

Reconciliation of Non-GAAP Measures to Corresponding GAAP Measures

RECONCILIATION OF NET SALES TO ADJUSTED NET SALES

(DOLLARS IN MILLIONS)	2017	2016	2015	2014	2013
Net sales	\$ 59,837	\$ 57,244	\$ 56,098	\$ 57,900	\$ 56,600
Adjustments to net sales:					
Pratt & Whitney — charge resulting from ongoing customer contract matters	385	184	142	—	—
UTC Aerospace Systems — charge resulting from customer contract matters	—	—	210	—	—
Adjusted net sales	\$ 60,222	\$ 57,428	\$ 56,450	\$ 57,900	\$ 56,600

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

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2017	2016	2015	2014	2013
Net income from continuing operations attributable to common shareowners	\$ 4,552	\$ 5,065	\$ 3,996	\$ 6,066	\$ 5,265
Adjustments to net income from continuing operations attributable to common shareowners:					
Restructuring costs	253	290	396	354	431
Significant non-recurring and non-operational charges (gains)	(146)	690	1,446	(240)	(271)
Income tax benefit on restructuring costs and significant non-recurring and non-operational items	(11)	(354)	(617)	(7)	(38)
Significant non-recurring and non-operational (gains) charges recorded within income tax expense	667	(231)	342	(284)	(154)
Total adjustments to net income from continuing operations attributable to common shareowners	763	395	1,567	(177)	(32)
Adjusted net income from continuing operations attributable to common shareowners	\$ 5,315	\$ 5,460	\$ 5,563	\$ 5,889	\$ 5,233
Weighted average diluted shares outstanding	799	826	883	912	915
Diluted earnings per share — Net income from continuing operations attributable to common shareowners	\$ 5.70	\$ 6.13	\$ 4.53	\$ 6.65	\$ 5.75
Impact of non-recurring and non-operational charges (gains) on diluted earnings per share	0.95	0.48	1.77	(0.19)	(0.03)
Adjusted diluted earnings per share — Net income from continuing operations attributable to common shareowners	\$ 6.65	\$ 6.61	\$ 6.30	\$ 6.46	\$ 5.72

RECONCILIATION OF SEGMENT RESULTS TO ADJUSTED SEGMENT RESULTS

(DOLLARS IN MILLIONS)	Otis	UTC Climate, Controls & Security	Pratt & Whitney	UTC Aerospace Systems
2017 Segment sales	\$ 12,341	\$ 17,812	\$ 16,160	\$ 14,691
Adjustments to segment sales:				
Charge resulting from ongoing customer contract negotiations	—	—	385	—
Adjusted 2017 segment sales	\$ 12,341	\$ 17,812	\$ 16,545	\$ 14,691
2017 Segment operating profit	\$ 2,021	\$ 3,300	\$ 1,460	\$ 2,370
Adjustments to segment operating profit:				
Restructuring costs	50	111	5	80
Gain on sale of investments in Watsco, Inc.	—	(379)	—	—
Charge related to product recall program	—	96	—	—
Charge resulting from customer contract matters	—	—	196	—
Adjusted 2017 segment operating profit	\$ 2,071	\$ 3,128	\$ 1,661	\$ 2,450

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

(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	2017
Net cash flows provided by operating activities of continuing operations	\$ 5,631
Less: Capital expenditures	2,014
Free Cash Flow	\$ 3,617

Use and Definitions of Non-GAAP Financial Measures

United Technologies Corporation reports its financial results in accordance with accounting principles generally accepted in the United States ("GAAP").

We supplement the reporting of our financial information determined under GAAP with certain non-GAAP financial information. The non-GAAP information presented provides investors with additional useful information, but should not be considered in isolation or as substitutes for the related GAAP measures. Moreover, other companies may define non-GAAP measures differently, which limits the usefulness of these measures for comparisons with such other companies. We encourage investors to review our financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

Adjusted net sales, organic sales, adjusted operating profit, and adjusted earnings per share ("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/or nonoperational nature (hereinafter referred to as "other significant items"). Organic sales represents consolidated net sales (a GAAP measure), excluding the impact of foreign currency translation, acquisitions and divestitures completed in the preceding twelve months and other significant items. Adjusted operating profit represents income from continuing operations (a GAAP measure), excluding restructuring costs and other significant items. Adjusted 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.