



LOUIS R. CHÊNEVERT, CHAIRMAN & CHIEF EXECUTIVE OFFICER



DEAR SHAREOWNER

2011 was another strong year for United Technologies. Solid execution across our business units allowed us to again deliver double-digit earnings growth. Our continued focus on improving productivity, investing in game-changing technologies and expanding our presence in fast-growing emerging markets has positioned us to continue to grow our base business in 2012 despite an uncertain global economic outlook. Looking beyond 2012, the major acquisitions we announced in 2011, involving Goodrich and IAE International Aero Engines, will transform our company, setting the foundation for strong earnings growth in 2013 and beyond.

Chairman & Chief Executive Officer Louis R. Chênevert visits Pratt & Whitney's manufacturing facility in Middletown, Conn. Background at left, downtown Shanghai.

Our focus on operating performance in 2011 drove organic growth across UTC, with all business segments achieving double-digit operating margins. Most notable, Carrier achieved its 12 percent margin goal in 2011, one year ahead of our target. This success was the result of strong operational focus, cost containment efforts and execution of its business transformation strategy.

Along with strong operating performance came strong cash generation, with cash flow from operations less capital expenditures again exceeding net income. Strong cash performance during the year enabled us to raise our dividend by 12.9 percent. This year also marked the 75th consecutive year that United Technologies has paid a dividend. Through dividend payments and share repurchase, United Technologies returned 67 percent of its cash flow to our shareowners.*

UTC's long-term total shareowner return continued to exceed that of peers and key market indices. For the period from December 31, 2001, through December 31, 2011, UTC delivered total shareowner return of 175 percent, more than three times the Dow Jones industrials and more than five times the S&P 500.

While the near-term global economic outlook remains challenging, we look to the future with confidence. We believe our announced agreement to acquire Goodrich, the largest acquisition in United Technologies' history, marks the start of a bright new chapter for UTC and will significantly strengthen our position in the fast-growing commercial aerospace market. Goodrich, a leading global supplier of systems and services to the aerospace and defense industry, will be an excellent strategic fit with UTC's existing aerospace portfolio. Goodrich has a well-established presence in areas where we do not, such as aircraft landing gear, braking systems and nacelles. Together, Goodrich and United Technologies will be well positioned to provide greater value to our customers

* This represents funds returned to shareowners as a percentage of a cash flow measure we call free cash flow. We define free cash flow as cash flow from operations less capital expenditures. In 2011, UTC generated cash flow from operations of \$6.6 billion, and capital expenditures were \$983 million, resulting in free cash flow of \$5.6 billion. We returned approximately 57 percent of cash flow from operations to shareowners through dividends and share repurchases.

with better, more integrated products and services for the next-generation aircraft at a more competitive price.

Since the agreement was announced, customer feedback has been overwhelmingly positive, and integration planning is progressing very smoothly. We anticipate closing the transaction in mid-2012 and are excited to welcome the Goodrich employees to United Technologies. We are also excited about the opportunity to bring together the complementary capabilities of our two great companies to provide additional value to our customers.

Further strengthening our position in the commercial aerospace market was the agreement to purchase Rolls-Royce's share of IAE, which produces the V2500 engine for the A320 family of aircraft. Upon closing, which is expected in mid-2012, UTC will become the majority shareholder of IAE. This new ownership structure positions Pratt & Whitney for strong growth in the important single-aisle aircraft segment, as IAE has more than 4,500 V2500 engines in service today and nearly 2,000 engines on order. The new structure will also allow customers to transition smoothly from the current V2500 engine to Pratt & Whitney's new Geared Turbofan engine for the Airbus A320neo aircraft family.

In 2011, we also positioned UTC for long-term growth with the announcement of significant organizational changes that will group a number of UTC business units into new aerospace and commercial building organizations. This new structure will allow United Technologies to more efficiently serve our global customer base through greater integration across product lines and drive growth by taking full advantage of technology investments and the company's footprint in emerging markets.

On the aerospace side, we created UTC Propulsion & Aerospace Systems, which brings the Pratt & Whitney and Hamilton Sundstrand businesses under a new leadership structure. As we position ourselves for a growth phase in the aerospace cycle, this new organizational structure will allow us to leverage the long-term investments we have made in aerospace systems, including systems developed for the Boeing 787 and in the Geared Turbofan technology. Closer coordination by Pratt & Whitney and Hamilton Sundstrand, two world-class franchises, will also position UTC to win increased content on next-generation aircraft

with more integrated propulsion and systems offerings. The anticipated integration of Goodrich into the new organizational structure will bring greater benefits, including increased opportunities for more highly integrated products and services for our customers, and additional cost synergies through leveraging a common supply base and low-cost source initiatives.

On the commercial side, the UTC Climate, Controls & Security organization consolidates the Carrier and UTC Fire & Security business units. This new organization creates a strategic growth platform that will better serve customers, increase field productivity and take full advantage of product-line synergies. The new structure also positions UTC to respond to a growing demand, especially in emerging markets, for more integrated solutions, including advanced building controls, climate systems, and enterprise fire and security systems. As the global economy recovers, and more skyscrapers, schools, airports, hospitals and stadiums are built in developing markets such as India, China and Brazil over the next decade, the increased interoperability of building systems will provide our global customers with better building management, efficiency and safety.

There were many notable successes across United Technologies in 2011. Among them was the commercial success of the Geared Turbofan engine with both existing and new customers. To date, Pratt & Whitney has received orders for more than 2,000 PurePower Geared Turbofan engines, including options, while successfully completing more than 1,500 hours of full engine testing, validating the expected improvements in fuel burn, emissions and noise. We anticipate continued market success for the Geared Turbofan engine in the years ahead as air travel between new and existing cities grows, and our aerospace customers seek quieter, cleaner and more fuel-efficient solutions.

United Technologies continues to receive outstanding third-party recognition for our performance. We were honored that *TIME* magazine recognized the Geared Turbofan engine as the most important development in aviation in 2011. We are also proud that in March 2011 Sikorsky's X2 Technology demonstrator was awarded the prestigious Collier Trophy.

On the military side, Pratt & Whitney's F135 engine for the Joint Strike Fighter (JSF) met or exceeded all performance and cost targets and achieved significant new milestones in 2011, including supporting flawless sea trials of the short takeoff and vertical landing (STOVL) variant aboard the USS *Wasp*. The outstanding performance of the F135 validates the decision of the U.S. Congress and Department of Defense to eliminate funding for an extra engine, choosing the F135 as the sole engine for the JSF.

In closing, 2011 was a year of positioning UTC for long-term earnings growth. We announced transformational acquisitions in our core businesses, and we are aligning our organizational structure to capitalize on emerging and growth markets. We also remain focused on productivity and improved our operational performance by driving ACE in our own facilities and in our supply chain. We delivered strong earnings growth and cash performance, and we raised our dividend. Simply put, 2011 was a very solid year for UTC.

As always, UTC's outstanding performance over the past year reflects the dedication and commitment of UTC's senior management team and our 200,000 employees around the world. On behalf of our shareowners, I thank our employees for their many contributions and for making United Technologies a truly amazing company.

I also thank our customers for the confidence and trust they have placed in us. We recognize that our future success depends on our ability to find better, faster and more efficient ways to deliver value. I'm confident we can do this and outperform peers in the years ahead. I know we will experience many more amazing successes and continue to develop innovative products that transform modern life — and perform as impressively as the United Technologies employees who make them.



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