

DEAR

SHAREOWNER

2016 will be remembered as a solid year for our company. Importantly, it was a year in which United Technologies returned to its performance tenet to under promise and over deliver. We delivered adjusted earnings per share of \$6.61,* just above the full year expectations of \$6.30 to \$6.60 that we communicated in December 2015.



Greg Hayes
Chairman & CEO

Despite headwinds from our investments in inventory and capital to support the unprecedented production ramp up in our aerospace businesses, we generated \$4.7 billion of free cash flow.* We also delivered on our commitment to return value to our shareowners, raising our dividend for the 80th consecutive year. United Technologies remains on track to return more than \$22 billion to shareowners through dividends and share repurchases from 2015 through 2017.

Even as we returned record amounts to our shareowners, we continued to invest for the future in both our aerospace and commercial buildings businesses, spending \$3.7 billion on research and development and \$1.7 billion on capital expenditures. These investments will improve efficiency in our facilities and support organic growth in the coming years.

Throughout 2016 we achieved impressive milestones and strengthened the competitive position of our four global businesses: Otis, Pratt & Whitney, UTC Aerospace Systems and UTC Climate, Controls & Security. We aggressively managed costs in all of our businesses and moved forward on a multiyear, approximately \$1.5 billion restructuring plan.

Our 2016 results are due to a continuing focus on our four key priorities: innovation, execution, cost reduction and disciplined

capital allocation. These four priorities will continue to drive our performance over the coming years.

STRENGTH IN THE FACE OF GLOBAL UNCERTAINTY

These last few years have seen unprecedented global change. As we look ahead, rapid change will become the new normal for the world. 2016 brought us Brexit and a new U.S. administration as the tensions arising from globalization were manifested at the ballot box. With upcoming elections in Europe and slowing growth in China and emerging markets, these trends may continue in the coming year, creating uncertainty and instability in the global economy.

Our continued commitment to our four key priorities combined with our portfolio of industry-leading businesses, global footprint and scale, and a strong balance sheet provide us with sustainable competitive advantages. They also give us confidence in our ability to deliver even in the most challenging of environments.

We are well-positioned to achieve our long-term growth objectives. We have made the right investments, and we have the right management team in place. We will continue to invest in our people and our technologies so that we create value for customers and deliver the returns our investors expect.

A FOUNDATION FOR FUTURE GROWTH

We achieved several notable milestones during the year.

Otis continued to deliver solutions to the world's most iconic buildings. During the year Otis was awarded significant contracts in China and India where urbanization is occurring rapidly, including the

*Adjusted earnings per share and free cash flow are non-GAAP financial measures. For additional information regarding the use of these measures, the corresponding amounts prepared in accordance with generally accepted accounting principles (GAAP) and a reconciliation of the differences between the non-GAAP and GAAP measures, please refer to page 71 in this Annual Report.

Shenzhen Financial Centre and two properties for Taj Hotels Resorts and Palaces in Mumbai. It was also recently awarded a major contract to modernize elevators in Chicago's Willis Tower, the tallest building in the United States by highest occupied floor.

UTC Climate, Controls & Security launched 132 new products in 2016 that are expected to generate organic sales growth. With a strong portfolio of respected brands such as Carrier, Kidde, Chubb and Carrier Transicold, UTC Climate, Controls & Security has a reputation for providing customers with the most innovative, energy-efficient and cost-effective products on the market.

Pratt & Whitney's Geared Turbofan engine successfully entered into service early in the year, delivering on its promise of 16 percent greater fuel efficiency, 75 percent reduction in noise footprint and 50 percent reduction in regulated emissions. Customer demand for the GTF engine remains exceptionally strong with more than 8,000 orders, including options, at the end of 2016.

UTC Aerospace Systems enabled entry into service of the Airbus A320neo and Bombardier C Series and the first flights of the Embraer E2 and Boeing 737 MAX. With state-of-the-art systems and controls present on virtually every aircraft in service, UTC Aerospace Systems is well-positioned for growth.

Our strategy to continue providing innovative, cost-competitive and sustainable technologies for the aerospace and building industries and our relentless focus on our four key priorities are the reasons we are optimistic about our future.

A FUTURE PROPELLED BY MEGATRENDS

Urbanization and the resulting growth in large cities, an expanding middle class and growth in commercial air travel provide significant opportunities for our businesses over the next 15 years.

The urban population is projected to grow by 1 billion people by 2030, and the middle class is expected to double over the same period to almost 60 percent of the global population. These trends will drive the need for more housing, office buildings and mass transportation, along with demand for climate controls, food safety, elevators and moving walkways, and fire and security systems.

Another trend is the dramatic growth in commercial air travel. Today there are approximately 27,000 aircraft in service. By 2030 that number is expected to grow to 47,000. Our unique position on these new aircraft will allow us to benefit from the growing demand for jet engines and advanced aerospace systems.

AN INVESTMENT IN FUTURE TECHNOLOGY

Our investment in innovation continues both in research and development and in the execution of our digital strategies. In 2016 we launched initiatives in each of our businesses to capitalize on the significant opportunities presented by an increasingly connected world.

Otis services more than 1.9 million elevators and is deploying digital tools to its 31,000 mechanics to improve field productivity and service performance for customers. With 40 percent more

sensors than the V2500, Pratt & Whitney's GTF engine can generate approximately 4 million data points per engine per flight, allowing us to proactively monitor engine performance, minimize disruption and predict future maintenance needs.

These are just a few examples of how digital technology is advancing our company. By developing different solutions in each of our businesses to capture and analyze the vast amounts of data generated by our high-technology products and systems, we are able to drive efficiency into our businesses and create greater value for our customers.

As digitalization continues to change the way we approach our business, our ability to anticipate and adapt to change is critical. We continue to implement new and better ways to work faster and smarter to enable our future performance.

AN INVESTMENT IN OUR PEOPLE

While our investment in new technology is critical, I am reminded constantly that companies don't innovate, people do. Our most important investments, therefore, are the ones we make in our people.

We are proud to have celebrated the 20th anniversary of our Employee Scholar Program in 2016. Through the ESP we cover the costs for our employees to continue their education in whatever field they choose. Since its inception, more than 45,000 employees from more than 60 countries have participated in the ESP, earning more than 38,500 degrees. We encourage our employees to develop the skills they need, not only for their current jobs, but also for the jobs of tomorrow. The forces of globalization cannot be ignored or disputed, and the skills of today will not guarantee success in the future. At United Technologies we understand that only a highly educated, world-class workforce will enable us to survive and thrive in the competitive world in which we live. Education will be the differentiator of the future.

We also have a diverse and global workforce that embraces many different viewpoints, but we all share a common commitment to maintaining the highest ethical standards and creating a safe and healthy work environment. We are leaders in sustainability, working to solve tomorrow's environmental challenges in our facilities and with our products. And we partner with communities around the world to inspire the next generation of leaders.

I want to thank our 200,000 employees for their commitment and dedication throughout the year. Every day we strive to make United Technologies the best it can be. I look forward to another great year in 2017 and beyond.



Gregory J. Hayes
Chairman & CEO