

Reconciliation of Non-GAAP Measures to Corresponding GAAP Measures

RECONCILIATION OF NET SALES TO ADJUSTED NET SALES

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

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

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

RECONCILIATION OF SEGMENT RESULTS TO ADJUSTED SEGMENT RESULTS

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

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

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

Use and Definitions of Non-GAAP Financial Measures.

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

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

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