



E. Scott Santi PRESIDENT & CHIEF EXECUTIVE OFFICER Robert S. Morrison NON-EXECUTIVE CHAIRMAN OF THE BOARD

To Our Fellow Shareholders

In 2014, we continued to leverage the ITW Business Model to deliver strong financial performance. As a result of the excellent work of our business teams around the globe, ITW delivered record operating income of \$2.9 billion and grew earnings per share by 29 percent.

Operating margin of 19.9 percent was also an all-time high for the company, and we improved our after-tax return on invested capital by 260 basis points to 18.9 percent. Through the combination of the strong free cash flow generated by our business model and divestiture proceeds, we were able to return a record \$5 billion to our shareholders and increased our dividend by 15 percent.

The ITW Business Model

Your company is built around a powerful and highly differentiated business model that comprises three elements:

1) **The ITW 80/20 business process** is a proprietary operating system that we apply in every ITW company. Through the application of our 80/20 business process, we structure and focus our businesses to uniquely satisfy the needs of their largest and most profitable customers and eliminate the costs, complexity, and distractions associated with serving smaller, less profitable customers. As a result, our businesses consistently deliver solid

growth with best-in-class total cost productivity by concentrating their efforts, investments, and resources on the key customers and products that are best positioned for profitable organic growth.

2) **Customer-back innovation** has fueled decades of profitable growth at ITW. In every market in which we operate, our businesses work hard to position themselves as the “go-to” problem solver for their key customers. Inventing solutions for our customers to help them address difficult technical challenges or improve their business performance has been the central focus of ITW’s approach to innovation all the way back to the founding of our company over 100 years ago. This approach is very much alive and well today, as evidenced by our portfolio of approximately 16,000 active and pending patents and the more than 1,600 new patent applications that we filed in 2014.

3) **Our decentralized, entrepreneurial culture** allows us to be fast, focused, and responsive. Our people are clear about what is expected of them with regard to our business model, our

The ITW
Business
Model



80/20
Business Process



Customer-Back
Innovation



Decentralized,
Entrepreneurial
Culture

strategy, and our values. Within the confines of this framework, we empower our business teams to make decisions and customize their approach in order to maximize the relevance and impact of the ITW Business Model for their specific customers and end markets. Our people thrive in ITW's "flexibility within the framework" culture; they think and act like entrepreneurs, they are accountable, and they deliver.

Our Strategy

Our strategy is centered on our conviction that the ITW Business Model is the core source of competitive advantage for the company and value creation for our shareholders. Simply put, the focus of our strategy is to position the company to generate maximum yield from the compelling performance potential that resides within our business model. By doing so, we will generate solid growth with best-in-class margins and returns on capital for the company and sustainable long-term value for our shareholders.

In conjunction with our strategy, we are in the process of implementing a significant **repositioning of our business portfolio**, which began with the divestiture of over 30 businesses that, while strong performers in their respective industries, operated in markets that did not have the attributes necessary to fully leverage the ITW Business Model. As a result, our business portfolio is now composed of seven industry-leading businesses, all of which have strong and sustainable competitive advantages, solid end-market growth fundamentals, and significant customer-back innovation potential to drive organic growth. All of these businesses have proven their ability to leverage the ITW Business Model to generate industry-leading operating margin and return on capital performance, with many of them exceeding average industry peer performance by 500 basis points or more on these key metrics. The focus of our portfolio repositioning efforts has now shifted from divestitures to significant work going on inside our businesses to exit slower-growth product lines so that they can concentrate their efforts and resources on taking full advantage of their most compelling organic growth opportunities.

We are also executing a major initiative to **simplify our operating structure** to position our divisions to operate at the scale necessary to fully leverage 80/20, drive organic growth through innovation, and maximize their global competitiveness. Through this effort, we are in the process of consolidating our operating structure from over 800 regional business units into 89 global divisions. As a result, we are becoming a simpler, more focused, and more effective company.

In addition, we are implementing a **strategic sourcing** program to better leverage our scale in sourcing raw materials throughout the company. Our target is to reduce global spend by an average of 1 percent per year for the five-year period from 2013-2017, and we have exceeded our annual targets in each of the past two years.

2017 Performance Goals

As we have noted, through the execution of our strategy, our objective is to position the company to deliver solid growth with best-in-class margins and returns on capital. With this objective in mind, we are committed to achieving the following performance goals by the end of 2017:

- **Organic Growth:** 200 basis points above global GDP
- **Operating Margin:** Approximately 23 percent
- **After-Tax ROIC:** 20+ percent
- **Free Operating Cash Flow:** 100 percent of net income

We have made significant progress toward these goals over the past two years, increasing operating margin by over 300 basis points and after-tax return on invested capital by more than 400 basis points, but we have more work to do over the next several years in order to fully realize our vision for the company.

Our Growth Focus

We believe that solid and consistent above-market organic growth must be the core engine that drives our company forward. Our goal is to achieve enterprise-level organic growth of 200 basis points or more above global GDP in 2017 and beyond. Our portfolio management and business structure simplification initiatives are significant and necessary preparatory steps to position the company to get there. In the year ahead, we will continue to execute on these initiatives while at the same time begin the process of pivoting our efforts and attention more fully to the organic growth component of our strategy.

The ITW management team is fully aligned with, and committed to, our organic growth focus. In addition, the incentive compensation plans of all of our leaders from the division level and up now have a significant component tied to the company's organic growth objectives. While incentive system alignment is important, we are confident that ITW's proven culture of execution will once again serve us very well as we shift our focus to driving profitable organic growth.

In support of our "organic-first" growth model, we will use bolt-on acquisitions selectively to reinforce and further enhance the organic growth potential of our seven core businesses.

2017 Performance Goals

200 bps
Organic revenue
growth above
global GDP

~23%
Operating
margin

20%+
After-tax
ROIC

100%
of net income
as free
operating
cash flow

In addition, we may use a limited-scale acquisition to enter a new market space that we believe has the potential to leverage the ITW Business Model into significant competitive advantage and that over time can be scaled up into a new platform for the company – as we did very successfully with our Welding segment and our Test and Measurement platform.

Through our strategy, we are seeking to maximize the **quality** of our growth, not the quantity. As such, we will be highly disciplined in deploying capital and resources only to areas of opportunity that have the potential to take full advantage of ITW's unique and highly differentiated business model. We will not chase unrealistic growth targets, nor will we deploy capital to purchase lower-quality revenue growth.

ITW Beyond 2017

We are encouraged by our progress and energized by the work that we have ahead of us over the next several years to fully execute our vision. Through these efforts, we are confident that the company will exit 2017 well positioned to generate compelling total returns for our shareholders over the long term.

2014 Management Developments

One of the hallmarks of ITW's long-term success is our deep and experienced management team. We would like to recognize Executive Vice President Craig Hindman, who retired after 38 years of service to the company. We thank Craig for his leadership and significant contribution to ITW's success over the course of his long and distinguished tenure with company, and wish him the very best in his retirement. We also want to recognize Sharon Brady, who retired as our Senior Vice President & Chief Human Resources Officer after eight years of service to the company.

We thank Sharon for her leadership and many contributions to the company, and likewise wish her the very best in her retirement.

We were pleased to welcome Katie Lawler as our Senior Vice President & Chief Human Resources Officer in 2014. Katie brings strong human resources, talent management, and leadership development capabilities to ITW and is an excellent addition to our senior leadership team. We were also pleased to add Rick Lenny to our Board of Directors. Through his significant experience as both a global business leader and an independent board director, Rick brings a wealth of valuable insights and perspectives to our board.

Closing Remarks

In 2014, we made excellent progress in the execution of our strategy and delivered strong financial results that kept us solidly on track to achieve our 2017 performance goals. These results would not be possible without the dedication, commitment, and hard work of all of our ITW colleagues around the world. We offer them our deepest thanks.

Finally, on behalf of your Board of Directors and all of us at ITW, we thank you, our shareholders, for your continued support.

Sincerely,



E. Scott Santi
President &
Chief Executive Officer



Robert S. Morrison
Non-Executive
Chairman of the Board

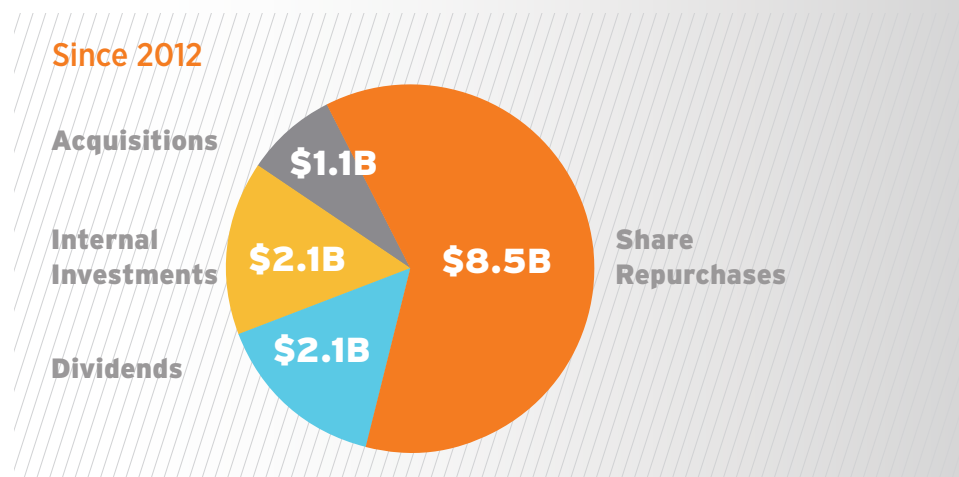
March 20, 2015

Capital Allocation Strategy

Core to ITW's strategy is a highly disciplined and returns-focused approach to capital allocation. We invest capital only where we can leverage ITW's highly differentiated business model to generate risk-adjusted returns that are accretive to the company's ROIC target.

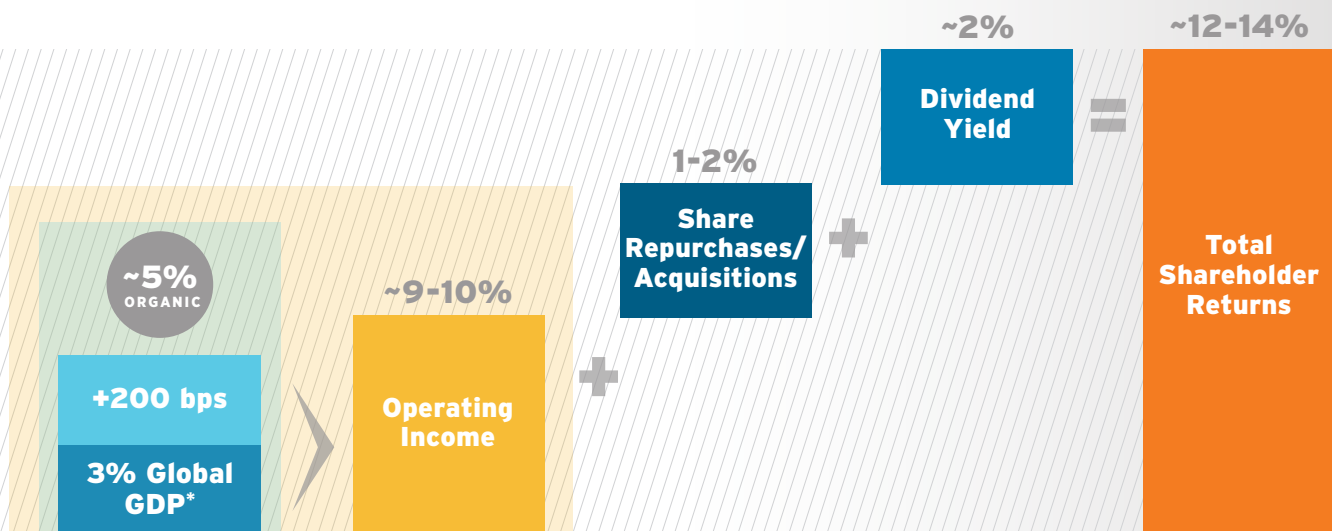
Our capital allocation priorities remain unchanged: **organic investments**, an **attractive dividend yield**, highly selective **strategic acquisitions** that support our organic growth focus, and an **active share repurchase** program.

The ITW Business Model generates significant free operating cash flow, and our balance sheet is strong. We are committed to returning a meaningful percentage of our cash flows to shareholders; since the launch of our enterprise strategy in 2012, we have returned more than \$10 billion in the form of dividends and share repurchases.



Total Shareholder Returns

Through the execution of our strategy, we are structuring ITW to exit 2017 well positioned to deliver superior total shareholder returns over the long term.



*Scenario assumes 3 percent global GDP growth.

Financial Highlights

DOLLARS IN MILLIONS EXCEPT PER SHARE AMOUNTS

2014

2013

2012

Year Ended December 31

OPERATING RESULTS¹

Operating revenues	\$ 14,484	\$ 14,135	\$ 13,870
Operating income	2,888	2,514	2,332
After-tax income from continuing operations	1,890	1,630	1,518
Earnings per share (diluted)	4.67	3.63	3.21

FINANCIAL RATIOS

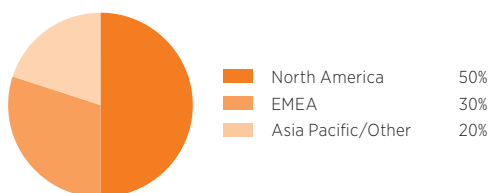
Percent of operating revenues¹

Cost of revenues ²	59.9%	60.5%	61.0%
Selling, administrative, and research and development expenses	18.5	19.9	20.4
Operating income	19.9	17.8	16.8
After-tax income from continuing operations	13.0	11.5	10.9
Adjusted return on average invested capital ⁴	18.9	16.3	14.5
Free operating cash flow as a % of net income ¹	110	129	90

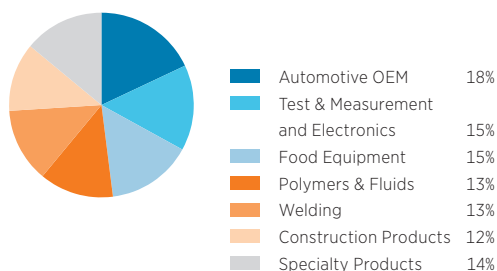
ADDITIONAL INFORMATION

Cash dividends paid per share ³	\$ 1.75	\$ 1.56	\$ 1.46
Market price per share at year-end	94.70	84.08	60.81
Total assets	17,678	19,966	19,309
Long-term debt	5,981	2,793	4,589
Shares outstanding at year-end (in millions)	383.2	430.2	455.1
Total debt to EBITDA ⁴	2.2x	2.1x	1.7x

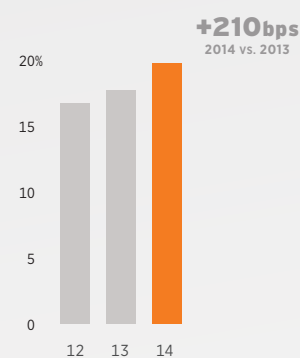
TOTAL COMPANY REVENUE BY GEOGRAPHY



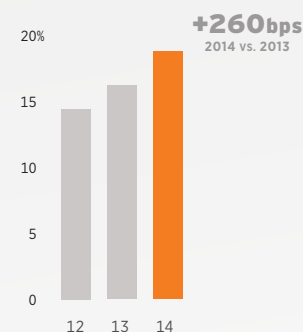
TOTAL COMPANY REVENUE BY SEGMENT



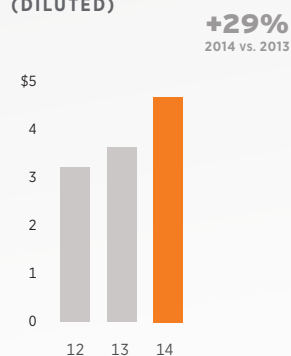
OPERATING INCOME MARGIN¹



ADJUSTED RETURN ON AVERAGE INVESTED CAPITAL⁴



EARNINGS PER SHARE¹ (DILUTED)



1) Operating results and percentage of operating revenues ratios in 2012, and free operating cash flow as a % of net income in 2014 and 2012 have been adjusted. See the Appendix included in this Annual Report for a reconciliation of these non-GAAP measures.

2) Cost of revenues includes the cost of materials, labor, and overhead (including facilities and depreciation) associated with manufacturing products or delivering services.

3) Cash dividends paid per share in 2013 has been adjusted to include the dividend payment of \$0.38 per share originally scheduled to be paid in January 2013, which was accelerated and paid in December 2012. Cash dividends paid in 2012 excludes this accelerated dividend payment.

4) See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the company's 2014 Annual Report on Form 10-K for reconciliations of non-GAAP measures to the most comparable GAAP measures.

ITW's Industry-Leading Businesses



Automotive OEM

Global, niche supplier to top-tier, sophisticated OEMs, providing unique innovation to address complex problems



Test & Measurement and Electronics

Sophisticated test and measurement and electronic manufacturing and MRO solutions that improve efficiency and quality in diverse end markets



Food Equipment

Highly focused and branded industry-leading global positions differentiated by innovation and integrated service offerings

GROWTH DRIVERS

- Demand for improved fuel economy and safety
- Reduced engineering resources at Auto OEMs drives greater reliance on ITW innovation
- Unique global technical and manufacturing capabilities, including a strong position in high-growth China market
- Ability to help customers address increasingly stringent global quality standards
- Elevated industry-level concerns with product reliability and safety
- End customer drive to improve production efficiency and global competitiveness
- Ability to significantly reduce total cost of ownership
- Demand for solutions that reduce water and energy consumption
- Industry-leading on-site service capabilities

2014 REVENUES

\$2.6B

\$2.2B

\$2.2B

2014 OPERATING MARGIN AND CHANGE VS. 2013

23.2%
+270bps

15.4%
+60bps

20.8%
+200bps

PATENT PORTFOLIO (ACTIVE AND PENDING)

2,751

1,709

1,153



Polymers & Fluids

Highly branded supplier to niche markets that require value-added differentiated products

- Well positioned in attractive niche markets
- Value-added technology and differentiated product performance
- Improved focus on major core products and end markets

\$1.9B

18.5%
+170bps

634



Welding

Branded value-added equipment and specialty consumable manufacturer with leading technology

- Ability to improve both productivity and weld quality in demanding structural applications
- Long-term growth in emerging market and global energy infrastructure investment
- Growing shortage of experienced welders drives need for new equipment solutions

\$1.9B

25.9%
+60bps

2,663



Construction Products

Branded supplier of innovative engineered fastening systems and solutions

- Tightly focused on value-added niche markets
- Differentiated technology that uniquely addresses key industry pain points
- Well positioned to benefit from the continued recovery of construction markets globally

\$1.7B

17.0%
+310bps

3,291



Specialty Products

Focused on niche opportunities that deliver strong operating results with patent protection

- Proven ability to work closely with large customers to develop and deploy differentiated solutions that improve business performance
- Differentiated and proprietary technology
- Focused on driving serial innovation in high-value niche markets

\$2.1B

21.4%
+110bps

3,766

Corporate Executives

E. SCOTT SANTI

President & Chief Executive Officer

DAVID C. PARRY

Vice Chairman

MARIA C. GREEN

Senior Vice President,
General Counsel & Secretary

MICHAEL M. LARSEN

Senior Vice President &
Chief Financial Officer

MARY K. LAWLER

Senior Vice President &
Chief Human Resources Officer

JOHN R. HARTNETT

Executive Vice President,
Welding

ROLAND M. MARTEL

Executive Vice President,
Specialty Products

STEVEN L. MARTINDALE

Executive Vice President,
Test & Measurement and Electronics

SUNDARAM NAGARAJAN

Executive Vice President,
Automotive OEM

CHRISTOPHER A. O'HERLIHY

Executive Vice President,
Food Equipment

JUAN VALLS

Executive Vice President,
Polymers & Fluids

MICHAEL R. ZIMMERMAN

Executive Vice President,
Construction Products

Board of Directors

DANIEL J. BRUTTO

Retired Senior Vice President
United Parcel Service, Inc.
Retired President
UPS International

SUSAN CROWN

Vice President
Henry Crown and Company

JAMES W. GRIFFITH

Retired President &
Chief Executive Officer
The Timken Company

RICHARD H. LENNY

Non-Executive Chairman
Information Resources, Inc.

ROBERT S. MORRISON

Non-Executive Chairman of the Board
Illinois Tool Works Inc.
Retired Vice Chairman
PepsiCo, Inc.

E. SCOTT SANTI

President & Chief Executive Officer
Illinois Tool Works Inc.

JAMES A. SKINNER

Retired Vice Chairman & Chief Executive Officer
McDonald's Corporation

DAVID B. SMITH, JR.

Executive Vice President for Policy & Legal
Affairs and General Counsel
Mutual Fund Directors Forum

PAMELA B. STROBEL

Retired Executive Vice President &
Chief Administrative Officer
Exelon Corporation

KEVIN M. WARREN

President, Industrial, Retail and
Hospitality Business Group
Xerox Corporation

ANRÉ D. WILLIAMS

President, Global Merchant Services
American Express Company

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

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 1-4797

ILLINOIS TOOL WORKS INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

36-1258310

(I.R.S. Employer
Identification No.)

155 Harlem Avenue, Glenview, Illinois

(Address of Principal Executive Offices)

60025

(Zip Code)

Registrant's telephone number, including area code: (847) 724-7500

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock	New York Stock Exchange
1.75% Euro Notes due 2022	New York Stock Exchange
3.00% Euro Notes due 2034	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2014 was approximately \$28.2 billion based on the New York Stock Exchange closing sales price as of June 30, 2014.

Shares of Common Stock outstanding at January 31, 2015: 379,447,026.

Documents Incorporated by Reference

Portions of the 2015 Proxy Statement for Annual Meeting of Stockholders to be held on May 8, 2015.

Part III

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PART I

ITEM 1. *Business*

General

Illinois Tool Works Inc. (the "Company" or "ITW") was founded in 1912 and incorporated in 1915. The Company's ticker symbol is ITW. The Company is a global manufacturer of a diversified range of industrial products and equipment with approximately 90 divisions in 57 countries. As of December 31, 2014, the Company employed approximately 49,000 persons.

The Company's operations are organized and managed based on similar product offerings and similar end markets, and are reported to senior management as the following seven segments: Automotive OEM; Test & Measurement and Electronics; Food Equipment; Polymers & Fluids; Welding; Construction Products; and Specialty Products. The following is a description of the Company's seven segments:

Automotive OEM: Businesses in this segment produce components and fasteners for automotive-related applications.

In the Automotive OEM segment, products and services include:

- plastic and metal components, fasteners and assemblies for automobiles, light trucks, and other industrial uses.

Test & Measurement and Electronics: Businesses in this segment produce equipment, consumables, and related software for testing and measuring of materials and structures, as well as equipment and consumables used in the production of electronic subassemblies and microelectronics.

In the Test & Measurement and Electronics segment, products include:

- equipment, consumables, and related software for testing and measuring of materials, structures, gases and fluids;
- electronic assembly equipment and related consumable solder materials;
- electronic components and component packaging;
- static control equipment and consumables used for contamination control in clean room environments; and
- pressure sensitive adhesives and components for telecommunications, electronics, medical and transportation applications.

Food Equipment: Businesses in this segment produce commercial food equipment and provide related service.

In the Food Equipment segment, products and services include:

- warewashing equipment;
- cooking equipment, including ovens, ranges and broilers;
- refrigeration equipment, including refrigerators, freezers and prep tables;
- food processing equipment, including slicers, mixers and scales;
- kitchen exhaust, ventilation and pollution control systems; and
- food equipment service, maintenance and repair.

Polymers & Fluids: Businesses in this segment produce adhesives, sealants, lubrication and cutting fluids, janitorial and hygiene products, and fluids and polymers for auto aftermarket maintenance and appearance.

In the Polymers & Fluids segment, products include:

- adhesives for industrial, construction and consumer purposes;
- chemical fluids which clean or add lubrication to machines;
- epoxy and resin-based coating products for industrial applications;
- hand wipes and cleaners for industrial applications;
- fluids, polymers and other supplies for auto aftermarket maintenance and appearance;
- fillers and putties for auto body repair; and
- polyester coatings and patch and repair products for the marine industry.

Welding: Businesses in this segment produce arc welding equipment, consumables and accessories for a wide array of industrial and commercial applications.

In the Welding segment, products include:

- arc welding equipment;
- metal arc welding consumables and related accessories; and
- metal jacketing and other insulation products.

Construction Products: Businesses in this segment produce construction fastening systems and truss products.

In the Construction Products segment, products include:

- fasteners and related fastening tools for wood and metal applications;
- anchors, fasteners and related tools for concrete applications;
- metal plate truss components and related equipment and software; and
- packaged hardware, fasteners, anchors and other products for retail.

Specialty Products: Diversified businesses in this segment produce beverage packaging equipment and consumables, product coding and marking equipment and consumables, and appliance components and fasteners.

In the Specialty Products segment, products include:

- line integration, conveyor systems and line automation for the food and beverage industries;
- plastic consumables that multi-pack cans and bottles and related equipment;
- foil, film and related equipment used to decorate consumer products;
- product coding and marking equipment and related consumables;
- plastic and metal fasteners and components for appliances;
- airport ground support equipment; and
- components for medical devices.

The information set forth below is applicable to all segments of the Company unless otherwise noted.

Enterprise Strategy

In 2012, the Company embarked on an Enterprise Strategy with the objective of fully leveraging ITW's core capabilities to deliver strong financial performance. ITW's Enterprise Strategy is centered on three key initiatives - portfolio management, business structure simplification, and strategic sourcing. These enterprise initiatives are expected to enhance the business through 2017 and are targeted at expanding organic revenue growth and improving profitability and returns.

The foundation of this strategy is a set of business practices referred to as the ITW Business Model consisting of three core elements:

80/20 Business Process - The concept of the 80/20 business process is to focus on what is most important (the 20% of the items which account for 80% of the value) and to spend less time and resources on the less important (the 80% of the items which account for 20% of the value). The Company uses this 80/20 business process to simplify and focus on the key drivers of business profitability, and as a result, reduces complexity that often creates unnecessary expense and disguises what is truly important. The Company utilizes the 80/20 process in all aspects of its business. Common applications of the 80/20 business process include:

- Simplifying product lines by reducing the number of products offered by combining the features of similar products, outsourcing products or eliminating low-value products.
- Segmenting the customer base by focusing on the 80/20 customers separately and finding alternative ways to serve the 20/80 customers.
- Simplifying the supplier base by partnering with 80/20 suppliers and reducing the number of 20/80 suppliers.
- Designing business processes, systems and measurements around the 80/20 activities.

The result of the application of this 80/20 business process is that the Company has over time improved its long-term operating and financial performance. These 80/20 efforts can result in restructuring projects that reduce costs, and improve profitability and returns.

Customer-Back Innovation - ITW's customer-back approach to innovation builds on the Company's 80/20 business process to help ITW businesses focus on the most profitable customers and invent solutions to solve their specific problems. ITW businesses are focused on building relationships with these major customers to develop deep knowledge and insight around their needs. These customer insights and learnings drive innovation at ITW. The Company actively protects its innovation through a patent portfolio of approximately 10,000 active patents.

Decentralized Entrepreneurial Culture - ITW businesses have significant flexibility within the framework of the ITW Business Model to customize their approach in order to best serve their customers. This leads to a focused and simple organizational structure that can deliver operational excellence adapted to their customers and end markets.

Key Initiatives

ITW's Enterprise Strategy is centered on three key initiatives - portfolio management, business structure simplification, and strategic sourcing. These enterprise initiatives are expected to enhance the business through 2017 and are targeted at expanding organic revenue growth and improving profitability and returns.

Portfolio Management - The Company's portfolio management initiative aims to construct a business portfolio that leverages the Company's differentiated business model and growth potential. As part of this initiative, the Company reviews its operations for businesses that may no longer be aligned with its long-term objectives. As a result, the Company's divestiture activity increased in 2012, 2013 and 2014. With the sale of the Company's former Industrial Packaging segment on May 1, 2014, the divestiture element of the Company's portfolio management initiative is essentially complete. The Company has historically acquired businesses with complementary products and services as well as larger acquisitions that represent potential new platforms. Going forward, the Company will emphasize organic growth, while acquisitions will be targeted to bolt-on acquisitions that support and accelerate organic growth in existing segments, and new platforms that expand the Company's long-term growth and earnings potential. Refer to the Discontinued Operations note in Item 8 - Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

Another key aspect of the portfolio management initiative is the focus on product line and customer base simplification. Product line and customer base simplification focuses on eliminating the complexity and overhead costs associated with smaller product lines and customers, and focuses businesses on supporting and growing their largest customers and product lines. Product line and customer base simplification is a core element of the Company's 80/20 business process. In the short-term, product line and customer base simplification may result in a decrease in revenue and overhead costs while improving operating margin. Over the long-term, product line and customer base simplification results in growth in revenue, profitability and returns, and is key to improving the Company's long-term operating and financial performance.

Business Structure Simplification - The business structure simplification initiative simplifies the Company's organizational model and adds scale to the Company's operating divisions in order to increase organic revenue growth, enhance global competitiveness and drive operational efficiencies. This initiative focuses on reducing the number of the Company's operating divisions and increasing the average revenue size of each division, while retaining the positive attributes of a decentralized operating model. The Company expects to enhance its profitability and returns through a combination of applying its 80/20 business process to the new divisions, more focused growth investments and reduced infrastructure.

Strategic Sourcing - The Company's strategic sourcing initiative focuses on building sourcing capability in order to leverage purchasing scale to enhance profitability and global competitiveness. It incorporates both enterprise-level and segment-level purchasing that cross the Company's many businesses.

Divestiture of Majority Interest in Former Decorative Surfaces Segment

On October 31, 2012, the Company divested a 51% majority interest in the Decorative Surfaces segment. Accordingly, the Company ceased consolidating the results of the Decorative Surfaces segment as of October 31, 2012 and now reports its 49% ownership interest using the equity method of accounting. Due to the Company's continuing involvement through its 49% interest, the historical operating results of Decorative Surfaces are presented in continuing operations. Effective November 1, 2012, Decorative Surfaces was no longer a reportable segment of the Company. See the Divestiture of Majority Interest in Former Decorative Surfaces Segment note in Item 8. Financial Statements and Supplementary Data for further discussion of this transaction.

The Decorative Surfaces business produces decorative high-pressure laminate surfacing materials for furniture, office and retail space, countertops, worktops and other applications. Principal end markets served include commercial, renovation and residential construction.

Divestiture of the Industrial Packaging Segment

In February 2013, the Company announced that it was initiating a review process to explore strategic alternatives for the Industrial Packaging segment. In September 2013, the Company's Board of Directors authorized a plan to commence a sale process for the Industrial Packaging segment. The Company classified the Industrial Packaging segment as held for sale beginning in the third quarter of 2013 and no longer presented this segment as part of its continuing operations.

On February 6, 2014, the Company announced that it had signed a definitive agreement to sell the Industrial Packaging business to The Carlyle Group for \$3.2 billion. The transaction was completed on May 1, 2014, resulting in a pre-tax gain of \$1.7 billion (\$1.1 billion after-tax) in the second quarter of 2014 which was included in Income from discontinued operations.

See the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for further discussion of this transaction.

Current Year Developments

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Financial Information about Segments and Markets

Segment and operating results are included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Segment Information note in Item 8. Financial Statements and Supplementary Data.

The principal end markets served by the Company's seven segments by percentage of revenue are as follows:

End Markets Served	Automotive OEM	Test & Measurement and Electronics	Food Equipment	Polymers & Fluids	Welding	Construction Products	Specialty Products	Total
Automotive OEM/Tiers.	91%	8%	—%	4%	3%	—%	—%	19%
Automotive Aftermarket.	2	1	—	42	2	—	—	6
General Industrial	1	18	1	14	35	1	13	12
Food Institutional/ Restaurant	—	—	40	—	—	—	—	6
Food Service	—	3	33	1	—	—	1	6
Food & Beverage	—	1	2	2	—	—	25	4
Food Retail	—	1	14	—	4	—	4	3
Commercial Construction	—	1	—	7	8	27	2	6
Residential Construction.	—	—	—	1	1	37	1	5
Renovation Construction.	—	—	—	1	1	33	—	4
Consumer Durables.	3	7	4	1	4	—	14	5
Electronics.	—	23	—	2	—	—	2	4
Maintenance, Repair & Operations.	—	1	1	12	10	—	1	4
Energy	—	5	—	3	14	—	—	3
Industrial Capital Goods	1	8	—	—	5	—	6	3
Other	2	23	5	10	13	2	31	10
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other includes several end markets, none of which are greater than 2% of the Company's consolidated revenues.

The Company's businesses primarily distribute their products directly to industrial manufacturers and through independent distributors.

Backlog

Backlog generally is not considered a significant factor in the Company's businesses as relatively short delivery periods and rapid inventory turnover are characteristic of most of their products. Backlog by segment as of December 31, 2014 and 2013 was as follows:

In millions	2014	2013
Automotive OEM	\$ 414	\$ 386
Test & Measurement and Electronics	301	322
Food Equipment	237	218
Polymers & Fluids	60	66
Welding	84	92
Construction Products	28	31
Specialty Products	263	290
Total	<u>\$ 1,387</u>	<u>\$ 1,405</u>

Backlog orders scheduled for shipment beyond calendar year 2015 were not material as of December 31, 2014.

Competition

With operations in 57 countries, the Company offers a wide range of products in a myriad of markets, many of which are fragmented, and the Company encounters a variety of competitors that vary by product line, end market and geographic area. The Company's competitors include many regional or specialized companies, as well as large U.S. and non-U.S. companies or divisions of large companies. Each of the Company's segments generally has several main competitors and numerous smaller ones in most of their end markets and geographic areas. In addition to numerous smaller regional competitors, the Welding segment competes globally with Lincoln Electric and ESAB.

In virtually all segments, the Company differentiates its businesses from its competitors based on product innovation, product quality, brand preference, service delivery and price. Technical capability is also a competitive factor in most segments. The Company believes that each segment's primary competitive advantages derive from the Company's business model and decentralized operating structure, which creates a strong focus on end markets and customers at the local level, enabling its businesses to respond rapidly to market dynamics. This structure enables the Company's businesses to drive operational excellence utilizing the Company's 80/20 business process and leveraging its product innovation capabilities. The Company also believes that its global footprint is a competitive advantage in many of its markets, especially in its Automotive OEM segment.

Raw Materials

The Company uses raw materials of various types, primarily steel, resins, chemicals and paper, that are available from numerous commercial sources. The availability of materials and energy has not resulted in any significant business interruptions or other major problems, and no such problems are currently anticipated.

Research and Development

Developing new and improved products, broadening the application of established products, and continuing efforts to improve and develop new methods, processes and equipment all contribute to the Company's organic growth. Many new products are designed to reduce customers' costs by eliminating steps in their manufacturing processes, reducing the number of parts in an assembly or improving the quality of customers' assembled products. Typically, the development of such products is accomplished by working closely with customers on specific applications. Research and development expenses were \$227 million in 2014, \$240 million in 2013 and \$240 million in 2012.

Intellectual Property

The Company owns approximately 3,400 unexpired U.S. patents and 6,600 foreign patents covering articles, methods and machines. In addition, the Company has approximately 1,600 applications for patents pending in the U.S. Patent Office and 4,100 applications pending in foreign patent offices. There is no assurance that any of these patents will be issued. The Company maintains a patent department for the administration of patents and processing of patent applications.

The Company believes that many of its patents are valuable and important; however, the expiration of any one of the Company's patents would not have a material effect on the Company's results of operations or financial position. The Company also credits its success in the markets it serves to engineering capability; manufacturing techniques; skills and efficiency; marketing and sales promotion; and service and delivery of quality products to its customers.

In addition to patents, many of the Company's products and services are sold under various owned or licensed trademarks, which are important to the Company in the aggregate. Some of the Company's more significant trademarks include ITW, which is also used in conjunction with the trademarks of many of the Company's businesses; Deltar and Shakeproof in the Automotive OEM segment; Instron in the Test & Measurement and Electronics segment; Hobart in the Food Equipment segment; Permatest and Wynn's in the Polymers & Fluids segment; Miller in the Welding segment; Paslode in the Construction Products segment; and Hi-Cone in the Specialty Products segment.

Environmental

The Company believes that its manufacturing plants and equipment are in substantial compliance with all applicable environmental regulations. Additional measures to maintain compliance are not expected to materially affect the Company's capital expenditures, competitive position, financial position or results of operations.

Various legislative and administrative regulations concerning environmental issues have become effective or are under consideration in many parts of the world relating to manufacturing processes and the sale or use of certain products. To date, such developments have not had a substantial adverse impact on the Company's revenues, earnings or cash flows.

Employees

The Company employed approximately 49,000 persons as of December 31, 2014 and considers its employee relations to be excellent.

International

The Company's international operations include subsidiaries and joint ventures in 56 foreign countries on six continents. These operations serve such end markets as automotive OEM/tiers, automotive aftermarket, general industrial, commercial food equipment, construction, and others on a worldwide basis. The Company's revenues from sales to customers outside the U.S. were approximately 57% of revenues in 2014, 2013 and 2012.

Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Segment Information note in Item 8. Financial Statements and Supplementary Data for additional information on international activities. International operations are subject to certain potential risks inherent in conducting business in foreign countries, including price controls, exchange controls, limitations on participation in local enterprises, nationalization, expropriation and other governmental action, and fluctuations in currency exchange rates. Additional risks of the Company's international operations are described under Item 1A. Risk Factors.

Executive Officers

Executive Officers of the Company as of February 13, 2015 were as follows:

Name	Office	Age
E. Scott Santi	President & Chief Executive Officer	53
Maria C. Green	Senior Vice President, General Counsel & Secretary	62
John R. Hartnett	Executive Vice President	54
Michael M. Larsen	Senior Vice President & Chief Financial Officer	46
Mary K. Lawler	Senior Vice President & Chief Human Resources Officer	49
Roland M. Martel	Executive Vice President	60
Steven L. Martindale	Executive Vice President	58
Sundaram Nagarajan	Executive Vice President	52
Christopher O'Herlihy	Executive Vice President	51
David C. Parry	Vice Chairman	61
Randall J. Scheuneman	Vice President & Chief Accounting Officer	47
Juan Valls	Executive Vice President	53
Michael R. Zimmerman	Executive Vice President	54

The executive officers of the Company serve at the discretion of the Board of Directors. Set forth below is information regarding the principal occupations and employment and business experience over the past five years for each executive officer. Unless otherwise stated, employment is by the Company.

Mr. Santi was elected President and Chief Executive Officer, as well as a director, in November 2012, after having been elected President and Chief Operating Officer in October 2012. Mr. Santi served as Vice Chairman from 2008 to October 2012.

Ms. Green was elected Senior Vice President, General Counsel & Secretary of the Company in February 2012. She joined the Company in 1997 as an Associate General Counsel and Assistant Secretary, became Deputy General Counsel and Assistant Secretary in 2008, and was elected Vice President, General Counsel & Secretary in August 2011.

Mr. Hartnett was elected Executive Vice President in 2012. He joined Signode in 1980, which was acquired by ITW in 1986, and has held various management positions of increasing responsibility. Most recently, he served as Group President of the Automotive Aftermarket businesses.

Mr. Larsen joined the Company and was elected Senior Vice President and Chief Financial Officer in September 2013. From October 2010 to August 2013, he served as Vice President and Chief Financial Officer of Gardner Denver, Inc., a global manufacturer of highly engineered compressors, blowers, pumps and other fluid transfer equipment. In addition, he served as interim CEO of Gardner Denver from July 2012 to November 2012, and as President, Chief Executive Officer and a director of that company from November 2012 to July 2013. Prior to joining Gardner Denver, he was Chief Financial Officer at General Electric Water & Process Technologies, a global provider of water treatment and process solutions. His previous experience includes more than 15 years with General Electric, where he held a number of global finance leadership roles with increasing responsibility.

Ms. Lawler joined the Company and was elected Senior Vice President and Chief Human Resources Officer in October 2014. From June 2013 to October 2014, she served as Executive Vice President, Human Resources, at GATX Corporation, a rail car leasing company. Prior to that, she served as Senior Vice President, Human Resources, at GATX Corporation, from May 2008 to May 2013.

Mr. Martel has served in his present position since 2006.

Mr. Martindale has served in his present position since 2008.

Mr. Nagarajan was elected Executive Vice President in 2010. He joined the Company in 1991 and has held various engineering and management positions in the welding businesses. Most recently, he served as Group President within the welding businesses.

Mr. O'Herlihy was elected Executive Vice President in 2010. He joined the Company in 1989 and has held various operational, management and leadership positions of increasing responsibility. Most recently, he served as Group President within the food equipment businesses.

Mr. Parry has served in his present position since 2010. Prior to that, he served as Executive Vice President from 2006 to 2010.

Mr. Scheuneman has served in his present position since 2009.

Mr. Valls has served in his present position since 2007.

Mr. Zimmerman was elected Executive Vice President in January 2015. He joined Permatex in 1999, which was acquired by ITW in 2005, and has held various management positions of increasing responsibility. Most recently, he served as Group President within the welding businesses.

Available Information

The Company electronically files reports with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials the Company has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are also available free of charge through the Company's website (www.itw.com), as soon as reasonably practicable after electronically filing with or otherwise furnishing such information to the SEC, and are available in print to any shareholder who requests them. The Company will furnish any exhibit not contained herein upon the payment of a fee representing the reasonable cost to the Company of furnishing the exhibit. Requests for exhibits may be sent to Illinois Tool Works Inc., 155 Harlem Avenue, Glenview, IL 60025, Attention: Secretary. Also posted on the Company's website are the following:

- Statement of Principles of Conduct;
- Code of Ethics for CEO and key financial and accounting personnel;
- Charters of the Audit, Corporate Governance and Nominating, and Compensation Committees of the Board of Directors;
- Corporate Governance Guidelines;
- Global Anti-Corruption Policy;
- Corporate Citizenship Statement;
- Conflict Minerals Policy Statement; and
- Government Affairs Information.

ITEM 1A. Risk Factors

The Company's business, financial condition, results of operations and cash flows are subject to various risks, including, but not limited to, those set forth below, which could cause actual results to vary materially from recent results or from anticipated future results. These risk factors should be considered together with information included elsewhere in this Annual Report on Form 10-K.

The Company's results are impacted by global economic conditions. Downturns in the markets served by the Company could adversely affect its businesses, results of operations or financial condition.

The Company's businesses are impacted by economic conditions around the globe. Slower economic growth, financial market instability, high unemployment, government deficit reduction, sequestration and other austerity measures impacting the markets we serve can adversely affect the Company's businesses by reducing demand for the Company's products and services, limiting financing available to the Company's customers, increasing order cancellations and the difficulty in

collecting accounts receivable, increasing price competition, and increasing the risk that counterparties to the Company's contractual arrangements will become insolvent or otherwise unable to fulfill their obligations.

The global nature of the Company's operations subjects it to political and economic risks that could adversely affect its business, results of operations or financial condition.

The Company currently operates in 57 countries. The risks inherent in the Company's global operations include:

- fluctuation in currency exchange rates;
- limitations on ownership or participation in local enterprises;
- price controls, exchange controls and limitations on repatriation of earnings;
- transportation delays and interruptions;
- political, social and economic instability and disruptions;
- acts of terrorism;
- government embargoes or foreign trade restrictions;
- the imposition of duties and tariffs and other trade barriers;
- import and export controls;
- labor unrest and current and changing regulatory environments;
- the potential for expropriation or nationalization of enterprises;
- difficulties in staffing and managing multi-national operations;
- limitations on its ability to enforce legal rights and remedies; and
- potentially adverse tax consequences.

If the Company is unable to successfully manage these and other risks associated with managing and expanding its international businesses, the risks could have a material adverse effect on the Company's business, results of operations or financial condition.

The timing and amount of benefits from the Company's 2013 - 2017 enterprise initiatives may not be as expected and the Company's financial results could be adversely impacted.

The Company's 2013 - 2017 enterprise strategy and associated initiatives include portfolio management, business structure simplification and strategic sourcing. The portfolio management initiative, which included divesting businesses no longer aligned with the Company's long-term objectives, is essentially complete; however, product line simplification and customer base simplification, which is a core element of the Company's 80/20 business process, is being reapplied to the Company's scaled up operating divisions and remains an active element of this initiative. Although these activities are expected to improve future operating margins and organic revenue growth, they may have a negative impact on the Company's overall organic revenue growth in the short term. The Company has made significant progress on its business structure simplification and strategic sourcing initiatives, but scaling up of smaller businesses into larger businesses and leveraging purchasing power across businesses involves some execution risk. If the Company is unable to achieve the expected benefits from these initiatives or is unable to complete these initiatives without material disruption to its businesses, the timing and amount of benefits from these initiatives may not be as expected and the Company's financial results could be adversely impacted.

The timing and amount of the Company's share repurchases are subject to a number of uncertainties.

Share repurchases constitute a significant component of the Company's capital allocation strategy. The Company funds its share repurchases with free operating cash flow and short-term borrowings. The amount and timing of share repurchases will be based on a variety of factors. Important factors that could cause the Company to limit, suspend or delay its share repurchases include unfavorable trading market conditions, the price of the Company's common stock, the nature of other investment opportunities presented to us from time to time, the ability to obtain financing at attractive rates and the availability of U.S. cash.

The Company may incur fines or penalties, damage to its reputation or other adverse consequences if its employees, agents or business partners violate anti-bribery, competition, export and import, environmental or other laws.

The Company has a decentralized operating structure under which its individual businesses are allowed significant decision-making autonomy within the Company's strategic framework and internal financial and compliance controls. The Company cannot ensure that its internal controls will always protect against reckless or criminal acts committed by its employees, agents or business partners that might violate U.S. and/or non-U.S. laws, including anti-bribery, competition, export and import, and environmental laws. Any such improper actions could subject the Company to civil or criminal investigations,

could lead to substantial civil or criminal monetary and non-monetary penalties against the Company or its subsidiaries, or could damage its reputation.

A significant fluctuation between the U.S. Dollar and other currencies could adversely impact the Company's operating income.

Although the Company's financial results are reported in U.S. Dollars, a significant portion of its sales and operating costs are realized in other currencies, with the largest concentration of foreign sales occurring in Europe. The Company's profitability is affected by movements of the U.S. Dollar against the Euro and other foreign currencies in which it generates revenues and incurs expenses. Significant long-term fluctuations in relative currency values, and in particular, an increase in the value of the U.S. Dollar against foreign currencies, could have an adverse effect on profitability and financial condition.

If the Company is unable to successfully introduce new products or adequately protect its intellectual property, its future growth may be adversely affected.

The Company's ability to develop new products based on innovation can affect its competitive position and sometimes requires the investment of significant time and resources. Difficulties or delays in research, development, production or commercialization of new products and services may reduce future revenues and adversely affect the Company's competitive position. If the Company is unable to create sustainable product differentiation, its organic growth may be adversely affected.

Protecting the Company's intellectual property is critical to its innovation efforts. The Company owns patents, trade secrets, copyrights, trademarks and/or other intellectual property rights related to many of its products, and also has exclusive and non-exclusive license rights under intellectual property owned by others. The Company's intellectual property rights may be challenged or infringed upon by third parties, particularly in countries where property rights are not highly developed or protected, or the Company may be unable to maintain, renew or enter into new license agreements with third-party owners of intellectual property on reasonable terms. Unauthorized use of the Company's intellectual property rights or inability to preserve existing intellectual property rights could adversely impact the Company's competitive position and results of operations.

Recent divestitures pose the risk of retained liabilities that could adversely affect the Company's financial results.

The Company's divestiture activity increased in 2012, 2013 and 2014 in accordance with its portfolio management initiative. Though the divestiture element of its portfolio management initiative is essentially complete, the Company has retained certain liabilities directly or through indemnifications made to the buyer against known and unknown contingent liabilities such as lawsuits, tax liabilities, product liability claims and environmental matters.

The Company has significant goodwill and other intangible assets, and future impairment of these assets could have a material adverse impact on our financial results.

In the past the Company has recorded significant goodwill and other identifiable intangible assets on its balance sheet as a result of acquisitions. A number of factors may result in impairments to goodwill and other intangible assets, including significant negative industry or economic trends, disruptions to our business, increased competition and significant changes in the use of the assets. Impairment charges could result that adversely affect the Company's financial condition or results of operations in the periods recognized.

Disruptions or volatility in global financial markets or changes in our credit ratings could increase our funding costs or reduce the availability of credit.

Global economic conditions may cause volatility and disruptions in the financial markets. The Company's continued ability to meet its cash requirements requires substantial liquidity and access to the financial markets. In addition, the Company's borrowing costs can be affected by short and long-term ratings assigned by independent rating agencies. If conditions in the financial markets decline or the Company's credit ratings are negatively impacted, its funding costs could be increased or the availability of credit could be diminished.

Raw material price increases and supply shortages could adversely affect results.

The supply of raw materials to the Company and to its component parts suppliers could be interrupted for a variety of reasons, including availability and pricing. Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect the Company's results of operations and profit margins. Due to pricing pressure or other factors, the Company may not be able to pass along increased raw material and components parts prices to its customers in the form of price increases or its ability to do so could be delayed. Consequently, its results of operations and financial condition may be adversely affected.

Unfavorable tax law changes and tax authority rulings may adversely affect results.

The Company is subject to income taxes in the U.S. and in various foreign jurisdictions. Domestic and international tax liabilities are based on the income and expenses in various tax jurisdictions. The Company's effective tax rate could be adversely affected by changes in the mix of earnings among countries with differing statutory tax rates, changes in the valuation allowance of deferred tax assets or tax laws. The amount of income taxes and other taxes are subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts recorded, future financial results may include unfavorable tax adjustments.

The Company's defined benefit pension plans are subject to financial market risks that could adversely affect its results of operations and cash flows.

The performance of financial markets and interest rates impact the Company's funding obligations under its defined benefit pension plans. Significant changes in market interest rates, decreases in the fair value of plan assets and investment losses on plan assets may increase the Company's funding obligations and adversely impact its results of operations and cash flows.

Potential adverse outcomes in legal proceedings may adversely affect results.

The Company's businesses expose it to potential toxic tort and other types of product liability claims that are inherent in the design, manufacture and sale of its products and the products of third-party vendors. The Company currently maintains insurance programs consisting of self-insurance up to certain limits and excess insurance coverage for claims over established limits. There can be no assurance that the Company will be able to obtain insurance on acceptable terms or that its insurance programs will provide adequate protection against actual losses. In addition, the Company is subject to the risk that one or more of its insurers may become insolvent and become unable to pay claims that may be made in the future. Even if it maintains adequate insurance programs, claims could have a material adverse effect on the Company's financial condition, liquidity and results of operations and on its ability to obtain suitable, adequate or cost-effective insurance in the future.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as "believe," "expect," "plans," "intends," "may," "strategy," "prospects," "estimate," "project," "target," "anticipate," "guidance," "forecast," and other similar words, including, without limitation, statements regarding the expected acquisition or disposition of businesses, economic conditions in various geographic regions, the timing and amount of share repurchases, the Company's Enterprise Strategy and its ability to manage its strategic business initiatives and the timing and amount of benefits therefrom, the adequacy of internally generated funds and credit facilities, the ability to fund debt service obligations, the cost and availability of additional financing, the Company's portion of future benefit payments related to pension and postretirement benefits, the availability of raw materials and energy, the expiration of any one of the Company's patents, the cost of compliance with environmental regulations, the likelihood of future goodwill or intangible asset impairment charges, the impact of failure of the Company's employees to comply with applicable laws and regulations, the impact of foreign currency fluctuations, the outcome of outstanding legal proceedings, the impact of adopting new accounting pronouncements, and the estimated timing and amount related to the resolution of tax matters. These statements are subject to certain risks, uncertainties, and other factors, which could cause actual results to differ materially from those anticipated. Important risks that may influence future results include those risks described above. These risks are not all inclusive and given these and other possible risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Any forward-looking statements made by ITW speak only as of the date on which they are made. ITW is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements, whether as a result of new information, subsequent events or otherwise.

ITW practices fair disclosure for all interested parties. Investors should be aware that while ITW regularly communicates with securities analysts and other investment professionals, it is against ITW's policy to disclose to them any material non-public information or other confidential commercial information. Shareholders should not assume that ITW agrees with any statement or report issued by any analyst irrespective of the content of the statement or report.

ITEM 1B. *Unresolved Staff Comments*

Not applicable.

ITEM 2. *Properties*

Due to the Company's decentralized operating structure, the Company operates out of a number of facilities worldwide, none of which are individually significant to the Company or its segments.

As of December 31, 2014, the Company operated the following plants and office facilities, excluding regional sales offices and warehouse facilities:

	Number Of Properties		
	Owned	Leased	Total
Automotive OEM.	61	31	92
Test & Measurement and Electronics	27	71	98
Food Equipment.	22	18	40
Polymers & Fluids	40	38	78
Welding	27	25	52
Construction Products	36	32	68
Specialty Products	52	41	93
Corporate	2	11	13
Total.	267	267	534

The Company's properties are highly suitable for the purposes for which they were designed and are maintained in good operating condition. Production capacity, in general, currently exceeds operating levels. Capacity levels are somewhat flexible based on the number of shifts operated and on the number of overtime hours worked. The Company adds production capacity from time to time as required by increased demand. Additions to capacity can be made within a reasonable period of time due to the nature of the Company's businesses.

The Company operated 328 plants and office facilities outside of the U.S. Principal countries include Australia, Brazil, Canada, China, Czech Republic, France, Germany, India, Italy, Mexico, Spain, and the United Kingdom.

ITEM 3. *Legal Proceedings*

Not applicable.

ITEM 4. *Mine Safety Disclosures*

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

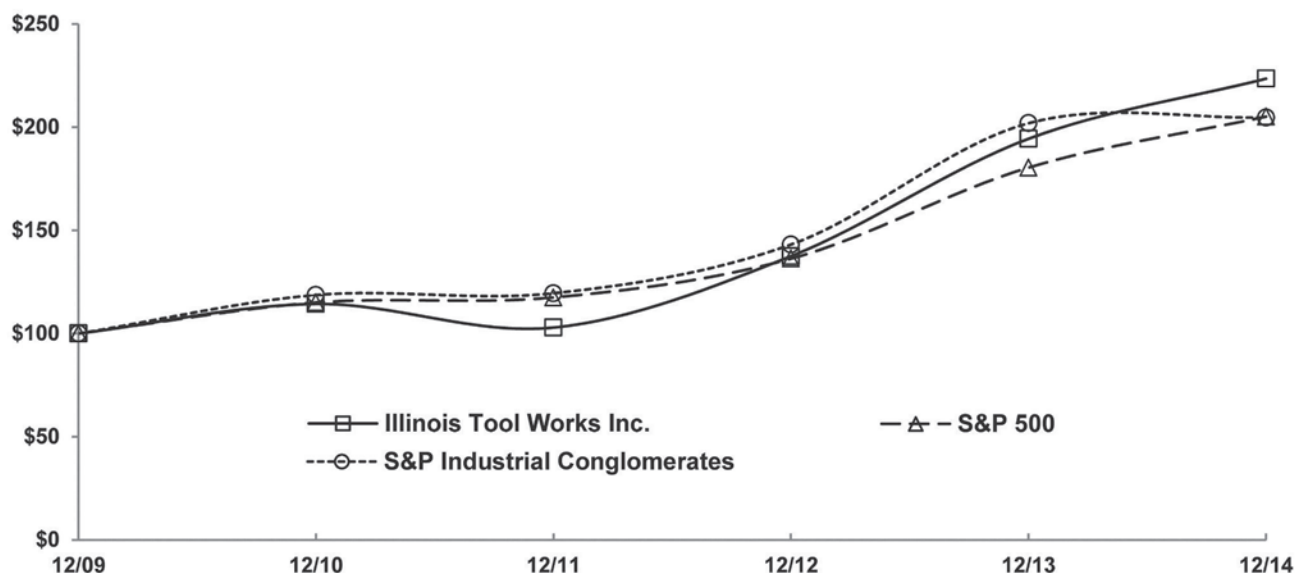
Common Stock Price and Dividend Data—The Company's common stock is listed on the New York Stock Exchange. Quarterly market price and dividend data for 2014 and 2013 were as shown below:

	Market Price Per Share		Dividends Declared Per Share
	High	Low	
<u>2014:</u>			
Fourth quarter	\$ 97.79	\$ 79.06	\$ 0.485
Third quarter	89.58	81.72	0.485
Second quarter	89.50	80.80	0.42
First quarter	84.12	76.25	0.42
<u>2013:</u>			
Fourth quarter	\$ 84.32	\$ 73.60	\$ 0.42
Third quarter	78.56	68.16	0.42
Second quarter	71.74	60.02	0.38
First quarter	65.60	59.71	0.38

There were approximately 7,185 holders of record of common stock as of January 31, 2015. This number does not include beneficial owners of the Company's securities held in the name of nominees.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Illinois Tool Works Inc., the S&P 500 Index, and the S&P Industrial Conglomerates Index



*\$100 invested on 12/31/09 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.
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Repurchases of Common Stock—On August 2, 2013, the Company's Board of Directors authorized a stock repurchase program which provides for the buyback of up to \$6.0 billion of the Company's common stock over an open-ended period of time (the "2013 Program"). As of December 31, 2014, approximately \$1.4 billion of share repurchases remain outstanding under this program.

Share repurchase activity under the Company's share repurchase program for the fourth quarter of 2014 was as follows:

In millions except per share amounts

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Value of Shares That May Yet Be Purchased Under Program
October 2014	3.5	\$ 86.29	3.5	\$ 1,953
November 2014	4.4	\$ 93.52	4.4	\$ 1,544
December 2014	1.0	\$ 94.80	1.0	\$ 1,448
Total	8.9		8.9	

ITEM 6. Selected Financial Data

In millions except per share amounts	2014	2013	2012	2011	2010
Operating revenues	\$ 14,484	\$ 14,135	\$ 14,791	\$ 14,515	\$ 12,625
Income from continuing operations	1,890	1,630	2,233	1,775	1,258
Income per share from continuing operations:					
Basic	4.70	3.65	4.75	3.61	2.51
Diluted	4.67	3.63	4.72	3.59	2.50
Total assets at year-end	17,678	19,966	19,309	17,984	16,412
Long-term debt at year-end	5,981	2,793	4,589	3,488	2,542
Cash dividends declared per common share	1.81	1.60	1.48	1.40	1.30

Certain reclassifications of prior year data have been made to conform to current year reporting, including discontinued operations as discussed below.

The Company periodically reviews its operations for businesses that may no longer be aligned with its enterprise initiatives and long-term objectives. As a result, the Company may commit to a plan to exit or dispose of certain businesses and present them as discontinued operations. For businesses reported as discontinued operations in the statement of income, all related prior period income statement information has been restated to conform to the current year reporting of these businesses. Income from discontinued operations was \$1.1 billion, \$49 million, \$637 million, \$296 million, and \$245 million in the years 2014, 2013, 2012, 2011, and 2010, respectively. Refer to the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

On October 31, 2012, the Company divested a 51% majority interest in its Decorative Surfaces segment. Accordingly, the Company ceased consolidating the results of the Decorative Surfaces segment as of October 31, 2012 and now reports its 49% ownership interest using the equity method of accounting. Due to the Company's continuing involvement through its 49% interest, the historical operating results of Decorative Surfaces are presented in continuing operations. Effective November 1, 2012, Decorative Surfaces was no longer a reportable segment of the Company. See the Divestiture of Majority Interest in Former Decorative Surfaces Segment note in Item 8. Financial Statements and Supplementary Data for further discussion of this transaction.

Information on the comparability of results is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Illinois Tool Works Inc. (the "Company" or "ITW") is a global manufacturer of a diversified range of industrial products and equipment with approximately 90 divisions in 57 countries. As of December 31, 2014, the Company employed approximately 49,000 persons.

The Company's operations are organized and managed based on similar product offerings and similar end markets, and are reported to senior management as the following seven segments: Automotive OEM; Test & Measurement and Electronics; Food Equipment; Polymers & Fluids; Welding; Construction Products; and Specialty Products.

Due to the large number of diverse businesses and the Company's decentralized operating structure, the Company does not require its businesses to provide detailed information on operating results. Instead, the Company's corporate management collects data on several key measurements: operating revenues, operating income, operating margins, overhead costs, number of months on hand in inventory, days sales outstanding in accounts receivable, past due receivables and return on invested capital. These key measures are monitored by management and significant changes in operating results versus current trends in end markets and variances from forecasts are discussed with operating unit management.

Management analyzes the Company's consolidated results of operations and the results of each segment by identifying the effects of changes in the results of the organic business (businesses that have been included in the Company's results of operations for more than 12 months), newly acquired and recently divested companies, restructuring costs, goodwill and intangible asset impairment charges, and currency translation on the operating revenues and operating income of each segment. The changes to operating income of organic businesses include the estimated effects of both operating leverage and changes in variable margins and overhead costs. Operating leverage is the estimated effect of the organic revenue volume changes on organic operating income, assuming variable margins remain the same as the prior period. As manufacturing and administrative overhead costs usually do not significantly change as a result of revenues increasing or decreasing, the percentage change in operating income due to operating leverage is usually more than the percentage change in the revenues. Changes in variable margins and overhead costs represent the estimated effect of non-volume related changes in the operating income of organic businesses and may be driven by a number of factors, including changes in product mix, the cost of raw materials, labor and overhead, and pricing to customers. Selling price versus material cost comparisons represent the estimated net impact of increases or decreases in the cost of materials used in the Company's products versus changes in the selling price to the Company's customers. Management reviews these price versus cost comparisons by analyzing the net impact of changes to each segment's operating margin.

ENTERPRISE STRATEGY

In 2012, the Company embarked on an Enterprise Strategy with the objective of fully leveraging ITW's core capabilities to deliver strong financial performance. ITW's Enterprise Strategy is centered on three key initiatives - portfolio management, business structure simplification, and strategic sourcing. These enterprise initiatives are expected to enhance the business through 2017 and are targeted at expanding organic revenue growth and improving profitability and returns.

The foundation of this strategy is a set of business practices referred to as the ITW Business Model consisting of three core elements:

80/20 Business Process - The concept of the 80/20 business process is to focus on what is most important (the 20% of the items which account for 80% of the value) and to spend less time and resources on the less important (the 80% of the items which account for 20% of the value). The Company uses this 80/20 business process to simplify and focus on the key drivers of business profitability, and as a result, reduces complexity that often creates unnecessary expense and disguises what is truly important. The Company utilizes the 80/20 process in all aspects of its business. Common applications of the 80/20 business process include:

- Simplifying product lines by reducing the number of products offered by combining the features of similar products, outsourcing products or eliminating low-value products.
- Segmenting the customer base by focusing on the 80/20 customers separately and finding alternative ways to serve the 20/80 customers.
- Simplifying the supplier base by partnering with 80/20 suppliers and reducing the number of 20/80 suppliers.
- Designing business processes, systems and measurements around the 80/20 activities.

The result of the application of this 80/20 business process is that the Company has over time improved its long-term operating and financial performance. These 80/20 efforts can result in restructuring projects that reduce costs, and improve profitability and returns.

Customer-Back Innovation - ITW's customer-back approach to innovation builds on the Company's 80/20 business process to help ITW businesses focus on the most profitable customers and invent solutions to solve their specific problems. ITW businesses are focused on building relationships with these major customers to develop deep knowledge and insight around their needs. These customer insights and learnings drive innovation at ITW. The Company actively protects its innovation through a patent portfolio of approximately 10,000 active patents.

Decentralized Entrepreneurial Culture - ITW businesses have significant flexibility within the framework of the ITW Business Model to customize their approach in order to best serve their customers. This leads to a focused and simple organizational structure that can deliver operational excellence adapted to their customers and end markets.

KEY INITIATIVES

ITW's Enterprise Strategy is centered on three key initiatives - portfolio management, business structure simplification, and strategic sourcing. These enterprise initiatives are expected to enhance the business through 2017 and are targeted at expanding organic revenue growth and improving profitability and returns.

Portfolio Management - The Company's portfolio management initiative aims to construct a business portfolio that leverages the Company's differentiated business model and growth potential. As part of this initiative, the Company reviews its operations for businesses that may no longer be aligned with its long-term objectives. As a result, the Company's divestiture activity increased in 2012, 2013 and 2014. With the sale of the Company's former Industrial Packaging segment on May 1, 2014, the divestiture element of the Company's portfolio management initiative is essentially complete. The Company has historically acquired businesses with complementary products and services as well as larger acquisitions that represent potential new platforms. Going forward, the Company will emphasize organic growth, while acquisitions will be targeted to bolt-on acquisitions that support and accelerate organic growth in existing segments, and new platforms that expand the Company's long-term growth and earnings potential. Refer to the Discontinued Operations note in Item 8 - Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

Another key aspect of the portfolio management initiative is the focus on product line and customer base simplification. Product line and customer base simplification focuses on eliminating the complexity and overhead costs associated with smaller product lines and customers, and focuses businesses on supporting and growing their largest customers and product lines. Product line and customer base simplification is a core element of the Company's 80/20 business process. In the short-term, product line and customer base simplification may result in a decrease in revenue and overhead costs while improving operating margin. Over the long-term, product line and customer base simplification results in growth in revenue, profitability and returns, and is key to improving the Company's long-term operating and financial performance.

Business Structure Simplification - The business structure simplification initiative simplifies the Company's organizational model and adds scale to the Company's operating divisions in order to increase organic revenue growth, enhance global competitiveness and drive operational efficiencies. This initiative focuses on reducing the number of the Company's operating divisions and increasing the average revenue size of each division, while retaining the positive attributes of a decentralized operating model. The Company expects to enhance its profitability and returns through a combination of applying its 80/20 business process to the new divisions, more focused growth investments and reduced infrastructure.

Strategic Sourcing - The Company's strategic sourcing initiative focuses on building sourcing capability in order to leverage purchasing scale to enhance profitability and global competitiveness. It incorporates both enterprise-level and segment-level purchasing that cross the Company's many businesses.

DIVESTITURE OF MAJORITY INTEREST IN FORMER DECORATIVE SURFACES SEGMENT

On October 31, 2012, the Company divested a 51% majority interest in the Decorative Surfaces segment. Accordingly, the Company ceased consolidating the results of the Decorative Surfaces segment as of October 31, 2012 and now reports its 49% ownership interest using the equity method of accounting. Due to the Company's continuing involvement through its 49% interest, the historical operating results of Decorative Surfaces are presented in continuing operations. Effective November 1, 2012, Decorative Surfaces was no longer a reportable segment of the Company. See the Divestiture of Majority Interest in Former Decorative Surfaces Segment note in Item 8. Financial Statements and Supplementary Data for further discussion of this transaction.

DISCONTINUED OPERATIONS

The Company periodically reviews its operations for businesses that may no longer be aligned with its enterprise initiatives and long-term objectives. As a result, the Company may commit to a plan to exit or dispose of certain businesses and present them as discontinued operations.

In February 2013, the Company announced that it was initiating a review process to explore strategic alternatives for the Industrial Packaging segment. In September 2013, the Company's Board of Directors authorized a plan to commence a sale process for the Industrial Packaging segment. The Company classified the Industrial Packaging segment as held for sale beginning in the third quarter of 2013 and no longer presented this segment as part of its continuing operations.

On February 6, 2014, the Company announced that it had signed a definitive agreement to sell the Industrial Packaging business to The Carlyle Group for \$3.2 billion. The transaction was completed on May 1, 2014, resulting in a pre-tax gain of \$1.7 billion (\$1.1 billion after-tax) in the second quarter of 2014 which was included in Income from discontinued operations.

In the third quarter of 2013, the Company also committed to plans for the divestiture of a construction distribution business previously included in the Construction Products segment and a specialty coatings business previously included in the Polymers & Fluids segment. The construction distribution and specialty coatings businesses were classified as held for sale beginning in the third quarter of 2013.

In the first quarter of 2013, the Company committed to plans for the divestiture of two transportation related businesses and a machine components business previously included in the Specialty Products segment, two construction distribution businesses previously included in the Construction Products segment, and a chemical manufacturing business previously included in the Polymers & Fluids segment. These businesses were classified as held for sale beginning in the first quarter of 2013.

The operating results of the businesses discussed above, as well as certain previously divested businesses, are reported as discontinued operations in the statement of income for all periods presented. As of the second quarter of 2014, the Company has completed the divestiture of all of the businesses previously classified as discontinued operations. Refer to the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

CONSOLIDATED RESULTS OF OPERATIONS

The Company's consolidated results of operations for 2014, 2013 and 2012 are summarized as follows:

Dollars in millions	2014	2013	2012
Operating revenues	\$ 14,484	\$ 14,135	\$ 14,791
Operating income	2,888	2,514	2,475
Margin %	19.9%	17.8%	16.7%

In 2014 and 2013, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2014 Compared to 2013			2013 Compared to 2012		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Organic business:						
Revenue change/Operating leverage . . .	2.6%	6.3%	0.6%	0.2 %	0.6%	0.1%
Changes in variable margins and overhead costs	—	8.2	1.4	—	6.4	1.1
	2.6	14.5	2.0	0.2	7.0	1.2
Acquisitions and divestitures	0.6	0.2	(0.1)	(4.6)	(4.7)	0.1
Restructuring costs	—	0.9	0.2	—	(1.0)	(0.2)
Impairment of goodwill and intangibles	—	—	—	—	—	—
Translation	(0.7)	(0.7)	—	—	0.3	—
Total	<u>2.5%</u>	<u>14.9%</u>	<u>2.1%</u>	<u>(4.4)%</u>	<u>1.6%</u>	<u>1.1%</u>

Operating Revenues

Operating revenues increased 2.5% in 2014 versus 2013 due to an increase in organic and acquisition revenues, partially offset by the unfavorable effect of currency translation which primarily occurred in the fourth quarter. Total organic revenues increased 2.6% in 2014 versus 2013 primarily due to 8.9% growth in the Automotive OEM segment and 4.7% growth in the Food Equipment segment, partially offset by modest declines in the Polymers & Fluids and Specialty Products segments. Product line and customer base simplification activities associated with the portfolio management component of the Company's enterprise strategy reduced organic revenue growth by approximately one percentage point. International organic revenues increased 3.2% versus the prior year. European organic revenues increased 2.4% primarily driven by the Automotive OEM, Food Equipment and Test & Measurement and Electronics segments, partially offset by Welding, Polymers & Fluids and Construction Products. Asia Pacific organic revenues increased 4.9% primarily due to growth in Automotive OEM in China and Construction Products in Australia. North American organic revenues increased 2.3% primarily due to growth in the Automotive OEM, Welding and Food Equipment segments. Acquisitions primarily included the purchase of a European consumer packaging equipment business and a Chinese food equipment business in the third quarter of 2013.

Operating revenues decreased 4.4% in 2013 versus 2012 primarily due to divestitures which reduced revenues by 6.3% over the prior year. On October 31, 2012, the Company divested a 51% majority interest in the former Decorative Surfaces segment. Accordingly, the Company ceased consolidating the results of the Decorative Surfaces segment as of October 31, 2012 and now reports its 49% ownership interest using the equity method of accounting. Due to the Company's continuing involvement through its 49% ownership interest in Wilsonart, the historical operating results of Decorative Surfaces are presented in continuing operations. Excluding the 2012 revenues of the former Decorative Surfaces segment of \$921 million, 2013 revenues increased by \$265 million, or 1.9%, over the prior year, primarily driven by higher revenues from acquisitions and higher organic revenues (see "Results of Operations by Segment" table below). Acquisitions contributed 1.7% to revenues in 2013 versus 2012 primarily due to the purchase of a European consumer packaging equipment business and a Chinese food equipment business. Worldwide organic revenues increased 0.2% in 2013 versus 2012 primarily due to growth in the Automotive OEM segment, partially offset by lower revenues in the electronic assembly equipment businesses within the Test & Measurement and Electronics segment. International organic revenues increased 1.2% due to growth in Asia Pacific of 3.6%, primarily due to the result of strong growth in China in 2013 versus 2012. European organic revenues declined 0.8% due to weakness in the European economic environment in the first half of 2013 which moderately improved in the second half of the year. North American organic revenues were lower by 0.5% primarily due to the electronic assembly business within the Test & Measurement and Electronics segment. This was partially offset by growth in the North American Automotive OEM, Food Equipment, and Construction Products businesses.

Operating Income

Operating income increased 14.9% in 2014 versus 2013 primarily due to changes in variable margins and overhead costs, an increase in organic revenues and lower restructuring expenses, partially offset by the unfavorable effect of currency translation. Operating margins were 19.9% for 2014, an increase of 210 basis points versus the prior year. Total organic business margins increased 200 basis points primarily due to changes in variable margins and overhead costs and the positive operating leverage effect of the increase in organic revenues. The changes in variable margins and overhead costs increased margins by 140 basis points over the prior year primarily due to the benefits of the Company's enterprise initiatives, business structure simplification and strategic sourcing, which contributed 120 basis points of margin improvement, favorable selling price versus material cost comparisons of 10 basis points, and lower operating expenses. Operating expenses in 2014 included the impact of lower employee benefit expenses, offset by costs related to continued investment in the business. The positive operating leverage effect of the increase in organic revenues contributed 60 basis points of improvement. Lower restructuring expenses increased total operating margins by 20 basis points.

Operating income increased 1.6% in 2013 versus 2012 primarily due to lower overhead expenses and an increase in organic revenues, partially offset by the divestiture of the former Decorative Surfaces segment and higher restructuring expenses. Total organic business margins increased 120 basis points in 2013 versus 2012 primarily due to lower overhead costs. The changes in variable margins and overhead costs increased organic business margins by 110 basis points, driven by reductions in overhead expenses from the Company's enterprise initiatives of 80 basis points, resulting primarily from the benefits of business structure simplification activities, and the favorable effect of selling price versus material cost comparisons of 40 basis points.

RESULTS OF OPERATIONS BY SEGMENT

The reconciliation of segment operating revenues and operating income to total operating revenues and operating income is as follows:

In millions	Operating Revenues		
	2014	2013	2012
Automotive OEM.	\$ 2,590	\$ 2,396	\$ 2,171
Test & Measurement and Electronics	2,204	2,176	2,299
Food Equipment.	2,177	2,047	1,939
Polymers & Fluids	1,927	1,993	2,063
Welding	1,850	1,837	1,847
Construction Products	1,707	1,717	1,724
Specialty Products	2,055	2,007	1,871
Intersegment revenues	(26)	(38)	(44)
Total Segments.	14,484	14,135	13,870
Decorative Surfaces.	—	—	921
Total	\$ 14,484	\$ 14,135	\$ 14,791

In millions	Operating Income		
	2014	2013	2012
Automotive OEM	\$ 600	\$ 490	\$ 421
Test & Measurement and Electronics	340	321	342
Food Equipment	453	385	332
Polymers & Fluids	357	335	327
Welding	479	464	470
Construction Products	289	238	201
Specialty Products	440	408	365
Total Segments	2,958	2,641	2,458
Decorative Surfaces	—	—	143
Unallocated	(70)	(127)	(126)
Total	<u>\$ 2,888</u>	<u>\$ 2,514</u>	<u>\$ 2,475</u>

Segments are allocated a fixed overhead charge based on the segment's revenues. Expenses not charged to the segments are reported separately as Unallocated. Because the Unallocated category includes a variety of items, it is subject to fluctuations on a quarterly and annual basis.

AUTOMOTIVE OEM

Businesses in this segment produce components and fasteners for automotive-related applications.

In the Automotive OEM segment, products and services include:

- plastic and metal components, fasteners and assemblies for automobiles, light trucks, and other industrial uses.

In 2014, this segment primarily served the automotive original equipment manufacturers and tiers (91%) market.

The results of operations for the Automotive OEM segment for 2014, 2013 and 2012 were as follows:

Dollars in millions	2014	2013	2012
Operating revenues	\$ 2,590	\$ 2,396	\$ 2,171
Operating income	600	490	421
Margin %	23.2%	20.5%	19.4%

In 2014 and 2013, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2014 Compared to 2013			2013 Compared to 2012		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Organic business:						
Revenue change/Operating leverage . . .	8.9%	16.2%	1.4%	9.5%	17.8%	1.5%
Changes in variable margins and overhead costs	—	4.0	0.8	—	0.2	—
	8.9	20.2	2.2	9.5	18.0	1.5
Acquisitions and divestitures	(0.1)	—	—	—	—	—
Restructuring costs	—	2.9	0.5	—	(3.2)	(0.6)
Impairment of goodwill and intangibles	—	—	—	—	—	—
Translation.	(0.7)	(0.6)	—	0.9	1.7	0.2
Total.	8.1%	22.5%	2.7%	10.4%	16.5%	1.1%

Operating Revenues

Operating revenues increased 8.1% in 2014 versus 2013 primarily due to an increase in organic revenues, partially offset by the unfavorable effect of currency translation. As a result of product innovation and penetration gains, worldwide automotive organic revenues grew 8.9%, exceeding auto builds which grew 3%. European organic revenue growth of 10.8% exceeded auto build growth of 3%. North American automotive organic revenues grew 7.6% as North American auto builds increased 5% over the prior year. Organic revenues for Asia Pacific increased 12.1% over the prior year primarily due to revenue growth in China of 17.2%, which exceeded Chinese auto build growth of 8%.

Operating revenues increased 10.4% in 2013 versus 2012 due to the increase in organic revenues and the favorable effect of currency translation. Worldwide automotive organic revenue growth of 9.5% in 2013 versus 2012 exceeded auto builds of approximately 4% primarily due to worldwide product penetration gains. International automotive organic revenues increased 10.9% over the prior year. Organic revenues for Asia Pacific increased 20.8% over the prior year primarily due to revenue growth in China of 37.7%, which exceeded Chinese auto build growth of 14%. European organic revenue growth was 6.8% while auto build growth was flat in 2013 versus 2012. North American automotive organic revenue growth of 8.0% exceeded auto build growth of 5% over the prior year.

Operating Income

Operating income increased 22.5% in 2014 versus 2013 due to higher organic revenues, changes in variable margins and overhead costs and lower restructuring expenses, partially offset by the unfavorable effect of currency translation. Total organic business margins increased 220 basis points primarily due to the positive operating leverage effect of the increase in organic revenues of 140 basis points and changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased organic business margins by 80 basis points driven by the benefits of the Company's enterprise initiatives, business structure simplification and strategic sourcing, partially offset by unfavorable selling price versus material cost comparisons of 30 basis points. Lower restructuring expenses increased total operating margins by 50 basis points.

Operating income increased 16.5% in 2013 versus 2012 primarily due to higher organic revenues and the favorable effect of currency translation, partially offset by higher restructuring expenses. Total organic business margins increased 150 basis points due to the positive operating leverage effect of the increase in organic revenues described above. The changes in variable margins and overhead costs had no significant effect on organic business margins as the benefits of business structure simplification activities were offset by higher overhead costs primarily related to business expansion in China. Higher restructuring expenses diluted total operating margins by 60 basis points in 2013 versus 2012.

TEST & MEASUREMENT AND ELECTRONICS

Businesses in this segment produce equipment, consumables, and related software for testing and measuring of materials and structures, as well as equipment and consumables used in the production of electronic subassemblies and microelectronics.

In the Test & Measurement and Electronics segment, products include:

- equipment, consumables, and related software for testing and measuring of materials, structures, gases and fluids;
- electronic assembly equipment and related consumable solder materials;
- electronic components and component packaging;
- static control equipment and consumables used for contamination control in clean room environments; and
- pressure sensitive adhesives and components for telecommunications, electronics, medical and transportation applications.

In 2014, this segment primarily served the electronics (23%), general industrial (18%), industrial capital goods (8%), automotive original equipment manufacturers and tiers (8%) and consumer durables (7%) markets.

The results of operations for the Test & Measurement and Electronics segment for 2014, 2013 and 2012 were as follows:

Dollars in millions	2014	2013	2012
Operating revenues	\$ 2,204	\$ 2,176	\$ 2,299
Operating income	340	321	342
Margin %	15.4%	14.8%	14.9%

In 2014 and 2013, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2014 Compared to 2013			2013 Compared to 2012		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Organic business:						
Revenue change/Operating leverage	1.5%	4.5%	0.4%	(6.0)%	(18.3)%	(1.9)%
Changes in variable margins and overhead costs	—	3.4	0.5	—	10.6	1.7
	1.5	7.9	0.9	(6.0)	(7.7)	(0.2)
Acquisitions and divestitures	(0.1)	0.1	—	0.9	0.7	—
Restructuring costs	—	(2.4)	(0.3)	—	1.3	0.2
Impairment of goodwill and intangibles	—	0.2	—	—	(0.7)	(0.1)
Translation	(0.1)	—	—	(0.2)	—	—
Total	1.3%	5.8%	0.6%	(5.3)%	(6.4)%	(0.1)%

Operating Revenues

Operating revenues increased 1.3% in 2014 versus 2013 primarily due to an increase in organic revenues. Organic revenues for the worldwide test and measurement businesses increased 1.8% primarily due to strength in the Instron business. Worldwide electronics organic revenues increased 1.2% primarily due to a 2.0% increase in the other electronics businesses, which was driven by growth in the contamination control businesses, resulting primarily from increased demand across all major regions, the pressure sensitive adhesives businesses, primarily due to higher market demand in Europe, and the static control businesses, primarily due to increased sales to the industrial end market in Asia and North America. Organic revenues for the electronic assembly businesses declined 0.7% but showed improvement in the second half of the year.

Operating revenues decreased 5.3% in 2013 versus 2012 primarily due to a decline in organic revenues, partially offset by revenues from acquisitions. Worldwide electronics organic revenues decreased 14.0% in 2013 versus 2012 primarily due to a

36.1% decrease in revenues in the electronic assembly businesses resulting primarily from strong order rates from a key customer in 2012 that did not recur in 2013. Organic revenues for the other electronics businesses increased 3.1% in 2013 versus 2012 primarily due to increased demand from consumer electronics customers in China. Organic revenues for the worldwide test and measurement businesses increased 2.0% in 2013 versus 2012 primarily due to increased order rates during the fourth quarter of 2013. The acquisition revenue was primarily due to the purchase of a European food and pharmaceutical inspection business in the fourth quarter of 2012.

Operating Income

Operating income increased 5.8% in 2014 versus 2013 primarily due to higher organic revenues and changes in variable margins and overhead costs, partially offset by higher restructuring expenses. Total organic business margins increased 90 basis points due to changes in variable margins and overhead costs and the positive operating leverage effect of the increase in organic revenues. The changes in variable margins and overhead costs increased organic business margins by 50 basis points primarily due to benefits resulting from the Company's enterprise initiatives, business structure simplification and strategic sourcing, partially offset by the impact of the discrete claim recovery in 2013 noted below. Higher restructuring expenses decreased total operating margins by 30 basis points.

Operating income decreased 6.4% in 2013 versus 2012 primarily due to the lower organic revenues noted above. Total organic business margins decreased 20 basis points primarily due to the negative operating leverage effect of the decrease in organic revenues of 190 basis points, partially offset by changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased organic business margins by 170 basis points primarily due to benefits from business structure simplification activities and overhead cost management of 60 basis points, lower intangible asset amortization expense of 40 basis points, favorable selling price versus material cost comparisons of 30 basis points, and a discrete claim recovery of 30 basis points in 2013.

FOOD EQUIPMENT

Businesses in this segment produce commercial food equipment and provide related service.

In the Food Equipment segment, products and services include:

- warewashing equipment;
- cooking equipment, including ovens, ranges and broilers;
- refrigeration equipment, including refrigerators, freezers and prep tables;
- food processing equipment, including slicers, mixers and scales;
- kitchen exhaust, ventilation and pollution control systems; and
- food equipment service, maintenance and repair.

In 2014, this segment primarily served the food institutional/restaurant (40%), food service (33%) and food retail (14%) markets.

The results of operations for the Food Equipment segment for 2014, 2013 and 2012 were as follows:

Dollars in millions	2014	2013	2012
Operating revenues	\$ 2,177	\$ 2,047	\$ 1,939
Operating income	453	385	332
Margin %	20.8%	18.8%	17.1%

In 2014 and 2013, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2014 Compared to 2013			2013 Compared to 2012		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Organic business:						
Revenue change/Operating leverage . . .	4.7%	11.2%	1.2%	1.9%	5.0%	0.5%
Changes in variable margins and overhead costs.	—	4.8	0.8	—	10.3	1.7
	4.7	16.0	2.0	1.9	15.3	2.2
Acquisitions and divestitures.	1.7	1.0	(0.2)	3.2	0.3	(0.5)
Restructuring costs	—	1.0	0.2	—	(0.5)	(0.1)
Impairment of goodwill and intangibles . . .	—	—	—	—	—	—
Translation.	—	—	—	0.4	0.6	0.1
Total.	6.4%	18.0%	2.0%	5.5%	15.7%	1.7%

Operating Revenues

Operating revenues increased 6.4% in 2014 versus 2013 due to an increase in organic and acquisition revenues. North American organic revenues increased 5.1% as North American equipment revenues increased 5.3%, primarily due to product innovation and penetration gains in refrigeration and cooking. North American service revenues increased 4.0%. International organic revenues increased 4.6% as equipment revenues increased 6.4% primarily due to growth in warewash and refrigeration businesses and product innovation. International service revenue growth of 0.6% was impacted by slower demand in southern Europe. The increase in revenues from acquisitions was due to the purchase of a Chinese food equipment business in the third quarter of 2013.

Organic revenues increased 5.5% in 2013 versus 2012 primarily due to revenues from acquisitions and an increase in organic revenues. North American organic revenues increased 3.8% in 2013 versus 2012 as North American service revenues increased 5.5% due to expanded service capabilities and improved market penetration, and equipment revenues increased 2.6% due to stronger growth in the second half of 2013. International organic revenues declined 0.2% in 2013 versus 2012. International service revenues increased 3.9% primarily due to expanded service capabilities in Europe. International equipment revenues declined 2.0% over the prior year primarily due to lower European sales in the cooking businesses in France and Italy. Improved European equipment sales in the second half of 2013 partially offset the revenue decline in the first half of 2013. The increase in revenues from acquisitions was due to the purchase of a Brazilian manufacturer of cooking equipment in the fourth quarter of 2012 and a Chinese food equipment business in the third quarter of 2013.

Operating Income

Operating income increased 18.0% in 2014 versus 2013 primarily due to higher organic revenues and changes in variable margins and overhead costs. Total organic business margins increased 200 basis points due to the positive operating leverage effect of the increase in organic revenues of 120 basis points and changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased organic business margins by 80 basis points primarily due to the benefits of the Company's enterprise initiatives, business structure simplification and strategic sourcing, and favorable selling price versus material cost comparisons of 20 basis points. Lower restructuring expenses increased total operating margins by 20 basis points.

Operating income increased 15.7% in 2013 versus 2012 primarily due to lower operating expenses and higher organic revenues. Total organic business margins increased 220 basis points due to the positive operating leverage effect of the increase in organic revenues of 50 basis points and changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased organic business margins by 170 basis points primarily due to higher variable margins of 120 basis points, driven by favorable selling price versus material cost comparisons of 60 basis points and operating efficiencies primarily in the North American service business, and lower overhead expenses of 50 basis points resulting primarily from the benefits of business structure simplification activities.

POLYMERS & FLUIDS

Businesses in this segment produce adhesives, sealants, lubrication and cutting fluids, janitorial and hygiene products, and fluids and polymers for auto aftermarket maintenance and appearance.

In the Polymers & Fluids segment, products include:

- adhesives for industrial, construction and consumer purposes;
- chemical fluids which clean or add lubrication to machines;
- epoxy and resin-based coating products for industrial applications;
- hand wipes and cleaners for industrial applications;
- fluids, polymers and other supplies for auto aftermarket maintenance and appearance;
- fillers and putties for auto body repair; and
- polyester coatings and patch and repair products for the marine industry.

In 2014, this segment primarily served the automotive aftermarket (42%), general industrial (14%), maintenance, repair and operations, or "MRO" (12%) and construction (9%) markets.

The results of operations for the Polymers & Fluids segment for 2014, 2013 and 2012 were as follows:

Dollars in millions	2014	2013	2012
Operating revenues	\$ 1,927	\$ 1,993	\$ 2,063
Operating income	357	335	327
Margin %	18.5%	16.8%	15.8%

In 2014 and 2013, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2014 Compared to 2013			2013 Compared to 2012		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Organic business:						
Revenue change/Operating leverage . .	(1.2)%	(3.2)%	(0.3)%	(2.9)%	(8.1)%	(0.8)%
Changes in variable margins and overhead costs	—	10.2	1.7	—	11.9	1.9
	(1.2)	7.0	1.4	(2.9)	3.8	1.1
Acquisitions and divestitures	—	—	—	0.5	—	—
Restructuring costs	—	1.7	0.3	—	(0.5)	(0.1)
Impairment of goodwill and intangibles . . .	—	(0.3)	—	—	—	—
Translation	(2.1)	(2.1)	—	(1.0)	(0.8)	—
Total	<u>(3.3)%</u>	<u>6.3%</u>	<u>1.7%</u>	<u>(3.4)%</u>	<u>2.5 %</u>	<u>1.0 %</u>

Operating Revenues

Operating revenues decreased 3.3% in 2014 versus 2013 primarily due to the unfavorable effect of currency translation and lower organic revenues. Ongoing product line and customer base simplification activities negatively impacted organic revenues by approximately two percentage points. Organic revenue decreases in North America and Europe were partially offset by growth in China and South America. Worldwide polymers organic revenues decreased 3.8% primarily due to revenue declines in North America and Europe, partially offset by growth in China and Brazil. Worldwide fluids and hygiene organic revenues decreased 0.4% primarily due to a decrease in revenues in Europe, partially offset by growth in Brazil. Automotive aftermarket organic revenues declined 0.2% driven by a decrease in revenues in North America, partially offset by growth in Asia Pacific and South America.

Operating revenues decreased 3.4% in 2013 versus 2012 primarily due to lower organic revenues and the unfavorable effect of currency translation. Organic revenues for the polymers and hygiene businesses decreased 5.3%, worldwide fluids decreased 2.3% and the automotive aftermarket businesses declined 1.6% in 2013 versus 2012. Revenue declines were primarily due to product line and customer base simplification activities, exiting low margin business and the loss of certain product sales. Acquisition revenue was primarily due to the purchase of a manufacturer of advanced technology silicone materials in the second quarter of 2012.

Operating Income

Operating income increased 6.3% in 2014 versus 2013 primarily due to changes in variable margins and overhead costs and lower restructuring expenses, partially offset by lower organic revenues and the unfavorable effect of currency translation. Total organic business margins increased 140 basis points primarily due to changes in variable margins and overhead costs, partially offset by the negative operating leverage effect of the decrease in organic revenues of 30 basis points. The changes in variable margins and overhead costs increased organic business margins by 170 basis points due to lower operating expenses, primarily driven by the benefits of the Company's enterprise initiatives, business structure simplification and strategic sourcing. Lower restructuring expenses increased total operating margins by 30 basis points.

Operating income increased 2.5% in 2013 versus 2012 primarily due to lower operating expenses, partially offset by lower organic revenues, the unfavorable effect of currency translation and higher restructuring expenses. Total organic business margins increased 110 basis points in 2013 versus 2012 primarily due to changes in variable margins and overhead costs, partially offset by the negative operating leverage effect of the decrease in organic revenues. The changes in variable margins and overhead costs increased organic business margins by 190 basis points primarily due to lower overhead expenses of 130 basis points, primarily driven by the benefits of business structure simplification activities and overhead cost management, and favorable selling price versus material cost comparisons of 50 basis points.

WELDING

Businesses in this segment produce arc welding equipment, consumables and accessories for a wide array of industrial and commercial applications.

In the Welding segment, products include:

- arc welding equipment;
- metal arc welding consumables and related accessories; and
- metal jacketing and other insulation products.

In 2014, this segment primarily served the general industrial (35%) market, which included fabrication, shipbuilding and other general industrial markets, energy (14%), maintenance, repair and operations, or "MRO" (10%), construction (10%) and industrial capital goods (5%) markets.

The results of operations for the Welding segment for 2014, 2013 and 2012 were as follows:

Dollars in millions	2014	2013	2012
Operating revenues	\$ 1,850	\$ 1,837	\$ 1,847
Operating income	479	464	470
Margin %	25.9%	25.3%	25.4%

In 2014 and 2013, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2014 Compared to 2013			2013 Compared to 2012		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Organic business:						
Revenue change/Operating leverage . . .	1.2%	2.0%	0.2%	(2.3)%	(3.7)%	(0.4)%
Changes in variable margins and overhead costs	—	2.3	0.6	—	3.2	0.9
	1.2	4.3	0.8	(2.3)	(0.5)	0.5
Acquisitions and divestitures	0.3	—	(0.1)	1.9	(0.4)	(0.5)
Restructuring costs	—	(0.5)	(0.1)	—	(0.3)	(0.1)
Impairment of goodwill and intangibles	—	—	—	—	—	—
Translation.	(0.8)	(0.6)	—	—	(0.1)	—
Total	<u>0.7%</u>	<u>3.2%</u>	<u>0.6%</u>	<u>(0.4)%</u>	<u>(1.3)%</u>	<u>(0.1)%</u>

Operating Revenues

Operating revenues increased 0.7% in 2014 versus 2013 primarily due to an increase in organic revenues, partially offset by the unfavorable effect of currency translation. Worldwide welding organic revenues increased 1.2%. North American welding organic revenues increased 6.0% primarily due to strength in equipment sales to general industrial and commercial customers. International organic revenues decreased 10.4% primarily due to a delay in China oil and gas pipeline projects and continued product line and customer base simplification activity in Europe. The increase from acquisition revenues was due to the purchase of a European supplier of welding consumables in the first quarter of 2013.

Operating revenues decreased 0.4% in 2013 versus 2012 primarily due to a decline in organic revenues, partially offset by revenues from acquisitions. Worldwide welding organic revenues declined 2.3% in 2013 versus 2012. North American welding organic revenues were lower by 2.2% due to heavy equipment OEM and general industrial end market declines. International organic revenues decreased 2.6% in 2013 versus 2012 primarily due to the ongoing strategic exit from the Chinese ship building end market. The increase from acquisition revenues was due to the purchase of a European supplier of welding consumables in the first quarter of 2013.

Operating Income

Operating income increased 3.2% in 2014 versus 2013 due to the changes in variable margins and overhead expenses and higher organic revenues, partially offset by the unfavorable effect of currency translation and higher restructuring expenses. Total organic business margins increased 80 basis points due to changes in variable margins and overhead costs and the positive operating leverage effect of the increase in organic revenues. Changes in variable margins and overhead costs increased organic business margins by 60 basis points driven by the benefits of the Company's enterprise initiatives, business structure simplification and strategic sourcing, and favorable selling price versus material cost comparisons of 40 basis points, partially offset by higher overhead expenses driven by continued investment in product innovation.

Operating income decreased 1.3% in 2013 versus 2012 primarily due to lower organic revenues, lower income from acquisitions, and higher restructuring expenses, partially offset by lower operating expenses. Total organic business margins increased 50 basis points primarily due to lower operating expenses, partially offset by the negative operating leverage effect of organic revenue declines. Changes in variable margins and overhead costs increased organic business margins by 90 basis points driven by favorable selling price versus material cost comparisons of 70 basis points and lower overhead costs including the benefits of business structure simplification activities. Acquisitions diluted total operating margins by 50 basis points in 2013 versus 2012 primarily due to lower operating margins and the impact of intangible asset amortization expense.

CONSTRUCTION PRODUCTS

Businesses in this segment produce construction fastening systems and truss products.

In the Construction Products segment, products include:

- fasteners and related fastening tools for wood and metal applications;
- anchors, fasteners and related tools for concrete applications;
- metal plate truss components and related equipment and software; and
- packaged hardware, fasteners, anchors and other products for retail.

In 2014, this segment primarily served the residential construction (37%), renovation construction (33%) and commercial construction (27%) markets.

The results of operations for the Construction Products segment for 2014, 2013 and 2012 were as follows:

Dollars in millions	2014	2013	2012
Operating revenues	\$ 1,707	\$ 1,717	\$ 1,724
Operating income	289	238	201
Margin %	17.0%	13.9%	11.6%

In 2014 and 2013, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2014 Compared to 2013			2013 Compared to 2012		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Organic business:						
Revenue change/Operating leverage . .	2.2 %	6.8%	0.6%	0.5 %	2.0%	0.2%
Changes in variable margins and overhead costs	—	15.7	2.2	—	22.5	2.6
	2.2	22.5	2.8	0.5	24.5	2.8
Acquisitions and divestitures	(0.9)	(0.7)	0.1	0.1	—	—
Restructuring costs	—	2.4	0.3	—	(2.6)	(0.3)
Impairment of goodwill and intangibles . . .	—	—	—	—	—	—
Translation	(1.9)	(2.9)	(0.1)	(1.1)	(2.5)	(0.2)
Total	<u>(0.6)%</u>	<u>21.3%</u>	<u>3.1%</u>	<u>(0.5)%</u>	<u>19.4%</u>	<u>2.3%</u>

Operating Revenues

Operating revenues decreased 0.6% in 2014 versus 2013 primarily due to the negative impact of currency translation and divestitures, partially offset by an increase in organic revenues. Ongoing product line and customer base simplification activities negatively impacted organic revenues by approximately one percentage point. International organic revenues increased 2.2% as Asia Pacific increased 7.0% primarily due to strong end market growth in Australia and New Zealand. European organic revenues declined 2.1% primarily due to lower end market demand in the region and product line and customer base simplification activities. North American organic revenues increased 2.1% primarily due to U.S. renovation organic revenue growth of 4.6%, driven by increased sales to big box retailers, partially offset by a decrease in organic revenues in Canada, primarily due to lower demand in the residential market.

Operating revenues decreased 0.5% in 2013 versus 2012 primarily due to the unfavorable effect of currency translation, partially offset by an increase in organic revenues. North American organic revenues increased 4.6% in 2013 versus 2012 as U.S. residential organic revenue growth was 8.2% primarily due to increased consumable sales associated with year-over-year growth in housing starts. U.S. renovation organic revenue growth was 7.3% primarily due to strong tool sales and

increased sales to big box retailers. U.S. commercial organic revenues declined 1.4% primarily due to weak overall demand. International organic revenues declined 1.6% in 2013 versus 2012, as European organic revenues declined 5.3% due to lower sales of consumable products driven by a slowdown in construction activity in European end markets. Organic revenues in Asia Pacific increased 2.4% in 2013 versus 2012 primarily due to growth in commercial and residential construction activity in Australia and New Zealand.

Operating Income

Operating income increased 21.3% in 2014 versus 2013 primarily due to lower operating expenses, higher organic revenues and lower restructuring expenses, partially offset by the unfavorable effect of currency translation. Total organic business margins increased 280 basis points due to changes in variable margins and overhead costs and the positive operating leverage effect of the increase in organic revenues of 60 basis points. The changes in variable margins and overhead costs increased organic business margins by 220 basis points primarily driven by the benefits of the Company's enterprise initiatives, business structure simplification and strategic sourcing, and favorable selling price versus material cost comparisons of 20 basis points. Lower restructuring expenses increased total operating margins by 30 basis points.

Operating income increased 19.4% in 2013 versus 2012 primarily due to lower operating expenses and higher organic revenues, partially offset by higher restructuring expenses and the unfavorable effect of currency translation. Total organic business margins increased 280 basis points primarily due to changes in variable margins and overhead costs and the positive operating leverage effect of the increase in organic revenues. The changes in variable margins and overhead costs increased organic business margins by 260 basis points in 2013 versus 2012 due to lower overhead costs of 210 basis points, primarily driven by the benefits of business structure simplification activities and overhead cost management, and higher variable margins of 50 basis points. Restructuring expenses reduced total operating margins by 30 basis points due to increased cost reduction activities in Europe.

SPECIALTY PRODUCTS

Diversified businesses in this segment produce beverage packaging equipment and consumables, product coding and marking equipment and consumables, and appliance components and fasteners.

In the Specialty Products segment, products include:

- line integration, conveyor systems and line automation for the food and beverage industries;
- plastic consumables that multi-pack cans and bottles and related equipment;
- foil, film and related equipment used to decorate consumer products;
- product coding and marking equipment and related consumables;
- plastic and metal fasteners and components for appliances;
- airport ground support equipment; and
- components for medical devices.

In 2014, this segment primarily served the food and beverage (25%), consumer durables (14%), general industrial (13%), printing and publishing (10%) and industrial capital goods (6%) markets.

The results of operations for the Specialty Products segment for 2014, 2013 and 2012 were as follows:

Dollars in millions	2014	2013	2012
Operating revenues	\$ 2,055	\$ 2,007	\$ 1,871
Operating income	440	408	365
Margin %	21.4%	20.3%	19.5%

In 2014 and 2013, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2014 Compared to 2013			2013 Compared to 2012		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Organic business:						
Revenue change/Operating leverage . . .	(0.3)%	(0.7)%	(0.1)%	1.3%	2.9%	0.3%
Changes in variable margins and overhead costs.	—	7.4	1.5	—	6.5	1.3
	(0.3)	6.7	1.4	1.3	9.4	1.6
Acquisitions and divestitures.	2.7	0.7	(0.4)	5.7	2.6	(0.6)
Restructuring costs	—	0.5	0.1	—	(1.1)	(0.2)
Impairment of goodwill and intangibles . . .	—	—	—	—	—	—
Translation.	—	0.1	—	0.3	0.8	—
Total.	<u>2.4 %</u>	<u>8.0 %</u>	<u>1.1 %</u>	<u>7.3%</u>	<u>11.7%</u>	<u>0.8%</u>

Operating Revenues

Operating revenues increased 2.4% in 2014 versus 2013 due to an increase in acquisition revenues, partially offset by a decrease in organic revenues. Worldwide consumer packaging organic revenues decreased 1.0% driven by lower equipment revenues in North America. Worldwide ground support equipment organic revenues increased 5.3% primarily due to higher end market demand in North America. Worldwide appliance organic revenues increased 0.7% primarily due to penetration gains in the North American home appliance sector. Acquisition revenue was primarily due to the purchase of a European consumer packaging equipment business in the third quarter of 2013.

Operating revenues increased 7.3% in 2013 versus 2012 primarily due to an increase in acquisition and organic revenues, and the favorable effect of currency translation. Worldwide consumer packaging organic revenues increased 2.5% in 2013 versus 2012 primarily due to growth in multi-pack beverage systems. Worldwide appliance organic revenues declined 3.0% in 2013 versus 2012 primarily due to lower consumer demand in the European home appliance sector. Worldwide organic revenues of the ground support equipment business increased 1.1% in 2013 versus 2012. Acquisition revenue was primarily due to the third quarter 2013 purchase of a European consumer packaging equipment business and the fourth quarter 2012 purchase of a North American medical products manufacturer.

Operating Income

Operating income increased 8.0% in 2014 versus 2013 primarily due to the changes in variable margins and overhead costs, income from acquisitions and lower restructuring expenses, partially offset by lower organic revenues. Total organic business margins increased 140 basis points primarily due to changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased organic business margins by 150 basis points driven by the benefits of the Company's enterprise initiatives, business structure simplification and strategic sourcing, partially offset by unfavorable selling price versus material cost comparisons of 30 basis points. Acquisitions diluted total operating margins by 40 basis points primarily due to lower operating margins and the impact of intangible asset amortization expense.

Operating income increased 11.7% in 2013 versus 2012 primarily due to lower operating expenses, an increase in organic revenues, and income from acquisitions. Total organic business margins increased 160 basis points in 2013 versus 2012 primarily due to the changes in variable margins and overhead costs and the positive operating leverage effect of the increase in organic revenues of 30 basis points. The changes in variable margins and overhead costs increased organic business margins by 130 basis points in 2013 versus 2012 driven by lower overhead expenses of 120 basis points, primarily resulting from the benefits of business structure simplification activities, and improvements in variable margins of 10 basis points. Acquisitions diluted total operating margins by 60 basis points in 2013 versus 2012 primarily due to amortization expense related to intangible assets.

DECORATIVE SURFACES

The Decorative Surfaces business produces decorative high-pressure laminate surfacing materials for furniture, office and retail space, countertops, worktops and other applications. Principal end markets served include commercial, renovation and residential construction.

On August 15, 2012, the Company entered into a definitive agreement (the "Investment Agreement") to divest a 51% majority interest in its Decorative Surfaces segment to certain funds managed by Clayton, Dubilier & Rice, LLC ("CD&R"). Under the terms of the Investment Agreement, the Company contributed the assets and stock of the Decorative Surfaces segment to a newly formed entity, Wilsonart International Holdings LLC ("Wilsonart"). The transaction closed on October 31, 2012, reducing the Company's ownership of Wilsonart to 49% immediately following the close of the transaction. The Company ceased consolidating the results of the Decorative Surfaces segment as of October 31, 2012 and now reports its 49% ownership interest in Wilsonart using the equity method of accounting. Due to the Company's continuing involvement through its 49% interest in Wilsonart, the historical operating results of Decorative Surfaces are presented in continuing operations. Additionally, effective November 1, 2012, the operating results of Decorative Surfaces were no longer reviewed by senior management of the Company and therefore, effective the fourth quarter of 2012, Decorative Surfaces was no longer a reportable segment of the Company. See the Divestiture of Majority Interest in Former Decorative Surfaces Segment note in Item 8. Financial Statements and Supplementary Data for further discussion of this transaction.

Historical operating results of Decorative Surfaces for 2012 were as follows:

Dollars in millions	<u>For the Ten Months Ended October 31, 2012</u>
Operating revenues	\$ 921
Operating income	143

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets decreased to \$242 million in 2014 from \$250 million in 2013 and \$252 million in 2012, due to various intangible assets being fully amortized in both 2014 and 2013.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

The Company performed its annual impairment assessment of goodwill and indefinite-lived intangible assets in the third quarter of 2014, 2013 and 2012. In the third quarter of 2014, these assessments resulted in no goodwill impairment charges and total indefinite-lived intangible asset impairment charges of \$3 million in the Polymers & Fluids and Test & Measurement and Electronics segments. In 2013, these assessments resulted in no goodwill impairment charges and an indefinite-lived intangible asset impairment charge of \$2 million in the Test & Measurement and Electronics segment. In 2012, these assessments resulted in a goodwill impairment charge of \$1 million in the Test & Measurement and Electronics segment and an indefinite-lived intangible asset impairment charge of \$1 million in the Food Equipment segment. See the Goodwill and Intangible Assets note in Item 8. Financial Statements and Supplementary Data for further details of the impairment charges.

INTEREST EXPENSE

Interest expense increased to \$250 million in 2014, which includes interest expense on the notes issued in February 2014 and the Euro notes issued in May 2014, versus \$239 million in 2013. Interest expense increased in 2013, which included the full year impact of interest expense on the 3.9% notes issued in late August 2012, versus \$213 million in 2012. See the Debt note in Item 8. Financial Statements and Supplementary Data for further details regarding the Company's debt obligations.

GAIN ON SALE OF INTEREST IN DECORATIVE SURFACES

In the fourth quarter of 2012, the Company recorded a pre-tax gain of \$933 million (\$632 million after-tax) related to the sale of a 51% majority interest in the former Decorative Surfaces segment. See the Divestiture of Majority Interest in Former Decorative Surfaces Segment note in Item 8. Financial Statements and Supplementary Data for further discussion of this transaction.

OTHER INCOME (EXPENSE)

Other income (expense) was income of \$61 million in 2014 versus \$72 million in 2013. This decrease was primarily due to a pre-tax gain of \$30 million recorded in 2013 related to the acquisition of the controlling interest in an existing equity investment, partially offset by higher interest income (\$65 million in 2014 versus \$50 million in 2013).

Other income (expense) was income of \$72 million in 2013 versus \$11 million in 2012. This increase was primarily due to a pre-tax gain of \$30 million recorded in the first quarter of 2013 related to the acquisition of the controlling interest in an existing equity investment, higher interest income (\$50 million in 2013 versus \$38 million in 2012) and lower equity investment losses related to Wilsonart (\$14 million in 2013 versus \$30 million in 2012).

See the Other Income (Expense) note in Item 8. Financial Statements and Supplementary Data for further details.

INCOME TAXES

The effective tax rate was 30.0% in 2014, 30.6% in 2013, and 30.3% in 2012. The effective tax rate for 2013 was unfavorably impacted by a \$40 million discrete tax charge in the third quarter of 2013 related to the tax treatment of intercompany financing transactions that impact the taxability of foreign earnings. The effective tax rate for 2012 was unfavorably impacted by discrete tax charges totaling \$36 million in the fourth quarter of 2012, which included \$35 million for the settlement of an IRS tax audit for the years 2008-2009.

See the Income Taxes note in Item 8. Financial Statements and Supplementary Data for further details on these discrete tax adjustments and a reconciliation of the U.S. federal statutory rate to the effective tax rate.

FOREIGN CURRENCY

For the year ended 2014 versus 2013, the impact of foreign currencies against the U.S. Dollar decreased operating revenues by approximately \$110 million in 2014 and decreased income from continuing operations by approximately \$14 million. For the year ended 2013 versus 2012, the impact of foreign currency fluctuations against the U.S. Dollar did not have a significant impact on operating revenues or income from continuing operations.

INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations was \$1.1 billion in 2014, \$49 million in 2013 and \$637 million in 2012. Income from discontinued operations in 2014 included an after-tax gain of \$1.1 billion on the disposal of the Industrial Packaging business in the second quarter of 2014. Income from discontinued operations in 2013 included after-tax losses on disposals of \$72 million and goodwill impairment of \$42 million related to various divested businesses. Income from discontinued operations in 2012 included an after-tax gain of \$372 million related to the sale of the finishing group of businesses. See the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

NEW ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board ("FASB") issued authoritative guidance to change the criteria for reporting discontinued operations. Under the new guidance, only disposals representing a strategic shift in a company's operations and financial results should be reported as discontinued operations, with expanded disclosures. In addition, disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify as a discontinued operation is required. The Company adopted this new guidance effective January 1, 2015. The new guidance applies prospectively to new disposals and new classifications of disposal groups held for sale after such date. As a result, this guidance did not have any impact on the Company's financial statements or related disclosures upon adoption.

In May 2014, the FASB issued authoritative guidance to change the criteria for revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, several new revenue recognition disclosures will be required. This guidance is effective for the Company beginning January 1, 2017. The Company is currently assessing the potential impact the guidance will have upon adoption.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are free operating cash flow and short-term credit facilities. In addition, the Company had \$4.0 billion of cash on hand at December 31, 2014 and also maintains strong access to public debt markets. Management believes that these sources are sufficient to service debt and to finance the Company's capital allocation priorities, which include:

- investment in existing businesses to fund internal growth;
- payment of an attractive dividend to shareholders;
- share repurchases; and
- acquisitions.

In September 2013, the Company's Board of Directors authorized a plan to commence a sale process for the Industrial Packaging business. The Company classified the Industrial Packaging segment as held for sale beginning in the third quarter of 2013 and no longer presented this segment as part of its continuing operations. As to the impact of this divestiture on the Company's income per share from continuing operations and capital structure going forward, the Company also indicated that it intended to repurchase approximately 50 million shares through a program utilizing its existing share repurchase authorization to offset the full amount of divestiture-related dilution of income per share from continuing operations through a combination of sale proceeds, free operating cash flow and additional leverage. The Company completed this program in the second quarter of 2014. Under this program, the Company repurchased approximately 14.0 million shares of its common stock in the fourth quarter of 2013 and approximately 35.7 million shares of its common stock in the first half of 2014.

On February 6, 2014, the Company announced that it had signed a definitive agreement to sell the Industrial Packaging business to The Carlyle Group for \$3.2 billion. The transaction was completed on May 1, 2014, resulting in a pre-tax gain of \$1.7 billion (\$1.1 billion after-tax) in the second quarter of 2014 which was included in Income from discontinued operations. A portion of the proceeds was used to fund share repurchases under the program noted above.

The Company believes that, based on its revenues, operating margins, current free operating cash flow, and credit ratings, it could readily obtain additional financing if necessary.

Cash Flow

The Company uses free operating cash flow to measure cash flow generated by operations that is available for dividends, share repurchases, acquisitions and debt repayment. The Company believes this non-GAAP financial measure is useful to investors in evaluating the Company's financial performance and measures the Company's ability to generate cash internally to fund Company initiatives. Free operating cash flow represents net cash provided by operating activities less additions to plant and equipment. Free operating cash flow is a measurement that is not the same as net cash flow from operating activities per the statement of cash flows and may not be consistent with similarly titled measures used by other companies.

Summarized cash flow information for the years ended December 31, 2014, 2013 and 2012 was as follows:

In millions	2014	2013	2012
Net cash provided by operating activities	\$ 1,616	\$ 2,528	\$ 2,072
Additions to plant and equipment	(361)	(368)	(382)
Free operating cash flow	<u>\$ 1,255</u>	<u>\$ 2,160</u>	<u>\$ 1,690</u>
Cash dividends paid.	\$ (711)	\$ (528)	\$ (865)
Repurchases of common stock	(4,346)	(2,106)	(2,020)
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates.	(45)	(369)	(723)
Net proceeds from sale of discontinued operations.	3,191	206	815
Proceeds from sale of operations and affiliates.	18	2	1,028
Net proceeds from debt	1,339	1,264	1,015
Other	206	303	608
Effect of exchange rate changes on cash and equivalents.	(535)	(93)	53
Net increase in cash and equivalents	<u>\$ 372</u>	<u>\$ 839</u>	<u>\$ 1,601</u>

The 2014 net cash provided by operating activities included \$724 million of tax payments related to the disposition of the Industrial Packaging segment. Cash dividends paid during 2013 do not include the dividend payment of \$174 million originally scheduled to be paid in January 2013, which was accelerated and paid in December 2012.

Stock Repurchase Programs

On May 6, 2011, the Company's Board of Directors authorized a stock repurchase program, which provided for the buyback of up to \$4.0 billion of the Company's common stock over an open-ended period of time (the "2011 Program"). Under the 2011 Program, the Company repurchased approximately 1.8 million shares of its common stock at an average price of \$43.20 per share during 2011, approximately 35.5 million shares of its common stock at an average price of \$56.93 per share during 2012 and approximately 26.4 million shares of its common stock at an average price of \$71.89 per share during 2013. As of December 31, 2013, there were no authorized repurchases remaining under the 2011 Program.

On August 2, 2013, the Company's Board of Directors authorized a new stock repurchase program, which provides for the buyback of up to an additional \$6.0 billion of the Company's common stock over an open-ended period of time (the "2013 Program"). Under the 2013 Program, the Company repurchased approximately 3.3 million shares of its common stock at an average price of \$81.62 per share during 2013 and approximately 50.4 million shares of its common stock at an average price of \$84.92 per share during 2014. As of December 31, 2014, there was approximately \$1.4 billion of authorized repurchases remaining under the 2013 Program.

Adjusted Return on Average Invested Capital

The Company uses adjusted return on average invested capital ("adjusted ROIC") to measure the effectiveness of its operations' use of invested capital to generate profits. Adjusted ROIC is a non-GAAP financial measure that the Company believes is a meaningful metric to investors in evaluating the Company's financial performance and may be different than the method used by other companies to calculate ROIC. To improve comparability of adjusted ROIC in the periods presented, after-tax operating income excludes the operating income of the former Decorative Surfaces segment. Adjusted average invested capital represents the net assets of the Company, excluding cash and equivalents and outstanding debt, which are excluded as they do not represent capital investment in the Company's operations, as well as the Company's net investment in the former Decorative Surfaces and Industrial Packaging segments, and the equity investment in the Wilsonart business. Average invested capital is calculated using balances at the start of the period and at the end of each quarter.

Adjusted ROIC for the years ended December 31, 2014, 2013, and 2012 was as follows:

Dollars in millions	2014	2013	2012
Operating income	\$ 2,888	\$ 2,514	\$ 2,475
Adjustment for Decorative Surfaces	—	—	(143)
Adjusted operating income	2,888	2,514	2,332
Tax rate (as adjusted in 2013 and 2012)	30.0%	28.8%	29.2%
Income taxes	(866)	(724)	(681)
Adjusted operating income after taxes	<u>\$ 2,022</u>	<u>\$ 1,790</u>	<u>\$ 1,651</u>
Invested capital:			
Trade receivables	\$ 2,293	\$ 2,365	\$ 2,742
Inventories	1,180	1,247	1,585
Net assets held for sale	—	1,519	—
Net plant and equipment	1,686	1,709	1,994
Goodwill and intangible assets	6,466	6,885	7,788
Accounts payable and accrued expenses	(1,799)	(1,906)	(2,068)
Other, net	465	616	798
Total invested capital	<u>\$ 10,291</u>	<u>\$ 12,435</u>	<u>\$ 12,839</u>
Average invested capital	\$ 11,249	\$ 12,605	\$ 13,160
Adjustment for Wilsonart (formerly the Decorative Surfaces segment)	(154)	(169)	(274)
Adjustment for Industrial Packaging	(424)	(1,477)	(1,504)
Adjusted average invested capital	<u>\$ 10,671</u>	<u>\$ 10,959</u>	<u>\$ 11,382</u>
Adjusted return on average invested capital	<u>18.9%</u>	<u>16.3%</u>	<u>14.5%</u>

Adjusted ROIC increased 260 basis points in 2014 versus 2013 as a result of improvement in after-tax operating income of 13.0% and a decrease in adjusted average invested capital of 2.6%. Adjusted ROIC increased 180 basis points in 2013 versus 2012 as a result of improvement in after-tax operating income of 8.4% and a decrease in adjusted average invested capital of 3.7%.

The 2013 effective tax rate included a discrete tax charge of \$40 million related to the tax treatment of intercompany financing transactions that impact the taxability of foreign earnings. The 2012 effective tax rate included a discrete tax charge of \$36 million, which included \$35 million for the settlement of an IRS tax audit for the years 2008-2009.

A reconciliation of the effective tax rate to the adjusted tax rate excluding the discrete tax items is as follows:

Dollars in millions	For the Years Ended December 31			
	2013		2012	
	Income Taxes	Tax Rate	Income Taxes	Tax Rate
As reported	\$ 717	30.6%	\$ 973	30.3%
Discrete tax charges	(40)	(1.8)	(36)	(1.1)
As adjusted	<u>\$ 677</u>	<u>28.8%</u>	<u>\$ 937</u>	<u>29.2%</u>

Working Capital

Management uses working capital as a measurement of the short-term liquidity of the Company. Net working capital at December 31, 2014 and 2013 is summarized as follows:

Dollars in millions	2014	2013	Increase (Decrease)
Current Assets:			
Cash and equivalents	\$ 3,990	\$ 3,618	\$ 372
Trade receivables	2,293	2,365	(72)
Inventories	1,180	1,247	(67)
Other	613	750	(137)
Assets held for sale	—	1,836	(1,836)
	8,076	9,816	(1,740)
Current Liabilities:			
Short-term debt	1,476	3,551	(2,075)
Accounts payable and accrued expenses	1,799	1,906	(107)
Other	258	260	(2)
Liabilities held for sale	—	317	(317)
	3,533	6,034	(2,501)
Net Working Capital	\$ 4,543	\$ 3,782	\$ 761

The increase in net working capital as of December 31, 2014 was primarily due to lower current maturities of long-term debt resulting from the repayment of \$1.0 billion of 5.25% Euro notes in October 2014 and \$800 million of 5.15% redeemable notes in April 2014, partially offset by a \$1.5 billion decrease in net assets held for sale primarily related to the sale of the Industrial Packaging business.

Cash and equivalents totaled approximately \$4.0 billion as of December 31, 2014 and \$3.6 billion as of December 31, 2013, primarily all of which was held by international subsidiaries and may be subject to U.S. income taxes and foreign withholding taxes if repatriated to the U.S. Cash balances held internationally are typically used for international operating needs, reinvested to fund expansion of existing international businesses, used to fund new international acquisitions, or used to repay debt held internationally. In the U.S., the Company utilizes cash flows from domestic operations to fund domestic cash needs which primarily consist of dividend payments, share repurchases, acquisitions, servicing of domestic debt obligations and general corporate needs. The Company also uses its commercial paper program, which is backed by long-term credit facilities of \$2.5 billion, for short-term liquidity needs. The Company believes cash generated domestically and liquidity provided by the Company's commercial paper program will continue to be sufficient to fund cash requirements in the U.S.

Debt

Total debt at December 31, 2014 and 2013 was as follows:

Dollars in millions	2014	2013	Increase (Decrease)
Short-term debt	\$ 1,476	\$ 3,551	\$ (2,075)
Long-term debt	5,981	2,793	3,188
Total debt	\$ 7,457	\$ 6,344	\$ 1,113

Short-term debt as of December 31, 2014 and December 31, 2013 included commercial paper of \$1.4 billion and \$1.7 billion, respectively. In addition, at December 31, 2013 the Company classified €750 million of 5.25% Euro notes due October 1, 2014 and \$800 million of 5.15% redeemable notes due April 1, 2014 as short-term debt, which were repaid on the respective due dates.

In February 2014, the Company issued \$650 million of 0.9% notes due February 25, 2017 at 99.861% of face value, \$650 million of 1.95% notes due March 1, 2019 at 99.871% of face value, and \$700 million of 3.5% notes due March 1, 2024 at 99.648% of face value. Net proceeds from the February 2014 debt issuance were used to repay commercial paper.

In May 2014, the Company issued €500 million of 1.75% Euro notes due May 20, 2022 at 99.16% of face value and €500 million of 3.0% Euro notes due May 19, 2034 at 98.089% of face value. The carrying values of the Euro notes were \$600 million and \$594 million, respectively, as of December 31, 2014. Net proceeds from the May 2014 debt issuances were used for general corporate purposes.

The Company may issue commercial paper to fund general corporate needs, share repurchases, and small and medium-sized acquisitions. The Company has committed lines of credit of \$2.5 billion in the U.S. to support the potential issuances of commercial paper. Of this amount, \$1.0 billion is provided under a line of credit agreement with a termination date of August 15, 2018 and \$1.5 billion is provided under a line of credit agreement with a termination date of June 8, 2017. No amounts were outstanding under these two facilities at December 31, 2014. The maximum outstanding commercial paper balance during 2014 was \$2.3 billion, while the average daily balance was \$858 million. As of December 31, 2014, the Company's foreign operations had authorized credit facilities with unused capacity of \$330 million.

Total Debt to EBITDA

The Company uses the ratio of total debt to EBITDA to measure its ability to repay its outstanding debt obligations. The Company believes that total debt to EBITDA is a meaningful metric to investors in evaluating the Company's long term financial liquidity and may be different than the method used by other companies to calculate total debt to EBITDA. EBITDA and the ratio of total debt to EBITDA are non-GAAP financial measures. The ratio of total debt to EBITDA represents total debt divided by income from continuing operations before interest expense, other income (expense), income taxes, depreciation, and amortization and impairment of goodwill and other intangible assets on a trailing twelve month basis.

Total debt to EBITDA for the years ended December 31, 2014 and 2013 was as follows:

Dollars in millions	2014	2013
Total debt	\$ 7,457	\$ 6,344
Income from continuing operations	\$ 1,890	\$ 1,630
Add:		
Interest expense	250	239
Other income	(61)	(72)
Income taxes	809	717
Depreciation	262	270
Amortization and impairment of goodwill and other intangible assets	245	252
EBITDA	\$ 3,395	\$ 3,036
Total debt to EBITDA ratio	2.2	2.1

Stockholders' Equity

The changes to stockholders' equity during 2014 and 2013 were as follows:

In millions	2014	2013
Beginning balance	\$ 9,709	\$ 10,570
Net income	2,946	1,679
Cash dividends declared	(716)	(709)
Repurchases of common stock	(4,283)	(2,170)
Currency translation adjustments	(939)	(193)
Other	107	532
Ending balance	\$ 6,824	\$ 9,709

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The Company's significant contractual obligations as of December 31, 2014 were as follows:

In millions	2015	2016	2017	2018	2019	2020 and Future Years
Total long-term debt	\$ 1	\$ —	\$ 650	\$ —	\$ 1,350	\$ 4,014
Interest payments on notes	202	202	199	196	168	2,122
Minimum lease payments	105	78	52	35	26	41
	<u>\$ 308</u>	<u>\$ 280</u>	<u>\$ 901</u>	<u>\$ 231</u>	<u>\$ 1,544</u>	<u>\$ 6,177</u>

As of December 31, 2014, the Company had recorded noncurrent liabilities for unrecognized tax benefits of \$157 million. The Company is not able to reasonably estimate the timing of payments related to the liabilities for unrecognized tax benefits.

The Company did not have any significant off-balance sheet commitments at December 31, 2014.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company has six accounting policies that it believes are most important to the Company's financial condition and results of operations, and which require the Company to make estimates about matters that are inherently uncertain. Management bases its estimates on historical experience, and in some cases on observable market information. Various assumptions are also used that are believed to be reasonable under the circumstances and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The Company's critical accounting policies are as follows:

Realizability of Inventories—Inventories are stated at the lower of cost or market. Generally, the Company's businesses perform an analysis of the historical sales usage of the individual inventory items on hand and a reserve is recorded to adjust inventory cost to market value based on the following usage criteria:

Usage Classification	Criteria	Reserve %
Active	Quantity on hand is less than prior 6 months of usage	0%
Slow-moving	Some usage in last 12 months, but quantity on hand exceeds prior 6 months of usage	50%
Obsolete	No usage in the last 12 months	90%

In addition, for approximately 22% of total inventories, the Company has elected to use the last-in, first-out ("LIFO") method of inventory costing. Generally, this method results in a lower inventory value than the first-in, first-out ("FIFO") method due to the effects of inflation.

Collectibility of Accounts Receivable—The Company estimates the allowance for uncollectible accounts based on the greater of a specific reserve or a reserve calculated based on the historical write-off percentage over the last two years. In addition, the allowance for uncollectible accounts includes reserves for customer credits and cash discounts, which are also estimated based on past experience.

Depreciation of Plant and Equipment — The Company's U.S. businesses primarily compute depreciation on an accelerated basis, as follows:

Buildings and improvements	150% declining balance
Machinery and equipment	200% declining balance

The majority of the Company's international businesses compute depreciation on a straight-line basis.

Income Taxes—The Company provides deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based on currently enacted tax laws. The Company's deferred and other tax balances are based on management's interpretation of the tax regulations and rulings in numerous taxing jurisdictions. Income tax expense and liabilities recognized by the Company also reflect its best estimates and assumptions regarding, among other things, the level of future taxable income, the effect of the Company's various tax planning strategies and uncertain tax positions. Future tax authority rulings and changes in tax laws, changes in projected levels of taxable income and future tax planning strategies could affect the actual effective tax rate and tax balances recorded by the Company.

Goodwill and Intangible Assets—The Company's business acquisitions typically result in recording goodwill and other intangible assets, which are a significant portion of the Company's total assets and affect the amount of amortization expense and impairment charges that the Company could incur in future periods. The Company follows the guidance prescribed in the accounting standards to test goodwill and intangible assets for impairment. On an annual basis, or more frequently if triggering events occur, the Company compares the estimated fair value of its reporting units to the carrying value of each reporting unit to determine if a potential goodwill impairment exists. If the fair value of a reporting unit is less than its carrying value, an impairment loss, if any, is recorded for the difference between the implied fair value and the carrying value of the reporting unit's goodwill. In calculating the fair value of the reporting units or specific intangible assets, management relies on a number of factors, including business plans, economic projections, anticipated future cash flows, comparable transactions and other market data. There are inherent uncertainties related to these factors and management's judgment in applying them in the impairment tests of goodwill and other intangible assets.

As of December 31, 2014, the Company had total goodwill and intangible assets of \$6.5 billion allocated to its reporting units. Although there can be no assurance that the Company will not incur additional impairment charges related to its goodwill and other intangible assets, the Company generally believes the risk of significant impairment charges is lessened by the number of diversified businesses and end markets represented by its reporting units that have goodwill and other intangible assets. In addition, the individual businesses in many of the reporting units have been acquired over a long period of time, and in many cases have been able to improve their performance, primarily as a result of the application of the Company's 80/20 business process. The amount of goodwill and other intangible assets allocated to individual reporting units ranges from approximately \$59 million to \$1.6 billion, with the average amount equal to \$461 million. Fair value determinations require considerable judgment and are sensitive to changes in the factors described above. Due to the inherent uncertainties associated with these factors and economic conditions in the Company's global end markets, impairment charges related to one or more reporting units could occur in future periods.

Pension and Other Postretirement Benefits—The Company has various company-sponsored defined benefit retirement plans covering a substantial portion of U.S. employees and many employees outside the U.S. Pension and other postretirement benefit expense and obligations are determined based on actuarial valuations. Pension benefit obligations are generally based on each participant's years of service, future compensation, and age at retirement or termination. Important assumptions in determining pension and postretirement expense and obligations are the discount rate, the expected long-term return on plan assets, life expectancy, and health care cost trend rates. Future changes in any of these assumptions could materially affect the amounts recorded related to the Company's pension and other postretirement benefit plans. See the Pension and Other Postretirement Benefits note in Item 8. Financial Statements and Supplementary Data for additional discussion of actuarial assumptions used in determining pension and postretirement health care liabilities and expenses.

During 2014, the Society of Actuaries released a new mortality table, referred to as RP-2014, which is believed to better reflect mortality improvements. The Company used the RP-2014 mortality table to measure its U.S. pension and other postretirement obligations as of December 31, 2014, resulting in an increase in pension obligations of \$76 million and an increase in other postretirement obligations of \$46 million as of December 31, 2014.

The Company determines the discount rate used to measure plan liabilities as of the year-end measurement date for the U.S. primary pension plan. The discount rate reflects the current rate at which the associated liabilities could theoretically be effectively settled at the end of the year. In estimating this rate, the Company looks at rates of return on high-quality fixed income investments, with similar duration to the liabilities in the plan. A 25 basis point decrease in the discount rate would increase the present value of the U.S. primary pension plan obligation by approximately \$37 million.

The expected long-term return on plan assets is based on historical and expected long-term returns for similar investment allocations among asset classes. For the U.S. primary pension plan, a 25 basis point decrease in the expected return on plan assets would increase the annual pension expense by approximately \$4 million. See the Pension and Other Postretirement

Benefits note in Item 8. Financial Statements and Supplementary Data for information on the Company's pension and other postretirement benefit plans and related assumptions.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

MARKET RISK

The Company is exposed to certain market risks that exist as part of its ongoing business operations, including fluctuations in currency exchange rates, price volatility for certain commodities and changes in interest rates. The Company does not engage in speculative or leveraged transactions and does not hold or issue financial instruments for trading purposes.

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the fair value of the Company's fixed rate debt. The following table presents the Company's debt for which fair value is subject to changing market interest rates:

In millions	0.90% Notes Due Feb 25, 2017	1.95% Notes Due Mar 1, 2019	6.25% Notes Due Apr 1, 2019	4.88% Notes Due thru Dec 31, 2020	3.375% Notes Due Sep 15, 2021	1.75% Euro Notes Due May 20, 2022	3.50% Notes Due Mar 1, 2024	3.00% Euro Notes Due May 19, 2034	4.875% Notes Due Sep 15, 2041	3.9% Notes Due Sep 1, 2042
As of December 31, 2014:										
Estimated cash outflow by year of principal maturity										
2015.....	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2016.....	—	—	—	—	—	—	—	—	—	—
2017.....	650	—	—	—	—	—	—	—	—	—
2018.....	—	—	—	—	—	—	—	—	—	—
2019.....	—	650	700	—	—	—	—	—	—	—
2020 and thereafter.....	—	—	—	4	350	605	700	605	650	1,100
Estimated fair value ..	648	651	817	6	369	640	735	702	746	1,110
Carrying value	649	649	700	5	349	600	698	594	641	1,090
As of December 31, 2013:										
Total estimated cash outflow	\$ —	\$ —	\$ 700	\$ 8	\$ 350	\$ —	\$ —	\$ —	\$ 650	\$ 1,100
Estimated fair value ..	—	—	834	8	350	—	—	—	649	944
Carrying value	—	—	700	7	349	—	—	—	641	1,090

Foreign Currency Risk

The Company operates in the U.S. and 56 foreign countries. The initial funding for the foreign manufacturing operations was provided primarily through the permanent investment of equity capital from the U.S. parent company. The Company's products are primarily manufactured and sold within the same country. Therefore, the Company's manufacturing operations do not have significant assets or liabilities denominated in currencies other than their functional currencies.

In October 2007, the Company, through a wholly-owned European subsidiary, issued €750 million of 5.25% Euro notes due October 1, 2014, which were paid on the due date. In addition, in May 2014, the Company issued €500 million of 1.75% Euro notes due May 20, 2022 and €500 million of 3.0% Euro notes due May 19, 2034. The Company designated the €1.0 billion of Euro notes as a hedge of a portion of its net investment in Euro-denominated foreign operations to reduce foreign currency risk associated with the investment in these operations. Changes in the value of this debt resulting from fluctuations in the Euro to U.S. Dollar exchange rate have been recorded as foreign currency translation adjustments within Accumulated other comprehensive income. The unrealized gain recorded in Accumulated other comprehensive income related to the net investment hedge was \$158 million for the year ended December 31, 2014.

ITEM 8. *Financial Statements and Supplementary Data*

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Illinois Tool Works Inc. (the "Company" or "ITW") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). ITW's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

ITW management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our assessment we believe that, as of December 31, 2014, the Company's internal control over financial reporting is effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report herein.

/s/ E. Scott Santi
E. Scott Santi
President & Chief Executive Officer
February 13, 2015

/s/ Michael M. Larsen
Michael M. Larsen
Senior Vice President & Chief Financial Officer
February 13, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Illinois Tool Works Inc.
Glenview, IL

We have audited the accompanying consolidated statements of financial position of Illinois Tool Works Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, income reinvested in the business, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Illinois Tool Works Inc. and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP
Deloitte & Touche LLP
Chicago, Illinois
February 13, 2015

Statement of Income
Illinois Tool Works Inc. and Subsidiaries

In millions except per share amounts	For the Years Ended December 31		
	2014	2013	2012
Operating Revenues	\$ 14,484	\$ 14,135	\$ 14,791
Cost of revenues	8,673	8,554	9,134
Selling, administrative, and research and development expenses	2,678	2,815	2,928
Amortization of intangible assets	242	250	252
Impairment of goodwill and other intangible assets	3	2	2
Operating Income	2,888	2,514	2,475
Interest expense	(250)	(239)	(213)
Gain on sale of interest in Decorative Surfaces	—	—	933
Other income (expense)	61	72	11
Income from Continuing Operations Before Income Taxes	2,699	2,347	3,206
Income taxes	809	717	973
Income from Continuing Operations	1,890	1,630	2,233
Income from Discontinued Operations	1,056	49	637
Net Income	<u>\$ 2,946</u>	<u>\$ 1,679</u>	<u>\$ 2,870</u>
Income Per Share from Continuing Operations:			
Basic	\$ 4.70	\$ 3.65	\$ 4.75
Diluted	\$ 4.67	\$ 3.63	\$ 4.72
Income Per Share from Discontinued Operations:			
Basic	\$ 2.63	\$ 0.11	\$ 1.36
Diluted	\$ 2.61	\$ 0.11	\$ 1.35
Net Income Per Share:			
Basic	\$ 7.33	\$ 3.76	\$ 6.11
Diluted	\$ 7.28	\$ 3.74	\$ 6.06

The Notes to Financial Statements are an integral part of this statement.

Statement of Comprehensive Income
Illinois Tool Works Inc. and Subsidiaries

In millions	For the Years Ended December 31		
	2014	2013	2012
Net Income	\$ 2,946	\$ 1,679	\$ 2,870
Other Comprehensive Income:			
Foreign currency translation adjustments	(939)	(193)	94
Pension and other postretirement benefit adjustments, net of tax	(103)	284	(25)
Comprehensive Income	\$ 1,904	\$ 1,770	\$ 2,939

Statement of Income Reinvested in the Business
Illinois Tool Works Inc. and Subsidiaries

In millions	For the Years Ended December 31		
	2014	2013	2012
Beginning Balance	\$ 14,943	\$ 13,973	\$ 11,794
Net income	2,946	1,679	2,870
Cash dividends declared	(716)	(709)	(691)
Ending Balance	\$ 17,173	\$ 14,943	\$ 13,973

The Notes to Financial Statements are an integral part of these statements.

Statement of Financial Position
Illinois Tool Works Inc. and Subsidiaries

In millions except shares	December 31	
	2014	2013
Assets		
Current Assets:		
Cash and equivalents	\$ 3,990	\$ 3,618
Trade receivables	2,293	2,365
Inventories	1,180	1,247
Deferred income taxes	212	384
Prepaid expenses and other current assets	401	366
Assets held for sale	—	1,836
Total current assets	8,076	9,816
Net plant and equipment	1,686	1,709
Goodwill	4,667	4,886
Intangible assets	1,799	1,999
Deferred income taxes	301	359
Other assets	1,149	1,197
	\$ 17,678	\$ 19,966
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt	\$ 1,476	\$ 3,551
Accounts payable	512	634
Accrued expenses	1,287	1,272
Cash dividends payable	186	181
Income taxes payable	64	69
Deferred income taxes	8	10
Liabilities held for sale	—	317
Total current liabilities	3,533	6,034
Noncurrent Liabilities:		
Long-term debt	5,981	2,793
Deferred income taxes	338	507
Other liabilities	1,002	923
Total noncurrent liabilities	7,321	4,223
Stockholders' Equity:		
Common stock:		
Issued - 550,035,604 shares in 2014 and 2013	6	6
Additional paid-in-capital	1,096	1,046
Income reinvested in the business	17,173	14,943
Common stock held in treasury	(10,798)	(6,676)
Accumulated other comprehensive income	(658)	384
Noncontrolling interest	5	6
Total stockholders' equity	6,824	9,709
	\$ 17,678	\$ 19,966

The Notes to Financial Statements are an integral part of this statement.

Statement of Cash Flows
Illinois Tool Works Inc. and Subsidiaries

In millions	For the Years Ended December 31		
	2014	2013	2012
Cash Provided by (Used for) Operating Activities:			
Net income	\$ 2,946	\$ 1,679	\$ 2,870
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	262	299	323
Amortization and impairment of goodwill and other intangible assets	245	314	290
Change in deferred income taxes	55	6	243
Provision for uncollectible accounts	7	3	11
(Income) loss from investments	(8)	(12)	(11)
(Gain) loss on sale of plant and equipment	2	(1)	(4)
(Gain) loss on discontinued operations	(1,718)	91	(499)
(Gain) loss on sale of operations and affiliates	6	5	(931)
Stock-based compensation expense	39	37	54
Gain on acquisition of controlling interest in an equity investment	—	(30)	—
Other non-cash items, net	10	17	23
Change in assets and liabilities, net of acquisitions and divestitures:			
(Increase) decrease in—			
Trade receivables	(70)	(83)	(13)
Inventories	(10)	24	82
Prepaid expenses and other assets	(97)	229	(75)
Increase (decrease) in—			
Accounts payable	(20)	8	(21)
Accrued expenses and other liabilities	5	161	(87)
Income taxes	33	(176)	(173)
Other, net	(71)	(43)	(10)
Net cash provided by operating activities	1,616	2,528	2,072
Cash Provided by (Used for) Investing Activities:			
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(45)	(369)	(723)
Additions to plant and equipment	(361)	(368)	(382)
Proceeds from investments	28	40	281
Proceeds from sale of plant and equipment	28	38	30
Net proceeds from sale of discontinued operations	3,191	206	815
Proceeds from sale of operations and affiliates	18	2	1,028
Other, net	(17)	(5)	(2)
Net cash provided by (used for) investing activities	2,842	(456)	1,047
Cash Provided by (Used for) Financing Activities:			
Cash dividends paid	(711)	(528)	(865)
Issuance of common stock	148	206	283
Repurchases of common stock	(4,346)	(2,106)	(2,020)
Net proceeds from (repayments of) debt with original maturities of three months or less	(239)	1,267	208
Proceeds from debt with original maturities of more than three months	3,329	3	1,079
Repayments of debt with original maturities of more than three months	(1,751)	(6)	(272)
Excess tax benefits from stock-based compensation	33	24	16
Other, net	(14)	—	—
Net cash provided by (used for) financing activities	(3,551)	(1,140)	(1,571)
Effect of Exchange Rate Changes on Cash and Equivalents	(535)	(93)	53
Cash and Equivalents:			
Increase (decrease) during the year	372	839	1,601
Beginning of year	3,618	2,779	1,178
End of year	<u>\$ 3,990</u>	<u>\$ 3,618</u>	<u>\$ 2,779</u>
Supplementary Cash Flow Information:			
Cash Paid During the Year for Interest	<u>\$ 236</u>	<u>\$ 240</u>	<u>\$ 211</u>
Cash Paid During the Year for Income Taxes, Net of Refunds	<u>\$ 1,502</u>	<u>\$ 602</u>	<u>\$ 1,134</u>
Supplementary Non-Cash Investing Information:			
Liabilities Assumed from Acquisitions	<u>\$ 4</u>	<u>\$ 145</u>	<u>\$ 194</u>
Equity investment in Wilsonart	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 204</u>

The Notes to Financial Statements are an integral part of this statement.

Notes to Financial Statements

The Notes to Financial Statements furnish additional information on items in the financial statements. The notes have been arranged in the same order as the related items appear in the statements.

Illinois Tool Works Inc. (the "Company" or "ITW") is a global manufacturer of a diversified range of industrial products and equipment with approximately 90 divisions in 57 countries. The Company primarily serves the automotive OEM/tiers, automotive aftermarket, general industrial, commercial food equipment, and construction end markets.

Significant accounting principles and policies of the Company are in italics. Certain reclassifications of prior year data have been made to conform to current year reporting.

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes to financial statements. Actual results could differ from those estimates. The significant estimates included in the preparation of the financial statements are related to inventories, trade receivables, plant and equipment, income taxes, goodwill and intangible assets, product liability matters, litigation, product warranties, pensions, other postretirement benefits, environmental matters and stock-based compensation.

Consolidation and Translation—*The financial statements include the Company and its majority-owned subsidiaries. The Company follows the equity method of accounting for investments where the Company has a significant influence but not a controlling interest. Intercompany transactions are eliminated from the financial statements. Foreign subsidiaries' assets and liabilities are translated to U.S. dollars at end-of-period exchange rates. Revenues and expenses are translated at average rates for the period. Translation adjustments are reported as a component of accumulated other comprehensive income in stockholders' equity.*

Divestiture of Majority Interest in Former Decorative Surfaces Segment—On August 15, 2012, the Company entered into a definitive agreement (the "Investment Agreement") to divest a 51% majority interest in its Decorative Surfaces segment to certain funds managed by Clayton, Dubilier & Rice, LLC ("CD&R"). The transaction closed on October 31, 2012 resulting in a pre-tax gain of \$933 million (\$632 million after-tax) in the fourth quarter of 2012.

Under the terms of the Investment Agreement, the Company contributed the assets and stock of the Decorative Surfaces segment to a newly formed entity, Wilsonart International Holdings LLC ("Wilsonart"). Through a combination of CD&R's equity investment in Wilsonart and new third party borrowings by a subsidiary of Wilsonart, the Company and its subsidiaries received payments of approximately \$1.05 billion from Wilsonart and its subsidiaries as well as common units (the "Common Units") initially representing approximately 49% (on an as-converted basis) of the total outstanding equity of Wilsonart immediately following the closing of the transaction. CD&R contributed \$395 million to Wilsonart in exchange for newly issued cumulative convertible participating preferred units (the "Preferred Units") of Wilsonart initially representing approximately 51% (on an as-converted basis) of the total outstanding equity immediately following the closing of the transaction. The Preferred Units rank senior to the Common Units as to dividends and liquidation preference, and accrue dividends at a rate of 10.00% per annum.

As of October 31, 2012, the Company ceased consolidating the results of the Decorative Surfaces segment and now reports its ownership interest in Wilsonart using the equity method of accounting. The Company recorded its initial equity investment in Wilsonart at fair value. The fair value was determined using an implied equity value approach, which is a Level 3 valuation method. Under this approach, the total equity of Wilsonart was valued using an option pricing model and the value of the Preferred Units was deducted to arrive at the implied equity value of the Common Units. The significant unobservable inputs utilized in this calculation were the expected term of the investment and assumed volatility during the term. The Company also applied a discount factor to the implied equity value of the Common Units due to the lack of marketability of the Common Units. The fair value of the Company's retained ownership interest was determined to be \$204 million and resulted in a pre-tax gain of \$51 million related to the retained interest, which was included in the pre-tax gain noted above. The Company's equity investment in Wilsonart is reported in Other assets in the consolidated statement of financial position. The Company's proportionate share in the income (loss) of Wilsonart is reported in Other income (expense) in the consolidated statement of income. As the Company's investment in Wilsonart is structured as a partnership for U.S. tax purposes, U.S. taxes are recorded separately from the equity investment. The Company recorded a pre-tax loss of \$30 million for the two-month period ended December 31, 2012 in Other income (expense) primarily due to transaction costs related to the formation of Wilsonart and the impact of purchase accounting. The Company recorded pre-tax losses of \$9

million and \$14 million for the years ended December 31, 2014 and 2013, respectively, in Other income (expense) related to its interest in Wilsonart.

Due to the Company's continuing involvement through its 49% interest in Wilsonart, the historical operating results of Decorative Surfaces are presented in continuing operations. Additionally, as of November 1, 2012, the operating results of Decorative Surfaces are no longer reviewed by senior management of the Company and therefore, effective the fourth quarter of 2012, Decorative Surfaces was no longer a reportable segment of the Company.

Historical operating results of the former Decorative Surfaces segment for 2012 were as follows:

In millions	For the Ten Months Ended October 31, 2012
Operating revenues	\$ 921
Operating income	143

Discontinued Operations—The Company periodically reviews its operations for businesses that may no longer be aligned with its enterprise initiatives and long-term objectives. As a result, the Company may commit to a plan to exit or dispose of certain businesses and present them as discontinued operations. The following summarizes the Company's discontinued operations.

Third Quarter 2013 Discontinued Operations—In February 2013, the Company announced that it was initiating a review process to explore strategic alternatives for its Industrial Packaging segment. In September 2013, the Company's Board of Directors authorized a plan to commence a sale process for the Industrial Packaging segment. The Company classified the Industrial Packaging segment as held for sale beginning in the third quarter of 2013 and no longer presented this segment as part of its continuing operations.

On February 6, 2014, the Company announced that it had signed a definitive agreement to sell its Industrial Packaging business to The Carlyle Group for \$3.2 billion. The transaction was completed on May 1, 2014, resulting in a pre-tax gain of \$1.7 billion (\$1.1 billion after-tax) in the second quarter of 2014 which was included in Income from discontinued operations.

In the third quarter of 2013, the Company also committed to plans for the divestiture of a construction distribution business previously included in the Construction Products segment and a specialty coatings business previously included in the Polymers & Fluids segment. These businesses were classified as held for sale beginning in the third quarter of 2013. The specialty coatings business was sold in the fourth quarter of 2013. The construction distribution business was sold in the second quarter of 2014.

First Quarter 2013 Discontinued Operations—In the first quarter of 2013, the Company committed to plans for the divestiture of two transportation related businesses and a machine components business previously included in the Specialty Products segment, two construction distribution businesses previously included in the Construction Products segment, and a chemical manufacturing business previously included in the Polymers & Fluids segment. These businesses were classified as held for sale beginning in the first quarter of 2013.

The Company also reclassified certain previously divested businesses as discontinued operations in the first quarter of 2013. These included a consumer packaging business that was previously included in the Specialty Products segment, a packaging distribution business which was previously included in the former Industrial Packaging segment, and a welding manufacturing business previously included in the Welding segment.

In the second quarter of 2013, the Company divested one of the held for sale transportation related businesses, the machine components business, and the chemical manufacturing business. In the third quarter of 2013, the Company divested the second held for sale transportation related business. In the fourth quarter of 2013, the Company divested one construction distribution business and the remaining construction distribution business was sold in the second quarter of 2014.

2011 Discontinued Operations—In April 2011, the Company entered into a definitive agreement to sell its finishing group of businesses included within the Specialty Products segment to Graco Inc. in a \$650 million cash transaction. The sale of the finishing business to Graco was completed on April 2, 2012.

Additionally, in the second quarter of 2011, the Company's Board of Directors approved plans to divest a consumer packaging business in the Specialty Products segment. The consumer packaging business was sold in the third quarter of 2012.

The operating results of the businesses discussed above are reported as discontinued operations in the statement of income for all periods presented. Results of the discontinued operations for the years ended December 31, 2014, 2013 and 2012 were as follows:

In millions	2014	2013	2012
Operating revenues	<u>\$ 798</u>	<u>\$ 2,769</u>	<u>\$ 3,275</u>
Income before income taxes	\$ 1,805	\$ 186	\$ 886
Income tax expense	(749)	(137)	(249)
Income from discontinued operations	<u>\$ 1,056</u>	<u>\$ 49</u>	<u>\$ 637</u>

Included in income before income taxes from discontinued operations are net gain on disposal of \$1.7 billion in 2014, net losses on disposal of \$91 million in 2013, and net gains of \$499 million in 2012. The net gain in 2014 included a pre-tax gain of \$1.7 billion (\$1.1 billion after-tax) on the sale of the Industrial Packaging business. The net losses in 2013 included a \$39 million pre-tax loss related to the sale of one of the construction distribution businesses and a \$20 million pre-tax loss related to the sale of one of the transportation businesses. The net gains in 2012 included a \$452 million pre-tax gain on the sale of the finishing group of businesses. Also included in income before income taxes from discontinued operations in 2013 was a \$42 million goodwill impairment charge recorded in connection with the anticipated sale of one of the transportation related businesses.

In 2014, income tax expense from discontinued operations included \$175 million of U.S. income tax expense related to the repatriation of approximately \$1.3 billion of international proceeds from the sale of the Industrial Packaging business. In 2013, income tax expense from discontinued operations included \$42 million of tax expense related to the legal restructuring of the Industrial Packaging business.

There were no businesses classified as held for sale as of December 31, 2014. As of December 31, 2013, the assets and liabilities of the Industrial Packaging business and the two construction distribution businesses discussed above were included in assets and liabilities held for sale in the statement of financial position, as follows:

In millions	December 31, 2013
Trade receivables	\$ 352
Inventories	244
Net plant and equipment	305
Goodwill and intangible assets	844
Other	91
Assets held for sale	<u>\$ 1,836</u>
Accounts payable	\$ 87
Accrued expenses	139
Other	91
Liabilities held for sale	<u>\$ 317</u>

In April 2014, the Financial Accounting Standards Board ("FASB") issued authoritative guidance to change the criteria for reporting discontinued operations. Under the new guidance, only disposals representing a strategic shift in a company's operations and financial results should be reported as discontinued operations, with expanded disclosures. In addition, disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify as a discontinued operation is required. The Company adopted this new guidance effective January 1, 2015. The new guidance applies prospectively to new disposals and new classifications of disposal groups held for sale after such date. As a result, this guidance did not have any impact on the Company's financial statements or related disclosures upon adoption.

Acquisitions—The Company accounts for acquisitions under the acquisition method, in which assets acquired and liabilities assumed are recorded at fair value as of the date of acquisition. The operating results of the acquired companies are included in the Company's consolidated financial statements from the date of acquisition. Acquisitions, individually and in the aggregate, did not materially affect the Company's results of operations or financial position for any period presented. Net cash paid for acquisitions during 2014, 2013, and 2012 was \$45 million, \$369 million, and \$723 million, respectively.

The premium over tangible net assets recorded for acquisitions based on purchase price allocations during 2014, 2013 and 2012 was as follows:

In millions except weighted-average lives (years)	2014		2013		2012	
	Weighted-Average Life	Premium Recorded	Weighted-Average Life	Premium Recorded	Weighted-Average Life	Premium Recorded
Goodwill		\$ 18		\$ 247		\$ 333
Amortizable intangible assets:						
Customer lists and relationships	11.4	12	11.2	100	12.2	169
Patents and proprietary technology	15.4	8	9.8	34	8.2	38
Trademarks and brands	12.9	3	15.5	35	12.8	36
Noncompete agreements	—	—	3.8	1	4.5	29
Other	—	—	5.1	11	7.2	12
Total amortizable intangible assets	12.9	23	11.4	181	10.7	284
Indefinite-lived intangible assets:						
Trademarks and brands		—		—		42
Total premium recorded		\$ 41		\$ 428		\$ 659

Of the total goodwill recorded for acquisitions, the Company expects goodwill of \$14 million in 2014, \$25 million in 2013 and \$15 million in 2012 will be tax deductible.

Operating Revenues are recognized when persuasive evidence of an arrangement exists, product has shipped and the risks and rewards of ownership have transferred or services have been rendered, the price to the customer is fixed or determinable, and collectibility is reasonably assured, which is generally at the time of product shipment. Typical sales arrangements are for standard products and provide for transfer of ownership and risk of loss at the time of shipment. In limited circumstances where significant obligations to the customer are unfulfilled at the time of shipment, typically involving installation and customer acceptance, revenue recognition is deferred until such obligations have been completed. Customer allowances and rebates, consisting primarily of volume discounts and other short-term incentive programs, are estimated at the time of sale based on historical experience and known trends and are recorded as a reduction in reported revenues.

In May 2014, the FASB issued authoritative guidance to change the criteria for revenue recognition. The core principle of the new standard is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, several new revenue recognition disclosures will be required. This guidance is effective for the Company beginning January 1, 2017. The Company is currently assessing the potential impact the guidance will have upon adoption.

Research and Development Expenses are recorded as expense in the year incurred. These costs were \$227 million in 2014, \$240 million in 2013 and \$240 million in 2012.

Rental Expense was \$130 million in 2014, \$138 million in 2013 and \$144 million in 2012. Future minimum lease payments under non-cancelable leases for the years ending December 31 are as follows:

In millions	
2015.....	\$ 105
2016.....	78
2017.....	52
2018.....	35
2019.....	26
2020 and future years	41
	<u>\$ 337</u>

Advertising Expenses are recorded as expense in the year incurred. These costs were \$66 million in 2014, \$67 million in 2013 and \$78 million in 2012.

Other Income (Expense) consisted of the following:

In millions	2014	2013	2012
Interest income	\$ 65	\$ 50	\$ 38
Gain (loss) on foreign currency transactions, net	8	(5)	(10)
Income from investments	8	12	11
Gain (loss) on disposal of operations and affiliates	(6)	(5)	(2)
Equity loss in Wilsonart	(9)	(14)	(30)
Gain on acquisition of controlling interest in an equity investment . . .	—	30	—
Other, net.	(5)	4	4
	<u>\$ 61</u>	<u>\$ 72</u>	<u>\$ 11</u>

On January 31, 2013, the Company acquired the controlling interest of an existing consumer packaging business in the Specialty Products segment previously accounted for under the equity method. The Company recorded a pre-tax gain of \$30 million in Other income (expense) in the first quarter of 2013 as a result of remeasuring the Company's existing equity interest to fair value by determining the implied equity value using a Level 3 valuation method.

Income Taxes—The Company utilizes the asset and liability method of accounting for income taxes. Deferred income taxes are determined based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities given the provisions of the enacted tax laws. The components of the provision for income taxes were as shown below:

In millions	2014	2013	2012
U.S. federal income taxes:			
Current	\$ 413	\$ 410	\$ 474
Deferred	121	84	250
	<u>534</u>	<u>494</u>	<u>724</u>
Foreign income taxes:			
Current	163	153	239
Deferred	66	35	(29)
Benefit of net operating loss carryforwards	(13)	(13)	(30)
	<u>216</u>	<u>175</u>	<u>180</u>
State income taxes:			
Current	50	64	64
Deferred	9	(16)	5
	<u>59</u>	<u>48</u>	<u>69</u>
	<u>\$ 809</u>	<u>\$ 717</u>	<u>\$ 973</u>

Income from continuing operations before income taxes for domestic and foreign operations was as follows:

In millions	2014	2013	2012
Domestic	\$ 1,669	\$ 1,444	\$ 2,207
Foreign	1,030	903	999
	<u>\$ 2,699</u>	<u>\$ 2,347</u>	<u>\$ 3,206</u>

The reconciliation between the U.S. federal statutory tax rate and the effective tax rate was as follows:

	2014	2013	2012
U.S. federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of U.S. federal tax benefit	1.6	1.8	0.9
Differences between U.S. federal statutory and foreign tax rates	(3.5)	(3.4)	(2.2)
Nontaxable foreign interest income	(3.6)	(3.5)	(2.8)
Tax effect of foreign dividends	2.1	2.4	0.7
Tax relief for U.S. manufacturers	(1.5)	(1.3)	(1.1)
Other, net	(0.1)	(0.4)	(0.2)
Effective tax rate	<u>30.0%</u>	<u>30.6%</u>	<u>30.3%</u>

Deferred U.S. federal income taxes and foreign withholding taxes have not been provided on the remaining undistributed earnings of certain international subsidiaries as these earnings are considered permanently invested. Undistributed earnings of these subsidiaries were approximately \$7.1 billion and \$9.0 billion as of December 31, 2014 and 2013, respectively. Upon repatriation of these earnings to the U.S. in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. The actual U.S. tax cost would depend on income tax laws and circumstances at the time of distribution. Determination of the related tax liability is not practicable because of the complexities associated with the hypothetical calculation.

On January 1, 2014 the Company adopted new accounting guidance that requires companies to net unrecognized tax benefits against same-jurisdiction net operating losses or tax credit carryforwards that would be used to settle the position with the

relevant tax authority. The adoption of this new accounting guidance did not have a significant impact on the consolidated financial statements.

The components of deferred income tax assets and liabilities at December 31, 2014 and 2013 were as follows:

In millions	2014		2013	
	Asset	Liability	Asset	Liability
Goodwill and intangible assets.	\$ 277	\$ (758)	\$ 312	\$ (795)
Inventory reserves, capitalized tax cost and LIFO inventory.	48	(1)	58	(5)
Investments.	31	(273)	32	(288)
Plant and equipment.	26	(85)	25	(106)
Accrued expenses and reserves	73	—	76	—
Employee benefit accruals	324	—	296	—
Foreign tax credit carryforwards	195	—	112	—
Net operating loss carryforwards	670	—	694	—
Capital loss carryforwards	80	—	91	—
Allowances for uncollectible accounts.	11	—	14	—
Pension liabilities	11	—	—	(13)
Deferred intercompany deductions	14	—	169	—
Unrealized loss (gain) on foreign debt instruments	—	(59)	—	—
Other.	123	(10)	124	(11)
Gross deferred income tax assets (liabilities).	1,883	(1,186)	2,003	(1,218)
Valuation allowances	(530)	—	(559)	—
Total deferred income tax assets (liabilities).	<u>\$ 1,353</u>	<u>\$ (1,186)</u>	<u>\$ 1,444</u>	<u>\$ (1,218)</u>

Valuation allowances are established when it is estimated that it is more likely than not that the tax benefit of the deferred tax asset will not be realized. The valuation allowances recorded at December 31, 2014 and 2013 related primarily to certain net operating loss carryforwards and capital loss carryforwards.

At December 31, 2014, the Company had net operating loss carryforwards available to offset future taxable income in the U.S. and certain foreign jurisdictions, which expire as follows:

In millions	Gross Carryforwards Related to Net Operating Losses
2015.	\$ 2
2016.	4
2017.	18
2018.	9
2019.	12
2020.	72
2021.	75
2022-2034	87
Do not expire.	2,086
	<u>\$ 2,365</u>

The Company has foreign tax credit carryforwards of \$195 million as of December 31, 2014 that are available for use by the Company between 2015 and 2024.

The changes in the amount of unrecognized tax benefits during 2014, 2013 and 2012 were as follows:

In millions	2014	2013	2012
Beginning balance	\$ 268	\$ 249	\$ 437
Additions based on tax positions related to the current year	23	26	32
Additions for tax positions of prior years	12	40	62
Reductions for tax positions of prior years	(59)	(21)	(163)
Settlements	(18)	(27)	(125)
Foreign currency translation	(8)	1	6
Ending balance	<u>\$ 218</u>	<u>\$ 268</u>	<u>\$ 249</u>

Included in the balance at December 31, 2014 were approximately \$218 million of unrecognized tax benefits that, if recognized, would impact the Company's effective tax rate.

During the third quarter of 2013, the Company recorded a discrete tax charge of \$40 million related to the tax treatment of intercompany financing transactions that impact the taxability of foreign earnings.

During the fourth quarter of 2012, the Company came to an agreement with the Internal Revenue Service on issues related predominately to intercompany transactions and global legal structure reorganization transactions identified by the Internal Revenue Service during its 2008-2009 audit. Based on this agreement, the Company decreased its unrecognized tax benefits related to this matter by approximately \$125 million and recorded an unfavorable tax charge of \$35 million.

The Company and its subsidiaries file tax returns in the U.S. and various state, local and foreign jurisdictions. These tax returns are routinely audited by the tax authorities in these jurisdictions including the Internal Revenue Service, Her Majesty's Revenue and Customs, German Fiscal Authority, French Fiscal Authority, and Australian Tax Office, and a number of these audits are currently ongoing, which may increase the amount of the unrecognized tax benefits in future periods. Due to the ongoing audits, the Company believes it is reasonably possible that within the next twelve months the amount of the Company's unrecognized tax benefits may be decreased by approximately \$44 million related predominantly to various intercompany transactions. The Company has recorded its best estimate of the potential exposure for these issues. The following table summarizes the open tax years for the Company's major jurisdictions:

Jurisdiction	Open Tax Years
United States – Federal	2012-2014
United Kingdom.	2012-2014
Germany.	2009-2014
France.	2007-2014
Australia.	2010-2014

The Company recognizes interest and penalties related to income tax matters in income tax expense. The accrual for interest and penalties as of December 31, 2014 and 2013 was \$30 million and \$21 million, respectively.

On February 18, 2014, the Company received a Notice of Deficiency ("NOD") from the IRS asserting that a non-taxable return of capital received from a subsidiary was a taxable dividend distribution. The NOD assesses additional taxes of \$70 million for the 2006 tax year, plus interest and penalties. In May 2014, the Company petitioned the United States Tax Court to challenge the NOD. The Company's petition was subsequently denied and the case will proceed to court. Although the outcome of this process cannot be predicted with certainty, the Company believes it will be successful in defending its positions. Accordingly, no reserve has been recorded related to this matter.

Income Per Share from Continuing Operations is computed by dividing income from continuing operations by the weighted-average number of shares outstanding for the period. Income from continuing operations per diluted share is computed by dividing income from continuing operations by the weighted-average number of shares assuming dilution for stock options and restricted stock units. Dilutive shares reflect the potential additional shares that would be outstanding if the dilutive stock options outstanding were exercised and the unvested restricted stock units vested during the period. The

computation of income per share from continuing operations was as follows:

In millions except per share amounts	2014	2013	2012
Income from continuing operations	\$ 1,890	\$ 1,630	\$ 2,233
Income per share from continuing operations—Basic:			
Weighted-average common shares	401.7	446.2	469.8
Income per share from continuing operations—Basic	\$ 4.70	\$ 3.65	\$ 4.75
Income per share from continuing operations—Diluted:			
Weighted-average common shares	401.7	446.2	469.8
Effect of dilutive stock options and restricted stock units	2.9	3.1	3.4
Weighted-average common shares assuming dilution	404.6	449.3	473.2
Income per share from continuing operations—Diluted	\$ 4.67	\$ 3.63	\$ 4.72

Options that were considered antidilutive were not included in the computation of diluted income per share from continuing operations. There were no antidilutive options outstanding as of December 31, 2014. The number of antidilutive options outstanding as of December 31, 2013 and 2012 was 0.1 million and 0.1 million, respectively.

Cash and Equivalents included interest-bearing instruments of \$3.1 billion at December 31, 2014 and \$2.0 billion at December 31, 2013. *These interest-bearing instruments have maturities of three months or less and are stated at cost, which approximates fair value.*

Trade Receivables were net of allowances for uncollectible accounts. The changes in the allowances for uncollectible accounts during 2014, 2013 and 2012 were as follows:

In millions	2014	2013	2012
Beginning balance	\$ (46)	\$ (65)	\$ (65)
Provision charged to expense	(7)	(3)	(11)
Write-offs, net of recoveries	7	14	14
Acquisitions and divestitures	—	(1)	—
Foreign currency translation	3	1	(1)
Transfer to assets held for sale	—	8	—
Other	—	—	(2)
Ending balance	\$ (43)	\$ (46)	\$ (65)

Inventories at December 31, 2014 and 2013 were as follows:

In millions	2014	2013
Raw material	\$ 458	\$ 482
Work-in-process	133	150
Finished goods	677	700
LIFO reserve	(88)	(85)
	\$ 1,180	\$ 1,247

Inventories are stated at the lower of cost or market and include material, labor and factory overhead. The last-in, first-out ("LIFO") method is used to determine the cost of the inventories at certain U.S. businesses. The first-in, first-out ("FIFO") method, which approximates current cost, is used for all other inventories. Inventories priced at LIFO were approximately 22% and 20% of total inventories as of December 31, 2014 and 2013, respectively. If the FIFO method was used for all inventories, total inventories would have been approximately \$88 million and \$85 million higher than reported at December 31, 2014 and 2013, respectively.

Prepaid Expenses and Other Current Assets as of December 31, 2014 and 2013 were as follows:

In millions	2014	2013
Income tax refunds receivable	\$ 129	\$ 120
Value-added-tax receivables	50	68
Vendor advances	30	30
Other	192	148
	<u>\$ 401</u>	<u>\$ 366</u>

Net Plant and Equipment are stated at cost, less accumulated depreciation. Renewals and improvements that increase the useful life of plant and equipment are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation of plant and equipment for financial reporting purposes is primarily computed on an accelerated basis for U.S. businesses and on a straight-line basis for a majority of the international businesses.

Depreciation was \$262 million in 2014, \$270 million in 2013 and \$277 million in 2012, and was reflected primarily in cost of revenues. There was no depreciation included in Income from discontinued operations in 2014. Depreciation included in Income from discontinued operations was \$29 million in 2013 and \$46 million in 2012.

Net plant and equipment consisted of the following at December 31, 2014 and 2013:

In millions	2014	2013
Land	\$ 177	\$ 189
Buildings and improvements	1,200	1,235
Machinery and equipment	3,034	3,145
Equipment leased to others	158	160
Construction in progress	230	143
Gross plant and equipment	<u>4,799</u>	<u>4,872</u>
Accumulated depreciation	(3,113)	(3,163)
Net plant and equipment	<u>\$ 1,686</u>	<u>\$ 1,709</u>

The ranges of useful lives used to depreciate plant and equipment are as follows:

Buildings and improvements	5—50 years
Machinery and equipment	3—12 years
Equipment leased to others	Term of lease

Goodwill and Intangible Assets—Goodwill represents the excess cost over fair value of the net assets of purchased businesses. *The Company does not amortize goodwill and intangible assets that have indefinite lives. The Company performs an impairment assessment of goodwill and intangible assets with indefinite lives annually, or more frequently if triggering events occur, based on the estimated fair value of the related reporting unit or intangible asset. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.*

When performing its annual impairment assessment, the Company evaluates the goodwill assigned to each of its reporting units for potential impairment by comparing the estimated fair value of the relevant reporting unit to the carrying value. The Company uses various Level 2 and Level 3 valuation techniques to determine the fair value of its reporting units, including discounting estimated future cash flows based on a detailed cash flow forecast prepared by the relevant reporting unit and market multiples of relevant public companies. If the fair value of a reporting unit is less than its carrying value, an impairment loss, if any, is recorded for the difference between the implied fair value and the carrying value of the reporting unit's goodwill.

The Company's indefinite-lived intangible assets consist of trademarks and brands. The estimated fair values of these intangible assets are determined based on a Level 3 valuation method using a relief-of-royalty income approach derived from

internally forecasted revenues of the related products. If the fair value of the trademark or brand is less than its carrying value, an impairment loss is recorded for the difference between the estimated fair value and carrying value of the intangible asset.

Amortization and impairment of goodwill and other intangible assets for the years ended December 31, 2014, 2013 and 2012 were as follows:

In millions	2014	2013	2012
Goodwill:			
Impairment.....	\$ —	\$ —	\$ 1
Intangible Assets:			
Amortization	242	250	252
Impairment.....	3	2	1
	<u>\$ 245</u>	<u>\$ 252</u>	<u>\$ 254</u>

Income from discontinued operations included intangible asset amortization of \$20 million in 2013 and \$36 million in 2012.

The Company performed its annual impairment assessment of goodwill and indefinite-lived intangible assets in the third quarter of 2014, 2013 and 2012. In the third quarter of 2014, these assessments resulted in no goodwill impairment charges and indefinite-lived intangible asset charges of \$3 million related to certain brands in the Polymers & Fluids and Test & Measurement and Electronics segments. In 2013, these assessments resulted in no goodwill impairment charges and an indefinite-lived intangible asset impairment charge of \$2 million related to a brand in the Test & Measurement and Electronics segment. In 2012, these assessments resulted in a goodwill impairment charge of \$1 million in the Test & Measurement and Electronics segment and an indefinite-lived intangible asset impairment charge of \$1 million related to a brand in the Food Equipment segment.

A summary of goodwill and indefinite-lived intangible assets that were adjusted to fair value and the related impairment charges included in earnings for the years ended December 31, 2014, 2013, and 2012 is as follows:

In millions	2014			2013			2012		
	Book Value	Fair Value	Total Impairment Charges	Book Value	Fair Value	Total Impairment Charges	Book Value	Fair Value	Total Impairment Charges
Goodwill	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 146	\$ 145	\$ 1
Indefinite-lived intangible assets ..	11	8	3	42	40	2	5	4	1

The changes in the carrying amount of goodwill for the years ended December 31, 2014 and 2013 were as follows:

In millions	Automotive	Test & Measurement and Electronics	Food	Polymers & Fluids	Welding	Construction	Specialty	Industrial	Total
	OEM		Equipment			Products	Products	Packaging	
Balance, December 31, 2012	\$ 318	\$ 1,431	\$ 203	\$ 1,043	\$ 288	\$ 603	\$ 909	\$ 735	\$ 5,530
2013 activity:									
Acquisitions & divestitures	—	2	86	9	10	(2)	139	—	244
Impairment charges	—	—	—	—	—	—	(42)	—	(42)
Foreign currency translation	2	—	5	(18)	(4)	(20)	5	(2)	(32)
Transfer to assets held for sale	—	(7)	—	(13)	—	(20)	(41)	(733)	(814)
Balance, December 31, 2013	320	1,426	294	1,021	294	561	970	—	4,886
2014 activity:									
Acquisitions & divestitures	(3)	—	—	3	—	8	—	—	8
Impairment charges	—	—	—	—	—	—	—	—	—
Foreign currency translation	(23)	(36)	(18)	(60)	(17)	(27)	(46)	—	(227)
Balance, December 31, 2014	\$ 294	\$ 1,390	\$ 276	\$ 964	\$ 277	\$ 542	\$ 924	\$ —	\$ 4,667
Cumulative goodwill impairment charges, December 31, 2014	\$ 24	\$ 83	\$ 60	\$ 15	\$ 5	\$ 7	\$ 46	\$ —	\$ 240

Income from discontinued operations included a goodwill impairment of \$42 million in 2013.

Intangible assets as of December 31, 2014 and 2013 were as follows:

In millions	2014			2013		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizable intangible assets:						
Customer lists and relationships	\$ 1,638	\$ (820)	\$ 818	\$ 1,631	\$ (691)	\$ 940
Trademarks and brands	707	(249)	458	689	(207)	482
Patents and proprietary technology	622	(354)	268	588	(311)	277
Noncompete agreements	155	(137)	18	155	(125)	30
Software	204	(192)	12	202	(188)	14
Other	112	(101)	11	113	(98)	15
Total amortizable intangible assets	3,438	(1,853)	1,585	3,378	(1,620)	1,758
Indefinite-lived intangible assets:						
Trademarks and brands	214	—	214	241	—	241
Total intangible assets	\$ 3,652	\$ (1,853)	\$ 1,799	\$ 3,619	\$ (1,620)	\$ 1,999

Amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives of 3 to 20 years.

The estimated amortization expense of intangible assets for the future years ending December 31 is as follows:

In millions	
2015	\$ 229
2016	216
2017	195
2018	175
2019	152

Other Assets as of December 31, 2014 and 2013 consisted of the following:

In millions	2014	2013
Cash surrender value of life insurance policies	\$ 418	\$ 400
Prepaid pension assets	165	134
Equity investment in Wilsonart	141	164
Investments	110	130
Customer tooling	96	110
Other	219	259
	<u>\$ 1,149</u>	<u>\$ 1,197</u>

Accrued Expenses as of December 31, 2014 and 2013 consisted of accruals for:

In millions	2014	2013
Compensation and employee benefits	\$ 441	\$ 462
Deferred revenue and customer deposits	194	207
Rebates	128	127
Warranties	49	50
Current portion of pension and other postretirement benefit obligations	14	21
Other	461	405
	<u>\$ 1,287</u>	<u>\$ 1,272</u>

The Company accrues for product warranties based on historical experience. The changes in accrued warranties during 2014, 2013 and 2012 were as follows:

In millions	2014	2013	2012
Beginning balance	\$ 50	\$ 51	\$ 55
Charges	(41)	(44)	(44)
Provision charged to expense	43	43	44
Acquisitions and divestitures	—	2	(4)
Foreign currency translation	(3)	1	—
Transfer to liabilities held for sale	—	(3)	—
Ending balance	<u>\$ 49</u>	<u>\$ 50</u>	<u>\$ 51</u>

Debt

Short-term debt represents obligations with a maturity date of one year or less and is stated at cost which approximates fair value. Short-term debt also includes current maturities of long-term debt. Short-term debt as of December 31, 2014 and 2013 consisted of the following:

In millions	2014	2013
Commercial paper	\$ 1,413	\$ 1,652
Bank overdrafts	62	65
Current maturities of long-term debt	1	1,834
	<u>\$ 1,476</u>	<u>\$ 3,551</u>

The Company may issue commercial paper to fund general corporate needs and to fund share repurchases and small and medium-sized acquisitions. The Company has committed lines of credit of \$2.5 billion in the U.S. to support the potential issuances of commercial paper. Of this amount, \$1.0 billion is provided under a line of credit agreement with a termination date of August 15, 2018 and \$1.5 billion is provided under a line of credit agreement with a termination date of June 8,

2017. No amounts were outstanding under these two facilities at December 31, 2014. The weighted-average interest rate on commercial paper was 0.1% at December 31, 2014 and 0.2% at December 31, 2013.

In May 2014, the Company amended its financial covenants within the line of credit agreements. The previous financial covenant, limiting total debt to total capitalization, was replaced with a minimum interest coverage ratio. As of December 31, 2014, the Company was in compliance with this covenant.

As of December 31, 2014, the Company had unused capacity of approximately \$330 million under international debt facilities.

Current maturities of long-term debt as of December 31, 2014 included \$1.0 million of 4.88% notes payable in 2015. Current maturities of long-term debt as of December 31, 2013 included the \$1.0 billion of 5.25% Euro notes due October 1, 2014 and \$800 million of 5.15% redeemable notes due April 1, 2014.

Long-term debt represents obligations with a maturity date greater than one year, and excludes current maturities that have been reclassified to short-term debt. Long-term debt at carrying value and fair value as of December 31, 2014 and 2013 consisted of the following:

In millions	Effective Interest Rate	2014		2013	
		Carrying Value	Fair Value	Carrying Value	Fair Value
5.15% notes due April 1, 2014	5.2%	\$ —	\$ —	\$ 800	\$ 809
5.25% Euro notes due October 1, 2014	5.3%	—	—	1,031	1,067
0.90% notes due February 25, 2017	0.9%	649	648	—	—
1.95% notes due March 1, 2019	2.0%	649	651	—	—
6.25% notes due April 1, 2019	6.3%	700	817	700	834
4.88% notes due thru December 31, 2020	5.0%	5	6	7	8
3.375% notes due September 15, 2021	3.4%	349	369	349	350
1.75% Euro notes due May 20, 2022	1.9%	600	640	—	—
3.50% notes due March 1, 2024	3.5%	698	735	—	—
3.0% Euro notes due May 19, 2034	3.1%	594	702	—	—
4.875% notes due September 15, 2041	4.9%	641	746	641	649
3.9% notes due September 1, 2042	4.0%	1,090	1,110	1,090	944
Other borrowings		7	7	9	9
		<u>\$ 5,982</u>	<u>\$ 6,431</u>	<u>\$ 4,627</u>	<u>\$ 4,670</u>
Current maturities		(1)		(1,834)	
		<u>\$ 5,981</u>		<u>\$ 2,793</u>	

The approximate fair values of the Company's long-term debt, including current maturities, were based on a Level 2 valuation model, using observable inputs, which included market rates for comparable instruments as of December 31, 2014 and 2013.

All of the Company's notes, listed above, represent senior unsecured obligations, ranking equal in right of payment.

In 2005, the Company issued \$54 million of 4.88% notes due through December 31, 2020 at 100% of face value.

In 2007, the Company, through a wholly-owned European subsidiary, issued €750 million of 5.25% Euro notes due October 1, 2014 at 99.874% of face value. The €750 million of 5.25% Euro notes due October 1, 2014 were repaid on the due date.

In 2009, the Company issued \$800 million of 5.15% redeemable notes due April 1, 2014 at 99.92% of face value and \$700 million of 6.25% redeemable notes due April 1, 2019 at 99.98% of face value. The \$800 million of 5.15% redeemable notes due April 1, 2014 were repaid on the due date.

In 2011, the Company issued \$350 million of 3.375% notes due September 15, 2021 at 99.552% of face value and \$650 million of 4.875% notes due September 15, 2041 at 98.539% of face value.

In 2012, the Company issued \$1.1 billion of 3.9% notes due September 1, 2042 at 99.038% of face value.

In February 2014, the Company issued \$650 million of 0.9% notes due February 25, 2017 at 99.861% of face value, \$650 million of 1.95% notes due March 1, 2019 at 99.871% of face value, and \$700 million of 3.5% notes due March 1, 2024 at 99.648% of face value. Net proceeds from the February 2014 debt issuance were used to repay commercial paper.

In May 2014, the Company issued €500 million of 1.75% Euro notes due May 20, 2022 at 99.16% of face value and €500 million of 3.0% Euro notes due May 19, 2034 at 98.089% of face value. Net proceeds from the May 2014 debt issuances were used for general corporate purposes. The Company designated the €1.0 billion of Euro notes as a hedge of a portion of its net investment in Euro-denominated foreign operations to reduce foreign currency risk associated with the investment in these operations. Changes in the value of this debt resulting from fluctuations in the Euro to U.S. Dollar exchange rate have been recorded as foreign currency translation adjustments within Accumulated other comprehensive income. The unrealized gain recorded in Accumulated other comprehensive income related to the net investment hedge was \$158 million for the year ended December 31, 2014.

Scheduled maturities of long-term debt, including current maturities of long-term debt, for the future years ending December 31 are as follows:

In millions	
2015.....	\$ 1
2016.....	1
2017.....	650
2018.....	—
2019.....	1,349
2020 and future years	3,981
	<u>\$ 5,982</u>

Pension and Other Postretirement Benefits—The Company has both funded and unfunded defined benefit pension and other postretirement benefit plans, predominately in the U.S.

The U.S. primary pension plan provides benefits based on years of service and final average salary. The U.S. primary postretirement health care plan is contributory with the participants' contributions adjusted annually. The U.S. primary postretirement life insurance plan is noncontributory.

Beginning January 1, 2007, the U.S. primary pension and other postretirement benefit plans were closed to new participants. Newly hired employees and employees from acquired businesses that are not participating in these plans are eligible for additional Company contributions under the existing U.S. primary defined contribution retirement plans. The Company's expense related to defined contribution plans was \$78 million in 2014, \$72 million in 2013 and \$78 million in 2012.

In addition to the U.S. plans, the Company also has defined benefit pension plans in certain other countries, mainly the United Kingdom, Switzerland, Canada and Germany.

Summarized information regarding the Company's significant defined benefit pension and other postretirement benefit plans related to both continuing and discontinued operations is as follows:

In millions	Pension			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Components of net periodic benefit cost:						
Service cost	\$ 80	\$ 87	\$ 100	\$ 10	\$ 12	\$ 13
Interest cost	103	100	107	24	24	27
Expected return on plan assets	(159)	(157)	(157)	(25)	(22)	(20)
Amortization of actuarial (gain) loss	48	65	57	(4)	1	1
Amortization of prior service cost	1	—	1	1	1	3
Settlement/curtailment (gain) loss	1	49	14	(9)	—	—
	<u>\$ 74</u>	<u>\$ 144</u>	<u>\$ 122</u>	<u>\$ (3)</u>	<u>\$ 16</u>	<u>\$ 24</u>

Net periodic benefit cost was included in the statement of income as follows:

In millions	Pension			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Income from continuing operations	\$ 69	\$ 131	\$ 112	\$ 6	\$ 14	\$ 22
Income from discontinued operations	5	13	10	(9)	2	2
	<u>\$ 74</u>	<u>\$ 144</u>	<u>\$ 122</u>	<u>\$ (3)</u>	<u>\$ 16</u>	<u>\$ 24</u>

The pension settlement charges in 2013 included \$45 million tied primarily to higher lump sum pension payments resulting from the exit of Decorative Surfaces employees from the Company's U.S. primary pension plan. These charges were included in Income from continuing operations. Refer to the Divestiture of Majority Interest in Former Decorative Surfaces Segment note for further details regarding the Decorative Surfaces transaction.

In addition, the Company recognized a \$9 million curtailment gain on the U.S. primary postretirement plan in the second quarter of 2014 and a \$2 million curtailment charge on the U.S. primary pension plan in the third quarter of 2013 related to the Company's sale of the Industrial Packaging business and the reclassification of the Industrial Packaging business to discontinued operations. These curtailment charges were included in Income from discontinued operations.

During 2014, the Society of Actuaries released a new mortality table, referred to as RP-2014, which is believed to better reflect mortality improvements. The Company used the RP-2014 mortality table to measure its U.S. pension and other postretirement obligations as of December 31, 2014 which resulted in additional actuarial losses of \$76 million for pension and \$46 million for other postretirement benefits.

The following tables provide a rollforward of the plan benefit obligations, plan assets and a reconciliation of funded status for the years ended December 31, 2014 and 2013 for continuing and discontinued operations:

In millions	Pension		Other Postretirement Benefits	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation at January 1	\$ 2,545	\$ 2,655	\$ 519	\$ 589
Service cost	80	87	10	12
Interest cost	103	100	24	24
Plan participants' contributions	3	5	13	15
Amendments	(5)	—	—	—
Actuarial (gain) loss	240	(68)	97	(77)
Acquisitions/divestitures	(97)	(12)	(18)	—
Benefits paid	(192)	(247)	(46)	(47)
Medicare subsidy received	—	—	2	3
Liabilities from (to) other immaterial plans	—	10	—	—
Settlement/curtailment (gain) loss	(2)	(1)	(10)	—
Foreign currency translation	(68)	16	—	—
Benefit obligation at December 31	<u>\$ 2,607</u>	<u>\$ 2,545</u>	<u>\$ 591</u>	<u>\$ 519</u>

In millions	Pension		Other Postretirement Benefits	
	2014	2013	2014	2013
Change in plan assets:				
Fair value of plan assets at January 1	\$ 2,487	\$ 2,288	\$ 370	\$ 328
Actual return on plan assets	264	294	28	66
Company contributions	127	136	7	8
Plan participants' contributions	3	5	13	15
Acquisitions/divestitures	(65)	(16)	—	—
Benefits paid	(192)	(247)	(46)	(47)
Assets from immaterial plans	—	12	—	—
Foreign currency translation	(67)	15	—	—
Fair value of plan assets at December 31	<u>\$ 2,557</u>	<u>\$ 2,487</u>	<u>\$ 372</u>	<u>\$ 370</u>
Funded status	\$ (50)	\$ (58)	\$ (219)	\$ (149)
Other immaterial plans	(52)	(61)	(5)	(6)
Net liability at December 31	<u>\$ (102)</u>	<u>\$ (119)</u>	<u>\$ (224)</u>	<u>\$ (155)</u>
The amounts recognized in the statement of financial position as of December 31 consist of:				
Other assets	\$ 165	\$ 134	\$ —	\$ —
Accrued expenses	(10)	(16)	(4)	(5)
Liabilities held for sale	—	(24)	—	(23)
Other noncurrent liabilities	(257)	(213)	(220)	(127)
Net liability at end of year	<u>\$ (102)</u>	<u>\$ (119)</u>	<u>\$ (224)</u>	<u>\$ (155)</u>
The pre-tax amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial loss	\$ 638	\$ 568	\$ (6)	\$ (112)
Prior service cost	1	6	(1)	—
	<u>\$ 639</u>	<u>\$ 574</u>	<u>\$ (7)</u>	<u>\$ (112)</u>
Accumulated benefit obligation	<u>\$ 2,361</u>	<u>\$ 2,273</u>		
Plans with accumulated benefit obligation in excess of plan assets as of December 31:				
Projected benefit obligation	<u>\$ 168</u>	<u>\$ 263</u>		
Accumulated benefit obligation	<u>\$ 154</u>	<u>\$ 249</u>		
Fair value of plan assets	<u>\$ 26</u>	<u>\$ 91</u>		

Assumptions

The weighted-average assumptions used in the valuations of pension and other postretirement benefits were as follows:

	Pension			Other Postretirement Benefits		
	2014	2013	2012	2014	2013	2012
Assumptions used to determine benefit obligations at December 31:						
Discount rate	3.70%	4.32%	3.85%	4.15%	4.95%	4.15%
Rate of compensation increases	3.72%	3.72%	3.86%	—%	—%	—%
Assumptions used to determine net periodic benefit cost for years ended December 31:						
Discount rate	4.32%	3.85%	4.64%	4.95%	4.15%	4.95%
Expected return on plan assets	7.02%	7.28%	7.23%	7.00%	7.00%	7.00%
Rate of compensation increases	3.72%	3.86%	3.86%	—%	—%	—%

The expected long-term rates of return for pension and other postretirement benefit plans were developed using historical asset class returns while factoring in current market conditions such as inflation, interest rates and asset class performance.

Assumed health care cost trend rates have an effect on the amounts reported for the postretirement health care benefit plans. The assumed health care cost trend rates used to determine the postretirement benefit obligation at December 31 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Health care cost trend rate assumed for the next year	8.00%	8.00%	7.35%
Ultimate trend rate	4.50%	5.00%	5.00%
Year the rate reaches the ultimate trend rate.	2022	2020	2019

A one percentage-point change in assumed health care cost trend rates would have the following impact:

In millions	<u>1 Percentage- Point Increase</u>	<u>1 Percentage- Point Decrease</u>
Change in service cost and interest cost for 2014.	\$ 1	\$ (1)
Change in postretirement benefit obligation at December 31, 2014	\$ 13	\$ (15)

Plan Assets

The Company’s overall investment strategy for the assets in the pension funds is to achieve a balance between the goals of growing plan assets and keeping risk at a reasonable level over a long-term investment horizon. In order to reduce unnecessary risk, the pension funds are diversified across several asset classes, securities and investment managers. The target allocations for plan assets are 30% to 50% equity securities, 45% to 60% fixed income securities and 0% to 10% in other types of investments. The Company does not use derivatives for the purpose of speculation, leverage, circumventing investment guidelines or taking risks that are inconsistent with specified guidelines.

The assets in the Company’s postretirement health care plan are primarily invested in life insurance policies. The Company’s overall investment strategy for the assets in the postretirement health care fund is to invest in assets that provide a reasonable tax exempt rate of return while preserving capital.

The following tables present the fair value of the Company’s pension and other postretirement benefit plan assets at December 31, 2014 and 2013, by asset category and valuation methodology. Level 1 assets are valued using unadjusted quoted prices for identical assets in active markets. Level 2 assets are valued using quoted prices or other observable inputs for similar assets. Level 3 assets are valued using unobservable inputs, but reflect the assumptions market participants would be expected to use in pricing the assets. Each financial instrument’s categorization is based on the lowest level of input that is significant to the fair value measurement.

In millions	2014			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Cash and equivalents	\$ 164	\$ —	\$ —	\$ 164
Equity securities:				
Domestic	1	—	—	1
Foreign	72	—	—	72
Fixed income securities:				
Government securities	—	286	—	286
Corporate debt securities	—	378	—	378
Mortgage-backed securities	—	8	—	8
Investment contracts with insurance companies	—	—	1	1
Commingled funds:				
Mutual funds	317	—	—	317
Collective trust funds	—	1,252	—	1,252
Partnerships/private equity interests	—	—	77	77
Other	—	—	1	1
	<u>\$ 554</u>	<u>\$ 1,924</u>	<u>\$ 79</u>	<u>\$ 2,557</u>
Other Postretirement Benefit Plan Assets:				
Cash and equivalents	\$ 11	\$ —	\$ —	\$ 11
Life insurance policies	—	—	361	361
	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 361</u>	<u>\$ 372</u>

In millions	2013			
	Level 1	Level 2	Level 3	Total
Pension Plan Assets:				
Cash and equivalents	\$ 27	\$ —	\$ —	\$ 27
Equity securities:				
Domestic	—	—	—	—
Foreign	77	—	—	77
Fixed income securities:				
Government securities	—	314	—	314
Corporate debt securities	—	316	—	316
Mortgage-backed securities	—	10	—	10
Investment contracts with insurance companies	—	—	67	67
Commingled funds:				
Mutual funds	459	—	—	459
Collective trust funds	—	1,135	—	1,135
Partnerships/private equity interests	—	—	81	81
Other	—	1	—	1
	<u>\$ 563</u>	<u>\$ 1,776</u>	<u>\$ 148</u>	<u>\$ 2,487</u>
Other Postretirement Benefit Plan Assets:				
Cash and equivalents	\$ 9	\$ —	\$ —	\$ 9
Life insurance policies	—	—	361	361
	<u>\$ 9</u>	<u>\$ —</u>	<u>\$ 361</u>	<u>\$ 370</u>

Cash and equivalents include cash on hand and investments with maturities of three months or less and are valued at cost, which approximates fair value. Equity securities primarily include common and preferred equity securities covering a wide range of industries and geographies that are traded in active markets and are valued based on quoted prices. Fixed income securities primarily consist of U.S. and foreign government bills, notes and bonds, corporate debt securities, asset-backed securities and investment contracts. The majority of the assets in this category are valued by evaluating bid prices provided by independent financial data services. For securities where market data is not readily available, unobservable market data is used to value the security. Commingled funds include investments in public and private pooled funds. Mutual funds are traded in active markets and are valued based on quoted prices. The underlying investments include small-cap equity, international equity and long- and short-term fixed income instruments. Collective trust funds are private funds that are valued at the net asset value, which is determined based on the fair value of the underlying investments. The underlying investments include both passively and actively managed U.S. and foreign large- and mid-cap equity funds and short-term investment funds. Partnerships/private equity interests are investments in partnerships where the benefit plan is a limited partner. The investments are valued by the investment managers on a periodic basis using pricing models that use market, income and cost valuation methods. Life insurance policies are used to fund other postretirement benefits in order to obtain favorable tax treatment and are valued based on the cash surrender value of the underlying policies.

The following table presents a reconciliation of Level 3 assets measured at fair value for pension and other postretirement benefit plans during the years ended December 31, 2014 and 2013:

In millions	Investment Contracts with Insurance Companies	Partnerships/ Private Equity Interests	Life Insurance Policies	Other	Total
December 31, 2012	\$ 75	\$ 84	\$ 294	\$ —	\$ 453
2013 Activity:					
Realized gains (losses)	—	7	—	—	7
Unrealized gains (losses)	5	(1)	67	—	71
Purchases and sales	(13)	(9)	—	—	(22)
December 31, 2013	67	81	361	—	509
2014 Activity:					
Realized gains (losses)	—	—	2	—	2
Unrealized gains (losses)	—	2	26	—	28
Purchases and sales	—	(6)	(28)	1	(33)
Acquisitions/divestitures	(66)	—	—	—	(66)
December 31, 2014	<u>\$ 1</u>	<u>\$ 77</u>	<u>\$ 361</u>	<u>\$ 1</u>	<u>\$ 440</u>

Cash Flows

The Company generally funds its pension and other postretirement benefit plans as required by law or to the extent such contributions are tax deductible. The Company expects to contribute approximately \$100 million to its pension plans and \$5 million to its other postretirement benefit plans in 2015.

The Company's portion of the benefit payments that are expected to be paid during the years ending December 31 is as follows:

In millions	Pension	Other Postretirement Benefits
2015	\$ 206	\$ 37
2016	172	37
2017	179	38
2018	179	39
2019	180	40
Years 2020-2024	895	206

Other Noncurrent Liabilities at December 31, 2014 and 2013 consisted of the following:

In millions	2014	2013
Pension benefit obligation	\$ 257	\$ 213
Postretirement benefit obligation	220	127
Other	525	583
	<u>\$ 1,002</u>	<u>\$ 923</u>

Commitments and Contingencies—The Company is subject to various legal proceedings and claims that arise in the ordinary course of business, including those involving environmental, product liability (including toxic tort) and general liability claims. *The Company accrues for such liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated.* Such accruals are based on developments to date, the Company’s estimates of the outcomes of these matters and its experience in contesting, litigating and settling other similar matters. The Company believes resolution of these matters, individually and in the aggregate, will not have a material adverse effect on the Company’s financial position, liquidity or future operations.

Among the toxic tort cases in which the Company is a defendant, the Company and its subsidiaries Hobart Brothers Company and Miller Electric Mfg. Co. have been named, along with numerous other defendants, in lawsuits alleging injury from exposure to welding consumables. The plaintiffs in these suits claim unspecified damages for injuries resulting from alleged exposure to asbestos, manganese and/or toxic fumes in connection with the welding process. In the first quarter of 2012, the Company entered into an agreement resolving substantially all of the manganese-related claims for an immaterial amount. As of December 31, 2014, all of the manganese-related cases against the Company, Hobart Brothers and Miller Electric have been dismissed. The Company believes that the remaining asbestos and toxic fumes claims will not have a material adverse effect on the Company’s operating results, financial position or cash flows. The Company has not recorded any significant reserves related to these cases.

Preferred Stock, without par value, of which 0.3 million shares are authorized and unissued, is issuable in series. The Board of Directors is authorized to fix by resolution the designation and characteristics of each series of preferred stock. The Company has no present commitment to issue its preferred stock.

Common Stock, with a par value of \$0.01, **Additional Paid-In-Capital** and **Common Stock Held in Treasury** transactions during 2014, 2013, and 2012 are shown below.

In millions	Common Stock		Additional Paid-In- Capital	Common Stock Held in Treasury	
	Shares	Amount	Amount	Shares	Amount
Balance, December 31, 2011	542.5	\$ 5	\$ 686	(58.9)	\$ (2,692)
During 2012-					
Shares issued for stock options	6.3	—	285	—	—
Shares withheld for taxes	—	—	1	(0.3)	(19)
Shares issued for stock compensation and vesting of restricted stock	0.8	—	(10)	0.2	9
Stock compensation expense	—	—	54	—	—
Noncontrolling interest	—	—	(22)	—	—
Tax benefits related to stock options	—	—	14	—	—
Tax benefits related to defined contribution plans	—	—	4	—	—
Repurchases of common stock	—	—	—	(35.5)	(2,020)
Balance, December 31, 2012	549.6	5	1,012	(94.8)	(4,722)
During 2013-					
Shares issued for stock options	0.4	1	9	4.0	198
Shares withheld for taxes	—	—	—	(0.2)	(11)
Shares issued for stock compensation and vesting of restricted stock	—	—	(28)	0.6	28
Stock compensation expense	—	—	36	—	1
Noncontrolling interest	—	—	(8)	—	—
Tax benefits related to stock options	—	—	23	—	—
Tax benefits related to defined contribution plans	—	—	2	—	—
Repurchases of common stock	—	—	—	(29.7)	(2,170)
Balance, December 31, 2013	550.0	6	1,046	(120.1)	(6,676)
During 2014-					
Shares issued for stock options	—	—	—	3.0	148
Shares withheld for taxes	—	—	—	(0.1)	(14)
Shares issued for stock compensation and vesting of restricted stock	—	—	(26)	0.5	26
Stock compensation expense	—	—	39	—	—
Tax benefits related to stock options	—	—	33	—	—
Tax benefits related to defined contribution plans	—	—	4	—	1
Repurchases of common stock	—	—	—	(50.4)	(4,283)
Balance, December 31, 2014	550.0	\$ 6	\$ 1,096	(167.1)	\$ (10,798)
Authorized, December 31, 2014	<u>700.0</u>				

On May 6, 2011, the Company's Board of Directors authorized a stock repurchase program, which provided for the buyback of up to \$4.0 billion of the Company's common stock over an open-ended period of time (the "2011 Program"). Under the 2011 Program, the Company repurchased approximately 1.8 million shares of its common stock at an average price of \$43.20 per share during 2011, approximately 35.5 million shares of its common stock at an average price of \$56.93 per share during 2012 and approximately 26.4 million shares of its common stock at an average price of \$71.89 per share during 2013. As of December 31, 2013, there were no authorized repurchases remaining under the 2011 Program.

On August 2, 2013, the Company's Board of Directors authorized a new stock repurchase program, which provides for the buyback of up to an additional \$6.0 billion of the Company's common stock over an open-ended period of time (the "2013 Program"). Under the 2013 Program, the Company repurchased approximately 3.3 million shares of its common stock at an average price of \$81.62 per share during 2013 and approximately 50.4 million shares of its common stock at an average price of \$84.92 per share during 2014. As of December 31, 2014, there was approximately \$1.4 billion of authorized repurchases remaining under the 2013 Program.

Cash Dividends declared were \$1.81 per share in 2014, \$1.60 per share in 2013 and \$1.48 per share in 2012. Cash dividends paid were \$1.745 per share in 2014, \$1.18 per share in 2013 and \$1.84 per share in 2012. The 2012 cash dividends included an accelerated dividend payment of \$0.38 per share in December 2012, which was originally scheduled to be paid in January 2013.

Accumulated Other Comprehensive Income—Effective January 1, 2013, the Company adopted new accounting guidance that was issued in February 2013 requiring disclosure of amounts transferred out of accumulated other comprehensive income and recognized in the statement of income.

In March 2013, new accounting guidance was issued which clarifies that an entity should release cumulative translation adjustments into net income when the entity ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, which is consistent with the Company's prior accounting policy. The new guidance became effective for the Company on January 1, 2014 and did not have any impact on the Company's financial statements.

The changes in accumulated other comprehensive income during 2014, 2013 and 2012 were as follows:

In millions	2014	2013	2012
Beginning balance	\$ 384	\$ 293	\$ 224
Foreign currency translation adjustments during the period	(806)	(200)	146
Foreign currency translation adjustments reclassified to income	(133)	7	(52)
Total foreign currency translation adjustments	(939)	(193)	94
Pension and other postretirement benefit adjustments during the period	(224)	327	(159)
Pension and other postretirement benefit adjustments reclassified to income . .	54	122	121
Income taxes	67	(165)	13
Total pension and other postretirement benefit adjustments	(103)	284	(25)
Ending balance	<u>\$ (658)</u>	<u>\$ 384</u>	<u>\$ 293</u>

Foreign currency translation adjustments reclassified to income are primarily related to the disposal of certain discontinued operations and were included in the related gain or loss upon disposal. Refer to the Discontinued Operations note for additional information regarding the sale of the Company's discontinued operations.

Pension and other postretirement benefit adjustments reclassified to income represent the amortization of actuarial losses and prior service cost, and settlement and curtailment charges recognized in net periodic benefit cost. Refer to the Retirement Plans and Postretirement Benefits note for the amounts included in net periodic benefit cost. Pension and other postretirement benefit adjustments reclassified to income also include the reclass of deferred losses of \$6 million, \$6 million, and \$11 million for the years ended December 31, 2014, 2013 and 2012, respectively, related to the disposal of certain discontinued operations. Refer to the Discontinued Operations note for additional information regarding the sale of the Company's discontinued operations.

As of December 31, 2014 and 2013, the ending balance of accumulated other comprehensive income consisted of cumulative translation adjustment expense of \$265 million and income of \$674 million, respectively, and unrecognized pension and other postretirement benefits costs of \$393 million and \$290 million, respectively. The estimated unrecognized benefit cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2015 is \$62 million for pension and other postretirement benefits.

Stock-Based Compensation—Stock options and restricted stock units have been issued to officers and other management employees under ITW's 2011 Long-Term Incentive Plan (the "Plan"). The stock options generally vest over a four-year period and have a maturity of ten years from the issuance date. Restricted stock units generally vest after a three-year period and include units with and without performance criteria. To cover the exercise of vested options and vesting of restricted stock units in 2012, the Company generally issued new shares from its authorized but unissued share pool. Commencing in February 2013, the Company issued shares from treasury stock. At December 31, 2014, approximately 34 million shares of ITW common stock were reserved for issuance under the Plan. The Company records compensation expense for the grant date fair value of stock awards over the remaining service periods of those awards.

The following table summarizes the Company's stock-based compensation expense:

In millions	2014	2013	2012
Pre-tax compensation expense	\$ 34	\$ 30	\$ 50
Tax benefit	(12)	(10)	(18)
Total stock-based compensation expense, net of tax	<u>\$ 22</u>	<u>\$ 20</u>	<u>\$ 32</u>

Pre-tax stock-based compensation expense included in income from discontinued operations was \$5 million in 2014, \$6 million in 2013 and \$4 million in 2012.

The following table summarizes activity related to non-vested restricted stock units during 2014:

Shares in millions	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested, January 1, 2014	1.4	\$54.02
Granted	0.3	73.61
Vested	(0.6)	52.15
Canceled	(0.1)	57.50
Unvested, December 31, 2014	<u>1.0</u>	60.68

The following table summarizes stock option activity under the Plan for the year ended December 31, 2014:

In millions except exercise price and contractual terms	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Under option, January 1, 2014	9.4	\$51.95		
Granted	0.8	78.71		
Exercised	(3.0)	49.02		
Canceled or expired	(0.1)	60.55		
Under option, December 31, 2014	<u>7.1</u>	56.25	5.9 years	\$272
Exercisable, December 31, 2014	<u>4.7</u>	51.02	4.9 years	\$207

The Company's annual equity awards consist of stock options, restricted stock units ("RSUs") and performance restricted stock units ("PRSUs"). The RSUs provide for full "cliff" vesting three years from the date of grant. The PRSUs provide for full "cliff" vesting after three years if the Compensation Committee certifies that the performance goals set with respect to the PRSUs have been met. Upon vesting, the holder will receive one share of common stock of the Company for each vested RSU or PRSU. The fair value of RSUs and PRSUs is determined by reducing the closing market price on the date of the grant by the present value of projected dividends over the vesting period. Option exercise prices are equal to the common stock fair market value on the date of grant. The Company uses a binomial option pricing model to estimate the fair value of the stock options granted. The following summarizes the assumptions used in the models:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Risk-free interest rate	0.16-2.83%	0.2-2.9%	0.2-2.1%
Weighted-average volatility	22.9%	21.1%	25.0%
Dividend yield	2.46%	2.72%	2.61%
Expected years until exercise	6.7-7.9	6.6-7.6	7.6-7.8

Lattice-based option valuation models, such as the binomial option pricing model, incorporate ranges of assumptions for inputs. The risk-free rate of interest for periods within the contractual life of the option is based on a zero-coupon U.S. government instrument over the contractual term of the equity instrument. Expected volatility is based on implied volatility from traded options on the Company's stock and historical volatility of the Company's stock. The Company uses historical data to estimate option exercise timing and employee termination rates within the valuation model. The weighted-average dividend yield is based on historical information. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The ranges presented result from separate groups of employees assumed to exhibit different behavior.

The weighted-average grant-date fair value of options granted during 2014, 2013 and 2012 was \$15.14, \$10.06 and \$11.48 per share, respectively. The aggregate intrinsic value of options exercised during the years ended December 31, 2014, 2013 and 2012 was \$115 million, \$108 million and \$84 million, respectively. As of December 31, 2014, there was \$13 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted-average period of 2.4 years. Exercise of options during the years ended December 31, 2014, 2013 and 2012 resulted in cash receipts of \$148 million, \$206 million and \$285 million, respectively. The total fair value of vested stock option awards during the years ended December 31, 2014, 2013 and 2012 was \$16 million, \$16 million and \$48 million, respectively.

As of December 31, 2014, there was \$16 million of total unrecognized compensation cost related to unvested restricted stock units. That cost is expected to be recognized over a weighted-average remaining contractual life of 1.7 years. The total fair value of vested restricted stock unit awards during the years ended December 31, 2014, 2013 and 2012 was \$27 million, \$23 million and \$31 million, respectively.

Segment Information—The Company's operations are organized and managed based on similar product offerings and similar end markets, and are reported to senior management as the following seven segments: Automotive OEM; Test & Measurement and Electronics; Food Equipment; Polymers & Fluids; Welding; Construction Products; and Specialty Products.

As discussed in the Divestiture of Majority Interest in Former Decorative Surfaces Segment note, the Company ceased consolidating the results of the Decorative Surfaces segment as of October 31, 2012 and now reports its 49% ownership interest in Wilsonart using the equity method of accounting. Effective November 1, 2012, the Company made changes to its management reporting structure and Decorative Surfaces is no longer a reportable segment of the Company.

As discussed in the Discontinued Operations note, in September 2013, the Company's Board of Directors authorized a plan to commence a sale process for the Industrial Packaging segment. The Company classified the Industrial Packaging segment as held for sale beginning in the third quarter of 2013 and no longer presented this segment as part of its continuing operations. On February 6, 2014, the Company announced that it had signed a definitive agreement to sell its Industrial Packaging business to The Carlyle Group for \$3.2 billion. The transaction was completed on May 1, 2014, resulting in a pre-tax gain of \$1.7 billion (\$1.1 billion after-tax) in the second quarter of 2014 which was included in Income from discontinued operations.

The following is a description of the Company's seven segments:

Automotive OEM—Components and fasteners for automotive-related applications.

Test & Measurement and Electronics—Equipment, consumables, and related software for testing and measuring of materials and structures, and equipment and consumables used in the production of electronic subassemblies and microelectronics.

Food Equipment—Commercial food equipment and related service.

Polymers & Fluids—Adhesives, sealants, lubrication and cutting fluids, janitorial and hygiene products, and fluids and polymers for auto aftermarket maintenance and appearance.

Welding—Arc welding equipment, consumables and accessories for a wide array of industrial and commercial applications.

Construction Products—Construction fastening systems and truss products.

Specialty Products—Beverage packaging equipment and consumables, product coding and marking equipment and consumables, and appliance components and fasteners.

Segments are allocated a fixed overhead charge based on the segment's revenues. Expenses not charged to the segments are reported separately as Unallocated. Because the Unallocated category includes a variety of items, it is subject to fluctuations on a quarterly and annual basis.

Segment information for 2014, 2013 and 2012 was as follows:

In millions	2014	2013	2012
Operating revenues:			
Automotive OEM.	\$ 2,590	\$ 2,396	\$ 2,171
Test & Measurement and Electronics	2,204	2,176	2,299
Food Equipment.	2,177	2,047	1,939
Polymers & Fluids	1,927	1,993	2,063
Welding	1,850	1,837	1,847
Construction Products	1,707	1,717	1,724
Specialty Products	2,055	2,007	1,871
Intersegment revenues	(26)	(38)	(44)
Total Segments.	<u>14,484</u>	<u>14,135</u>	<u>13,870</u>
Decorative Surfaces	—	—	921
Total	<u>\$ 14,484</u>	<u>\$ 14,135</u>	<u>\$ 14,791</u>
Operating income:			
Automotive OEM.	\$ 600	\$ 490	\$ 421
Test & Measurement and Electronics	340	321	342
Food Equipment.	453	385	332
Polymers & Fluids	357	335	327
Welding	479	464	470
Construction Products	289	238	201
Specialty Products	440	408	365
Total Segments.	<u>2,958</u>	<u>2,641</u>	<u>2,458</u>
Decorative Surfaces	—	—	143
Unallocated	(70)	(127)	(126)
Total	<u>\$ 2,888</u>	<u>\$ 2,514</u>	<u>\$ 2,475</u>
Depreciation and amortization and impairment of goodwill and intangible assets:			
Automotive OEM.	\$ 79	\$ 80	\$ 70
Test & Measurement and Electronics	115	119	122
Food Equipment.	52	50	47
Polymers & Fluids	99	103	102
Welding	38	37	34
Construction Products	43	49	57
Specialty Products	81	84	82
Total Segments.	<u>507</u>	<u>522</u>	<u>514</u>
Decorative Surfaces	—	—	17
Discontinued Operations	—	91	82
Total	<u>\$ 507</u>	<u>\$ 613</u>	<u>\$ 613</u>
Plant and equipment additions:			
Automotive OEM.	\$ 96	\$ 119	\$ 112
Test & Measurement and Electronics	56	39	36
Food Equipment.	47	37	34
Polymers & Fluids	28	28	29
Welding	36	35	38
Construction Products	41	32	29
Specialty Products	54	47	43
Total Segments.	<u>358</u>	<u>337</u>	<u>321</u>
Decorative Surfaces	—	—	18
Discontinued Operations	3	31	43
Total	<u>\$ 361</u>	<u>\$ 368</u>	<u>\$ 382</u>
Identifiable assets:			
Automotive OEM.	\$ 1,454	\$ 1,571	\$ 1,526
Test & Measurement and Electronics	2,615	2,772	2,851
Food Equipment.	1,123	1,184	979
Polymers & Fluids	2,257	2,420	2,540
Welding	879	936	914
Construction Products	1,249	1,309	1,463
Specialty Products	1,798	1,939	1,898
Total Segments.	<u>11,375</u>	<u>12,131</u>	<u>12,171</u>
Corporate	6,303	5,999	5,352
Assets held for sale	—	1,836	—
Industrial Packaging.	—	—	1,786
Total	<u>\$ 17,678</u>	<u>\$ 19,966</u>	<u>\$ 19,309</u>

Identifiable assets by segment are those assets that are specifically used in that segment. Corporate assets are principally cash and equivalents, investments and other general corporate assets.

Enterprise-wide information for 2014, 2013 and 2012 was as follows:

In millions	2014		2013		2012	
Operating Revenues by Geographic Region:						
United States	\$	6,191	\$	6,030	\$	6,339
Canada/Mexico		993		973		1,014
Total North America		7,184		7,003		7,353
Europe, Middle East and Africa		4,319		4,162		4,356
Asia Pacific		2,427		2,366		2,493
South America		554		604		589
	\$	14,484	\$	14,135	\$	14,791

Prior year information in table above has been reorganized to conform to the current year reporting of geographic regions. Operating revenues by geographic region are based on the customers' locations. Long-lived assets in any single country outside of the U.S. did not exceed 10% of the Company's total long-lived assets.

No single customer accounted for more than 5% of consolidated revenues in 2014, 2013 or 2012. Additionally, the Company has thousands of product lines within its businesses; therefore, providing operating revenues by product line is not practicable.

QUARTERLY AND COMMON STOCK DATA (UNAUDITED)

Quarterly Financial Data

The unaudited quarterly financial data included as supplementary data reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented.

In millions except per share amounts	Three Months Ended							
	March 31		June 30		September 30		December 31	
	2014	2013	2014	2013	2014	2013	2014	2013
Operating revenues	\$ 3,569	\$ 3,420	\$ 3,719	\$ 3,593	\$ 3,692	\$ 3,568	\$ 3,504	\$ 3,554
Cost of revenues	2,158	2,078	2,219	2,155	2,182	2,148	2,114	2,173
Operating income	667	578	763	630	772	678	686	628
Income from continuing operations	428	401	494	416	507	406	461	407
Income (loss) from discontinued operations	45	(47)	998	49	24	46	(11)	1
Net income	473	354	1,492	465	531	452	450	408
Income per share from continuing operations:								
Basic	1.01	0.89	1.22	0.93	1.29	0.91	1.19	0.93
Diluted	1.01	0.88	1.21	0.92	1.28	0.90	1.18	0.92
Net income per share:								
Basic	1.12	0.78	3.69	1.04	1.35	1.01	1.17	0.93
Diluted	1.11	0.78	3.66	1.03	1.34	1.01	1.16	0.93

Certain reclassifications of prior year data have been made to conform to current year reporting, including discontinued operations.

In the second quarter of 2014, the Company recorded an after-tax gain of \$1.1 billion, or \$2.82 per diluted share, related to the sale of the Industrial Packaging business, which was included in Income (loss) from discontinued operations.

In the first quarter of 2013, the Company recorded a goodwill impairment charge and loss reserves on assets held for sale of \$98 million after-tax, or \$0.22 per diluted share, which were included in Income (loss) from discontinued operations.

ITEM 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

Not applicable.

ITEM 9A. *Controls and Procedures*

Controls and Procedures

The Company's management, with the participation of the Company's President & Chief Executive Officer and Senior Vice President & Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of December 31, 2014. Based on such evaluation, the Company's President & Chief Executive Officer and Senior Vice President & Chief Financial Officer have concluded that, as of December 31, 2014, the Company's disclosure controls and procedures were effective.

Management Report on Internal Control over Financial Reporting

The Management Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm are found in Item 8. Financial Statements and Supplementary Data.

In connection with the evaluation by management, including the Company's President & Chief Executive Officer and Senior Vice President & Chief Financial Officer, no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the quarter ended December 31, 2014 were identified that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9B. *Other Information*

Not applicable.

PART III

ITEM 10. *Directors, Executive Officers and Corporate Governance*

Information regarding the Directors of the Company is incorporated by reference from the information under the captions "Election of Directors" and "Corporate Governance Policies and Practices" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

Information regarding the Audit Committee and its Financial Experts is incorporated by reference from the information under the captions "Board of Directors and Its Committees" and "Audit Committee Report" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

Information regarding the Executive Officers of the Company can be found in Part I of this Annual Report on Form 10-K under the caption "Executive Officers."

Information regarding compliance with Section 16(a) of the Exchange Act is incorporated by reference from the information under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

Information regarding the Company's code of ethics that applies to the Company's President & Chief Executive Officer, Senior Vice President & Chief Financial Officer, and key financial and accounting personnel is incorporated by reference from the information under the caption "Corporate Governance Policies and Practices" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

ITEM 11. *Executive Compensation*

This information is incorporated by reference from the information under the captions "Executive Compensation," "Director Compensation," "Compensation Discussion and Analysis" and "Compensation Committee Report" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

This information is incorporated by reference from the information under the captions "Ownership of ITW Stock" and "Equity Compensation Plan Information" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

ITEM 13. *Certain Relationships and Related Transactions, and Director Independence*

Information regarding certain relationships and related transactions is incorporated by reference from the information under the captions "Ownership of ITW Stock," "Certain Relationships and Related Transactions" and "Corporate Governance Policies and Practices" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

Information regarding director independence is incorporated by reference from the information under the captions "Corporate Governance Policies and Practices" and "Categorical Standards for Director Independence" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

ITEM 14. *Principal Accounting Fees and Services*

This information is incorporated by reference from the information under the captions "Ratification of the Appointment of Independent Registered Public Accounting Firm" and "Audit Fees" in the Company's Proxy Statement for the 2015 Annual Meeting of Stockholders.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

The following information is included as part of Item 8. Financial Statements and Supplementary Data:

Management Report on Internal Control over Financial Reporting
Report of Independent Registered Public Accounting Firm
Statement of Income
Statement of Comprehensive Income
Statement of Income Reinvested in the Business
Statement of Financial Position
Statement of Cash Flows
Notes to Financial Statements

(2) Financial Statement Schedules

Not applicable.

(3) Exhibits

(i) See the Exhibit Index within this Annual Report on Form 10-K.

(ii) Pursuant to Regulation S-K, Item 601(b)(4)(iii), the Company has not filed with Exhibit 4 any debt instruments for which the total amount of securities authorized thereunder is less than 10% of the total assets of the Company and its subsidiaries on a consolidated basis as of December 31, 2014, with the exception of the Officers' Certificates related to the 0.90% Notes due 2017, the 1.95% Notes due 2019, the 6.25% Notes due 2019, the 3.375% Notes due 2021, the 1.75% Euro Notes due 2022, the 3.50% Notes due 2024, the 3.00% Euro Notes due 2034, the 4.875% Notes due 2041, and the 3.90% Notes due 2042, which are described as Exhibit numbers 4(a) through (g) in the Exhibit Index. The Company agrees to furnish a copy of the agreement related to the debt instruments which have not been filed with Exhibit 4 to the Securities and Exchange Commission upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 13th day of February 2015.

ILLINOIS TOOL WORKS INC.

By:

/s/ E. SCOTT SANTI

E. Scott Santi

President & Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on this 13th day of February 2015.

Signatures	Title
<u>/s/ E. SCOTT SANTI</u> E. Scott Santi	President & Chief Executive Officer, Director (Principal Executive Officer)
<u>/s/ MICHAEL M. LARSEN</u> Michael M. Larsen	Senior Vice President & Chief Financial Officer (Principal Financial Officer)
<u>/s/ RANDALL J. SCHEUNEMAN</u> Randall J. Scheuneman	Vice President & Chief Accounting Officer (Principal Accounting Officer)
DANIEL J. BRUTTO	Director
SUSAN CROWN	Director
DON H. DAVIS, JR.	Director
JAMES W. GRIFFITH	Director
RICHARD H. LENNY	Director
ROBERT C. MCCORMACK	Director
ROBERT S. MORRISON	Chairman of the Board
JAMES A. SKINNER	Director
DAVID B. SMITH, JR.	Director
PAMELA B. STROBEL	Director
KEVIN M. WARREN	Director
ANRÉ D. WILLIAMS	Director
	By: <u>/s/ E. SCOTT SANTI</u> (E. Scott Santi, <i>as Attorney-in-Fact</i>)

Original powers of attorney authorizing E. Scott Santi to sign the Company's Annual Report on Form 10-K and amendments thereto on behalf of the above-named directors of the registrant have been filed with the Securities and Exchange Commission as part of this Annual Report on Form 10-K (Exhibit 24).

Exhibit Index
Annual Report on Form 10-K
2014

Exhibit Number	Description
2.1(a)	Investment Agreement, dated as of August 15, 2012, among CD&R Wimbledon Holdings III, L.P., a Cayman Islands limited partnership; Illinois Tool Works Inc.; ITW DS Investments Inc., a Delaware corporation; and Wilsonart International Holdings LLC, a Delaware limited liability company, filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on August 17, 2012 (Commission File No. 1-4797) and incorporated herein by reference. (Certain of the schedules and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K, but the Company undertakes to furnish a copy of the schedules or similar attachments to the Securities and Exchange Committee upon request.)
2.1(b)	Stock Purchase Agreement, dated as of February 6, 2014, between Illinois Tool Works Inc. and certain of its subsidiaries and Vault Bermuda Holding Co. Ltd., filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 12, 2014. (Commission File No. 1-4797) and incorporated herein by reference. (Certain of the schedules and similar attachments have been omitted pursuant to Item 601(b)(2) of Regulation S-K, but the Company undertakes to furnish a copy of the schedules or similar attachments to the Securities and Exchange Commission upon request).
3(a)	Amended and Restated Certificate of Incorporation of Illinois Tool Works Inc., filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
3(b)	By-laws of Illinois Tool Works Inc., as amended and restated as of August 8, 2014, filed as Exhibit 3 to the Company's Form 8-K filed on August 8, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
4(a)	Indenture between Illinois Tool Works Inc. and The First National Bank of Chicago, as Trustee, dated as of November 1, 1986, filed as Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed on January 15, 1999 (Commission File No. 333-70691) and incorporated herein by reference.
4(b)	First Supplemental Indenture between Illinois Tool Works Inc. and Harris Trust and Savings Bank, as Trustee, dated as of May 1, 1990, filed as Exhibit 4.2 to the Company's Registration Statement on Form S-3 filed on January 15, 1999 (Commission File No. 333-70691) and incorporated herein by reference.
4(c)	Officers' Certificate dated March 26, 2009 establishing the terms, and setting forth the forms, of the 5.15% Notes due 2014 and the 6.25% Notes due 2019, filed as Exhibit 4.3 to the Company's Current Report on Form 8-K filed on March 27, 2009 (Commission File No. 1-4797) and incorporated herein by reference.
4(d)	Officers' Certificate dated August 31, 2011, establishing the terms, and setting forth the forms, of the 3.375% Notes due 2021 and the 4.875% Notes due 2041, filed as Exhibit 4.3 to the Company's Form 8-K filed on September 1, 2011 (Commission File No. 001-04797) and incorporated herein by reference.
4(e)	Officers' Certificate dated August 28, 2012, establishing the terms, and setting forth the forms, of the 3.9% Notes due 2042, filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 28, 2012 (Commission File No. 1-4797) and incorporated herein by reference.
4(f)	Officers' Certificate dated February 25, 2014, establishing the terms, and setting forth the forms, of the 0.9% Notes due 2017, the 1.95% Notes due 2019, and the 3.5% Notes due 2024, filed as Exhibit 4.1 to the Company's Form 8-K filed on February 26, 2014 (Commission File No. 001-04797) and incorporated herein by reference.
4(g)	Officers' Certificate dated May 20, 2014, establishing the terms, and setting forth the forms, of the 1.75% Euro Notes due 2022 and the 3.0% Euro Notes due 2034, filed as Exhibit 4.1 to the Company's Form 8-K filed on May 22, 2014 (Commission File No. 001-04797) and incorporated herein by reference.
10(a)*	Illinois Tool Works Inc. 2006 Stock Incentive Plan dated February 10, 2006, as amended on May 5, 2006, filed as Exhibit 10(a) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (Commission File No. 1-4797) and incorporated herein by reference.
10(b)*	Amendment to Illinois Tool Works Inc. 2006 Stock Incentive Plan dated February 8, 2008, filed as Exhibit 10 (q) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (Commission File No. 1-4797) and incorporated herein by reference.
10(c)*	Second Amendment to Illinois Tool Works Inc. 2006 Stock Incentive Plan dated February 13, 2009, filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 1-4797) and incorporated herein by reference.
10(d)*	Illinois Tool Works Inc. 2011 Long-Term Incentive Plan, filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on December 16, 2010 (Commission File No. 1-4797) and incorporated herein by reference.

Exhibit Number	Description
10(e)*	Form of stock option terms filed as Exhibit 10(o) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (Commission File No. 1-4797) and incorporated herein by reference.
10(f)*	Form of stock option terms filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 5, 2009 (Commission File No. 1-4797) and incorporated herein by reference.
10(g)*	Form of stock option terms filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 9, 2011 (Commission File No. 1-4797) and incorporated herein by reference.
10(h)*	Form of stock option terms filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.
10(i)*	Form of stock option terms filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 13, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
10(j)*	Form of restricted stock unit terms filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on February 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.
10(k)*	Form of restricted stock unit terms filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed on February 13, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
10(l)*	Form of performance restricted stock unit terms filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on February 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.
10(m)*	Form of performance restricted stock unit terms filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on February 13, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
10(n)*	Form of company-wide growth plan grant filed as Exhibit 99.4 to the Company's Current Report on Form 8-K filed on February 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.
10(o)*	Form of Long-Term Incentive Cash Grant filed as Exhibit 99.4 to the Company's Current Report on Form 8-K filed on February 13, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
10(p)*	Illinois Tool Works Inc. 2011 Executive Incentive Plan, filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on December 16, 2010 (Commission File No. 1-4797) and incorporated herein by reference.
10(q)*	Illinois Tool Works Inc. Executive Contributory Retirement Income Plan as amended and restated, effective January 1, 2010, filed as exhibit 10 to the Company's Current Report on Form 8-K filed on November 5, 2009 (Commission File No. 1-4797) and incorporated herein by reference.
10(r)*	Illinois Tool Works Inc. Nonqualified Pension Plan, effective January 1, 2008, as amended and approved by the Board of Directors on December 22, 2008, filed as Exhibit 10(p) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 1-4797) and incorporated herein by reference.
10(s)*	Illinois Tool Works Inc. 2011 Change-in-Control Severance Compensation Policy, filed as Exhibit 99.3 to the Company's Current Report on Form 8-K filed on December 16, 2010 (Commission File No. 1-4797) and incorporated herein by reference.
10(t)*	Illinois Tool Works Inc. Amended and Restated Directors' Deferred Fee Plan effective May 2, 2014, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
10(u)*	Illinois Tool Works Inc. Phantom Stock Plan for Non-Officer Directors, as approved by the Board of Directors on December 5, 2008, filed as Exhibit 10(s) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (Commission File No. 1-4797) and incorporated herein by reference.
10(v)*	Illinois Tool Works Inc. 2011 Cash Incentive Plan, filed as Exhibit 99.1 to the Company's Form 8-K filed on May 12, 2011 (Commission File No. 1-4797) and incorporated herein by reference.
10(w)	Letter Agreement, dated January 12, 2012, among the Company, Relational Investors LLC and the other parties named in the Letter Agreement, filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 13, 2012 (Commission File No. 1-4797) and incorporated herein by reference.
10(x)	Letter Agreement dated March 1, 2013, among Illinois Tool Works Inc., Relational Investors LLC and the other parties named in the Letter Agreement, extending Letter Agreement dated January 12, 2012, filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed on January 29, 2013 (Commission File No. 1-4797) and incorporated herein by reference.

Exhibit Number	Description
10(y)*	Retention and Incentive Award Letter Agreement, executed May 1, 2013 between Craig Hindman and Illinois Tool Works Inc., filed as Exhibit 10.3 to the Company's Current Form 10-Q filed on May 3, 2013 (Commission No. 1-4797) and incorporated herein by reference.
10(z)*	Severance Letter Agreement executed May 1, 2013 between Craig Hindman and Illinois Tool Works Inc., filed as Exhibit 10.4 to the Company's Current Report on Form 10-Q filed May 3, 2013 (Commission File No. 1-4797) and incorporated herein by reference.
10(aa)*	Letter Agreement by and between Illinois Tool Works Inc. and Michael M. Larsen dated August 14, 2013, filed as Exhibit 10.3 to the Company's Current Report on Form 10-Q filed November 1, 2013 (Commission File No. 1-4797) and incorporated herein by reference.
10(bb)*	First Amendment to the ITW Contributory Retirement Income Plan dated February 15, 2013, filed as Exhibit 10.2 to the Company's Current Form 10-Q filed on May 3, 2013 (Commission File No. 1-4797) and incorporated herein by reference.
21	Subsidiaries and Affiliates of the Company.
23	Consent of Independent Registered Public Accounting Firm.
24	Powers of Attorney.
31	Rule 13a-14(a) Certifications.
32	Section 1350 Certification.
99(a)	Description of the capital stock of Illinois Tool Works Inc., filed as Exhibit 99(a) to the Company's Annual Report on Form 10-K filed on February 26, 2010 (Commission File No. 1-4797) and incorporated herein by reference.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase**
101.DEF	XBRL Taxonomy Extension Definition Linkbase**
101.LAB	XBRL Taxonomy Extension Label Linkbase**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase**

* Management contract or compensatory plan or arrangement.

** The following financial information from Illinois Tool Works Inc. Company's Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) Statement of Income, (ii) Statement of Comprehensive Income, (iii) Statement of Income Reinvested in the Business (iv) Statement of Financial Position, (v) Statement of Cash Flows and (vi) related Notes to Financial Statements.

ILLINOIS TOOL WORKS INC. and SUBSIDIARIES
GAAP TO NON-GAAP RECONCILIATIONS (UNAUDITED)

ADJUSTED OPERATING RESULTS AND PERCENTAGE OF OPERATING REVENUES

	For the Year Ended December 31, 2012					
	Operating Revenues	Cost of Revenues	Selling, Administrative and Research and Development	Operating Income	Income from Continuing Operations	Diluted EPS
Dollars in millions						
As reported	\$ 14,791	\$ 9,134	\$ 2,928	\$ 2,475	\$ 2,233	\$ 4.72
Decorative Surfaces net gain	-	-	-	-	632	1.34
Decorative Surfaces equity interest	-	-	-	-	(19)	(0.04)
Decorative Surfaces operating results	921	672	106	143	102	0.21
As adjusted	<u>\$ 13,870</u>	<u>\$ 8,462</u>	<u>\$ 2,822</u>	<u>\$ 2,332</u>	<u>\$ 1,518</u>	<u>\$ 3.21</u>
<i>Percentage of Operating Revenues</i>		<i>61.0%</i>	<i>20.4%</i>	<i>16.8%</i>	<i>10.9%</i>	

ADJUSTED FREE OPERATING CASH FLOW CONVERSION RATE

	For the Years Ended December 31		
	2014	2013	2012
Dollars in millions			
Net cash provided by operating activities	\$ 1,616	\$ 2,528	\$ 2,072
Less: Additions to plant and equipment	(361)	(368)	(382)
Free operating cash flow	1,255	2,160	1,690
Plus: Taxes paid related to sale of Industrial Packaging	724	-	-
Adjusted free operating cash flow	<u>\$ 1,979</u>	<u>\$ 2,160</u>	<u>\$ 1,690</u>
Net Income - As reported	\$ 2,946	\$ 1,679	\$ 2,870
Industrial Packaging gain on sale, after taxes	(1,148)	-	-
Decorative Surfaces gain on sale and Wilsonart equity interest, after taxes	-	-	(613)
Finishing gain on sale, after taxes	-	-	(372)
Adjusted Net Income	<u>\$ 1,798</u>	<u>\$ 1,679</u>	<u>\$ 1,885</u>
Adjusted free operating cash flow to adjusted net income conversion rate	110%	129%	90%

Shareholder Information

TRANSFER AGENT AND REGISTRAR

Questions regarding stock ownership, dividend payments, or change of address should be directed to the company's transfer agent:

Computershare Trust Company, N.A.
P.O. Box 30170
College Station, TX 77842-3170
www.computershare.com/investor
Phone Toll Free: 888.829.7424
International: +1.312.360.5155

COMMON STOCK

New York Stock Exchange
Symbol: ITW

ANNUAL MEETING

Friday, May 8, 2015, 9:00 a.m.
Illinois Tool Works Inc.
155 Harlem Avenue
Glenview, Illinois 60025

TRADEMARKS

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CONTACT INVESTOR RELATIONS

For additional assistance, including media inquiries: 224.661.7427 or investorrelations@itw.com

VISIT US ON THE WEB

www.itw.com

COMMITTED TO SOCIAL RESPONSIBILITY

Learn about our CSR activities and goals in our 2014 report: withpurpose.itw-csr.com

STOCK AND DIVIDEND ACTION

Effective with the October 7, 2014 payment, the quarterly cash dividend on ITW common stock was increased to 48.5 cents per share. ITW's annual dividend payment has increased for more than 50 consecutive years, except during a period of government controls in 1971.

The ITW Common Stock Dividend Reinvestment Plan enables registered shareholders to reinvest the ITW dividends they receive in additional shares of common stock of the company at no additional cost. Participation in the plan is voluntary, and shareholders may join or withdraw at any time. The plan also allows for additional voluntary cash investments in any amount from \$100 to \$10,000 per month. For a brochure and full details of the program, please direct inquiries to the company's transfer agent, Computershare Trust Company, N.A.





*Illinois Tool Works Inc.
155 Harlem Avenue
Glenview, Illinois 60025*

