations attributable to common shareowners	6.82	6.21	5.35	5.33	4.55
Cash dividends per common share	2.36	2.20	2.03	1.87	1.70
Average number of shares of Common Stock outstanding:					
Basic	898	901	895	892	908
Diluted	912	915	907	907	923
Cash flows provided by operating activities of continuing operations	7,336	7,505	6,605	6,460	5,720
Capital expenditures ⁶	1,711	1,688	1,389	929	838
Acquisitions, including debt assumed ³	530	151	18,620	372	2,781
Repurchases of Common Stock ⁵	1,500	1,200	—	2,175	2,200
Dividends paid on Common Stock ¹	2,048	1,908	1,752	1,602	1,482
At Year End					
Working capital	\$ 6,863	\$ 6,642	\$ 5,174	\$ 7,142	\$ 5,778
Total assets ³	91,289	90,594	89,409	61,452	58,493
Long-term debt, including current portion ²	19,668	19,853	22,718	9,630	10,173
Total debt ²	19,794	20,241	23,221	10,260	10,289
Total debt to total capitalization ²	38%	38%	46%	31%	32%
Total equity ^{2, 7}	32,564	33,219	27,069	22,820	22,323
Number of employees ³	211,500	212,400	218,300	199,900	208,200

Note 1 Excludes dividends paid on Employee Stock Ownership Plan Common Stock.

Note 2 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. The increase in the 2012 debt to total capitalization ratio, as compared to 2011, reflects the issuance of \$9.8 billion in long-term debt, \$1.1 billion in equity units and the assumption of approximately \$3 billion in long-term debt in connection with the acquisition of Goodrich.

Note 3 The increase in 2012, as compared with 2011, includes the net impact of acquisitions and divestitures across the Company, most notably the 2012 acquisition of Goodrich and divestiture of the legacy Hamilton Sundstrand Industrial business, both within the UTC Aerospace Systems segment, as well as the impact of other acquisitions and dispositions and restructuring actions across UTC.

Note 4 The increase in 2012, as compared with 2011, includes approximately \$250 million incremental research and development spending related to the Goodrich businesses that were acquired during 2012, and approximately \$65 million at Pratt & Whitney to further advance development of multiple geared turbofan platforms.

Note 5 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 6 Capital expenditures increased from 2012 through 2014 as we expanded capacity to meet expected demand within our aerospace businesses for the next generation engine platforms.

Note 7 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.

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 five principal business segments: Otis, UTC Climate, Controls & Security, Pratt & Whitney, UTC Aerospace Systems and Sikorsky. Otis and UTC Climate, Controls & Security are referred to as the "commercial businesses," while Pratt & Whitney, UTC Aerospace Systems and Sikorsky are collectively referred to as the "aerospace businesses." UTC Building & Industrial Systems is an organizational structure consisting of our commercial businesses. Otis and UTC Climate, Controls & Security each continue to report their financial and operational results as separate segments, which is consistent with how we allocate resources and measure the financial performance of these businesses. Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

In 2012 and 2013, we completed the acquisition of Goodrich Corporation (Goodrich), a restructuring of our interests in IAE International Aero Engines AG (IAE), and the divestiture of a number of non-core businesses. We continue to assess and evaluate our portfolio of businesses and consider acquisitions of new businesses or the divestitures of portions of our portfolio with the goal of maximizing long-term value for our shareholders.

The commercial businesses generally serve customers in the worldwide commercial and residential property industries, although UTC Climate, Controls & Security also serves 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:

	2014	2013	2012
Commercial and industrial	45%	47%	51%
Military aerospace and space	20%	19%	21%
Commercial aerospace	35%	34%	28%
	100%	100%	100%

The significant shift in sales from commercial and industrial to commercial aerospace from 2012 to 2013 largely reflects the acquisition of Goodrich and the IAE transaction. In 2014, approximately 58% of our consolidated sales were original equipment manufacturing (OEM) and 42% were aftermarket parts and services, while in 2013 and 2012 the amounts were 57% and 43%, respectively.

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)	2014	2013	2012	2014	2013	2012
Europe	\$ 12,630	\$ 12,652	\$ 11,823	19%	20%	20%
Asia Pacific	8,795	8,696	8,733	13%	14%	15%
Other Non-U.S.	5,513	5,274	4,964	8%	8%	9%
U.S. Exports	13,769	12,171	9,201	21%	19%	16%
International segment sales	\$ 40,707	\$ 38,793	\$ 34,721	61%	61%	60%

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, Mexico, Russia, South Africa and countries in the Middle East. As of December 31, 2014, the net assets in any one of these countries did not exceed 6% of consolidated shareowners' equity.

U.S. economic expansion continued to drive global growth in 2014 and contributed to UTC's favorable results for the year. U.S. consumer sentiment reached its highest level in eleven years in January 2015 on lower gasoline prices and lower unemployment rates. In addition, new construction trends in the U.S. are favorable, which benefits our commercial businesses. Europe is facing increasing deflationary pressure, and political tensions in Eastern Europe may exacerbate these economic challenges if escalation continues. UTC's sales to customers in Russia in 2014 were approximately \$500 million and our net asset exposure in Russia as of December 31, 2014 is approximately \$125 million. While Russia is a key supplier of certain commodities and parts, we have taken steps to minimize the potential for disruption to our business. To date, we have not seen any significant signs of disruption, although we continue to closely monitor developments in the region. Despite lower manufacturing growth and a decline in the real estate sector, gross domestic product (GDP) growth in China is forecast to remain strong and nearly 7% as China continues to use fiscal policy to support growth. While we continue to expect overall economic output in China to moderate, it should continue to out-pace global GDP, benefiting our commercial businesses.

Organic sales growth was 4% in 2014 representing sales increases in commercial aerospace aftermarket, international military helicopters, and in the Americas at our commercial businesses, partially offset by declines in military OEM and aftermarket sales. While we expect foreign currency will have a significant adverse effect on 2015 results, we expect organic sales growth in 2015 to be 3% to 5%. Although we expect an increase in organic growth, which, if realized, would contribute to operating profit growth, we also continue to invest in new platforms and new markets to position the Company for additional growth, while remaining focused on structural cost reduction, operational improvements and disciplined cash redeployment. These actions contributed to our earnings growth during 2014

and positioned us for further earnings growth as the global economy continues to strengthen.

As discussed below in "Results of Operations," operating profit in both 2014 and 2013 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 and the beneficial impact of net gains from business divestiture activities, including those related to UTC Climate, Controls & Security's portfolio transformation. 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 2014 and 2013 totaled \$530 million (including debt assumed of \$128 million) and \$151 million, respectively. Acquisitions completed in 2014 consisted principally of the acquisition of a majority interest in a Pratt & Whitney joint venture and a number of small acquisitions primarily in our commercial businesses. Our investment in businesses in 2013 consisted principally of a number of smaller acquisitions in our commercial businesses.

We disposed of a number of businesses in 2013. On February 12, 2013, we completed the disposition of UTC Power to ClearEdge Power, and on June 14, 2013, we completed the sale of substantially all operations of Pratt & Whitney Rocketdyne (Rocketdyne) to GenCorp Inc. The results from these businesses were reclassified to Discontinued Operations in our Consolidated Statements of Operations and Cash Flows. On May 17, 2013, we completed the sale of the Pratt & Whitney Power Systems business to Mitsubishi Heavy Industries (MHI) and entered into a long-term engineering and manufacturing agreement with MHI. Pratt & Whitney Power Systems was not reclassified to Discontinued Operations due to our level of continuing involvement in the business post-sale.

In connection with regulatory approval of the Goodrich acquisition, regulatory authorities required UTC to dispose of the Goodrich electric power systems and the pumps and engine controls businesses. Pursuant to these regulatory obligations, these businesses had been held separately from UTC's and Goodrich's ongoing businesses since the acquisition of Goodrich by UTC. On March 18, 2013, we completed the sale of the Goodrich pumps and engine controls business to Triumph Group, Inc., and on March 26, 2013, we completed the sale of the Goodrich electric power systems business to Safran S.A. Combined proceeds from the sales of the two businesses were approximately \$600 million.

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.

Sikorsky is developing the CH-148 derivative of the H-92 helicopter (the Cyclone), a military variant of the S-92 helicopter, for the Canadian Government. The Cyclone is being developed under a fixed-price acquisition contract (the Acquisition Contract) that provides for a program to develop and produce 28 helicopters, and a related contract to provide in-service support (collectively, the Arrangements). Delivery of the final configuration aircraft, which was originally scheduled to begin in 2012, did not occur due to a number of disputes between the Canadian Government and Sikorsky related to contractual requirements and contract performance.

On June 18, 2014, Sikorsky and the Canadian Government signed amendments to the Arrangements (the Amended Arrangements). The Amended Arrangements finalized the scope of the aircraft, changed the governance of the program, and established a phased approach to the delivery of interim and final configuration helicopters starting in 2015. The Amended Arrangements also extend the in-service support contract through approximately 2038. The contract value of the Amended Arrangements is estimated to be approximately \$6.4 billion.

Prior to the amendments, sales and losses under the Acquisition Contract were recognized using an output-based method, consistent with the practices and policies the Company applies to other comparable production contracts. In light of the significant changes in program scope, governance and delivery, we re-assessed the method we utilize in estimating the extent of progress under the Acquisition Contract. The Acquisition Contract, as amended, now reflects the significant developmental nature of the program that has evolved over time. Under the Company's practices and policies, contracts that are comparable to the Amended Arrangements are accounted for utilizing a cost-to-cost percentage of completion method, as this best reflects the efforts expended and more appropriately aligns the sales and loss recognition with these efforts. Employing the cost-to-cost percentage of completion method, we recorded a cumulative adjustment to reflect the percentage of completion under the Amended Arrangements in the second quarter of 2014 as a change in estimate. This adjustment along with changes in the in-service support contract resulted in the recognition in the second quarter of 2014 of \$830 million in sales and \$438 million in losses. Remaining losses under the Amended Arrangements of approximately \$250 million will be recognized as the costs are incurred. These losses will be partially offset by the in-service support aftermarket contract with the expectation of generating positive annual margin beginning in 2018.

RESULTS OF OPERATIONS

Net Sales

(DOLLARS IN MILLIONS)	2014	2013	2012
Net sales	\$ 65,100	\$ 62,626	\$ 57,708
Percentage change year-over-year	4.0%	8.5%	3.5%

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

	2014	2013
Organic volume	4 %	1%
Acquisitions and divestitures, net	(1)%	8%
Other	1 %	—
Total % Change	4 %	9%

All five segments experienced organic sales growth during 2014, led by Otis, UTC Aerospace Systems, and Sikorsky, each at 6%, along with organic sales growth at UTC Climate, Controls & Security (3%) and Pratt & Whitney (2%). The organic sales growth at Otis was primarily due to higher new equipment sales in China, the U.S., Europe and the Middle East. Organic sales growth at UTC Aerospace Systems was primarily attributable to higher commercial aerospace OEM and aftermarket volume, and at Sikorsky as a result of higher international military and commercial aircraft sales. Organic growth also reflected strong demand for residential heating, ventilation and air conditioning (HVAC) equipment in North America at UTC Climate, Controls & Security and growth in commercial aftermarket volume at Pratt & Whitney. The sales decrease from net acquisitions and divestitures was primarily a result of the disposition in 2013 of the Pratt & Whitney Power Systems business and the portfolio transformation initiatives at UTC Climate, Controls & Security. The increase in "Other" in 2014 is attributable to the cumulative adjustment to record sales of \$830 million based upon the change in estimate arising out of the Amended Arrangements signed with the Canadian Government for the Cyclone helicopter program. See the Segment Review section of Management's Discussion and Analysis for further discussion of segment organic sales.

Organic sales growth during 2013 was led by UTC Aerospace Systems (4%) and Otis (3%), along with organic growth at Pratt & Whitney (2%) and UTC Climate, Controls & Security (1%), offset by organic sales contraction at Sikorsky (8%). The organic sales growth at UTC Aerospace Systems was primarily attributable to higher commercial aerospace OEM and aftermarket volume, while organic sales growth at Otis was primarily a result of higher new equipment sales in China, the U.S. and Russia. The organic sales contraction at Sikorsky was driven primarily by decreased international military, U.S. Government, and military aftermarket sales. The military aftermarket sales decline, driven by lower spares volume, was a result of constrained U.S. Government spending in 2013. The sales increase from net acquisitions and divestitures was a result of Goodrich and IAE sales, partially offset by the portfolio transformation initiatives at UTC Climate, Controls & Security.

Cost of Products and Services Sold

(DOLLARS IN MILLIONS)	2014	2013	2012
Cost of products sold	\$ 36,044	\$ 34,063	\$ 31,094
Percentage of product sales	75.7%	75.3%	76.3%
Cost of services sold	\$ 11,403	\$ 11,258	\$ 11,059
Percentage of service sales	65.3%	64.8%	65.1%
Total cost of products and services sold	\$ 47,447	\$ 45,321	\$ 42,153
Percentage change year-over-year	4.7%	7.5%	4.4%

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

	2014	2013
Organic volume	4 %	—
Foreign currency translation	(1)%	—
Acquisitions and divestitures, net	(1)%	8%
Other	3 %	—
Total % Change	5 %	8%

The organic increase in total cost of products and services sold (4%) is attributable to the organic sales increase noted above (4%). The decrease in cost of products and services sold from net acquisitions and divestitures was primarily a result of the disposition in 2013 of the Pratt & Whitney Power Systems business and the portfolio transformation initiatives at UTC Climate, Controls & Security. The increase in "Other" is attributable to the cumulative adjustment to record costs of \$1,268 million based upon the change in estimate arising out of the Amended Arrangements signed with the Canadian Government for the Cyclone helicopter program.

There was no organic change in total cost of products and services sold in 2013. The increase in cost of products and services sold related to the 2013 organic sales growth (1%) was offset by the absence of amortization of inventory fair-value adjustments (1%) related to the Goodrich acquisition that were recorded in 2012 within the UTC Aerospace Systems segment. The total increase in cost of products and services sold is a result of the Goodrich and IAE transactions (9%) partially offset by lower cost of products and services sold as a result of the UTC Climate, Controls & Security portfolio transformation (1%). Cost of products sold as a percentage of product sales declined 100 basis points in 2013, as compared with 2012, as a result of the benefits of favorable pricing and cost savings from prior restructuring actions.

Gross Margin

(DOLLARS IN MILLIONS)	2014	2013	2012
Gross margin	\$ 17,653	\$ 17,305	\$ 15,555
Percentage of net sales	27.1%	27.6%	27.0%

Gross margin as a percentage of sales decreased 50 basis points, in 2014 as compared with 2013, driven primarily by the cumulative adjustment to record \$830 million in sales and \$1,268 million in cost of sales based upon the change in estimate arising out of the Amended Arrangements signed with the Canadian Government for the Cyclone helicopter program (100 basis points). This was partially offset by lower commodity costs and productivity gains at UTC Climate, Controls & Security (30 basis points) and favorable government contract performance at Pratt & Whitney (10 basis points).

Gross margin as a percentage of sales increased 60 basis points, in 2013 as compared with 2012, driven primarily by the absence of inventory fair-value adjustments related to the Goodrich acquisition that were recorded in 2012 (40 basis points) and lower loss provisions recorded by Sikorsky for a contract with the Canadian Government (20 basis points). The benefit of lower restructuring

expense coupled with savings from prior restructuring actions was offset by the adverse impact of a sales mix shift from aftermarket to OEM in 2013.

Research and Development

(DOLLARS IN MILLIONS)	2014	2013	2012
Company-funded	\$ 2,635	\$ 2,529	\$ 2,371
Percentage of net sales	4.0%	4.0%	4.1%
Customer-funded	\$ 2,390	\$ 2,140	\$ 1,670
Percentage of net sales	3.7%	3.4%	2.9%

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 product family at Pratt & Whitney, the CSeries and Airbus A350 and A320neo programs at UTC Aerospace Systems, and various programs at Sikorsky. The year-over-year increase in company-funded research and development (4%) in 2014, compared with 2013, primarily reflects increases at Pratt & Whitney (3%) related to the development of multiple geared turbofan platforms and at UTC Aerospace Systems (2%) related to several commercial aerospace programs, partially offset by lower commercial aircraft development costs at Sikorsky (1%). The increase in customer-funded research and development (12%) in 2014, as compared with 2013, is due to higher customer-funded development at Pratt & Whitney related to military (6%) and commercial (1%) programs and higher customer funded development at Sikorsky on U.S. Government programs (2%).

The year-over-year increase in company-funded research and development in 2013, compared with 2012, primarily reflects increases at UTC Aerospace Systems (10%) primarily due to development spending related to the Goodrich businesses for full year 2013 as compared to the 2012 post-acquisition period, offset by lower research and development spending at Pratt & Whitney related to the development of multiple geared turbofan platforms (4%). The increase in customer-funded research and development in 2013, as compared with the prior year, reflects spending related to the Goodrich businesses (18%) and at Pratt & Whitney related to military programs (11%).

Company-funded research and development spending in 2015 is expected to decline slightly compared to 2014 levels.

Selling, General and Administrative

(DOLLARS IN MILLIONS)	2014	2013	2012
Selling, general and administrative	\$ 6,500	\$ 6,718	\$ 6,452
Percentage of net sales	10.0%	10.7%	11.2%

The decrease in selling, general and administrative expenses in 2014, as compared with 2013, (3%) is due primarily to a decline at UTC Aerospace Systems (1%) driven by lower pension expense and restructuring (1%), and the impact of divestitures completed over the preceding twelve months (1%). Higher overhead expenses at our

commercial businesses (2%), largely driven by continued investment in emerging markets, was partially offset by the benefits of cost savings from previous restructuring actions and foreign exchange translation. The 70 basis point decrease in selling, general and administrative expense as a percentage of sales reflects higher sales volume and lower pension expense across our business units.

The increase in selling, general and administrative expenses in 2013, as compared with 2012, (4%) is due primarily to the impact of acquisitions, net of divestitures, completed over the preceding twelve months (5%) and higher export compliance costs (1%) partially offset by cost savings from previous restructuring actions.

Other Income, Net

(DOLLARS IN MILLIONS)	2014	2013	2012
Other income, net	\$ 1,251	\$ 1,151	\$ 952

Other 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. The year-over-year change in Other income, net in 2014, as compared with 2013, largely reflects a \$220 million gain on an agreement with a state taxing authority for the monetization of tax credits, an \$83 million net gain primarily from fair value adjustments related to the acquisition of the majority interest in a Pratt & Whitney joint venture, higher licensing and royalty income of \$71 million, and an increase in gains on the sale of real estate and other miscellaneous assets of approximately \$70 million. These increases were partially offset by a \$28 million impairment loss on a Sikorsky joint venture investment, a \$35 million increase in a charge to adjust the fair value of a Pratt & Whitney joint venture, a \$25 million decline in net gains from UTC Climate, Controls & Security's portfolio transformation, and the absence of a \$193 million gain on the sale of Pratt & Whitney Power Systems recognized in the second quarter of 2013 and a \$39 million gain on a settlement with an engine program partner recognized in the first quarter of 2013. The remaining increase in Other income, net is attributable to the normal recurring operational activity as disclosed above.

The year-over-year change in Other income, net in 2013, as compared with 2012, largely reflects a \$193 million gain on the sale of Pratt & Whitney Power Systems, a \$39 million gain on a settlement with an engine program partner, higher licensing income of \$30 million, and gains on the sale of real estate and other miscellaneous assets of approximately \$82 million. All of this was partially offset by a \$25 million charge to adjust the fair value of a Pratt & Whitney joint venture investment, a \$102 million decline in net gains related to the UTC Climate, Controls & Security portfolio transformation, and the absence of other gains recorded in 2012, including a \$34 million gain on the fair value re-measurement of the shares of Goodrich held by the Company prior to the acquisition of Goodrich and a \$46 million gain as a result of the effective settlement of a pre-existing contractual dispute in connection with the acquisition of Goodrich. The remaining increase in Other income, net is attributable to the normal recurring operational activity as disclosed above.

Interest Expense, Net

(DOLLARS IN MILLIONS)	2014	2013	2012
Interest expense	\$ 1,100	\$ 1,034	\$ 893
Interest income	(218)	(137)	(120)
Interest expense, net	\$ 882	\$ 897	\$ 773
Average interest expense rate during the year on:			
Short-term borrowings	0.8%	1.6%	0.9%
Total debt	4.3%	4.2%	4.1%

Interest expense increased in 2014, as compared with 2013, reflecting approximately \$143 million of unfavorable pre-tax interest accruals related to the ongoing dispute with German tax authorities concerning a 1998 reorganization of the corporate structure of Otis operations in Germany, partially offset by lower average debt balances as a result of debt repayments. Interest income increased in 2014, as compared with 2013, as a result of favorable pre-tax interest adjustments related to the settlement of outstanding tax matters. See further discussion in Note 11 to the Consolidated Financial Statements.

Interest expense increased in 2013, as compared with 2012, primarily as a result of higher average debt balances throughout 2013 associated with the financing and acquisition of Goodrich. The effect of higher average debt balances was partially offset by the absence of interest associated with the repayment of approximately \$2.9 billion of long-term debt including the 2015 UTC 1.200% Senior Notes, 2019 Goodrich 6.125% Notes, and 2021 Goodrich 3.600% Notes as well as certain floating rate notes which were due in 2013. See the "Liquidity and Financial Condition" section of Management's Discussion and Analysis for further discussion on the Goodrich acquisition financing. Interest income increased in 2013, as compared with 2012, as a result of favorable pre-tax interest adjustments related to the settlement of outstanding tax matters.

The decrease in the weighted-average interest rates for short-term borrowings was due to the mix of our borrowings with a greater percentage of short-term borrowings at lower interest rates in 2014 than the percentage in 2013. We had no commercial paper borrowings at December 31, 2014 compared with \$200 million at December 31, 2013. The three month LIBOR rate as of December 31, 2014, 2013 and 2012 was 0.2%, 0.2% and 0.3%, respectively.

Income Taxes

	2014	2013	2012
Effective income tax rate	25.5%	26.9%	24.8%

The effective income tax rates for 2014, 2013, and 2012 reflect tax benefits associated with lower tax rates on international earnings which we intend to permanently reinvest outside the United States. The effective income tax rate for 2014 also includes 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. This accrual was offset by the favorable settlement of other tax matters during 2014. See Note 17 to the Consolidated Financial Statements for further discussion of the German tax litigation. We esti-

mate our full year annual effective income tax rate in 2015 will be approximately 29%, absent one-time adjustments. We anticipate some variability in the tax rate quarter to quarter in 2015.

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)	2014	2013	2012
Net income attributable to common shareowners from continuing operations	\$ 6,220	\$ 5,686	\$ 4,847
Diluted earnings per share from continuing operations	\$ 6.82	\$ 6.21	\$ 5.35

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). Foreign currency, including hedging at P&WC, did not result in any impact on earnings per diluted share in 2014 or 2013. In 2012, foreign currency generated a net adverse impact on our operational results of \$0.17 per diluted share. For additional discussion of foreign currency exposure, see "Market Risk and Risk Management—Foreign Currency Exposures."

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 Income Attributable to Common Shareowners from Discontinued Operations

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2014	2013	2012
Net income attributable to common shareowners from discontinued operations	\$ -	\$ 35	\$ 283
Diluted earnings per share from discontinued operations	\$ -	\$ 0.04	\$ 0.31

Diluted earnings per share from discontinued operations for 2013 largely reflects the results of operations of \$63 million up to the point of disposal. Diluted earnings per share from discontinued operations for 2012 includes \$0.82 per share of goodwill and net asset impairment charges related to Rocketdyne, Clipper and UTC Power, and \$1.01 per share gain on the disposition of the legacy Hamilton Sundstrand Industrial businesses. A \$0.16 per share benefit from the results of operations of discontinued entities was partially offset by the \$0.07 per share Clipper warranty charge.

RESTRUCTURING COSTS

(DOLLARS IN MILLIONS)	2014	2013	2012
Restructuring costs	\$ 368	\$ 479	\$ 614

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 asset write-downs, facility exit and lease termination costs associated with the consolidation of field and manufacturing operations. We expect to incur additional restructuring costs in 2015 of approximately \$300 million, including trailing costs related to prior actions associated with our continuing cost reduction efforts and the integration of acquisitions. The expected adverse impact on earnings in 2015 from anticipated additional restructuring costs is expected to be offset by the beneficial impact from gains and other items that are outside the normal operating activities of the business. Although no specific plans for significant actions have been finalized at this time, 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.

2014 Actions. During 2014, we recorded net pre-tax restructuring charges of \$345 million relating to ongoing cost reduction actions initiated in 2014. We are targeting to complete in 2015 the majority of the remaining workforce and facility related cost reduction actions initiated in 2014. Approximately 75% 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 2014, we had cash outflows of approximately \$147 million related to the 2014 actions. We expect to incur additional restructuring and other charges of \$138 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 \$290 million annually, of which, approximately \$60 million was realized in 2014.

2013 Actions. During 2014 and 2013, we recorded net pre-tax restructuring charges of \$29 million and \$421 million, respectively, for actions initiated in 2013. We are targeting to complete in 2015 the majority of the remaining workforce and all facility related cost reduction actions initiated in 2013. Approximately 80% 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 2014, we had cash outflows of approximately \$151 million related to the 2013 actions. We expect to incur additional restructuring charges of \$18 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 \$425 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		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Otis	\$ 12,982	\$ 12,484	\$ 12,056	\$ 2,640	\$ 2,590	\$ 2,512	20.3%	20.7%	20.8%
UTC Climate, Controls & Security	16,823	16,809	17,090	2,782	2,590	2,425	16.5%	15.4%	14.2%
Pratt & Whitney	14,508	14,501	13,964	2,000	1,876	1,589	13.8%	12.9%	11.4%
UTC Aerospace Systems	14,215	13,347	8,334	2,355	2,018	944	16.6%	15.1%	11.3%
Sikorsky	7,451	6,253	6,791	219	594	712	2.9%	9.5%	10.5%
Total segment	65,979	63,394	58,235	9,996	9,668	8,182	15.2%	15.3%	14.0%
Eliminations and other	(879)	(768)	(527)	261	22	(72)			
General corporate expenses	—	—	—	(488)	(481)	(426)			
Consolidated	\$ 65,100	\$ 62,626	\$ 57,708	\$ 9,769	\$ 9,209	\$ 7,684	15.0%	14.7%	13.3%

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 for its residential business, weather conditions. 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. Worldwide economic conditions were generally favorable for Otis in 2014, compared with 2013, with strong new equipment order growth rates in North America (39%), in South Asia (28%) due to a large order in Singapore, and in China (5%), partially offset by lower new equipment orders in the Middle East (30%). New equipment

orders in Europe were consistent with order levels in 2013. Within the UTC Climate, Controls & Security segment, global commercial HVAC orders increased (1%), while U.S. fire and safety product orders increased (12%).

Total commercial business sales generated outside the U.S., including U.S. export sales were 69% and 70% in 2014 and 2013, respectively. The following table shows sales generated outside the U.S., including U.S. export sales, for each of the commercial business segments:

	2014	2013
Otis	81%	82%
UTC Climate, Controls & Security	59%	61%

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 commer-

cial 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:			
	2014	2013	2012	2014 Compared with 2013		2013 Compared with 2012	
Net Sales	\$ 12,982	\$ 12,484	\$ 12,056	\$ 498	4%	\$ 428	4%
Cost of Sales	8,756	8,345	8,008	411	5%	337	4%
	4,226	4,139	4,048				
Operating Expenses and Other	1,586	1,549	1,536				
Operating Profits	\$ 2,640	\$ 2,590	\$ 2,512	\$ 50	2%	\$ 78	3%

	Factors Contributing to Total % Increase (Decrease) Year-Over-Year in:					
	2014			2013		
	Net Sales	Cost of Sales	Operating Profits	Net Sales	Cost of Sales	Operating Profits
Organic/Operational	6 %	7 %	4 %	3%	5 %	(1)%
Foreign currency translation	(2)%	(2)%	(2)%	—	—	—
Acquisitions and divestitures, net	—	—	—	1%	—	—
Restructuring costs	—	—	—	—	(1)%	3 %
Other	—	—	—	—	—	1 %
Total % change	4 %	5 %	2 %	4%	4 %	3 %

2014 Compared with 2013

Organic sales increased (6%) due to higher new equipment sales primarily in China (2%), the Americas (1%), Europe (1%) and the Middle East (1%). Service sales growth in the Americas and China (combined 1%), was offset by declines in Europe (1%).

Operational profit increased (4%) due primarily to higher new equipment contribution (6%) partially offset by a decrease in service contribution (1%), due primarily to continued pricing pressures in Europe, and higher overhead expenses (2%) in connection with continued investment in emerging markets.

2013 Compared with 2012

Organic sales increased 3% in 2013 due to higher new equipment sales (3%) primarily in China, the U.S. and Russia partially offset by declines in South Korea. Service sales increases in Asia, Brazil and the U.S. were partially offset by declines in southern Europe.

The operational profit declined slightly for the year (1%) due primarily to lower service contribution (2%) resulting from continued pricing pressures. New equipment contribution increased 2% due to higher new equipment volume and the impact of lower commodity costs, partially offset by costs associated with the factory consolidation in North America. Overhead expenses increased 1% due to continued growth in emerging markets.

UTC Climate, Controls & Security is the 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:			
	2014	2013	2012	2014 Compared with 2013		2013 Compared with 2012	
Net Sales	\$ 16,823	\$ 16,809	\$ 17,090	\$ 14	—	\$ (281)	(2)%
Cost of Sales	11,707	11,918	12,316	(211)	(2)%	(398)	(3)%
	5,116	4,891	4,774				
Operating Expenses and Other	2,334	2,301	2,349				
Operating Profits	\$ 2,782	\$ 2,590	\$ 2,425	\$ 192	7 %	\$ 165	7 %

	Factors Contributing to Total % Increase (Decrease) Year-Over-Year in:					
	2014			2013		
	Net Sales	Cost of Sales	Operating Profits	Net Sales	Cost of Sales	Operating Profits
Organic/Operational	3 %	1 %	11 %	1 %	—	9 %
Foreign currency translation	(1)%	(1)%	(1)%	—	—	—
Acquisitions and divestitures, net	(2)%	(2)%	—	(3)%	(3)%	—
Restructuring costs	—	—	(1)%	—	—	2 %
Other	—	—	(2)%	—	—	(4)%
Total % change	—	(2)%	7 %	(2)%	(3)%	7 %

2014 Compared with 2013

The organic sales increase (3%) for the year primarily reflects growth in Americas (2%) driven by the U.S. residential HVAC and fire safety products businesses, and growth in refrigeration (1%) driven by the transport refrigeration business. The decrease in "Acquisitions and divestitures, net" (2%) reflects the year over year impact of divestitures completed in the preceding twelve months associated with UTC Climate, Controls & Security's portfolio transformation.

The 11% operational profit increase was driven by favorable volume and price (combined 5%), the benefits of previous restructuring actions and cost productivity (combined 2%), favorable commodity costs (2%) and higher equity income (2%). The 2% decrease in "Other" primarily reflects net year-over-year impact from UTC Climate, Controls & Security's portfolio transformation.

2013 Compared with 2012

The organic sales increase (1%) for the year primarily reflects growth in the Americas (1%), driven by the U.S. residential HVAC business, and the transport refrigeration business (1%), partially offset by declines in Europe (1%) as a result of weak end markets. The decrease in "Acquisitions and divestitures, net" sales (3%) reflects the year-over-year impact of divestitures completed in the preceding twelve months associated with UTC Climate, Controls & Security's portfolio transformation.

The 9% operational profit increase was driven largely by the benefits of restructuring actions and cost productivity (combined 4%), volume growth (3%), and favorable commodity costs (2%). The 4% decrease in "Other" primarily reflects an approximately \$102 million net year-over-year impact from UTC Climate, Controls & Security's portfolio transformation. Portfolio transformation activity in 2013 resulted in a net gain of approximately \$55 million, including gains from the sale of businesses in Hong Kong and Australia, as compared to a net gain of \$157 million in 2012.

Aerospace Businesses

The financial performance of Pratt & Whitney, UTC Aerospace Systems and Sikorsky 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 and is generally positively correlated to corporate profits. In 2014, as compared with 2013,

commercial aerospace aftermarket sales at Pratt & Whitney increased 5% on growth within the IAE business. UTC Aerospace Systems' commercial aerospace aftermarket sales increased 9% on strong spares sales.

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 using the cumulative catch-up method in accordance with the Revenue Recognition Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Operating profits included significant net unfavorable changes in aerospace contract estimates of approximately \$240 million in 2014 driven by the unfavorable impact of the revision in estimate on the Cyclone helicopter program for the Canadian Government of \$438 million discussed above in the "Business Overview," partially offset by several net favorable contract adjustments recorded throughout the year largely at the Pratt & Whitney segment. In accordance with our revenue recognition policy, losses, if any, on long-term contracts are provided for when anticipated. Loss provisions on OEM contracts are recognized to the extent that estimated inventoriable manufacturing, engineering, product warranty and product performance guarantee costs, as appropriate, exceed the projected revenue from the products contemplated under the contractual arrangement.

The commercial airline industry was strong throughout 2014 benefiting from traffic growth and lower fuel costs. Airline traffic growth rates, as measured by revenue passenger miles (RPMs) grew approximately 6% in the first eleven months of 2014, as compared with 2013, while jet fuel costs have declined more than 40% relative to prices one year ago in all geographic regions. Pratt & Whitney continues to develop five separate geared turbofan platforms and is building capacity to meet demand for new engines which are fuel efficient and have reduced noise levels and exhaust emissions. Falling oil prices may reduce demand for commercial helicopters by deep-water oil and gas exploration customers around the world.

U.S. Government deficit reduction measures continue to pressure the U.S. Department of Defense spending and adversely affect our military business. Total sales to the U.S. Government of \$9.6 billion in 2014, \$9.9 billion in 2013, and \$10.1 billion in 2012 were 15%, 16% and 18% of total UTC sales in 2014, 2013 and 2012, respectively. The defense portion of our aerospace business is 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 2014 and is expected to continue to benefit results in 2015.

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 for large commercial and military engines. Pratt & Whitney produces families of engines for wide and narrow-body and large regional aircraft in the commercial market, and for fighter and transport aircraft in the military market. 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, and also provides fleet management services and aftermarket maintenance, repair and overhaul services, including the sale of spare parts for such engines. 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, to power the single-engine F-35 Lightning II aircraft being developed by Lockheed Martin. In addition, Pratt & Whitney is currently developing technology, including the PurePower PW1000G Geared TurboFan engine, intended to enable it to power both currently-proposed and future aircraft. PurePower PW1000G engine models have been selected by Airbus as a new engine option to power its A320neo family of aircraft, by Bombardier to power the new CSeries passenger aircraft, by Mitsubishi Aircraft Corporation to power the new Mitsubishi Regional Jet, by Irkut Corporation to power the Irkut MC-21 passenger aircraft, and by Embraer to power the next generation of the E-Jet family of aircraft. The CSeries passenger aircraft are scheduled to enter into service in 2015. The Mitsubishi Regional Jet and the Irkut MC-21 are both scheduled to enter into service in 2017, and Embraer's E-Jet family of aircraft is scheduled to enter service in 2018. On October 14, 2014, Gulfstream announced the selection of the PurePower PW800 engine to exclusively power Gulfstream's new G500 and G600 business jets, which are scheduled to enter service in 2018. On December 19, 2014, the geared turbofan engine completed Federal Aviation Agency certification for the Airbus A320neo platform and remains on schedule to enter into service in the fourth quarter of 2015. The success of these aircraft and the PurePower family of engines is dependent upon many factors including technological accomplishments, 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. P&WC has developed or is developing the PW210 engine family for helicopters manufactured by Sikorsky, AgustaWestland and Airbus Helicopters. Pratt & Whitney continues to enhance its programs through performance improvement measures and product base expansion.

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, 2014, the interests of third party participants in Pratt & Whitney-directed commercial jet engine programs ranged from 14% to 49%. 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 Aero Engines (MTU) and Japanese Aero Engines Corporation (JAEC) and a 49.5% ownership interest in IAE. Pratt & Whitney continues to pursue additional collaboration partners.

(DOLLARS IN MILLIONS)				Total Increase (Decrease) Year-Over-Year for:			
	2014	2013	2012	2014 Compared with 2013		2013 Compared with 2012	
Net Sales	\$ 14,508	\$ 14,501	\$ 13,964	\$ 7	—	\$ 537	4%
Cost of Sales	10,926	11,148	10,600	(222)	(2)%	548	5%
	3,582	3,353	3,364				
Operating Expenses and Other	1,582	1,477	1,775				
Operating Profits	\$ 2,000	\$ 1,876	\$ 1,589	\$ 124	7%	\$ 287	18%

	Factors Contributing to Total % Increase (Decrease) Year-Over-Year in:					
	2014			2013		
	Net Sales	Cost of Sales	Operating Profits	Net Sales	Cost of Sales	Operating Profits
Organic*/Operational*	2 %	—	6 %	2%	3%	13 %
Foreign currency (including P&WC net hedging)*	(1)%	(1)%	2 %	—	—	—
Acquisitions and divestitures, net	(1)%	(1)%	(1)%	2%	2%	1 %
Restructuring costs	—	—	5 %	—	—	(4)%
Other	—	—	(5)%	—	—	8 %
Total % change	—	(2)%	7 %	4%	5%	18 %

* 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.

2014 Compared with 2013

The organic sales increase (2%) primarily reflects higher commercial aftermarket volume (2%) and higher spares volume at Pratt & Whitney Canada (1%), offset by lower military sales volume (1%). Sales decreased (1%) as a result of the divestiture of Pratt & Whitney Power Systems in 2013 (2%), offset by the acquisition of a majority interest in a joint venture in 2014 (1%).

Pratt & Whitney's operating profit benefited from lower pension costs and restructuring savings across its businesses. The operating profit increase (6%) was due to the net volume increase and sales mix (9%), mentioned above, and favorable contract performance (3%), partially offset by higher research and development costs (4%) and lower contract termination benefits (1%). Operating profit decreased (1%) as a result of the divestiture of Pratt & Whitney Power Systems in 2013. "Other" reflects the impairment of assets related to a joint venture (1%) and the absence of the gain on the sale of Pratt & Whitney Power Systems (10%), offset by fair value adjustments related to the acquisition of a majority interest in a joint venture (4%) and higher intellectual property sales (2%).

2013 Compared with 2012

The organic sales increase (2%) was primarily driven by higher commercial engine sales volume (2%), higher military aftermarket and development program sales (2%), higher commercial aftermarket sales (1%), and higher industrial engine sales and related development contracts (1%), partially offset by lower military engine sales volume (4%). Sales increased (2%) as a result of the consolidation of IAE and the transfer of the AeroPower business to Pratt & Whitney from UTC Aerospace Systems, partially offset by the divestiture of Pratt & Whitney Power Systems.

The operational profit increase (13%) was driven by favorable commercial aftermarket volume and sales mix (9%), lower research and development spending (6%), favorable military sales mix (3%), profits from industrial turbines and related development contracts (2%), and income from licensing agreements (1%), partially offset by unfavorable commercial engine volume and mix (6%), and the absence of a gain as a result of the effective settlement of a pre-existing contractual dispute in connection with the acquisition of Goodrich in 2012 (3%). Restructuring savings were largely offset by

higher pension costs. The increase in "Acquisitions and divestitures, net" (1%) reflects the consolidation of IAE and the transfer of the AeroPower business to Pratt & Whitney from UTC Aerospace Systems, partially offset by the divestiture of Pratt & Whitney Power Systems. "Other" reflects a gain on the sale of Pratt & Whitney Power Systems (12%) and a gain on the sale of intellectual property (1%), offset by a fair value adjustment of a joint venture investment (2%), and the absence of gains on the sale of equity interest in a joint venture (2%) and on the consolidation resulting from a restructuring of interests in IAE (1%) in 2012.

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 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 aerostuctures 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. 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)	2014	2013	2012	Total Increase (Decrease) Year-Over-Year for:			
				2014 Compared with 2013		2013 Compared with 2012	
Net Sales	\$ 14,215	\$ 13,347	\$ 8,334	\$ 868	7%	\$ 5,013	60%
Cost of Sales	10,192	9,534	6,090	658	7%	3,444	57%
	4,023	3,813	2,244				
Operating Expenses and Other	1,668	1,795	1,300				
Operating Profits	\$ 2,355	\$ 2,018	\$ 944	\$ 337	17%	\$ 1,074	114%

	Factors Contributing to Total % Increase (Decrease) Year-Over-Year in:					
	2014			2013		
	Net Sales	Cost of Sales	Operating Profits	Net Sales	Cost of Sales	Operating Profits
Organic/Operational	6%	7%	15%	4%	2%	37%
Foreign currency translation	1%	—	—	—	—	1%
Acquisitions and divestitures, net	—	—	—	56%	55%	74%
Restructuring costs	—	—	1%	—	—	2%
Other	—	—	1%	—	—	—
Total % change	7%	7%	17%	60%	57%	114%

2014 Compared with 2013

The organic sales growth (6%) primarily reflects an increase in commercial aerospace OEM and commercial aftermarket sales volumes (6%).

The organic increase in operational profit (15%) primarily reflects the profit contribution from higher commercial OEM and aftermarket sales volumes (10%), lower selling, general and administrative expenses including lower pension expense (5%), and the favorable impact of a customer contract settlement (2%), partially offset by higher research and development costs (2%).

2013 Compared with 2012

The organic sales growth (4%) primarily reflects an increase in commercial aerospace OEM and commercial aftermarket volume (5%) partially offset by lower military OEM sales volume (1%).

The organic increase in operational profit (37%) primarily reflects the absence of amortization of inventory fair-value adjustments (26%) related to the Goodrich acquisition, lower selling, general and administrative expenses (9%) including the impact of synergies from

the integration of Goodrich, lower research and development costs (6%), the profit contribution on higher aftermarket sales volume (6%) and higher licensing and royalty income (3%), partially offset by lower profits on OEM sales (15%) primarily attributable to adverse mix in commercial and military markets. "Acquisitions and divestitures, net" is principally a result of the acquisition of Goodrich.

Sikorsky is one of the world's largest helicopter companies. Sikorsky manufactures military and commercial helicopters and also provides aftermarket helicopter and aircraft parts and services.

Current major production programs at Sikorsky include the UH-60M Black Hawk medium-transport helicopters and HH-60M Medevac helicopters for the U.S. and foreign governments, the S-70 Black Hawk for foreign governments, the MH-60S helicopter for the U.S. Navy and the MH-60R helicopter for the U.S. and foreign navies, the S-70B Naval Hawk for foreign naval missions, and the S-76 and S-92 helicopters for commercial operations. In July 2012, the U.S. Government and Sikorsky signed a five-year multi-service contract for approximately 650 H-60 helicopters. Actual production quantities

will be determined year-by-year over the life of the program based on funding allocations set by Congress and the U.S. Department of Defense acquisition priorities, as well as the U.S. Foreign Military Sales program. Sikorsky is also developing the CH-53K next generation heavy lift helicopter for the U.S. Marine Corps, the VH-92A helicopter for the U.S. Marine One transport mission, the HH-60W combat rescue helicopter for the U.S. Air Force and, as more fully discussed in the "Business Overview" section of Management's Discussion and Analysis above, the Cyclone helicopter, for the Canadian Government.

Sikorsky's aftermarket business includes spare parts sales, mission equipment, overhaul and repair services, maintenance contracts and logistics support programs for helicopters and other aircraft. Sales are principally made to the U.S. and foreign governments, and commercial helicopter operators. Sikorsky is increasingly engaging in logistics support programs and partnering with its government and commercial customers to manage and provide logistics, maintenance and repair services.

(DOLLARS IN MILLIONS)	2014	2013	2012	Total Increase (Decrease) Year-Over-Year for:			
				2014 Compared with 2013		2013 Compared with 2012	
Net Sales	\$ 7,451	\$ 6,253	\$ 6,791	\$ 1,198	19 %	\$ (538)	(8)%
Cost of Sales	6,759	5,141	5,643	1,618	31 %	(502)	(9)%
	692	1,112	1,148				
Operating Expenses and Other	473	518	436				
Operating Profits	\$ 219	\$ 594	\$ 712	\$ (375)	(63)%	\$ (118)	(17)%

	Factors Contributing to Total % Increase (Decrease) Year-Over-Year in:					
	2014			2013		
	Net Sales	Cost of Sales	Operating Profits	Net Sales	Cost of Sales	Operating Profits
Organic/Operational	6%	7%	9 %	(8)%	(9)%	(16)%
Restructuring costs	—	—	6 %	—	—	—
Other	13%	24%	(78)%	—	—	(1)%
Total % change	19%	31%	(63)%	(8)%	(9)%	(17)%

2014 Compared with 2013

The organic sales increase (6%) reflects higher international military aircraft (9%), commercial aircraft (3%) and development program sales volumes (2%), partially offset by lower U.S. Government aircraft sales (5%) and lower aftermarket sales (2%). "Other" reflects a cumulative adjustment through the second quarter of 2014 to record \$830 million in sales and \$1,268 million in cost of sales based upon the change in estimate for the amended arrangements signed with the Canadian Government for the Cyclone helicopter program.

The operational profit increase (9%) is driven by increased international military volume (16%), higher commercial aircraft profitability (7%), and lower research and development spending (4%). These increases were partially offset by lower U.S. Government aircraft volume (10%) and aftermarket volumes (6%). Development program profitability declined (3%) primarily due to net unfavorable contract adjustments. "Other" reflects a cumulative adjustment to record \$438 million in losses based upon the change in estimate for the Amended Arrangements signed with the Canadian Government for the Cyclone helicopter program and an approximately \$28 million charge for the impairment of a Sikorsky joint venture investment.

2013 Compared with 2012

The organic sales decrease (8%) reflects decreased international military sales (8%), decreased U.S. Government sales (2%) due to lower volume and unfavorable Multi-year 8 reset provisions, lower volume on customer funded development programs (2%) and decreased aftermarket sales (4%) due to lower military spares activity, partially offset by higher commercial aftermarket volume. These decreases were partially offset by increased commercial aircraft sales (8%) due to increased S-92 and S-76D aircraft sales volume and completion services.

The operational profit decrease (16%) reflects lower profitability from the U.S. Government (19%), aftermarket (5%), and customer funded development programs (4%); lower international military aircraft volume (8%); higher export compliance (5%); other selling, general and administrative costs including pension and salaries (3%); and research and development (1%) costs. The decline in profitability on U.S. Government programs was due to lower aircraft volume, Multi-year 8 pricing reset provisions and aircraft cost performance, while the decline in aftermarket was due to lower military spares volume partially offset by favorable contract performance. These operational profit decreases were partially offset by lower loss provision adjustments for the previously noted CH-148 contract with the Canadian Government (18%) and higher profitability from commercial operations (10%) due to higher S-92 and S-76D aircraft sales and completions volume.

Eliminations and other

(DOLLARS IN MILLIONS)	Net Sales			Operating Profits		
	2014	2013	2012	2014	2013	2012
Eliminations and other	\$ (879)	\$ (768)	\$ (527)	\$ 261	\$ 22	\$ (72)
General corporate expenses	—	—	—	(488)	(481)	(426)

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 change in sales in 2014, as compared with 2013, reflects an increase in the amount of inter-segment sales eliminations between our aerospace business segments. The change in the operating profit elimination in 2014, as compared with 2013, reflects lower divestiture costs in 2014 and an approximately \$220 million gain on an agreement with a state taxing authority for the monetization of tax credits.

The change in sales in 2013, as compared with 2012, reflects an increase in the amount of inter-segment sales eliminations due to our acquisition of Goodrich. The change in the operating profit elimination in 2013, as compared with 2012, primarily reflects the benefit of lower acquisition and divestiture costs of approximately \$70 million.

LIQUIDITY AND FINANCIAL CONDITION

(DOLLARS IN MILLIONS)	2014	2013
Cash and cash equivalents	\$ 5,235	\$ 4,619
Total debt	19,794	20,241
Net debt (total debt less cash and cash equivalents)	14,559	15,622
Total equity	32,564	33,219
Total capitalization (total debt plus total equity)	52,358	53,460
Net capitalization (total debt plus total equity less cash and cash equivalents)	47,123	48,841
Total debt to total capitalization	38%	38%
Net debt to net capitalization	31%	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 2015, 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: capital expenditures, customer financing requirements, investments in businesses, dividends, common stock repurchases, pension funding, access to the commercial paper markets, adequacy of available bank lines of credit, and the ability to attract long-term capital at satisfactory terms.

The overall global economic outlook is mixed, with modest growth continuing in the global economy. Commercial aviation and commercial construction are experiencing solid growth in North America. Growth in Europe remains modest, despite recent strengthening in the United Kingdom and moderate growth in Germany and France. Asia continues to be paced by China with strong but slowing growth, while the remainder of the region is seeing slow to moderate growth.

Our domestic pension funds experienced a positive return on assets of approximately 10% during 2014. 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 lower discount rates and the adoption of new mortality tables in the U.S. and Canada, partially offset by the absence of prior pension investment losses and positive returns experienced during 2014, will result in increased pension expense in 2015 of approximately \$275 million as compared to 2014.

Our strong debt ratings and financial position have historically 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.

On April 1, 2014, we redeemed all remaining outstanding 2016 Goodrich 6.290% notes, representing approximately \$188 million in aggregate principal, under our redemption notice issued on February 28, 2014. During 2013, we repaid approximately \$1,698 million of Goodrich and UTC notes bearing interest at rates ranging from 1.200% to 6.290%, with original maturity dates ranging from 2015 to 2021, under previously disclosed redemptions and tender offers.

In 2012, we approved plans for the divestiture of a number of non-core businesses, which were completed with the sale of Rocketdyne on June 14, 2013. In 2013, business dispositions included the sale of the legacy Goodrich pumps and engine controls business, the sale of the legacy Goodrich electric power systems business and the sale of Pratt & Whitney Power Systems. Cash generated from these divestitures was used to repay debt incurred to finance the Goodrich acquisition. Tax payments related to discontinued operations, primarily the December 2012 sale of the legacy Hamilton Sundstrand Industrial businesses, were approximately \$640 million in 2013.

At December 31, 2014, 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 May 2019. As of December 31, 2014 and 2013, 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, 2014, our maximum commercial paper borrowing authority was \$4.35 billion. We generally use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions and repurchases of our common stock.

We continue to have access to the commercial paper markets and our existing credit facilities, and expect to continue to generate strong operating cash flows. While the impact of market volatility cannot be predicted, we believe we have sufficient operating flexibility, cash reserves and funding sources to maintain adequate amounts of liquidity and to meet our future operating cash needs.

At December 31, 2014, over 80% 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. As discussed in Note 11, with few exceptions, U.S. income taxes have not been provided on 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 may be required to make payments of approximately \$350 million in 2015. See Note 17 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, 2014 and 2013, the amount of such restricted cash was approximately \$255 million and \$47 million, respectively.

We believe our future operating cash flows will be sufficient to meet our future operating cash needs. Further, 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)	2014	2013	2012
Net cash flows provided by operating activities of continuing operations	\$ 7,336	\$ 7,505	\$ 6,605

2014 Compared with 2013

Cash generated from operating activities of continuing operations in 2014 was \$169 million lower than 2013. Income from continuing operations and noncash deferred income tax provision and depreciation and amortization charges were \$769 million higher than 2013. The 2014 cash outflows for working capital were primarily driven by increases in inventory to support deliveries and other contractual commitments across all businesses. Reductions in accounts receivable in our aerospace businesses, driven primarily by accelerated customer collections and selected factoring primarily at Pratt & Whitney, were largely offset by increases in accounts receivable in our commercial

businesses. Increases in accounts payable and accrued liabilities in our aerospace businesses, primarily related to customer advances at Pratt & Whitney, were largely offset by reductions in accounts payable and accrued liabilities in our commercial businesses. For 2013, cash outflows for working capital were similarly driven by increases in inventory to support deliveries and other contractual commitments, partially offset by increases in accounts payable and accrued liabilities, and increases in customer advances primarily related to contracts in progress at Otis and commercial aircraft orders at Sikorsky.

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 \$517 million, \$108 million and \$430 million during 2014, 2013 and 2012, respectively. As of December 31, 2014, the total investment by the global defined benefit pension plans in our securities was approximately 3% of total plan assets. Although our domestic defined benefit pension plans are approximately 88% funded on a projected benefit obligation basis as of December 31, 2014, and we are not required to make additional contributions through the end of 2019, we may elect to make discretionary contributions in 2015. We expect to make total contributions of approximately \$350 million to our global defined benefit pension plans in 2015, including discretionary contributions of approximately \$200 million to our domestic plans. Contributions to our global defined benefit pension plans in 2015 are expected to meet or exceed the current funding requirements.

2013 Compared with 2012

The increase in net cash flows provided by operating activities of continuing operations in 2013 as compared with 2012 was driven by the increase in income from continuing operations primarily attributable to the full year benefit in 2013 of 2012 acquisitions and continued cost reductions, as well as lower global pension contributions. Included in income from continuing operations in 2013 were approximately \$248 million of net gains from the sale of the Pratt & Whitney Power Systems business and portfolio transformation activities at UTC Climate, Controls & Security, approximately \$95 million of tax benefit as a result of enactment of the American Taxpayer Relief Act of 2012 in January 2013, and approximately \$83 million of tax and interest benefits from the conclusion of the examination by the Internal Revenue Service (IRS) of legacy Goodrich's 2009 and 2010 tax years as well as settlements for our tax years prior to 2006. In 2013, the net increase in working capital required a cash outflow of approximately \$200 million, compared to a cash inflow of approximately \$100 million in 2012. This decrease of \$300 million is attributable to an increase in accounts receivable driven by sales volumes and timing, primarily at Pratt & Whitney and UTC Aerospace Systems. Increases in inventories and contracts in progress were largely offset by increases in accounts payable and accrued liabilities.

Cash Flow—Investing Activities of Continuing Operations

(DOLLARS IN MILLIONS)	2014	2013	2012
Net cash flows used in investing activities of continuing operations	\$ (2,305)	\$ (1,464)	\$ (18,795)

2014 Compared with 2013

Cash flows used in investing activities of continuing operations for 2014 primarily reflect capital expenditures of approximately \$1.7 billion and payments related to our collaboration intangible assets and contractual rights to provide product on new aircraft platforms of approximately \$800 million. Cash flows used in investing activities of continuing operations for 2013 primarily reflect the net proceeds of approximately \$1.6 billion from business dispositions, offset by capital expenditures of approximately \$1.7 billion and payments related to our collaboration intangible assets and contractual rights to provide product on new aircraft platforms of approximately \$930 million. Business dispositions in 2013 included the sale of the legacy Goodrich pumps and engine controls business, the sale of the legacy Goodrich electric power systems business and the sale of Pratt & Whitney Power Systems.

In 2014, we increased our collaboration intangible assets by approximately \$593 million, of which \$312 million represented payments made under our 2012 agreement to acquire Rolls-Royce's ownership and collaboration interests in IAE. Capital expenditures for 2014 primarily relate to investments in new programs at Pratt & Whitney and UTC Aerospace Systems, as well as continuing Goodrich integration activities at UTC Aerospace Systems. Cash investments in businesses in 2014 were approximately \$402 million, and included the acquisition of the majority interest in a Pratt & Whitney joint venture and a number of small acquisitions, primarily in our commercial businesses. We expect total cash investments for acquisitions in 2015 to be approximately \$1 billion. However, actual acquisition spending may vary depending upon the timing, availability and appropriate value of acquisition opportunities. We expect capital expenditures in 2015 to be approximately \$1.7 billion.

Customer financing activities were a net source of cash of \$129 million in 2014 and a net use of cash of \$135 million in 2013. While we expect that 2015 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, 2014, we had commercial aerospace financing and other contractual commitments of approximately \$11.3 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 2015. 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, 2014, our collaborators' share of these commitments was approximately \$2.8 billion of which as much as \$370 million may be required to be disbursed to us during 2015. Refer to Note 5 to the Consolidated

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

2013 Compared with 2012

Cash flows used in investing activities of continuing operations for 2013 primarily reflect the net proceeds of approximately \$1.6 billion from business dispositions, offset by capital expenditures of approximately \$1.7 billion and payments related to our collaboration intangible assets and contractual rights to provide product on new aircraft platforms of approximately \$930 million. Business dispositions in 2013 included the sale of the legacy Goodrich pumps and engine controls business, the sale of the legacy Goodrich electric power systems business and the sale of Pratt & Whitney Power Systems.

Cash flows used in investing activities of continuing operations in 2012 were primarily a result of net cash payments of approximately \$17.3 billion related to the Goodrich acquisition, the acquisition of Rolls-Royce's ownership and collaboration interests in IAE and the license of Rolls-Royce's V2500 intellectual property to Pratt & Whitney.

Investments in businesses during 2013 were \$151 million and included a number of small acquisitions in our commercial and aerospace businesses. Capital expenditures in 2013 increased approximately \$300 million, primarily related to investments in new programs at Pratt & Whitney and UTC Aerospace Systems, as well as continuation of Goodrich integration activities at UTC Aerospace Systems. Customer financing activities were a net use of cash of \$135 million and \$25 million in 2013 and 2012, respectively.

Cash Flow—Financing Activities of Continuing Operations

(DOLLARS IN MILLIONS)	2014	2013	2012
Net cash flows (used in) provided by financing activities of continuing operations	\$ (4,259)	\$ (5,940)	\$ 8,021

2014 Compared with 2013

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. 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. At December 31, 2014, we had no commercial paper outstanding. We had \$200 million of commercial paper outstanding at December 31, 2013.

At December 31, 2014, management had authority to repurchase approximately 37.8 million shares under the share repurchase program announced on February 4, 2013. 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 2014, we repurchased 13.5 million shares of our common stock for approximately \$1.5 billion. We expect 2015 share repurchases to be approximately \$3 billion. Our share repurchases vary depending upon

various factors including the level of our other investing activities. In 2014 and 2013, we paid aggregate dividends on common stock of approximately \$2.0 billion and \$1.9 billion, respectively.

We have an existing 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 securities to be issued under this shelf registration statement.

2013 Compared with 2012

In June 2012 we issued approximately \$10.9 billion of long-term debt and equity units to finance the Goodrich acquisition, and made repayments of long-term debt of approximately \$2.9 billion and \$800 million in 2013 and 2012, respectively. We had \$200 million and \$320 million of commercial paper outstanding at December 31, 2013 and 2012, respectively. Financing cash outflows for 2013 included the repurchase of 12.6 million shares of our common stock for approximately \$1.2 billion. In connection with the Goodrich acquisition, share repurchases were suspended for 2012.

In 2013, we paid aggregate dividends on common stock of approximately \$1.9 billion. During 2012, an aggregate \$1.8 billion of cash dividends were paid to common stock shareowners.

Cash Flow—Discontinued Operations

(DOLLARS IN MILLIONS)	2013	2012
Net cash flows (used in) provided by discontinued operations	\$ (277)	\$ 3,015

There were no discontinued operations in the year ended December 31, 2014.

2013 Compared with 2012

Cash flows used in discontinued operations in 2013 primarily relate to the completed divestitures of the legacy Hamilton Sundstrand Industrial businesses in December 2012 and of Rocketdyne on June 14, 2013. Tax payments related to discontinued operations were approximately \$640 million in 2013, primarily related to transactions concluded in 2012 and reported in discontinued operations. Net cash flows used in discontinued operations for 2013 includes positive cash flows of approximately \$400 million related to the sale of Rocketdyne, and cash flows from the operating activities of Rocketdyne, and of UTC Power through its date of disposition of February 12, 2013, as well as payments made in settlement of liabilities, transaction costs, and interim funding of UTC Power and of Clipper, which was divested in 2012.

Cash flows provided by discontinued operations in 2012 primarily relate to the completed divestitures of the legacy Hamilton Sundstrand Industrial businesses for \$3.4 billion, and the disposition of Clipper to a private equity acquirer which resulted in payments totaling approximately \$367 million, including capitalization of the business prior to sale, transaction fees, and funding of operations as the acquirer took control of a business with significant net liabilities.

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 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 and helicopter production type 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. 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 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 net deductible temporary differences and tax carryforwards was \$3.4 billion at December 31, 2014 and \$3.2 billion at December 31, 2013. 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. 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 17 for discussion of UTC administrative review proceedings with the German Tax Office.

Goodwill and Intangible Assets. Our investments in businesses in 2014 totaled \$530 million (including debt assumed of \$128 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 the restructuring of 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. 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 may result 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, 2014 was approximately \$4.7 billion, of which approximately \$1.4 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, 2014 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 17 to the Consolidated Financial Statements, contractual, regulatory and other matters 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 rate as of December 31, 2014:

(DOLLARS IN MILLIONS)	Increase in Discount Rate of 25 bps	Decrease in Discount Rate of 25 bps
Pension plans		
Projected benefit obligation	\$ (1,170)	\$ 1,214
Net periodic pension cost	(95)	96
Other postretirement benefit plans		
Accumulated postretirement benefit obligation	(18)	18
Net periodic postretirement benefit 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 2014 pension expense by approximately \$75 million.

The weighted-average discount rate 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. Global market interest rates have decreased in 2014 as compared with 2013 and, as a result, the weighted-average discount rate used to measure pension liabilities decreased from 4.7% in 2013 to 3.8% in 2014. In December 2009, we amended the salaried retirement plans (qualified and non-qualified) to change the retirement formula effective January 1, 2015. At that time, the formula will change 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 lower discount rates and the adoption of new mortality

tables in the U.S. and Canada, partially offset by the absence of prior pension investment losses and positive returns experienced during 2014, will result in increased pension expense in 2015 of approximately \$275 million as compared to 2014.

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, 2014 is as follows:

(DOLLARS IN MILLIONS)	Total	Payments Due by Period			
		2015	2016–2017	2018–2019	Thereafter
Long-term debt — principal	\$ 19,500	\$ 1,796	\$ 2,628	\$ 1,688	\$ 13,388
Long-term debt — future interest	12,377	913	1,607	1,434	8,423
Operating leases	2,525	593	819	406	707
Purchase obligations	20,196	10,901	6,043	1,377	1,875
Other long-term liabilities	5,210	878	1,149	516	2,667
Total contractual obligations	\$ 59,808	\$ 15,081	\$ 12,246	\$ 5,421	\$ 27,060

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 23% 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, 2014 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, 2014 was approximately \$249 million. Total future consumption of the contractual obligations is expected to be as follows: \$229 million in 2015, \$240 million in 2016, \$259 million in 2017, \$209 million in 2018, \$192 million in 2019 and \$480 million thereafter. These amounts are not included in the table above.

The above table also does not reflect unrecognized tax benefits of \$1,089 million, the timing of which is uncertain, except for approximately \$21 million that may become payable during 2015. 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, 2014:

(DOLLARS IN MILLIONS)	Committed	Amount of Commitment Expiration per Period			
		2015	2016–2017	2018–2019	Thereafter
Commercial aerospace financing commitments	\$ 3,152	\$ 574	\$ 852	\$ 824	\$ 902
Other commercial aerospace commitments	8,165	763	1,806	1,673	3,923
Commercial aerospace financing arrangements	632	13	86	147	386
Unconsolidated subsidiary debt guarantees	211	107	19	5	80
Performance guarantees	136	65	8	58	5
Total commercial commitments	\$ 12,296	\$ 1,522	\$ 2,771	\$ 2,707	\$ 5,296

In exchange for increased ownership and collaboration interests in IAE and Rolls-Royce's V2500 intellectual property license in 2012, Pratt & Whitney paid Rolls-Royce \$1.5 billion at closing with additional payments due to Rolls-Royce contingent upon each hour flown by the V2500-powered aircraft in service as of June 29, 2012 during the fifteen-year period following closing of the purchase. These payments are being capitalized as a collaboration intangible asset and amortized in relation to the economic benefits received over the projected remaining thirty-year life of the V2500 program. The estimated flight hour payments are included in Other commercial aerospace commitments in the table above.

Refer to Notes 1, 5 and 16 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, 2014, 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, including U.S. export sales, averaged approximately \$38 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. 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. At P&WC, firm and forecasted sales for both engines and spare parts are hedged at varying amounts up to 24 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, 2014.

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 716 locations, mostly in the United States, at which we may have some liability for remediating contamination. We have resolved our liability at 323 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 92% 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 126 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, 2014 and 2013, we had \$903 million and \$936 million reserved for environmental remediation, respectively. Cash outflows for environmental remediation were \$63 million in 2014, \$40 million in 2013 and \$35 million in 2012. We estimate that ongoing environmental remediation expenditures in each of the next two years will not exceed approximately \$90 million.

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 17 "Commitments & Contingencies" of our Consolidated Financial Statements for further discussion of these and other government matters.

This 2014 Annual Report to Shareowners (2014 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 materials 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 and other measures of financial performance. 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;
- 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;
- 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;
- delays and disruption in delivery of materials and services from suppliers;
- customer and Company directed cost reduction efforts and restructuring costs and savings and other consequences thereof;
- 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;
- future repurchases of our common stock;
- 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; 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 2014 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 17: 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 2014 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 2014 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 are disclosed from time to time in our other filings with the SEC.

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, 2014. 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, 2014. The effectiveness of UTC's internal control over financial reporting, as of December 31, 2014, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.



Gregory J. Hayes
President and Chief Executive Officer



Akhil Johri
Senior Vice President and Chief Financial Officer



John E. Stantial
Acting Controller and Assistant Controller, Financial Reporting

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

In our opinion, the accompanying consolidated balance sheet 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, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 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, 2014, 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.

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 5, 2015

CONSOLIDATED STATEMENT OF OPERATIONS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS; SHARES IN MILLIONS)	2014	2013	2012
Net Sales:			
Product sales	\$ 47,632	\$ 45,253	\$ 40,729
Service sales	17,468	17,373	16,979
	65,100	62,626	57,708
Costs and Expenses:			
Cost of products sold	36,044	34,063	31,094
Cost of services sold	11,403	11,258	11,059
Research and development	2,635	2,529	2,371
Selling, general and administrative	6,500	6,718	6,452
	56,582	54,568	50,976
Other income, net	1,251	1,151	952
Operating profit	9,769	9,209	7,684
Interest expense, net	882	897	773
Income from continuing operations before income taxes	8,887	8,312	6,911
Income tax expense	2,264	2,238	1,711
Net income from continuing operations	6,623	6,074	5,200
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	403	388	353
Income from continuing operations attributable to common shareowners	6,220	5,686	4,847
Discontinued operations (Note 3):			
Income (loss) from operations	—	63	(998)
(Loss) gain on disposal	—	(33)	2,030
Income tax benefit (expense)	—	5	(742)
Net income from discontinued operations	—	35	290
Less: Noncontrolling interest in subsidiaries' earnings from discontinued operations	—	—	7
Income from discontinued operations attributable to common shareowners	—	35	283
Net income attributable to common shareowners	\$ 6,220	\$ 5,721	\$ 5,130
Earnings Per Share of Common Stock—Basic:			
Net income from continuing operations attributable to common shareowners	\$ 6.92	\$ 6.31	\$ 5.41
Net income attributable to common shareowners	\$ 6.92	\$ 6.35	\$ 5.73
Earnings Per Share of Common Stock—Diluted:			
Net income from continuing operations attributable to common shareowners	\$ 6.82	\$ 6.21	\$ 5.35
Net income attributable to common shareowners	\$ 6.82	\$ 6.25	\$ 5.66
Dividends Per Share of Common Stock	\$ 2.360	\$ 2.195	\$ 2.030
Weighted average number of shares outstanding:			
Basic shares	898.3	901.0	895.2
Diluted shares	911.6	915.1	906.6

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DOLLARS IN MILLIONS)	2014	2013	2012
Net income from continuing operations	\$ 6,623	\$ 6,074	\$ 5,200
Net income from discontinued operations	–	35	290
Net income	6,623	6,109	5,490
Other comprehensive (loss) income, net of tax			
Foreign currency translation adjustments			
Foreign currency translation adjustments arising during period	(1,302)	(523)	556
Reclassification adjustments for loss (gain) on sale of an investment in a foreign entity recognized in net income	7	25	(100)
	(1,295)	(498)	456
Pension and post-retirement benefit plans			
Net actuarial (loss) gain arising during period	(4,362)	3,987	(1,542)
Prior service (cost) credit arising during period	(5)	(225)	211
Other	121	50	(3)
Amortization of actuarial loss, prior service cost and transition obligation	416	906	689
	(3,830)	4,718	(645)
Tax benefit (expense)	1,388	(1,735)	205
	(2,442)	2,983	(440)
Unrealized gain (loss) on available-for-sale securities			
Unrealized holding gain arising during period	35	332	91
Reclassification adjustments for gain included in Other income, net	(20)	(91)	(123)
	15	241	(32)
Tax (expense) benefit	(3)	(90)	13
	12	151	(19)
Change in unrealized cash flow hedging			
Unrealized cash flow hedging (loss) gain arising during period	(263)	(134)	88
Loss (gain) reclassified into Product sales	96	25	(31)
Gain reclassified into Other income, net	–	(2)	–
	(167)	(111)	57
Tax benefit (expense)	37	29	(4)
	(130)	(82)	53
Other comprehensive (loss) income, net of tax	(3,855)	2,554	50
Comprehensive income	2,768	8,663	5,540
Less: comprehensive income attributable to noncontrolling interest	(329)	(374)	(368)
Comprehensive income attributable to common shareowners	\$ 2,439	\$ 8,289	\$ 5,172

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

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

	2014	2013
Assets		
Cash and cash equivalents	\$ 5,235	\$ 4,619
Accounts receivable (net of allowance for doubtful accounts of \$485 and \$488)	11,317	11,458
Inventories and contracts in progress, net	9,865	10,330
Future income tax benefits, current	1,931	1,964
Other assets, current	1,410	1,071
Total Current Assets	29,758	29,442
Customer financing assets	978	1,156
Future income tax benefits	1,494	1,236
Fixed assets, net	9,276	8,866
Goodwill	27,796	28,168
Intangible assets, net	15,560	15,521
Other assets	6,427	6,205
Total Assets	\$ 91,289	\$ 90,594
Liabilities and Equity		
Short-term borrowings	\$ 126	\$ 388
Accounts payable	6,967	6,965
Accrued liabilities	14,006	15,335
Long-term debt currently due	1,796	112
Total Current Liabilities	22,895	22,800
Long-term debt	17,872	19,741
Future pension and postretirement benefit obligations	6,683	3,444
Other long-term liabilities	11,135	11,279
Total Liabilities	58,585	57,264
Commitments and contingent liabilities (Notes 5 and 17)		
Redeemable noncontrolling interest	140	111
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; 1,423,684 and 1,417,724 shares issued	15,300	14,764
Treasury Stock—514,309 and 501,038 common shares at average cost	(21,922)	(20,431)
Retained earnings	44,611	40,539
Unearned ESOP shares	(115)	(126)
Total Accumulated other comprehensive loss	(6,661)	(2,880)
Total Shareowners' Equity	31,213	31,866
Noncontrolling interest	1,351	1,353
Total Equity	32,564	33,219
Total Liabilities and Equity	\$ 91,289	\$ 90,594

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(DOLLARS IN MILLIONS)	2014	2013	2012
Operating Activities of Continuing Operations:			
Net income attributable to common shareowners	\$ 6,220	\$ 5,721	\$ 5,130
Noncontrolling interest in subsidiaries' earnings	403	388	360
Net income	6,623	6,109	5,490
Less: Net income from discontinued operations	–	35	290
Income from continuing operations	6,623	6,074	5,200
Adjustments to reconcile income from continuing operations to net cash flows provided by operating activities of continuing operations:			
Depreciation and amortization	1,907	1,821	1,524
Deferred income tax provision	376	242	120
Stock compensation cost	240	275	210
Change in:			
Accounts receivable	7	(531)	(165)
Inventories and contracts in progress	(1,091)	(1,096)	(539)
Other current assets	(123)	74	(4)
Accounts payable and accrued liabilities	(40)	1,354	811
Global pension contributions	(517)	(108)	(430)
Other operating activities, net	(46)	(600)	(122)
Net cash flows provided by operating activities of continuing operations	7,336	7,505	6,605
Investing Activities of Continuing Operations:			
Capital expenditures	(1,711)	(1,688)	(1,389)
Increase in customer financing assets	(202)	(245)	(100)
Decrease in customer financing assets	331	110	75
Investments in businesses	(402)	(151)	(16,026)
Dispositions of businesses	344	1,560	425
Increase in collaboration intangible assets	(593)	(722)	(1,543)
Other investing activities, net	(72)	(328)	(237)
Net cash flows used in investing activities of continuing operations	(2,305)	(1,464)	(18,795)
Financing Activities of Continuing Operations:			
Issuance of long-term debt	99	92	10,899
Repayment of long-term debt	(305)	(2,862)	(842)
Decrease in short-term borrowings, net	(346)	(113)	(214)
Common Stock issued under employee stock plans	187	378	522
Dividends paid on Common Stock	(2,048)	(1,908)	(1,752)
Repurchase of Common Stock	(1,500)	(1,200)	–
Other financing activities, net	(346)	(327)	(592)
Net cash flows (used in) provided by financing activities of continuing operations	(4,259)	(5,940)	8,021
Discontinued Operations:			
Net cash (used in) provided by operating activities	–	(628)	41
Net cash provided by investing activities	–	351	2,974
Net cash flows (used in) provided by discontinued operations	–	(277)	3,015
Effect of foreign exchange rate changes on cash and cash equivalents	(156)	(41)	30
Net increase (decrease) in cash and cash equivalents	616	(217)	(1,124)
Cash and cash equivalents, beginning of year	4,619	4,836	5,960
Cash and cash equivalents, end of year	5,235	4,619	4,836
Less: Cash and cash equivalents of businesses held for sale	–	–	17
Cash and cash equivalents of continuing operations, end of year	\$ 5,235	\$ 4,619	\$ 4,819
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	\$ 1,077	\$ 1,047	\$ 725
Income taxes paid, net of refunds	\$ 2,024	\$ 2,789	\$ 1,772

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DOLLARS IN MILLIONS)	
	Common Stock
Balance at December 31, 2011	\$ 13,445
Comprehensive income (loss):	
Net income	
Redeemable noncontrolling interest in subsidiaries' earnings	
Other comprehensive income (loss), net of tax	
Common Stock issued under employee plans (8 million shares), net of tax benefit of \$67	643
Treasury Stock reissued under employee plans (3.6 million shares)	138
Equity Units issuance	(216)
Dividends on Common Stock	
Dividends on ESOP Common Stock	
Dividends attributable to noncontrolling interest	
Redeemable noncontrolling interest accretion	
Purchase of subsidiary shares from noncontrolling interest	(34)
Sale of subsidiary shares in noncontrolling interest	
Other changes in noncontrolling interest	
Redeemable noncontrolling interest reclassification to noncontrolling interest	
Balance at December 31, 2012	\$ 13,976
Comprehensive income (loss):	
Net income	
Redeemable noncontrolling interest in subsidiaries' earnings	
Other comprehensive income (loss), net of tax	
Common Stock issued under employee plans (10.4 million shares), net of tax benefit of \$115	837
Common Stock repurchased (12.6 million shares)	
Dividends on Common Stock	
Dividends on ESOP Common Stock	
Dividends attributable to noncontrolling interest	
Purchase of subsidiary shares from noncontrolling interest	(49)
Sale of subsidiary shares in noncontrolling interest	
Disposition of noncontrolling interest	
Redeemable noncontrolling interest reclassification to noncontrolling interest	
Other	
Balance at December 31, 2013	\$ 14,764
Comprehensive income (loss):	
Net income	
Redeemable noncontrolling interest in subsidiaries' earnings	
Other comprehensive income (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

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
\$ (19,410)	\$ 33,487	\$ (152)	\$ (5,490)	\$ 940	\$ 22,820	\$ 358
	5,130			360	5,490	
				(24)	(24)	24
			42	2	44	6
18	(20)	13			654	
141					279	
	(1,752)				(216)	
	(67)				(1,752)	
	(2)			(337)	(67)	(18)
				(4)	(337)	2
				52	(38)	(34)
				66	52	
				100	66	
					100	(100)
\$ (19,251)	\$ 36,776	\$ (139)	\$ (5,448)	\$ 1,155	\$ 27,069	\$ 238
	5,721			388	6,109	
				(5)	(5)	5
20	19	13	2,568	(5)	2,563	(9)
(1,200)					889	
	(1,908)				(1,200)	
	(69)				(1,908)	
				(355)	(69)	(5)
				(67)	(355)	(3)
				243	(116)	
				(7)	243	(82)
				17	(7)	(17)
				(11)	17	(16)
					(11)	
\$ (20,431)	\$ 40,539	\$ (126)	\$ (2,880)	\$ 1,353	\$ 33,219	\$ 111
	6,220			403	6,623	
				(9)	(9)	9
9	(29)	11	(3,781)	(67)	(3,848)	(7)
(1,500)					598	
	(2,048)				(1,500)	
	(71)				(2,048)	
				(318)	(71)	(3)
				(18)	(318)	
				11	(93)	
				(16)	15	16
				12	(16)	14
					12	
\$ (21,922)	\$ 44,611	\$ (115)	\$ (6,661)	\$ 1,351	\$ 32,564	\$ 140

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, 2014 and 2013, the amount of such restricted cash was approximately \$255 million and \$47 million, respectively.

Accounts Receivable. Current and long-term accounts receivable as of December 31, 2014 include retainage of \$147 million and unbilled receivables of \$2,624 million, which includes approximately \$823 million of unbilled receivables under commercial aerospace long-term aftermarket contracts. Current and long-term accounts receivable as of December 31, 2013 include retainage of \$173 million and unbilled receivables of \$2,172 million, which includes approximately \$677 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 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.

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 \$130 million and \$133 million at December 31, 2014 and 2013, 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.

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 established in connection with the restructuring of participants' interests in IAE 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. 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 asset	30 years
Customer relationships and related programs	2 to 32 years
Purchased service contracts	5 to 31 years
Patents & trademarks	3 to 40 years
Exclusivity assets	3 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 represent amounts arising from the sale of goods and services with a contractual maturity date 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 long-term receivables as of December 31, 2014 and 2013:

(DOLLARS IN MILLIONS)	2014	2013
Long-term trade accounts receivable	\$ 838	\$ 714
Notes and leases receivable	424	583
Total long-term receivables	\$ 1,262	\$ 1,297

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 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 8% and 9% of the total long-term receivables reflected in the table above were considered to bear high credit risk as of December 31, 2014 and 2013, respectively. 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 \$10 million and \$49 million as of December 31, 2014 and 2013, respectively, are individually evaluated for impairment. At both December 31, 2014 and 2013, 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, non-complex alarm and fire detection and suppression systems, commercially funded research and development contracts and non-complex 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 and production-type helicopter contracts 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 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 \$240 million in 2014 driven by the \$438 million unfavorable impact of a revision in estimate on the CH-148 Canadian Maritime Helicopter program, partially offset by several net favorable contract adjustments recorded throughout the year, largely at the Pratt & Whitney segment. See Note 6 for further discussion of the CH-148 Canadian Maritime Helicopter program.

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 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 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 contract rights. We classify the subsequent amortization of these 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.

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. Repayment, if any, is in the form of future royalties and is 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. Given the conditional and uncertain nature of any repayment obligations,

royalty expense is typically recorded only upon engine shipment or is otherwise accrued monthly based upon the forecasted impact for the current year. The cumulative funding received under existing relationships has been approximately \$2.2 billion of which approximately \$600 million has been repaid to date in the form of royalties.

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 shareowners' 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.

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 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.

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 16 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, 2014, the collaborators' interests in all commercial engine programs ranged from 14% to 49%, 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)	2014	2013	2012
Collaborator share of sales:			
Cost of products sold	\$ 1,778	\$ 1,820	\$ 1,295
Cost of services sold	354	273	216
Collaborator share of program costs (reimbursement of expenses incurred):			
Cost of products sold	(103)	(127)	(97)
Research and development	(122)	(194)	(203)
Selling, general and administrative	(4)	(5)	(7)

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

Business Acquisitions and Dispositions. Our investments in businesses in 2014, 2013 and 2012 totaled \$530 million (including debt assumed of \$128 million), \$151 million and \$18.6 billion (including debt assumed of \$2.6 billion), respectively. 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.

In 2013, we completed the sale of the Pratt & Whitney Power Systems business to Mitsubishi Heavy Industries (MHI) for \$432 million, excluding contingent consideration valued at approximately \$200 million, and we entered into a long-term engineering and manufacturing agreement with MHI, generating a pre-tax gain of approximately \$193 million (\$132 million after tax). We also completed the acquisition of Grupo Ascensores Enor, S.A. (Enor), a privately held company headquartered in Spain with operations in Spain and Portugal, which designs, manufactures, installs and services elevators. Under the terms of the transaction, Zardoya Otis, S.A. (ZOSA), a non-wholly owned subsidiary of the Company, exchanged publicly traded shares of ZOSA with a fair value of approximately \$240 million as of the transaction completion date for all of the shares of Enor.

In 2012, we issued approximately \$10.9 billion of long-term debt and equity units and completed the acquisition of Goodrich, for a total enterprise value of \$18.3 billion, including \$1.9 billion in net debt assumed. The acquired Goodrich businesses were combined with the legacy Hamilton Sundstrand businesses to form the UTC Aerospace Systems segment. In connection with the Goodrich acquisition, we recorded approximately \$11.6 billion of goodwill and \$10.1 billion of identifiable intangible assets, including approximately \$8.6 billion of customer relationship and related program assets. 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 \$249 million and \$278 million in 2014 and 2013, respectively. Expected consumption of the contractual obligations is as follows: \$229 million in 2015, \$240 million in 2016, \$259 million in 2017, \$209 million in 2018, \$192 million in 2019 and \$480 million thereafter.

In connection with regulatory approval of the Goodrich acquisition, regulatory authorities required UTC to dispose of the Goodrich electric power systems and the Goodrich pumps and engine controls businesses. We completed the sales of these businesses in 2013.

In 2012, UTC approved plans for the divestiture of a number of non-core businesses. Cash generated from these divestitures was used to repay debt incurred to finance the Goodrich acquisition. See Note 3 for further discussion.

On June 29, 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. IAE retains limited equity with the primary economics of the V2500 program passed to the participants in the separate collaboration arrangement. As such, we have determined that IAE is a variable interest entity with Pratt & Whitney its primary beneficiary, and IAE has, therefore, been consolidated. The carrying amounts and classification of assets and liabilities for IAE in our Consolidated Balance Sheet as of December 31, 2014 and 2013 are as follows:

(DOLLARS IN MILLIONS)	2014	2013
Current assets	\$ 1,820	\$ 1,616
Noncurrent assets	756	1,066
Total assets	\$ 2,576	\$ 2,682
Current liabilities	\$ 1,795	\$ 1,895
Noncurrent liabilities	1,227	1,085
Total liabilities	\$ 3,022	\$ 2,980

UTC Climate, Controls & Security continued its portfolio transformation efforts in 2014 with the disposition of a number of businesses, resulting in a net gain of approximately \$30 million, primarily due to a gain on the sale of an interest in a joint venture in North America. UTC Climate, Controls & Security's portfolio transformation in 2013 included the disposition of a number of businesses, resulting in a net gain of approximately \$55 million, including gains from the sale of businesses in Hong Kong and Australia, and in 2012 included the disposition of a number of businesses resulting in impairment and other charges totaling approximately \$180 million. During 2012, UTC Climate, Controls & Security also sold a controlling interest in a manufacturing and distribution joint venture in Asia generating a gain of approximately \$215 million, and a controlling interest in a Canadian distribution business generating a gain of approximately \$120 million.

Goodwill. The changes in the carrying amount of goodwill, by segment, in 2014 are as follows:

(DOLLARS IN MILLIONS)	Balance as of January 1, 2014	Goodwill resulting from business combinations	Foreign currency translation and other	Balance as of December 31, 2014
Otis	\$ 1,741	\$ 35	\$ (112)	\$ 1,664
UTC Climate, Controls & Security	9,727	13	(332)	9,408
Pratt & Whitney	1,273	208	—	1,481
UTC Aerospace Systems	15,069	—	(177)	14,892
Sikorsky	353	—	(6)	347
Total Segments	28,163	256	(627)	27,792
Eliminations and other	5	—	(1)	4
Total	\$ 28,168	\$ 256	\$ (628)	\$ 27,796

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

(DOLLARS IN MILLIONS)	2014		2013	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized:				
Service portfolios	\$ 2,103	\$ (1,309)	\$ 2,234	\$ (1,295)
Patents and trademarks	361	(190)	380	(181)
IAE collaboration	2,872	(20)	2,273	—
Customer relationships and other	12,189	(2,623)	12,049	(2,199)
	17,525	(4,142)	16,936	(3,675)
Unamortized:				
Trademarks and other	2,177	—	2,260	—
Total	\$ 19,702	\$ (4,142)	\$ 19,196	\$ (3,675)

Customer relationship intangible assets include payments made to our customers to secure certain contractual rights. We amortize these intangible assets based on the underlying pattern of economic benefit, which may result in an amortization method other

than straight-line. We classify amortization of such payments as a reduction of sales. Amortization of intangible assets was \$718 million, \$710 million and \$547 million in 2014, 2013 and 2012, respectively. The IAE collaboration intangible asset is amortized based upon the economic pattern of benefits as represented by the underlying cash flows. Prior to 2014, these cash flows were negative, and, accordingly, no amortization had previously been recorded. The following is the expected amortization of intangible assets for 2015 through 2019, which reflects an increase in expected amortization expense due to the pattern of economic benefit on certain aerospace intangible assets increasing over time:

(DOLLARS IN MILLIONS)	2015	2016	2017	2018	2019
Amortization expense	\$ 707	\$ 715	\$ 764	\$ 828	\$ 806

NOTE 3: DISCONTINUED OPERATIONS

In 2012, the UTC Board of Directors approved plans for the divestiture of a number of non-core businesses, which were completed with the sale of Pratt & Whitney Rocketdyne (Rocketdyne) on June 14, 2013. Cash generated from these divestitures was used to repay debt incurred to finance the Goodrich acquisition in 2012. On February 12, 2013, we completed the disposition of UTC Power to ClearEdge Power, and have no continuing involvement with the UTC Power business post-disposition.

On December 13, 2012, we completed the sale of the legacy Hamilton Sundstrand Industrial businesses. On August 7, 2012, we completed the disposition of Clipper Windpower (Clipper) and have no continuing involvement with the Clipper business following disposition.

The legacy Hamilton Sundstrand Industrial businesses, as well as Clipper, Rocketdyne and UTC Power all met the "held-for-sale" criteria in 2012. The results of operations, including the net realized gains and losses on disposition, and the related cash flows which resulted from these non-core businesses, have been reclassified to Discontinued Operations in our Consolidated Statements of Operations and Cash Flows.

The following summarized financial information for our discontinued operations businesses has been segregated from continuing operations and reported as Discontinued Operations in 2013. There was no discontinued operations activity in 2014.

(DOLLARS IN MILLIONS)	2013
Discontinued Operations:	
Net sales	\$ 309
Income from operations	\$ 63
Income tax expense	(32)
Income from operations, net of income taxes	31
Loss on disposal	(33)
Income tax benefit	37
Net income from discontinued operations	\$ 35

NOTE 4: EARNINGS PER SHARE

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

	2014	2013	2012
Net income attributable to common shareowners:			
Net income from continuing operations	\$ 6,220	\$ 5,686	\$ 4,847
Net income from discontinued operations	—	35	283
Net income attributable to common shareowners	\$ 6,220	\$ 5,721	\$ 5,130
Basic weighted average number of shares outstanding	898.3	901.0	895.2
Stock awards	13.3	14.1	11.4
Diluted weighted average number of shares outstanding	911.6	915.1	906.6
Earnings Per Share of Common Stock—Basic:			
Net income from continuing operations	\$ 6.92	\$ 6.31	\$ 5.41
Net income from discontinued operations	—	0.04	0.32
Net income attributable to common shareowners	6.92	6.35	5.73
Earnings Per Share of Common Stock—Diluted:			
Net income from continuing operations	\$ 6.82	\$ 6.21	\$ 5.35
Net income from discontinued operations	—	0.04	0.31
Net income attributable to common shareowners	6.82	6.25	5.66

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 2014 and 2012, there were 3.5 million and 4.7 million anti-dilutive stock awards excluded from the computation, respectively. For 2013, there were no anti-dilutive stock awards excluded from the computation.

NOTE 5: COMMERCIAL AEROSPACE INDUSTRY ASSETS AND COMMITMENTS

We have receivables and other financing assets with commercial aerospace industry customers totaling \$5,573 million and \$6,193 million at December 31, 2014 and 2013, respectively. These include customer financing assets related to commercial aerospace industry customers, consisting of products under lease of \$583 million and \$662 million, and notes and leases receivable of \$424 million and \$586 million, at December 31, 2014 and 2013, 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 product on new aircraft platforms, which are included in "Other commercial aerospace commitments" in the table below. Payments made on these contractual commitments 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, 2014 were approximately \$11.3 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, 2014:

(DOLLARS IN MILLIONS)	Committed	2015	2016	2017	2018	2019	Thereafter
Notes and leases receivable	\$ 424	\$ 43	\$ 103	\$ 42	\$ 26	\$ 25	\$ 185
Commercial aerospace financing commitments	\$ 3,152	\$ 574	\$ 489	\$ 363	\$ 449	\$ 375	\$ 902
Other commercial aerospace commitments	8,165	763	858	948	899	774	3,923
Collaboration partners' share	(2,840)	(370)	(381)	(383)	(380)	(296)	(1,030)
Total commercial commitments	\$ 8,477	\$ 967	\$ 966	\$ 928	\$ 968	\$ 853	\$ 3,795

In exchange for the increased ownership and collaboration interests and intellectual property license, Pratt & Whitney paid Rolls-Royce \$1.5 billion at closing with additional payments due to Rolls-Royce contingent upon each hour flown by the V2500-powered aircraft in service as of June 29, 2012 during the fifteen-year period following closing of the purchase. These payments are being capitalized as a collaboration intangible asset and amortized based upon the economic pattern of benefits of the V2500 program as represented by the

underlying cash flows. Prior to 2014, these cash flows were negative, and, accordingly, no amortization had previously been recorded. The flight hour payments are included in Other commercial aerospace commitments in the table above.

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 \$632 million as of December 31, 2014.

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 \$823 million and \$677 million at December 31, 2014 and 2013, respectively, and are included in Accounts receivable and Other assets in the accompanying Consolidated Balance Sheet. Deferred revenues totaled \$3,553 million and \$3,230 million at December 31, 2014 and 2013, respectively, and are included in Accrued liabilities and Other long-term liabilities in the accompanying Consolidated Balance Sheet.

Reserves related to aerospace receivables and financing assets were \$243 million at both December 31, 2014 and 2013, respectively. Reserves related to financing commitments and guarantees were \$67 million and \$76 million at December 31, 2014 and 2013, respectively.

NOTE 6: INVENTORIES & CONTRACTS IN PROGRESS

(DOLLARS IN MILLIONS)	2014	2013
Raw materials	\$ 2,056	\$ 1,983
Work-in-process	3,596	4,600
Finished goods	3,776	3,360
Contracts in progress	8,189	7,929
	17,617	17,872
Less:		
Progress payments, secured by lien, on U.S. Government contracts	(300)	(279)
Billings on contracts in progress	(7,452)	(7,263)
	\$ 9,865	\$ 10,330

Raw materials, work-in-process and finished goods are net of valuation reserves of \$863 million and \$1,025 million as of December 31, 2014 and 2013, 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.

During the quarter ended June 30, 2014, Sikorsky and the Canadian Government signed amendments to their existing contracts for development, production and support of the CH-148 helicopter. These amendments included significant changes in program scope, governance and delivery methodology. Accordingly, in the second quarter of 2014 we recognized a change in estimate on this program resulting in the liquidation of approximately \$1.3 billion of inventory,

including all capitalized contract development costs related to this program. As of December 31, 2013, inventory included approximately \$740 million of capitalized contract development costs related to this program.

Inventory also includes capitalized contract development costs related to certain aerospace programs at UTC Aerospace Systems. As of December 31, 2014 and 2013, these capitalized costs were \$141 million and \$159 million, respectively, which will be liquidated as production units are delivered to the customer.

Our sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months. At December 31, 2014 and 2013, approximately 69% of total inventories and contracts in progress have been acquired or manufactured under such long-term contracts, a portion of which is not scheduled for delivery within the next twelve months.

NOTE 7: FIXED ASSETS

(DOLLARS IN MILLIONS)	Estimated Useful Lives	2014	2013
Land		\$ 408	\$ 434
Buildings and improvements	12 – 40 years	5,697	5,633
Machinery, tools and equipment	3 – 20 years	12,375	11,353
Other, including assets under construction		1,284	1,241
		19,764	18,661
Accumulated depreciation		(10,488)	(9,795)
		\$ 9,276	\$ 8,866

Depreciation expense was \$1,122 million in 2014, \$1,050 million in 2013 and \$920 million in 2012.

NOTE 8: ACCRUED LIABILITIES

(DOLLARS IN MILLIONS)	2014	2013
Advances on sales contracts and service billings	\$ 5,262	\$ 6,444
Accrued salaries, wages and employee benefits	1,909	1,901
Service and warranty accruals	533	505
Litigation and contract matters	505	526
Interest payable	503	481
Income taxes payable	309	540
Accrued property, sales and use taxes	285	280
Accrued workers compensation	275	218
Accrued restructuring costs	264	337
Other	4,161	4,103
	\$ 14,006	\$ 15,335

The decline in Advances on sales contracts and service billings as of December 31, 2014, as compared with December 31, 2013, is largely attributable to the change in estimate on contract amendments signed by Sikorsky and the Canadian Government for the development, production and support for the CH-148 helicopter. This change in estimate resulted in the liquidation of customer advances of approximately \$700 million. See Note 6 for further discussion of these amendments.

NOTE 9: BORROWINGS AND LINES OF CREDIT

(DOLLARS IN MILLIONS)	2014	2013
Short-term borrowings:		
Commercial paper	\$ -	\$ 200
Other borrowings	126	188
Total short-term borrowings	\$ 126	\$ 388

At December 31, 2014, 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 May, 2019. As of December 31, 2014, 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, 2014, our maximum commercial paper borrowing limit was \$4.35 billion. We use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions and repurchases of our common stock.

The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 2014 and 2013 were 5.7% and 1.8%, respectively. At December 31, 2014, approximately \$816 million was available under short-term lines of credit with local banks at our various domestic and international subsidiaries.

On April 1, 2014, we redeemed all remaining outstanding 2016 Goodrich 6.290% notes, representing approximately \$188 million in aggregate principal, under our redemption notice issued on February 28, 2014.

During 2013, we repaid approximately \$1,698 million of Goodrich and UTC notes bearing interest ranging from 1.200% to 6.290%, with original maturity dates ranging from 2015 to 2021, under previously disclosed redemptions and tender offers. During 2013, a combined net extinguishment loss of approximately \$23 million was recognized within Interest expense, net in the accompanying Consolidated Statements of Operations.

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

(DOLLARS IN MILLIONS)	2014	2013
LIBOR \$ plus 0.500% floating rate notes due 2015	\$ 500	\$ 500
4.875% notes due 2015*	1,200	1,200
6.290% notes due 2016‡	-	188
5.375% notes due 2017*	1,000	1,000
1.800% notes due 2017*	1,500	1,500
6.800% notes due 2018‡	99	99
6.125% notes due 2019*	1,250	1,250
8.875% notes due 2019	271	271
4.500% notes due 2020*	1,250	1,250
4.875% notes due 2020‡	171	171
8.750% notes due 2021	250	250
3.100% notes due 2022*	2,300	2,300
1.550% junior subordinated notes due 2022†	1,100	1,100
7.100% notes due 2027‡	141	141
6.700% notes due 2028	400	400
7.500% notes due 2029*	550	550
5.400% notes due 2035*	600	600
6.050% notes due 2036*	600	600
6.800% notes due 2036‡	134	134
7.000% notes due 2038‡	159	159
6.125% notes due 2038*	1,000	1,000
5.700% notes due 2040*	1,000	1,000
4.500% notes due 2042*	3,500	3,500
Project financing obligations	147	86
Other (including capitalized leases)‡	378	394
Total principal long-term debt	19,500	19,643
Other (fair market value adjustments and discounts)‡	168	210
Total long-term debt	19,668	19,853
Less: current portion	1,796	112
Long-term debt, net of current portion	\$ 17,872	\$ 19,741

* 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.

† The junior subordinated notes are redeemable at our option, in whole or in part, on a date not earlier than August 1, 2017. The redemption price will be the principal amount, plus accrued and unpaid interest, if any, up to but excluding the redemption date. We may extend or eliminate the optional redemption date as part of a remarketing of the junior subordinated notes which could occur between April 29, 2015 and July 15, 2015 or between July 23, 2015 and July 29, 2015.

‡ Includes notes and remaining fair market value adjustments that were assumed as a part of the Goodrich acquisition on July 26, 2012.

\$ The three-month LIBOR rate as of December 31, 2014 was approximately 0.2%.

The project financing obligations noted 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 4% and 5% at December 31, 2014 and 2013, respectively. Interest rates on our commercial paper borrowings are considered variable due to their short-term duration and high-frequency of turnover.

The schedule of principal payments required on long-term debt for the next five years and thereafter is:

(DOLLARS IN MILLIONS)	
2015	\$ 1,796
2016	110
2017	2,518
2018	118
2019	1,570
Thereafter	13,388
Total	\$ 19,500

We have an existing universal shelf registration statement filed with the Securities and Exchange Commission (SEC) for an indeterminate amount of securities for future issuance, subject to our internal limitations on the amount of securities to be issued under this shelf registration statement.

NOTE 10: EQUITY

A summary of the changes in each component of accumulated other comprehensive (loss) income, net of tax for the years ended December 31, 2014 and 2013 is provided below:

(DOLLARS IN MILLIONS)	Foreign Currency Translation	Defined Benefit Pension and Post-retirement Plans	Unrealized Gains (Losses) on Available-for- Sale Securities	Unrealized Hedging (Losses) Gains	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2012	\$ 654	\$ (6,250)	\$ 145	\$ 3	\$ (5,448)
Other comprehensive (loss) income before reclassifications, net	(509)	2,409	208	(100)	2,008
Amounts reclassified, pre-tax	25	906	(91)	23	863
Tax (benefit) expense reclassified	—	(332)	34	(5)	(303)
Balance at December 31, 2013	\$ 170	\$ (3,267)	\$ 296	\$ (79)	\$ (2,880)
Other comprehensive (loss) income before reclassifications, net	(1,228)	(2,708)	28	(205)	(4,113)
Amounts reclassified, pre-tax	7	416	(20)	96	499
Tax (benefit) expense reclassified	—	(150)	4	(21)	(167)
Balance at December 31, 2014	\$ (1,051)	\$ (5,709)	\$ 308	\$ (209)	\$ (6,661)

Amounts reclassified related to our defined benefit pension and postretirement plans include amortization of prior service costs and transition obligations, 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. A summary of these changes in ownership interests in subsidiaries and the pro-forma effect on Net income attributable to common shareowners had they been recorded through net income is provided below:

(DOLLARS IN MILLIONS)	2014	2013	2012
Net income attributable to common shareowners	\$ 6,220	\$ 5,721	\$ 5,130
Transfers to noncontrolling interests:			
Increase in common stock for sale of subsidiary shares	4	—	—
Decrease in common stock for purchase of subsidiary shares	(75)	(49)	(34)
Net income attributable to common shareowners after transfers to noncontrolling interests	\$ 6,149	\$ 5,672	\$ 5,096

NOTE 11: INCOME TAXES

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

(DOLLARS IN MILLIONS)	2014	2013	2012
United States	\$ 4,270	\$ 3,658	\$ 2,595
Foreign	4,617	4,654	4,316
	\$ 8,887	\$ 8,312	\$ 6,911

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 \$28 billion as of December 31, 2014. 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, 2014, 2013 and 2012 consisted of the following components:

(DOLLARS IN MILLIONS)	2014	2013	2012
Current:			
United States:			
Federal	\$ 349	\$ 616	\$ 403
State	47	55	9
Foreign	1,492	1,325	1,179
	1,888	1,996	1,591
Future:			
United States:			
Federal	408	262	335
State	(39)	36	111
Foreign	7	(56)	(326)
	376	242	120
Income tax expense	\$ 2,264	\$ 2,238	\$ 1,711
Attributable to items credited (charged) to equity and goodwill	\$ 1,535	\$ (1,661)	\$ 297

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

	2014	2013	2012
Statutory U.S. federal income tax rate	35.0 %	35.0 %	35.0 %
Tax on international activities	(3.4)%	(5.8)%	(6.4)%
Tax audit settlements	(4.2)%	(0.4)%	(3.4)%
Other	(1.9)%	(1.9)%	(0.4)%
Effective income tax rate	25.5 %	26.9 %	24.8 %

The 2014 effective tax rate reflects a favorable tax adjustment of \$213 million related to the conclusion of the examination of UTC's 2009–2010 tax years, a favorable tax adjustment of \$84 million related to the resolution of disputed tax matters with the Appeals Division of the IRS for UTC's 2006–2008 tax years, a favorable tax impact of \$40 million related to the conclusion of the State of Connecticut's review of UTC's 2010–2012 tax years and a favorable tax impact of \$34 million related to the conclusion of the Canada Revenue Agency's examination of the company's research credits claimed in 2006 – 2012. Also included is a favorable tax adjustment of \$175 million associated with management's decision to repatriate additional high taxed dividends from the current year. These are 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.

The 2013 effective tax rate reflects a favorable non-cash income tax adjustment of approximately \$35 million related to the conclusion of the examination of Goodrich's 2009–2010 tax years and resolution of a dispute with the IRS for Goodrich's 2001 – 2006 tax years. In addition, the 2013 effective tax rate also reflects a favorable tax impact of \$95 million associated with the legislative corporate tax extenders enacted in January 2013, as part of the American Taxpayer Relief Act of 2012, as well as the favorable tax impact of \$24 million related to a U.K. tax rate reduction enacted in July 2013.

The 2012 effective tax rate reflects a favorable non-cash income tax adjustment of approximately \$203 million related to the conclusion of the IRS's examination of UTC's 2006 – 2008 tax years, as well as a reduction in tax expense of \$34 million related to the favorable resolution of disputed tax matters with the Appeals Division of the IRS for the tax years 2004 – 2005. The favorable income tax impact of \$225 million related to the release of non-U.S. valuation allowances resulting from internal legal entity reorganizations is also included in the 2012 effective rate. 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. Current and non-current future income tax benefits and payables within the same tax jurisdiction are generally offset for presentation in the Consolidated Balance Sheet.

The tax effects of net temporary differences and tax carryforwards which gave rise to future income tax benefits and payables at December 31, 2014 and 2013 are as follows:

(DOLLARS IN MILLIONS)	2014	2013
Future income tax benefits:		
Insurance and employee benefits	\$ 1,122	\$ 747
Other asset basis differences	369	365
Other liability basis differences	1,039	1,187
Tax loss carryforwards	418	386
Tax credit carryforwards	905	1,184
Valuation allowances	(428)	(669)
	\$ 3,425	\$ 3,200
Future income taxes payable:		
Insurance and employee benefits	\$ (1,911)	\$ (992)
Other asset basis differences	4,584	4,649
Other items, net	(124)	(178)
Tax loss carryforwards	(242)	(346)
Tax credit carryforwards	(58)	(68)
Valuation allowances	184	273
	\$ 2,433	\$ 3,338

The future income taxes payable balances of \$2,433 million and \$3,338 million, reflected in the table above, for the years ended December 31, 2014 and 2013, respectively, are reported in accrued liabilities and other long-term liabilities on our Consolidated Balance Sheet.

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. The table above reflects reductions in 2014 to tax credit carryforwards and valuation allowances associated with an agreement with a state taxing authority for the monetization of tax credits.

Tax Credit and Loss Carryforwards. At December 31, 2014, 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:		
2015–2019	\$ 29	\$ 555
2020–2024	10	242
2025–2034	243	726
Indefinite	681	2,118
Total	\$ 963	\$ 3,641

Unrecognized Tax Benefits. At December 31, 2014, we had gross tax-effected unrecognized tax benefits of \$1,089 million, of which, \$1,002 million, 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, 2014, 2013 and 2012 is as follows:

(DOLLARS IN MILLIONS)	2014	2013	2012
Balance at January 1	\$ 1,223	\$ 1,073	\$ 946
Additions for tax positions related to the current year	164	113	232
Additions for tax positions of prior years	435	211	221
Reductions for tax positions of prior years	(47)	(41)	(21)
Settlements	(686)	(133)	(305)
Balance at December 31	\$ 1,089	\$ 1,223	\$ 1,073
Gross interest expense related to unrecognized tax benefits	\$ 180	\$ 51	\$ 40
Total accrued interest balance at December 31	\$ 292	\$ 262	\$ 270

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, Singapore, South Korea, Spain, 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 2003.

During the quarter ended December 31, 2014, the Company resolved certain litigation and Internal Revenue Service (IRS) Appeals proceedings related to an issue involving the proper timing of deductions taken by Goodrich Corporation in its tax years 2005 through 2010, prior to its acquisition by UTC. As a result, the Company recognized non-cash gains of approximately \$93 million during the fourth quarter of 2014, primarily comprised of pre-tax interest.

During the quarter ended September 30, 2014, IRS Appeals proceedings for UTC tax years 2006 through 2008 were completed. Additionally, during the quarter ended September 30, 2014, an agreement was reached between the Company and the Canada Revenue Agency (CRA) with respect to the amount of the research credits to which the Company was entitled for tax years 2006 through 2012. As a result of the completed IRS Appeals activity and agreement with the CRA, the Company recognized predominantly non-cash gains of approximately \$141 million, including a pre-tax interest adjustment of \$23 million. Additionally, during the third quarter of 2014, the IRS commenced audits of UTC tax years 2011 and 2012 as well as pre-acquisition Goodrich tax years 2011 and 2012 through the date of acquisition by UTC, both of which are expected to continue beyond the next twelve months.

During the quarter ended June 30, 2014, the Examination Division of the IRS completed a review of UTC tax years 2009 and 2010 and the Examination Division of the Connecticut Department of Revenue Services completed a review of UTC's tax years 2010 through 2012. As a result of the completion of these examinations, the Company recognized predominantly non-cash gains of approximately \$274 million, including a pre-tax interest adjustment of \$21 million. The Company also reached an agreement with a state taxing authority during the second quarter of 2014 for the monetization of tax credits resulting in a gain of approximately \$220 million through Other income, net in the quarter ended June 30, 2014. Additionally, a dispute related to a proposed disallowance of certain deductions claimed in France for tax years 2008 through 2011 was settled with the French Tax Authority during the quarter ended June 30, 2014 consistent with reserves that had been established for the matter.

During 2013, the Company recognized a predominantly non-cash settlement gain of approximately \$34 million for interest relating to the closure of IRS audits of UTC through 2005. During 2013, the IRS also completed examination activity of Goodrich tax years 2009 and 2010, prior to its acquisition by UTC, resulting in a non-cash

settlement gain of approximately \$24 million, including \$2 million of interest. Additionally, certain litigation regarding the proper timing of deductions taken by Goodrich in its tax years 2001 and 2002, prior to its acquisition by UTC, was resolved in 2013 resulting in recognition of a non-cash settlement gain of approximately \$25 million, including \$12 million of interest.

During 2012, the IRS completed examination fieldwork for our 2006 through 2008 tax years and issued its audit report. During 2012, we also reached final resolution with the Appeals Division of the IRS for our 2004 and 2005 tax years regarding certain proposed adjustments with which we did not agree. As a result of the above described events with respect to our 2004–2005 and 2006–2008 tax years, we recorded reductions in tax expense in 2012 in the aggregate amount of \$237 million.

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 \$95 million to a net decrease of \$445 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 17, 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 \$330 million, \$335 million and \$256 million for 2014, 2013 and 2012, 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 receive additional shares in lieu of cash dividends. 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, 2014, 29.9 million common shares had been allocated to employees, leaving 14.2 million unallocated common shares in the ESOP Trust, with an approximate fair value of \$1.6 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 plans use a December 31 measurement date consistent with our fiscal year.

(DOLLARS IN MILLIONS)	2014	2013
Change in Benefit Obligation:		
Beginning balance	\$ 33,026	\$ 35,708
Service cost	487	569
Interest cost	1,517	1,373
Actuarial loss (gain)	5,277	(3,027)
Total benefits paid	(1,939)	(1,601)
Net settlement and curtailment gain	(1)	(53)
Plan amendments	5	224
Other	(519)	(167)
Ending balance	\$ 37,853	\$ 33,026
Change in Plan Assets:		
Beginning balance	\$ 31,355	\$ 29,928
Actual return on plan assets	3,140	3,019
Employer contributions	615	236
Benefits paid from plan assets	(1,939)	(1,601)
Other	(433)	(227)
Ending balance	\$ 32,738	\$ 31,355
Funded Status:		
Fair value of plan assets	\$ 32,738	\$ 31,355
Benefit obligations	(37,853)	(33,026)
Funded status of plan	\$ (5,115)	\$ (1,671)
Amounts Recognized in the Consolidated Balance Sheet Consist of:		
Noncurrent assets	\$ 681	\$ 768
Current liability	(104)	(74)
Noncurrent liability	(5,692)	(2,365)
Net amount recognized	\$ (5,115)	\$ (1,671)
Amounts Recognized in Accumulated Other Comprehensive Loss Consist of:		
Net actuarial loss	\$ 9,068	\$ 5,261
Prior service credit	(27)	(37)
Net amount recognized	\$ 9,041	\$ 5,224

Included within "Actuarial loss (gain)" in the Change in Benefit Obligation in 2014 above, is a \$1.1 billion increase to the projected benefit obligation resulting from the adoption of the new mortality base table (RP– 2014) with projection scale (MP– 2014) that was published by the Society of Actuaries in 2014. The amounts included in "Other" in the preceding table primarily reflect the impact of foreign exchange translation, primarily for plans in the U.K. and Canada.

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 would settle our obligation to those participants accepting the offer. The program provides 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 will be completed in early 2015. In 2014, as part of this voluntary lump sum program, the Company settled \$311 million of its projected benefit obligation, and expects to settle approximately another \$147 million in early 2015.

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 are generally based on an employee's years of service and compensation near retirement. Effective January 1, 2015, this formula will change 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. This plan change resulted in a \$623 million reduction in the projected benefit obligation as of December 31, 2009 and an additional \$204 million reduction in the projected benefit obligation as of July 26, 2012 when applied to legacy Goodrich salaried employees. Certain foreign plans, which comprise approximately 23% 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 \$200 million of cash contributions to our domestic defined benefit pension plans and made \$317 million of cash contributions to our foreign defined benefit pension plans in 2014. In 2013, we made no significant contributions to our domestic defined benefit pension plans and made \$108 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)	2014	2013
Projected benefit obligation	\$ 34,261	\$ 22,142
Accumulated benefit obligation	33,495	21,475
Fair value of plan assets	28,478	19,884

The accumulated benefit obligation for all defined benefit pension plans was \$36.9 billion and \$31.9 billion at December 31, 2014 and 2013, respectively.

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

(DOLLARS IN MILLIONS)	2014	2013	2012
Pension Benefits:			
Service cost	\$ 487	\$ 569	\$ 500
Interest cost	1,517	1,373	1,331
Expected return on plan assets	(2,215)	(2,107)	(1,944)
Amortization of prior service credit	(8)	(34)	(24)
Amortization of unrecognized net transition obligation	—	—	1
Recognized actuarial net loss	429	954	722
Net settlement and curtailment loss	13	1	77
Net periodic pension cost—employer	\$ 223	\$ 756	\$ 663

Net settlements and curtailment losses for pension benefits includes curtailment gains of approximately \$24 million related to, and

recorded in, discontinued operations for the year ended December 31, 2013.

Other changes in plan assets and benefit obligations recognized in other comprehensive loss in 2014 are as follows:

(DOLLARS IN MILLIONS)	
Current year actuarial loss	\$ 4,353
Amortization of actuarial loss	(429)
Current year prior service cost	5
Amortization of prior service credit	8
Other	(120)
Total recognized in other comprehensive loss	\$ 3,817
Net recognized in net periodic pension cost and other comprehensive loss	\$ 4,040

The estimated amount that will be amortized from accumulated other comprehensive loss into net periodic pension cost in 2015 is as follows:

(DOLLARS IN MILLIONS)	
Net actuarial loss	\$ 888
Prior service credit	(13)
	\$ 875

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		
	2014	2013	2014	2013	2012
Discount rate	3.8%	4.7%	4.7%	4.0%	4.6%
Salary scale	4.2%	4.2%	4.2%	4.2%	4.3%
Expected return on plan assets	—	—	7.6%	7.7%	7.7%

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 maintaining an adequate level of diversification, reducing interest rate and market risk, and providing adequate liquidity to meet immediate and future benefit payment requirements. 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 10% 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 plan's 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, 2014 and 2013 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)	Total
Asset Category:				
Public Equities				
Global Equities	\$ 6,569	\$ 2	\$ –	\$ 6,571
Global Equity Commingled Funds ¹	–	5,431	–	5,431
Enhanced Global Equities ²	292	2,191	525	3,008
Private Equities ³	–	–	1,400	1,400
Fixed Income Securities				
Governments	509	1,132	–	1,641
Corporate Bonds	4	9,190	309	9,503
Structured Products ⁴	–	124	–	124
Real Estate ⁵	–	12	1,913	1,925
Other ⁶	–	2,244	–	2,244
Cash & Cash Equivalents ⁷	201	247	–	448
Subtotal	\$ 7,575	\$ 20,573	\$ 4,147	32,295
Other Assets & Liabilities ⁸				443
Total at December 31, 2014				\$ 32,738
Public Equities				
Global Equities	\$ 6,840	\$ 1	\$ –	\$ 6,841
Global Equity Commingled Funds ¹	–	4,881	–	4,881
Enhanced Global Equities ²	261	2,241	500	3,002
Private Equities ³	–	–	1,339	1,339
Fixed Income Securities				
Governments	424	1,307	–	1,731
Corporate Bonds	–	8,461	296	8,757
Structured Products ⁴	–	80	–	80
Real Estate ⁵	–	13	1,800	1,813
Other ⁶	–	2,110	–	2,110
Cash & Cash Equivalents ⁷	2	207	–	209
Subtotal	\$ 7,527	\$ 19,301	\$ 3,935	30,763
Other Assets & Liabilities ⁸				592
Total at December 31, 2013				\$ 31,355

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 mortgage and asset-backed securities.

Note 5 Represents investments in real estate including commingled funds and directly held properties.

Note 6 Represents insurance contracts and global balanced risk commingled funds consisting mainly of equity, bonds and some commodities.

Note 7 Represents short-term commercial paper, bonds and other cash or cash-like instruments.

Note 8 Represents trust receivables and payables that are not leveled.

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 3% of total plan assets at December 31, 2014 and 2013. 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)	Enhanced Global Equities	Private Equities	Corporate Bonds	Real Estate	Total
Balance, December 31, 2012	\$ 447	\$ 1,202	\$ 276	\$ 1,785	\$ 3,710
Realized gains	—	195	—	20	215
Unrealized gains (losses) relating to instruments still held in the reporting period	50	(9)	2	102	145
Purchases, sales, and settlements, net	3	(49)	18	(107)	(135)
Balance, December 31, 2013	500	1,339	296	1,800	3,935
Realized gains	35	257	—	11	303
Unrealized (losses) gains relating to instruments still held in the reporting period	(23)	(23)	1	79	34
Purchases, sales, and settlements, net	13	(173)	12	23	(125)
Balance, December 31, 2014	\$ 525	\$ 1,400	\$ 309	\$ 1,913	\$ 4,147

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.

ESTIMATED FUTURE CONTRIBUTIONS AND BENEFIT PAYMENTS

Although we are not required to make additional contributions to our domestic defined benefit pension plans through the end of 2019, we may elect to make discretionary contributions in 2015. We expect to make total contributions of approximately \$350 million to our global defined benefit pension plans in 2015, including discretionary contributions of approximately \$200 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: \$1,994 million in 2015, \$1,824 million in 2016, \$1,895 million in 2017, \$1,975 million in 2018, \$2,040 million in 2019, and \$11,091 million from 2020 through 2024.

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 88% of the benefit obligation. The postretirement plans are unfunded.

(DOLLARS IN MILLIONS)

	2014	2013
Change in Benefit Obligation:		
Beginning balance	\$ 987	\$ 1,106
Service cost	3	3
Interest cost	41	38
Actuarial loss (gain)	7	(62)
Total benefits paid	(107)	(119)
Other	21	21
Ending balance	\$ 952	\$ 987
Change in Plan Assets:		
Beginning balance	\$ -	\$ -
Employer contributions	85	95
Benefits paid from plan assets	(107)	(119)
Other	22	24
Ending balance	\$ -	\$ -
Funded Status:		
Fair value of plan assets	\$ -	\$ -
Benefit obligations	(952)	(987)
Funded status of plan	\$ (952)	\$ (987)
Amounts Recognized in the Consolidated Balance Sheet Consist of:		
Current liability	\$ (89)	\$ (86)
Noncurrent liability	(863)	(901)
Net amount recognized	\$ (952)	\$ (987)
Amounts Recognized in Accumulated Other Comprehensive Loss Consist of:		
Net actuarial gain	\$ (113)	\$ (124)
Prior service cost (credit)	1	(1)
Net amount recognized	\$ (112)	\$ (125)

We modified the postretirement medical benefits provided to legacy Goodrich salaried employees by eliminating any company subsidy for retirements that occur after January 31, 2014. This resulted in a \$16 million reduction in the projected benefit obligation as of July 26, 2012.

The components of net periodic benefit cost are as follows:

(DOLLARS IN MILLIONS)	2014	2013	2012
Other Postretirement Benefits:			
Service cost	\$ 3	\$ 3	\$ 3
Interest cost	41	38	37
Amortization of prior service credit	(1)	(10)	(4)
Recognized actuarial net gain	(4)	(4)	(6)
Net settlement and curtailment gain	-	-	(2)
Net periodic other postretirement benefit cost	\$ 39	\$ 27	\$ 28

Other changes in plan assets and benefit obligations recognized in other comprehensive loss in 2014 are as follows:

(DOLLARS IN MILLIONS)

Current year actuarial loss	\$ 9
Amortization of prior service credit	1
Amortization of actuarial net gain	4
Other	(1)
Total recognized in other comprehensive loss	\$ 13
Net recognized in net periodic other postretirement benefit cost and other comprehensive loss	\$ 52

The estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2015 include actuarial net gains of \$4 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		
	2014	2013	2014	2013	2012
Discount rate	3.8%	4.4%	4.4%	3.6%	4.2%

Assumed health care cost trend rates are as follows:

	2014	2013
Health care cost trend rate assumed for next year	7.0%	7.5%
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	2019	2019

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:

	2014 One-Percentage-Point	
(DOLLARS IN MILLIONS)	Increase	Decrease
Effect on total service and interest cost	\$ 3	\$ (3)
Effect on postretirement benefit obligation	54	(46)

ESTIMATED FUTURE BENEFIT PAYMENTS

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: \$89 million in 2015, \$86 million in 2016, \$81 million in 2017, \$75 million in 2018, \$69 million in 2019, and \$281 million from 2020 through 2024.

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 2014 and 2013 is for the plan's year-end at June 30, 2013, and June 30, 2012, 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 at least 80% funded and does not require a financial improvement plan (FIP) or a rehabilitation plan (RP).

(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	2014	2013	Pending/ Implemented	2014	2013	2012		
National Elevator Industry Pension Plan	23-2694291	Green	Green	No	\$ 79	\$ 71	\$ 63	No	July 8, 2017
Other funds					34	34	36		
					\$ 113	\$ 105	\$ 99		

For the plan years ended June 30, 2013 and 2012, 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, 2014.

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. 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 \$14 million, \$12 million and \$11 million for 2014, 2013 and 2012, 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 amended and restated effective April 28, 2014. 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, 2014, approximately 53 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 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. For the years ended December 31, 2014, 2013 and 2012, \$240 million, \$275 million and \$210 million, respectively, of compensation cost was recognized in operating results. The associated future income tax benefit recognized was \$80 million, \$97 million and \$76 million for the years ended December 31, 2014, 2013 and 2012, respectively.

For the years ended December 31, 2014, 2013 and 2012, the amount of cash received from the exercise of stock options was \$187 million, \$378 million and \$381 million, respectively, with an associated tax benefit realized of \$125 million, \$194 million and \$111 million, respectively. In addition, for the years ended December 31, 2014, 2013 and 2012, the associated tax benefit realized from the vesting of performance share units and other restricted awards was \$49 million, \$26 million and \$15 million, respectively. Also, in accordance with the Compensation—Stock Compensation Topic of the FASB ASC, for the years ended December 31, 2014, 2013 and 2012, \$103 million, \$115 million and \$67 million, respectively, of certain tax benefits have been reported as operating cash outflows with corresponding cash inflows from financing activities.

At December 31, 2014, there was \$182 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 1.9 years.

A summary of the transactions under all long-term incentive plans for the year ended December 31, 2014 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, 2013	6,239	\$ 57.88	38,215	\$ 72.33	2,701	\$ 78.77	1,478
Granted	194	112.54	4,516	112.47	688	112.49	387
Ancillary***	-	-	-	-	292	79.00	-
Exercised/earned	(3,846)	51.57	(3,941)	66.54	(1,095)	79.00	(324)
Cancelled	(299)	52.91	(386)	89.16	(54)	88.09	(46)
December 31, 2014	2,288	\$ 73.76	38,404	\$ 77.48	2,532	\$ 87.65	1,495

* weighted-average exercise price

** weighted-average grant stock price

*** ancillary shares granted based on actual performance achieved on the 2011 award

The weighted-average grant date fair value of stock options and stock appreciation rights granted during 2014, 2013, and 2012 was \$28.36, \$19.91 and \$19.32, respectively. The weighted-average grant date fair value of performance share units, which vest upon achieving certain performance metrics, granted during 2014, 2013, and 2012 was \$125.41, \$91.71 and \$82.15, respectively. The total fair value of awards vested during the years ended December 31, 2014, 2013 and 2012 was \$226 million, \$219 million and \$187 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, 2014, 2013 and 2012 was \$425 million, \$608 million and \$370 million, respectively. The total intrinsic value (which is the stock price at vesting) of performance share units and other restricted awards vested was \$154 million, \$75 million and \$46 million during the years ended December 31, 2014, 2013 and 2012, 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, 2014:

(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	40,553	\$ 76.56	\$ 1,559	5.6	24,763	\$ 68.13	\$ 1,161	4.0
Performance Share Units/Restricted Stock	3,230	-	371	1.1				

* 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, 2014, 2013 and 2012. Lattice-based option models incorporate ranges of assumptions for inputs, those ranges are as follows:

	2014	2013	2012
Expected volatility	22% – 26%	26% – 27%	30% – 35%
Weighted-average volatility	26%	27%	30%
Expected term (in years)	7.6 – 8.0	7.3 – 7.6	7.4 – 7.7
Expected dividends	2.2%	2.6%	2.3%
Risk-free rate	0.0% – 3.1%	0.1% – 1.9%	0.0% – 2.0%

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. Separate employee groups and equity award characteristics are 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 2014, we recorded net pre-tax restructuring costs totaling \$368 million for new and ongoing restructuring actions. We recorded charges in the segments as follows:

(DOLLARS IN MILLIONS)	
Otis	\$ 87
UTC Climate, Controls & Security	116
Pratt & Whitney	64
UTC Aerospace Systems	82
Sikorsky	14
Eliminations and other	5
Total	\$ 368

Restructuring charges incurred in 2014 primarily relate to actions initiated during 2014 and 2013, and were recorded as follows:

(DOLLARS IN MILLIONS)	
Cost of sales	\$ 183
Selling, general and administrative	185
Total	\$ 368

2014 Actions. During 2014, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and consolidation of field operations. We recorded net pre-tax restructuring costs totaling \$345 million for restructuring actions initiated in 2014, consisting of \$155 million in cost of sales and \$190 million in selling, general and administrative expenses.

We are targeting to complete in 2015 the majority of the remaining workforce and all facility related cost reduction actions initiated in 2014. 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 2014 restructuring actions:

(DOLLARS IN MILLIONS)	Severance	Asset Write-Downs	Facility Exit, Lease Termination & Other Costs	Total
Net pre-tax restructuring costs	\$ 275	\$ 8	\$ 62	\$ 345
Utilization and foreign exchange	(113)	(8)	(53)	(174)
Balance at December 31, 2014	\$ 162	\$ -	\$ 9	\$ 171

The following table summarizes expected, incurred and remaining costs for the 2014 restructuring actions by segment:

(DOLLARS IN MILLIONS)	Expected Costs	Cost Incurred During 2014	Remaining Costs at December 31, 2014
Otis	\$ 137	\$ (98)	\$ 39
UTC Climate, Controls & Security	122	(86)	36
Pratt & Whitney	84	(64)	20
UTC Aerospace Systems	115	(72)	43
Sikorsky	20	(20)	-
Eliminations and other	5	(5)	-
Total	\$ 483	\$ (345)	\$ 138

2013 Actions. During 2014, we recorded net pre-tax restructuring costs totaling \$29 million for restructuring actions initiated in 2013, consisting of \$30 million in cost of sales offset by a reduction of \$1 million in selling, general and administrative expenses. The 2013 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 2013 restructuring actions:

(DOLLARS IN MILLIONS)	Severance	Asset Write-Downs	Facility Exit, Lease Termination & Other Costs	Total
Restructuring accruals at January 1, 2014	\$ 196	\$ -	\$ 19	\$ 215
Net pre-tax restructuring costs	9	1	19	29
Utilization and foreign exchange	(137)	(1)	(21)	(159)
Balance at December 31, 2014	\$ 68	\$ -	\$ 17	\$ 85

The following table summarizes expected, incurred and remaining costs for the 2013 programs by segment:

(DOLLARS IN MILLIONS)	Expected Costs	Costs Incurred During 2013	Costs Incurred During 2014	Remaining Costs at December 31, 2014
Otis	\$ 69	\$ (69)	\$ -	\$ -
UTC Climate, Controls & Security	121	(89)	(25)	7
Pratt & Whitney	162	(154)	(5)	3
UTC Aerospace Systems	86	(71)	(7)	8
Sikorsky	30	(38)	8	-
Total	\$ 468	\$ (421)	\$ (29)	\$ 18

2012 Actions. During 2014, we reversed net pre-tax restructuring accruals totaling \$6 million for restructuring actions initiated in 2012. As of December 31, 2014, there are no remaining costs to complete the 2012 actions.

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 \$13.9 billion and \$12.3 billion at December 31, 2014 and 2013, 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, 2014 and 2013 which consist solely of foreign exchange contracts:

(DOLLARS IN MILLIONS)	Asset Derivatives		Liability Derivatives	
	2014	2013	2014	2013
Derivatives designated as hedging instruments	\$ 3	\$ 59	\$ 248	\$ 103
Derivatives not designated as hedging instruments	139	31	71	54

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

(DOLLARS IN MILLIONS)	Year Ended December 31,	
	2014	2013
Loss recorded in Accumulated other comprehensive loss	\$ (263)	\$ (136)
Loss reclassified from Accumulated other comprehensive loss into Product sales (effective portion)	\$ 96	\$ 25

Assuming current market conditions continue, a \$121 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, 2014, all derivative contracts accounted for as cash flow hedges mature by January 2017.

We recognized a gain of \$51 million and \$22 million in Other income, net on the Consolidated Statement of Operations from foreign exchange contracts not designated as hedging instruments in 2014 and 2013, respectively.

NOTE 15: FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC establishes a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly;
- Level 3 – unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

The following table provides the assets and liabilities carried at fair value measured on a recurring and nonrecurring basis as of December 31, 2014 and 2013:

2014 (DOLLARS IN MILLIONS)	Total	Level 1	Level 2	Level 3
Recurring fair value measurements:				
Available-for-sale securities	\$ 961	\$ 961	\$ -	\$ -
Derivative assets	142	-	142	-
Derivative liabilities	(319)	-	(319)	-
Nonrecurring fair value measurements:				
Business dispositions	3	-	3	-

2013 (DOLLARS IN MILLIONS)	Total	Level 1	Level 2	Level 3
Recurring fair value measurements:				
Available-for-sale securities	\$ 988	\$ 988	\$ -	\$ -
Derivative assets	90	-	90	-
Derivative liabilities	(157)	-	(157)	-
Nonrecurring fair value measurements:				
Business dispositions	66	-	66	-

We have recorded net gains of approximately \$23 million, including a \$48 million gain during 2014, as a result of fair value adjustments related to the acquisition of the majority interest in a Pratt & Whitney joint venture. During 2014, we also recorded an approximately \$30 million net gain from UTC Climate, Controls & Security's ongoing portfolio transformation, primarily due to a gain on the sale of an interest in a joint venture in North America, and a charge of approximately \$28 million to adjust the fair value of a Sikorsky joint venture investment.

During 2013, we recorded an approximately \$55 million net gain from UTC Climate, Controls & Security's portfolio transformation, primarily due to a gain on the sale of businesses in Hong Kong and Australia. In addition, we recorded an approximately \$193 million gain from the sale of Pratt & Whitney Power Systems business (see Note 2), as well as an approximately \$25 million charge to adjust the fair value of a Pratt & Whitney joint venture investment.

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, 2014, there were no significant transfers in and out of Level 1 and Level 2.

As of December 31, 2014, 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, 2014 and 2013:

(DOLLARS IN MILLIONS)	December 31, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term receivables	\$ 214	\$ 204	\$ 655	\$ 586
Customer financing notes receivable	262	260	394	366
Short-term borrowings	(126)	(126)	(388)	(388)
Long-term debt (excluding capitalized leases)	(19,634)	(22,254)	(19,807)	(21,525)
Long-term liabilities	(80)	(74)	(283)	(253)

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, 2014:

(DOLLARS IN MILLIONS)	Total	Level 1	Level 2	Level 3
Long-term receivables	\$ 204	\$ –	\$ 204	\$ –
Customer financing notes receivable	260	–	260	–
Short-term borrowings	(126)	–	–	(126)
Long-term debt (excluding capitalized leases)	(22,254)	–	(21,883)	(371)
Long-term liabilities	(74)	–	(74)	–

NOTE 16: GUARANTEES

We extend a variety of financial guarantees to third parties. As of December 31, 2014 and 2013, the following financial guarantees were outstanding:

(DOLLARS IN MILLIONS)	December 31, 2014		December 31, 2013	
	Maximum Potential Payment	Carrying Amount of Liability	Maximum Potential Payment	Carrying Amount of Liability
Commercial aerospace financing arrangements (see Note 5)	\$ 632	\$ 21	\$ 615	\$ 25
Credit facilities and debt obligations—unconsolidated subsidiaries (expire 2015 to 2034)	211	15	231	6
Performance guarantees	136	–	150	–

As disclosed in Note 3, we completed the sale of substantially all operations of Rocketdyne to GenCorp Inc. on June 14, 2013. Following the sale, certain guarantees of Rocketdyne's performance under existing contracts remain in place, which resulted in an increase in our performance guarantees of approximately \$81 million, with no associated significant carrying amount of a liability as of December 31, 2014.

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 \$186 million and \$189 million at December 31, 2014 and 2013, respectively. For additional information regarding the environmental indemnifications, see Note 17.

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, 2014 and 2013 are as follows:

(DOLLARS IN MILLIONS)	Year ended December 31,	
	2014	2013
Balance as of January 1	\$ 1,360	\$ 1,332
Warranties and performance guarantees issued	337	313
Settlements made	(344)	(287)
Other	(40)	2
Balance as of December 31	\$ 1,313	\$ 1,360

NOTE 17: 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 \$2,525 million at December 31, 2014 under long-term non-cancelable operating leases are payable as follows: \$593 million in 2015, \$479 million in 2016, \$340 million in 2017, \$235 million in 2018, \$171 million in 2019 and \$707 million thereafter. Rent expense was \$464 million in 2014, \$456 million in 2013 and \$457 million in 2012.

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 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, 2014 and 2013, we had \$903 million and \$936 million reserved for environmental remediation, respectively. Additional information pertaining to environmental matters is included in Note 1 to the Consolidated Financial Statements.

Government. 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. 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 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, 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 continue to litigate certain cases. 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. *F100 Engine Litigation:* As previously disclosed, the United States Government sued us in 1999 in the United States District Court for the Southern District of Ohio, claiming that Pratt & Whitney violated the civil False Claims Act and common law. The claims relate to the "Fighter Engine Competition" between Pratt & Whitney's F100 engine and General Electric's F110 engine. The government alleged that it overpaid for F100 engines under contracts awarded by the U.S. Air Force in fiscal years 1985 through 1990 because Pratt & Whitney inflated its estimated costs for some purchased parts and withheld data that would have revealed the overstatements. At trial, which ended in April, 2005, the government claimed Pratt & Whitney's liability to be approximately \$624 million. On August 1, 2008, the trial court held that the Air Force had not suffered any actual damages because Pratt & Whitney had made significant price concessions after the alleged overstatements were made. However, the trial court judge found that Pratt & Whitney violated the False Claims Act due to inaccurate statements contained in its 1983 initial engine pricing proposal. In the absence of actual damages, the trial court awarded the government the maximum civil penalty of approximately \$7 million, or \$10,000 for each of the 709 invoices Pratt & Whitney submitted in 1989 and later under the contracts. In September 2008, both the government and UTC appealed the decision to the United States Court of Appeals for the Sixth Circuit. On November 18, 2010, the Sixth Circuit affirmed Pratt & Whitney's liability for the civil penalty under the False Claims Act, but remanded the case to the trial court for further proceedings on the issues of False Claims Act damages and common law liability and damages.

On June 18, 2012, the trial court found that Pratt & Whitney had breached obligations imposed by common law based on the same conduct with respect to which the court previously found liability under the False Claims Act. Under the common law claims, the U.S. Air Force is entitled to seek damages for events occurring before March 3, 1989, which are not recoverable under the False Claims Act.

On June 17, 2013, the trial court awarded the government approximately \$473 million in damages and penalties, plus prejudgment interest in an amount to be determined. On July 1, 2013, the trial court, after determining the amount of prejudgment interest, entered judgment in favor of the government in the amount of approximately \$664 million. The trial court also awarded postjudgment interest on the full amount of the judgment to accrue from July 2, 2013, at the federal variable interest rate determined pursuant to 28 U.S.C. § 1961. The judgment included four different components of damages: (1) common law damages of approximately \$109 million; (2) prejudgment interest on common law damages of approximately \$191 million; (3) False Claims Act treble damages of approximately \$357 million; and (4) penalties of approximately \$7 million. The penalty component of the judgment previously was affirmed by the United States Court of Appeals in 2010.

We strongly disagree with the trial court's analysis and conclusions. We filed an appeal from the judgment to the United States Court of Appeals for the Sixth Circuit on August 26, 2013. Oral argument in the appeal was held on December 2, 2014, and a decision from the Sixth Circuit is expected in early 2015. Based on our analysis, we continue to believe that there is no basis for any common law liability for the inaccurate statements. We also believe that the government suffered no actual damages as a result of the inaccurate statements made in 1983 and, therefore, there is no basis in fact or law for the award of common law damages, prejudgment interest or False Claims Act treble damages. If, contrary to our expectations, all or any portion of the judgment should ultimately be affirmed, we estimate a range of reasonably possible loss from approximately \$24 million to \$657 million in excess of amounts previously accrued, plus postjudgment interest. The outcome of this matter could result in a material adverse effect on our results of operations in the period in which a liability would be recognized and cash flows for the period in which damages would be paid.

Cost Accounting Standards Claims: As previously disclosed, in December 2008, the Department of Defense (DOD) issued a contract claim against Sikorsky to recover overpayments the DOD alleges that it made to Sikorsky since January 2003 in connection with cost accounting changes approved by the DOD and implemented by Sikorsky in 1999 and 2006. These changes relate to the calculation of material overhead rates in government contracts. The DOD claimed that Sikorsky's liability was approximately \$100 million (including interest through December 31, 2014). We believed this claim was without merit and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims. Trial in the matter concluded in January 2013 and on March 22, 2013, the U.S. Court of Federal Claims issued a written decision in favor of Sikorsky determining that the DOD had failed to prove its claims because Sikorsky's calculation of material overhead complied with the cost accounting standards. DOD appealed this decision to the United States Court of Appeals for the Federal

Circuit. On December 10, 2014, the Federal Circuit affirmed the judgment of the U.S. Court of Federal Claims in favor of Sikorsky.

By letter dated December 24, 2013, a Divisional Administrative Contracting Officer of the United States Defense Contract Management Agency asserted a claim and demand for payment of \$210,968,414 against Pratt & Whitney. 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 \$265 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 €115 million (approximately \$140 million). On August 3, 2012, we filed suit in the local German Tax Court (Berlin-Brandenburg). In 2008 the German Federal Tax Court (FTC) denied benefits to another taxpayer in a case involving a German tax law relevant to our reorganization. The determination of the FTC on this other matter was appealed to the European Court of Justice (ECJ) to determine if the underlying German tax law is violative of European Union principles. On September 17, 2009, the ECJ issued an opinion in this case that is generally favorable to the other taxpayer and referred the case back to the FTC for further consideration of certain related issues. In May 2010, the FTC released its decision, in which it resolved certain tax issues that may be relevant to our suit and remanded the case to a lower court for further development. In 2012, the lower court decided in favor of the other taxpayer and the German Government again appealed the findings to the FTC. In November 2014, the FTC ruled in favor of the German Government, and against the other taxpayer. The FTC decision in the case involving the other taxpayer is not determinative of the outcome in our case and we will continue vigorously to litigate the matter. However, in light of the FTC decision in the case involving the other taxpayer, we have fully accrued for the matter during the quarter ended December 31, 2014.

Other. As described in Note 16 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 have accrued for environmental investigatory, remediation, operating and maintenance costs, performance guarantees and other litigation and claims based on our estimate of the probable outcome of these matters. While it is possible that the outcome of these matters may differ from the recorded liability, we believe that resolution of

these matters will not have a material impact on our competitive position, results of operations, cash flows or financial condition.

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.

We are also subject to a number of routine lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the ordinary course of our business. 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 18: SEGMENT FINANCIAL DATA

Our operations for the periods presented herein are classified into five 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.

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, industrial gas generators, 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, management and distribution systems, flight control systems, engine control systems, intelligence, surveillance and reconnaissance systems, engine components, environmental control systems, fire protection and detection systems, propeller systems, aircraft nacelles, and interior, actuation, landing and electronic systems.

Sikorsky products include military and commercial helicopters, aftermarket helicopter and aircraft parts and services.

We have reported our financial and operational results for the periods presented herein under the five principal segments noted above, consistent with how we have reviewed our business operations for decision-making purposes, resource allocation and performance assessment during 2014.

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		
	2014	2013	2012	2014	2013	2012
Otis	\$ 12,982	\$ 12,484	\$ 12,056	\$ 2,640	\$ 2,590	\$ 2,512
UTC Climate, Controls & Security	16,823	16,809	17,090	2,782	2,590	2,425
Pratt & Whitney	14,508	14,501	13,964	2,000	1,876	1,589
UTC Aerospace Systems	14,215	13,347	8,334	2,355	2,018	944
Sikorsky	7,451	6,253	6,791	219	594	712
Total segment	65,979	63,394	58,235	9,996	9,668	8,182
Eliminations and other	(879)	(768)	(527)	261	22	(72)
General corporate expenses	-	-	-	(488)	(481)	(426)
Consolidated	\$ 65,100	\$ 62,626	\$ 57,708	\$ 9,769	\$ 9,209	\$ 7,684

(DOLLARS IN MILLIONS)	Total Assets			Capital Expenditures			Depreciation & Amortization		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Otis	\$ 9,313	\$ 9,354	\$ 8,866	\$ 87	\$ 122	\$ 141	\$ 209	\$ 209	\$ 220
UTC Climate, Controls & Security	21,217	21,543	22,253	228	266	265	349	380	418
Pratt & Whitney	18,143	17,062	15,938	692	617	462	390	319	324
UTC Aerospace Systems	35,034	35,461	35,589	533	510	367	807	761	412
Sikorsky	4,973	5,762	4,975	116	119	94	86	85	85
Total segment	88,680	89,182	87,621	1,656	1,634	1,329	1,841	1,754	1,459
Eliminations and other	2,609	1,412	1,788	55	54	60	66	67	65
Consolidated	\$ 91,289	\$ 90,594	\$ 89,409	\$ 1,711	\$ 1,688	\$ 1,389	\$ 1,907	\$ 1,821	\$ 1,524

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		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
United States Operations	\$ 38,155	\$ 35,994	\$ 32,175	\$ 5,236	\$ 4,780	\$ 3,663	\$ 4,798	\$ 4,483	\$ 4,311
International Operations									
Europe	12,630	12,652	11,823	2,292	2,419	2,100	1,645	1,796	1,804
Asia Pacific	8,795	8,696	8,733	1,719	1,773	1,648	1,020	957	947
Other	5,513	5,274	4,964	749	696	772	1,383	1,203	1,122
Eliminations and other	7	10	13	(227)	(459)	(499)	430	427	334
Consolidated	\$ 65,100	\$ 62,626	\$ 57,708	\$ 9,769	\$ 9,209	\$ 7,684	\$ 9,276	\$ 8,866	\$ 8,518

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

(DOLLARS IN MILLIONS)	2014	2013	2012
Europe	\$ 4,960	\$ 4,489	\$ 3,117
Asia Pacific	4,508	4,517	2,998
Other	4,301	3,165	3,086
	\$ 13,769	\$ 12,171	\$ 9,201

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

(DOLLARS IN MILLIONS)	2014	2013	2012
Pratt & Whitney	\$ 3,126	\$ 3,559	\$ 3,718
UTC Aerospace Systems	2,459	2,530	1,742
Sikorsky	3,837	3,648	4,512
Other	197	142	126
	\$ 9,619	\$ 9,879	\$ 10,098

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(DOLLARS IN MILLIONS. EXCEPT PER SHARE AMOUNTS)	2014 Quarters				2013 Quarters			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Net Sales	\$ 14,745	\$ 17,191	\$ 16,168	\$ 16,996	\$ 14,399	\$ 16,006	\$ 15,462	\$ 16,759
Gross margin	4,055	4,260	4,702	4,636	3,934	4,454	4,442	4,475
Net income attributable to common shareowners	1,213	1,680	1,854	1,473	1,266	1,560	1,432	1,463
Earnings per share of Common Stock:								
Basic—net income	\$ 1.35	\$ 1.87	\$ 2.07	\$ 1.64	\$ 1.40	\$ 1.73	\$ 1.59	\$ 1.62
Diluted—net income	\$ 1.32	\$ 1.84	\$ 2.04	\$ 1.62	\$ 1.39	\$ 1.71	\$ 1.57	\$ 1.60

COMPARATIVE STOCK DATA (UNAUDITED)

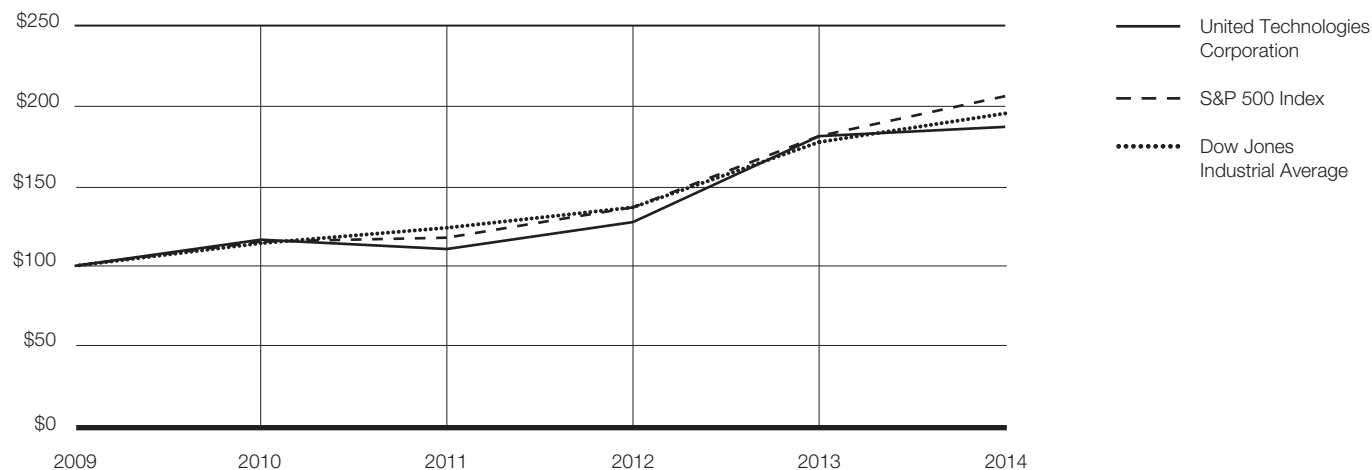
COMMON STOCK	2014			2013		
	High	Low	Dividend	High	Low	Dividend
First quarter	\$ 118.31	\$ 107.91	\$ 0.590	\$ 93.59	\$ 83.55	\$ 0.535
Second quarter	\$ 120.09	\$ 113.10	\$ 0.590	\$ 97.55	\$ 91.05	\$ 0.535
Third quarter	\$ 115.93	\$ 103.79	\$ 0.590	\$ 112.00	\$ 93.80	\$ 0.535
Fourth quarter	\$ 117.24	\$ 99.17	\$ 0.590	\$ 113.80	\$ 102.76	\$ 0.590

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 20,639 registered shareholders at January 31, 2015.

PERFORMANCE GRAPH (UNAUDITED)

The following graph presents the cumulative total shareholder return for the five years ending December 31, 2014 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, 2009.

COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN



	December					
	2009	2010	2011	2012	2013	2014
United Technologies Corporation	\$ 100.00	\$ 116.24	\$ 110.46	\$ 127.14	\$ 180.37	\$ 186.12
S&P 500 Index	\$ 100.00	\$ 115.06	\$ 117.49	\$ 136.30	\$ 180.44	\$ 205.14
Dow Jones Industrial Average	\$ 100.00	\$ 114.06	\$ 123.62	\$ 136.28	\$ 176.69	\$ 194.44

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Actelion
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Gregory J. Hayes

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(Diversified Manufacturer)

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(Audit and Tax Services)

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Harold McGraw III

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and former Chairman of
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H. Patrick Swygert

President Emeritus
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(Educational Institution)

André Villeneuve

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*(Administrator LIBOR
Benchmark Interest Rate)*

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President
The Whitman Strategy Group
(Environment and Public Policy Consulting)
Former EPA Administrator
Former Governor of New Jersey

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Pierre Dejoux

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Technologies & Operations Europe,
UTC Building & Industrial Systems

Maria Della Posta

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Philippe Delpech

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Danny Di Perna

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Michael R. Dumais

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Daphne L. Falletti

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Aerospace Business Development

Dennis Jarvi

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Development Programs, Sikorsky

Akhil Johri

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Chief Financial Officer

Matti Kuivalainen

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and Central & Eastern Europe,
UTC Building & Industrial Systems

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UTC Building & Industrial Systems

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Defense Systems & Services,
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Mark F. Miller

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Global Compliance

Bart Otten

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and Director, United Technologies
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Thomas W. Prete

Vice President, Engineering,
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Thomas I. Rogan

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UTC Building & Industrial Systems

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Andreas Schell

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Actuation & Propeller Systems,
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Ross B. Shuster

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Tobin J. Treichel

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Thomas R. Vining

President, Otis Americas,
UTC Building & Industrial Systems

Gregg Ward

Senior Vice President,
Government Relations

James P. Ward

President, Fire Safety Solutions,
UTC Building & Industrial Systems

Peiming Perry Zheng

President, China,
UTC Building & Industrial Systems

CORPORATE OFFICE

United Technologies Corporation
United Technologies Building
Hartford, CT 06101
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This report is made available to shareowners in advance of the annual meeting of shareowners to be held at 2 p.m., April 27, 2015, in Palm Beach Gardens, Florida. The proxy statement will be made available to shareowners on or about March 13, 2015, 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

CERTIFICATIONS

UTC has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2014 filed with the Securities and Exchange Commission certificates of its Chief Executive Officer, Chief Financial Officer and Acting Controller certifying, among other things, the information contained in the Form 10-K.

Annually UTC submits to the New York Stock Exchange (NYSE) a certificate of UTC's Chief Executive Officer certifying that he was not aware of any violation by UTC of NYSE corporate governance listing standards as of the date of the certification.

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 2014 filed with the Securities and Exchange Commission by writing to:

Corporate Secretary
United Technologies Corporation
United Technologies Building
Hartford, CT 06101

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 24-hours-a-day, our toll-free telephone service, which includes pre-recorded shareholder 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.bis.utc.com

www.otis.com

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www.sikorsky.com

www.utcaerospacesystems.com

This report and its associated Web content at www.utc.com/2014ar provide detailed examples of how our approach to integrating responsibility into our operations fosters a culture of innovation and delivers results.

Your feedback is important to us. Please visit www.utc.com/2014ar and tell us what you think of our financial and corporate responsibility performance and reporting.

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United Technologies

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