UNITED TECHNOLOGIES CORP /DE/
Form 10-Q
October 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-812

UNITED TECHNOLOGIES CORPORATION

DELAWARE 06-0570975
10 Farm Springs Road,
Farmington, Connecticut
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý. No ¨.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý. No ¨.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨. No ý.

At September 30, 2017 there were 798,569,921 shares of Common Stock outstanding.

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AND SUBSIDIARIES
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United Technologies Corporation and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or tradenames of United Technologies Corporation and its subsidiaries. Names, abbreviations of names, logos, and products and service designators of other companies are either the registered or unregistered trademarks or tradenames of their respective owners. As used herein, the terms

"we," "us," "our," "the Company," or "UTC," unless the context otherwise requires, mean United Technologies Corporation and its subsidiaries. References to internet web sites in this Form 10-Q are provided for convenience only. Information available through these web sites is not incorporated by reference into this Form 10-Q.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

	Quarter Ended September 30,	
(Dollars in millions, except per share amounts)	2017	2016
Net Sales:		
Product sales	$10,378	$10,194
Service sales	4,684	4,160
	15,062	14,354
Costs and Expenses:		
Cost of products sold	7,750	7,522
Cost of services sold	3,293	2,820
Research and development	582	582
Selling, general and administrative	1,524	1,390
	13,149	12,314
Other income, net	250	211
Operating profit	2,163	2,251
Interest expense, net	223	225
Income from continuing operations before income taxes	1,940	2,026
Income tax expense	506	492
Net income from continuing operations	1,434	1,534
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	104	91
Income from continuing operations attributable to common shareowners	1,330	1,443
Discontinued operations (Note 2):		
Income from operations	—	1
Loss on disposal	—	(4)
Income tax benefit	—	40
Income from discontinued operations attributable to common shareowners	—	37
Net income attributable to common shareowners	$1,330	$1,480
Earnings Per Share of Common Stock - Basic:		
Income from continuing operations attributable to common shareowners	$1.69	$1.76
Net income attributable to common shareowners	$1.69	$1.80
Earnings Per Share of Common Stock - Diluted:		
Income from continuing operations attributable to common shareowners	$1.67	$1.74
Net income attributable to common shareowners	$1.67	$1.78

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)

(Dollars in millions, except per share amounts)	Nine Months Ended September 30, 2017	2016
Net Sales:		
Product sales	$30,676	$30,247
Service sales	13,481	12,338
	44,157	42,585
Costs and Expenses:		
Cost of products sold	22,920	22,542
Cost of services sold	9,300	8,195
Research and development	1,768	1,711
Selling, general and administrative	4,544	4,204
	38,532	36,652
Other income, net	1,095	600
Operating profit	6,720	6,533
Interest expense, net	662	673
Income from continuing operations before income taxes	6,058	5,860
Income tax expense	1,624	1,548
Net income from continuing operations	4,434	4,312
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	279	271
Income from continuing operations attributable to common shareowners	4,155	4,041
Discontinued operations (Note 2):		
Income from operations	—	2
Gain on disposal	—	11
Income tax expense	—	(12)
Income from discontinued operations attributable to common shareowners	—	1
Net income attributable to common shareowners	$4,155	$4,042
Earnings Per Share of Common Stock - Basic:		
Income from continuing operations attributable to common shareowners	$5.26	$4.90
Net income attributable to common shareowners	$5.26	$4.91
Earnings Per Share of Common Stock - Diluted:		
Income from continuing operations attributable to common shareowners	$5.20	$4.86
Net income attributable to common shareowners	$5.20	$4.86

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Net income from continuing operations	$1,434	$1,534	$4,434	$4,312
Net income from discontinued operations	—	37	—	1
Net income	1,434	1,571	4,434	4,313
Other comprehensive income (loss), net of tax (expense) benefit:				
Foreign currency translation adjustments				
Foreign currency translation adjustments arising during period	514	(359)	909	(596)
Less: Reclassification adjustments for gain on sale of an investment in a foreign entity recognized in Other income, net	(3)	(1)	(3)	—
	511	(360)	906	(596)
Pension and postretirement benefit plans				
Pension and postretirement benefit plans adjustments during the period	(50)	7	(54)	(30)
Amortization of actuarial loss and prior service cost	132	127	395	381
	82	134	341	351
Tax expense	(53)	(50)	(149)	(131)
	29	84	192	220
Unrealized gain (loss) on available-for-sale securities				
Unrealized holding gain (loss) arising during period	19	49	17	139
Reclassification adjustments for gain included in Other income, net	(138)	(20)	(545)	(72)
	(119)	29	(528)	67
Tax benefit (expense)	43	(11)	199	(25)
	(76)	18	(329)	42
Change in unrealized cash flow hedging				
Unrealized cash flow hedging gain (loss) arising during period	310	(7)	440	188
(Gain) loss reclassified into Product sales	(24)	32	(14)	139
	286	25	426	327
Tax expense	(73)	(7)	(105)	(87)
	213	18	321	240
Other comprehensive income (loss), net of tax	677	(240)	1,090	(94)
Comprehensive income	2,111	1,331	5,524	4,219
Less: Comprehensive income attributable to noncontrolling interest	(144)	(96)	(362)	(287)
Comprehensive income attributable to common shareowners	$1,967	$1,235	$5,162	$3,932

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

(Dollars in millions)	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 8,523	$ 7,157
Accounts receivable, net	13,128	11,481
Inventories and contracts in progress, net	10,083	8,704
Other assets, current	1,229	1,208
Total Current Assets	32,963	28,550
Customer financing assets	2,184	1,398
Future income tax benefits	1,723	1,809
Fixed assets	20,975	19,469
Less: Accumulated depreciation	(11,212)	(10,311)
Fixed assets, net	9,763	9,158
Goodwill	27,916	27,059
Intangible assets, net	15,955	15,684
Other assets	5,848	6,048
Total Assets	$ 96,352	$ 89,706
Liabilities and Equity		
Short-term borrowings	$ 1,077	$ 601
Accounts payable	8,999	7,483
Accrued liabilities	13,053	12,219
Long-term debt currently due	2,120	1,603
Total Current Liabilities	25,249	21,906
Long-term debt	24,063	21,697
Future pension and postretirement benefit obligations	3,227	5,612
Other long-term liabilities	11,693	11,026
Total Liabilities	64,232	60,241
Commitments and contingent liabilities (Note 15)		
Redeemable noncontrolling interest	429	296
Shareowners' Equity:		
Common Stock	17,486	17,285
Treasury Stock	(35,575)	(34,150)
Retained earnings	55,385	52,873
Unearned ESOP shares	(88)	(95)
Accumulated other comprehensive loss	(7,327)	(8,334)
Total Shareowners' Equity	29,881	27,579
Noncontrolling interest	1,810	1,590
Total Equity	31,691	29,169
Total Liabilities and Equity	$ 96,352	$ 89,706

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(Dollars in millions)	Nine Months Ended September 30, 2017	2016
Operating Activities of Continuing Operations:		
Net income from continuing operations	$4,434	$4,312
Adjustments to reconcile net income from continuing operations to net cash flows provided by operating activities of continuing operations:		
Depreciation and amortization	1,582	1,456
Deferred income tax provision	724	273
Stock compensation cost	145	112
Change in:		
Accounts receivable	(1,051)	(636)
Inventories and contracts in progress	(1,249)	(810)
Other current assets	78	(27)
Accounts payable and accrued liabilities	1,864	774
Global pension contributions	(2,008)	(125)
Canadian government settlement	(246)	(237)
Other operating activities, net	(1,163)	(525)
Net cash flows provided by operating activities of continuing operations	3,110	4,567
Investing Activities of Continuing Operations:		
Capital expenditures	(1,214)	(1,043)
Investments in businesses	(196)	(535)
Dispositions of businesses	37	148
Proceeds from sale of investments in Watsco, Inc.	596	—
Increase in customer financing assets, net	(525)	(128)
Increase in collaboration intangible assets	(290)	(301)
Payments from settlements of derivative contracts	(183)	(29)
Other investing activities, net	117	(11)
Net cash flows used in investing activities of continuing operations	(1,658)	(1,899)
Financing Activities of Continuing Operations:		
Issuance of long-term debt	4,044	2,482
Repayment of long-term debt	(1,587)	(201)
Increase (decrease) in short-term borrowings, net	400	(63)
Proceeds from Common Stock issued under employee stock plans	25	6
Dividends paid on Common Stock	(1,541)	(1,561)
Repurchase of Common Stock	(1,430)	(528)
Other financing activities, net	(204)	(338)
Net cash flows used in financing activities of continuing operations	(293)	(203)
Discontinued Operations:		
Net cash used in operating activities	—	(2,486)
Net cash provided by investing activities	—	6
Net cash flows used in discontinued operations	—	(2,480)
Effect of foreign exchange rate changes on cash and cash equivalents	208	28
Net increase in cash, cash equivalents and restricted cash	1,367	13

Cash, cash equivalents and restricted cash, beginning of year	7,189	7,120
Cash, cash equivalents and restricted cash, end of period	8,556	7,133
Less: Restricted cash, included in Other assets	33	26
Cash and cash equivalents, end of period	$8,523	$7,107

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Condensed Consolidated Financial Statements at September 30, 2017 and for the quarters and nine months ended September 30, 2017 and 2016 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results for the interim periods. The results reported in these Condensed Consolidated Financial Statements should not necessarily be taken as indicative of results that may be expected for the entire year. The financial information included herein should be read in conjunction with the financial statements and notes in our Annual Report to Shareowners (2016 Annual Report) incorporated by reference in our Annual Report on Form 10-K for calendar year 2016 (2016 Form 10-K).

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. As previously disclosed in our 2016 Form 10-K, in 2016 we early adopted Accounting Standards Update (ASU) 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments and ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. Amounts previously reported for the quarter and nine months ended September 30, 2016 have been restated as required upon adoption of these ASUs. These restatements had an immaterial impact on the Condensed Consolidated Financial Statements as of September 30, 2016, and for the quarter and nine months then ended.

Note 1: Acquisitions, Dispositions, Goodwill and Other Intangible Assets

Business Acquisitions and Dispositions. During the nine months ended September 30, 2017, our investment in business acquisitions was $196 million, and consisted of a number of small acquisitions, primarily in our commercial businesses.

On September 4, 2017, we announced that we had entered into a merger agreement with Rockwell Collins, Inc. (Rockwell Collins), under which we agreed to acquire Rockwell Collins. Under the terms of the merger agreement, each Rockwell Collins shareowner will receive $93.33 per share in cash and a fraction of a share of UTC common stock equal to the quotient obtained by dividing $46.67 by the average of the volume-weighted average prices per share of UTC common stock on the NYSE on each of the 20 consecutive trading days ending with the trading day immediately prior to the closing date, (the “UTC Stock Price”), subject to adjustment based on a two-way collar mechanism as described below (the “Stock Consideration”). The cash and UTC stock payable in exchange for each such share of Rockwell Collins common stock are collectively the “Merger Consideration.” The fraction of a share of UTC common stock into which each such share of Rockwell Collins common stock will be converted is the “Exchange Ratio.” The Exchange Ratio will be determined based upon the UTC Stock Price. If the UTC Stock Price is greater than $107.01 but less than $124.37, the Exchange Ratio will be equal to the quotient of (i) $46.67 divided by (ii) the UTC Stock Price, which, in each case, will result in the Stock Consideration having a value equal to $46.67. If the UTC Stock Price is less than or equal to $107.01 or greater than or equal to $124.37, then a two-way collar mechanism will apply, pursuant to which, (x) if the UTC Stock Price is greater than or equal to $124.37, the Exchange Ratio will be fixed at 0.37525 and the value of the Stock Consideration will be greater than $46.67, and (y) if the UTC Stock Price is less than or equal to $107.01, the Exchange Ratio will be fixed at 0.43613 and the value of the Stock Consideration will be less than $46.67. We currently expect that the merger will be completed in the third quarter of 2018, subject to approval by Rockwell Collins’ shareowners, as well as other customary closing conditions, including the receipt of required regulatory approvals.

We anticipate that approximately $15 billion will be required to pay the aggregate cash portion of the Merger Consideration. We expect to fund the cash portion of the Merger Consideration through debt issuances and cash on hand. Additionally, we have entered into a $6.5 billion 364-day unsecured bridge loan credit agreement that would be funded only to the extent certain anticipated debt issuances are not completed prior to the completion of the merger. We expect to assume approximately $7 billion of existing Rockwell Collins long-term debt upon completion of the merger.

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Goodwill. Changes in our goodwill balances for the nine months ended September 30, 2017 were as follows:

(Dollars in millions)	Balance as of January 1, 2017	Goodwill Resulting from Business Combinations	Foreign Currency Translation and Other	Balance as of September 30, 2017
Otis	$ 1,575	$ 3	$ 114	$ 1,692
UTC Climate, Controls & Security	9,487	110	443	10,040
Pratt & Whitney	1,511	—	—	1,511
UTC Aerospace Systems	14,483	—	187	14,670
Total Segments	27,056	113	744	27,913
Eliminations and other	3	—	—	3
Total	$ 27,059	$ 113	$ 744	$ 27,916

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

	September 30, 2017		December 31, 2016	
(Dollars in millions)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized:				
Service portfolios	$2,197	$ (1,531)	$1,995	$ (1,344)
Patents and trademarks	401	(228)	378	(201)
Collaboration intangible assets	4,023	(342)	3,724	(211)
Customer relationships and other	13,323	(3,999)	12,798	(3,480)
	19,944	(6,100)	18,895	(5,236)
Unamortized:				
Trademarks and other	2,111	—	2,025	—
Total	$22,055	$ (6,100)	$20,920	$ (5,236)

Customer relationship intangible assets include payments made to our customers to secure certain contractual rights. Such payments are capitalized when distinct rights are obtained and sufficient incremental cash flows to support the recoverability of the assets have been established. Otherwise, the applicable portion of the payments are expensed. We amortize these intangible assets based on the underlying 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 amortization expense increasing 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. We classify amortization of such payments as a reduction of sales. The collaboration intangible assets are amortized based upon the pattern of economic benefits as represented by the underlying cash flows.

Amortization of intangible assets for the quarter and nine months ended September 30, 2017 was $211 million and $626 million, respectively, compared with $197 million and $578 million for the same periods of 2016. The following is the expected amortization of intangible assets for the years 2017 through 2022, which reflects the pattern of expected economic benefit on certain aerospace intangible assets.

(Dollars in millions)	Remaining 2017	2018	2019	2020	2021	2022
Amortization expense	$ 210	$879	$866	$888	$898	$893

Note 2: Discontinued Operations

On November 6, 2015, we completed the sale of Sikorsky to Lockheed Martin Corp. In the nine months ended September 30, 2016, we recognized approximately $11 million of additional gain on the disposal, primarily resulting from the settlement of working capital adjustments. In the quarter and nine months ended September 30, 2016, we recognized approximately $40 million of income tax benefit and $12 million of additional income tax expense, respectively, including the impacts related to filing Sikorsky's 2015 tax returns. Net cash outflows from discontinued operations of approximately $2.5 billion resulted from the payment of taxes related to the 2015 gain realized on the

sale of Sikorsky.

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Note 3: Earnings Per Share

(Dollars in millions, except per share amounts; shares in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income attributable to common shareowners:				
Net income from continuing operations	$1,330	$1,443	$4,155	$4,041
Income from discontinued operations	—	37	—	1
Net income attributable to common shareowners	$1,330	$1,480	$4,155	$4,042
Basic weighted average number of shares outstanding	788.3	822.4	790.3	824.0
Stock awards and equity units	8.8	8.8	9.1	7.8
Diluted weighted average number of shares outstanding	797.1	831.2	799.4	831.8
Earnings Per Share of Common Stock - Basic:				
Net income from continuing operations	$1.69	$1.76	$5.26	$4.90
Income from discontinued operations	—	0.04	—	—
Net income attributable to common shareowners	1.69	1.80	5.26	4.91
Earnings Per Share of Common Stock - Diluted:				
Net income from continuing operations	$1.67	$1.74	$5.20	$4.86
Income from discontinued operations	—	0.04	—	—
Net income attributable to common shareowners	1.67	1.78	5.20	4.86

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 because the effect would be anti-dilutive. For the quarter and nine months ended September 30, 2017, the number of stock awards excluded from the computation was approximately 5.8 million and 6.4 million, respectively. For the quarter and nine months ended September 30, 2016, the number of stock awards excluded from the computation was approximately 12.2 million and 15.0 million, respectively.

Note 4: Inventories and Contracts in Progress

(Dollars in millions)	September 30, 2017	December 31, 2016
Raw materials	$ 2,189	$ 2,040
Work-in-process	3,453	2,787
Finished goods	3,715	3,305
Contracts in progress	10,417	9,395
	19,774	17,527
Less:		
Progress payments, secured by lien, on U.S. Government contracts	(224)	(130)
Billings on contracts in progress	(9,467)	(8,693)
	$ 10,083	$ 8,704

Inventories include capitalized contract development costs related to certain aerospace programs at UTC Aerospace Systems. As of September 30, 2017 and December 31, 2016, these capitalized costs were $130 million and $140 million, respectively, which will be liquidated as production units are delivered to customers. Within commercial aerospace, inventory costs attributable to new engine offerings are recognized based on the average cost per unit expected over the life of each contract using the units-of-delivery method of percentage of completion accounting. Under this method, costs of initial engine deliveries in excess of the projected contract per unit average cost are capitalized, and these capitalized amounts are subsequently expensed as additional engine deliveries occur for engines with costs below the projected contract per unit average cost over the life of the contract. As of September 30, 2017 and December 31, 2016, inventory included $357 million and $233 million, respectively, of such capitalized amounts.

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Note 5: Borrowings and Lines of Credit

(Dollars in millions)	September 30, 2017	December 31, 2016
Commercial paper	$ 943	$ 522
Other borrowings	134	79
Total short-term borrowings	$ 1,077	$ 601

At September 30, 2017, we had revolving credit agreements with various banks permitting aggregate borrowings of up to $4.35 billion, pursuant to a $2.20 billion revolving credit agreement and a $2.15 billion multicurrency revolving credit agreement, both of which expire in August 2021. As of September 30, 2017, there were no borrowings under 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 September 30, 2017, our maximum commercial paper borrowing limit was $4.35 billion. Commercial paper borrowings at September 30, 2017 include approximately €500 million ($594 million) of euro-denominated commercial paper. We use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions, discretionary pension contributions, debt refinancing, dividend payments and repurchases of our common stock. The need for commercial paper borrowings arises when the use of domestic cash for general corporate purposes exceeds the sum of domestic cash generation and foreign cash repatriated to the U.S.

In connection with the merger agreement with Rockwell Collins announced on September 4, 2017, we have entered into a $6.5 billion 364-day unsecured bridge loan credit agreement that would be funded only to the extent certain anticipated debt issuances are not completed prior to the completion of the merger. See Note 1 for additional discussion.

On May 4, 2017, we issued $1.0 billion aggregate principal amount of 1.900% notes due 2020, $500 million aggregate principal amount of 2.300% notes due 2022, $800 million aggregate principal amount of 2.800% notes due 2024, $1.1 billion aggregate principal amount of 3.125% notes due 2027 and $600 million aggregate principal amount of 4.050% notes due 2047. The net proceeds received from these debt issuances were used to fund the repayment at maturity of our 1.800% notes due 2017, representing $1.5 billion in aggregate principal, and for other general corporate purposes.

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Long-term debt consisted of the following:

(Dollars in millions)	September 30, 2017	December 31, 2016
1.800% notes due 2017 [1]	$ —	$ 1,500
6.800% notes due 2018	99	99
EURIBOR plus 0.800% floating rate notes due 2018 (€750 million principal value) [2]	890	783
1.778% junior subordinated notes due 2018	1,100	1,100
LIBOR plus 0.350% floating rate notes due 2019 [3]	350	350
1.500% notes due 2019 [1]	650	650
8.875% notes due 2019	271	271
4.875% notes due 2020 [1]	171	171
4.500% notes due 2020 [1]	1,250	1,250
1.900% notes due 2020 [1]	1,000	—
8.750% notes due 2021	250	250
1.950% notes due 2021 [1]	750	750
1.125% notes due 2021 (€950 million principal value) [1]	1,128	992
2.300% notes due 2022 [1]	500	—
3.100% notes due 2022 [1]	2,300	2,300
1.250% notes due 2023 (€750 million principal value) [1]	890	783
2.800% notes due 2024 [1]	800	—
1.875% notes due 2026 (€500 million principal value) [1]	594	522
2.650% notes due 2026 [1]	1,150	1,150
3.125% notes due 2027 [1]	1,100	—
7.100% notes due 2027	141	141
6.700% notes due 2028	400	400
7.500% notes due 2029 [1]	550	550
5.400% notes due 2035 [1]	600	600
6.050% notes due 2036 [1]	600	600
6.800% notes due 2036 [1]	134	134
7.000% notes due 2038	159	159
6.125% notes due 2038 [1]	1,000	1,000
5.700% notes due 2040 [1]	1,000	1,000
4.500% notes due 2042 [1]	3,500	3,500
4.150% notes due 2045 [1]	850	850
3.750% notes due 2046 [1]	1,100	1,100
4.050% notes due 2047 [1]	600	—
Project financing obligations	137	155
Other (including capitalized leases)	195	189
Total principal long-term debt	26,209	23,299
Other (fair market value adjustments and discounts)	(26)	1
Total long-term debt	26,183	23,300
Less: current portion	2,120	1,603
Long-term debt, net of current portion	$ 24,063	$ 21,697

1 We may redeem these notes at our option pursuant to their terms.

2 The three-month EURIBOR rate as of September 30, 2017 was approximately -0.329%. The notes may be redeemed at our option in whole, but not in part, at any time in the event of certain developments affecting U.S. taxation.

3 The three-month LIBOR rate as of September 30, 2017 was approximately 1.334%.

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The average maturity of our long-term debt at September 30, 2017 is approximately twelve years. The average interest expense rate on our total borrowings for the quarters and nine months ended September 30, 2017 and 2016 was as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Average interest expense rate	3.6 %	4.0 %	3.6 %	4.1 %

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

Note 6: Income Taxes

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

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. It is reasonably possible that a net reduction within the range of $30 million to $435 million of unrecognized tax benefits may occur within the next 12 months as a result of additional worldwide uncertain tax positions, the revaluation of current uncertain tax positions arising from developments in examinations, in appeals, in the courts, or the closure of tax statutes. See Note 15, 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.

The Examination Division of the Internal Revenue Service is currently auditing UTC tax years 2014 and 2015, which is expected to continue beyond the next 12 months.

As a result of federal, state and non-U.S. tax year closures related to audit resolutions and the expiration of applicable statutes of limitation during the quarter, including expiration of the U.S. federal income tax statute of limitations for UTC's 2013 tax year, we recognized non-cash gains of approximately $55 million of income tax and $9 million of related interest, in the quarter ended September 30, 2017.

Note 7: Employee Benefit Plans

Pension and Postretirement Plans. We sponsor both funded and unfunded domestic and foreign defined pension and other postretirement benefit plans, and defined contribution plans. Contributions to our plans were as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Defined benefit plans	$ 1,929	$ 18	$ 2,008	$ 125
Defined contribution plans	86	79	262	235

There was a $1.9 billion contribution to our domestic defined benefit pension plans in the quarter and nine months ended September 30, 2017. There were no contributions to our domestic defined benefit pension plans in the quarter and nine months ended September 30, 2016. The following table illustrates the components of net periodic benefit cost for our defined pension and other postretirement benefit plans:

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(Dollars in millions)	Pension Benefits Quarter Ended September 30, 2017	2016	Other Postretirement Benefits Quarter Ended September 30, 2017	2016
Service cost	$ 94	$ 96	$ —	$ 1
Interest cost	281	302	9	9
Expected return on plan assets	(555)	(554)	—	—
Amortization of prior service credit	(9)	(7)	(1)	—
Recognized actuarial net loss (gain)	144	135	(2)	(1)
Net settlement and curtailment loss	2	3	—	—
Total net periodic benefit (income) cost	$ (43)	$ (25)	$ 6	$ 9

(Dollars in millions)	Pension Benefits Nine Months Ended September 30, 2017	2016	Other Postretirement Benefits Nine Months Ended September 30, 2017	2016
Service cost	$ 280	$ 287	$ 2	$ 3
Interest cost	838	908	22	25
Expected return on plan assets	(1,636)	(1,669)	—	—
Amortization of prior service credit	(27)	(22)	(1)	—
Recognized actuarial net loss (gain)	430	406	(7)	(3)
Net settlement and curtailment loss	1	18	—	—
Total net periodic benefit (income) cost	$ (114)	$ (72)	$ 16	$ 25

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

Note 8: Restructuring Costs

During the nine months ended September 30, 2017, we recorded net pre-tax restructuring costs totaling $177 million for new and ongoing restructuring actions. We recorded charges in the segments as follows:

(Dollars in millions)	
Otis	$ 23
UTC Climate, Controls & Security	84
Pratt & Whitney	4
UTC Aerospace Systems	64
Eliminations and other	2
Total	$ 177

Restructuring charges incurred during the nine months ended September 30, 2017 primarily relate to actions initiated during 2017 and 2016, and were recorded as follows:

(Dollars in millions)	
Cost of sales	$ 81
Selling, general and administrative	96
Total	$ 177

2017 Actions. During the nine months ended September 30, 2017, we recorded net pre-tax restructuring costs of $114 million, comprised of $40 million in cost of sales and $74 million in selling, general and administrative expenses. The 2017 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations.

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We are targeting to complete the majority of the remaining workforce and facility related cost reduction actions during 2017 and 2018. No specific plans for significant other actions have been finalized at this time. The following table summarizes the accrual balance and utilization for the 2017 restructuring actions for the quarter and nine months ended September 30, 2017:

(Dollars in millions)	Severance	Facility Exit, Lease Termination and Other Costs	Total
Quarter Ended September 30, 2017			
Restructuring accruals at June 30, 2017	$ 43	$ —	$43
Net pre-tax restructuring costs	49	2	51
Utilization and foreign exchange	(20)	(2)	(22)
Balance at September 30, 2017	$ 72	$ —	$72
Nine Months Ended September 30, 2017			
Net pre-tax restructuring costs	$ 106	$ 8	$114
Utilization and foreign exchange	(34)	(8)	(42)
Balance at September 30, 2017	$ 72	$ —	$72

The following table summarizes expected, incurred and remaining costs for the 2017 restructuring actions by segment:

(Dollars in millions)	Expected Costs	Costs Incurred Quarter Ended March 31, 2017	Costs Incurred Quarter Ended June 30, 2017	Costs Incurred Quarter Ended September 30, 2017	Remaining Costs at September 30, 2017
Otis	$ 71	$ (2)	$ (12)	$ (5)	$ 52
UTC Climate, Controls & Security	83	(12)	(11)	(35)	25
Pratt & Whitney	8	—	(6)	—	2
UTC Aerospace Systems	54	(9)	(10)	(10)	25
Eliminations and other	2	(1)	—	(1)	—
Total	$ 218	$ (24)	$ (39)	$ (51)	$ 104

2016 Actions. During the nine months ended September 30, 2017, we recorded net pre-tax restructuring costs totaling $48 million for restructuring actions initiated in 2016, including $20 million in cost of sales and $28 million in selling, general and administrative expenses. The 2016 actions relate to ongoing cost reduction efforts, including workforce reductions, consolidation of field operations, and costs to exit legacy programs. The following table summarizes the accrual balances and utilization for the 2016 restructuring actions for the quarter and nine months ended September 30, 2017:

(Dollars in millions)	Severance	Facility Exit, Lease Termination and Other Costs	Total
Quarter Ended September 30, 2017			
Restructuring accruals at June 30, 2017	$ 49	$ 48	$97
Net pre-tax restructuring costs	3	5	8
Utilization and foreign exchange	(12)	(1)	(13)
Balance at September 30, 2017	$ 40	$ 52	$92

Nine Months Ended September 30, 2017			
Restructuring accruals at December 31, 2016	$ 63	$ 46	$109
Net pre-tax restructuring costs	29	19	48
Utilization and foreign exchange	(52)	(13)	(65)
Balance at September 30, 2017	$ 40	$ 52	$92

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

(Dollars in millions)	Expected Costs	Costs Incurred in 2016	Costs Incurred Quarter Ended March 31, 2017	Costs Incurred Quarter Ended June 30, 2017	Costs Incurred Quarter Ended September 30, 2017	Remaining Costs at September 30, 2017
Otis	$ 55	$ (48)	$ (3)	$ 1	$ —	$ 5
UTC Climate, Controls & Security	80	(45)	(6)	(7)	(3)	19
Pratt & Whitney	118	(118)	—	—	—	—
UTC Aerospace Systems	87	(31)	(13)	(12)	(5)	26
Total	$ 340	$ (242)	$ (22)	$ (18)	$ (8)	$ 50

2015 and Prior Actions. During the nine months ended September 30, 2017, we recorded net pre-tax restructuring costs totaling $15 million for restructuring actions initiated in 2015 and prior. As of September 30, 2017, we have approximately $52 million of accrual balances remaining related to 2015 and prior actions.

Note 9: 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 ordinary course of business, we are exposed to fluctuations in interest rates, foreign exchange rates and commodity prices. These fluctuations can increase the costs of financing, investing and operating the business. We have used derivative instruments, including swaps, forward contracts and options to manage certain foreign currency, interest rate and commodity price exposures.

The four quarter rolling average of the notional amount of foreign exchange contracts hedging foreign currency transactions was $18.6 billion and $18.3 billion at September 30, 2017 and December 31, 2016, respectively.

The following table summarizes the fair value of derivative instruments as of September 30, 2017 and December 31, 2016, which consist solely of foreign exchange contracts:

(Dollars in millions)	Asset Derivatives		Liability Derivatives	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Derivatives designated as hedging instruments	$ 295	$ 15	$ 15	$ 196
Derivatives not designated as hedging instruments	95	155	75	158

As discussed in Note 5, we have issued approximately €2.95 billion of euro-denominated long-term debt and €500 million of outstanding euro-denominated commercial paper borrowings, which qualify as a net investment hedge against our investments in European businesses. As of September 30, 2017, the net investment hedge is deemed to be effective.

The amount of gains and losses related to the Company's derivative financial instruments was as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Gain (loss) recorded in Accumulated other comprehensive loss	$ 310	$ (7)	$ 440	$ 188
(Gain) loss reclassified from Accumulated other comprehensive loss into Product sales (effective portion)	(24)	32	(14)	139

Assuming current market conditions continue, a $80 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 September 30, 2017, all derivative contracts accounted for as cash flow hedges will mature by November 2022.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Gain recognized in Other income, net	$ 10	$ 19	$ 50	$ 49

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We paid $183 million and $29 million for settlements of derivative contracts during the nine months ended September 30, 2017 and 2016, respectively.

Note 10: Fair Value Measurements

In accordance with the provisions of ASC 820, the following tables provide the valuation hierarchy classification of assets and liabilities that are carried at fair value and measured on a recurring and nonrecurring basis in our Condensed Consolidated Balance Sheet as of September 30, 2017 and December 31, 2016:

September 30, 2017 (Dollars in millions)	Total	Level 1	Level 2	Level 3
Recurring fair value measurements:				
Available-for-sale securities	$120	$120	$ —	$ —
Derivative assets	390	—	390	—
Derivative liabilities	(90)	—	(90)	—

December 31, 2016 (Dollars in millions)	Total	Level 1	Level 2	Level 3
Recurring fair value measurements:				
Available-for-sale securities	$987	$987	$ —	$ —
Derivative assets	170	—	170	—
Derivative liabilities	(354)	—	(354)	—

The reduction in value of available-for-sale securities as of September 30, 2017, as compared to December 31, 2016, is primarily the result of sales of these securities in the nine months ended September 30, 2017, including UTC Climate, Controls & Security's sale of investments in Watsco, Inc. during the quarter ended March 31, 2017.

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 September 30, 2017, there were no significant transfers in and out of Level 1 and Level 2.

As of September 30, 2017, 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 in our Condensed Consolidated Balance Sheet at September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term receivables	$147	$ 139	$ 127	$ 121
Customer financing notes receivable	430	414	437	420
Short-term borrowings	(1,077)	(1,077)	(601)	(601)
Long-term debt (excluding capitalized leases)	(26,161)	(28,052)	(23,280)	(25,110)
Long-term liabilities	(363)	(331)	(457)	(427)

The following table provides the valuation hierarchy classification of assets and liabilities that are not carried at fair value in our Condensed Consolidated Balance Sheet as of September 30, 2017:

(Dollars in millions)	Total	Level 1	Level 2	Level 3
Long-term receivables	$ 139	$ —	$ 139	$ —
Customer financing notes receivable	414	—	414	—
Short-term borrowings	(1,077)	—	(943)	(134)
Long-term debt (excluding capitalized leases)	(28,052)	—	(27,827)	(225)

Long-term liabilities	(331)	—	(331)	—

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We had commercial aerospace financing and other contractual commitments totaling approximately $13.9 billion and $14.4 billion as of September 30, 2017 and December 31, 2016, respectively, related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms. Risks associated with changes in interest rates on these commitments are mitigated by the fact that interest rates are variable during the commitment term and are set at the date of funding based on current market conditions, the fair value of the underlying collateral and the credit worthiness of the customers. As a result, the fair value of these financings is expected to equal the amounts funded.

Note 11: Long-Term Financing Receivables

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

Long-term trade accounts receivable, including unbilled receivables related to long-term aftermarket contracts, are principally amounts arising from the sale of goods and the delivery of services with a contractual maturity date or realization period of greater than one year, and are recognized as "Other assets" in our Condensed 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 Condensed Consolidated Balance Sheet.

The following table summarizes the balance by class of aerospace business related long-term receivables as of September 30, 2017 and December 31, 2016.

(Dollars in millions)	September 30, 2017	December 31, 2016
Long-term trade accounts receivable	$ 1,101	$ 926
Notes and leases receivable	435	430
Total long-term receivables	$ 1,536	$ 1,356

Customer credit ratings range from customers with an extremely strong capacity to meet financial obligations to customers whose uncollateralized receivables are 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 11% and 13% of our total long-term receivables were considered to bear high credit risk as of September 30, 2017 and December 31, 2016, respectively.

For long-term trade accounts receivable, we evaluate credit risk and collectability individually to determine if an allowance is necessary. Our long-term receivables reflected in the table above, which include reserves of $17 million as of September 30, 2017 and December 31, 2016, are individually evaluated for impairment. At September 30, 2017 and December 31, 2016, 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 unrecoverable.

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Note 12: Shareowners' Equity and Noncontrolling Interest

A summary of the changes in shareowners' equity and noncontrolling interest comprising total equity for the quarters and nine months ended September 30, 2017 and 2016 is provided below:

	Quarter Ended September 30,					
	2017			2016		
(Dollars in millions)	Share-owners' Equity	Non-controlling Interest	Total Equity	Share-owners' Equity	Non-controlling Interest	Total Equity
Equity, beginning of period	$28,442	$ 1,713	$30,155	$29,090	$ 1,558	$30,648
Comprehensive income for the period:						
Net income	1,330	104	1,434	1,480	91	1,571
Total other comprehensive income (loss)	637	40	677	(245)	5	(240)
Total comprehensive income for the period	1,967	144	2,111	1,235	96	1,331
Common Stock issued under employee plans	86		86	54		54
Common Stock repurchased	(60)		(60)	(649)		(649)
Dividends on Common Stock	(533)		(533)	(526)		(526)
Dividends on ESOP Common Stock	(19)		(19)	(19)		(19)
Dividends attributable to noncontrolling interest		(51)	(51)		(129)	(129)
Sale of subsidiary shares from noncontrolling interest, net	5	9	14	2	22	24
Acquisition of noncontrolling interest	—	14	14		29	29
Redeemable noncontrolling interest fair value adjustment	(4)	—	(4)	—	—	—
Other	(3)	(19)	(22)	—	1	1
Equity, end of period	$29,881	$ 1,810	$31,691	$29,187	$ 1,577	$30,764

	Nine Months Ended September 30,					
	2017			2016		
(Dollars in millions)	Share-owners' Equity	Non-controlling Interest	Total Equity	Share-owners' Equity	Non-controlling Interest	Total Equity
Equity, beginning of period	$27,579	$ 1,590	$29,169	$27,358	$ 1,486	$28,844
Comprehensive income for the period:						
Net income	4,155	279	4,434	4,042	271	4,313
Total other comprehensive income (loss)	1,007	83	1,090	(110)	16	(94)
Total comprehensive income for the period	5,162	362	5,524	3,932	287	4,219
Common Stock issued under employee plans	256		256	200		200
Common Stock repurchased	(1,430)		(1,430)	(685)		(685)
Dividends on Common Stock	(1,541)		(1,541)	(1,561)		(1,561)
Dividends on ESOP Common Stock	(54)		(54)	(56)		(56)
Dividends attributable to noncontrolling interest		(120)	(120)		(270)	(270)
Sale of subsidiary shares from noncontrolling interest, net	4	4	8	(4)	21	17
Acquisition of noncontrolling interest		14	14		63	63
Redeemable noncontrolling interest fair value adjustment	(99)	—	(99)		—	—
Other	4	(40)	(36)	3	(10)	(7)
Equity, end of period	$29,881	$ 1,810	$31,691	$29,187	$ 1,577	$30,764

On November 11, 2015, we entered into accelerated share repurchase (ASR) agreements to repurchase an aggregate of $6 billion of our common stock utilizing the net after-tax proceeds from the sale of Sikorsky. Under the terms of the

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agreements, we made aggregate payments and received an initial delivery of approximately 51.9 million shares of our common stock in November 2015, representing approximately 85% of the shares expected to be repurchased. The shares associated with the remaining portion of the aggregate purchase were settled upon delivery to us of approximately 2.1 million additional shares of common stock in the quarter ended March 31, 2016 and approximately 8.0 million additional shares of common stock in the quarter ended September 30, 2016.
A summary of the changes in each component of Accumulated other comprehensive (loss) income, net of tax for the quarters and nine months ended September 30, 2017 and 2016 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
Quarter Ended September 30, 2017					
Balance at June 30, 2017	$ (3,128)	$ (4,882)	$ 100	$ (54)	$ (7,964)
Other comprehensive income (loss) before reclassifications, net	474	(37)	12	232	681
Amounts reclassified, pre-tax	(3)	132	(138)	(24)	(33)
Tax (benefit) expense reclassified	—	(66)	50	5	(11)
Balance at September 30, 2017	$ (2,657)	$ (4,853)	$ 24	$ 159	$ (7,327)
Nine Months Ended September 30, 2017					
Balance at December 31, 2016	$ (3,480)	$ (5,045)	$ 353	$ (162)	$ (8,334)
Other comprehensive income (loss) before reclassifications, net	826	(39)	11	332	1,130
Amounts reclassified, pre-tax	(3)	395	(545)	(14)	(167)
Tax (benefit) expense reclassified	—	(164)	205	3	44
Balance at September 30, 2017	$ (2,657)	$ (4,853)	$ 24	$ 159	$ (7,327)

(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
Quarter Ended September 30, 2016					
Balance at June 30, 2016	$ (2,685)	$ (4,999)	$ 317	$ (117)	$ (7,484)
Other comprehensive income (loss) before reclassifications, net	(364)	4	30	(5)	(335)
Amounts reclassified, pre-tax	(1)	127	(20)	32	138
Tax (benefit) expense reclassified	—	(47)	8	(9)	(48)
Balance at September 30, 2016	$ (3,050)	$ (4,915)	$ 335	$ (99)	$ (7,729)
Nine Months Ended September 30, 2016					
Balance at December 31, 2015	$ (2,438)	$ (5,135)	$ 293	$ (339)	$ (7,619)
Other comprehensive income (loss) before reclassifications, net	(612)	(21)	87	138	(408)
Amounts reclassified, pre-tax	—	381	(72)	139	448
Tax (benefit) expense reclassified	—	(140)	27	(37)	(150)
Balance at September 30, 2016	$ (3,050)	$ (4,915)	$ 335	$ (99)	$ (7,729)

Amounts reclassified that relate to our defined benefit pension and postretirement plans include the amortization of prior service costs and actuarial net losses recognized during each period presented. These costs are recorded as components of net periodic pension cost for each period presented (see Note 7 for additional details).

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Amounts reclassified that relate to unrealized gains (losses) on available-for-sale securities, pre-tax includes approximately $500 million of previously unrealized gains reclassified to other income as a result of sales of significant investments in available-for-sale securities in the nine months ended September 30, 2017, including UTC Climate, Controls & Security's sale of investments in Watsco, Inc.

All noncontrolling interests with redemption features, such as put options, that are not solely within our control (redeemable noncontrolling interests) are reported in the mezzanine section of the Condensed Consolidated Balance Sheet, between liabilities and equity, at the greater of redemption value or initial carrying value. The increase in the value of redeemable noncontrolling interest in our Condensed Consolidated Balance Sheet as of September 30, 2017 is primarily attributable to the adjustment of the redemption value related to the acquisition of a majority interest in an Italian heating products and services company by UTC Climate, Controls & Security in 2016.

Note 13: Variable Interest Entities

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

(Dollars in millions)	September 30, 2017	December 31, 2016
Current assets	$ 4,317	$ 2,722
Noncurrent assets	1,675	1,334
Total assets	$ 5,992	$ 4,056
Current liabilities	$ 3,831	$ 2,422
Noncurrent liabilities	2,013	1,636
Total liabilities	$ 5,844	$ 4,058

Note 14: Guarantees

We extend a variety of financial, market value and product performance guarantees to third parties. There have been no material changes to guarantees outstanding since December 31, 2016. The changes in the carrying amount of service and product warranties and product performance guarantees for the nine months ended September 30, 2017 and 2016 are as follows:

(Dollars in millions)	2017	2016
Balance as of January 1	$1,199	$1,212
Warranties and performance guarantees issued	221	218
Settlements made	(194)	(192)
Other	21	—
Balance as of September 30	$1,247	$1,238

Note 15: Contingent Liabilities

Summarized below are the matters previously described in Note 18 of the Notes to the Consolidated Financial Statements in our 2016 Annual Report, incorporated by reference in our 2016 Form 10-K, updated as applicable. 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.

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

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

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

Legal Proceedings.

Cost Accounting Standards Claim

As previously disclosed, in December 2013, a Divisional Administrative Contracting Officer of the United States Defense Contract Management Agency asserted a claim against Pratt & Whitney to recover overpayments of approximately $177 million plus interest (approximately $70 million through September 30, 2017). 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 $256 million) of tax benefits that we have claimed related to a 1998 reorganization of the corporate structure of Otis operations in Germany. Upon audit, these tax benefits were disallowed by the German Tax Office. UTC estimates interest associated with the aforementioned tax benefits is an additional approximately €118 million (approximately $140 million). On August 3, 2012, we filed suit in the local German Tax Court (Berlin-Brandenburg). In March 2016, the local German Tax Court dismissed our suit, and we have appealed this decision to the German Federal Tax Court (FTC). In 2015, UTC made tax and interest payments to German tax authorities of €275 million (approximately $300 million) in order to avoid additional interest accruals pending final resolution of this matter. In the meantime, we continue vigorously to litigate this matter.

Asbestos Matters

As previously disclosed, like many other industrial companies, we and our subsidiaries have been named as defendants in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain of our products or business premises. While we have never manufactured asbestos and no longer incorporate it in any currently-manufactured products, certain of our historical products, like those of many other manufacturers, have contained components incorporating asbestos. A substantial majority of these asbestos-related claims have been dismissed without payment or were covered in full or in part by insurance

or other forms of indemnity. Additional cases were litigated and settled without any insurance reimbursement. The amounts involved in asbestos related claims were not material individually or in the aggregate in any year.
Our estimated total liability to resolve all pending and unasserted potential future asbestos claims through 2059 is approximately $349 million and is principally recorded in Other long-term liabilities on our Condensed Consolidated Balance Sheet as of September 30, 2017. This amount is on a pre-tax basis, not discounted, and excludes the Company’s legal fees to defend the asbestos claims (which will continue to be expensed by the Company as they are incurred). In addition, the Company has an insurance recovery receivable for probable asbestos related recoveries of approximately $121 million, which is included primarily in Other assets on our Condensed Consolidated Balance Sheet as of September 30, 2017.
The amounts recorded by UTC for asbestos-related liabilities and insurance recoveries are based on currently available information and assumptions that we believe are reasonable. Our actual liabilities or insurance recoveries could be higher or lower than those recorded if actual results vary significantly from the assumptions. Key variables in these assumptions include the number and type of new claims to be filed each year, the outcomes or resolution of such claims, the average cost of resolution of each new claim, the amount of insurance available, allocation methodologies, the contractual terms with each insurer with whom we have reached settlements, the resolution of coverage issues with other excess insurance carriers with whom we have not yet achieved settlements, and the solvency risk with respect to our insurance carriers. Other factors that may affect our future liability include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, legal rulings that may be made by state and federal courts, and the passage of state or federal legislation. At least annually, the Company evaluates all of these factors and, with input from an outside actuarial expert, makes any necessary adjustments to both our estimated asbestos liabilities and insurance recoveries.
Other.
As described in Note 14 of this Form 10-Q and Note 17 to the Consolidated Financial Statements in our 2016 Annual Report, we extend performance and operating cost guarantees beyond our normal warranty and service policies for extended periods on some of our products. We have accrued our estimate of the liability that may result under these guarantees and for service costs that are probable and can be reasonably estimated.
We also have other commitments and contingent liabilities related to legal proceedings, self-insurance programs and matters arising out of the normal course of business. We accrue contingencies based upon a range of possible outcomes. If no amount within this range is a better estimate than any other, then we accrue the minimum amount.
In the ordinary course of business, the Company and its subsidiaries are also routinely defendants in, parties to or otherwise subject to many pending and threatened legal actions, claims, disputes and proceedings. These matters are often based on alleged violations of contract, product liability, warranty, regulatory, environmental, health and safety, employment, intellectual property, tax and other laws. In some instances, claims for substantial monetary damages are asserted against the Company and its subsidiaries and could result in fines, penalties, compensatory or treble damages or non-monetary relief. We do not believe that these matters will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition.
Note 16: Segment Financial Data
Our operations are classified into four principal segments: Otis, UTC Climate, Controls & Security, Pratt & Whitney, and UTC Aerospace Systems. The segments are generally 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.
Results for the quarters ended September 30, 2017 and 2016 are as follows:

	Net Sales		Operating Profits		Operating Profit Margins	
(Dollars in millions)	2017	2016	2017	2016	2017	2016
Otis	$3,156	$3,018	$555	$584	17.6 %	19.4 %
UTC Climate, Controls & Security	4,688	4,415	828	801	17.7 %	18.1 %
Pratt & Whitney	3,871	3,501	229	340	5.9 %	9.7 %
UTC Aerospace Systems	3,637	3,646	616	600	16.9 %	16.5 %
Total segments	15,352	14,580	2,228	2,325	14.5 %	15.9 %
Eliminations and other	(290)	(226)	40	18		

General corporate expenses	—	—	(105)	(92)		
Consolidated	$15,062	$14,354	$2,163	$2,251	14.4 %	15.7 %

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Results for the nine months ended September 30, 2017 and 2016 are as follows:

	Net Sales		Operating Profits		Operating Profit Margins	
(Dollars in millions)	2017	2016	2017	2016	2017	2016
Otis	$9,091	$8,830	$1,551	$1,631	17.1 %	18.5 %
UTC Climate, Controls & Security	13,292	12,602	2,664	2,279	20.0 %	18.1 %
Pratt & Whitney	11,699	10,902	1,024	1,136	8.8 %	10.4 %
UTC Aerospace Systems	10,888	10,867	1,771	1,720	16.3 %	15.8 %
Total segments	44,970	43,201	7,010	6,766	15.6 %	15.7 %
Eliminations and other	(813)	(616)	25	47		
General corporate expenses	—	—	(315)	(280)		
Consolidated	$44,157	$42,585	$6,720	$6,533	15.2 %	15.3 %

See Note 8 to the Condensed Consolidated Financial Statements for a discussion of restructuring costs included in segment operating results.

Note 17: Accounting Pronouncements

Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers:

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

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

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

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

In addition to the forgoing, our aerospace businesses will also incur changes related to the timing of manufacturing cost recognition and certain engineering and development costs. In most circumstances, our commercial aerospace businesses will identify the performance obligation, or the unit of accounting, as the individual original equipment

(OEM) unit; revenues and costs to manufacture each unit will be recognized upon OEM unit delivery. Under current practice, the unit of accounting is the contract, and early-contract OEM unit costs in excess of the average expected over the contract are capitalized and amortized

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over lower-cost units later in the contract. With the adoption of the New Revenue Standard, any deferred unit costs in excess of the contract average will be eliminated through retained earnings and will not be amortized into future earnings. As of September 30, 2017, capitalized deferred unit costs in excess of the contract average are $357 million, which is expected to increase prior to adoption of the New Revenue Standard.

With regard to costs incurred for the engineering and development of aerospace products under contract with customers, we generally expense as incurred unless there is a contractually guaranteed right of recovery. Any customer funding received for such efforts is recognized when earned, with the corresponding costs recognized as cost of sales. The New Revenue Standard requires customer funding of OEM product engineering and development to be deferred and recognized as revenue as the OEM products are delivered to the customer. The New Revenue Standard also requires product engineering and development costs to be capitalized as contract fulfillment costs, to the extent recoverable from the associated contract margin, and subsequently amortized as the OEM products are delivered to the customer. For contracts that are open as of the adoption date, previously recognized customer funding will be established as a contract liability.

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

Other Accounting Pronouncements:

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Upon adoption, investments that do not result in consolidation and are not accounted for under the equity method generally must be carried at fair value, with changes in fair value recognized in net income. As discussed in Note 12, we have approximately $24 million of unrealized gains on these securities recorded in Accumulated other comprehensive loss in our Condensed Consolidated Balance Sheet as of September 30, 2017. To the extent currently unrealized gains or losses on these investments are not realized through sale or other actions prior to the date of adoption, these amounts would be recorded directly to retained earnings upon adoption. The provisions of this ASU are effective for years beginning after December 15, 2017.

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

ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases and lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We expect that upon adoption we will recognize ROU assets and lease liabilities and that the amounts could be material. We do not expect the ASU to have a material impact on our cash flows or results of operations.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU provides a new framework that will assist in the evaluation of whether business combination transactions should be accounted as acquisition of a business or a group of assets, as well as specifying the minimum required inputs and processes necessary to be a business. The provisions of this ASU are effective for years beginning after December 15, 2017, with early adoption permitted. We plan to adopt the new standard effective January 1, 2018.

In March 2017, the FASB issued ASU 2017-07, Compensation—Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires an employer to report the service cost component of net periodic pension benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, with other cost components presented separately from the service cost component and outside of income from operations. This ASU

also allows only the service cost component of net periodic pension benefit cost to be eligible for capitalization when applicable. The provisions of this ASU are effective for years beginning after December 15, 2017. Provisions related to presentation of the service cost components versus other cost components must be applied retrospectively, while provisions related to service cost component eligibility for capitalization must be applied prospectively. This ASU primarily impacts the presentation of net periodic pension cost/benefit and therefore we do not expect this ASU to have a material impact on net income, however it will result in changes to reported operating profit.

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In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities. This ASU will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The provisions of this ASU are effective for years beginning after December 15, 2018, with early adoption permitted for any interim period after issuance of the ASU. In the case of early adoption, the effect of the adoption should be reflected as of the beginning of the fiscal year of adoption. We do not expect this ASU to have a significant impact on our results of operations or financial position.

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With respect to the unaudited condensed consolidated financial information of UTC for the quarters and nine months ended September 30, 2017 and 2016, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. However, its report dated October 27, 2017, appearing below, states that the firm did not audit and does not express an opinion on that unaudited condensed consolidated financial information. PricewaterhouseCoopers has not carried out any significant or additional audit tests beyond those that would have been necessary if their report had not been included. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (the Act) for its report on the unaudited condensed consolidated financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Act.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of United Technologies Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of United Technologies Corporation and its subsidiaries as of September 30, 2017, and the related condensed consolidated statements of operations and condensed consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2017 and 2016 and the condensed consolidated statement of cash flows for the nine-month periods ended September 30, 2017 and 2016. This interim financial information is the responsibility of the Corporation’s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of operations, of comprehensive income, of cash flows, and of changes in equity for the year then ended (not presented herein), and in our report dated February 9, 2017, which included a paragraph that described the change in the presentation and classification of certain cash receipts and cash payments and the presentation of restricted cash in the statement of cash flows, as well as the classification and presentation of certain employee share-based payment transactions and the tax-related cash flows resulting from these payments, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Hartford, Connecticut
October 27, 2017

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS OVERVIEW

We are a global provider of high technology products and services to the building systems and aerospace industries. Our operations for the periods presented herein are classified into four principal business segments: Otis, UTC Climate, Controls & Security, Pratt & Whitney, and UTC Aerospace Systems. Otis and UTC Climate, Controls & Security are referred to as the "commercial businesses," while Pratt & Whitney and UTC Aerospace Systems are referred to as the "aerospace businesses."

The current status of significant factors affecting our business environment in 2017 is discussed below. For additional discussion, refer to the "Business Overview" section in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2016 Annual Report, which is incorporated by reference in our 2016 Form 10-K.

General

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 original equipment manufacturing (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 the private sector and governments, and our businesses reflect an extensive geographic diversification that has evolved with the continued globalization of world economies.

Our military businesses' sales are affected by U.S. Department of Defense budget and spending levels. Total sales to the U.S. Government were $1.4 billion in each of the quarters ended September 30, 2017 and 2016, 9% and 10% of total UTC sales for those periods, 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 and is expected to contribute positively to our results in 2017.

Discontinued Operations

In the nine months ended September 30, 2016, we recognized approximately $1 million of income from discontinued operations, primarily reflecting the final purchase price adjustment for the sale of Sikorsky, and the net effects of filing Sikorsky's 2015 tax returns. We had net cash outflows from discontinued operations of approximately $2.5 billion in the nine months ended September 30, 2016, primarily related to the payment of taxes related to the 2015 gain.

Acquisition Activity

Our growth strategy contemplates acquisitions. Our operations and results can be affected by the rate and extent to which appropriate acquisition opportunities are available, acquired businesses are effectively integrated, and anticipated synergies or cost savings are achieved. During the nine months ended September 30, 2017, our investment in business acquisitions was $196 million, which includes a number of small acquisitions primarily in our commercial businesses. We expect cash investment in acquisitions to be approximately $500 million to $1 billion in 2017. However, actual acquisition spending may vary depending upon the timing, availability and value of acquisition opportunities.

On September 4, 2017, we announced that we had entered into a merger agreement with Rockwell Collins, under which we will acquire Rockwell Collins. Under the terms of the merger agreement, each Rockwell Collins shareowner will receive $93.33 per share in cash and a fraction of a share of UTC common stock equal to the quotient obtained by dividing $46.67 by the average of the volume-weighted average prices per share of UTC common stock on the NYSE on each of the 20 consecutive trading days ending with the trading day immediately prior to the closing date (the “UTC Stock Price”), subject to adjustment based on a two-way collar mechanism as described below (the “Stock Consideration”). The cash and UTC stock payable in exchange for each such share of Rockwell Collins common stock are collectively the “Merger Consideration.” The fraction of a share of UTC common stock into which each such share of Rockwell Collins common stock will be converted is the “Exchange Ratio.” The Exchange Ratio will be determined based upon the UTC Stock Price. If the UTC Stock Price is greater than $107.01 but less than $124.37, the Exchange

Ratio will be equal to the quotient of (i) $46.67 divided by (ii) the UTC Stock Price, which, in each case, will result in the Stock Consideration having a value equal to $46.67. If the UTC Stock Price is less than or equal to $107.01 or greater than or equal to $124.37, then a two-way collar mechanism will apply, pursuant to which, (x) if the UTC Stock Price is greater than or equal to $124.37, the Exchange Ratio will be fixed at 0.37525 and the value of the Stock Consideration will be greater than $46.67, and (y) if the UTC Stock Price is less than or equal to $107.01, the

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Exchange Ratio will be fixed at 0.43613 and the value of the Stock Consideration will be less than $46.67. We currently expect that the merger will be completed in the third quarter of 2018, subject to approval by Rockwell Collins' shareowners, as well as other customary closing conditions, including the receipt of required regulatory approvals.
We anticipate that approximately $15 billion will be required to pay the aggregate cash portion of the Merger Consideration. We expect to fund the cash portion of the Merger Consideration through debt issuances and cash on hand. We have entered into a $6.5 billion 364-day unsecured bridge loan credit agreement that would be funded only to the extent some or all of the anticipated debt issuances are not completed prior to the completion of the merger. Additionally, we expect to assume approximately $7 billion of existing Rockwell Collins long-term debt upon completion of the merger. To manage the cash flow and liquidity impacts of these actions, we have suspended share repurchases, excluding activity required under our equity award programs and employee savings plans.
Other
Government legislation, policies and regulations can have a negative impact on our worldwide operations. Government regulation of refrigerants and energy efficiency standards, elevator safety codes and fire protection regulations are important to our commercial businesses. Government and market-driven safety and performance regulations, restrictions on aircraft engine noise and emissions, and government procurement practices can impact our aerospace and defense businesses.
Global economic and political conditions, changes in raw material and commodity prices, interest rates, foreign currency exchange rates, energy costs, levels of end market demand in construction, levels of air travel, the financial condition of commercial airlines, and the impact from natural disasters and weather conditions create uncertainties that could impact our earnings outlook for the remainder of 2017. See Part I, Item 1A, "Risk Factors" in our 2016 Form 10-K for further discussion.
CRITICAL ACCOUNTING ESTIMATES
Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses. We believe 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. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 to the Consolidated Financial Statements in our 2016 Annual Report, incorporated by reference in our 2016 Form 10-K, describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in our critical accounting estimates during the nine months ended September 30, 2017.
RESULTS OF OPERATIONS
Net Sales

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Net Sales	$15,062	$14,354	$44,157	$42,585

The factors contributing to the total percentage change year-over-year in total net sales for the quarter and nine months ended September 30, 2017 are as follows:

	Quarter Ended September 30, 2017		Nine Months Ended September 30, 2017	
Organic change	6	%	4	%
Foreign currency translation	1	%	—	
Other	(2	)%	—	
Total % Change	5	%	4	%

During the quarter ended September 30, 2017, Pratt & Whitney (15% organic sales growth), UTC Climate, Controls & Security (4%) and Otis (2%) all experienced organic sales growth, while UTC Aerospace Systems sales were consistent with the prior year. The organic sales growth at Pratt & Whitney was driven by higher commercial aftermarket sales, higher commercial engines volume and mix, and higher military sales. The organic growth at UTC Climate, Controls & Security was driven by growth in global refrigeration, North America residential HVAC, and global commercial HVAC, while growth at Otis

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was primarily driven by higher service sales in Asia and North America and new equipment sales growth in Europe and North America, partially offset by a decline in China. Organic sales at UTC Aerospace Systems were consistent with the prior year as an increase in commercial aerospace aftermarket volume was offset by lower commercial aerospace OEM sales volume.

All four segments experienced organic sales growth during the nine months ended September 30, 2017. Pratt & Whitney sales were up 8% organically, reflecting higher commercial aftermarket sales and higher military sales. Organic sales at UTC Climate, Controls & Security increased 4%, driven by growth in North America residential HVAC, global commercial HVAC, and commercial refrigeration. Otis sales increased 2% organically, reflecting higher service sales in North America and Asia while new equipment sales growth in North America and Europe was partially offset by a decline in China. Organic sales at UTC Aerospace Systems grew 1%, primarily driven by an increase in commercial aerospace aftermarket sales partially offset by lower commercial aerospace OEM sales.

Cost of Products and Services Sold

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Cost of products sold	$7,750	$7,522	$22,920	$22,542
Percentage of product sales	74.7 %	73.8 %	74.7 %	74.5 %
Cost of services sold	$3,293	$2,820	$9,300	$8,195
Percentage of service sales	70.3 %	67.8 %	69.0 %	66.4 %
Total cost of products and services sold	$11,043	$10,342	$32,220	$30,737

The factors contributing to the percentage change year-over-year for the quarter and nine months ended September 30, 2017 in total cost of products and services sold are as follows:

	Quarter Ended September 30, 2017	Nine Months Ended September 30, 2017
Organic change	7 %	5 %
Foreign currency translation	1 %	—
Other	(1)%	—
Total % Change	7 %	5 %

The organic increase in total cost of products and services sold for the quarter ended September 30, 2017 was primarily driven by the organic sales increases noted above and higher negative engine margin at Pratt & Whitney. The organic increase in total cost of products and services sold for the nine months ended September 30, 2017 was primarily driven by the organic sales increases noted above, higher negative engine margin at Pratt & Whitney, and unfavorable contract adjustments related to a large commercial project at UTC Climate, Controls & Security.

Gross Margin

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Gross margin	$4,019	$4,012	$11,937	$11,848
Percentage of net sales	26.7 %	28.0 %	27.0 %	27.8 %

The decrease in gross margin as a percentage of sales for the quarter ended September 30, 2017 primarily reflects a 280 basis point decline in Pratt & Whitney's gross margin driven by the unfavorable year-over-year impact of customer contract matters and higher negative engine margin, a 180 basis point decline in gross margin at Otis driven by price/mix pressure, primarily in China, and a 60 basis point decline in gross margin at UTC Climate, Controls & Security driven by unfavorable mix and price, partially offset by a 90 basis point improvement in gross margin at UTC Aerospace Systems as the benefit of higher commercial aftermarket volumes was partially offset by adverse commercial OEM mix.

The decrease in gross margin as a percentage of sales for the nine months ended September 30, 2017 primarily reflects a 160 basis point decline in gross margin at Otis driven by price/mix pressure, primarily in China; a 100 basis point decline in gross margin at UTC Climate, Controls & Security primarily driven by unfavorable contract adjustments related to a large commercial project; and a 70 basis points decline in Pratt & Whitney's gross margin driven by the unfavorable year-over-year impact of customer contract matters and higher negative engine margin. These decreases were partially offset by a 40 basis

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point improvement in gross margin at UTC Aerospace Systems as the benefit of higher commercial aftermarket volumes was partially offset by adverse commercial OEM mix.

Research and Development

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Company-funded	$582	$582	$1,768	$1,711
Percentage of net sales	3.9 %	4.1 %	4.0 %	4.0 %
Customer-funded	$350	$350	$1,068	$1,065
Percentage of net sales	2.3 %	2.4 %	2.4 %	2.5 %

Research and development spending is subject to the variable nature of program development schedules, and therefore, year-over-year fluctuations in spending levels are expected. The majority of the company-funded spending is incurred by the aerospace businesses. Company-funded research and development for the quarter ended September 30, 2017 was consistent with the prior year as lower spending across various programs at UTC Aerospace Systems (2%) was offset by continued investment in new products at UTC Climate, Controls & Security (1%); and increased spending on strategic initiatives at Otis (1%). For the nine months ended September 30, 2017, company-funded research and development increased 3% with increased spending across all segments. The growth consisted of continued investment in new products at UTC Climate, Controls & Security (2%), increased spending on strategic initiatives at Otis (1%), an increase at Pratt & Whitney (1%) driven by higher spending on various Pratt & Whitney Canada programs and Pratt & Whitney military development programs, and higher spending across various programs at UTC Aerospace Systems (1%).
Customer-funded research and development for the quarter and nine months ended September 30, 2017 was consistent with the prior year as higher research and development spending on military development programs at Pratt & Whitney was offset by lower spending across various programs at UTC Aerospace Systems.

Selling, General and Administrative

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Selling, general and administrative expenses	$1,524	$1,390	$4,544	$4,204
Percentage of net sales	10.1 %	9.7 %	10.3 %	9.9 %

Selling, general and administrative expenses increased 10% in the quarter ended September 30, 2017, and reflect the impact of higher restructuring expenses (2%), transaction costs related to the merger agreement with Rockwell Collins (1%), and an increase resulting from the impact of foreign exchange (1%). The increase also reflects higher expenses at Pratt & Whitney (3%) driven by increased headcount and employee compensation related expenses, as well as a charge related to a customer insolvency; higher expenses at Otis (1%) resulting from higher labor and information technology costs; and higher expenses at UTC Aerospace Systems (1%) primarily driven by increased headcount and employee compensation related expenses.
Selling, general and administrative expenses increased 8% in the nine months ended September 30, 2017 and reflect an increase in expenses related to recent acquisitions (2%) and the impact of higher restructuring expenses (1%). The increase also reflects higher expenses at Pratt & Whitney (2%) driven by increased headcount and employee compensation related expenses, as well as a charge related to a customer insolvency; higher expenses at Otis (1%) resulting from higher labor and information technology costs; and higher expenses at UTC Aerospace Systems (1%) and UTC Climate, Controls & Security (1%) primarily driven by employee compensation related expenses.
Other Income, Net

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Other income, net	$ 250	$ 211	$ 1,095	$ 600

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Other income, net includes equity earnings in unconsolidated entities, royalty income, foreign exchange gains and losses, as well as other ongoing and nonrecurring items. The year-over-year increase in other income, net ($39 million, 18%) for the quarter ended September 30, 2017 is primarily driven by gains on the sale of securities (46%), partially offset by the absence of prior year gains recognized from the sale of non-core assets at UTC Aerospace Systems (12%), the absence of prior year gains on fixed asset disposals (5%), lower year-over-year foreign exchange gains and losses (4%), and lower joint venture income (3%).

The year-over-year increase in other income, net ($495 million, 83%) in the nine months ended September 30, 2017 is primarily driven by $379 million of gains resulting from UTC Climate, Controls & Security's sale of investments in Watsco, Inc. (63%), gains on the sale of securities (12%), and higher year-over-year foreign exchange gains and losses (6%).

Interest Expense, Net

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Interest expense	$258	$252	$745	$741
Interest income	(35)	(27)	(83)	(68)
Interest expense, net	$223	$225	$662	$673
Average interest expense rate	3.6 %	4.0 %	3.6 %	4.1 %

Interest expense, net was down 1% for the quarter ended September 30, 2017 and down 2% for the nine months ended September 30, 2017 relative to the prior year. The unfavorable impact of the May 4, 2017 and November 1, 2016 issuance of notes representing $8 billion in aggregate principal was more than offset by the favorable impact of the significantly lower interest rates on these notes as compared to the 5.375% and 6.125% notes redeemed on December 1, 2016, representing $2.25 billion in aggregate principal, and the favorable impact of these early redemptions and the repayment at maturity of our 1.800% notes due 2017, representing $1.5 billion in aggregate principal. The average maturity of our long-term debt at September 30, 2017 is approximately twelve years.

Income Taxes

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Effective tax rate	26.1 %	24.3 %	26.8 %	26.4 %

The increase in the effective tax rate for the quarter ended September 30, 2017 is due to an increase to the estimated full year forecasted effective tax rate. As a result, the tax expense recorded in the quarter ended September 30, 2017 reflects the cumulative year to date impact.

The effective tax rate for the quarter ended September 30, 2017 included non-cash tax gains associated with certain federal, state and non-U.S. tax year closures due to audit resolutions and the expiration of applicable statutes of limitation during the quarter, including expiration of the U.S. federal income tax statute of limitations for UTC's 2013 tax year. The effective tax rate for the quarter ended September 30, 2016 similarly included a non-cash tax gain related to the conclusion of separate audit activity. The non-cash tax gains recognized in the quarters ended September 30, 2017 and September 30, 2016 have equal impacts on the effective tax rates for those quarters.

As shown in the table above, the effective tax rate for the nine months ended September 30, 2017 is 26.8%. We estimate our full year 2017 annual effective income tax rate to be approximately 27.5%, excluding restructuring and non-operational nonrecurring items.

Net Income from Continuing Operations Attributable to Common Shareowners

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except per share amounts)	2017	2016	2017	2016

Net income from continuing operations attributable to common shareowners	$1,330	$1,443	$4,155	$4,041
Diluted earnings per share from continuing operations	$1.67	$1.74	$5.20	$4.86

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Net income from continuing operations attributable to common shareowners for the quarter ended September 30, 2017 includes restructuring charges, net of tax benefit, of $45 million as well as a net charge for significant non-operational and/or nonrecurring items, net of tax, of $5 million. The effect of restructuring charges and significant non-operational and/or nonrecurring items on diluted earnings per share for the quarter ended September 30, 2017 was $0.06 per share while the effect of foreign currency translation and Pratt &Whitney Canada hedging generated a favorable impact of $0.04 per diluted share.

Net income from continuing operations attributable to common shareowners for the quarter ended September 30, 2016 includes restructuring charges, net of tax benefit, of $8 million as well as a net charge for significant non-operational and/or nonrecurring items, net of tax, of $11 million. The effect of restructuring charges and nonrecurring items on diluted earnings per share for the quarter ended September 30, 2016 was $0.02 per share while the effect of foreign currency translation and hedging generated a favorable impact of $0.02 per diluted share.

Net income from continuing operations attributable to common shareowners for the nine months ended September 30, 2017 includes restructuring charges, net of tax benefit, of $119 million as well as the net favorable impact of significant non-operational and/or nonrecurring items, net of tax, of $233 million. The effect of restructuring charges and nonrecurring items on diluted earnings per share for the nine months ended September 30, 2017 was $0.14 per share while the effect of foreign currency translation and Pratt &Whitney Canada hedging generated a favorable impact of $0.11 per diluted share.

Net income from continuing operations attributable to common shareowners for the nine months ended September 30, 2016 includes restructuring charges, net of tax benefit, of $128 million as well as a net charge for significant non-operational and/or nonrecurring items, net of tax, of $21 million. The effect of restructuring charges and nonrecurring items on diluted earnings per share for the nine months ended September 30, 2016 was $0.18 per share. The effect of foreign currency translation and hedging generated a favorable impact of $0.02 on earnings per diluted share.

Net Income from Discontinued Operations Attributable to Common Shareowners

	Quarter Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except per share amounts)	2017	2016	2017	2016
Net income from discontinued operations attributable to common shareowners	$ —	$ 37	$ —	$ 1
Diluted earnings per share from discontinued operations	$ —	$ 0.04	$ —	$ —

Net income from discontinued operations attributable to common shareowners for the quarter ended September 30, 2016 reflects approximately $40 million of income tax benefit, including the impacts related to filing Sikorsky's 2015 tax returns. Net income from discontinued operations attributable to common shareowners for the nine months ended September 30, 2016 reflects the final purchase price adjustment for the sale of Sikorsky, and the net effects of filing Sikorsky's 2015 tax returns.

Restructuring Costs

	Nine Months Ended September 30,	
(Dollars in millions)	2017	2016
Restructuring costs	$ 177	$ 201

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

2017 Actions. During the nine months ended September 30, 2017, we recorded net pre-tax restructuring charges of $114 million relating to ongoing cost reduction actions initiated in 2017. We expect to incur additional restructuring charges of $104 million to complete these actions. We are targeting to complete in 2017 and 2018 the majority of the remaining workforce and facility related cost reduction actions initiated in 2017. We expect recurring pre-tax savings in continuing operations to increase over the two-year period subsequent to initiating the actions to approximately $150 million annually. Approximately 75% of the total expected pre-tax charges will require cash payments, which we have funded and expect to continue to fund with cash generated from operations. During the nine months ended September 30, 2017, we had cash outflows of approximately $39 million related to the 2017 actions.

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2016 Actions. During the nine months ended September 30, 2017 and 2016, we recorded net pre-tax restructuring charges of $48 million and $143 million, respectively, for actions initiated in 2016. We expect to incur additional restructuring charges of $50 million to complete these actions. We are targeting to complete in 2017 the majority of the remaining workforce and facility related cost reduction actions initiated in 2016. We expect recurring pre-tax savings in continuing operations to increase over the two-year period subsequent to initiating the actions to approximately $180 million annually, of which, approximately $74 million was realized during the nine months ended September 30, 2017. Approximately 64% of the total expected pre-tax charge will require cash payments, which we have and expect to continue to fund with cash generated from operations. During the nine months ended September 30, 2017, we had cash outflows of approximately $70 million related to the 2016 actions.

In addition, during the nine months ended September 30, 2017, we recorded net pre-tax restructuring costs totaling $15 million for restructuring actions initiated in 2015 and prior. For additional discussion of restructuring, see Note 8 to the Condensed Consolidated Financial Statements.

Segment Review

Segments are generally 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. Adjustments to reconcile segment reporting to the consolidated results for the quarters and nine months ended September 30, 2017 and 2016 are included in "Eliminations and other" below, which also includes certain smaller subsidiaries. We attempt to quantify material cited factors within our discussion of the results of each segment whenever those factors are determinable. However, in some instances, the factors we cite within our segment discussion are based upon input measures or qualitative information that does not lend itself to quantification when discussed in the context of the financial results measured on an output basis and are not, therefore, quantified in the below discussions.

Commercial Businesses

Our commercial businesses generally serve customers in the worldwide commercial and residential property industries, and UTC Climate, Controls & Security also serves customers in the commercial and transport refrigeration industries. Sales in the commercial businesses are 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, in the case of its residential business, weather conditions. To ensure adequate supply of products in the distribution channel, UTC Climate, Controls & Security customarily offers its customers incentives to purchase products. 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 to sales.

At constant currency and excluding the effect of acquisitions and divestitures, UTC Climate, Controls & Security equipment orders in the quarter ended September 30, 2017 increased 2% in comparison to the same period of the prior year driven by increases in global commercial HVAC (7%) and commercial refrigeration (9%), partially offset by declines in transport refrigeration (10%) and North America residential HVAC orders (3%). At constant currency, within the Otis segment, new equipment orders in the quarter were down 4% in comparison to the prior year as a decrease in orders in North America (24%) and Asia (6%), were partially offset by order growth in Europe (25%) and the Middle East (42%).

Summary performance for each of the commercial businesses for the quarters ended September 30, 2017 and 2016 was as follows:

	Otis			UTC Climate, Controls & Security		
(Dollars in millions)	2017	2016	Change	2017	2016	Change
Net Sales	$3,156	$3,018	5 %	$ 4,688	$ 4,415	6 %
Cost of Sales	2,173	2,025	7 %	3,286	3,067	7 %
	983	993	(1)%	1,402	1,348	4 %
Operating Expenses and Other	428	409	5 %	574	547	5 %

Operating Profits	$555	$584	(5)%	$ 828	$ 801	3 %
Operating Profit Margins	17.6%	19.4%		17.7%	18.1%	

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Summary performance for each of the commercial businesses for the nine months ended September 30, 2017 and 2016 was as follows:

	Otis			UTC Climate, Controls & Security		
(Dollars in millions)	2017	2016	Change	2017	2016	Change
Net Sales	$9,091	$8,830	3 %	$ 13,292	$ 12,602	5 %
Cost of Sales	6,287	5,972	5 %	9,322	8,708	7 %
	2,804	2,858	(2)%	3,970	3,894	2 %
Operating Expenses and Other	1,253	1,227	2 %	1,306	1,615	(19)%
Operating Profits	$1,551	$1,631	(5)%	$ 2,664	$ 2,279	17 %
Operating Profit Margins	17.1%	18.5%		20.0%	18.1%	

Otis –

Quarter Ended September 30, 2017 Compared with Quarter Ended September 30, 2016

	Factors Contributing to Total % Change				
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	2 %	1 %	1 %	—	1 %
Cost of Sales	5 %	1 %	—	—	1 %
Operating Profits	(4)%	1 %	—	—	(2)%

The organic sales increase of 2% primarily reflects higher service sales (1%), driven by growth in Asia and North America, and higher new equipment sales (1%) driven by growth in Europe and North America, partially offset by a decline in China.

The operational profit decrease of 4% was driven by:

- unfavorable price and mix (10%), primarily in China
- higher selling, general and administrative expenses (2%), including higher labor and information technology costs

These decreases were partially offset by:

- profit contribution from the higher sales volumes noted above (5%)
- favorable productivity (4%)

Nine Months Ended September 30, 2017 Compared with Nine Months Ended September 30, 2016

	Factors Contributing to Total % Change				
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	2 %	(1)%	1 %	—	1 %
Cost of Sales	5 %	(1)%	—	—	1 %
Operating Profits	(6)%	—	—	1 %	—

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

The operational profit decrease of 6% was driven by:

- unfavorable price and mix (11%), primarily in China
- higher selling, general and administrative expenses (2%), primarily labor and information technology costs

These decreases were partially offset by:

- profit contribution from the higher sales volumes noted above (4%)
- favorable productivity (4%)

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UTC Climate, Controls & Security –
Quarter Ended September 30, 2017 Compared with Quarter Ended September 30, 2016

	Factors Contributing to Total % Change				
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	4 %	2 %	—	—	—
Cost of Sales	5 %	2 %	—	—	—
Operating Profits	3 %	1 %			