

# Dear Fellow Investor



Greg Hayes, Chairman & CEO

**The year 2018 will be remembered for many things at United Technologies. A year of record sales and earnings. A year in which the Otis maintenance portfolio exceeded 2 million units for the first time. A year in which Pratt & Whitney manufactured more than 1,000 large commercial and military engines for the first time in more than 30 years. And a year in which Carrier grew its top line by 6 percent organically while introducing more than 100 new products. 2018 also saw the completion of the Rockwell Collins acquisition, which combined with our UTC Aerospace Systems business allowed us to create the preeminent aerospace systems supplier, now named Collins Aerospace Systems.**

The most momentous decision in 2018, however, was our decision to return United Technologies to its roots as a preeminent aerospace systems supplier while establishing Carrier and Otis as standalone independent companies. This decision, perhaps the most difficult decision a Board of Directors can make, will establish three industry-leading, focused businesses that will drive long-term value for investors, customers and employees.

Underpinning all the successes of 2018 is our relentless focus on delivering the most advanced and innovative products and services to our customers around the world. And all this was possible only through the dedication and diligence of our 240,000 employees. As I have said many times, companies don't innovate, people do. Likewise, companies don't design, develop, manufacture or service our products, people do. So please join me in thanking all the people of United Technologies who have made this great performance in 2018 possible. Here are some additional highlights.

## **STRONG FINANCIAL PERFORMANCE**

In 2018 United Technologies had sales of \$66.5 billion, driven by 8 percent organic growth. Earnings per share on an adjusted basis were \$7.61, a 14 percent increase over 2017. Spending on research and development totaled \$4 billion, of which more than \$2.5 billion was company-funded. We generated \$6.3 billion of cash flow from operations, and we invested \$1.9 billion in capital expenditures to fund future organic growth. Net free cash flow was \$4.4 billion. Dividends totaled \$2.2 billion, and in October 2018 the Board approved a 5 percent increase in the dividend rate to \$2.94 per share on an annual basis.

8%  
Organic growth\*

\$7.61  
Adjusted earnings per share\*

\$4.4B  
Free cash flow\*

\* See page 77 for additional information regarding non-GAAP financial measures.

## **HIGHLIGHTS FROM OUR BUSINESSES**

In addition to manufacturing over 1,000 large commercial and military engines, Pratt & Whitney signed a \$2 billion contract to supply F135 engines in support of the Joint Strike Fighter program. Revenue from commercial maintenance, repair and overhaul (MRO) services increased significantly, and the Geared Turbofan engine aftermarket network continued to mature, more than doubling the number of engines overhauled in our shops compared to 2017.

Collins Aerospace extended its industry leadership in 2018. The business was awarded a contract to provide nacelles for the Dassault Falcon 6X and selected to provide content on Boeing's U.S. Air Force T-X jet trainer, including the ACES 5 ejection seat, landing gear, and wheels and brakes. The company also enjoyed significant demand for its wheel and brake systems as more than 35 airlines selected its equipment, representing commitments totaling more than \$500 million. Commercial aftermarket sales at legacy UTC Aerospace Systems were strong as well, up 12 percent organically in 2018.

Against a backdrop of challenging geopolitical conditions, our commercial businesses also achieved many successes.

Carrier opened a state-of-the-art building technology and customer experience center in Palm Beach Gardens, Florida. More than 12,000 customers and guests have already seen firsthand how our innovative products and services work together to enhance building efficiency. The Carrier business, which represents nearly 80 brands across heating and air-conditioning, refrigeration, fire and security, and building automation solutions, continued its product innovation acceleration, launching more than 200 new products in the past two years. In 2018 Carrier streamlined and strengthened its portfolio through the divestiture of equipment manufacturer Taylor Company and the acquisition of S2 Security, a leading developer of unified security and video management solutions.

A focus on innovation also helped Otis to reap its share of big wins in 2018. The business landed significant contracts for Resorts World Las Vegas, SNCF French rail, the Bangkok Metropolitan Rapid Transit in Thailand and Haikou Twin Towers in China. Otis also strengthened its leadership in China's infrastructure segment, securing contracts to supply more than 2,500 elevators and

escalators to metro, rail and airport projects in 11 cities. Investment in digital also began to bear fruit with the launch of a new digitally enhanced Otis Signature Service and the IoT-enabled Otis ONE platform that uses remote diagnostics, data analytics and machine learning to predict and prevent shutdowns.

### **GROWING OUR DIGITAL FOOTPRINT**

The relentless pace at which products and services are becoming digitally enabled and connected is fundamentally transforming how we live and work. Our team in the new United Technologies Digital Accelerator in Brooklyn, New York, delivers fresh thinking and capabilities to the design of innovative customer experiences, streamlined manufacturing capabilities and intelligent solutions that unlock new forms of value. Our accelerator houses a growing community of digital experts who are passionate about making things smarter, more efficient and more connected. Core to our digital capabilities is data analytics, and in 2018 we acquired Predikto Inc., an analytics software company known for its cloud-based predictive technology.

Our technology R&D investments and activities are increasingly focused on high-impact areas that are critical to United Technologies' future growth. These include connected products, autonomy and electrification — and they are among the top priorities for our team at the United Technologies Research Center. In 2018 we launched United Technologies Advanced Projects (UTAP) under the leadership of our Chief Technology Officer. UTAP blends a fast-paced, start-up-like culture with UTC's deep technical expertise to develop high-risk/high-reward product demonstrators.

### **INVESTING IN OUR PEOPLE**

United Technologies is a global team of

talented, purpose-driven professionals. Many are leaders in their communities — volunteering to make a positive social impact, mentoring schoolchildren, encouraging STEM education and building a more sustainable future.

We remain committed to being an open, inclusive and diverse company. As part of the Paradigm for Parity coalition, we are committed to achieving gender parity in our senior leadership by 2030. We graduated the first classes from our Re-Empower Program, which helps individuals get the confidence, support and training needed to re-enter the workforce after a voluntary absence. In 2018 we invested more than \$100 million in employee learning and job training programs. And, as a leadership team, we are investing our time in sponsorship, preparing future leaders who will one day sit in our seats.

### **THE PATH AHEAD**

I couldn't be more excited about the future of our company. Our businesses are well-positioned to benefit from the global trends of rapid urbanization, an expanding middle class and unprecedented growth in commercial aviation. We have the size, scale and talent to thrive. As we embark on this historic transformation to become three strong, industry-leading companies, I am energized by the challenges and opportunities before us.

In closing, I want to again express gratitude to our employees for a remarkable year. Thank you also to our valued customers for placing your trust in us and our products. And my thanks to you, our shareowners, for investing in us.



**Gregory J. Hayes**  
Chairman & Chief Executive Officer