

ILLINOIS TOOL WORKS INC  
Form 10-K  
February 14, 2014

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, 2013  
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 36-1258310  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

3600 W. Lake Avenue, Glenview, Illinois 60026-1215  
(Address of Principal Executive Offices) (Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock	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

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

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 28, 2013 was approximately \$25,600,000,000 based on the New York Stock Exchange closing sales price as of June 28, 2013. Shares of Common Stock outstanding at January 31, 2014: 424,867,793.

Documents Incorporated by Reference

Portions of the 2014 Proxy Statement for Annual Meeting of Stockholders to be held on May 2, 2014.

Part III

---

## PART I

### ITEM 1. Business

#### General

Illinois Tool Works Inc. (the "Company" or "ITW") was founded in 1912 and incorporated in 1915. The Company is a global manufacturer of a diversified range of industrial products and equipment with operations in 56 countries. The Company periodically makes changes to its management reporting structure to better align its businesses with Company objectives and operating strategies. Effective January 1, 2013, the Company made certain changes in how its operations are reported to senior management in order to better align its portfolio of businesses with its enterprise-wide portfolio management initiative. As a result of this reorganization, the Company's continuing operations are internally reported as 28 operating segments to senior management as of December 31, 2013, which have been aggregated into the following seven external reportable segments: Automotive OEM; Test & Measurement and Electronics; Food Equipment; Polymers & Fluids; Welding; Construction Products; and Specialty Products. The significant changes that resulted from this reorganization included the following:

Certain businesses within the former Transportation segment, primarily related to the automotive aftermarket business, are reported in the Polymers & Fluids segment and the Transportation segment has been renamed Automotive OEM.

The Welding business, which was formerly reported in the Power Systems & Electronics segment, is reported separately as the Welding segment.

The Electronics business, which was formerly reported in the Power Systems & Electronics segment, has been combined with the Test & Measurement business, which was formerly reported in the All Other segment, to form a new Test & Measurement and Electronics segment.

The All Other segment has been renamed Specialty Products.

The following is a description of the Company's seven reportable 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;

2

---

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 reportable segments of the Company unless otherwise noted.

#### 80/20 Business Process

A key element of the Company's business strategy is its continuous 80/20 business process. The basic concept of this 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 various 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, as a last resort, 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. Corporate management works closely with those businesses that have operating results below expectations to apply this 80/20 business process and improve results.

#### Enterprise Strategy

During 2012, the Company embarked on an Enterprise Strategy that includes three key initiatives - portfolio management, business structure simplification, and strategic sourcing. These 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

3

---

Company's divestiture activity increased over historical periods in 2012 and 2013 and is expected to increase further in 2014 with the planned divestiture of the Industrial Packaging segment. The Company has historically acquired businesses with complementary products and services, as well as larger acquisitions that represent potential new platforms. Going forward, the focus will be on businesses with sustainable differentiation and growth potential. Refer to the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

**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. This initiative is expected to transform sourcing into a core strategic function in the Company.

#### **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.

#### **Plan to Sell 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 is no longer presenting 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 segment to The Carlyle Group for \$3.2 billion. The transaction is subject to regulatory approval and customary closing conditions, and is expected to close by mid-2014.

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

The Industrial Packaging business produces steel and plastic strapping and related tools and equipment; plastic stretch film and related equipment; and paper and plastic products that protect goods in transit. Principal end markets served include general industrial, primary metals, food and beverage, and construction.

#### **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 reportable 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
General Industrial	4	% 34	% 1	% 18	% 55	% 1	% 20	% 18
Automotive OEM/Tiers	84	7	—	3	3	1	1	16
Automotive Aftermarket	8	—	—	41	1	—	—	7
Commercial Construction	—	1	—	8	9	30	2	6
Residential Construction Renovation	—	—	—	1	1	46	—	6
Construction	—	—	—	1	1	22	—	3
Food & Beverage	—	2	2	1	—	—	26	4
Food Institutional/Restaurant	—	—	31	—	—	—	—	5
Food Service	—	2	34	1	—	—	1	6
Food Retail	—	—	22	—	—	—	5	4
Consumer Durables	2	6	4	—	—	—	14	4
Electronics	—	20	—	2	—	—	2	4
Maintenance, Repair & Operations	—	2	1	12	12	—	1	4
Other	2	26	5	12	18	—	28	13
	100	% 100	% 100	% 100	% 100	% 100	% 100	% 100

Other includes several end markets, some of which are paper products, primary metals, and printing and publishing. 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 reportable segment as of December 31, 2013 and 2012 was as follows:

In millions	2013	2012
Automotive OEM	\$386	\$287
Test & Measurement and Electronics	322	348
Food Equipment	218	192
Polymers & Fluids	66	74
Welding	92	106
Construction Products	31	20
Specialty Products	290	244
Total	\$1,405	\$1,271

Backlog orders scheduled for shipment beyond calendar year 2014 were not material as of December 31, 2013.

#### Competition

With operations in 56 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 decentralized operating

5

---

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 \$240 million in 2013, \$240 million in 2012 and \$221 million in 2011.

#### Intellectual Property

The Company owns approximately 3,400 unexpired U.S. patents and 6,500 foreign patents covering articles, methods and machines. In addition, the Company has approximately 1,700 applications for patents pending in the U.S. Patent Office and 4,000 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; Permatex 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 51,000 persons in its continuing operations as of December 31, 2013 and considers its employee relations to be excellent.

#### International

The Company's international operations include subsidiaries and joint ventures in 55 foreign countries on six continents. These operations serve such end markets as general industrial, automotive, construction, food institutional/restaurant and service, food and beverage, consumer durables, electronics, maintenance, repair and operations, and others on a worldwide basis. The Company's revenues from sales to customers outside the U.S. were approximately 57% of revenues in 2013, 57% of revenues in 2012 and 59% of revenues in 2011.



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 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 changes 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 14, 2014 were as follows:

Name	Office	Age
Sharon M. Brady	Senior Vice President, Human Resources	63
Timothy J. Gardner	Executive Vice President	58
Maria C. Green	Senior Vice President, General Counsel & Secretary	61
John R. Hartnett	Executive Vice President	53
Craig A. Hindman	Executive Vice President	59
Michael M. Larsen	Senior Vice President & Chief Financial Officer	45
Roland M. Martel	Executive Vice President	59
Steven L. Martindale	Executive Vice President	57
Sundaram Nagarajan	Executive Vice President	51
Christopher O'Herlihy	Executive Vice President	50
David C. Parry	Vice Chairman	60
E. Scott Santi	President & Chief Executive Officer	52
Randall J. Scheuneman	Vice President & Chief Accounting Officer	46
Juan Valls	Executive Vice President	52

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.

Ms. Brady has served in her present position since 2006.

Mr. Gardner has served in his present position since 2009. He joined the Company in 1997 and has held various sales and management positions in the consumer packaging businesses. Most recently, he served as Group President of the consumer packaging businesses.

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 of Construction Products 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. Hindman has served in his present position since 2004.

Mr. Larsen joined the Company and was elected to his present position 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.

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 President, international food equipment businesses.

Mr. Parry has served in his present position since 2010. He served as Executive Vice President from 2006 to 2010. Prior thereto, he served as President of the Performance Polymers Group.

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 and as Executive Vice President from 2004 to 2008.

Mr. Scheuneman was appointed Vice President and Chief Accounting Officer in 2009. Prior to joining the Company in 2009, he held several financial leadership positions at W.W. Grainger, Inc., including Vice President, Finance, for the Lab Safety Supply business from 2006 to 2009, and Vice President, Internal Audit, from 2002 to 2006. He was appointed Principal Accounting Officer in 2009.

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

#### 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](http://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](http://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., 3600 West Lake Avenue, Glenview, IL 60026, 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; 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. Weakness or downturns in the markets served by the Company could adversely affect its business, results of operations or financial condition.

The Company's businesses are impacted by economic conditions around the globe. Slower economic growth, credit 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, increasing the risk of impairment of goodwill and other long-lived assets, and increasing the risk that counterparties to the Company's contractual arrangements will become insolvent or otherwise unable to fulfill their obligations.

8

---



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 56 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.

If the Company is unable to successfully manage its enterprise initiatives, 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 Company has completed the first year of its five year enterprise strategy and associated initiatives: portfolio management, business structure simplification and strategic sourcing. These initiatives include divesting assets that may no longer be aligned with its enterprise initiatives and long-term objectives, the scaling up of smaller businesses into larger businesses and better leveraging of purchasing power. If the Company is unable to retain its key employees, maintain productivity or otherwise implement 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.

The Company previously announced its intention to fully offset the divestiture-related EPS dilution from the proposed sale of the Industrial Packaging segment through share repurchases. The Company currently plans to fund the repurchases through a combination of sale proceeds, free operating cash flow and additional borrowings. The amount and timing of share repurchases will be based on a variety of factors. Important factors that could cause us to limit, suspend or delay the Company's stock repurchases include unfavorable market conditions, the trading 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. If we delay, limit or suspend the Company's stock repurchase program, the Company's stock price may be negatively affected.

Divestitures could negatively impact the Company's business, and retained liabilities from businesses that the Company sells could adversely affect the Company's financial results.

As part of its portfolio management initiative, the Company reviews its operations for businesses that may no longer be aligned with its enterprise initiatives and long-term objectives. As a result, the Company's divestiture activity increased over historical periods in 2012 and 2013 and is expected to increase further in 2014 with the planned divestiture of the Industrial Packaging segment. Divestitures pose risks and challenges that could negatively impact the Company's business, including the potentially dilutive effect on earnings per share, distraction of management's attention from core businesses, potential disputes with buyers and potential impairment charges. In addition, the Company may be required to retain responsibility for, or agree to indemnify buyers against known and unknown contingent liabilities related to the businesses sold, such as lawsuits, tax liabilities, product liability claims and environmental matters.



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 or other laws.

The Company cannot provide assurance that its internal controls will always protect it from reckless or criminal acts committed by its employees, agents or business partners that would violate U.S. and/or non-U.S. laws, including anti-bribery laws, competition, and export and import compliance. Any such improper actions could subject the Company to civil or criminal investigations in the U.S. and in other jurisdictions, 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, 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.

The Company's acquisition of businesses could negatively impact its growth, profitability and returns.

Acquisitions involve a number of risks and financial, accounting, managerial and operational challenges, including the following, any of which could adversely affect the Company's growth, profitability and returns:

- Any acquired business, technology, service or product could under-perform relative to the Company's expectations and the price paid for it, or not perform in accordance with the Company's anticipated timetable.

- Acquisitions could cause the Company's financial results to differ from expectations in any given fiscal period, or over the long term.

- Acquisition-related earnings charges could adversely impact operating results.

- Acquisitions could place unanticipated demands on the Company's management, operational resources and financial and internal control systems.

The Company may assume unknown liabilities, known contingent liabilities that become realized or known liabilities that prove greater than anticipated. The realization of any of these liabilities may increase the Company's expenses or adversely affect its financial position.

As a result of acquisitions, the Company has in the past recorded significant goodwill and other identifiable intangible assets on its balance sheet. If the Company is not able to realize the value of these assets, it may recognize charges relating to the impairment of these assets.

Diminished credit availability could adversely impact the Company's ability to readily obtain financing or to obtain cost-effective financing.

The Company may utilize the commercial paper markets for a portion of its short-term liquidity needs. If conditions in the financial markets decline, there is no assurance that the commercial paper markets will remain available to the Company or that the lenders participating in the Company's long-term credit facilities will be able to provide financing in accordance with the terms of its credit agreements. A failure of one or more of the syndicate members in the Company's credit facilities could reduce the availability of credit and adversely affect the Company's liquidity. If the Company determines that it is appropriate or necessary to raise capital in the future, funds may not be available on cost-effective terms.

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.

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 often requires the investment of significant resources. Difficulties or delays in research, development or production of new products and

10

---

services or failure to gain market acceptance of new products and technologies may reduce future revenues and adversely affect the Company's competitive position.

Protecting the Company's intellectual property is critical to its innovation efforts. The Company owns a number of patents, trademarks and licenses related to its products and has exclusive and non-exclusive rights under patents owned by others. The Company's intellectual property 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.

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

The Company is subject to income taxes in the United States 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 the 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," "forecas 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 intention to refinance debt obligations, 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 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

As of December 31, 2013, the Company's continuing operations operated the following plants and office facilities, excluding regional sales offices and warehouse facilities:

	Number Of Properties	Floor Space		Total
		Owned	Leased	
		(In millions of square feet)		
Automotive OEM	92	4.4	2.4	6.8
Test & Measurement and Electronics	111	3.1	2.6	5.7
Food Equipment	45	3.2	0.9	4.1
Polymers & Fluids	80	3.6	1.6	5.2
Welding	49	3.5	0.8	4.3
Construction Products	68	2.8	0.9	3.7
Specialty Products	111	3.3	3.1	6.4
Corporate	34	2.8	0.2	3.0
Total	590	26.7	12.5	39.2

The principal plants and office facilities outside of the U.S. are in Australia, Brazil, Canada, China, Czech Republic, Denmark, France, Germany, Italy, Netherlands, Spain, and the United Kingdom.

The Company's properties are primarily of steel, brick or concrete construction 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.

#### 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 common stock of Illinois Tool Works Inc. was listed on the New York Stock Exchange for 2013 and 2012. Quarterly market price and dividend data for 2013 and 2012 were as shown below:

	Market Price Per Share		Dividends Declared Per Share
	High	Low	
2013:			
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
2012:			
Fourth quarter	\$63.33	\$58.20	\$0.38
Third quarter	62.09	49.07	0.38
Second quarter	58.27	50.35	0.36
First quarter	58.24	47.42	0.36

The approximate number of holders of record of common stock as of January 31, 2014 was 7,544. This number does not include beneficial owners of the Company's securities held in the name of nominees.

Repurchases of Common Stock—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 December 2013. As of December 31, 2013, there was approximately \$5.7 billion of authorized repurchases remaining under the 2013 Program.

Share repurchase activity under the Company's share repurchase programs for the fourth quarter of 2013 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 Programs	Maximum Value of Shares That May Yet Be Purchased Under Program
October 2013	3.3	\$77.30	3.3	\$6,592
November 2013	5.1	\$79.23	5.1	\$6,185
December 2013	5.6	\$80.60	5.6	\$5,731
Total	14.0		14.0	

#### ITEM 6. Selected Financial Data

In millions except per share amounts	2013	2012	2011	2010	2009
Operating revenues	\$14,135	\$14,791	\$14,515	\$12,625	\$11,216
Income from continuing operations	1,630	2,233	1,775	1,258	889
Income per share from continuing operations:					
Basic	3.65	4.75	3.61	2.51	1.78
Diluted	3.63	4.72	3.59	2.50	1.77
Total assets at year-end	19,966	19,309	17,984	16,412	15,811
Long-term debt at year-end	2,793	4,589	3,488	2,542	2,861
Cash dividends declared per common share	1.60	1.48	1.40	1.30	1.24

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

The Company periodically reviews its operations for businesses which may no longer be aligned with its enterprise initiatives and long-term objectives. As such, 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 \$49 million, \$637 million, \$296 million, \$245 million, and \$84 million in the years 2013, 2012, 2011, 2010, and 2009, 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 operations in 56 countries.

The Company periodically makes changes to its management reporting structure to better align its businesses with Company objectives and operating strategies. Effective January 1, 2013, the Company made certain changes in how its operations are reported to senior management in order to better align its portfolio of businesses with its enterprise-wide portfolio management initiative. As a result of this reorganization, the Company's continuing operations are internally reported as 28 operating segments to senior management as of December 31, 2013, which have been aggregated into the following seven external reportable segments: Automotive OEM; Test & Measurement and Electronics; Food Equipment; Polymers & Fluids; Welding; Construction Products; and Specialty Products.

The significant changes that resulted from this reorganization included the following:

Certain businesses within the former Transportation segment, primarily related to the automotive aftermarket business, are reported in the Polymers & Fluids segment and the Transportation segment has been renamed Automotive OEM.

The Welding business, which was formerly reported in the Power Systems & Electronics segment, is reported separately as the Welding segment.

The Electronics business, which was formerly reported in the Power Systems & Electronics segment, has been combined with the Test & Measurement business, which was formerly reported in the All Other segment, to form a new Test & Measurement and Electronics segment.

The All Other segment has been renamed Specialty Products.

The changes in the reportable segments and underlying reporting units did not result in any goodwill impairment charges in the first quarter of 2013.

Commensurate with the change in reportable segments described above, the segment operating income was also revised for a change in how the operating expenses maintained at the corporate level are allocated to the Company's segments. Prior to January 1, 2013, the Company allocated all operating expenses maintained at the corporate level to its segments. Beginning January 1, 2013, segments are allocated a fixed overhead charge based on the segment's revenues. Expenses not charged to the segments are now reported separately as Unallocated. Because the Unallocated category includes a variety of items, it is subject to fluctuation on a quarterly and annual basis.

The prior year segment results and related disclosures have been restated to conform to the current year presentation under the new segment structure and expense allocation methodology.

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 base businesses, 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. Base businesses are those businesses that have been included in the Company's results of operations for more than 12 months. The changes to base business operating income include the estimated effects of both operating leverage and changes in variable margins and overhead costs. Operating leverage is the estimated effect of the base business revenue volume changes on 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 base business revenues. Changes in variable margins and

overhead costs represent the estimated effect of non-volume related changes in base business operating income 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.

## 80/20 BUSINESS PROCESS

A key element of the Company's business strategy is its continuous 80/20 business process. The basic concept of this 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 various 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, as a last resort, 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. Corporate management works closely with those businesses that have operating results below expectations to apply this 80/20 business process and improve results.

## ENTERPRISE STRATEGY

During 2012, the Company embarked on an Enterprise Strategy that includes three key initiatives - portfolio management, business structure simplification, and strategic sourcing. These 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 over historical periods in 2012 and 2013 and is expected to increase further in 2014 with the planned divestiture of the Industrial Packaging segment. The Company has historically acquired businesses with complementary products and services, as well as larger acquisitions that represent potential new platforms. Going forward, the focus will be on businesses with sustainable differentiation and growth potential. Refer to the Discontinued Operations note in Item 8. Financial Statements and Supplementary Data for discussion of the Company's discontinued operations.

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. This initiative is expected to transform sourcing into a core strategic function in the Company.

## 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 which may no longer be aligned with its enterprise initiatives and long-term objectives. As such, 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 is no longer presenting 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 segment to The Carlyle Group for \$3.2 billion. The transaction is subject to regulatory approval and customary closing conditions, and is expected to close by mid-2014.

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.

These held for sale businesses discussed above, as well as certain previously divested businesses, are 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. 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 2013, 2012 and 2011 are summarized as follows:

Dollars in millions	2013	2012	2011	
Operating revenues	\$ 14,135	\$ 14,791	\$ 14,515	
Operating income	2,514	2,475	2,361	
Margin %	17.8	% 16.7	% 16.3	%

In 2013 and 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2013 Compared to 2012			2012 Compared to 2011		
	% Increase (Decrease)	Operating Revenues	Operating Income	% Increase (Decrease)	Operating Revenues	Operating Income
Base business:						
Revenue change/Operating leverage	0.2	% 0.6	% 0.1	% 2.2	% 2.7	% 0.1
Changes in variable margins and overhead costs	—	6.4	1.1	—	6.5	1.1
	0.2	7.0	1.2	2.2	9.2	1.2
Acquisitions	1.7	0.4	(0.2)	3.5	0.8	(0.6)
Divestitures	(6.3)	) (5.1)	) 0.3	(1.3)	) (0.7)	) 0.1
Restructuring costs	—	(1.0)	) (0.2)	—	(2.0)	) (0.3)

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

Impairment of goodwill and intangibles	—	—	—	—	(0.1	)	—					
Translation	—	0.3	—	(2.5	)	(2.4	)	—				
Total	(4.4	)%	1.6	%	1.1	%	1.9	%	4.8	%	0.4	%

17

---

### Operating Revenues

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 base revenues (see "Results of Operations by Segment" table below). Worldwide base 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 base 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 base 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 base 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. 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.

Revenues increased 1.9% in 2012 versus 2011 primarily due to higher base revenues and revenues from acquisitions, partially offset by the unfavorable effect of currency translation and the reduction of revenues due to divestitures. Divestitures reduced revenues by 1.3% primarily due to only ten months of operating results for the Decorative Surfaces segment in 2012 versus twelve months of operating results in 2011 as the Company divested a 51% interest in the Decorative Surfaces segment on October 31, 2012, at which time the segment was deconsolidated. Base revenues increased 2.2% in 2012 versus 2011 as North American economic conditions were stronger than the European and Asia Pacific economic environments. North American base revenues increased 4.3% in 2012 versus 2011. International base revenues decreased 0.2% as Europe declined 0.9% in 2012 versus 2011 primarily driven by weakness in Southern Europe. Asia Pacific base revenues increased 0.7% in 2012 versus 2011 primarily due to growth in the Automotive OEM segment across the region. Acquisitions contributed 3.5% to revenues primarily due to the purchase of a manufacturer of specialty devices used to measure the flow of gases and fluids in the first quarter of 2012 and a thermal processing and environmental equipment manufacturer in the third quarter of 2011. Currency translation resulted in a 2.5% decline in revenues primarily due to a weaker Euro versus the year ago period.

### Operating Income

Operating income increased 1.6% in 2013 versus 2012 primarily due to lower overhead expenses and an increase in base revenues, partially offset by the divestiture of the former Decorative Surfaces segment and higher restructuring expenses. Total base operating margins increased 120 basis points in 2013 versus 2012 primarily due to lower overhead costs. The changes in variable margins and overhead costs increased base margins by 110 basis points in 2013 versus 2012, 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.

Operating income increased 4.8% in 2012 versus 2011 primarily due to improved variable margins and the positive operating leverage effect of the increase in base revenues. Currency translation resulted in a 2.4% decline in operating income primarily due to a weaker Euro versus the year ago period. Higher restructuring expenses due to increased cost reduction activities also negatively impacted operating income by 2.0%. Base margins increased 120 basis points primarily due to improved variable margins. Changes in variable margins and overhead costs improved base margins 110 basis points primarily due to the favorable effect of selling price versus material cost comparisons of 60 basis points and benefits of restructuring projects. The increase in base margins was partially offset by a 60 basis point decline related to acquisitions, primarily due to amortization expense related to intangible assets. Restructuring expenses diluted total operating margins by 30 basis points primarily due to restructuring activities related to



continued improvements in operating structure and efficiencies.

## RESULTS OF OPERATIONS BY SEGMENT

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

	Operating Revenues		
In millions	2013	2012	2011
Automotive OEM	\$2,396	\$2,171	\$2,092
Test & Measurement and Electronics	2,176	2,299	2,011
Food Equipment	2,047	1,939	1,985
Polymers & Fluids	1,993	2,063	2,059
Welding	1,837	1,847	1,724
Construction Products	1,717	1,724	1,752
Specialty Products	2,007	1,871	1,856
Intersegment revenues	(38	) (44	) (48
Total Segments	14,135	13,870	13,431
Decorative Surfaces	—	921	1,084
Total	\$14,135	\$14,791	\$14,515
	Operating Income		
In millions	2013	2012	2011
Automotive OEM	\$490	\$421	\$386
Test & Measurement and Electronics	321	342	300
Food Equipment	385	332	311
Polymers & Fluids	335	327	328
Welding	464	470	440
Construction Products	238	201	218
Specialty Products	408	365	383
Total Segments	2,641	2,458	2,366
Decorative Surfaces	—	143	154
Unallocated	(127	) (126	) (159
Total	\$2,514	\$2,475	\$2,361

## 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 2013, this segment primarily served the automotive original equipment manufacturers and tiers (84%) and automotive aftermarket (8%) markets.

The results of operations for the Automotive OEM segment for 2013, 2012 and 2011 were as follows:

Dollars in millions	2013	2012	2011	
Operating revenues	\$2,396	\$2,171	\$2,092	
Operating income	490	421	386	
Margin %	20.5	% 19.4	% 18.4	%

In 2013 and 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2013 Compared to 2012			2012 Compared to 2011			
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)	
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins	
Base business:							
Revenue change/Operating leverage	9.5	% 17.8	% 1.5	% 7.5	% 14.5	% 1.2	%
Changes in variable margins and overhead costs	—	0.2	—	—	(0.2 )	—	
	9.5	18.0	1.5	7.5	14.3	1.2	
Acquisitions	—	—	—	—	—	—	
Divestitures	—	—	—	—	—	—	
Restructuring costs	—	(3.2 )	(0.6 )	—	(1.6 )	(0.2 )	
Impairment of goodwill and intangibles	—	—	—	—	—	—	
Translation	0.9	1.7	0.2	(3.8 )	(3.9 )	—	
Total	10.4	% 16.5	% 1.1	% 3.7	% 8.8	% 1.0	%

#### Operating Revenues

Revenues increased 10.4% in 2013 versus 2012 primarily due to an increase in base business and the favorable effect of currency translation. Worldwide automotive base revenue growth of 9.5% in 2013 versus 2012 exceeded auto builds of approximately 4% primarily due to worldwide product penetration gains. International automotive base revenues increased 10.9% over the prior year. Base 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 base revenue growth was 6.8% while auto build growth was flat in 2013 versus 2012. North American automotive base revenue growth of 8.0% exceeded auto build growth of 5% over the prior year.

Revenues increased 3.7% in 2012 versus 2011 due to the increase in base business, partially offset by the unfavorable effect of currency translation. Worldwide automotive base revenue growth of 7.5% in 2012 versus 2011 was primarily due to an increase in worldwide auto builds of 6%, favorable customer mix and product penetration gains in Europe, and growing product penetration with automotive original equipment manufacturers in China. International automotive base revenues increased 7.2% in 2012 versus 2011. European base revenue growth of 3.0% exceeded auto build declines of 5% in 2012 versus 2011. Base revenues for Asia Pacific increased 22.1% in 2012 versus 2011 while base revenue growth in China of 31.3% exceeded Chinese auto build growth of 6% in 2012 versus 2011. North American automotive base revenues grew 8.1% as North American auto builds increased 17% in 2012 versus 2011.

#### Operating Income

Operating income increased 16.5% in 2013 versus 2012 primarily due to higher base revenues and the favorable effect of currency translation, partially offset by higher restructuring expenses. Total base operating margins increased 150 basis points due to the positive operating leverage effect of the increase in base revenues described above. The changes in variable margins and overhead costs had no significant effect on base 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.

Operating income increased 8.8% in 2012 versus 2011 primarily due to the positive operating leverage effect of the base revenue increase, partially offset by the unfavorable effect of currency translation and higher restructuring expenses. Base margins increased 120 basis points due to the positive operating leverage effect of the increase in base revenues described above. Higher restructuring expenses diluted total operating margins by 20 basis points.

#### TEST & MEASUREMENT AND ELECTRONICS

Businesses in this segment produce 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.

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

equipment, consumables, and related software for testing and measuring of materials, structures, gases and fluids;

20

---

- 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 2013, this segment primarily served the general industrial (34%) market, which included industrial capital goods, energy, and other general industrial markets, electronics (20%), automotive original equipment manufacturers and tiers (7%), and consumer durables (6%) markets.

The results of operations for the Test & Measurement and Electronics segment for 2013, 2012 and 2011 were as follows:

Dollars in millions	2013	2012	2011	
Operating revenues	\$2,176	\$2,299	\$2,011	
Operating income	321	342	300	
Margin %	14.8	% 14.9	% 14.9	%

In 2013 and 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2013 Compared to 2012			2012 Compared to 2011							
	% Increase (Decrease)	Operating Revenues	Operating Income	% Point Increase (Decrease)	% Increase (Decrease)	Operating Revenues	Operating Income	% Point Increase (Decrease)	Operating Revenues	Operating Income	Operating Margins
Base business:											
Revenue change/Operating leverage	(6.0 )%	(18.3 )%	(1.9 )%	3.3 %	9.5 %	0.9 %					
Changes in variable margins and overhead costs	—	10.6	1.7	—	5.5	0.8					
	(6.0 )	(7.7 )	(0.2 )	3.3	15.0	1.7					
Acquisitions	0.9	0.6	—	13.0	2.9	(1.4 )					
Divestitures	—	0.1	—	—	—	—					
Restructuring costs	—	1.3	0.2	—	(2.0 )	(0.3 )					
Impairment of goodwill and intangibles	—	(0.7 )	(0.1 )	—	—	—					
Translation	(0.2 )	—	—	(1.9 )	(2.1 )	—					
Total	(5.3 )%	(6.4 )%	(0.1 )%	14.4 %	13.8 %	— %					

#### Operating Revenues

Revenues decreased 5.3% in 2013 versus 2012 primarily due to a decline in base business, partially offset by revenues from acquisitions. Worldwide electronics base business 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. Base revenues for the other electronics businesses increased 3.1% in 2013 versus 2012 primarily due to increased demand from consumer electronics customers in China. Base 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.

Revenues increased 14.4% in 2012 versus 2011 due to the increase in revenues from acquisitions and base revenues, partially offset by the unfavorable effect of currency translation. Base revenues for the worldwide test and measurement businesses increased 7.1% in 2012 versus 2011 primarily due to increased equipment orders both internationally and in North America. Worldwide electronics base business revenues increased 0.5% in 2012 versus 2011 primarily due to base revenue growth of 7.9% in the electronic assembly businesses driven by strong order rates

from a key electronics customer, partially offset by a 4.0% decline in the other electronics businesses as consumer demand for basic cell phones and computers was weaker. The acquisition revenue was primarily due to the purchase of a thermal processing and environmental equipment manufacturer in the third quarter of 2011.

## Operating Income

Operating income decreased 6.4% in 2013 versus 2012 primarily due to the lower base revenues noted above. Total base operating margins decreased 20 basis points in 2013 versus 2012 primarily due to the negative operating leverage effect of the decrease in base revenues of 190 basis points, partially offset by changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased base margins by 170 basis points in 2013 versus 2012 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 one-time claim recovery of 30 basis points in 2013. Operating income increased 13.8% in 2012 versus 2011 primarily due to the growth in base revenues, changes in variable margins and overhead costs, and revenues from acquisitions, partially offset by higher restructuring expenses and the unfavorable effect of currency translation. Base operating margins increased 170 basis points due to the positive operating leverage effect of the increase in base revenues of 90 basis points and the changes in variable margins and overhead costs of 80 basis points, primarily due to favorable selling price versus material cost comparisons of 50 basis points. Acquisitions diluted total operating margins by 140 basis points versus the prior year. Higher restructuring expenses decreased total operating margins by 30 basis points due to increased cost reduction activities in 2012.

## 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 2013, this segment primarily served the service (34%), food institutional/restaurant (31%), and food retail (22%) markets.

The results of operations for the Food Equipment segment for 2013, 2012 and 2011 were as follows:

Dollars in millions	2013	2012	2011	
Operating revenues	\$2,047	\$1,939	\$1,985	
Operating income	385	332	311	
Margin %	18.8	% 17.1	% 15.7	%

In 2013 and 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2013 Compared to 2012			2012 Compared to 2011				
	% Increase (Decrease)	Operating Revenues	Operating Income	% Point Increase (Decrease)	% Increase (Decrease)	Operating Revenues	Operating Income	% Point Increase (Decrease)
Base business:								
Revenue change/Operating leverage	1.9	% 5.0	% 0.5	% 0.5	% 1.4	% 0.1	%	
Changes in variable margins and overhead costs	—	10.3	1.7	—	7.1	1.1		
	1.9	15.3	2.2	0.5	8.5	1.2		
Acquisitions	3.2	0.3	(0.5 )	—	—	—		
Divestitures	—	—	—	—	—	—		
Restructuring costs	—	(0.5 )	(0.1 )	—	1.2	0.2		
Impairment of goodwill and intangibles	—	—	—	—	—	—		

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

Translation	0.4	0.6	0.1	(2.9 )	(3.4 )	—
Total	5.5	% 15.7	% 1.7	% (2.4 )	% 6.3	% 1.4 %

22

---



### Operating Revenues

Revenues increased 5.5% in 2013 versus 2012 primarily due to revenues from acquisitions and an increase in base revenues. North American base 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 base 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.

Revenues decreased 2.4% in 2012 versus 2011 due to the unfavorable effect of currency translation, which was partially offset by the growth in base business. North American base revenues increased 3.0% in 2012 versus 2011 as equipment revenues increased 2.7% and service revenues grew 3.6%. The increase in equipment revenues was driven by growth in certain institutional, restaurant, and retail markets but declined in the fourth quarter of 2012, largely due to slower demand from institutional customers in budget constrained sectors. The increase in service revenues was partly due to expanded service capabilities and improved market penetration. International base revenues decreased 2.0% in 2012 versus 2011 as equipment revenues decreased 4.2%, primarily due to lower European sales in the cooking businesses, partially offset by product penetration gains in China and Brazil. International service revenues increased 3.4% driven by expanded service capabilities in Europe.

### Operating Income

Operating income increased 15.7% in 2013 versus 2012 primarily due to lower operating expenses and higher base revenues. Total base operating margins increased 220 basis points in 2013 versus 2012 due to the positive operating leverage effect of the increase in base revenues and changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased base 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.

Operating income increased 6.3% in 2012 versus 2011 primarily due to improved variable margins and productivity improvements, higher base revenues, and a decrease in restructuring expenses, partially offset by the unfavorable effect of currency translation. Base operating margins increased 120 basis points primarily due to changes in variable margins and overhead costs. The changes in variable margins and overhead costs increased base margins by 110 basis points in 2012 versus 2011 primarily due to the positive impact of selling price versus material cost comparisons of 60 basis points and a 50 basis point improvement from lower operating expenses due to productivity improvements in North America and Europe.

### 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; and
- 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 2013, this segment primarily served the automotive aftermarket (41%), general industrial (18%), maintenance, repair and operations, or "MRO" (12%), and construction (10%) markets.

The results of operations for the Polymers & Fluids segment for 2013, 2012 and 2011 were as follows:

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

Dollars in millions	2013	2012	2011	
Operating revenues	\$1,993	\$2,063	\$2,059	
Operating income	335	327	328	
Margin %	16.8	% 15.8	% 16.0	%

23

---

In 2013 and 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2013 Compared to 2012			2012 Compared to 2011		
	% Increase (Decrease)		% Point Increase (Decrease)	% Increase (Decrease)		% Point Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Base business:						
Revenue change/Operating leverage	(2.9 )%	(8.1 )%	(0.8 )%	(3.6 )%	(9.9 )%	(1.0 )%
Changes in variable margins and overhead costs	—	11.9	1.9	—	11.0	1.8
	(2.9 )	3.8	1.1	(3.6 )	1.1	0.8
Acquisitions	0.5	—	—	7.0	3.3	(0.6 )
Divestitures	—	—	—	—	—	—
Restructuring costs	—	(0.5 )	(0.1 )	—	(2.2 )	(0.4 )
Impairment of goodwill and intangibles	—	—	—	—	—	—
Translation	(1.0 )	(0.8 )	—	(3.2 )	(3.2 )	—
Total	(3.4 )%	2.5 %	1.0 %	0.2 %	(1.0 )%	(0.2 )%

#### Operating Revenues

Revenues decreased 3.4% in 2013 versus 2012 primarily due to lower base revenues and the unfavorable effect of currency translation. Base 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 simplification (PLS) 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.

Revenues increased 0.2% in 2012 versus 2011 primarily due to revenues from acquisitions, partially offset by a decrease in base revenues and the unfavorable effect of currency translation. Worldwide base revenues for the polymers and hygiene businesses decreased 4.0% in 2012 versus 2011 primarily driven by a decrease in European sales, especially in Spain, and from exiting low margin business. Worldwide base revenues for the fluids business decreased 1.2% in 2012 versus 2011 primarily due to decreased sales in Europe, partially offset by modest growth in North America and Brazil. Worldwide base revenues for the automotive aftermarket businesses declined 4.0% in 2012 versus 2011 primarily due to the loss of a major product line with a key customer and decreased demand for car care products in Europe, partially offset by higher demand in the U.S. The increase in acquisition revenue was primarily due to the purchase of a North American automotive aftermarket business in the first quarter of 2011, a manufacturer of advanced technology silicone materials in the second quarter of 2012, a European specialty chemical business in the first quarter of 2012, and a European automotive aftermarket business in the third quarter of 2011.

#### Operating Income

Operating income increased 2.5% in 2013 versus 2012 primarily due to lower operating expenses, partially offset by lower base revenues, the unfavorable effect of currency translation and higher restructuring expenses. Total base operating 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 base revenues. The changes in variable margins and overhead costs increased base operating 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.

Operating income decreased 1.0% in 2012 versus 2011 primarily due to the decrease in base revenues, the unfavorable effect of currency translation, and higher restructuring expenses, partially offset by changes in variable margins and overhead costs and income from acquisitions. Total base operating margins increased 80 basis points versus the prior

year primarily due to changes in variable margins and overhead costs of 180 basis points, partially offset by the impact of the decrease in base revenues noted above. The positive impact from changes in variable margins and overhead costs was primarily due to the favorable impact of selling price versus material cost comparisons of 80 basis points and lower overhead costs of 90 basis points, primarily due to the benefits of restructuring projects. Acquisitions diluted total operating margins by 60 basis points primarily due to the impact of intangible asset amortization expense.

## 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 2013, this segment primarily served the general industrial (55%) market, which included energy, fabrication, industrial capital goods and other general industrial markets, maintenance, repair and operations, or "MRO" (12%), and construction (11%) markets.

The results of operations for the Welding segment for 2013, 2012 and 2011 were as follows:

Dollars in millions	2013	2012	2011
Operating revenues	\$1,837	\$1,847	\$1,724
Operating income	464	470	440
Margin %	25.3	% 25.4	% 25.5

In 2013 and 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2013 Compared to 2012			2012 Compared to 2011							
	% Increase (Decrease)	Operating Revenues	Operating Income	% Point Increase (Decrease)	% Increase (Decrease)	Operating Revenues	Operating Income	% Point Increase (Decrease)	Operating Revenues	Operating Income	Operating Margins
Base business:											
Revenue change/Operating leverage	(2.3 )%	(3.7 )%	(0.4 )%	6.8	% 10.6	0.9	%				
Changes in variable margins and overhead costs	—	3.2	0.9	—	(1.9 )	(0.4 )					
	(2.3 )	(0.5 )	0.5	6.8	8.7	0.5					
Acquisitions	1.9	(0.4 )	(0.5 )	1.2	(0.6 )	(0.4 )					
Divestitures	—	—	—	—	—	—					
Restructuring costs	—	(0.3 )	(0.1 )	—	(1.1 )	(0.2 )					
Impairment of goodwill and intangibles	—	—	—	—	—	—					
Translation	—	(0.1 )	—	(0.9 )	(0.5 )	—					
Total	(0.4 )%	(1.3 )%	(0.1 )%	7.1	% 6.5	(0.1 )%					

## Operating Revenues

Revenues decreased 0.4% in 2013 versus 2012 primarily due to a decline in base business, partially offset by revenues from acquisitions. Worldwide welding base revenues declined 2.3% in 2013 versus 2012. North American welding base business revenues were lower by 2.2% due to heavy equipment OEM and general industrial end market declines. International base business 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 primarily due to the purchase of a European supplier of welding consumables in the first quarter of 2013.

Revenues increased 7.1% in 2012 versus 2011 due to growth in base business and revenues from acquisitions, partially offset by the unfavorable effect of currency translation. Worldwide welding base revenues increased 6.8% in 2012 versus 2011, but softened in the fourth quarter, as worldwide revenues declined 1.3% in the fourth quarter largely due to a 5.4% decline in the international welding base business. North American welding base revenues increased 7.6% in 2012 versus 2011 due to growth in oil and gas end markets for the full year and increased sales to heavy equipment OEM's in the first half of 2012, with slowed growth in heavy equipment OEM demand in the second half of the year. Base revenues for the international welding businesses increased 4.7% in 2012 versus 2011 primarily due to growth in international oil and gas markets, partially offset by a weak Chinese ship building end market. Acquisition revenue was primarily due to the purchase of a thermal insulation manufacturer and service provider in the third quarter of 2011.

#### Operating Income

Operating income decreased 1.3% in 2013 versus 2012 primarily due to lower base revenues, lower income from acquisitions, and higher restructuring expenses, partially offset by lower operating expenses. Total base operating margins increased 50 basis points primarily due to lower operating expenses, partially offset by the negative operating leverage effect of base revenue declines. Changes in variable margins and overhead costs increased base 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.

Operating income increased 6.5% in 2012 versus 2011 primarily due to the favorable operating leverage effect of the growth in base revenues, partially offset by changes in variable margins and overhead costs and higher restructuring expenses due to increased cost reduction activities. Base margins increased 50 basis points in 2012 versus 2011 primarily due to the favorable operating leverage effect of the growth in base business of 90 basis points, partially offset by changes in variable margins and overhead costs. The changes in variable margins and overhead costs decreased base margins by 40 basis points primarily due to higher overhead expenses of 130 basis points, including investments in emerging markets related to the oil and gas businesses, partially offset by the favorable impact of selling price versus material cost comparisons of 90 basis points. Acquisitions diluted total operating margins by 40 basis points in 2012 versus 2011 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 2013, this segment primarily served the residential construction (46%), commercial construction (30%), and renovation construction (22%) markets.

The results of operations for the Construction Products segment for 2013, 2012 and 2011 were as follows:

Dollars in millions	2013	2012	2011	
Operating revenues	\$1,717	\$1,724	\$1,752	
Operating income	238	201	218	
Margin %	13.9	% 11.6	% 12.5	%

In 2013 and 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2013 Compared to 2012			2012 Compared to 2011		
			% Point			% Point
	% Increase (Decrease)		Increase (Decrease)	% Increase (Decrease)		Increase (Decrease)
	Operating Revenues	Operating Income	Operating Margins	Operating Revenues	Operating Income	Operating Margins
Base business:						
Revenue change/Operating leverage	0.5	% 2.0	% 0.2	% 0.5	% 1.7	% 0.2
Changes in variable margins and overhead costs	—	22.5	2.6	—	(1.7 )	(0.2 )
	0.5	24.5	2.8	0.5	—	—
Acquisitions	0.4	0.1	—	2.0	1.7	—
Divestitures	(0.3 )	(0.1 )	—	(1.8 )	0.5	0.3
Restructuring costs	—	(2.6 )	(0.3 )	—	(9.4 )	(1.2 )
Impairment of goodwill and intangibles	—	—	—	—	—	—
Translation	(1.1 )	(2.5 )	(0.2 )	(2.2 )	(1.6 )	—
Total	(0.5 )%	19.4	% 2.3	% (1.5 )%	(8.8 )%	(0.9 )%

#### Operating Revenues

Revenues decreased 0.5% in 2013 versus 2012 primarily due to the negative impact of currency translation, partially offset by an increase in base revenues. North American base revenues increased 4.6% in 2013 versus 2012 as U.S. residential base revenue growth was 8.2% primarily due to increased consumable sales associated with year-over-year growth in housing starts. U.S. renovation base revenue growth was 7.3% primarily due to strong tool sales and increased sales to big box retailers. U.S. commercial base revenues declined 1.4% primarily due to weak overall demand. International base revenues declined 1.6% in 2013 versus 2012, as European base revenues declined 5.3% due to lower sales of consumable products driven by a slowdown in construction activity in European end markets. Base 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.

Revenues decreased 1.5% in 2012 versus 2011 primarily due to the unfavorable effect of currency translation, partially offset by an increase in base revenues. In North America, base revenue growth for residential, renovation and commercial construction was 8.3%, 7.1% and 5.4%, respectively. The North American base revenue increase was driven by improved U.S. housing starts as well as a modest increase in commercial construction square footage activity. International base revenues declined 2.3% as European base revenues declined 4.0% due to lower sales of consumable products driven by a slowdown in construction activity in all European end markets. Base revenues in Asia Pacific declined 0.2% in 2012 versus 2011 primarily due to lower renovation and commercial construction activity in Australia and New Zealand.

#### Operating Income

Operating income increased 19.4% in 2013 versus 2012 primarily due to lower operating expenses and higher base revenues, partially offset by higher restructuring expenses and the unfavorable effect of currency translation. Total base margins increased 280 basis points in 2013 versus 2012 due to changes in variable margins and overhead costs and the positive operating leverage effect of the increase in base revenues. The changes in variable margins and overhead costs increased total base 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.

Operating income decreased 8.8% in 2012 versus 2011 primarily due to higher restructuring expenses, higher operating expenses, and the unfavorable effect of currency translation, partially offset by income from acquisitions

and higher base revenues. Base margins were flat versus the prior year, as the favorable operating leverage effect of the increase in base revenues was offset by higher operating expenses in Europe. Restructuring expenses reduced total operating margins by 120 basis points due to increased cost reduction activities worldwide.



## 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 2013, this segment primarily served the food and beverage (26%), general industrial (20%) market, which included industrial capital goods and other general industrial markets, consumer durables (14%), and printing and publishing (10%) markets.

The results of operations for the Specialty Products segment for 2013, 2012 and 2011 were as follows:

Dollars in millions	2013	2012	2011	
Operating revenues	\$2,007	\$1,871	\$1,856	
Operating income	408	365	383	
Margin %	20.3	% 19.5	% 20.6	%

In 2013 and 2012, the changes in revenues, operating income and operating margins over the prior year were primarily due to the following factors:

	2013 Compared to 2012			2012 Compared to 2011					
	% Increase (Decrease)	Operating Revenues	Operating Income	% Point Increase (Decrease)	% Increase (Decrease)	Operating Revenues	Operating Income	% Point Increase (Decrease)	
Base business:									
Revenue change/Operating leverage	1.3	% 2.9	% 0.3	% 0.3	% 0.6	% 0.1	%		
Changes in variable margins and overhead costs	—	6.5	1.3	—	0.1	—			
	1.3	9.4	1.6	0.3	0.7	0.1			
Acquisitions	5.7	2.6	(0.6)	)	2.7	(0.7)	)	(0.7)	
Divestitures	—	—	—		—	—			
Restructuring costs	—	(1.1)	)	(0.2)	)	—	(2.5)	)	(0.5)
Impairment of goodwill and intangibles	—	—	—		—	—			
Translation	0.3	0.8	—		(2.1)	)	(2.2)	)	—
Total	7.3	% 11.7	% 0.8	% 0.9	% (4.7)	)	% (1.1)	)	%

## Operating Revenues

Revenues increased 7.3% in 2013 versus 2012 primarily due to an increase in acquisition and base business revenues, and the favorable effect of currency translation. Worldwide consumer packaging base revenues increased 2.5% in 2013 versus 2012 primarily due to growth in multi-pack beverage systems. Worldwide appliance base business revenues declined 3.0% in 2013 versus 2012 primarily due to lower consumer demand in the European home appliance sector. Worldwide base 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.

Revenues increased 0.9% in 2012 versus 2011 primarily due to revenues from acquisitions and an increase in base business, partially offset by the unfavorable effect of currency translation. Worldwide consumer packaging base revenues increased 0.4% as higher sales in both the global packaging solutions business and the plastics and security business were partially offset by lower sales related to the reclosable packaging business and the worldwide foils and transfer ribbon business. Worldwide appliance base revenue growth was 5.8% primarily due to market penetration and improved customer demand in

28

---

North America in 2012 versus 2011. Worldwide base revenues of the ground support equipment business decreased 5.2% in 2012 versus 2011. Acquisition revenue was primarily due to the first quarter 2012 purchase of a manufacturer of thermal transfer ribbons for bar coding and labeling applications.

#### Operating Income

Operating income increased 11.7% in 2013 versus 2012 primarily due to lower operating expenses, an increase in base revenues, and income from acquisitions. Total base operating 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 base revenues of 30 basis points. The changes in variable margins and overhead costs increased base 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.

Operating income decreased 4.7% in 2012 versus 2011 primarily due to higher restructuring expenses, the unfavorable effect of currency translation, and lower income from acquisitions, partially offset by the growth in base revenues. Total base margins increased 10 basis points due to the favorable operating leverage effect of the increase in base revenues. Acquisitions diluted total operating margins by 70 basis points primarily due to amortization expense related to intangible assets. Higher restructuring expenses decreased total operating margins by 50 basis points due to increased cost reduction activities in 2012.

#### 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 and 2011 were as follows:

Dollars in millions	For the Ten Months Ended October 31, 2012	For the Twelve Months Ended December 31, 2011
Operating revenues	\$921	\$1,084
Operating income	143	154

Revenues declined 15.0% and operating income decreased 7.1% in 2012 versus 2011 due to there being only ten months of operating results in 2012 versus twelve months of operating results in 2011 as the Company divested a 51% interest in the Decorative Surfaces segment on October 31, 2012.

#### AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets decreased to \$250 million in 2013 from \$252 million in 2012, due to various intangible assets being fully amortized. Amortization of intangible assets increased to \$252 million in 2012 versus \$219 million in 2011, due to intangible asset amortization for acquired businesses, most notably a manufacturer of specialty devices used to measure the flow of gases and fluids in the Test & Measurement and Electronics segment acquired in the beginning of 2012.

#### 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 2013, 2012 and 2011. In 2013, these assessments resulted in no goodwill impairment charges and an intangible asset impairment charge of \$2 million related to a manufacturer of specialty devices used to measure the flow of gases and fluids in the Test & Measurement and Electronics segment. In 2012, these assessments resulted in a goodwill impairment charge of \$1 million related to the pressure sensitive adhesives reporting unit in the Test & Measurement and Electronics segment and an intangible asset impairment charge of \$1 million related to a retail food weighing business in the Food Equipment segment. There were no impairment charges in 2011. 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 \$239 million in 2013, which includes the full year impact of interest expense on the 3.9% notes issued in late August 2012, versus \$213 million in 2012. Interest expense increased in 2012, which includes the full year impact of interest expense on the 3.375% notes and 4.875% notes issued in late August 2011 and the interest expense related to the 3.9% notes issued in late August 2012, versus \$191 million in 2011. The increase was partially offset by lower interest expense on the 6.55% preferred debt securities, which were fully paid on the first business day in 2012. The weighted-average interest rate on the Company's commercial paper was 0.2% in 2013, 0.2% in 2012 and 0.1% in 2011.

#### 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 \$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 and the Divestiture of Majority Interest in Former Decorative Surfaces Segment note in Item 8. Financial Statements and Supplementary Data for further discussion.

Other income (expense) was income of \$11 million in 2012 versus \$53 million in 2011 primarily due to an equity investment loss related to Wilsonart of \$30 million in 2012, lower income from investments (\$11 million in 2012 versus \$17 million in 2011) and losses on foreign currency transactions (\$10 million in 2012 versus \$3 million in 2011).

#### INCOME TAXES

The effective tax rate was 30.6% in 2013, 30.3% in 2012, and 20.2% in 2011. 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. The effective tax rate for 2011 was favorably impacted by the discrete non-cash tax benefit of \$166 million in the first quarter of 2011 related to the decision in the Company's favor by the Federal Court of Australia, Victoria with respect to a significant portion of the income tax deductions that had been challenged by the Australian Tax Office.

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 twelve months of 2013 versus 2012, the impact of foreign currencies against the U.S. Dollar decreased operating revenues by approximately \$9 million in 2013 and did not have a significant impact on income from continuing operations. The strengthening of the U.S. Dollar against foreign currencies in 2012 versus 2011 decreased operating revenues by approximately \$357 million in 2012 and decreased income from continuing operations by approximately \$36 million (\$0.08 per diluted share).

#### INCOME FROM DISCONTINUED OPERATIONS

Income from discontinued operations was \$49 million in 2013, \$637 million in 2012 and \$296 million in 2011. 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.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are free operating cash flows and short-term credit facilities. In addition, the Company had \$3.6 billion of cash on hand at December 31, 2013 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 segment. The Company classified the Industrial Packaging segment as held for sale in the third quarter of 2013 and is no longer presenting 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 utilize 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. As a result, the Company repurchased approximately 14 million shares of its common stock in the fourth quarter of 2013 and expects to repurchase approximately 35 million additional shares through a program that is expected to conclude no later than the end of 2014.

On February 6, 2014, the Company announced that it had signed a definitive agreement to sell the Industrial Packaging segment to The Carlyle Group for \$3.2 billion. The transaction is subject to regulatory approval and customary closing conditions, and is expected to close by mid-2014.

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, 2013, 2012 and 2011 was as follows:

In millions	2013	2012	2011
Net cash provided by operating activities	\$2,528	\$2,072	\$1,956
Additions to plant and equipment	(368)	) (382)	) (353)
Free operating cash flow	\$2,160	\$1,690	\$1,603
Cash dividends paid	\$(528)	) \$(865)	) \$(680)
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(369)	) (723)	) (1,308)
Repurchases of common stock	(2,106)	) (2,020)	) (950)
Proceeds from investments	40	281	37
Net proceeds from sale of discontinued operations	206	815	—
Proceeds from sale of operations and affiliates	2	1,028	22
Net proceeds (repayments) of debt	1,264	1,015	1,148
Other	263	327	184
Effect of exchange rate changes on cash and equivalents	(93)	) 53	(64)
Net increase (decrease) in cash and equivalents	\$839	\$1,601	\$(8)

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.

On August 20, 2007, the Company's Board of Directors authorized a stock repurchase program, which provided for the buyback of up to \$3.0 billion of the Company's common stock over an open-ended period of time (the "2007 Program"). Under the 2007 Program, the Company repurchased approximately 16.3 million shares of its common stock at an average price of \$53.51 per share during 2011. As of December 31, 2011, there were no authorized repurchases remaining under the 2007 Program.

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 December 2013. As of December 31, 2013, there was approximately \$5.7 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, 2013, 2012, and 2011 was as follows:

Dollars in millions	2013	2012	2011	
Operating income	\$2,514	\$2,475	\$2,361	
Adjustment for Decorative Surfaces	—	(143	) (154	)
Adjusted operating income	2,514	2,332	2,207	
Adjusted tax rate (28.8% for 2013, 29.2% for 2012, and 27.6% for 2011)	(724	) (681	) (609	)
Adjusted operating income after taxes	\$1,790	\$1,651	\$1,598	
Invested Capital:				
Trade receivables	\$2,365	\$2,742	\$2,819	
Inventories	1,247	1,585	1,716	
Net plant and equipment	1,709	1,994	2,025	
Goodwill and intangible assets	6,885	7,788	7,431	
Accounts payable and accrued expenses	(1,906	) (2,068	) (2,132	)
Net assets held for sale	1,519	—	279	
Other, net	616	798	708	
Total invested capital	\$12,435	\$12,839	\$12,846	
Average invested capital	\$12,605	\$13,160	\$12,620	
Adjustment for Decorative Surfaces/Wilsonart	(169	) (274	) (282	)
Adjustment for Industrial Packaging	(1,477	) (1,504	) (1,511	)
Adjusted average invested capital	\$10,959	\$11,382	\$10,827	
Adjusted return on average invested capital	16.3	% 14.5	% 14.8	%

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%.

Adjusted ROIC decreased 30 basis points in 2012 versus 2011 as a result of an increase in average invested capital of 5.1%, while after-tax operating income increased 3.4%.

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. The 2011 effective tax rate included a discrete tax benefit of \$166 million for an Australian tax matter.

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

Dollars in millions	Twelve Months Ended December 31,						
	2013		2012		2011		
	Income Taxes	Tax Rate	Income Taxes	Tax Rate	Income Taxes	Tax Rate	
As reported	\$717	30.6	% \$973	30.3	% \$448	20.2	%
Discrete tax (charges) benefits	(40	) (1.8	) (36	) (1.1	) 166	7.4	
As adjusted	\$677	28.8	% \$937	29.2	% \$614	27.6	%

## Working Capital

Management uses working capital as a measurement of the short-term liquidity of the Company. Net working capital at December 31, 2013 and 2012 is summarized as follows:

Dollars in millions	2013	2012	Increase (Decrease)
Current Assets:			
Cash and equivalents	\$3,618	\$2,779	\$839
Trade receivables	2,365	2,742	(377)
Inventories	1,247	1,585	(338)
Other	750	854	(104)
Assets held for sale	1,836	—	1,836
	9,816	7,960	1,856
Current Liabilities:			
Short-term debt	3,551	459	3,092
Accounts payable and accrued expenses	1,906	2,068	(162)
Other	260	124	136
Liabilities held for sale	317	—	317
	6,034	2,651	3,383
Net Working Capital	\$3,782	\$5,309	\$(1,527)
Current Ratio	1.63	3.00	

The decrease in net working capital as of December 31, 2013 was primarily due to current maturities of long-term debt, including \$1.0 billion of 5.25% Euro notes due October 1, 2014 and \$800 million of 5.15% redeemable notes due April 1, 2014, and a \$1.2 billion increase in commercial paper borrowings, partially offset by the reclassification of net noncurrent assets and liabilities of \$1.1 billion to assets and liabilities held for sale.

Cash and equivalents totaled approximately \$3.6 billion as of December 31, 2013 and \$2.8 billion as of December 31, 2012, 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, or used to fund new international acquisitions. 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 as of December 31, 2013, 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 and total debt to total capitalization at December 31, 2013 and 2012 were as follows:

Dollars in millions	2013	2012	Increase (Decrease)
Short-term debt	\$3,551	\$459	\$3,092
Long-term debt	2,793	4,589	(1,796)
Total debt	\$6,344	\$5,048	\$1,296
Total debt to total capitalization	39.5	% 32.3	%

In 2013, the Company reclassified \$1.0 billion of 5.25% Euro notes due October 1, 2014 and \$800 million of 5.15% redeemable notes due April 1, 2014 from long-term to short-term debt.

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, 2013. The Company had outstanding commercial paper of approximately \$1.7 billion and \$408 million at December 31, 2013 and December 31, 2012, respectively, which is included in short-term debt. The maximum outstanding commercial paper balance during 2013 was \$1.7 billion, while the

average daily balance was \$576 million. The increase in commercial paper resulted primarily from the funding of share repurchases during 2013. As of December 31, 2013, the Company's foreign operations had authorized credit facilities of \$439 million, of which \$12 million was outstanding and \$102 million was committed for guarantees. On January 22, 2014, the Company entered into a \$1.0 billion short-term line of credit agreement with a term of up to 364 days to provide additional liquidity under the Company's commercial paper program in order to fund short-term capital allocation needs. Management may also seek to refinance a portion of its short-term debt with longer term debt during 2014.

#### Total Debt to Adjusted EBITDA

The Company uses the ratio of total debt to adjusted EBITDA to measure its ability to repay its outstanding debt obligations. The Company believes that total debt to adjusted 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. Adjusted EBITDA and the ratio of total debt to adjusted EBITDA are non-GAAP financial measures. The ratio of total debt to adjusted EBITDA represents total debt divided by income from continuing operations before interest expense, gain on sale of interest in Decorative Surfaces, 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 adjusted EBITDA for the years ended December 31, 2013 and 2012 was as follows:

Dollars in millions	2013	2012
Total debt	\$6,344	\$5,048
Income from continuing operations	\$1,630	\$2,233
Add:		
Interest expense	239	213
Gain on sale of interest in Decorative Surfaces	—	(933)
Other income	(72)	(11)
Income taxes	717	973
Depreciation	270	277
Amortization and impairment of goodwill and other intangible assets	252	254
Adjusted EBITDA	\$3,036	\$3,006
Total debt to adjusted EBITDA ratio	2.1	1.7

The Company's debt to adjusted EBITDA ratio increased from 1.7 to 2.1 in 2013 versus 2012 primarily due to the increase in short-term debt related to \$1.2 billion of additional commercial paper borrowings.

#### Stockholders' Equity

The changes to stockholders' equity during 2013 and 2012 were as follows:

In millions	2013	2012
Beginning balance	\$10,570	\$10,034
Net income	1,679	2,870
Cash dividends declared	(709)	(691)
Repurchases of common stock	(2,170)	(2,020)
Stock option and restricted stock activity	257	334
Currency translation adjustments	(193)	94
Other	275	(51)
Ending balance	\$9,709	\$10,570

**CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

The Company's significant contractual obligations as of December 31, 2013 were as follows:

In millions	2014	2015	2016	2017	2018	2019 and Future Years
Total long-term debt	\$1,834	\$2	\$1	\$—	\$—	\$2,790
Interest payments on notes	197	131	131	131	131	1,834
Minimum lease payments	116	87	61	43	29	40
	\$2,147	\$220	\$193	\$174	\$160	\$4,664

As of December 31, 2013, the Company had recorded noncurrent liabilities for unrecognized tax benefits of \$164 million. The Company is not able to reasonably estimate the timing of payments related to the liabilities for unrecognized tax benefits.

As of December 31, 2013, the Company had open stand-by letters of credit of approximately \$184 million, of which approximately \$132 million expires in 2014. The Company had no other significant off-balance sheet commitments at December 31, 2013.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company has six accounting policies which 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' usage	0 %
Slow-moving	Some usage in last 12 months, but quantity on hand exceeds prior 6 months' usage	50 %
Obsolete	No usage in the last 12 months	90 %

In addition, for approximately 20% 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 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 to conform to their local statutory accounting and tax regulations.

**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

36

---

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 operating results, 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, 2013, the Company had total goodwill and intangible assets of \$6.9 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 simplification process. The amount of goodwill and other intangible assets allocated to individual reporting units ranges from approximately \$30 million to \$1.1 billion, with the average amount equal to \$246 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 and health care cost trend rates. 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.

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 \$31 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, the Company's assumption for the expected return on plan assets was 8.0% for 2013 and will be 7.6% for 2014. A 25 basis point decrease in the expected return on plan assets would increase the annual pension expense by approximately \$3 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 which exist as part of its ongoing business operations including changes 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:

	5.15% Notes Due Apr 1, 2014	5.25% Euro Notes Due Oct 1, 2014	6.25% Notes Due Apr 1, 2019	4.88% Notes Due thru Dec 31, 2020	3.375% Notes Due Sep 15, 2021	4.875% Notes Due Sep 15, 2041	3.9% Notes Due Sep 1, 2042
In millions							
As of December 31, 2013:							
Estimated cash outflow by year of principal maturity							
2014	\$800	\$1,031	\$—	\$3	\$—	\$—	\$—
2015	—	—	—	1	—	—	—
2016	—	—	—	—	—	—	—
2017	—	—	—	—	—	—	—
2018	—	—	—	—	—	—	—
2019 and thereafter	—	—	700	4	350	650	1,100
Estimated fair value	809	1,067	834	8	350	649	944
Carrying value	800	1,031	700	7	349	641	1,090
As of December 31, 2012:							
Total estimated cash outflow	\$800	\$989	\$700	\$12	\$350	\$650	\$1,100
Estimated fair value	846	1,071	877	13	381	770	1,132
Carrying value	800	989	700	12	349	641	1,089

## Foreign Currency Risk

The Company operates in the U.S. and 55 foreign countries. In general, the Company's products are primarily manufactured and sold within the same country. The initial funding for the foreign manufacturing operations was provided primarily through the permanent investment of equity capital from the U.S. parent company. Therefore, the Company and its subsidiaries do not have significant assets or liabilities denominated in currencies other than their functional currencies. As such, the Company does not have any significant derivatives or other financial instruments that are subject to foreign currency risk at December 31, 2013 or 2012.

In October 2007, the Company, through a wholly-owned European subsidiary, issued €750 million of 5.25% Euro notes due October 1, 2014. The Company has significant operations with the Euro as their functional currency. The Company believes that the Euro cash flows from these businesses will be adequate to fund the debt obligations under these notes.

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, 2013. 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 (1992). Based on our assessment we believe that, as of December 31, 2013, 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, 2013 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 14, 2014

/s/ Michael M. Larsen  
Michael M. Larsen  
Senior Vice President & Chief Financial Officer  
February 14, 2014

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, 2013 and 2012, 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, 2013. We also have audited the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) 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, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on the criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Chicago, Illinois

February 14, 2014

## Statement of Income

## Illinois Tool Works Inc. and Subsidiaries

In millions except per share amounts	For the Years Ended December 31			
	2013	2012	2011	
Operating Revenues	\$14,135	\$14,791	\$14,515	
Cost of revenues	8,554	9,134	9,089	
Selling, administrative, and research and development expenses	2,815	2,928	2,846	
Amortization of intangible assets	250	252	219	
Impairment of goodwill and other intangible assets	2	2	—	
Operating Income	2,514	2,475	2,361	
Interest expense	(239	) (213	) (191	)
Gain on sale of interest in Decorative Surfaces	—	933	—	
Other income (expense)	72	11	53	
Income from Continuing Operations Before Income Taxes	2,347	3,206	2,223	
Income taxes	717	973	448	
Income from Continuing Operations	1,630	2,233	1,775	
Income from Discontinued Operations	49	637	296	
Net Income	\$1,679	\$2,870	\$2,071	
Income Per Share from Continuing Operations:				
Basic	\$3.65	\$4.75	\$3.61	
Diluted	\$3.63	\$4.72	\$3.59	
Income Per Share from Discontinued Operations:				
Basic	\$0.11	\$1.36	\$0.60	
Diluted	\$0.11	\$1.35	\$0.60	
Net Income Per Share:				
Basic	\$3.76	\$6.11	\$4.21	
Diluted	\$3.74	\$6.06	\$4.19	

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			
	2013	2012	2011	
Net Income	\$1,679	\$2,870	\$2,071	
Other Comprehensive Income:				
Foreign currency translation adjustments	(193	) 94	(141	)
Pension and other postretirement benefit adjustments, net of tax	284	(25	) (62	)
Comprehensive Income	\$1,770	\$2,939	\$1,868	

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

In millions	For the Years Ended December 31			
	2013	2012	2011	
Beginning Balance	\$13,973	\$11,794	\$10,408	
Net income	1,679	2,870	2,071	
Cash dividends declared	(709	) (691	) (685	)
Ending Balance	\$14,943	\$13,973	\$11,794	

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	
	2013	2012
Assets		
Current Assets:		
Cash and equivalents	\$3,618	\$2,779
Trade receivables	2,365	2,742
Inventories	1,247	1,585
Deferred income taxes	384	332
Prepaid expenses and other current assets	366	522
Assets held for sale	1,836	—
Total current assets	9,816	7,960
Net plant and equipment	1,709	1,994
Goodwill	4,886	5,530
Intangible assets	1,999	2,258
Deferred income taxes	359	391
Other assets	1,197	1,176
	\$19,966	\$19,309
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term debt	\$3,551	\$459
Accounts payable	634	676
Accrued expenses	1,272	1,392
Cash dividends payable	181	—
Income taxes payable	69	116
Deferred income taxes	10	8
Liabilities held for sale	317	—
Total current liabilities	6,034	2,651
Noncurrent Liabilities:		
Long-term debt	2,793	4,589
Deferred income taxes	507	244
Other liabilities	923	1,255
Total noncurrent liabilities	4,223	6,088
Stockholders' Equity:		
Common stock:		
Issued - 550,035,604 shares in 2013 and 549,551,660 shares in 2012	6	5
Additional paid-in-capital	1,046	1,012
Income reinvested in the business	14,943	13,973
Common stock held in treasury	(6,676)	(4,722)
Accumulated other comprehensive income	384	293
Noncontrolling interest	6	9
Total stockholders' equity	9,709	10,570
	\$19,966	\$19,309



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

43

---

Statement of Cash Flows  
Illinois Tool Works Inc. and Subsidiaries

In millions	For the Years Ended December 31		
	2013	2012	2011
Cash Provided by (Used for) Operating Activities:			
Net income	\$1,679	\$2,870	\$2,071
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	299	323	336
Amortization and impairment of goodwill and other intangible assets	314	290	258
Change in deferred income taxes	6	243	(176 )
Provision for uncollectible accounts	3	11	5
(Income) loss from investments	(12 )	(11 )	(17 )
(Gain) loss on sale of plant and equipment	(1 )	(4 )	(2 )
(Gain) loss on discontinued operations	91	(499 )	4
(Gain) loss on sale of operations and affiliates	5	(931 )	(2 )
Stock compensation expense	37	54	56
Gain on acquisition of controlling interest in an equity investment	(30 )	—	—
Other non-cash items, net	17	23	(6 )
Change in assets and liabilities:			
(Increase) decrease in—			
Trade receivables	(83 )	(13 )	(303 )
Inventories	24	82	(51 )
Prepaid expenses and other assets	229	(75 )	(50 )
Increase (decrease) in—			
Accounts payable	8	(21 )	(55 )
Accrued expenses and other liabilities	161	(87 )	52
Income taxes	(176 )	(173 )	(182 )
Other, net	(43 )	(10 )	18
Net cash provided by operating activities	2,528	2,072	1,956
Cash Provided by (Used for) Investing Activities:			
Acquisition of businesses (excluding cash and equivalents) and additional interest in affiliates	(369 )	(723 )	(1,308 )
Additions to plant and equipment	(368 )	(382 )	(353 )
Proceeds from investments	40	281	37
Proceeds from sale of plant and equipment	38	30	17
Net proceeds from sale of discontinued operations	206	815	—
Proceeds from sale of operations and affiliates	2	1,028	22
Other, net	(5 )	(2 )	6
Net cash provided by (used for) investing activities	(456 )	1,047	(1,579 )
Cash Provided by (Used for) Financing Activities:			
Cash dividends paid	(528 )	(865 )	(680 )
Issuance of common stock	206	283	153
Repurchases of common stock	(2,106 )	(2,020 )	(950 )
Net proceeds (repayments) of debt with original maturities of three months or less	1,267	208	167
Proceeds from debt with original maturities of more than three months	3	1,079	990
Repayments of debt with original maturities of more than three months	(6 )	(272 )	(9 )
Excess tax benefits from stock-based compensation	24	16	8

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

Net cash provided by (used for) financing activities	(1,140 )	(1,571 )	(321 )
Effect of Exchange Rate Changes on Cash and Equivalents	(93 )	53	(64 )
Cash and Equivalents:			
Increase (decrease) during the year	839	1,601	(8 )
Beginning of year	2,779	1,178	1,186
End of year	\$3,618	\$2,779	\$1,178
Supplementary Cash Flow Information:			
Cash Paid During the Year for Interest	\$240	\$211	\$168
Cash Paid During the Year for Income Taxes, Net of Refunds	\$602	\$1,134	\$978
Supplementary Non-Cash Investing Information:			
Liabilities Assumed from Acquisitions	\$145	\$194	\$200
Equity investment in Wilsonart	\$—	\$204	\$—

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

44

---

## 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 operations in 56 countries. The Company primarily serves the general industrial, automotive OEM/tiers, automotive aftermarket, construction, food and beverage, and food institutional/restaurant and service markets.

Significant accounting principles and policies of the Company are in italics. Certain reclassifications of prior years’ 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 a pre-tax loss of \$14 million for the twelve-month period ended December 31, 2013 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 and 2011 were as follows:

In millions	For the Ten Months Ended October 31, 2012	For the Twelve Months Ended December 31, 2011
Operating revenues	\$921	\$1,084
Operating income	143	154

**Discontinued Operations**—The Company periodically reviews its operations for businesses which may no longer be aligned with its enterprise initiatives and long-term objectives. As such, 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.

The Company has restated the statement of income and the notes to financial statements to present the operating results of the held for sale and previously divested businesses discussed below as discontinued operations.

Additionally, the gains and losses on disposal related to the sale of operations and affiliates and discontinued operations have been reclassified in the statement of cash flows to conform to current year reporting.

**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.

On February 6, 2014, the Company announced that it had signed a definitive agreement to sell its Industrial Packaging segment to The Carlyle Group for \$3.2 billion. The transaction is subject to regulatory approval and customary closing conditions and is expected to close by mid-2014.

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 Company expects to sell the construction distribution business by mid-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. The Company expects to dispose of the remaining held for sale construction distribution business by mid-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 and an electronic components business in the Test &

Measurement and Electronics segment. In the third quarter of 2012, the Company divested the consumer packaging business. The electronic components business was sold in the fourth quarter of 2011.

Results of the discontinued operations for the years ended December 31, 2013, 2012 and 2011 were as follows:

In millions	2013	2012	2011
Operating revenues	\$2,769	\$3,275	\$3,742
Income before income taxes	\$186	\$886	\$451
Income tax expense	(137	) (249	) (155
Income from discontinued operations	\$49	\$637	\$296

Included in income before income taxes from discontinued operations are net losses on disposal of \$91 million in 2013, net gains of \$499 million in 2012, and net losses of \$4 million in 2011. 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 2013, income tax expense from discontinued operations included \$42 million of tax expense related to the legal restructuring of Industrial Packaging.

There were no held for sale businesses as of December 31, 2012. 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
Total assets held for sale	\$1,836
Accounts payable	\$87
Accrued expenses	139
Other	91
Total liabilities held for sale	\$317

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. Summarized information related to acquisitions is as follows:

In millions except number of acquisitions	2013	2012	2011
Number of acquisitions	9	23	28
Net cash paid during the year	\$369	\$723	\$1,308



The premium over tangible net assets recorded for acquisitions based on purchase price allocations during 2013, 2012 and 2011 was as follows:

In millions except weighted-average lives (years)	2013 Weighted-Average Life	Premium Recorded	2012 Weighted-Average Life	Premium Recorded	2011 Weighted-Average Life	Premium Recorded
Goodwill		\$247		\$333		\$476
Amortizable intangible assets:						
Customer lists and relationships	11.2	100	12.2	169	12.2	362
Patents and proprietary technology	9.8	34	8.2	38	9.6	98
Trademarks and brands	15.5	35	12.8	36	17.3	245
Noncompete agreements	3.8	1	4.5	29	5.0	27
Other	5.1	11	7.2	12	1.8	11
Total amortizable intangible assets	11.4	181	10.7	284	13.1	743
Indefinite-lived intangible assets:						
Trademarks and brands		—		42		5
Total premium recorded		\$428		\$659		\$1,224

Of the total goodwill recorded for acquisitions, the Company expects goodwill of \$25 million in 2013, \$15 million in 2012 and \$302 million in 2011 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.

Research and Development Expenses are recorded as expense in the year incurred. These costs were \$240 million in 2013, \$240 million in 2012 and \$221 million in 2011.

Rental Expense was \$138 million in 2013, \$144 million in 2012 and \$143 million in 2011. Future minimum lease payments under non-cancelable leases for the years ending December 31 are as follows:

In millions	
2014	\$116
2015	87
2016	61
2017	43
2018	29
2019 and future years	40
	\$376

Advertising Expenses are recorded as expense in the year incurred. These costs were \$67 million in 2013, \$78 million in 2012 and \$82 million in 2011.



Other Income (Expense) consisted of the following:

In millions	2013	2012	2011	
Interest income	\$50	\$38	\$38	
Gain on acquisition of controlling interest in an equity investment	30	—	—	
Income from investments	12	11	17	
Gain (loss) on disposal of operations and affiliates	(5	) (2	) 2	
Gain (loss) on foreign currency transactions, net	(5	) (10	) (3	)
Equity loss in Wilsonart	(14	) (30	) —	)
Other, net	4	4	(1	)
	\$72	\$11	\$53	

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	2013	2012	2011	
<b>U.S. federal income taxes:</b>				
Current	\$410	\$474	\$448	
Deferred	84	250	(34	)
	494	724	414	
<b>Foreign income taxes:</b>				
Current	153	239	91	
Deferred	35	(29	) (82	)
Benefit of net operating loss carryforwards	(13	) (30	) (4	)
	175	180	5	
<b>State income taxes:</b>				
Current	64	64	60	
Deferred	(16	) 5	(31	)
	48	69	29	
	\$717	\$973	\$448	

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

In millions	2013	2012	2011
Domestic	\$1,444	\$2,207	\$1,270
Foreign	903	999	953
	\$2,347	\$3,206	\$2,223

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

	2013		2012		2011	
U.S. federal statutory tax rate	35.0		% 35.0		% 35.0	%
State income taxes, net of U.S. federal tax benefit	1.8		0.9		1.1	
Differences between U.S. federal statutory and foreign tax rates	(3.4	)	(2.2	)	(2.8	)
Nontaxable foreign interest income	(3.5	)	(2.8	)	(4.2	)
Australian court decision	—		—		(7.5	)
Tax effect of foreign dividends	2.4		0.7		0.5	
Tax relief for U.S. manufacturers	(1.3	)	(1.1	)	(1.3	)
Other, net	(0.4	)	(0.2	)	(0.6	)
Effective tax rate	30.6		% 30.3		% 20.2	%

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 \$9.0 billion and \$8.3 billion as of December 31, 2013 and 2012, 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.

The components of deferred income tax assets and liabilities at December 31, 2013 and 2012 were as follows:

In millions	2013		2012		
	Asset	Liability	Asset	Liability	
Goodwill and intangible assets	\$312	\$(795	) \$382	\$(901	)
Inventory reserves, capitalized tax cost and LIFO inventory	58	(5	) 68	(11	)
Investments	32	(288	) 37	(283	)
Plant and equipment	25	(106	) 14	(103	)
Accrued expenses and reserves	76	—	58	—	
Employee benefit accruals	296	—	362	—	
Foreign tax credit carryforwards	112	—	31	—	
Net operating loss carryforwards	694	—	709	—	
Capital loss carryforwards	91	—	37	—	
Allowances for uncollectible accounts	14	—	17	—	
Pension liabilities	—	(13	) 102	—	
Deferred intercompany deductions	169	—	321	—	
Other	124	(11	) 122	(16	)
Gross deferred income tax assets (liabilities)	2,003	(1,218	) 2,260	(1,314	)
Valuation allowances	(559	) —	(475	) —	
Total deferred income tax assets (liabilities)	\$1,444	\$(1,218	) \$1,785	\$(1,314	)

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, 2013 and 2012 related primarily to certain net operating loss carryforwards and capital loss carryforwards.

At December 31, 2013, 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
2014	\$2
2015	3
2016	3
2017	10
2018	12
2019	9
2020	76
2021	74
2022	19
2023	15
2024	11
2025	10
2026	7
2027	12
2028	5
2029	6
2030	3
2031	2
2032	8
2033	—
Do not expire	2,134
	\$2,421

The Company has foreign tax credit carryforwards of \$112 million as of December 31, 2013 that are available for use by the Company between 2014 and 2023.

The changes in the amount of unrecognized tax benefits during 2013, 2012 and 2011 were as follows:

In millions	2013	2012	2011	
Beginning balance	\$249	\$437	\$718	
Additions based on tax positions related to the current year	26	32	43	
Additions for tax positions of prior years	40	62	74	
Reductions for tax positions of prior years	(21	) (163	) (16	)
Settlements	(27	) (125	) (377	)
Foreign currency translation	1	6	(5	)
Ending balance	\$268	\$249	\$437	

Included in the balance at December 31, 2013 are approximately \$268 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 litigated a dispute with the Australian Tax Office over the tax treatment of an intercompany financing transaction between the U.S. and Australia. The case was heard before the Federal Court of Australia, Victoria, in September 2010. The proceedings resulted from the Company's appeal of a decision by the Australian Tax Commissioner to disallow income tax deductions for the income tax years 2002 through 2005 and the assessment of withholding taxes for income tax year 2003. The Company also contested the Commissioner's similar determination for income tax years 2006 and 2007; however, the parties agreed to follow the Court's decision made on the earlier years. On February 4, 2011, the Federal Court of Australia, Victoria, decided in the Company's favor with respect to a significant portion of the income tax deductions. The Court issued the final orders on February 18, 2011. Based on this decision, the Company decreased its unrecognized tax benefits related to this matter by approximately \$197 million and recorded a favorable discrete non-cash tax benefit to reduce tax expense by \$166 million in the first quarter of 2011. Subsequent to the 2011 ruling, the Australian Tax Office appealed the timing of certain of the deductions. In March 2012, the Court ruled in favor of the Australian Tax Office regarding the timing of the deductions, which did not have a material impact to the Company.

During the first quarter of 2011, the Company resolved an issue with the Internal Revenue Service in the U.S. related to a deduction for foreign exchange losses on an intercompany loan that resulted in a decrease in unrecognized tax benefits of approximately \$179 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 \$37 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	2006-2013
United Kingdom	2011-2013
Germany	2006-2013
France	2004-2013
Australia	2009-2013

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, 2013 and 2012 was \$21 million and \$16 million, respectively.

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	2013	2012	2011
Income from continuing operations	\$1,630	\$2,233	\$1,775
Income per share from continuing operations—Basic:			
Weighted-average common shares	446.2	469.8	491.4
Income per share from continuing operations—Basic	\$3.65	\$4.75	\$3.61
Income per share from continuing operations—Diluted:			
Weighted-average common shares	446.2	469.8	491.4
Effect of dilutive stock options and restricted stock units	3.1	3.4	3.2
Weighted-average common shares assuming dilution	449.3	473.2	494.6

Income per share from continuing operations—Diluted	\$3.63	\$4.72	\$3.59
---	--------	--------	--------

Options that were considered antidilutive were not included in the computation of diluted income per share from continuing operations. The number of antidilutive options outstanding as of December 31, 2013, 2012, and 2011 was 0.1 million, 0.1 million and 5.0 million, respectively.



Cash and Equivalents included interest-bearing instruments of \$2.0 billion at December 31, 2013 and \$1.0 billion at December 31, 2012. These interest-bearing instruments have maturities of 90 days 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 2013, 2012 and 2011 were as follows:

In millions	2013	2012	2011
Beginning balance	\$(65	) \$(65	) \$(70
Provision charged to expense	(3	) (11	) (5
Write-offs, net of recoveries	14	14	10
Acquisitions and divestitures	(1	) —	(4
Foreign currency translation	1	(1	) 2
Transfer to assets held for sale	8	—	—
Other	—	(2	) 2
Ending balance	\$(46	) \$(65	) \$(65

Inventories at December 31, 2013 and 2012 were as follows:

In millions	2013	2012
Raw material	\$445	\$539
Work-in-process	145	152
Finished goods	657	894
	\$1,247	\$1,585

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 20% and 21% of total inventories as of December 31, 2013 and 2012, respectively. If the FIFO method was used for all inventories, total inventories would have been approximately \$85 million and \$101 million higher than reported at December 31, 2013 and 2012, respectively.

Prepaid Expenses and Other Current Assets as of December 31, 2013 and 2012 were as follows:

In millions	2013	2012
Income tax refunds receivable	\$120	\$231
Value-added-tax receivables	68	71
Vendor advances	30	52
Other	148	168
	\$366	\$522

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 was \$270 million in 2013, \$277 million in 2012 and \$282 million in 2011, and was reflected primarily in cost of revenues. Depreciation included in income from discontinued operations was \$29 million in 2013, \$46 million in 2012 and \$54 million in 2011. Depreciation of plant and equipment for financial reporting purposes is computed on an accelerated basis for U.S. businesses and on a straight-line basis for a majority of the international businesses.

Net plant and equipment consisted of the following at December 31, 2013 and 2012:

In millions	2013	2012
Land	\$ 189	\$ 237
Buildings and improvements	1,235	1,496
Machinery and equipment	3,145	3,761
Equipment leased to others	160	180
Construction in progress	143	157
Gross plant and equipment	4,872	5,831
Accumulated depreciation	(3,163	) (3,837
Net plant and equipment	\$ 1,709	\$ 1,994

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 annual impairment assessment of goodwill and intangible assets with indefinite lives 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 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, market multiples from similar transactions and quoted market prices 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 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, 2013, 2012 and 2011 were as follows:

In millions	2013	2012	2011
Goodwill:			
Impairment	\$—	\$ 1	\$—
Intangible Assets:			
Amortization	250	252	219
Impairment	2	1	—
	\$ 252	\$ 254	\$ 219

Income from discontinued operations included intangible asset amortization of \$20 million in 2013, \$36 million in 2012 and \$39 million in 2011.

The Company performed its annual impairment assessment of goodwill and indefinite-lived intangible assets in the third quarter of 2013, 2012 and 2011. In the third quarter of 2013, these assessments resulted in no goodwill impairment charges and an intangible asset impairment charge of \$2 million related to a manufacturer of specialty devices used to measure the flow of gases and fluids in the Test & Measurement and Electronics segment. In 2012, these assessments resulted in a goodwill impairment charge of \$1 million related to the pressure sensitive adhesives reporting unit in the Test & Measurement and Electronics segment and an intangible asset impairment charge of \$1

million related to a retail food weighing business in the Food Equipment segment. There were no impairment charges in 2011.

54

---

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, 2013 and 2012 were as follows:

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

The changes in the carrying amount of goodwill for the years ended December 31, 2013 and 2012 were as follows:

In millions	Auto-motive OEM	Test & Measurement and Electronics	Food Equipment	Polymers & Fluids	Welding	Construction Products	Specialty Products	Industrial Packaging	Decorative Surfaces	Total
Balance, December 31, 2011	\$ 311	\$ 1,188	\$ 199	\$ 1,019	\$ 277	\$ 590	\$ 870	\$ 731	\$ 13	\$ 5,198
2012 activity:										
Acquisitions & divestitures	—	236	1	23	9	6	28	(6 )	(13 )	284
Impairment charges	—	(1 )	—	—	—	—	—	—	—	(1 )
Foreign currency translation	7	8	3	1	2	7	11	10	—	49
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
Cumulative goodwill impairment charges, December 31, 2013	\$ 24	\$ 83	\$ 60	\$ 15	\$ 5	\$ 7	\$ 46	\$ —	\$ —	\$ 240

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

The Company periodically makes changes to its management reporting structure to better align its businesses with Company objectives and operating strategies. In 2013 and 2012, the Company made certain changes in its management reporting structure that resulted in changes in some of the reportable segments. Accordingly, the above table has been restated to reflect the reallocation of goodwill based on the current reportable segments. The segment

changes did not result in any goodwill impairment charges in 2013 or 2012. See the Segment Information note for further discussion of these segment changes.

Intangible assets as of December 31, 2013 and 2012 were as follows:

In millions	2013			2012		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Amortizable intangible assets:						
Customer lists and relationships	\$1,631	\$(691)	) \$940	\$1,749	\$(661)	) \$1,088
Patents and proprietary technology	588	(311)	) 277	593	(285)	) 308
Trademarks and brands	689	(207)	) 482	747	(206)	) 541
Software	202	(188)	) 14	206	(188)	) 18
Noncompete agreements	155	(125)	) 30	204	(157)	) 47
Other	113	(98)	) 15	121	(109)	) 12
Total amortizable intangible assets	3,378	(1,620)	) 1,758	3,620	(1,606)	) 2,014
Indefinite-lived intangible assets:						
Trademarks and brands	241	—	) 241	244	—	) 244
Total intangible assets	\$3,619	\$(1,620)	) \$1,999	\$3,864	\$(1,606)	) \$2,258

Amortizable intangible assets are being amortized primarily 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

2014	\$238
2015	225
2016	213
2017	194
2018	173

Other Assets as of December 31, 2013 and 2012 consisted of the following:

In millions	2013	2012
Cash surrender value of life insurance policies	\$400	\$391
Equity investment in Wilsonart	164	174
Prepaid pension assets	134	57
Investments	130	146
Customer tooling	110	107
Other	259	301
	\$1,197	\$1,176

The Company reclassified Investments from a separate line on the statement of financial position to Other assets to conform to the current year reporting.

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. covering a majority of U.S. employees.

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 \$72 million in 2013, \$78 million in 2012 and \$74 million in 2011.

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		
	2013	2012	2011	2013	2012	2011
Components of net periodic benefit cost:						
Service cost	\$87	\$100	\$94	\$12	\$13	\$14
Interest cost	100	107	116	24	27	30
Expected return on plan assets	(157)	(157)	(157)	(22)	(20)	(21)
Amortization of actuarial loss	65	57	39	1	1	—
Amortization of prior service cost	—	1	1	1	3	6
Settlement/curtailment loss	49	14	—	—	—	—
	\$144	\$122	\$93	\$16	\$24	\$29

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

In millions	Pension			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Income from continuing operations	\$131	\$112	\$82	\$14	\$22	\$26
Income from discontinued operations	13	10	11	2	2	3
	\$144	\$122	\$93	\$16	\$24	\$29

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.

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, 2013 and 2012 for continuing and discontinued operations:

In millions	Pension		Other Postretirement Benefits	
	2013	2012	2013	2012
<b>Change in benefit obligation:</b>				
Benefit obligation at January 1	\$2,655	\$2,465	\$589	\$569
Service cost	87	100	12	13
Interest cost	100	107	24	27
Plan participants' contributions	5	6	15	15
Amendments	—	5	—	—
Actuarial (gain) loss	(68	) 204	(77	) 45
Acquisitions/divestitures	(12	) (74	) —	—
Benefits paid	(247	) (196	) (47	) (45
Medicare subsidy received	—	—	3	3
Liabilities from (to) other immaterial plans	10	—	—	—
Settlement/curtailment (gain) loss	(1	) 5	—	(38
Foreign currency translation	16	33	—	—
Benefit obligation at December 31	\$2,545	\$2,655	\$519	\$589
<b>Change in plan assets:</b>				
Fair value of plan assets at January 1	\$2,288	\$2,054	\$328	\$297
Actual return on plan assets	294	240	66	31
Company contributions	136	190	8	30
Plan participants' contributions	5	6	15	15
Acquisitions/divestitures	(16	) (38	) —	—
Benefits paid	(247	) (196	) (47	) (45
Assets from immaterial plans	12	—	—	—
Foreign currency translation	15	32	—	—
Fair value of plan assets at December 31	\$2,487	\$2,288	\$370	\$328
Funded status	\$(58	) \$(367	) \$(149	) \$(261
Other immaterial plans	(61	) (58	) (6	) (7
Net liability at December 31	\$(119	) \$(425	) \$(155	) \$(268
The amounts recognized in the statement of financial position as of December 31 consist of:				
Other assets	\$134	\$57	\$—	\$—
Accrued expenses	(16	) (12	) (5	) (7
Liabilities held for sale	(24	) —	(23	) —
Other noncurrent liabilities	(213	) (470	) (127	) (261
Net liability at end of year	\$(119	) \$(425	) \$(155	) \$(268
The pre-tax amounts recognized in accumulated other comprehensive income consist of:				
Net actuarial loss	\$568	\$892	\$(112	) \$10
Prior service cost	6	7	—	2
	\$574	\$899	\$(112	) \$12
Accumulated benefit obligation	\$2,273	\$2,358		
Plans with accumulated benefit obligation in excess of plan assets as of December 31:				
Projected benefit obligation	\$263	\$1,928		
Accumulated benefit obligation	\$249	\$1,741		
Fair value of plan assets	\$91	\$1,524		





Assumptions

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

	Pension			Other Postretirement Benefits			
	2013	2012	2011	2013	2012	2011	
Assumptions used to determine benefit obligations at December 31:							
Discount rate	4.32	% 3.85	% 4.64	% 4.95	% 4.15	% 4.95	%
Rate of compensation increases	3.72	% 3.86	% 3.86	% —	% —	% —	%
Assumptions used to determine net periodic benefit cost for years ended December 31:							
Discount rate	3.85	% 4.64	% 5.05	% 4.15	% 4.95	% 5.45	%
Expected return on plan assets	7.28	% 7.23	% 7.39	% 7.00	% 7.00	% 7.00	%
Rate of compensation increases	3.86	% 3.86	% 3.94	% —	% —	% —	%

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:

	2013	2012	2011	
Health care cost trend rate assumed for the next year	8.00	% 7.35	% 8.50	%
Ultimate trend rate	5.00	% 5.00	% 5.00	%
Year the rate reaches the ultimate trend rate	2020	2019	2019	

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

In millions	1	1
	Percentage-Point Increase	Percentage-Point Decrease
Change in service cost and interest cost for 2013	\$ 1	\$ (1)
Change in postretirement benefit obligation at December 31, 2013	\$ 12	\$ (14)

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 40% to 60% equity securities, 35% to 50% debt 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, 2013 and 2012, 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	2013			Total
	Level 1	Level 2	Level 3	
<b>Pension Plan Assets:</b>				
Cash and equivalents	\$27	\$—	\$—	\$27
<b>Equity securities:</b>				
Domestic	—	—	—	—
Foreign	77	—	—	77
<b>Fixed income securities:</b>				
Government securities	—	314	—	314
Corporate debt securities	—	316	—	316
Mortgage-backed securities	—	10	—	10
Investment contracts with insurance companies	—	—	67	67
<b>Commingled funds:</b>				
Mutual funds	459	—	—	459
Collective trust funds	—	1,135	—	1,135
Partnerships/private equity interests	—	—	81	81
Other	—	1	—	1
	\$563	\$1,776	\$148	\$2,487
<b>Other Postretirement Benefit Plan Assets:</b>				
Cash and equivalents	\$9	\$—	\$—	\$9
Life insurance policies	—	—	361	361
	\$9	\$—	\$361	\$370
In millions	2012			Total
	Level 1	Level 2	Level 3	
<b>Pension Plan Assets:</b>				
Cash and equivalents	\$26	\$—	\$—	\$26
<b>Equity securities:</b>				
Domestic	56	—	—	56
Foreign	85	—	—	85
<b>Fixed income securities:</b>				
Government securities	—	245	—	245
Corporate debt securities	—	263	—	263
Mortgage-backed securities	—	12	—	12
Investment contracts with insurance companies	—	—	75	75
<b>Commingled funds:</b>				
Mutual funds	387	—	—	387
Collective trust funds	—	1,055	—	1,055
Partnerships/private equity interests	—	—	84	84
	\$554	\$1,575	\$159	\$2,288
<b>Other Postretirement Benefit Plan Assets:</b>				
Cash and equivalents	\$34	\$—	\$—	\$34
Life insurance policies	—	—	294	294
	\$34	\$—	\$294	\$328



Cash and equivalents include cash on hand and investments with maturities of 90 days 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, 2013 and 2012:

In millions	Corporate Debt Securities	Investment Contracts with Insurance Companies	Partnerships/Private Equity Interests	Life Insurance Policies	Other	Total
December 31, 2011	\$4	\$69	\$87	\$263	\$1	\$424
2012 Activity:						
Unrealized gains (losses)	—	5	4	31	—	40
Purchases and sales	—	1	(7	) —	—	(6 )
Transfers	(4	) —	—	—	(1	) (5 )
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

#### 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 \$136 million to its pension plans and \$7 million to its other postretirement benefit plans in 2014.

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
2014	\$223	\$38
2015	177	39
2016	165	39
2017	172	40
2018	178	41

Years 2019-2023

912

210

61

---

Short-Term Debt as of December 31, 2013 and 2012 consisted of the following:

In millions	2013	2012
Commercial paper	\$1,652	\$408
Bank overdrafts	65	40
Current maturities of long-term debt	1,834	6
Other borrowings	—	5
	\$3,551	\$459

Commercial paper is stated at cost, which approximates fair value. The increase in commercial paper resulted primarily from the funding of share repurchases during 2013.

The Company has committed credit facilities that support the issuance of commercial paper. In June 2012, the Company entered into a \$1.5 billion line of credit agreement with a termination date of June 8, 2017. In connection with the new line of credit, the Company terminated its \$500 million revolving credit facility with a termination date of June 15, 2012 and its \$1.0 billion line of credit agreement with a termination date of June 11, 2013. In June 2011, the Company entered into a \$1.0 billion line of credit agreement with a termination date of June 10, 2016, which the Company terminated on August 16, 2013 and replaced with a \$1.0 billion line of credit agreement with a termination date of August 15, 2018. These lines of credit support the issuance of commercial paper. No amounts were outstanding under either of the outstanding facilities at December 31, 2013.

The weighted-average interest rate on commercial paper was 0.2% at December 31, 2013 and 0.2% at December 31, 2012. The weighted-average interest rate on other borrowings was 0.6% at December 31, 2012.

As of December 31, 2013, the Company had unused capacity of approximately \$325 million under international debt facilities.

On January 22, 2014, the Company entered into a \$1.0 billion short-term line of credit agreement with a term of up to 364 days to provide additional liquidity under the Company's commercial paper program in order to fund short-term capital allocation needs.

In 2013, current maturities of long-term debt include 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. See the Long-Term Debt note for further discussion.

Accrued Expenses as of December 31, 2013 and 2012 consisted of accruals for:

In millions	2013	2012
Compensation and employee benefits	\$462	\$529
Deferred revenue and customer deposits	207	243
Rebates	127	137
Warranties	50	51
Current portion of pension and other postretirement benefit obligations	21	19
Other	405	413
	\$1,272	\$1,392

The Company accrues for product warranties based on historical experience. The changes in accrued warranties during 2013, 2012 and 2011 were as follows:

In millions	2013	2012	2011
Beginning balance	\$51	\$55	\$64
Charges	(44)	(44)	(47)
Provision charged to expense	43	44	37
Acquisitions and divestitures	2	(4)	3
Foreign currency translation	1	—	—
Transfer to liabilities held for sale	(3)	—	(2)
Ending balance	\$50	\$51	\$55





Long-Term Debt at carrying value and fair value as of December 31, 2013 and 2012 consisted of the following:

In millions	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
5.15% notes due April 1, 2014	\$800	\$809	\$800	\$846
5.25% Euro notes due October 1, 2014	1,031	1,067	989	1,071
6.25% notes due April 1, 2019	700	834	700	877
4.88% notes due thru December 31, 2020	7	8	12	13
3.375% notes due September 15, 2021	349	350	349	381
4.875% notes due September 15, 2041	641	649	641	770
3.9% notes due September 1, 2042	1,090	944	1,089	1,132
Other borrowings	9	9	15	15
	\$4,627	\$4,670	\$4,595	\$5,105
Current maturities	(1,834 )		(6 )	
	\$2,793		\$4,589	

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, 2013 and 2012.

In 2002, a subsidiary of the Company issued \$250 million of 6.55% preferred debt securities at 99.849% of face value. The effective interest rate of the preferred debt securities was 6.7%. These preferred debt securities were due and fully paid on the first business day in 2012.

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 effective interest rate of the notes was 5.3%.

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 effective interest rates of the notes were 5.2% and 6.3%, respectively. These notes are senior unsecured obligations, ranking equal in right of payment with all other senior unsecured indebtedness of the Company.

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. The effective interest rates of the notes were 3.4% and 4.9%, respectively. These notes are senior unsecured obligations, ranking equal in right of payment with all other senior unsecured indebtedness of the Company.

In 2012, the Company issued \$1.1 billion of 3.9% notes due September 1, 2042 at 99.038% of face value. The effective interest rate of the notes was 3.955%. These notes are senior unsecured obligations, ranking equal in right of payment with all other senior unsecured indebtedness of the Company.

Other debt outstanding at December 31, 2013 bears interest at rates ranging from 0.9% to 17.5%, with maturities through the year 2033.

The financial covenants in the Company's debt agreements limit total debt, including guarantees, to 50% of total capitalization. The Company's total debt, including guarantees, was 41.3% of total capitalization as defined in the Company's debt agreements as of December 31, 2013, which was in compliance with these covenants.

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

In millions	
2014	\$ 1,834
2015	2
2016	1
2017	—
2018	—
2019 and future years	2,790
	\$4,627

At December 31, 2013, the Company had open stand-by letters of credit of approximately \$184 million, of which approximately \$132 million expires in 2014.

Other Noncurrent Liabilities at December 31, 2013 and 2012 consisted of the following:

In millions	2013	2012
Pension benefit obligation	\$213	\$470
Postretirement benefit obligation	127	261
Other	583	524
	\$923	\$ 1,255

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, 2013, almost 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 2013, 2012, and 2011 are shown below.

In millions	Common Stock		Additional	Common Stock Held in Treasury	
	Shares	Amount	Paid-In-Capital Amount	Shares	Amount
Balance, December 31, 2010	538.5	\$5	\$461	(40.8	) \$ (1,741
During 2011-					
Shares issued for stock options	3.9	—	151	—	—
Shares issued for stock compensation and vesting of restricted stock	0.1	—	2	—	(1
Stock compensation expense	—	—	56	—	—
Tax benefits related to stock options	—	—	13	—	—
Tax benefits related to defined contribution plans	—	—	3	—	—
Repurchases of common stock	—	—	—	(18.1	) (950
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	(94.5	) (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	(119.8	) \$ (6,676
Authorized, December 31, 2013	700.0				

On August 20, 2007, the Company's Board of Directors authorized a stock repurchase program, which provided for the buyback of up to \$3.0 billion of the Company's common stock over an open-ended period of time (the "2007 Program"). Under the 2007 Program, the Company repurchased approximately 16.3 million shares of its common stock at an average price of \$53.51 per share during 2011. As of December 31, 2011, there were no authorized repurchases remaining under the 2007 Program.



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 December 2013. As of December 31, 2013, there was approximately \$5.7 billion of authorized repurchases remaining under the 2013 Program.

Cash Dividends declared were \$1.60 per share in 2013, \$1.48 per share in 2012 and \$1.40 per share in 2011. Cash dividends paid were \$1.18 per share in 2013, \$1.84 per share in 2012 and \$1.38 per share in 2011. 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. The changes in accumulated other comprehensive income during 2013, 2012 and 2011 were as follows:

In millions	2013	2012	2011	
Beginning balance	\$293	\$224	\$427	
Foreign currency translation adjustments during the period	(200	) 146	(135	)
Foreign currency translation adjustments reclassified to income	7	(52	) (6	)
Total foreign currency translation adjustments	(193	) 94	(141	)
Pension and other postretirement benefit adjustments during the period	327	(159	) (147	)
Pension and other postretirement benefit adjustments reclassified to income	122	121	48	
Income taxes	(165	) 13	37	
Total pension and other postretirement benefit adjustments	284	(25	) (62	)
Ending balance	\$384	\$293	\$224	

Foreign currency translation adjustments for the year ended December 31, 2011 are net of a \$55 million increase for the resolution of an issue with the Internal Revenue Service in the U.S. related to a deduction for foreign exchange losses on an intercompany loan.

Foreign currency translation adjustments reclassified to income are primarily related to the disposal of certain discontinued operations. Refer to the Discontinued Operations note for additional information. Pension and other postretirement benefit adjustments reclassified to income represent the amortization of actuarial losses and prior service cost, and settlement 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 \$6 million and \$11 million for the twelve-month period ended December 31, 2013 and 2012, respectively, related to the disposal of certain discontinued operations. Refer to the Discontinued Operations note for additional information.

As of December 31, 2013 and 2012, the ending balance of accumulated other comprehensive income consisted of cumulative translation adjustment income of \$674 million and \$867 million, respectively, and unrecognized pension and other postretirement benefits costs of \$290 million and \$574 million, respectively. The estimated unrecognized benefit cost that will be amortized from accumulated other comprehensive income into net periodic benefit cost in

2014 is \$49 million for pension and \$5 million for 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 2011 and 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, 2013, approximately 38 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 summarizes the Company’s stock-based compensation expense:

In millions	2013	2012	2011
Pre-tax compensation expense	\$30	\$50	\$51
Tax benefit	(10	) (18	) (16
Total stock-based compensation recorded as expense, net of tax	\$20	\$32	\$35

Pre-tax compensation expense included in income from discontinued operations was \$6 million in 2013, \$4 million in 2012 and \$5 million in 2011.

The following table summarizes activity related to non-vested restricted stock units during 2013:

Shares in millions	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested, January 1, 2013	1.6	\$47.36
Granted	0.5	59.03
Vested	(0.6	) 40.19
Canceled	(0.1	) 50.51
Unvested, December 31, 2013	1.4	54.02

The following table summarizes stock option activity under the Plan for the year ended December 31, 2013:

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, 2013	12.8	\$48.50		
Granted	1.3	63.86		
Exercised	(4.5	) 45.70		
Canceled or expired	(0.2	) 50.94		
Under option, December 31, 2013	9.4	51.95	6.1 years	\$300
Exercisable, December 31, 2013	6.3	48.98	5.0 years	\$222

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. Option exercise prices are equal to the common stock fair market value on the date of grant. 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. 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:

	2013	2012	2011
Risk-free interest rate	0.2-2.9%	0.2-2.1%	0.3-3.8%
Weighted-average volatility	21.1%	25.0%	25.0%
Dividend yield	2.72%	2.61%	2.80%
Expected years until exercise	6.6-7.6	7.6-7.8	7.6-7.9





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 2013, 2012 and 2011 was \$10.06, \$11.48 and \$12.34 per share, respectively. The aggregate intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011 was \$108 million, \$84 million and \$63 million, respectively. As of December 31, 2013, there was \$17 million of total unrecognized compensation cost related to unvested stock options. That cost is expected to be recognized over a weighted-average period of 2.5 years. Exercise of options during the years ended December 31, 2013, 2012 and 2011 resulted in cash receipts of \$206 million, \$285 million and \$151 million, respectively. The total fair value of vested stock option awards during the years ended December 31, 2013, 2012 and 2011 was \$16 million, \$48 million and \$33 million, respectively.

As of December 31, 2013, there was \$21 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 1.8 years. The total fair value of vested restricted stock unit awards during the years ended December 31, 2013, 2012 and 2011 was \$23 million, \$31 million and \$1 million, respectively.

**Segment Information**—The Company has 28 operating segments which are aggregated from the Company's approximately 90 divisions in 56 countries.

The Company periodically makes changes to its management reporting structure to better align its businesses with Company objectives and operating strategies. Effective January 1, 2013, the Company made certain changes in how its operations are reported to senior management in order to better align its portfolio of businesses with its enterprise-wide portfolio management initiative. As a result of this reorganization, the Company's operations are internally reported as 28 operating segments to senior management as of December 31, 2013, which have been aggregated into the following seven external reportable segments: Automotive OEM; Test & Measurement and Electronics; Food Equipment; Polymers & Fluids; Welding; Construction Products; and Specialty Products.

The significant changes resulting from this reorganization included the following:

Certain businesses within the former Transportation segment, primarily related to the automotive aftermarket business, are reported in the Polymers & Fluids segment and the Transportation segment has been renamed Automotive OEM.

The Welding business, which was formerly reported in the Power Systems & Electronics segment, is reported separately as the Welding segment.

The Electronics business, which was formerly reported in the Power Systems & Electronics segment, has been combined with the Test & Measurement business, which was formerly reported in the All Other segment, to form a new Test & Measurement and Electronics segment.

The All Other segment has been renamed Specialty Products.

The changes in the reportable segments and underlying reporting units did not result in any goodwill impairment charges in the first quarter of 2013.

Commensurate with the change in reportable segments described above, the segment operating income was also revised for a change in how the operating expenses maintained at the corporate level are allocated to the Company's segments. Prior to January 1, 2013, the Company allocated all operating expenses maintained at the corporate level to its segments. Beginning January 1, 2013, segments are allocated a fixed overhead charge based on the segment's revenues. Expenses not charged to the segments are now reported separately as Unallocated. Because the Unallocated category includes a variety of items, it is subject to fluctuation on a quarterly and annual basis.

The prior year segment results and related disclosures have been restated to conform to the current year presentation under the new segment structure and expense allocation methodology.

68

---

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 is no longer presenting 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 segment to The Carlyle Group for \$3.2 billion. The transaction is subject to regulatory approval and customary closing conditions, and is expected to close by mid-2014.

The following is a description of the Company's seven reportable 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.

Segment information for 2013, 2012 and 2011 was as follows:

In millions	2013	2012	2011
Operating revenues:			
Automotive OEM	\$2,396	\$2,171	\$2,092
Test & Measurement and Electronics	2,176	2,299	2,011
Food Equipment	2,047	1,939	1,985
Polymers & Fluids	1,993	2,063	2,059
Welding	1,837	1,847	1,724
Construction Products	1,717	1,724	1,752
Specialty Products	2,007	1,871	1,856
Intersegment revenues	(38	) (44	) (48
Total Segments	14,135	13,870	13,431
Decorative Surfaces	—	921	1,084
Total	\$ 14,135	\$ 14,791	\$ 14,515
Operating income:			
Automotive OEM	\$490	\$421	\$386
Test & Measurement and Electronics	321	342	300
Food Equipment	385	332	311
Polymers & Fluids	335	327	328
Welding	464	470	440
Construction Products	238	201	218
Specialty Products	408	365	383
Total Segments	2,641	2,458	2,366
Decorative Surfaces	—	143	154
Unallocated	(127	) (126	) (159
Total	\$2,514	\$2,475	\$2,361
Depreciation and amortization and impairment of goodwill and intangible assets:			
Automotive OEM	\$80	\$70	\$69
Test & Measurement and Electronics	119	122	100
Food Equipment	50	47	50
Polymers & Fluids	103	102	94
Welding	37	34	31
Construction Products	49	57	57
Specialty Products	84	82	80
Total Segments	522	514	481
Decorative Surfaces	—	17	20
Discontinued Operations	91	82	93
Total	\$613	\$613	\$594
Plant and equipment additions:			
Automotive OEM	\$119	\$112	\$96
Test & Measurement and Electronics	39	36	31
Food Equipment	37	34	36
Polymers & Fluids	28	29	28
Welding	35	38	26
Construction Products	32	29	36
Specialty Products	47	43	46
Total Segments	337	321	299
Decorative Surfaces	—	18	22
Discontinued Operations	31	43	32

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

Total	\$368	\$382	\$353
Identifiable assets:			
Automotive OEM	\$1,571	\$1,526	
Test & Measurement and Electronics	2,772	2,851	
Food Equipment	1,184	979	
Polymers & Fluids	2,420	2,540	
Welding	936	914	
Construction Products	1,309	1,463	
Specialty Products	1,939	1,898	
Total Segments	12,131	12,171	
Corporate	5,999	5,352	
Assets held for sale	1,836	—	
Industrial Packaging	—	1,786	
Total	\$19,966	\$19,309	

70

---

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 2013, 2012 and 2011 was as follows:

In millions	2013	2012	2011
Operating Revenues by Geographic Region:			
United States	\$6,030	\$6,339	\$5,988
Europe	3,902	4,110	4,391
Asia	1,673	1,783	1,695
Other North America	973	1,014	967
Australia/New Zealand	694	709	719
Other	863	836	755
	\$14,135	\$14,791	\$14,515

Operating revenues by geographic region are based on the customers' locations.

No single customer accounted for more than 5% of consolidated revenues in 2013, 2012 or 2011. Additionally, the Company has thousands of product lines within its businesses; therefore, providing operating revenues by product line is not practicable.

Total noncurrent assets, excluding deferred tax assets and financial instruments, were \$9.8 billion and \$11.0 billion at December 31, 2013 and 2012, respectively. Of these amounts, approximately 50% and 53% were attributed to U.S. operations for 2013 and 2012, respectively. The remaining amounts were attributed to the Company's foreign operations, with no single country accounting for a significant portion.

#### 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	
	2013	2012	2013	2012	2013	2012	2013	2012
Operating revenues	\$3,420	\$3,740	\$3,593	\$3,834	\$3,568	\$3,733	\$3,554	\$3,484
Cost of revenues	2,078	2,312	2,155	2,356	2,148	2,289	2,173	2,177
Operating income	578	615	630	669	678	667	628	524
Income from continuing operations	401	410	416	457	406	445	407	921
Income (loss) from discontinued operations	(47)	) 76	49	424	46	79	1	58
Net income	354	486	465	881	452	524	408	979
Income per share from continuing operations:								
Basic	0.89	0.85	0.93	0.97	0.91	0.96	0.93	2.00
Diluted	0.88	0.84	0.92	0.96	0.90	0.95	0.92	1.99
Net income per share:								
Basic	0.78	1.01	1.04	1.86	1.01	1.13	0.93	2.13
Diluted	0.78	1.00	1.03	1.85	1.01	1.12	0.93	2.11

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

In the second quarter of 2012, the Company recorded an after-tax gain of \$361 million, or \$0.76 per diluted share, related to the sale of the finishing group of businesses, which was included in income (loss) from discontinued operations.

In the fourth quarter of 2012, the Company recorded an after-tax gain of \$632 million, or \$1.37 per diluted share, in income from continuing operations related to the sale of a 51% majority interest in the Decorative Surfaces segment.

71

---



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, 2013. 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, 2013, 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, 2013 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 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 2014 Annual Meeting of Stockholders.

#### ITEM 14. Principal Accounting Fees and Services

This information is incorporated by reference from the information under the caption "Ratification of the Appointment of Independent Registered Public Accounting Firm" in the Company's Proxy Statement for the 2014 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, 2013, with the exception of the agreements related to the 5.15% Notes due 2014, the 6.25% Notes due 2019, the 3.375% Notes due 2021, the 4.875% Notes due 2041, and the 3.9% Notes due 2042, which are described as Exhibit numbers 4(a) through (e) 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 14th day of February 2014.

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 14th day of February 2014.

Signatures	Title
/s/ E. SCOTT SANTI E. Scott Santi	President & Chief Executive Officer, Director (Principal Executive Officer)
/s/ MICHAEL M. LARSEN Michael M. Larsen	Senior Vice President & Chief Financial Officer (Principal Financial Officer)
/s/ RANDALL J. SCHEUNEMAN 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
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: /s/ E. SCOTT SANTI  
(E. Scott Santi, as Attorney-in-Fact)

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

2013

Exhibit  
Number

Description

- 2.1 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.)
- 3(a) Restated Certificate of Incorporation of Illinois Tool Works Inc., filed as Exhibit 3(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.
- 3(b) By-laws of Illinois Tool Works Inc., as amended and restated as of December 7, 2012, filed as Exhibit 3(b)(ii) to the Company's Form 8-K filed on December 7, 2012 (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.
- 10(a)\* Illinois Tool Works Inc. 1996 Stock Incentive Plan dated February 16, 1996, as amended on December 12, 1997, October 29, 1999, January 3, 2003, March 18, 2003, January 2, 2004, December 10, 2004 and December 7, 2005, filed as Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (Commission File No. 1-4797) and incorporated herein by reference.
- 10(b)\* 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

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

ended March 31, 2006 (Commission File No. 1-4797) and incorporated herein by reference.

- 10(c)\* 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(d)\* 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(e)\* 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.
- 10(f)\* 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(g)\* 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(h)\* 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.

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

Exhibit Number	Description
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 7, 2012 (Commission File No. 1-4797) and incorporated herein by reference.
10(j)*	Form of stock option terms filed as Exhibit 99.1 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.
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 9, 2011 (Commission File No. 1-4797) and incorporated herein by reference.
10(l)*	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(m)*	Form of restricted stock unit terms filed as Exhibit 99.2 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.
10(n)*	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 9, 2011 (Commission File No. 1-4797) and incorporated herein by reference.
10(o)*	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(p)*	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 12, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
10(q)*	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 9, 2011 (Commission File No. 1-4797) and incorporated herein by reference.
10(r)*	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(s)*	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 12, 2014 (Commission File No. 1-4797) and incorporated herein by reference.
10(t)*	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(u)*	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(v)*	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.



Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

- 10(w)\* 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(x)\* Illinois Tool Works Inc. Directors' Deferred Fee Plan effective May 5, 2006, as amended and approved by the Board of Directors on February 9, 2007, filed as Exhibit 10(h) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (Commission File No. 1-4797) and incorporated herein by reference.
- 10(y)\* Amendment to the Illinois Tool Works Inc. Directors' Deferred Fee Plan, effective February 8, 2008, filed as Exhibit 10(j) 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(z)\* 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(aa)\* 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(bb) 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.

Edgar Filing: ILLINOIS TOOL WORKS INC - Form 10-K

Exhibit Number	Description
10(cc)	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.
10(dd)*	Separation, Release and Proprietary Interests Protection Agreement by and among Illinois Tool Works Inc. and Ronald D. Kropp dated April 2, 2013 filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 8, 2013 (Commission File No. 1-4797) and incorporated herein by reference.
10(ee)*	Severance Agreement by and among Illinois Tool Works Inc. and Ronald D. Kropp dated August 8, 2013 filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 9, 2013 (Commission File No. 1-4797) and incorporated herein by reference.
10(ff)*	Retention and Incentive Award Agreement by and among Illinois Tool Works Inc. and Ronald D. Kropp dated August 8, 2013, superseding April 2, 2013 agreement, filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 9, 2013 (Commission File No. 1-4797) and incorporated herein by reference.
10(gg)*	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(hh)*	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(ii)*	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(jj)*	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, 2013, 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.