
**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, 2004

Commission file number 1-812

UNITED TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

06 0570975
(I.R.S. Employer
Identification No.)

One Financial Plaza, Hartford, Connecticut
(Address of principal executive offices)

06103
(Zip Code)

Registrant's telephone number, including area code: (860) 728-7000

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

| <u>Title of each class</u> | <u>Name of each exchange on which registered</u> |
|---|--|
| Common Stock (\$1 par value) (CUSIP 913017 10 9) | New York Stock Exchange |

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, and (2) has been subject to such filing requirements for the past 90 days. 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 amendments to this Form 10-K.

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes . No .

The aggregate market value of the voting Common Stock held by non-affiliates at June 30, 2004 was approximately \$46,702,384,420, based on the New York Stock Exchange closing price for such shares on that date. For purposes of this calculation, the Registrant has assumed that its directors and executive officers are affiliates.

At January 31, 2005, there were 511,778,571 shares of Common Stock outstanding.

List hereunder documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated: (1) Portions of the United Technologies Corporation 2004 Annual Report to Shareowners are incorporated by reference in Parts I, II and IV hereof; and (2) Portions of the United Technologies Corporation Proxy Statement for the 2005 Annual Meeting of Shareowners are incorporated by reference in Part III hereof.

UNITED TECHNOLOGIES CORPORATION

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Year Ended December 31, 2004

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UNITED TECHNOLOGIES CORPORATION

Annual Report on Form 10-K For Year Ended December 31, 2004

Whenever reference is made in this Form 10-K to specific sections of UTC's 2004 Annual Report to Shareowners, those sections are incorporated herein by reference. "UTC", unless the context requires otherwise, means United Technologies Corporation and its subsidiaries.

PART I

Item 1. Business

General

United Technologies Corporation was incorporated in Delaware in 1934. UTC provides high technology products and services to the building systems and aerospace industries worldwide. Growth is attributable to acquisitions and the internal development of existing businesses of UTC. The following description of UTC's business should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in UTC's 2004 Annual Report, especially the information contained therein under the heading "Business Environment."

UTC's operating units include businesses with operations throughout the world. Otis, Carrier and Chubb serve customers in the commercial and residential property industries worldwide. Carrier also serves commercial, industrial, transport refrigeration and food service equipment customers. Pratt & Whitney, Hamilton Sundstrand and Sikorsky Aircraft primarily serve commercial and government customers in the aerospace industry and also serve customers in industrial markets. For 2004, commercial and industrial revenues generated by UTC (principally Otis, Carrier and Chubb operations) were 64 percent of UTC's consolidated revenues, and military aerospace and commercial aerospace revenues were each approximately 18 percent of UTC's total revenues. Revenues for 2004 from outside the United States, including U.S. export sales, were 59 percent of UTC's total segment revenues.

As worldwide businesses, UTC's operations can be affected by a variety of economic and other factors, including those described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in UTC's 2004 Annual Report and those described in this section under the heading "Other Matters Relating to UTC's Business as a Whole." Each business unit is subject to significant competition from a large number of companies in the United States and other countries, and each competes on the basis of price, delivery schedule, product performance and service.

This Form 10-K and UTC's quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports will be made available free of charge through the Investor Relations section of UTC's Internet website (<http://www.utc.com>) under the headings "Financials", "SEC Filings" as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission.

Description of Business by Segment

UTC conducts its business through six principal segments: Otis, Carrier, Chubb, Pratt & Whitney, Hamilton Sundstrand and Sikorsky. The segments are based on the management structure of the businesses and the grouping of similar operating companies, where each management organization has general operating autonomy over a range of products and services. UTC is including Hamilton Sundstrand and Sikorsky as separate segments for the first time in this Form 10-K and has included restated segment information for prior periods. Hamilton Sundstrand and Sikorsky were previously described together as the Flight Systems segment. The principal products and services of each segment are as follows:

- | | |
|---------|---|
| Otis | —Otis elevators, escalators, moving walkways and service. |
| Carrier | —Carrier commercial, residential and industrial heating, ventilating and air conditioning (HVAC) systems and equipment, commercial and transport refrigeration, food service equipment, building controls, and energy management and air quality systems, and aftermarket service and components. |
| Chubb | —Chubb electronic security, fire detection and suppression, monitoring and rapid response systems and service, and security personnel services. |

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| | |
|---------------------|---|
| Pratt & Whitney | —Pratt & Whitney commercial, general aviation and military aircraft engines, parts and service, industrial gas turbines and space propulsion. |
| Hamilton Sundstrand | —Hamilton Sundstrand aerospace products and aftermarket services, including power generation, management and distribution systems, flight, engine and environmental control systems, auxiliary power units and propeller systems, and industrial products, including air compressors, metering devices, fluid handling equipment and gear drives. |
| Sikorsky | —Sikorsky commercial and military helicopters, aftermarket helicopter and aircraft parts and service. |

On December 16, 2004 UTC announced its offer to purchase 100% of the outstanding shares of Kidde plc for approximately \$3.0 billion. Kidde is a UK-based provider of fire protection equipment and services with operations in 29 countries. Kidde distributes products and services globally to commercial, industrial, aerospace and retail customers and reported 2003 revenues of approximately \$1.5 billion. UTC's offer is subject to customary conditions, including acceptance of the offer by Kidde shareholders, approval by relevant regulatory agencies and compliance with applicable filing requirements and other regulations. The transaction is expected to close at the end of the first quarter 2005.

Segment financial data for the years 2002 through 2004, including financial information about foreign and domestic operations and export sales, appears in Note 16 of Notes to Consolidated Financial Statements in UTC's 2004 Annual Report.

Otis

Otis is the world's largest elevator and escalator manufacturing, installation and service company. Otis designs, manufactures, sells and installs a wide range of passenger and freight elevators for low-, medium- and high-speed applications, as well as a broad line of escalators and moving walkways. In addition to new equipment, Otis provides modernization products to upgrade elevators and escalators as well as maintenance services for a substantial portion of the products that it sells, as well as those of other manufacturers. Otis serves an international customer base, principally in the commercial and residential property industries.

Revenues generated by Otis' international operations were 79 percent of total Otis segment revenues in each of 2004 and 2003. At December 31, 2004, Otis' business backlog was \$5,611 million as compared to \$5,040 million at December 31, 2003. Substantially all the business backlog at December 31, 2004 is expected to be realized as sales in 2005.

Carrier

Carrier is the world's largest manufacturer and distributor of heating, ventilating and air-conditioning (HVAC) systems, refrigeration and food service equipment, and related controls for residential, commercial, industrial and transportation applications. Carrier also provides aftermarket services and components for the products it sells and those of other manufacturers in both the HVAC and refrigeration industries. The products manufactured by Carrier include chillers and air handling equipment; commercial unitary systems; residential split systems; residential furnaces; duct-free split systems and window air conditioners; transport refrigeration, including container, truck/trailer and bus refrigeration; commercial refrigeration, including display cases, bottle coolers and heat transfer and compressor systems; food service equipment; and building automation and control systems for HVAC and energy management applications. Carrier's products and services are sold under Carrier and other brand names to building contractors and building owners, homeowners, shipping and trucking companies, supermarkets and food service companies. Sales are made both directly to the customer and through manufacturers' representatives, distributors, dealers, wholesalers and retail outlets.

Carrier has grown significantly in recent years as a result of acquisitions. Major acquisitions have included the February 2000 acquisition of the Electrolux Group's commercial refrigeration business in Europe; the November 2000 acquisition of Specialty Equipment Companies, a manufacturer of commercial refrigeration and food service equipment in the United States and Europe; and the October 2004 acquisition of the commercial refrigeration business of Linde AG, located in Germany with operations in Europe, Asia and South America. Carrier participates in a joint venture with Toshiba Corporation in Japan. Carrier and the joint venture company, Toshiba Carrier Corporation, also participate in HVAC joint ventures in the U.K., Thailand and China.

Revenues generated by Carrier's international operations, including U.S. export sales, were 51 percent and 48 percent of total Carrier segment revenues in 2004 and 2003, respectively. At December 31, 2004, Carrier's business backlog was \$1,464 million as compared to \$1,037 million at December 31, 2003. Substantially all the business backlog at December 31, 2004 is expected to be realized as sales in 2005.

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Chubb

In July 2003, UTC acquired Chubb plc, a global provider of security and fire protection products and services. In the electronic security industry, Chubb provides system integration, installation and service of intruder alarms, access control systems and video surveillance systems. In the fire protection industry, Chubb provides system integration, installation and service of portable and fixed suppression systems and fire detection systems. Chubb also provides monitoring, response and security personnel services, including cash-in-transit security, to complement both the electronic security and fire protection businesses. Chubb's operations are predominantly outside the U.S. Chubb is a leading provider of products and services in the U.K., France, Hong Kong, Australia, Canada and South Africa. Chubb products and services are used by architects, building owners and developers, security and fire consultants and other end-users requiring a high level of security and fire protection for their businesses and residences. Chubb sells directly to the customer in most instances, with only a small proportion of sales through manufacturers' representatives, distributors and dealers.

For the year ended December 31, 2004, 96 percent of total Chubb segment revenues were generated outside the U.S. At December 31, 2004, Chubb's business backlog was \$311 million as compared to \$286 million at December 31, 2003. Substantially all the business backlog at December 31, 2004 is expected to be realized as sales in 2005.

Pratt & Whitney

Pratt & Whitney is among the world's leading suppliers of commercial, general aviation and military aircraft engines. Pratt & Whitney provides spare parts and aftermarket and fleet management services for the engines it produces, along with power generation and space propulsion systems. Pratt & Whitney continues to enhance its programs through performance improvement measures and product base expansion. Pratt & Whitney products are sold principally to aircraft manufacturers, airlines and other aircraft operators, aircraft leasing companies and U.S. and foreign governments. Pratt & Whitney sales in the U.S. and Canada are made directly to the customer and, to a limited extent, through independent distributors. Other export sales are made with the assistance of independent sales representatives. Sales to The Boeing Company and Airbus Industrie were 8 and 11 percent, respectively, of total Pratt & Whitney revenues in 2004, before taking into account discounts or financial incentives offered to customers.

Pratt & Whitney currently produces two families of large commercial jet engines: the PW4000 engine series (powering the Airbus A310-300, A300-600 and A330-200/300 series of aircraft; the Boeing 747-400, 767-200/300 and 777-200/300 series of aircraft; and the out-of-production Boeing MD-11 aircraft) and the PW2000 engine series (powering the Boeing 757-200/PF/300 aircraft, which Boeing announced in October 2004 it has terminated production). Production of the PW2000 will continue as its military version, the F117, powers the C-17 transport aircraft. Pratt & Whitney's PW6000 successfully completed U.S. Federal Aviation Administration (FAA) FAR 33 engine certification testing in October 2004. The PW6000 powered Airbus A318 aircraft is scheduled for flight certification in October 2005. Pratt & Whitney management cannot predict with certainty whether, when, and in what quantities Pratt & Whitney will produce PW6000 engines. Pratt & Whitney's product base expansion includes the development of large commercial engines for the narrow-bodied and wide-bodied aircraft markets and small commercial engines that have been selected for new light jet aircraft programs.

In view of the risk and cost associated with developing new engines, Pratt & Whitney has entered into certain collaboration arrangements in which costs, revenues and risks are shared. At December 31, 2004, the interests of participants in current Pratt & Whitney-directed commercial jet engine production programs ranged from 14 to 29 percent. In addition, Pratt & Whitney has interests in other programs. These include its 33 percent interest in the International Aero Engines collaboration that sells and supports V2500 engines (powering Airbus' A319, A320 and A321 aircraft and Boeing's out-of-production MD-90) and its 50 percent interest in an alliance with GE Aircraft Engines to develop, market and manufacture the GP7000 engine. At December 31, 2004, other participants held interests totaling 40 percent of Pratt & Whitney's share of this program. The GP7000, which passed its first full engine flight test in December 2004, will power the Airbus A380 aircraft, with first aircraft deliveries scheduled for 2006.

Pratt & Whitney currently produces three military aircraft engines: the F119 (powering the two-engine F/A-22 fighter aircraft), the F100 (powering two-engine F-15 and single-engine F-16 fighter aircraft) and the F117 (powering four-engine C-17 transport aircraft). The F119 and F117 are currently the only sources of propulsion for the F/A-22 fighter aircraft and C-17 transport aircraft, respectively. Pratt & Whitney has begun production of the F119 engine for the U.S. Air Force (USAF) under a contract that is expected to cover engine deliveries through 2007. All of Pratt & Whitney's F100 sales contracts are with the USAF or with foreign governments and all of its F117 sales contracts are with either the USAF or Boeing. Pratt & Whitney is also under contract with the USAF to develop the F135 engine, a derivative of Pratt & Whitney's F119 engine, to power the single-engine F-35 Joint Strike Fighter aircraft being developed by Lockheed Martin. Pratt & Whitney management cannot predict with certainty whether, when, and in what quantities Pratt & Whitney will produce F135 engines.

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Pratt & Whitney Canada (P&WC) is a world leader in aviation engines powering business, regional, utility and military aircraft and helicopters. P&WC also designs and manufactures engines for auxiliary power units and industrial applications. Its operations and service network span the globe.

Pratt & Whitney Space Propulsion (SP) produces hydrogen-fueled rocket engines for commercial and U.S. Government space applications and advanced turbo pumps for NASA's Space Shuttle program. SP also has a 50 percent interest in a joint venture with NPO Energomash that provides kerosene-fueled RD-180 rocket engines for satellite launch applications. SP is winding down its manufacturing of solid fuel propulsion systems for civil and military applications, and expects this activity to be completed by the end of 2005.

Pratt & Whitney Power Systems (PWPS) supplies industrial power generation and mechanical drive equipment in the one megawatt to 50 megawatts range. PWPS also provides gas turbines for marine propulsion applications.

Revenues from Pratt & Whitney's international operations, including U.S. export sales, were 52 percent and 51 percent of total Pratt & Whitney segment revenues in each of 2004 and 2003, respectively. At December 31, 2004, Pratt & Whitney's business backlog was \$12,832 million, including \$2,563 million of U.S. Government funded contracts and subcontracts, as compared to \$13,175 million and \$2,728 million, respectively, at December 31, 2003. Of the total Pratt & Whitney backlog at December 31, 2004, approximately \$5,350 million is expected to be realized as sales in 2005. Pratt & Whitney's backlog includes certain contracts for which actual costs may ultimately exceed total revenues. See Note 1 to Consolidated Financial Statements in UTC's 2004 Annual Report for a description of UTC's accounting for long-term contracts.

Hamilton Sundstrand

Hamilton Sundstrand is among the world's leading suppliers of technologically advanced aerospace and industrial products and aftermarket services for diversified industries worldwide.

Hamilton Sundstrand's principal aerospace products include systems for power generation, management and distribution, and for flight, engine, fuel and environmental controls, auxiliary power units and propeller systems. Hamilton Sundstrand is also the prime contractor for NASA's space suit/life support system and produces environmental control, life support, mechanical systems and thermal control systems for international space programs.

Hamilton Sundstrand's aerospace businesses serve commercial, military, regional, business and general aviation, as well as space and undersea applications. Aftermarket services include spare parts, overhaul and repair, engineering and technical support and fleet maintenance programs. Hamilton Sundstrand sells aerospace products to airframe manufacturers, the U.S. Government, aircraft operators and independent distributors. Hamilton Sundstrand is engaged in development programs for the Boeing 787 aircraft, as well as for the Airbus A-380 commercial aircraft and the A400M military aircraft. Hamilton Sundstrand sales of aerospace products to Boeing, Pratt & Whitney and Airbus, collectively, including sales where the U.S. Government was the ultimate customer, were 18 percent of Hamilton Sundstrand segment sales in 2004.

Hamilton Sundstrand's principal industrial products include air compressors, metering devices, fluid handling equipment and gear drives. Those products serve industries involved with raw material processing, bulk material handling, construction, mining, hydrocarbon and chemical processing, and water and wastewater treatment. These products are sold directly to end-users, through manufacturer representatives and distributors and through engineering contractors. Demand for Hamilton Sundstrand's industrial products is tied closely to the level of general economic activity.

Revenues generated by Hamilton Sundstrand's international operations, including U.S. export sales, were 43 percent and 41 percent of total Hamilton Sundstrand segment revenues in 2004 and 2003, respectively. At December 31, 2004, Hamilton Sundstrand's business backlog was \$2,064 million, including \$ 479 million under U.S. Government funded contracts and subcontracts, as compared to \$1,882 million and \$545 million, respectively, at December 31, 2003. Of the total Hamilton Sundstrand backlog at December 31, 2004, approximately \$1,682 million is expected to be realized as sales in 2005.

Sikorsky

Sikorsky is one of the world's largest manufacturers of military and commercial helicopters and is the primary supplier of utility helicopters to the U.S. Army and Navy. Sikorsky also supplies helicopters to foreign governments and the worldwide commercial market.

Current production programs at Sikorsky include the Black Hawk medium-transport helicopter for the U.S. and foreign governments, the MH-60S and MH-60R helicopters for the U.S. Navy, the International Naval Hawk for multiple naval missions, and

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the S-76® and the S-92™ helicopters for commercial operations. In September 2004, Sikorsky acquired Schweizer Aircraft, which specializes in the light helicopter, reconnaissance aircraft and unmanned aerial vehicle (UAV) markets.

Deliveries of the S-92 helicopters for the commercial market began in 2004. Variants of the S-92 for military markets are currently in development. In November 2004, Sikorsky signed contracts with the Canadian government to supply Canada's maritime fleet with 28 new H-92™ helicopters and support services for 20 years.

Sikorsky's aftermarket business includes spare parts sales, overhaul and repair services, maintenance contracts, and logistics support programs for helicopters and other aircraft. Sales are made directly through Sikorsky and through Sikorsky's wholly owned subsidiaries. Sikorsky is increasingly engaging in logistics support programs and partnering with its governmental and commercial customers to manage and provide maintenance and repair services as a result of the current trend in the aftermarket business of providing total support programs.

Sikorsky, in a joint venture arrangement with Boeing, received notice in February 2004 of the U.S. Army's intent to terminate the RAH-66 Comanche™ helicopter program and reallocate funds to restructure and revitalize U.S. Army aviation programs to meet current and future needs. A partial Termination for Convenience notice was issued effective March 19, 2004. The selected technologies continued under the Comanche contract will be completed by February 2005. In the second quarter of 2004, UTC announced the planned closure of its Comanche facility and initiated other cost reduction actions as a result of the program termination. In the third quarter of 2004, the Boeing Sikorsky Joint Venture and U.S. Army agreed to a contract modification that revised program funding levels and established contract performance incentives related to the contract termination. The joint venture expects to submit its termination proposal during the first quarter of 2005. UTC does not expect the Comanche program termination and the related cost reduction actions to have a material adverse impact on UTC's results of operations, financial condition or cash flows.

Revenues generated by Sikorsky's international operations, including U.S. export sales, were 24 percent of total Sikorsky revenues in each of 2004 and 2003. At December 31, 2004, Sikorsky's business backlog was \$6,916 million, including \$ 2,349 million under U.S. government funded contracts and subcontracts, as compared to \$2,389 million and \$1,803 million, respectively, at December 31, 2003. Of the total Sikorsky backlog at December 31, 2004, approximately \$2,054 million is expected to be realized as sales in 2005.

UTC's Aerospace and Defense Products

UTC's aerospace and defense businesses (Pratt & Whitney, Hamilton Sundstrand and Sikorsky) are subject to substantial competition from domestic manufacturers, foreign manufacturers (whose governments sometimes provide research and development assistance, marketing subsidies and other assistance for their commercial products) and companies that obtain regulatory agency approval to manufacture spare parts. In particular, Pratt & Whitney experiences intense competition for new commercial airframe/engine combinations. Engine suppliers may offer substantial discounts and other financial incentives, performance and operating cost guarantees, participation in financing arrangements and maintenance agreements. Customer selections of engines and components can also have a significant impact on later sales of parts and services. Pratt & Whitney's major competitors in the sale of engines are General Electric Company (GE) and Rolls Royce plc. (For information regarding customer financing commitments, participation in guarantees of customer financing arrangements and performance and operating cost guarantees, see Notes 4 and 14 of Notes to Consolidated Financial Statements in UTC's 2004 Annual Report.)

Other factors that can affect the results of UTC's aerospace and defense businesses include lengthy and costly development cycles and heavy dependence on a small number of products and programs. Sales of military products are affected by defense budgets in the U.S. and other countries, U.S. foreign policy and the level of activity in military flight operations. The U.S. and other governments' policies of purchasing parts from suppliers other than the original equipment manufacturer affect military spare parts sales. The operations of Pratt & Whitney, Hamilton Sundstrand and Sikorsky can also be affected by a variety of economic and other factors including those described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in UTC's 2004 Annual Report and those described in this section under the heading "Other Matters Relating to UTC's Business as a Whole."

Significant elements of the business of Pratt & Whitney, Hamilton Sundstrand and Sikorsky, such as spare parts sales for engines and aircraft in service, have short lead times. Therefore, backlog information may not be indicative of future demand. Also, since a substantial portion of the backlog for commercial customers is scheduled for delivery beyond 2005, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled.

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Other

UTC Power develops and markets distributed power generation systems, including fuel cells and microturbines, for use in commercial applications, transportation and light industrial businesses, institutions and office buildings. UTC Power integrates, sells and services microturbine-based combined heat and power (CHP) solutions for commercial buildings, including its Pure Comfort™ product family. In 2004, the company introduced the PureCycle™ 200 product, which utilizes an organic rankine cycle to convert waste heat into energy. Microturbines and organic rankine cycle devices are in an early stage of development and manufacturing. Continued technology advancement and cost reduction are required for wide-scale market acceptance.

UTC Fuel Cells, a part of UTC Power, is a world leader in fuel cell production and development for commercial, transportation and space applications. UTC Fuel Cells is the sole supplier of fuel cells for U.S. space missions and also offers a commercially available fuel cell power plant, known as the PureCell™ 200. Fuel cell power plants using proton exchange membrane technology (PEM) are currently in development for transportation and stationary applications. UTC Fuel Cells is working with automakers and bus manufacturers, as well as the U.S. Government, on development and demonstration programs for vehicles. Since 2002, UTC Fuel Cells has been participating in licensing and joint development arrangements with Nissan Motor Company and Hyundai Motor Company. In October 2003, Nissan unveiled its zero-emission fuel cell vehicle powered by a UTC Fuel Cells power plant. Hyundai and UTC Fuel Cells have integrated a fuel cell power plant capable of operating in freezing conditions into a Hyundai sports utility vehicle platform. Hyundai plans to lease a number of such vehicles to fleet operators in 2005 as part of the U.S. Department of Energy's Freedom Car Program. Funding for the Freedom Car Program is currently under consideration by the U.S. Congress, and annual appropriations will be required to support the full objectives of the program.

Although fuel cells are believed to be superior to conventional power generation technologies in terms of efficiency and environmental characteristics, the technology is still in development and current production rates remain low across the industry. Continued technology advancement and cost reduction of key fuel cell components are required to achieve wide-scale market acceptance. Government support for fuel cells is expected to impact the advancement of the technology. There is still significant uncertainty as to whether and when commercially viable PEM fuel cells will be produced. In November 2004, UTC Fuel Cells announced a restructuring of its relationship with Toshiba Corporation. Under the terms of UTC's agreement with Toshiba Corporation, UTC Fuel Cells purchased the 10% equity interest Toshiba held in UTC Fuel Cells and Toshiba purchased UTC Fuel Cells' 49% interest in Toshiba International Fuel Cells. Joint development of PEM technology will continue under the agreement, which includes cross-licensing provisions.

The results of UTC Power are included in the "Eliminations and other" category in the segment financial data in Note 16 of Notes to Consolidated Financial Statements in UTC's 2004 Annual Report.

Other Matters Relating to UTC's Business as a Whole

Research and Development

Since changes in technology can have a significant impact on UTC's operations and competitive position, UTC spends substantial amounts of its own funds on research and development. Such expenditures, which are charged to expense as incurred, were \$1,256 million, or 3.4 percent of total sales in 2004, as compared with \$1,027 million or 3.3 percent of total sales in 2003 and \$1,191 million or 4.3 percent of total sales in 2002. UTC also performs research and development work under contracts funded by the U.S. Government and other customers. Such contract research and development, which is performed principally in the Pratt & Whitney segment and to a lesser extent in the Hamilton Sundstrand and Sikorsky segments, amounted to \$1,619 million in 2004, as compared with \$1,580 million in 2003 and \$1,189 million in 2002.

Contracts, Other Risk Factors, Environmental and Other Matters

U.S. Government contracts are subject to termination by the government, either for the convenience of the Government or for default by UTC for failure to perform under the applicable contract. In the case of a termination for convenience, UTC normally is entitled to reimbursement for its allowable costs incurred, plus termination costs and a reasonable profit. If terminated by the Government for default by UTC, UTC could be liable for additional costs incurred by the Government in acquiring undelivered goods or services from another source and any other damages suffered by the government. Most of UTC's U.S. Government sales are made under fixed-price type contracts; approximately \$2 billion of UTC's total sales for 2004 were made under cost-reimbursement type contracts.

UTC is now, and believes that in light of the current U.S. Government contracting environment it will be, the subject of one or more U.S. Government investigations. See Item 3 – Legal Proceedings in this Form 10-K and Note 15 of Notes to Consolidated Financial Statements in UTC's 2004 Annual Report for further discussion. If UTC or one of its business units were charged with wrongdoing as a result of any of these investigations or other U.S. Government investigations (including violation of certain environmental or export laws), it could be suspended from bidding on or receiving awards of new U.S. Government contracts pending the completion of legal proceedings. If convicted or found liable, UTC could be subject to fines, penalties, repayments and treble and other damages. Any contracts found to be tainted by fraud could be voided by the U.S. Government. The U.S. Government also reserves the right to debar a contractor from receiving new government contracts for fraudulent, criminal or other seriously improper conduct. Debarment generally does not

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exceed three years. Independently, failure to comply with U.S. laws and regulations related to the export of goods and technology outside the U.S. could result in civil or criminal penalties and suspension or termination of UTC's export privileges.

UTC's contracts with the U.S. Government are subject to audits. Like many defense contractors, UTC has received audit reports from the U.S. Government which recommend that certain contract prices be reduced because cost or pricing data submitted in negotiation of the contract prices or cost accounting practices may not have been in conformance with government regulations. Some of these audit reports have involved substantial amounts. UTC has made voluntary refunds in those cases it believes appropriate, has settled some allegations and continues to litigate certain cases. See Item 3 – Legal Proceedings in this Form 10-K and Note 15 of Notes to Consolidated Financial Statements in UTC's 2004 Annual Report for further discussion.

UTC conducts its businesses through subsidiaries and affiliates worldwide, some of which have significant minority interests. Changes in legislation or government policies can have an impact on UTC's worldwide operations. For example, governmental regulation of refrigerants and energy efficiency standards, elevator safety codes and fire protection regulations are important to the businesses of Carrier, Otis and Chubb respectively, while government safety and performance regulations, restrictions on aircraft engine noise and emissions and government procurement practices can impact UTC's aerospace and defense businesses.

UTC's international operations are also subject to changes in local government regulations and policies, including those related to investments, exchange controls and repatriation of earnings. Some foreign customers in UTC's aerospace and defense businesses may require counter-purchase or offset arrangements as a condition to a sale, such as requiring UTC to purchase supplies in the customer's country or to participate in manufacturing and financial support projects.

UTC's operations are subject to and affected by environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over its foreign operations. UTC has incurred and will likely continue to incur liabilities under various state and federal statutes for the cleanup of pollutants previously released into the environment. UTC does not anticipate that compliance with current provisions relating to the protection of the environment or that any payments it may be required to make for these cleanup liabilities will have a material adverse effect upon its cash flows, competitive position, financial condition or results of operations. (Environmental matters are further addressed in Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 15 of Notes to Consolidated Financial Statements in UTC's 2004 Annual Report.)

Most of the laws governing environmental matters include criminal provisions. If UTC were convicted of a violation of the federal Clean Air Act or the Clean Water Act, the facility or facilities involved in the violation would be ineligible to be used in performing any U.S. Government contract awarded to UTC until the Environmental Protection Agency certified that the condition giving rise to the violation had been corrected.

While UTC's patents, trademarks, licenses and franchises are cumulatively important to its business, UTC does not believe that the loss of any one or group of related patents, trademarks, licenses or franchises would have a material adverse effect on the overall business of UTC or on any of its operating segments.

UTC continuously seeks to reduce the cost of its purchases of materials, components, services and supplies. These cost reductions may be achieved through a number of mechanisms, including consolidating its purchases, reducing the number of suppliers, strategic global sourcing and using online bidding competitions among potential suppliers. Greater dependence on global sources of supply requires reliable transportation and import and export processes. UTC is reliant on commodity markets and its results can be affected by commodity pricing. In some instances, UTC depends upon a single source of supply or participates in commodity markets that may be subject to allocations by suppliers. A disruption in deliveries from UTC's suppliers, therefore, could have an adverse effect on UTC's ability to meet its commitments to customers. Like other users in the U.S., UTC is largely dependent upon foreign sources for certain of its raw materials requirements such as cobalt (Africa, Australia and Russia), tantalum (Australia and Asia), chromium (Africa and Kazakhstan) and rhenium (Chile and Kazakhstan). UTC has a number of ongoing programs to manage this dependence and the accompanying risk including long-term agreements and the conservation of materials through scrap reclamation and new manufacturing processes. UTC believes that its supply management practices are based on an appropriate balancing of the associated risks and the additional cost of alternative practices. Although high prices for some raw materials important to some of UTC's businesses, particularly Carrier (copper, steel, aluminum), have caused pricing pressures, UTC does not foresee any unavailability of materials, components or supplies that will have any material adverse effect on its overall business, or on any of its business segments, in the near term.

For a discussion of other risks to which UTC's financial condition, results of operations or cash flows may be subject, including the risks of UTC's international operations, see the further discussion under the headings "General" and "Description of Business by Segment" in this section and Management's Discussion and Analysis of Financial Condition and Results of Operations in UTC's 2004 Annual Report.

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Cautionary Note Concerning Factors That May Affect Future Results

This Form 10-K contains statements which, to the extent they are not statements of historical or present fact, constitute “forward-looking statements” under the securities laws. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These forward-looking statements are intended to provide Management’s current expectations or plans for the future operating and financial performance of UTC, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as “believe,” “expect,” “plans,” “strategy,” “prospects,” “estimate,” “project,” “target,” “anticipate” and other words of similar meaning in connection with a discussion of future operating or financial performance. These include, among others, statements relating to:

- Future earnings and other measurements of financial performance
- Future cash flow and uses of cash
- The effect of economic downturns or growth in particular regions
- The effect of changes in the level of activity in particular industries or markets
- The availability and cost of materials, components, services and supplies
- The scope, nature or impact of acquisition activity and integration into UTC’s businesses
- Product developments and new business opportunities
- Restructuring costs and savings
- The outcome of contingencies
- Future repurchases of Common Stock
- Future levels of indebtedness and capital spending
- Pension plan assumptions and future contributions.

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. For additional information identifying factors that may cause actual results to vary materially from those stated in the forward-looking statements, see UTC’s reports on Forms 10-Q and 8-K filed with the Securities and Exchange Commission from time to time. This Annual Report on Form 10-K for 2004 includes important information as to risk factors in the “Business” section under the headings “General”, “Description of Business by Segment” and “Other Matters Relating to UTC’s Business as a Whole” and in the “Legal Proceedings” section. Additional important information as to risk factors is included in UTC’s 2004 Annual Report in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

Employees

At December 31, 2004, UTC’s total employment was approximately 210,000. For discussion of the effects of UTC’s restructuring actions on employment, see Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 11 of Notes to Consolidated Financial Statements in UTC’s 2004 Annual Report.

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Item 2. Properties

UTC's fixed assets as of December 31, 2004 include the plants and warehouses set forth in the table below and a substantial quantity of machinery and equipment, most of which is general purpose machinery and equipment using special jigs, tools and fixtures and in many instances having automatic control features and special adaptations. The plants, warehouses, machinery and equipment in use as of December 31, 2004 are in good operating condition, are well maintained and substantially all are in regular use.

| | Square Feet in Thousands | | | | | | | Total |
|---|--------------------------|--------------|--------------|-----------------|---------------------|--------------|------------|---------------|
| | Otis | Carrier | Chubb | Pratt & Whitney | Hamilton Sundstrand | Sikorsky | Other ** | |
| Plants in North America* | | | | | | | | |
| Owned | 191 | 6,526 | 0 | 6,833 | 4,502 | 2,055 | 0 | 20,107 |
| Leased | 307 | 1,613 | 15 | 1,405 | 278 | 281 | 177 | 4,076 |
| Total | 498 | 8,139 | 15 | 8,238 | 4,780 | 2,336 | 177 | 24,183 |
| Warehouses in North America | | | | | | | | |
| Owned | 599 | 1,663 | 0 | 1,153 | 272 | 130 | 35 | 3,852 |
| Leased | 524 | 6,058 | 68 | 486 | 89 | 257 | 11 | 7,493 |
| Total | 1,123 | 7,721 | 68 | 1,639 | 361 | 387 | 46 | 11,345 |
| Plants Outside North America | | | | | | | | |
| Owned | 6,098 | 4,962 | 233 | 4,250 | 1,370 | 0 | 0 | 16,913 |
| Leased | 152 | 1,222 | 148 | 175 | 453 | 33 | 0 | 2,183 |
| Total | 6,250 | 6,184 | 381 | 4,425 | 1,823 | 33 | 0 | 19,096 |
| Warehouses Outside North America | | | | | | | | |
| Owned | 713 | 4,923 | 250 | 105 | 223 | 0 | 0 | 6,214 |
| Leased | 1,671 | 2,791 | 1,007 | 14 | 193 | 25 | 0 | 5,701 |
| Total | 2,384 | 7,714 | 1,257 | 119 | 416 | 25 | 0 | 11,915 |

* North America consists of the United States, Canada, Mexico, Puerto Rico and Guam.

** Includes United Technologies Research Center and UTC Power

For discussion of the effect of UTC's restructuring actions on production facilities, see Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 11 of Notes to the Consolidated Financial Statements in UTC's 2004 Annual Report.

Management believes that the fixed assets capitalized and the facilities in operation at December 31, 2004 for the production of UTC's products are suitable and adequate for the business conducted therein in the current business environment, are being appropriately utilized consistent with experience and have sufficient production capacity for their present intended purposes. Utilization of the facilities varies based on demand for the products. UTC continuously reviews its anticipated requirements for facilities and, based on that review, may from time to time adjust its facilities needs.

Item 3. Legal Proceedings

As previously reported, the Department of Defense (DoD) and UTC are litigating whether Pratt & Whitney's government cost accounting practices for certain engine parts are acceptable. The litigation, filed in 1994 with the Armed Services Board of Contract Appeals (ASBCA), No. 47416 et al., relates to the accounting for engine parts produced by foreign companies under commercial engine collaboration programs since 1984. On July 31, 2001, the ASBCA issued a decision in favor of UTC. The DoD appealed this decision to the Court of Appeals for the Federal Circuit on November 29, 2001. On January 15, 2003, the Court of Appeals reversed the ASBCA and remanded the case to the ASBCA for further proceedings. UTC sought review by the U.S. Supreme Court, which was denied on November 10, 2003. On November 24, 2003, the DoD supplemented its original claim to add damages and interest for the period after 1996. The DoD's claim now totals approximately \$367 million in damages through 2002 and approximately \$388 million in interest through 2001. UTC has appealed this supplemental claim to the ASBCA.

As previously reported, the Department of Justice (DOJ) filed a complaint under the civil False Claims Act and related common law theories in March 1999 against UTC in the U.S. District Court for the Southern District of Ohio. This lawsuit relates to

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the “Fighter Engine Competition” between Pratt & Whitney’s F100 engine and GE’s F110 engine, for contracts awarded by the U.S. Air Force between fiscal years 1985 and 1990, inclusive. The DOJ alleges that the Government overpaid for engines because Pratt & Whitney inflated its estimated costs for some purchased parts and withheld data that would have revealed the overstatements. As previously reported, the DOJ amended its complaint in September 2003 to allege damages in excess of \$141 million, and to add an additional allegation without quantifying damages. Treble damages and penalties of up to \$10,000 per false claim could be assessed if the court finds that Pratt & Whitney violated the civil False Claims Act, and common law damages would accrue pre-judgment interest. On May 28, 2004, a Government report estimated Pratt & Whitney’s liability at \$624 million. UTC believes that this estimate is substantially overstated, denies any liability and is vigorously defending the DOJ’s claims. Trial of this matter was completed in December 2004 and a decision is expected in 2005.

As previously reported, a qui tam relator filed a complaint in July 1997 against UTC and its subsidiary, Norden Systems, Inc., in the U.S. District Court in Connecticut (U.S. ex rel. Drake v. Norden Systems, Inc. and UTC, No. 394CV00963) alleging that UTC and Norden are liable under the civil False Claims Act for violating U.S. government rules on accounting for fixed assets. The qui tam relator claimed unspecified damages and penalties. The DOJ declined to intervene. In February 2003, the District Court granted UTC’s motion to dismiss the case for lack of prosecution and the relator appealed. In July 2004, the U.S. Court of Appeals for the Second Circuit affirmed the dismissal of the claims against UTC, but remanded certain of the claims against Norden back to the District Court for further proceedings. The civil False Claims Act provides for treble damages and penalties of up to \$10,000 per false claim submitted to the Government. The number of false claims, if any, implicated by the remaining claims cannot currently be ascertained; however, if determined adversely to Norden, the number could result in significant damages and penalties, which UTC might be required to pay. UTC believes the claims against Norden are without merit, and intends to continue to defend this matter vigorously.

As previously reported, the European Commission’s competition directorate conducted inspections in early 2004 at offices of UTC’s Otis subsidiary in Berlin, Brussels, Luxembourg and Paris. The inspections relate to the Commission’s ongoing investigation of possible unlawful collusive arrangements involving the elevator and escalator industry in Europe. UTC is cooperating fully with the Commission’s investigation. Based on the results of its own internal investigation, UTC believes that some Otis employees in limited European locations engaged in activities at a local level in violation of Otis and UTC policies, and may have violated applicable competition law. It is still too early in the Commission’s investigation for UTC to reasonably estimate the range of civil fines to which it would likely be subject. The aggregate amount of such fines, if ultimately imposed, could be material to UTC’s operating results for the period in which the liability would be recognized or cash flows for the period in which the fines would be paid. UTC does not believe that any such fines would have a material adverse effect on UTC’s financial condition, or that the resolution of this matter would have a material adverse effect on Otis’ competitive position.

Since the Commission’s investigation became public and UTC announced the preliminary results of its internal investigation, class action lawsuits have been filed in various federal district courts in the United States naming UTC, Otis and others as defendants and alleging a worldwide agreement among elevator and escalator manufacturers to fix prices in violation of the Sherman Act. Those lawsuits have now been transferred to and consolidated in the Southern District of New York. The lawsuits do not specify the amount of damages claimed. UTC believes that these lawsuits are the result of press reports about the Commission’s investigation. UTC believes that the lawsuits are devoid of merit and will defend them vigorously.

As previously reported, like many other companies in recent years, UTC or its subsidiaries have been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain of UTC’s products or premises. While UTC has never manufactured asbestos and no longer incorporates it in any currently-manufactured products, certain of its historical products, like those of many other manufacturers, have contained components incorporating asbestos. UTC has made no payment in a substantial majority of the cases closed to date. The remainder of the resolved cases have settled for amounts that are not material to UTC, and have been supported in part by insurance. At present, UTC is named in approximately 1,700 lawsuits involving approximately 25,000 individual claimants. Approximately 18,000 of these claimants are joined in lawsuits in Mississippi state courts. Typically, these Mississippi lawsuits name from 200 to more than 400 other companies as defendants along with UTC or its subsidiaries. The complaints do not identify any products of UTC or its named subsidiaries, or specify the amount of damages claimed. In addition, the complaints do not allege which claimants, if any, were exposed to asbestos attributable to UTC’s products or premises, nor the extent, if any, to which such claimants have been harmed. Discovery has begun in some of the cases, but to date there has been only minimal product identification.

As previously reported, on December 16, 2003, the U.S. Environmental Protection Agency (EPA) executed a search warrant at Hamilton Sundstrand. The search warrant, issued by the U.S. District Court for the District of Connecticut, sought records and data regarding the company’s processes for monitoring, treating, testing and discharging wastewater at Hamilton Sundstrand’s Windsor Locks, Connecticut manufacturing facility. Hamilton Sundstrand has also received a notice of violation associated with the same matter from the Connecticut Department of Environmental Protection. Several employees have been subpoenaed to testify before a federal grand jury, and Hamilton Sundstrand also received subpoenas for records. With the assistance of independent consultants,

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Hamilton Sundstrand has reviewed the operations of the wastewater treatment facility, has made modifications to the physical plant and has improved operating procedures. Hamilton Sundstrand continues to cooperate with federal and state officials in the investigation.

As previously reported, Carrier Corporation has reached an agreement in principle with the EPA to resolve its current liability at the Puente Valley Operable Unit Superfund Site in California. Under the proposed agreement, Carrier would pay approximately \$125,000 and undertake an environmental project for approximately \$500,000, in settlement of claims for civil penalties related to alleged noncompliance with an administrative order. In addition, Carrier would pay a portion of the EPA's unreimbursed past costs for the Site and undertake a portion of the interim remedy EPA selected for the Site. Management believes that these costs are adequately reserved for within the total amount reserved for environmental remediation noted under the heading "Environmental Matters" in UTC's 2004 Annual Report. UTC expects the proposed agreement with the EPA to be finalized in a consent decree subject to approval by the U.S. District Court for the Central District of California, which is expected in the first half of 2005. Management believes that the resolution of this matter will not have a material adverse effect upon UTC's competitive position, financial position or results of operations.

Should the Government ultimately prevail with respect to one or more of the significant government contract matters discussed above, the outcome could result in a material effect on UTC's results of operations in the period the matter is resolved. However, UTC does not believe that resolution of any of the government contracting matters discussed above or any other legal matters will have a material adverse effect upon UTC's competitive position, results of operations, cash flows or financial condition. A further discussion of government contracts and related investigations, as well as a discussion of UTC's environmental liabilities, can be found under the heading "Other Matters Relating to UTC's Business as a Whole – Contracts, Other Risk Factors, Environmental and Other Matters" in Item 1 – Business in this Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to security holders for a vote during the fourth quarter ended December 31, 2004.

-- --Executive Officers of the Registrant

The following persons are executive officers of United Technologies Corporation:

| <u>Name</u> | <u>Title</u> | <u>Other Business Experience Since 1/1/2000</u> | <u>Age 2/1/05</u> |
|--------------------------|--|--|-----------------------|
| Tesfaye Aklilu | Vice President, Quality and Manufacturing (since 2004) | Vice President, Quality | 60 |
| Ari Bousbib | President, Otis Elevator (since 2002) | Executive Vice President and Chief Operating Officer, Otis Elevator; Vice President, Corporate Strategy and Development, United Technologies Corporation | 43 |
| Kent L. Brittan | Vice President, Supply Management (since 1997) | — | 62 |
| William L. Bucknall, Jr. | Senior Vice President, Human Resources and Organization (since 1992) | — | 62 |
| John F. Cassidy, Jr. | Senior Vice President – Science and Technology (since 1998) and Vice President, United Technologies Research Center (since 1993) | — | 61 |
| Louis Chênevert | President, Pratt & Whitney (since 1999) | — | 47 |
| Geraud Darnis | President, Carrier Corporation (since 2001) | President, UT Power Solutions; President, Carrier Asia Pacific Operations | 45 |
| George David | Chairman (since 1997), President (since 2002), and Chief Executive Officer (since 1994) | — | 62 |
| John J. Doucette | Vice President, Chief Information Officer (since 2000) | Vice President & Chief Information Officer, Otis Elevator | 45 |

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| | | | |
|---------------------|---|---|----|
| Stephen N. Finger | President, Sikorsky Aircraft (since July 2003) | President, Military Engines and Executive Vice President, Engineering and Operations, Pratt & Whitney | 56 |
| James E. Geisler | Vice President, Finance (since February 2004) | Director, Financial Planning and Analysis, Director, Investor Relations | 38 |
| Gregory J. Hayes | Vice President, Accounting and Control (since February 2004), Controller (since 2003) | Vice President, Financial Planning and Analysis and Treasury, Hamilton Sundstrand; Director, Financial Planning & Controller, Aerospace, Hamilton Sundstrand | 44 |
| David P. Hess | President, Hamilton Sundstrand Corporation (since January 2005) | President, Hamilton Sundstrand Aerospace Power Systems; Vice President and General Manager, Air Management and Power Systems, Hamilton Sundstrand | 49 |
| George H. Jamison | Vice President, Communications (since January 2003) | Vice President, Communications, General Motors' Hughes Electronic Corporation; Manager, International Communications, General Electric Company | 48 |
| Todd J. Kallman | Vice President, Corporate Strategy and Development (since April 2003) | Vice President of Finance and Chief Financial Officer, Hamilton Sundstrand; Vice President, Finance, Americas, Dell Computer Corp.; Vice President, Finance, Worldwide Home and Small Business, Dell Computer Corp. | 48 |
| Ronald F. McKenna | Chairman, Hamilton Sundstrand Corporation (since January 2005) | President, Hamilton Sundstrand Corporation | 64 |
| Olivier J. Robert | President, Chubb Limited (since July 2003) | Senior Vice President, Engineering and Operations, Otis Elevator | 53 |
| Thomas I. Rogan | Vice President, Treasurer (since 2001) | Vice President-Finance, Hamilton Sundstrand | 52 |
| William H. Trachsel | Senior Vice President and General Counsel (since January 2004) | Senior Vice President, General Counsel and Secretary, United Technologies Corporation | 61 |
| Jan van Dokkum | President, UTC Power (since 2002) | President and CEO, Siemens Power Transmission and Distribution, Inc. | 51 |

All of the officers serve at the pleasure of the Board of Directors of United Technologies Corporation or the subsidiary designated.

PART II

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

The Comparative Stock Data appearing in UTC's 2004 Annual Report containing the following data relating to UTC's Common Stock: principal market, quarterly high and low sales prices, approximate number of shareowners and frequency and amount of dividends is hereby incorporated by reference.

[Table of Contents](#)**Issuer Purchases of Equity Securities**

The following table provides information about UTC's purchases of equity securities that are registered by UTC pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2004.

| 2004 | Total Number of Shares Purchased (000's) | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program (000's) | Maximum Number of Shares that may yet be Purchased Under the Program (000's) |
|--------------------------|--|------------------------------|--|--|
| October 1 – October 31 | 465 | \$ 92.15 | 465 | 11,258 |
| November 1 – November 30 | 2,293 | 94.30 | 2,156 | 9,102 |
| December 1 – December 31 | 615 | 95.70 | 580 | 8,522 |
| Total | 3,373 | \$ 94.26 | 3,201 | 8,522 |

In October 2002, UTC announced that the Board of Directors authorized the repurchase of up to 30 million shares of UTC's Common Stock. Shares may be purchased on the open market, in privately negotiated transactions, or both. UTC may also acquire shares outside of the program in connection with stock swap exercises of employee stock options and the surrender of shares to cover taxes on vesting of restricted stock. Approximately 172,000 shares were acquired in non-cash stock swap transactions and upon vesting of restricted stock during the quarter.

Item 6. Selected Financial Data

The Five Year Summary appearing in UTC's 2004 Annual Report, containing revenues, net income, basic and diluted earnings per share, cash dividends per common share, total assets and long-term debt, is hereby incorporated by reference. See Notes to Consolidated Financial Statements in UTC's 2004 Annual Report for a description of any accounting changes and acquisitions or dispositions of businesses materially affecting the comparability of the information reflected in the Five Year Summary.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations in UTC's 2004 Annual Report is hereby incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information concerning market risk sensitive instruments, see discussion under the headings "Market Risk and Risk Management" in Management's Discussion and Analysis of Financial Condition and Results of Operations in UTC's 2004 Annual Report and "Hedging Activity" in Note 1, Note 12 and Note 13 of Notes to Consolidated Financial Statements in UTC's 2004 Annual Report.

Item 8. Financial Statements and Supplementary Data

The 2004 and 2003 Consolidated Balance Sheet, and other financial statements for the years 2004, 2003, and 2002, together with the report thereon of PricewaterhouseCoopers LLP dated February 10, 2005 in UTC's 2004 Annual Report are incorporated by reference in this Form 10-K. The 2004 and 2003 unaudited Selected Quarterly Financial Data appearing in UTC's 2004 Annual Report is incorporated by reference in this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

UTC has carried out an evaluation under the supervision and with the participation of UTC's management, including the Chief Executive Officer, the Vice President, Accounting and Control and the Vice President, Finance, of the effectiveness of the design and operation of UTC's disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon UTC's evaluation, the Chief Executive Officer, the Vice President, Accounting and Control and the Vice President, Finance have concluded that, as of December 31, 2004, the disclosure controls and procedures were effective to provide

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reasonable assurance that information required to be disclosed in the reports UTC files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

The management of UTC is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principals. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of UTC's internal control over financial reporting as of December 31, 2004. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control—Integrated Framework*. Management concluded that based on its assessment, UTC's internal control over financial reporting was effective as of December 31, 2004. UTC management's assessment of the effectiveness of UTC's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 17 of UTC's 2004 Annual Report.

There has been no change in UTC's internal control over financial reporting during UTC's quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, UTC's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 with respect to directors, the Audit Committee of the Board of Directors and Audit Committee financial experts is incorporated herein by reference to the section of UTC's Proxy Statement for the 2005 Annual Meeting of Shareowners entitled "General Information Concerning the Board of Directors", subsections "Nominees" and "The Audit Committee". Information regarding executive officers is contained in Part I of this Form 10-K under the heading "—Executive Officers of the Registrant." Information concerning Section 16(a) compliance is incorporated by reference to the section of UTC's Proxy Statement for the 2005 Annual Meeting of Shareowners entitled "Section 16(a) Beneficial Ownership Reporting Compliance."

UTC has adopted a code of ethics that applies to all its directors, officers, employees and representatives. This code is publicly available on UTC's website at <http://www.utc.com/social/ethics/index.htm>. Amendments to the code of ethics and any grant of a waiver from a provision of the code requiring disclosure under applicable SEC rules will be disclosed on UTC's website. UTC's corporate governance principles and the charters of its Board of Directors, Audit Committee, Finance Committee, Committee on Nominations and Governance, Public Issues Review Committee and Compensation and Executive Development Committee are available on UTC's website at <http://investors.utc.com/charters.cfm>. These materials may also be requested in print free of charge by writing to UTC's Investor Relations Department at United Technologies Corporation, United Technologies Building, Investor Relations, Hartford, CT 06101.

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference to the sections of UTC's Proxy Statement for the 2005 Annual Meeting of Shareowners entitled "Report of the Committee on Compensation and Executive Development" and "Compensation of Named Executive Officers." Such incorporation by reference shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

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

The information required by Item 12 is incorporated herein by reference to the sections of UTC's Proxy Statement for the 2005 Annual Meeting entitled "Security Ownership of Directors and Executive Officers" and "Equity Compensation Plan Information."

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is incorporated herein by reference to the section of UTC's Proxy Statement for the 2005 Annual Meeting entitled "Certain Relationships and Related Transactions and Business Relationships."

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Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference to the section of UTC's Proxy Statement for the 2005 Annual Meeting entitled "Appointment of Independent Auditors", under the headings "Audit Fees", "Audit Related Fees", "Tax Fees" and "All Other Fees".

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements (incorporated by reference from the 2004 Annual Report):

| | <u>Page Number in Annual Report</u> |
|--|---|
| Report of Independent Registered Public Accounting Firm | 17 |
| Consolidated Statement of Operations for the three years ended December 31, 2004 | 18 |
| Consolidated Balance Sheet—December 31, 2004 and 2003 | 19 |
| Consolidated Statement of Cash Flows for the three years ended December 31, 2004 | 20 |
| Notes to Consolidated Financial Statements | 22 |
| Selected Quarterly Financial Data (Unaudited) | 38 |

(2) Financial Statement Schedule for the three years ended December 31, 2004:

| | <u>Page Number in Form 10-K</u> |
|---|-------------------------------------|
| Report of Independent Registered Public Accounting Firm on Financial Statement Schedule | S-I |
| Schedule II - Valuation and Qualifying Accounts | S-II |
| Consent of Registered Public Accounting Firm | F-I |

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

(3) Exhibits:

The following list of exhibits includes exhibits submitted with this Form 10-K as filed with the SEC and those incorporated by reference to other filings.

**Exhibit
Number**

- | | |
|-------|---|
| 3(i) | Restated Certificate of Incorporation, incorporated by reference to Exhibit 3(i) of UTC's Annual Report on Form 10-K for the year ended December 31, 2003. |
| 3(ii) | Bylaws as amended and restated effective March 10, 2004, incorporated by reference to Exhibit 3(ii) to UTC's Quarterly Report on Form 10-Q for quarterly period ended June 30, 2004. |
| 4.1 | Amended and Restated Indenture, dated as of May 1, 2001, between UTC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(a) to UTC's Registration Statement on Form S-3 (Commission File No. 333-60276) filed with the SEC on May 4, 2001). UTC hereby agrees to furnish to the Commission upon request a copy of each other instrument defining the rights of holders of long-term debt of UTC and its consolidated subsidiaries and any unconsolidated subsidiaries. |

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- 10.1 United Technologies Corporation Annual Executive Incentive Compensation Plan, as amended (incorporated by reference to Exhibit 10.1 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995).
- 10.2 United Technologies Corporation Executive Estate Preservation Program, incorporated by reference to Exhibit 10(iv) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992.
- 10.3 United Technologies Corporation Pension Preservation Plan, as amended and restated, incorporated by reference to Exhibit 10.3 to UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2002.
- 10.4 United Technologies Corporation Senior Executive Severance Plan, incorporated by reference to Exhibit 10(vi) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992, and Amendment thereto, incorporated by reference to Exhibit 10.4 of UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2003.
- 10.5 United Technologies Corporation Deferred Compensation Plan, as amended and restated, incorporated by reference to Exhibit 10.5 to UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2002.
- 10.6 United Technologies Corporation Long Term Incentive Plan, as amended, incorporated by reference to Exhibit 10.11 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1989, as amended by Amendment No. 1 filed as Exhibit 10.6 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995 and Amendment No. 2 filed as Exhibit 10.6 to UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2003.
- 10.7 United Technologies Corporation Executive Disability, Income Protection and Standard Separation Agreement Plan, incorporated by reference to Exhibit 10(xii) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992.
- 10.8 United Technologies Corporation Directors' Restricted Stock/Unit Program, incorporated by reference to Exhibit 10(xiii) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992.
- 10.9 United Technologies Corporation Board of Directors Deferred Stock Unit Plan (incorporated by reference to Exhibit 10.9 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995), and Amendment 1 thereto (incorporated by reference to Exhibit 10(iii)(A)(1) to UTC's Report on Form 10-Q for quarterly period ended June 30, 2000).
- 10.10 United Technologies Corporation Pension Replacement Plan, as amended and restated, incorporated by reference to Exhibit 10.10 to UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2002.
- 10.11 United Technologies Corporation Special Retention and Stock Appreciation Program, incorporated by reference to Exhibit 10(xvi) to UTC's Report on Form 10-Q (Commission file number 1-812) for quarterly period ended September 30, 1995.
- 10.12 United Technologies Corporation Nonemployee Director Stock Option Plan (incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995), Amendment 1 thereto (incorporated by reference to Exhibit 10(iii)(A)(2) to UTC's Report on Form 10-Q for quarterly period ended June 30, 2000), Amendment 2 thereto (incorporated by reference to Exhibit 10(iii)(A)(1) to UTC's Report on Form 10-Q for quarterly period ended June 30, 2001), Amendment 3 thereto (incorporated by reference to Exhibit 10.17 to UTC's Annual Report on Form 10-K for fiscal year ending December 31, 2001), Amendment 4 thereto (incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K for fiscal year ending December 31, 2002) and Amendment 5 thereto (incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2003).
- 10.13 United Technologies Corporation Employee Stock Option Plan, incorporated by reference to Exhibit 10.13 to UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2002, and Amendment 1 thereto (incorporated by reference to Exhibit 10.13 to UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2003).
- 10.14 United Technologies Corporation Employee Scholar Program, as amended and restated on June 27, 2003, incorporated by reference to Exhibit 10.14 of UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2003.
- 10.15 Nonqualified Stock Option and Dividend Equivalent Award Schedule of Terms relating to the United Technologies Corporation Long Term Incentive Plan (previously filed as Exhibit 10.11 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1989, as amended by Amendment No. 1 filed as Exhibit 10.6 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995 and Amendment No. 2 filed as Exhibit 10.6 to UTC's Annual Report on Form 10-K for fiscal year ended December 31, 2003.*
- 11 Statement Re: Computations of Per Share Earnings.*
- 12 Statement Re: Computation of Ratios.*

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- 13 Annual Report for the year ended December 31, 2004 (except for the information thereof expressly incorporated by reference in this Form 10-K, the Annual Report is provided solely for the information of the Securities and Exchange Commission and is not to be deemed “filed” as part of this Form 10-K).*
- 14 Code of Ethics. The UTC Code of Ethics may be accessed via UTC’s website at <http://www.utc.com/social/ethics/index.htm>.
- 21 Subsidiaries of the Registrant.*
- 23 Consent of PricewaterhouseCoopers LLP, included as page F-I of this Form 10-K.
- 24 Powers of Attorney of Betsy J. Bernard, Jean-Pierre Gamier, Jamie S. Gorelick, Charles R. Lee, Richard D. McCormick, Harold W. McGraw III, Frank P. Popoff, H. Patrick Swygert, André Villeneuve, H. A. Wagner and Christine Todd Whitman.*
- 31 Rule 13a-14(a)/15d-14(a) Certifications.*
- 32 Section 1350 Certifications.*

Notes to Exhibits List:

* Submitted electronically herewith.

Exhibits 10.1 through 10.15 are contracts, arrangements or compensatory plans filed as exhibits pursuant to Item 15(c) of the requirements for Form 10-K reports.

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| | | |
|--------------------------|----------|---|
| H. A. WAGNER* | Director |) |
| <hr/> | | |
| (H. A. Wagner) | | |
| CHRISTINE TODD WHITMAN* | Director |) |
| <hr/> | | |
| (Christine Todd Whitman) | | |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON
FINANCIAL STATEMENT SCHEDULE

To the Board of Directors
of United Technologies Corporation

Our audits of the consolidated financial statements referred to in our report dated February 10, 2005, appearing in the 2004 Annual Report to Shareowners of United Technologies Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, the financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
February 10, 2005

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UNITED TECHNOLOGIES CORPORATION AND SUBSIDIARIES
Schedule II - Valuation and Qualifying Accounts
Three Years Ended December 31, 2004
(Millions of Dollars)

Allowances for Doubtful Accounts and Other Customer Financing Activity:

| | |
|-------------------------------------|--------|
| Balance December 31, 2001 | \$ 492 |
| Provision charged to income | 88 |
| Doubtful accounts written off (net) | (118) |
| Other adjustments | (41) |
| | <hr/> |
| Balance December 31, 2002 | 421 |
| Provision charged to income | 91 |
| Doubtful accounts written off (net) | (112) |
| Other adjustments | 84 |
| | <hr/> |
| Balance December 31, 2003 | 484 |
| Provision charged to income | 73 |
| Doubtful accounts written off (net) | (131) |
| Other adjustments | 26 |
| | <hr/> |
| Balance December 31, 2004 | \$ 452 |
| | <hr/> |

Future Income Tax Benefits - Valuation allowance:

| | |
|---|--------|
| Balance December 31, 2001 | \$ 180 |
| Additions charged to income tax expense | 82 |
| Reductions credited to income tax expense | (26) |
| | <hr/> |
| Balance December 31, 2002 | 236 |
| Additions charged to goodwill, due to acquisitions | 273 |
| Additions charged to income tax expense | 62 |
| Reductions credited to income tax expense | (94) |
| | <hr/> |
| Balance December 31, 2003 | 477 |
| Additions charged to income tax expense | 61 |
| Reductions charged to goodwill, due to acquisitions | (28) |
| Reductions credited to income tax expense | (19) |
| Other adjustments | (24) |
| | <hr/> |
| Balance December 31, 2004 | \$ 467 |
| | <hr/> |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-60276 and 333-118810), in the Registration Statement on Form S-4 (No. 333-77991) as amended by Post-Effective Amendment No. 1 on Form S-8 (No. 333-77991-01) and in the Registration Statements on Form S-8 (Nos. 333-100724, 333-100723, 333-100718, 333-21853, 333-18743, 333-21851, 33-57769, 33-26580, 33-26627, 33-51385, 33-58937, 333-77817, 333-110020, 333-103307, 333-103306, 333-103305, 333-82911) of United Technologies Corporation of our report dated February 10, 2005 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the 2004 Annual Report to Shareowners, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 10, 2005 relating to the financial statement schedule, which appears on page S-I of this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
February 10, 2005

United Technologies Corporation

Long Term Incentive Plan

**Continuous Improvement
Incentive Program**

Non-Qualified Stock Option and Dividend Equivalent Awards

Schedule of Terms

Non-Qualified Stock Option and Dividend Equivalent Awards

United Technologies Corporation (the "Corporation") hereby awards to the recipient Non-Qualified Stock Options and Dividend Equivalents pursuant to the Corporation's Continuous Improvement Incentive Program (the "Program"), which has been established under the United Technologies Corporation Long Term Incentive Plan (the "LTI Plan"). The number of Non-Qualified Stock Options and target Dividend Equivalents awarded is set forth in the Statement of Award issued to the recipient (the "Statement of Award"). The recipient will become a Participant in the Program upon receipt of the Statement of Award and acceptance of such Award by signing and returning the appropriate portion of the Statement of Award to the Program Administrator. Program Awards are subject to this Schedule of Terms and the terms and provisions of the LTI Plan.

Program performance objectives have been established for the three-year period following the grant as set forth in the Statement of Award. Achievement of Program objectives will be measured cumulatively over the three year period. Dividend Equivalents will vest and become payable if the achievement of Program objectives reaches specified levels for the Corporation (see "Vesting", page 2).

A Non-Qualified Stock Option (an "Option") is the right to purchase, at a future date, a specific number of shares of Common Stock of the Corporation ("Common Stock") at a price equal to the closing price reported on the composite tape of the New York Stock Exchange for such shares on the date of grant of the Award. The number of shares for which the Option is awarded to the Participant and the Option price per share are set forth in the Statement of Award.

A Dividend Equivalent is the right to receive a payment equal to the quarterly dividend amount paid on Common Stock for a stated period of time.

Program Objectives

Performance against Program objectives is measured over the three-year period ending December 31 of the third year following the grant, as set forth in the Statement of Award. Program objectives are established for the Corporation.

Program objectives will consist of one or more financial objectives that will be a critical measure of the Corporation's performance over the three year performance measurement period. Program objectives are approved by the Board of Directors' Committee on Compensation and Executive Development (the "Committee"). Achievement of Program objectives at the required level will result in vesting of from 0% to 200% of the target Dividend Equivalent Award (see "Vesting" below).

Vesting

Stock options will vest and become exercisable three years after the date of grant, and may be exercised any time thereafter until the earlier of:

- (i) the expiration date specified in the Statement of Award, at which time the Option and all associated rights lapse without value; or
- (ii) termination of employment in which case the right to exercise shall be for a specified period of time following the date of termination, as described in "Termination of Employment".

Dividend Equivalents will vest at the conclusion of the three-year performance measurement period, if and to the extent the Corporation's cumulative performance results in the achievement of a specified percentage of the Program objectives. Dividend Equivalent payments will be made quarterly with respect to vested Dividend Equivalents commencing with the first dividend payment on Common Stock following the vesting date.

These vesting rules also apply when an executive is transferred to a non-executive position or to an affiliate that does not participate in the Program.

Exercise and Payment of Options

Options may be exercised on or after the vesting date through the expiration date (or earlier in the event of termination of employment). The vesting date and expiration date are each set forth in the Statement of Award.

The Option to purchase shares will expire without value with respect to any shares that are not purchased on or before the expiration date. It is the responsibility of the Participant, or a designated representative, to exercise the Option in a timely manner. The Corporation assumes no responsibility for and will make no adjustments with respect to Options that expire.

Options may be exercised through one of two procedures set forth below. For stock option exercises processed utilizing the procedures described in (i) below, the value of Common Stock will be the closing price reported on the composite tape of the New York Stock Exchange on the date of exercise. For stock option exercises processed utilizing the procedures described in (ii) below, the value of Common Stock will be the actual transaction price.

- (i) Participants may exercise Options by completing and sending the UTC Exercise Form to the Stock Option Program Administrator, identifying the number of Options to be exercised and paying the required Option price in U.S. dollars by check or bank draft or by tendering shares of Common Stock (utilizing procedures authorized by the Program Administrator for tendering shares). The date of exercise will be the date of postmark or delivery of a completed form (with an original signature) and check for the cost of exercise to the Program Administrator; or

A Participant may follow the above procedure by using a broker or other authorized representative. A completed UTC Exercise Form (with an original signature) must be submitted with the check for the cost of exercise to the Program Administrator.

- (ii) Alternatively, Participants may utilize the “cashless” exercise method where neither cash nor shares are tendered by the Participants in payment of the exercise price. To facilitate the cashless exercise of Options, a Participant must establish an account with a designated broker at one of the security brokerage firms approved by the Corporation.

Under the cashless procedure, a Participant notifies the designated broker of the Option Award date and number of Options to be exercised. The broker provides the Participant with the exercise form and notifies the Program Administrator. The designated broker will sell shares of Common Stock sufficient to cover the exercise price of the Options to be exercised plus required tax withholding amounts and wire transfer the sales proceeds to the Corporation. The Corporation will then deliver to the designated broker the number of shares equal to the number of Options exercised. The broker retains a number of shares equal to the exercise price and tax withholding. The net shares remaining will, at the Participant’s election, either be placed in the Participant’s account with the brokerage firm or sold on the open market with net cash proceeds delivered to the Participant by the designated broker.

In a cashless exercise, reported taxable income will be based on the actual transaction price as reported by the broker to the Program Administrator, rather than the closing price reported on the composite tape of the New York Stock Exchange on the date of exercise.

The cashless exercise method may not be used if the Corporation determines in its sole discretion that the transaction may constitute a prohibited loan to the executive or for other reasons related to regulatory compliance.

Dividend Equivalents

At the completion of the three-year performance measurement period, Participants will vest in Dividend Equivalents if the Corporation achieves specified Program objectives.

Vested Dividend Equivalents will be paid quarterly, commencing with the first Common Stock dividend payment date following the vesting date. The quarterly payment will be equal to the dividend paid on a share of the Corporation's Common Stock for that quarter. If, for any reason, there is no Common Stock dividend paid for a quarter, the Dividend Equivalent payment will also be omitted for that quarter. The Dividend Equivalent will not be extended beyond the original payment period if any dividend payments are omitted.

Program Participants will continue to be eligible to receive quarterly payments for varying lengths of time based on the Participant's executive level at the time of grant:

L1 = 7 years

L2 = 4 years

L3 = 2 years

Dividend Equivalent payments will stop if:

- (i) the Participant terminates employment with the Corporation for reasons other than retirement, death or disability; or
- (ii) the Participant exercises an Option associated with the Dividend Equivalent Award. The number of vested Dividend Equivalents associated with each Option will be canceled pursuant to the exercise of an associated Option. If less than 100% of the Dividend Equivalent Award vests, the vested Dividend Equivalents will be canceled upon the initial and subsequent exercise of Options associated with the Dividend Equivalent Award (i.e. vested Dividend Equivalents are allocated to the first Options exercised with respect to the Program Award).

Termination of Employment

If the Participant terminates employment for any reason other than death, disability or retirement, unvested Options will be canceled as of the termination date. Vested Options may be exercised for a period of 90 calendar days following the termination date (but not beyond the expiration date of the Option).

Retirement eligibility includes:

- (i) Attainment of age 65 as of the employment termination date; or
- (ii) Attainment of at least age 55 with 10 or more years of service as of the employment termination date. (Meeting the "Rule of 65" does not constitute eligibility for retirement. See below for Rule of 65 treatment.)

Upon retirement, the Participant may exercise vested Options (i.e. those held for at least three years while continuously employed) for three years following the date of retirement or until the expiration of the Option, whichever is earlier. Unvested Options that have been held for at least one year prior to the date of retirement will become exercisable as of the retirement date and the Participant will then have a three year period following the retirement date to exercise these Options (but in no event beyond the Option expiration date).

For Options granted after February 22, 1999: If the Participant is eligible for retirement and the Corporation consents to the retirement, the Participant may exercise vested Options for up to five years following the date of retirement or until the expiration of the Option, whichever is earlier. Unvested Options that have been held for at least one year prior to the retirement date will become exercisable as of the retirement date and the Participant will then have a five year period following the retirement date to exercise these Options (but in no event beyond the Option expiration date).

For Options granted after June 11, 2003: If the Participant is eligible for retirement and the Corporation consents to the retirement, the Participant may exercise vested Options until the expiration of the Option. Unvested Options that have been held for at least one year prior to the retirement date will become exercisable as of the retirement date and the Participant will have the full remaining term of the Option to exercise these Options.

For Options granted after February 22, 1999 and after June 11, 2003, the Corporation's consent with respect to the extended exercise period will be at the sole discretion of the Corporation based on its ability to effectively transition the Participant's responsibilities as of the retirement date and such other factors as it may deem appropriate.

In all cases, options held for less than one year prior to the retirement date will be canceled without value.

Rule of 65: The Participant meets the "Rule of 65" if the Participant terminates employment on or after age 50, but before age 55, and the sum of the Participant's age and years of service add up to 65 or more as of the employment termination date. The Participant who meets the Rule of 65 may exercise vested Options for three years following the employment termination date or until the expiration of the Option, whichever is earlier. Unvested Options that have been held for at least one year prior to the employment termination date will vest as of the termination date and the Participant will have a three year period following the termination date to exercise these Options (or until the expiration of the Options, if earlier).

Service used to determine eligibility for retirement or the Rule of 65 will be based on continuous service recognized under the Participant's UTC retirement plan.

In the event of permanent and total disability, or an authorized leave of absence, or transfer to an affiliate, the Participant shall not be considered to have terminated employment for purposes of the Option.

In the event of the death of the Participant, the legal representative of the estate of the Participant may exercise all Options outstanding as of the date of death, whether or not vested, for a period of one year following the date of death, regardless of the expiration date of the Option.

If the Participant terminates employment for any reason other than death, disability or retirement, all Dividend Equivalents will be canceled. If termination is the result of disability, the Participant will not be considered to have terminated employment for purposes of Dividend Equivalents. If the Participant is transferred to an affiliate that does not participate in the Program, the Participant will not be considered to have terminated employment for purposes of Dividend Equivalents. (See "Transfers and Other Changes", page 9.)

If termination is the result of death before the vesting date, a lump sum Dividend Equivalent payment will be made to the Participant's estate equal to the quarterly dividend rate most recently paid on the Corporation's Common Stock, times four, times the number of Dividend Equivalents granted. If termination is the result of death after the Vesting Date, a lump sum Dividend Equivalent payment will be made to the Participant's estate equal to the quarterly dividend rate most recently paid on the Corporation's Common Stock, times the number of payments remaining to be paid, times the number of vested Dividend Equivalents.

If termination is the result of retirement before the vesting date, Dividend Equivalents held for less than twelve months will be canceled. Dividend Equivalents held for twelve months or more will be retained by the retiree until the vesting date, as long as the associated Options remain outstanding and unexercised. The outstanding non-vested Dividend Equivalents will be eligible for vesting based on the Corporation's performance as determined at the end of the performance measurement period. Quarterly Dividend Equivalent payments will then be made to the retiree while the associated Options remain outstanding and unexercised,

up to the maximum number of payments as specified in the Statement of Award.

If a Participant retires after the completion of a performance measurement period, quarterly payments will be made on vested Dividend Equivalents while the associated Options remain outstanding and unexercised, up to the maximum number of payments as specified in the Statement of Award.

Nonassignability

Unless otherwise prescribed by the Committee, no assignment or transfer of any interest of the Participant in any of the rights represented by Options, Dividend Equivalents or the Participant's participation in the Program, whether voluntary or involuntary, by operation of law or otherwise, shall be permitted except by Will or the laws of descent and distribution. Any attempt to assign such interests shall be void and shall be without force or effect.

Adjustments

If the Corporation effects a subdivision or consolidation of shares of Common Stock or other capital adjustment, the number of shares of Common Stock then remaining subject to an Award shall be adjusted in the same manner and to the same extent as all other shares of Common Stock of the Corporation.

In the event of material changes in the capital structure of the Corporation resulting from: the payment of a special dividend (other than regular quarterly dividends) or other distributions to shareowners without receiving consideration therefore; the spin-off of a subsidiary; the sale of a substantial portion of the Corporation's assets; in the event of a merger or consolidation in which the Corporation is not the surviving entity; or other extraordinary non-recurring events affecting the Corporation's capital structure and the value of Common Stock, equitable adjustments shall be made in the terms of outstanding

awards, including the number of shares of Common Stock subject to an Option, as the Committee, in its sole discretion, determines are necessary or appropriate to prevent the dilution or enlargement of the rights of Participants in their Program Awards.

Change of Control

In the event of a change of control, an event, which if consummated, would constitute a change of control, any other significant change pertaining to the ownership of the Corporation or a restructuring of the Corporation, the Committee may, in its discretion, recommend that the Board of Directors take certain actions with respect to outstanding Awards to assure fair and equitable treatment of Program Participants. Such actions may include: acceleration of the Vesting Date for Options and Dividend Equivalents; offering to purchase an outstanding Award from the Participant for its equivalent cash value (as determined by the Committee); or providing for other adjustments or modifications to outstanding Awards as the Committee may deem appropriate.

For purposes of the Plan, a “change of control” means the acquisition of 20% of the Corporation’s outstanding voting shares by a person or group (as defined in Section 13 (d) (3) of the Securities Exchange Act of 1934) of which such person is a member, or a change in the majority of the Board of Directors such that, within any consecutive two-year period, the members of the new majority are not approved by two-thirds of the members incumbent at the beginning of such two-year period. Members approved after such date by two-thirds of such incumbents as of the beginning of such two-year period shall be deemed to be incumbents as of the beginning of such two-year period for purposes of this computation. A merger or consolidation of the Corporation with another company where the Corporation is not the surviving company, a sale of substantially all of the assets of the Corporation, a dissolution or liquidation of the Corporation or other event or transaction having similar effect also

constitutes a “change of control” for purposes of the LTI Plan.

Awards Not to Affect or Be Affected by Certain Transactions

Non-Qualified Stock Option Awards and Dividend Equivalents shall not affect in any way the right or power of the Corporation or its shareowners to make or authorize: (a) any or all adjustments, recapitalizations, reorganizations or other changes in the Corporation’s capital structure or its business; (b) any merger or consolidation of the Corporation; (c) any issue of bonds, debentures, preferred or prior preference stocks holding any priority or preferred to, or otherwise affecting in any respect the Common Stock of the Corporation or the rights of the holders of such Common Stock; (d) the dissolution or liquidation of the Corporation; (e) any sale or transfer of all or any part of its assets or business; or (f) any other corporate act or proceeding.

Except as otherwise expressly provided in this Schedule of Terms, the issue by the Corporation of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe thereto, or upon conversion of shares or obligations of the Corporation convertible into such shares or other securities, shall not affect and no adjustment by reason thereof shall be made with respect to the Option price or the number of outstanding shares subject to an Option Award.

Notices

Every notice or other communication relating to the Program, any Award thereunder and this Schedule of Terms shall be in writing, via hard copy or electronic transmissions, and shall be delivered to the party for whom it is intended at such address as may from time to time be designated by such party. Unless and until some other address has been so designated, all

notices by the Participant to the Corporation shall be mailed to or delivered to the Corporation at its office at United Technologies Building, MS 504, Hartford, Connecticut 06101, Attention: Program Administrator, or e-mailed to *stockoptionplans@utc.com*. All notices by the Corporation to the Participant may be delivered electronically, personally, or by mail at his or her address (or e-mail address, as the case may be) as shown on the records of the Corporation.

Administration

Non-Qualified Stock Option and Dividend Equivalent Awards granted pursuant to the Program shall be interpreted and administered by the Committee. The Committee shall establish such procedures as it deems necessary and appropriate to administer the Awards in a manner that is consistent with the objectives of the Program and the LTI Plan.

Pursuant to the terms of the LTI Plan, the Committee may delegate to employees of the Corporation its authority and responsibility to grant, administer and interpret Non-Qualified Stock Option, Dividend Equivalent and other Awards under the Program.

Subject to certain limitations, the Committee has delegated the authority to grant Non-Qualified Stock Options and Dividend Equivalents to the Chief Executive Officer and has further delegated the authority to administer and interpret such Awards to the Senior Vice President, Human Resources and Organization, along with the authority to sub-delegate, except that Non-Qualified Stock Option and Dividend Equivalent Awards granted to employees of the Corporation who are either reporting persons under Section 16 of the Securities Exchange Act of 1934 ("Insiders") or members of the Corporation's Executive Leadership Group shall be granted, administered, and interpreted exclusively by the Committee.

Taxes/Withholding

The Participant shall be responsible for any income or other tax liability attributable to any Program Award. The Program Administrator shall take such steps as are appropriate to assure compliance with applicable federal, state and local tax withholding requirements. The Corporation shall, to the extent required by law, have the right to deduct directly from any payment or delivery of shares due the Participant or from the Participant's regular compensation, all federal, state and local taxes of any kind required by law to be withheld with respect to the exercise of any Option or payment of any Dividend Equivalents. Participants not based in the United States and foreign nationals who are not permanent residents of the United States must pay the appropriate taxes as required by any country where they are subject to tax.

Right of Discharge Reserved

Nothing in the LTI Plan, the Program, or in any Option or payment of any Dividend Equivalent Award granted shall confer upon any Participant the right to continue in the employment or service of the Corporation or any affiliate thereof for any period of time or affect any right that the Corporation or any subsidiary or division may have to terminate the employment or service of such Participant at any time for any reason.

Right of Committee to Revoke Awards

Notwithstanding any other provision herein, the Committee reserves the right, prior to a Change in Control of the Corporation, to cancel any outstanding Option and Dividend Equivalent Award, whether or not vested and regardless of achievement of applicable Program objectives, if the Committee determines that the Participant has engaged in any act or practice with respect to the affairs of the Corporation, whether or not employed by the Corporation at the time, that is materially detrimental to the Corporation, provided,

however, that the Committee shall not take any such action in an arbitrary or capricious manner.

Nature of Payments

All Awards made pursuant to the Program are in consideration of services performed for the Corporation or the business unit employing the Participant. Unless required by law, any gains realized pursuant to such Awards constitute a special incentive payment to the Participant and shall not be taken into account as compensation for purposes of any of the employee benefit plans of the Corporation or any business unit.

Consistency with Other Business Objectives

Program objectives must be achieved in a manner that is not inconsistent with other business objectives of the Corporation and the business units. The Committee reserves the right to forfeit any Award, notwithstanding achievement of Program objectives, if the Committee or its delegate determines, in its sole discretion, that such achievement resulted in whole, or in part, from actions that were otherwise detrimental to the Corporation and/or the Participant's business unit, or did not constitute sound business practice or reflect good business judgment with respect to the Corporation and/or the business unit's operations, taken as a whole.

Government Contract Compliance

The "UTC Policy Statement on Business Ethics and Conduct in Contracting with the United States Government" calls for compliance with the letter and spirit of government contracting laws and regulations. Accordingly, efforts to achieve Program objectives must be consistent with these laws and regulations. Participants are expected to understand these requirements and seek advice where appropriate. If an act or recommendation of a Participant is inconsistent with or violates a government contracting law or regulation, all Awards made to such Participant pursuant to this Program will

be revoked. Further, a Participant is subject to additional disciplinary action for violating the above-named Policy Statement on government contracting.

Interpretations

This Schedule of Terms and each Statement of Award are subject in all respects to the terms of the LTI Plan. In the event that any provision of this Schedule of Terms or any Statement of Award is inconsistent with the terms of the LTI Plan, the terms of the LTI Plan shall govern. Any question of administration or interpretation arising under this Schedule of Terms or any Statement of Award shall be determined by the Committee or its delegate, such determination to be final and conclusive upon all parties in interest.

Amendment and Termination

The Committee reserves the right to amend, suspend or discontinue the Program and the LTI Plan at any time.

Governing Law

The LTI Plan, the Continuous Improvement Incentive Program, this Schedule of Terms and the Statement of Award shall be governed by and construed in accordance with the laws of the State of Connecticut.



United Technologies Corporation
United Technologies Building
Hartford, CT 06101

UNITED TECHNOLOGIES CORPORATION AND SUBSIDIARIES
Statement Re: Computations of Per Share Earnings
For the Five Years Ended December 31, 2004
(Millions of Dollars, except per share amounts)

| | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Net Income | \$ 2,788 | \$ 2,361 | \$ 2,236 | \$ 1,938 | \$ 1,808 |
| ESOP Convertible Preferred Stock dividend | — | (24) | (31) | (31) | (32) |
| Basic earnings for period | <u>\$ 2,788</u> | <u>\$ 2,337</u> | <u>\$ 2,205</u> | <u>\$ 1,907</u> | <u>\$ 1,776</u> |
| ESOP Convertible Preferred Stock adjustment | — | 23 | 29 | 28 | 28 |
| Diluted earnings for period | <u>\$ 2,788</u> | <u>\$ 2,360</u> | <u>\$ 2,234</u> | <u>\$ 1,935</u> | <u>\$ 1,804</u> |
| Basic average number of shares outstanding during the period (thousands) | <u>496,449</u> | <u>473,775</u> | <u>472,441</u> | <u>470,252</u> | <u>470,124</u> |
| Stock awards (thousands) | 8,970 | 7,017 | 7,067 | 9,156 | 11,256 |
| ESOP Convertible Preferred Stock (thousands) | — | 22,115 | 26,071 | 25,978 | 26,630 |
| Diluted average number of shares outstanding during the period (thousands) | <u>505,419</u> | <u>502,907</u> | <u>505,579</u> | <u>505,386</u> | <u>508,010</u> |
| Basic earnings per common share | \$ 5.62 | \$ 4.93 | \$ 4.67 | \$ 4.06 | \$ 3.78 |
| Diluted earnings per common share | \$ 5.52 | \$ 4.69 | \$ 4.42 | \$ 3.83 | \$ 3.55 |

UNITED TECHNOLOGIES CORPORATION AND SUBSIDIARIES
Statement Re: Computation of Ratios

(Millions of Dollars)

| | Year Ended December 31, | | | | |
|--|-------------------------|----------------|----------------|----------------|----------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Fixed Charges: | | | | | |
| Interest expense | \$ 363 | \$ 375 | \$ 381 | \$ 426 | \$ 382 |
| Interest capitalized | 11 | 10 | 16 | 22 | 18 |
| One-third of rents* | 107 | 87 | 71 | 68 | 65 |
| | <u>\$ 481</u> | <u>\$ 472</u> | <u>\$ 468</u> | <u>\$ 516</u> | <u>\$ 465</u> |
| Earnings: | | | | | |
| Income from continuing operations before income taxes and minority interests | \$4,107 | \$3,470 | \$3,276 | \$2,807 | \$2,758 |
| Fixed charges per above | 481 | 472 | 468 | 516 | 465 |
| Less: interest capitalized | (11) | (10) | (16) | (22) | (18) |
| | <u>470</u> | <u>462</u> | <u>452</u> | <u>494</u> | <u>447</u> |
| Amortization of interest capitalized | 3 | 4 | 4 | 18 | 21 |
| Total Earnings | <u>\$4,580</u> | <u>\$3,936</u> | <u>\$3,732</u> | <u>\$3,319</u> | <u>\$3,226</u> |
| Ratio of Earnings to Fixed Charges | <u>9.52</u> | <u>8.34</u> | <u>7.97</u> | <u>6.43</u> | <u>6.94</u> |

* Reasonable approximation of the interest factor.

Five Year Summary

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|-----------|-----------|-----------|-----------|-----------|
| For the year | | | | | |
| Revenues | \$ 37,445 | \$ 31,034 | \$ 28,212 | \$ 27,897 | \$ 26,583 |
| Research and development | 1,256 | 1,027 | 1,191 | 1,254 | 1,302 |
| Net income | 2,788 | 2,361 | 2,236 | 1,938 | 1,808 |
| Earnings per share: | | | | | |
| Basic: | | | | | |
| Net earnings | 5.62 | 4.93 | 4.67 | 4.06 | 3.78 |
| Net earnings adjusted for SFAS No. 142 | | | | 4.51 | 4.18 |
| Diluted: | | | | | |
| Net earnings | 5.52 | 4.69 | 4.42 | 3.83 | 3.55 |
| Net earnings adjusted for SFAS No. 142 | | | | 4.25 | 3.92 |
| Cash dividends per common share | 1.40 | 1.14 | .98 | .90 | .825 |
| Average number of shares of Common Stock outstanding: | | | | | |
| Basic | 496.4 | 473.8 | 472.4 | 470.2 | 470.1 |
| Diluted | 505.4 | 502.9 | 505.6 | 505.4 | 508.0 |
| Cash flow from operations | 3,699 | 2,875 | 2,853 | 2,976 | 2,631 |
| Voluntary pension contributions ⁽¹⁾ | 906 | 994 | 530 | | |
| Capital expenditures | 795 | 530 | 586 | 793 | 937 |
| Acquisitions, including debt assumed | 1,295 | 2,305 | 424 | 525 | 1,340 |
| Share repurchase | 992 | 401 | 700 | 599 | 800 |
| Dividends on Common Stock ⁽³⁾ | 660 | 533 | 462 | 423 | 387 |
| At year end | | | | | |
| Working capital | \$ 2,575 | \$ 2,069 | \$ 4,050 | \$ 3,094 | \$ 1,864 |
| Total assets | 40,035 | 35,274 | 29,784 | 27,571 | 25,861 |
| Long-term debt, including current portion | 4,271 | 4,632 | 4,676 | 4,371 | 3,772 |
| Total debt | 5,591 | 5,301 | 4,873 | 4,959 | 4,811 |
| Debt to total capitalization | 29% | 31% | 37% | 37% | 39% |
| ESOP Preferred Stock, net ⁽²⁾ | | | 428 | 429 | 432 |
| Shareowners' equity | 14,008 | 11,707 | 8,355 | 8,369 | 7,662 |
| Number of employees | 209,700 | 203,300 | 155,000 | 152,000 | 153,800 |

Note: During 2003, UTC acquired Chubb plc, which is reported as a separate segment.

⁽¹⁾ Represents cash contributions, in addition, during 2002 and 2001, UTC contributed Treasury Stock of \$253 million and \$247 million, respectively, to its domestic defined benefit pension plans.

⁽²⁾ During 2003, UTC converted all of its outstanding shares of ESOP Preferred Stock into Common Stock.

⁽³⁾ Excludes dividends paid on ESOP stock.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Management's Discussion and Analysis

Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

UTC is a global provider of high technology products and services to the building systems and aerospace industries. Its operations are classified into six principal segments: Otis, Carrier, Chubb, Pratt & Whitney, Hamilton Sundstrand and Sikorsky Aircraft (Sikorsky). Otis, Carrier and Chubb serve customers in the commercial and residential property industries worldwide. Carrier also serves commercial and transport refrigeration customers. Pratt & Whitney, Hamilton Sundstrand and Sikorsky primarily serve commercial and government customers in the aerospace industry and also serve customers in industrial markets. Revenues from industrial markets are included in "commercial and industrial" in the table below. The percentage of consolidated revenues contributed in 2004 and 2003 by UTC's businesses is as follows:

| | 2004 | 2003 |
|---------------------------|------|------|
| Commercial and industrial | 64% | 61% |
| Military aerospace | 18% | 20% |
| Commercial aerospace | 18% | 19% |
| | 100% | 100% |

In 2004 and 2003, approximately 58% and 57%, respectively, of UTC's sales were generated from original equipment sales and 42% and 43%, respectively, were generated from aftermarket sales. UTC's segment operating results are discussed in the Segment Review and Note 16 of the Notes to Consolidated Financial Statements.

UTC's earnings growth strategy contemplates organic revenue growth, investments in acquisitions, new product development and product improvements.

In December 2004, UTC announced its offer to purchase 100% of the outstanding shares of Kidde plc for approximately \$3.0 billion. Kidde is a U.K.-based provider of fire safety products and services, including aircraft fire protection systems, with operations in 29 countries. Kidde distributes products and services globally to commercial, industrial, aerospace and retail customers and reported 2003 revenue of approximately \$1.5 billion. UTC's offer is subject to customary conditions, including acceptance of the offer by Kidde shareholders, approval by relevant regulatory agencies and compliance with applicable filing requirements and other regulations. The transaction is expected to close at the end of the first quarter 2005. In 2004 and 2003, UTC invested \$1.3 billion and \$2.3 billion, including debt assumed of \$220 million and \$1.2 billion, respectively, in the acquisition of businesses. UTC invested in acquisitions across all its operations in 2004, including its initial purchases of Kidde shares (\$450 million) and the acquisition of the commercial refrigeration business of Linde AG (Linde) (\$324 million). Linde, headquartered in Germany, has annual sales of approximately \$1 billion and its operations include manufacturing facilities in Europe, Asia and South America. In 2003, UTC acquisitions consisted primarily of its \$2.0 billion acquisition of Chubb. The rate and extent to which appropriate acquisition opportunities are available and the rate at which acquired businesses are integrated and anticipated synergies and cost savings are achieved can affect UTC's operations and results.

In addition, UTC invested \$632 million and \$182 million in 2004 and 2003, respectively, in restructuring actions across its businesses. For additional discussion of acquisitions and restructuring, see "Liquidity and Financing Commitments", "Restructuring and Other Costs" and Notes 2 and 11 to the Consolidated Financial Statements.

Business Environment

As worldwide businesses, UTC's operations are affected by global, regional and industry economic and political factors. However, UTC's geographic and industry diversity, as well as the diversity of its product sales and services, has helped limit the impact of any one industry or the economy of any single country on the consolidated operating results. Economic conditions in the commercial airline industry, global refrigeration industries, commercial heating, ventilating and air conditioning (HVAC) and commercial construction markets improved and had an overall positive impact on UTC's consolidated operating results in 2004. Strength in commercial construction markets and continued growth in the airline revenue passenger miles are expected to contribute positively to UTC's results in 2005.

Revenues from outside the U.S., including U.S. export sales, in dollars and as a percentage of total segment revenues, are as follows:

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
|--------------------------------|----------|----------|----------|------|------|------|
| Europe | \$ 9,396 | \$ 7,150 | \$ 5,573 | 25% | 23% | 19% |
| Asia Pacific | 5,723 | 4,505 | 3,647 | 15% | 14% | 13% |
| Other Foreign | 3,296 | 2,602 | 2,581 | 9% | 8% | 9% |
| U.S. Exports | 3,563 | 3,329 | 4,053 | 10% | 11% | 14% |
| International Segment Revenues | \$21,978 | \$17,586 | \$15,854 | 59% | 56% | 55% |

As part of its globalization strategy, UTC has invested in businesses in certain countries, including Argentina, Brazil, China, Russia and South Africa, that carry high levels of currency, political and economic risk. At December 31, 2004, UTC's net investment in any one of these countries was less than 3% of consolidated shareholders' equity.

During 2004, the favorable impact of translation of foreign currency-denominated operating results into U.S. dollars contributed \$.18 of diluted earnings per share, largely due to the continued strengthening of the euro in relation to the U.S. dollar.

Government legislation, policies and regulations can have an impact on UTC's worldwide operations. Government regulation of refrigerants and energy efficiency standards, elevator safety codes and fire protection regulations are important to the businesses of Carrier, Otis and Chubb, respectively. Government and market-driven safety and performance regulations, restrictions on aircraft engine noise and emissions and government procurement practices can impact UTC's aerospace and defense businesses.

The **OTIS, CARRIER** and **CHUBB** segments comprise UTC's commercial businesses and supply building system products and services globally. The financial performance of these segments can be influenced by a number of external factors including fluctuations in residential and commercial construction activity, interest rates, labor costs, foreign currency exchange rates, customer attrition, raw material costs and other global and political factors. Carrier's financial performance can also be influenced by fuel prices, industry capacity, production and utilization of transport equipment, and in its residential business, weather conditions in seasonal periods.

During 2004, overall commercial construction starts in North America improved modestly over 2003 levels with continued growth expected in 2005. Building construction activity in Europe was mixed across the region but remained essentially flat overall. In Asia, construction activity continued to grow in China, but at a slightly slower pace, showed signs of weakening in South Korea, and remained essentially flat overall in the rest of the Asia Pacific region. Commodity costs increased in 2004 and these cost pressures are expected to continue into 2005.

OTIS is the world's largest elevator and escalator manufacturing, installation and service company. Otis designs, manufactures, sells and installs a wide range of passenger and freight elevators, escalators and moving walkways. In addition to new equipment, Otis provides modernization products to upgrade elevators and escalators as well as maintenance services for the products it sells and those of other manufacturers. Otis serves an international customer base, principally in the commercial and residential property industries. In 2004, 79% of its revenues were generated outside the U.S.

CARRIER is the world's largest manufacturer and distributor of heating, ventilating and air conditioning (HVAC) systems, refrigeration and food service equipment, and related controls, for residential, commercial, industrial and transportation applications. Carrier also provides aftermarket services and components for the products it sells and those of other manufacturers in both the HVAC and refrigeration industries. During 2004, 51% of Carrier's revenues were generated outside the U.S. and by U.S. exports. In 2004, strength in housing starts favorably impacted North American residential operations and the transport refrigeration business remained strong. Global pricing trends and increased commodity costs are expected to continue to present challenges to the North American and international HVAC and commercial refrigeration markets in 2005. In response to commodity cost increases, Carrier has announced price increases on many of its products.

CHUBB is a global provider of security and fire protection products and services and was acquired by UTC on July 28, 2003. In the electronic security industry, Chubb provides system integration, installation and service of intruder alarms, access control systems and video surveillance systems. In the fire protection industry, Chubb provides system integration, installation and service of portable and fixed suppression systems and fire detection systems. Chubb also provides monitoring, response and security personnel services, including cash-in-transit security, to complement both the fire and electronic security equipment businesses. Chubb's operations are predominantly outside the U.S. and Chubb holds significant business positions in the U.K., France, Hong Kong, Australia, Canada and South Africa. During 2004, 96% of Chubb's revenues were generated outside the U.S.

The **PRATT & WHITNEY, HAMILTON SUNDSTRAND** and **SIKORSKY** segments comprise UTC's aerospace businesses and produce and service commercial and government aerospace and defense products and also serve customers in industrial markets. The financial performance of these segments is directly tied to the aerospace and defense industries. Traffic growth, load factors, worldwide airline profits, and general economic activity have been reliable indicators for new aircraft and aftermarket orders in the aerospace industry. Spare part sales and aftermarket service trends are impacted by many factors including usage, pricing, regulatory changes and retirement of older aircraft. Performance in the general aviation sector is closely tied to the overall health of the economy and is positively correlated to corporate profits.

Conditions in the airline industry improved overall in 2004, with increased revenue passenger miles and increased large commercial and business jet new equipment demand. The commercial airline industry, however, continues to experience poor financial performance. As such, airlines and aircraft manufacturers will continue to pursue lower cost packages from their suppliers. Revenue passenger miles are expected to increase in 2005 and result in increased commercial aerospace volume in 2005.

UTC's total sales to the U.S. Government increased in 2004 to \$5.5 billion or 15% of total sales, compared with \$5.3 billion or 17% of total sales in 2003 and \$4.6 billion or 16% of total sales in 2002. The defense portion of UTC's aerospace businesses is affected by changes in market demand and the global political

environment. UTC's participation in long-term production and development programs for the U.S. Government has contributed positively to UTC's results in 2004 and is expected to continue to benefit results in 2005, but at lower levels than in 2004.

PRATT & WHITNEY is among the world's leading suppliers of commercial, general aviation and military aircraft engines. Pratt & Whitney provides spare parts and aftermarket and fleet management services primarily for the engines it produces, along with power generation and space propulsion systems. These products and services must adhere to strict regulatory and market driven safety and performance standards. These standards, along with the long duration of aircraft engine programs, create uncertainty regarding engine program profitability. The aftermarket business is impacted by competition and technological improvements to newer generation engines that increase reliability. Pratt & Whitney continues to enhance its programs through performance improvement measures and product base expansion. Manufacturing and aftermarket operations are benefiting from restructuring actions aimed at improving efficiency and from selective acquisitions and ventures. Product base expansion includes Pratt & Whitney's development of large commercial engines for the narrow-bodied and wide-bodied aircraft markets and small commercial engines that have already been selected for new light jet aircraft programs. Investments in new commercial engines involve significant financial risk due to the size of the investment required and the technical issues surrounding new engine development. In order to lessen its risk on engine development programs and to improve program economics, Pratt & Whitney has entered into collaboration arrangements. Pratt & Whitney is also positioned to deliver engines and aftermarket products and services for next generation fighter aircraft to both U.S. and foreign governments, including the Air Force's F/A-22 and F-35 Joint Strike Fighter aircraft.

HAMILTON SUNDSTRAND is among the world's leading suppliers of technologically advanced aerospace and industrial products and aftermarket services for diversified industries worldwide. Aerospace products include systems for power generation, management and distribution, and for flight, engine, fuel and environmental controls, auxiliary power units and propeller systems. Industrial products include air compressors, metering devices, fluid handling equipment and gear drives. Hamilton Sundstrand is responding to industry conditions by focusing on development of new product and service offerings, acquisitions and actions aimed at improving efficiency and aftermarket growth opportunities. Hamilton Sundstrand is engaged in development programs for a variety of new commercial and military aircraft platforms, including the design and development of significant systems for the Boeing 787 aircraft, as well as for the Airbus A380 commercial aircraft and the A400M military aircraft. Hamilton Sundstrand is also engaged in development contracts for NASA and its prime contractors for a variety of products for international space programs.

SIKORSKY is one of the world's largest manufacturers of military and commercial helicopters and provides aftermarket helicopter and aircraft products and services. Sikorsky has responded to continued overcapacity among helicopter manufacturers by improving its cost structure, increasing the capabilities of its existing products, developing new products and expanding its aftermarket business. In its government business, Sikorsky continues to supply Black Hawk helicopters and their derivatives to the U.S. and foreign governments. In February 2004, Sikorsky, in a joint venture arrangement with Boeing, received notice of the U.S. Army's decision to terminate the RAH-66 Comanche helicopter program as part of its reassessment of the Army's aviation needs. Sikorsky began deliveries of the S-92 medium lift helicopter for the commercial market in 2004. Sikorsky is also developing the H-92, a military derivative of the S-92. In November 2004, Sikorsky signed contracts with the Canadian government for delivery and logistical support of 28 H-92 helicopters beginning in 2008.

Critical Accounting Estimates

Preparation of UTC's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Consolidated Financial Statements describes the significant accounting policies used in preparation of the Consolidated Financial Statements. Management believes the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. The most significant areas involving management judgments and estimates are described below. Actual results in these areas could differ from management's estimates.

LONG-TERM CONTRACT ACCOUNTING. UTC utilizes percentage of completion accounting on certain of its long-term contracts. The percentage of completion method requires estimates of future revenues and costs over the full term of product delivery.

Losses, if any, on long-term contracts are provided for when anticipated. Loss provisions on original equipment contracts are recognized to the extent that estimated inventoriable manufacturing, engineering, estimated product warranty and product performance guarantee costs exceed the projected revenue from the products contemplated under the contractual arrangement. Products contemplated under the contractual arrangement include products purchased under the contract and, in the aerospace businesses, required replacement parts that are purchased separately and subsequently for incorporation into the original equipment. Revenue projections used in determining contract loss provisions are based upon estimates of the quantity, pricing and timing of future product deliveries. Losses are recognized on shipment to the extent that inventoriable manufacturing costs, estimated warranty costs and product performance guarantee costs exceed revenue realized. The extent of progress toward completion on UTC's long-term commercial aerospace equipment and helicopter contracts is measured using units of delivery. In addition, UTC uses the cost-to-cost method for development contracts in the aerospace businesses and for elevator

and escalator installation and modernization contracts. For long-term aftermarket contracts revenue is recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract. Contract accounting also requires estimates of future costs over the performance period of the contract as well as an estimate of award fees and other sources of revenue.

Contract costs are incurred over a period of time, which can be several years, and the estimation of these costs requires management's judgement. The long-term nature of these contracts, the complexity of the products, and the strict safety and performance standards under which they are regulated can affect UTC's ability to estimate costs precisely. As a result, UTC reviews and updates its cost estimates on significant contracts on a quarterly basis, and no less than annually for all others, or when circumstances change and warrant a modification to a previous estimate. Adjustments to contract loss provisions are recorded in earnings upon identification.

INCOME TAXES. The future tax benefit arising from net deductible temporary differences and tax carryforwards is \$2.6 billion at December 31, 2004 and \$2.7 billion at December 31, 2003. Management believes that UTC's earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided.

In assessing the need for a valuation allowance, UTC estimates future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be impacted by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event UTC were to determine that it would not be able to realize all or a portion of its deferred tax assets in the future, UTC would reduce such amounts through a charge to income in the period in which that determination is made. Conversely, if UTC were to determine that it would be able to realize its deferred tax assets in the future in excess of the net carrying amounts, UTC would decrease the recorded valuation allowance through an increase to income in the period in which that determination is made. Subsequently recognized tax benefits associated with valuation allowances recorded in a business combination will be recorded as an adjustment to goodwill.

UTC has exposures related to tax filings in the ordinary course of business. UTC periodically assesses its liabilities and contingencies for all tax years under audit based upon the latest information available. For those matters where it is probable that an adjustment will be asserted, UTC has recorded its best estimate of the tax liability, including related interest charges, in its Consolidated Financial Statements. See Notes 2 and 9 to the Consolidated Financial Statements for further discussion.

GOODWILL AND INTANGIBLE ASSETS. UTC's investments in businesses in 2004 totaled \$1.3 billion, including approximately \$220 million of debt assumed. The assets and liabilities of acquired businesses are recorded under the purchase method of accounting at their estimated fair values at the dates of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. UTC has recorded goodwill of \$10.1 billion at December 31, 2004 and \$9.3 billion at December 31, 2003.

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing. The identification and measurement of goodwill impairment involves the estimation of the fair value of reporting units. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment, which primarily incorporate management assumptions about expected future cash flows and contemplate other valuation techniques. Future cash flows can be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized with newly acquired entities. Although no goodwill impairment has been recorded to date, there can be no assurances that future goodwill impairments will not occur. See Note 2 to the Consolidated Financial Statements for further discussion.

PRODUCT PERFORMANCE. UTC extends performance and operating cost guarantees beyond its normal service and warranty policies for extended periods on some of its products, particularly commercial aircraft engines. Liability under such guarantees is based upon future product performance and durability. In addition, UTC incurs discretionary costs to service its products in connection with product performance issues. UTC accrues for such costs that are probable and can be reasonably estimated. The costs associated with these product performance and operating cost guarantees require estimates over the full terms of the agreements, and require management to consider factors such as the extent of future maintenance requirements and the future cost of material and labor to perform the services. These cost estimates are largely based upon historical experience. See Note 14 to the Consolidated Financial Statements for further discussion.

CONTRACTING WITH THE U.S. GOVERNMENT. UTC's contracts with the U.S. Government are subject to government oversight and audit. Like many defense contractors, UTC has received audit reports, which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports have involved substantial amounts. UTC has made voluntary refunds in those cases it believes appropriate. In addition, UTC accrues for liabilities associated with those government contracting matters that are probable and can be reasonably estimated. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution. See Note 15 to the Consolidated Financial Statements

for further discussion. UTC recorded sales to the U.S. Government of \$5.5 billion in 2004 and \$5.3 billion in 2003.

EMPLOYEE BENEFIT PLANS. UTC and its subsidiaries sponsor domestic and foreign defined benefit pension and other postretirement plans. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on plan assets, rate of increase in employee compensation levels and health care cost increase projections. Assumptions are determined based on company data and appropriate market indicators, and are evaluated each year as of the plans' measurement date. A change in any of these assumptions would have an effect on net periodic pension and postretirement benefit costs reported in the Consolidated Financial Statements.

Market interest rates declined in 2004 and as a result, the weighted-average discount rate used to measure pension liabilities and costs declined to 5.90%. Pension expense in 2005 is expected to be negatively impacted by this change and the amortization of prior investment losses. See Note 10 to the Consolidated Financial Statements for further discussion.

Results of Operations

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|--|-----------------|-----------------|-----------------|
| Sales | \$36,700 | \$30,723 | \$27,980 |
| Financing revenues and other income, net | 745 | 311 | 232 |
| Revenues | \$37,445 | \$31,034 | \$28,212 |

Consolidated revenues increased 21% in 2004 to \$37.4 billion and increased 10% in 2003 to \$31.0 billion. The 2004 and 2003 revenue increases reflect revenue contributed from acquisitions, (8% and 4%, respectively), primarily reflecting the July 2003 acquisition of Chubb, and the favorable impact of foreign currency translation (3% and 4%, respectively), primarily due to the continued strength of the euro in relation to the U.S. dollar.

The sales increase in 2004 reflects growth at Otis, Carrier, Pratt & Whitney, Hamilton Sundstrand and Sikorsky. Sales growth in 2003 reflects growth at Otis and Carrier and higher military revenues at Pratt & Whitney and Hamilton Sundstrand, partially offset by lower commercial aerospace volume and fewer helicopter shipments at Sikorsky.

Financing revenues and other income, net, increased \$434 million (140%) in 2004 to \$745 million and increased \$79 million (34%) to \$311 million in 2003. The 2004 increase reflects a \$250 million payment from DaimlerChrysler in consideration for UTC's release of DaimlerChrysler from certain commitments previously made in support of MTU Aero Engines GmbH, approximately \$170 million of pretax interest income associated with the favorable settlement of claims and other disputed items related to the 1986 to 1993 U.S. Federal tax audits, and an approximate \$60 million gain associated with the disposition of an interest in a joint venture. The 2003 increase reflects a \$50 million gain at Otis associated with the exchange of equity interests in China.

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|------------------------|---------|---------|---------|
| Gross margin | \$9,479 | \$8,215 | \$7,819 |
| Gross margin percent | 25.8% | 26.7% | 27.9% |

Gross margin (gross margin represents product and service sales less cost of product and services sold) decreased nine-tenths of a percentage point in 2004 to 25.8% due primarily to higher restructuring charges (\$420 million) in 2004. Gross margin also reflects the impact of increased commodity costs (\$200 million), primarily at Carrier and Otis, partially offset by margin improvement from higher commercial aerospace volume. Gross margin decreased 1.2 percentage points in 2003 to 26.7% due primarily to lower commercial aerospace spares volume and the absence of the approximately \$100 million gain on the environmental insurance settlement recorded in 2002. These decreases were partially offset by margin improvement at Otis and lower restructuring charges (\$111 million) in 2003.

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|---|---------|---------|---------|
| Research and development — company funded | \$1,256 | \$1,027 | \$1,191 |
| Percent of sales | 3.4% | 3.3% | 4.3% |

UTC's research and development spending includes both company and customer funded programs. Total research and development spending for UTC increased \$234 million (9%) in 2004 to \$2.8 billion and \$227 million (10%) in 2003 to \$2.6 billion.

Company funded research and development increased \$229 million (22%) in 2004 and decreased \$164 million (14%) in 2003. Approximately 75% of the 2004 increase is due to increased spending on commercial engine programs at Pratt & Whitney. The remainder primarily reflects increases at Carrier and Hamilton Sundstrand. The 2003 decrease is primarily due to lower spending in the commercial aerospace businesses, a technology funding arrangement at Pratt & Whitney Canada and lower spending on Sikorsky's S-92 program, which received U.S. Federal Aviation Administration type certification during the fourth quarter of 2002. Company funded research and development spending is subject to the variable nature of program development schedules.

In addition to company funded programs, customer funded research and development was \$1,585 million in 2004, \$1,580 million in 2003, and \$1,189 million in 2002. The 2003 increase of \$391 million is primarily attributable to UTC's Joint Strike Fighter program.

Company funded research and development spending for the full year 2005 is expected to increase slightly over 2004 levels. Combined company and customer funded research and development spending in 2005 is expected to be slightly lower than 2004.

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|-------------------------------------|---------|---------|---------|
| Selling, general and administrative | \$4,498 | \$3,654 | \$3,203 |
| Percent of sales | 12.3% | 11.9% | 11.4% |

Selling, general and administrative expenses increased \$844 million (23%) in 2004 and \$451 million (14%) in 2003. The 2004 increase primarily reflects the July 2003 acquisition of Chubb (12%), the impact of foreign currency translation, primarily at Carrier and Otis, and higher restructuring charges (1%). The 2003 increase reflects the acquisition of Chubb (9%), partially offset by approximately \$50 million (2%) lower restructuring charges.

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|------------------------|-------|-------|-------|
| Interest expense | \$363 | \$375 | \$381 |

Interest expense decreased \$12 million (3%) in 2004 and \$6 million (2%) in 2003. The decrease in 2004 is due primarily to lower average long-term borrowings in 2004.

| | 2004 | 2003 | 2002 |
|--|------|------|------|
| Average interest rate during the year: | | | |
| Short-term borrowings | 4.9% | 5.2% | 9.4% |
| Total debt | 6.3% | 6.5% | 6.9% |

The average interest rate during 2004 on short-term borrowings was less than that of total debt primarily due to higher commercial paper balances. The weighted-average interest rate applicable to debt outstanding at December 31, 2004 was 3.3% for short-term borrowings and 5.9% for total debt.

| | 2004 | 2003 | 2002 |
|---------------------------|-------|-------|-------|
| Effective income tax rate | 26.4% | 27.1% | 27.1% |

The effective tax rate for 2004, 2003 and 2002 reflects the tax benefit associated with the lower tax rate on international earnings, which UTC intends to permanently reinvest outside the United States. In 2004, UTC reached a settlement with the Internal Revenue Service (IRS) and obtained final review by the U.S. Congress Joint Commission on Taxation related to claims and other disputed items related to the 1986 to 1993 Federal tax audits. The 2004 effective tax rate reflects an approximate \$80 million reduction in tax expense as a result of this settlement.

As described in Note 9 to the Consolidated Financial Statements, the 2003 rate also benefits from a \$448 million tax loss associated with a non-core business (3.9%) substantially offset by a reduced benefit (3.8%) from international activities attributable to a recognition of foreign taxes as deductions and not credits for U.S. income tax purposes. The tax loss was attributable to a worthless stock deduction UTC was entitled to in 2003, relating primarily to a diminution in value of its subsidiary, International Comfort Products, USA (ICP, USA) and other events that fixed the loss in 2003, which included the transfer of certain of ICP, USA's assets to Carrier and the sale of ICP, USA to a third party. The third party sale of the ICP, USA assets did not result in a significant loss for financial accounting purposes.

The 2002 rate reflects the benefit of increased use of certain tax planning strategies, including utilization of a capital loss carryback.

In the normal course of business, UTC and its subsidiaries are examined by various tax authorities, including the IRS. The IRS is currently auditing UTC's Federal income tax returns for the tax years 1994 to 1999. UTC expects the examination phase of these audits to be completed in 2005. However, timing of final settlement of these periods is contingent upon resolution of any disputed issues that may arise from the examination. Although the outcome of these matters cannot presently be determined, UTC believes adequate provision has been made for any potential unfavorable financial statement impact.

The American Jobs Creation Act, signed into law in October of 2004, provides UTC an opportunity to repatriate up to \$500 million of reinvested foreign earnings and to claim an 85% dividend received deduction against the repatriated amount. UTC is evaluating the effects of the repatriation provision and expects to make a decision on implementation later in 2005.

UTC expects its effective income tax rate in 2005 to approximate 28%, before any impact from ongoing tax examinations or repatriation under the American Jobs Creation Act.

For additional discussion of income taxes, see "Critical Accounting Estimates – Income Taxes" and Note 9 to the Consolidated Financial Statements.

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|----------------------------|---------|---------|---------|
| Net income | \$2,788 | \$2,361 | \$2,236 |
| Diluted earnings per share | \$ 5.52 | \$ 4.69 | \$ 4.42 |

Net income and diluted earnings per share increased \$427 million (18%) and \$.83 per share (18%) in 2004 compared to the full year 2003 and increased \$125 million (6%) and \$.27 per share (6%) in 2003 compared to the full year 2002. The favorable impact of foreign currency translation contributed \$.18 per share and \$.23 per share in 2004 and 2003, respectively.

Restructuring and Other Costs

During 2004, UTC recorded net pre-tax restructuring and related charges totaling \$632 million for new and ongoing restructuring actions. UTC recorded these charges in the segments as follows: Otis \$144 million, Carrier \$241 million, Pratt & Whitney \$152 million, Hamilton Sundstrand \$71 million, Sikorsky \$9 million and Eliminations and other \$15 million. The charges include \$546 million

in cost of sales, \$74 million in selling, general and administrative expenses and \$12 million in other income. As described below, these charges relate to actions initiated during 2004 and 2003. For a discussion of restructuring actions associated with business acquisitions, see Note 2 to the Consolidated Financial Statements.

2004 Actions During 2004, UTC initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and the consolidation of manufacturing, sales and service facilities including Carrier's McMinnville, Tennessee commercial air conditioning and ventilation product manufacturing facility, Otis' Stadthagen, Germany escalator manufacturing facility and Pratt & Whitney's Space Propulsion facility located in San Jose, California. During 2004, net pre-tax restructuring and related charges, totaling \$542 million, included \$458 million recorded in cost of sales, \$72 million in selling, general and administrative expenses and \$12 million in other income. These charges were recorded in UTC's segments as follows: Otis \$120 million, Carrier \$179 million, Pratt & Whitney \$149 million, Hamilton Sundstrand \$70 million, Sikorsky \$9 million and Eliminations and other \$15 million. These charges included \$324 million for severance and related employee termination costs, \$79 million for asset write-downs, including impairments, largely related to manufacturing assets and exiting facilities that will no longer be utilized, and \$139 million for facility exit and lease termination costs.

The 2004 actions are expected to result in net workforce reductions of approximately 5,700 hourly and salaried employees, the exiting of approximately 5.9 million net square feet of facilities and the disposal of assets associated with the exited facilities. Approximately 60% of the total pre-tax charge will require cash payments, which will be primarily funded by cash generated from operations. UTC had pre-tax cash outflows related to the 2004 programs of approximately \$136 million. Savings are expected to increase over a two-year period resulting in recurring pre-tax savings of approximately \$290 million annually. As of December 31, 2004, net workforce reductions of approximately 3,500 employees have been completed and 1.0 million net square feet of facilities have been exited. The remaining workforce and facility related cost reduction actions are targeted for completion in 2005 and early 2006. A significant portion of the remaining square footage to be eliminated under the 2004 actions relates to facilities at Carrier and Pratt & Whitney. Additional restructuring and related charges of \$128 million are expected to be incurred to complete these actions. As of December 31, 2004, \$206 million of severance and related costs and \$11 million of facility exit and lease termination accruals remain.

2003 Actions During 2004, UTC recorded net pre-tax restructuring and related charges of \$90 million for actions initiated in 2003. These charges relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of manufacturing, sales and service facilities including Carrier's Syracuse, New York-based container refrigeration and compressor manufacturing operations and Otis' Bloomington, Indiana-based manufacturing, distribution and field tool operations. The charges included \$88 million recorded in cost of sales and \$2 million in selling, general and administrative expenses. These charges were recorded in UTC's segments as follows: Otis \$24 million, Carrier \$62 million, Pratt & Whitney \$3 million and Hamilton Sundstrand \$1 million. The charges included \$21 million for severance and related employee termination costs and \$69 million for facility exit and lease termination costs.

The 2003 actions are expected to result in net workforce reductions of approximately 4,200 hourly and salaried employees, the exiting of approximately 1.9 million net square feet of facilities and the disposal of assets associated with the exited facilities. Approximately 60% of the total pre-tax charge will require cash payments, which will be primarily funded by cash generated from operations. UTC had pre-tax cash outflows of approximately \$94 million related to the 2003 programs during 2004. Savings are expected to increase over a two-year period resulting in recurring pre-tax savings of approximately \$165 million annually. As of December 31, 2004, net workforce reductions of approximately 4,000 employees have been completed and 1.5 million net square feet of facilities have been exited. The balance of the remaining workforce and facility related cost reduction actions are targeted for completion through early 2005. As of December 31, 2004, the 2003 actions have been completed substantially as planned with approximately \$6 million of expected costs remaining to be incurred during 2005. As of December 31, 2004, \$13 million of severance and related costs and \$7 million of facility exit and lease termination accruals remain.

2005 Actions UTC may initiate additional restructuring actions in 2005 through its continuing cost reduction efforts. No specific plans for significant new actions have been finalized at this time.

Segment Review

| IN MILLIONS OF DOLLARS | Revenues | | | Operating Profits | | | Operating Profit Margin | | |
|------------------------|----------|---------|---------|-------------------|---------|---------|-------------------------|-------|-------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Otis | \$ 8,999 | \$7,927 | \$6,811 | \$1,504 | \$1,377 | \$1,057 | 16.7% | 17.4% | 15.5% |
| Carrier | 10,636 | 9,246 | 8,773 | 879 | 911 | 779 | 8.3% | 9.9% | 8.9% |
| Chubb | 2,881 | 1,136 | — | 138 | 55 | — | 4.8% | 4.8% | — |
| Pratt & Whitney | 8,303 | 7,505 | 7,645 | 1,143 | 1,125 | 1,282 | 13.8% | 15.0% | 16.8% |
| Hamilton Sundstrand | 3,928 | 3,605 | 3,453 | 610 | 582 | 565 | 15.5% | 16.1% | 16.4% |
| Sikorsky | 2,506 | 2,184 | 2,179 | 213 | 203 | 176 | 8.5% | 9.3% | 8.1% |

Revenues, operating profits and operating profit margins of UTC's principal segments include the results of all majority-owned subsidiaries, consistent with the management reporting of these businesses. For certain of these subsidiaries, minority shareholders have rights, which overcome the presumption of control. In UTC's consolidated results, these subsidiaries are accounted for using the equity method of accounting. As a result of the adoption of FASB Interpretation No. 46R "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51," certain of these subsidiaries are now consolidated. See Note 16 to the Consolidated Financial Statements for further discussion. Adjustments to reconcile segment reporting to consolidated results are included in "Eliminations and other," which also includes certain small subsidiaries.

In the fourth quarter of 2004, UTC began to separately report Hamilton Sundstrand and Sikorsky. All prior periods have been restated to conform with the new reporting structure.

2004 Compared to 2003

OTIS revenues increased \$1,072 million (14%) in 2004 reflecting increases in all geographic regions. The 2004 increase reflects the favorable impact of foreign currency translation (6%), new equipment and aftermarket volume growth (6%) and the impact of acquisitions (2%).

Otis operating profits increased \$127 million (9%) in 2004 compared to 2003. The operating profit increase reflects profit improvement at constant currency (12%), primarily in Europe and Asia, and the favorable impact of foreign currency translation (7%), partially offset by higher restructuring charges (6%) and the absence in 2004 of an approximate \$50 million (4%) non-cash gain in 2003 associated with an exchange of equity interests in China.

CARRIER revenues increased \$1,390 million (15%). The 2004 increase reflects volume growth (9%), with North America HVAC contributing 45% of the increase, Asia-25%, transport refrigeration-20%, and Europe-10%, the favorable impact of foreign currency translation (3%) and the impact of acquisitions (3%), primarily reflecting the fourth quarter acquisition of Linde.

Carrier's operating profits decreased \$32 million (4%) in 2004. Higher restructuring costs (19%) and unfavorable commodity pricing (13%) in 2004 more than offset profit improvements from higher volume and factory productivity (24%), primarily attributable to the transport refrigeration, Europe and North America HVAC businesses, and the favorable impact of foreign currency translation (4%).

CHUBB revenues and operating profit for the full year of 2004 totaled \$2,881 million and \$138 million, respectively, compared to \$1,136 million and \$55 million reported for five months of 2003. Approximately 80% of the reported revenues and operating profit in 2004 and 2003 were contributed by fire and security services in Australasia, the United Kingdom and Continental Europe. Fire protection revenues increased in the last five months of 2004 compared to the same period in 2003, due largely to the favorable impact of foreign currency translation. Operating profit margin was relatively flat for the last five months of 2004 compared to the same period of 2003.

PRATT & WHITNEY revenues increased \$798 million (11%) in 2004. The 2004 increase is due primarily to higher commercial aerospace revenues (9%), mainly related to higher engine shipments at Pratt & Whitney Canada and higher commercial aftermarket volume. Military aerospace revenues were relatively flat in 2004 compared to 2003.

Pratt & Whitney operating profits increased \$18 million (2%) in 2004 due primarily to increased commercial aerospace profits (28%), reflecting higher volume at Pratt & Whitney Canada and higher volume, cost reduction and productivity in the commercial aftermarket business, partially offset by higher company funded research and development spending (15%) and higher restructuring charges (12%). The 2004 and 2003 results each reflect approximately \$40 million of costs associated with a collaboration accounting matter.

HAMILTON SUNDSTRAND revenues increased \$323 million (9%) in 2004. The increase was due to higher aerospace revenues (4%), and higher industrial revenues (4%), and the favorable impact of foreign currency translation of approximately 2%. The aerospace revenues reflect both higher original equipment and aftermarket volumes.

Hamilton Sundstrand operating profit increased \$28 million (5%) in 2004. The operating profit increase was due primarily to higher aerospace profits (9%), and higher industrial profits (4%), partially offset by higher restructuring charges in 2004 (8%). The aerospace results reflect higher aftermarket volumes.

SIKORSKY revenues increased \$322 million (15%) in 2004. The increase was due primarily to higher helicopter program revenues (11%) and aftermarket revenues (6%), partially offset by lower Comanche revenues (2%).

Sikorsky's operating profit increased \$10 million (5%) in 2004. The increase reflects the profit impact of the increased helicopter and aftermarket revenues (18%), offset by lower Comanche profits (9%) and higher restructuring charges (4%).

2003 Compared to 2002

OTIS revenues increased \$1,116 million (16%) in 2003 reflecting increases in all geographic regions, particularly Asia and Europe. The revenue increase reflects the favorable impact of foreign currency translation (9%), the impact of acquisitions (2%), and volume growth within the businesses (5%). The favorable impact of foreign currency translation reflects the continued strength of the euro in relation to the U.S. dollar.

Otis operating profits increased \$320 million (30%) in 2003. The operating profit increase reflects strong profit improvement in Asia and Europe, at constant currency, and the favorable impact of foreign currency translation (12%). Otis' operating profit in 2003 also includes a non-cash gain of approximately \$50 million (5%) associated with an exchange of certain equity interests in China. Restructuring and related charges at Otis were comparable in 2003 and 2002.

CARRIER revenues increased \$473 million (5%) in 2003. The increase primarily reflects the favorable impact of foreign currency translation (4%) and growth in transport refrigeration (2%), which were partially offset by weakness in global commercial HVAC and North American commercial refrigeration. The favorable impact of foreign currency translation primarily reflects the strengthening of the euro in relation to the U.S. dollar.

Carrier's operating profits increased \$132 million (17%) in 2003. The increase reflects lower restructuring charges (6%), the favorable impact of foreign currency translation (5%) and (6%) attributable to higher volume in the transport refrigeration business and the benefits of cost reduction and productivity actions, partially offset by lower profits in commercial refrigeration and continued unfavorable pricing trends in global commercial HVAC.

CHUBB revenues and operating profits were \$1,136 million and \$55 million, respectively, for the five-month period ended December 31, 2003. Security services in Australasia, United Kingdom and Europe represent the majority of the reported revenue and operating profit for 2003.

PRATT & WHITNEY revenues decreased \$140 million (2%) in 2003. The decrease was due primarily to decreased commercial aerospace volume (8%), reflecting lower commercial aftermarket and engine volume, which was largely offset by higher military aerospace revenues (8%), due primarily to higher development revenues.

Pratt & Whitney operating profits decreased \$157 million (12%) in 2003, reflecting lower commercial aerospace profits (28%), due primarily to lower commercial aftermarket volume, and costs associated with a collaboration accounting matter (3%). These decreases were partially offset by the profit impact of increased military aerospace revenues (9%), and lower research and development costs (8%) primarily reflecting a technology funding arrangement at Pratt & Whitney Canada. The 2002 commercial aerospace profit also includes PW6000 costs which were partially offset by the favorable impact of commercial engine contract changes, both recorded in the first quarter of 2002.

HAMILTON SUNDSTRAND revenues increased \$152 million (4%) in 2003. The increase reflects the favorable impact of foreign currency translation (3%) and higher industrial revenues (1%).

Hamilton Sundstrand operating profit increased \$17 million (3%) in 2003. The operating profit increase reflects lower restructuring charges in 2003 (3%). The 2003 results also reflect lower aftermarket volumes, the favorable impact of a third quarter 2003 commercial contract termination and the estimated cost of a pending commercial litigation matter, the net impact of which were not material, and the favorable impact of foreign currency translation (2%).

SIKORSKY revenues increased \$5 million (less than 1%) in 2003. The increase was due to higher aftermarket revenues (11%), resulting in part from the acquisition of Derco largely offset by lower helicopter program revenues (11%), primarily military.

Sikorsky's operating profit increased \$27 million (15%) in 2003. The increase was due to lower research and development spending, primarily reflecting lower S-92 post-certification spending.

Liquidity and Financing Commitments

IN MILLIONS OF DOLLARS

| | 2004 | 2003 |
|--|----------|----------|
| Cash and cash equivalents | \$ 2,265 | \$ 1,623 |
| Total debt | 5,591 | 5,301 |
| Net debt (total debt less cash) | 3,326 | 3,678 |
| Shareowners' equity | 14,008 | 11,707 |
| Total capitalization (debt plus equity) | 19,599 | 17,008 |
| Net capitalization (debt plus equity less cash and cash equivalents) | 17,334 | 15,385 |
| Debt to total capitalization | 29% | 31% |
| Net debt to net capitalization | 19% | 24% |

Management assesses UTC's liquidity in terms of its ability to generate cash to fund its operating, investing and financing activities. Significant factors affecting the management of liquidity are: cash flows generated from operating activities, capital expenditures, customer financing requirements, investments in businesses, dividends, Common Stock repurchases, pension funding, adequacy of available bank lines of credit, and the ability to attract long-term capital with satisfactory terms.

OPERATING CASH FLOWS. Net cash provided by operating activities in 2004 was \$3,699 million compared to \$2,875 million in 2003. The increase is primarily due to improved operating performance in 2004, and a \$250 million payment from the settlement with DaimlerChrysler in the first quarter of 2004 and lower cash contributions to UTC's pension plans. Pre-tax cash

outflows associated with restructuring and other actions, including costs not accruable or contemplated when the actions were initiated, were \$230 million in 2004 and \$246 million in 2003. UTC expects pre-tax cash outflows associated with restructuring actions to increase approximately 20% in 2005. In addition, pre-tax cash outflows associated with liabilities established in connection with acquisitions are expected to increase in 2005.

The funded status of UTC's pension plans is dependent upon many factors, including returns on invested assets, level of market interest rates and levels of voluntary contributions to the plans. Declines in long-term interest rates have had a negative impact on the funded status of the plans. During 2004 and 2003, UTC made voluntary cash contributions of \$906 million and \$994 million, respectively, to its defined benefit pension plans. These contributions are reported as an increase in other assets in the Consolidated Balance Sheet. UTC can contribute cash or stock to these plans at its discretion within certain limits, and plans to make an additional \$500 million of cash contributions in 2005. As of December 31, 2004, the total investment by the defined benefit pension plans in UTC's securities is approximately 4% of total plan assets.

INVESTING CASH FLOWS. Cash used in investing activities was \$1,762 million in 2004 compared to \$1,761 million in 2003. The 2004 activity reflects investments in businesses of \$1.1 billion, consistent with 2003 levels, a decrease in net customer financing requirements and higher capital expenditures. Cash spending for investments included spending across the businesses in 2004 and primarily included UTC's initial purchase of slightly less than 20% of the outstanding shares of Kidde (\$450 million) and Carrier's fourth quarter acquisition of the Linde commercial refrigeration business (\$324 million). The final purchase price of Linde is subject to many factors including finalization of the value of certain assets and liabilities and integration investments necessary to leverage scale across complementary refrigeration products and platforms. As of February 10, 2005, UTC continued to own slightly less than 20% of the outstanding shares of Kidde. UTC owned and had received valid tenders or agreements to tender as of February 10, 2005 with respect to approximately 79.82 percent of the issued Kidde shares. Cash spending for acquisitions in 2003 totaled \$1.1 billion, primarily reflecting UTC's acquisition of Chubb for approximately \$900 million of cash and \$1.1 billion of debt assumed. UTC expects total investments in businesses in 2005 to approximate \$4 billion, including \$2.5 billion for acquisition of the remaining shares of Kidde and \$1.5 billion for other potential acquisitions. However, actual acquisition spending may vary depending upon the timing and availability of appropriate acquisition opportunities.

Capital expenditures increased \$265 million in 2004 to \$795 million and are expected to further increase in 2005 to again approximate depreciation levels.

Customer financing activities used net cash of \$51 million in 2004, compared to \$233 million in 2003, reflecting decreased customer requirements for financing. While UTC expects that customer financing will be a net use of cash in 2005, actual funding is subject to usage under existing customer financing arrangements. At December 31, 2004, UTC had financing and rental commitments of \$838 million related to commercial aircraft, of which as much as \$292 million may be required to be disbursed in 2005. UTC may also arrange for third-party investors to assume a portion of its commitments. Refer to Note 4 to the Consolidated Financial Statements for additional discussion of UTC's commercial aerospace industry assets and commitments.

FINANCING CASH FLOWS. Net cash flow used in financing was \$1,402 million in 2004 compared to \$1,696 million in 2003, primarily reflecting lower debt repayments, due in part to repayment in 2003 of \$1.1 billion of debt assumed in the Chubb acquisition, and increased commercial paper borrowings, partially offset by higher share repurchases. Financing cash outflows for 2004 and 2003 include UTC's repurchase of 10.9 million and 5.9 million shares of Common Stock for \$992 million and \$401 million, respectively. Share repurchase continues to be a significant use of UTC's cash flows and is expected to offset the dilutive effect of the issuance of stock and options under the stock-based employee benefit programs. In October 2002, UTC announced that the Board of Directors authorized the repurchase of up to 30 million shares. At December 31, 2004, approximately 8.5 million shares remain available for repurchase under the authorized program. UTC expects total share repurchases in 2005 to approximate \$600 million; however, total repurchases may vary depending upon the level of other investing activities.

At December 31, 2004, UTC had credit commitments from banks under two revolving agreements. The first commitment, which totals \$1.5 billion, serves as a back-up facility for issuance of commercial paper. In December 2004, UTC entered into a second 364 day revolving credit agreement for \$2.5 billion in support of UTC's offer to acquire Kidde in 2005. At December 31, 2004, there were no borrowings under the revolving credit agreements. In addition, at December 31, 2004, approximately \$1.7 billion was available under short-term lines of credit with local banks at UTC's various domestic and international subsidiaries.

At December 31, 2004, up to approximately \$2 billion of additional debt and equity securities could be issued under shelf registration statements on file with the Securities and Exchange Commission.

Dividends paid on Common Stock increased in 2004 reflecting in part the Board of Directors' approvals of a 10% and a 30% increase in its dividend payable, effective in the second and fourth quarters of 2003, to 27 and 35 cents per common share, respectively. In February 2005, the Board of Directors approved a 26% increase in its dividend payable in the first quarter of 2005.

During the fourth quarter of 2003, the 10.6 million convertible preferred shares held in the Employee Stock Ownership Plan (ESOP) were converted to 42.5 million of common shares. The conversion had no effect on diluted earnings per share and slightly decreased the debt-to-capital ratio as shares were reclassified as equity.

UTC's shareowners' equity is impacted by a variety of factors, including those items that are not reported in earnings but are reported directly in equity, such as foreign currency translation, minimum pension liability adjustments, unrealized holding gains and losses on available-for-sale securities and cash flow hedging transactions. See the Consolidated Statement of Changes in Shareowners' Equity for information on such non-shareowners' changes.

UTC manages its worldwide cash requirements considering available funds among the many subsidiaries through which it conducts its business and the cost effectiveness with which those funds can be accessed. The repatriation of cash balances from certain of UTC's subsidiaries could have adverse tax consequences; however, those balances are generally available without legal restrictions to fund ordinary business operations. UTC has and will continue to transfer cash from those subsidiaries to the parent and to other international subsidiaries when it is cost effective to do so.

UTC believes that existing sources of liquidity are adequate to meet anticipated borrowing needs at comparable risk-based interest rates for the foreseeable future. Although uncertainties in acquisition spending could cause modest variations at times, management anticipates that the level of debt to capital will remain generally consistent with recent levels. The anticipated level of debt to capital is expected to be sufficient to satisfy UTC's various cash flow requirements, including acquisition spending, continued Common Stock repurchases and pension funding as needed.

Off-Balance Sheet Arrangements and Contractual Obligations

UTC extends a variety of financial guarantees to third parties in support of unconsolidated affiliates and for potential financing requirements of commercial aerospace customers. UTC also has obligations arising from sales of certain businesses and assets, including representations and warranties and related indemnities for environmental, health and safety, tax and employment matters. Circumstances that could cause the contingent obligations and liabilities arising from these arrangements to come to fruition are changes in an underlying transaction (e.g., hazardous waste discoveries, adverse tax audit, etc.), non-performance under a contract, customer requests for financing or deterioration in the financial condition of the guaranteed party.

A summary of UTC's consolidated contractual obligations and commitments as of December 31, 2004 is as follows:

| IN MILLIONS OF DOLLARS | Payments Due by Period | | | | |
|--------------------------------------|------------------------|------------------|----------------|----------------|-------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Contractual Obligations | | | | | |
| Long-term debt | \$ 4,271 | \$ 40 | \$ 741 | \$ 472 | \$3,018 |
| Operating leases | 1,138 | 330 | 420 | 199 | 189 |
| Purchase obligations | 6,495 | 3,239 | 1,262 | 676 | 1,318 |
| Other long-term liabilities | 3,229 | 686 | 734 | 611 | 1,198 |
| Total contractual obligations | \$15,133 | \$4,295 | \$3,157 | \$1,958 | \$5,723 |

Purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, delivery and termination liability. Approximately 38% of the purchase obligations disclosed above represent purchase orders for products to be delivered under firm contracts with the U.S. Government for which UTC has full recourse under normal contract termination clauses. In addition, as disclosed in Note 10 to the Consolidated Financial Statements, UTC expects to make \$500 million of voluntary contributions to its pension plans in 2005, which have been excluded from the table above.

Other long-term liabilities primarily include those amounts on UTC's December 31, 2004 balance sheet representing obligations under product service and warranty policies, performance and operating cost guarantees, estimated environmental remediation costs and payments under employee benefit programs. The timing of cash flows associated with these obligations are based upon management's estimates over the terms of these agreements and are largely based upon historical experience.

| IN MILLIONS OF DOLLARS | Amount of Commitment Expiration per Period | | | | |
|---|--|------------------|---------------|---------------|-------------------|
| | Committed | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Commercial Commitments | | | | | |
| Commercial aerospace financing and rental commitments | \$ 838 | \$ 292 | \$ 208 | \$ 253 | \$ 85 |
| IAE financing arrangements | 1,224 | 417 | 88 | 55 | 664 |
| Unconsolidated subsidiary debt guarantees | 160 | 127 | 8 | — | 25 |
| Commercial aerospace financing arrangements | 163 | 39 | 7 | 3 | 114 |
| Commercial customer financing arrangements | 61 | 61 | — | — | — |
| Performance guarantees | 111 | 29 | 55 | 27 | — |
| Total commercial commitments | \$ 2,557 | \$ 965 | \$ 366 | \$ 338 | \$ 888 |

Refer to Notes 4, 8, 14 and 15 to the Consolidated Financial Statements for additional discussion on contractual and commercial commitments.

Market Risk and Risk Management

UTC is exposed to fluctuations in foreign currency exchange rates, interest rates and commodity prices. To manage certain of those exposures, UTC uses derivative instruments, including swaps, forward contracts and options. Derivative instruments utilized by UTC in its hedging activities are viewed as risk management tools, involve little complexity and are not used for trading or speculative purposes. UTC diversifies the counterparties used and monitors the concentration of risk to limit its counterparty exposure.

UTC has evaluated its exposure to changes in foreign currency exchange rates, interest rates and commodity prices in its market risk sensitive instruments, which are primarily cash, debt and derivative instruments, using a value at risk analysis. Based on a 95% confidence level and a one-day holding period, at December 31, 2004, the potential loss in fair value of UTC's market risk sensitive instruments was not material in relation to UTC's financial position, results of operations or cash flows. UTC's calculated value at risk exposure represents an estimate of reasonably possible net losses based on volatilities and correlations and is not necessarily indicative of actual results. Refer to Notes 1, 8, 12 and 13 to the Consolidated Financial Statements for additional discussion of foreign currency exchange, interest rates and financial instruments.

FOREIGN CURRENCY EXPOSURES. UTC has a large volume of foreign currency exposures that result from its international sales, purchases, investments, borrowings and other international transactions. International segment revenues, including U.S. export sales, averaged approximately \$18 billion over the last three years. UTC actively manages foreign currency exposures that are associated with committed foreign currency purchases and sales and other assets and liabilities created in the normal course of business at the operating unit level. Exposures that cannot be naturally offset within an operating unit to an insignificant amount are hedged with foreign currency derivatives. UTC also has a significant amount of foreign currency net asset exposures. Currently, UTC does not hold any derivative contracts that hedge its foreign currency net asset exposures but may consider such strategies in the future.

UTC's cash position includes amounts denominated in foreign currencies. UTC manages its worldwide cash requirements considering available funds among its many subsidiaries and the cost effectiveness with which these funds can be accessed. The repatriation of cash balances from certain of UTC's subsidiaries could have adverse tax consequences. However, those balances are generally available without legal restrictions to fund ordinary business operations. UTC has and will continue to transfer cash from those subsidiaries to the parent and to other international subsidiaries, when it is cost effective to do so.

INTEREST RATE EXPOSURES. UTC's long-term debt portfolio consists mostly of fixed-rate instruments. Due to recent declines in market interest rates, a portion of that portfolio is hedged with fixed for floating interest rate swaps. The hedges are designated as fair value hedges and the gains and losses on the swaps are reported in interest expense, reflecting that portion of interest expense at a variable rate. From time to time UTC issues commercial paper, which exposes UTC to changes in interest rates.

COMMODITY PRICE EXPOSURES. UTC is exposed to volatility in the prices of raw materials used in some of its products and uses forward contracts in limited circumstances to manage some of those exposures. The forward contracts are designated as hedges of the cash flow variability that results from the forecasted purchases. Gains and losses on those derivatives are deferred in other comprehensive income to the extent they are effective as hedges and reclassified into cost of products sold in the period in which the hedged transaction impacts earnings.

Environmental Matters

UTC's operations are subject to environmental regulation by federal, state and local authorities in the U.S. and regulatory authorities with jurisdiction over its foreign operations. As a result, UTC has established, and continually updates, policies relating to environmental standards of performance for its operations worldwide. UTC believes that expenditures necessary to comply with the present regulations governing environmental protection will not have a material effect upon its competitive position, consolidated financial position, results of operations or cash flows.

UTC has identified approximately 494 locations, mostly in the United States, at which it may have some liability for remediating contamination. UTC does not believe that any individual location's exposure will have a material effect on the results of operations of UTC. Sites in the investigation or remediation stage represent approximately 96% of UTC's accrued environmental liability.

UTC has been identified as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA or Superfund) at approximately 106 sites. The number of Superfund sites, in and of itself, does not represent a relevant measure of liability because the nature and extent of environmental concerns vary from site to site and UTC's share of responsibility varies from sole

responsibility to very little responsibility. In estimating its liability for remediation, UTC considers its likely proportionate share of the anticipated remediation expense and the ability of other potentially responsible parties to fulfill their obligations.

At December 31, 2004, UTC had \$436 million reserved for environmental remediation. Cash outflows for environmental remediation were \$49 million in 2004, \$32 million in 2003 and \$42 million in 2002. UTC estimates that ongoing environmental remediation expenditures in each of the next two years will not exceed \$60 million.

Government Matters

As described in the “Critical Accounting Estimates – Contracting with the U. S. Government,” UTC’s contracts with the U.S. Government are subject to audits. Such audits may recommend that certain contract prices should be reduced to comply with various government regulations. UTC is also the subject of one or more investigations and legal proceedings initiated by the U.S. Government with respect to government contract matters.

In one of these legal proceedings, UTC received a demand notice in 2003 for \$755 million from the U.S. Department of Defense (DoD) relating to an ongoing dispute over Pratt & Whitney’s government cost accounting practices for engine parts received from its partners on certain commercial engine collaboration programs from 1984 to the present. This matter was previously disclosed by UTC and is described in Note 15 to the Consolidated Financial Statements. In July 2001, the U.S. Armed Services Board of Contract Appeals (ASBCA) ruled that Pratt & Whitney’s accounting for these parts was in compliance with U.S. Government Cost Accounting Standards (CAS). The DoD appealed the ruling to the Court of Appeals for the Federal Circuit and in January 2003, the Court reversed the ASBCA’s decision and remanded the case back to the ASBCA. The case is currently pending before the ASBCA.

In addition, and as previously disclosed, the U.S. Department of Justice (DOJ) filed a complaint against UTC in 1999 under the civil False Claims Act and other theories related to the “Fighter Engine Competition” between Pratt & Whitney’s F100 engine and GE’s F110 engine. The DOJ alleges that the Government overpaid for engines because Pratt & Whitney inflated certain costs and withheld data. The Government claims damages of \$624 million. UTC believes this estimate is substantially overstated, denies any liability and is vigorously defending the matter. Trial of this matter was completed in December 2004 and a decision is expected in 2005. This matter is described in Note 15 to the Consolidated Financial Statements.

Should the U.S. Government ultimately prevail with respect to one or more of the significant government contracting matters, the outcome could result in a material effect on UTC’s results of operations in the period the matter is resolved. However, UTC believes that the resolution of these matters will not have a material adverse effect on UTC’s results of operations, competitive position, cash flows or financial condition.

As previously disclosed, the European Commission’s competition directorate conducted inspections in early 2004 at offices of UTC’s Otis subsidiary in Berlin, Brussels, Luxembourg and Paris. The inspections relate to the Commission’s ongoing investigation of possible unlawful collusive arrangements involving the elevator and escalator industry in Europe. UTC is cooperating fully with the Commission’s investigation. Based on the results of its own internal investigation, UTC believes that some Otis employees in limited European locations engaged in activities at a local level in violation of Otis and UTC policies, and may have violated applicable competition law. It is still too early in the Commission’s investigation for UTC to reasonably estimate the civil fines to which it would likely be subject. The aggregate amount of such fines, if ultimately imposed, could be material to UTC’s operating results for the period in which the liability would be recognized or cash flows for the period in which the fines would be paid. UTC does not believe that any such fines would have a material adverse effect on UTC’s financial condition, or that the resolution of this matter would have a material adverse effect on Otis’ competitive position.

Additional discussion of UTC’s environmental, U.S. Government contract matters, product performance and other contingent liabilities is included in “Critical Accounting Estimates” and Notes 1, 14 and 15 to the Consolidated Financial Statements. For additional discussion of UTC’s legal proceedings, see Item 3 “Legal Proceedings,” in UTC’s Form 10-K for 2004.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123R”). The standard, which is effective for awards issued after June 15, 2005, requires that all equity-based compensation be recorded in the financial statements at the grant date fair value. UTC has elected to adopt the standard as of January 1, 2005 as permitted by the early adoption provisions in the standard. UTC will utilize the modified retrospective transition alternative and will restate its financial statements in 2005 for all periods presented.

The impact of recording stock option expense on UTC and its segments, and the impact on certain line items on the Statement of Operations is as follows:

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS

| | 2004 | 2003 |
|--|-------|-------|
| Otis | \$ 29 | \$ 31 |
| Carrier | 33 | 44 |
| Chubb | 6 | 1 |
| Pratt & Whitney | 38 | 41 |
| Hamilton Sundstrand | 20 | 21 |
| Sikorsky | 13 | 13 |
| Total segment option expense | 139 | 151 |
| Eliminations & other | 3 | 6 |
| General corporate expenses | 27 | 41 |
| Impact on income before income taxes and minority interest | 169 | 198 |
| Income taxes | 54 | 73 |
| Net income impact | \$115 | \$125 |
| Diluted earnings per share | \$.23 | \$.25 |

The increase to stock option expense described in the above table was determined using the Black-Scholes valuation model as disclosed, on a pro

forma basis, in Note 1 to UTC's consolidated financial statements. UTC will utilize the binomial lattice fair value method, described in SFAS 123R, to value stock-based compensation beginning with awards granted in 2005. UTC expects its 2005 stock option expense to approximate 2004 levels. UTC does not expect the adoption of SFAS 123R to have a material impact on its cash flows or financial condition.

**Cautionary Note Concerning Factors
That May Affect Future Results**

This Annual Report contains statements which, to the extent they are not statements of historical or present fact, constitute “forward-looking statements” under the securities laws. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These forward-looking statements are intended to provide management’s current expectations or plans for the future operating and financial performance of UTC, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as: “believe,” “expect,” “plans,” “strategy,” “prospects,” “estimate,” “project,” “target,” “anticipate” and other words of similar meaning in connection with a discussion of future operating or financial performance. These include, among others, statements relating to:

- Future earnings and other measurements of financial performance
- Future cash flow and uses of cash
- The effect of economic downturns or growth in particular regions
- The effect of changes in the level of activity in particular industries or markets
- The availability and cost of materials, components, services and supplies
- The scope, nature or impact of acquisition activity and integration into UTC’s businesses
- Product developments and new business opportunities
- Restructuring costs and savings
- The outcome of contingencies
- Future repurchases of Common Stock
- Future levels of indebtedness and capital spending
- Pension plan assumptions and future contributions

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. For additional information identifying factors that may cause actual results to vary materially from those stated in the forward-looking statements, see UTC’s reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission from time to time. UTC’s Annual Report on Form 10-K for 2004 includes important information as to risk factors in the “Business” section under the headings “Description of Business by Segment” and “Other Matters Relating to UTC’s Business as a Whole,” and in the “Legal Proceedings” section.

Management's Report on Internal Control Over Financial Reporting

The management of UTC is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of UTC's internal control over financial reporting as of December 31, 2004. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control – Integrated Framework*. Management concluded that based on its assessment, UTC's internal control over financial reporting was effective as of December 31, 2004. UTC management's assessment of the effectiveness of UTC's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 17.

/s/ George David

George David
Chairman and Chief Executive Officer

/s/ James E. Geisler

James E. Geisler
Vice President, Finance

/s/ Gregory J. Hayes

Gregory J. Hayes
Vice President, Accounting & Control

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of United Technologies Corporation:

We have completed an integrated audit of United Technologies Corporation's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of changes in shareowners' equity present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Corporation maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Corporation's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A corporation's internal control over financial reporting is a process designed 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 corporation's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (ii) 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 corporation are being made only in accordance with authorizations of management and directors of the corporation; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PRICEWATERHOUSECOOPERS LLP
Hartford, CT
February 10, 2005

Consolidated Statement of Operations

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS

| | 2004 | 2003 | 2002 |
|---|---------------|---------------|---------------|
| Revenues | | | |
| Product sales | \$26,209 | \$22,363 | \$21,189 |
| Service sales | 10,491 | 8,360 | 6,791 |
| Financing revenues and other income, net | 745 | 311 | 232 |
| | <u>37,445</u> | <u>31,034</u> | <u>28,212</u> |
| Costs and Expenses | | | |
| Cost of products sold | 20,385 | 17,084 | 15,717 |
| Cost of services sold | 6,836 | 5,424 | 4,444 |
| Research and development | 1,256 | 1,027 | 1,191 |
| Selling, general and administrative | 4,498 | 3,654 | 3,203 |
| | <u>4,470</u> | <u>3,845</u> | <u>3,657</u> |
| Operating Profit | 4,470 | 3,845 | 3,657 |
| Interest | 363 | 375 | 381 |
| | <u>4,107</u> | <u>3,470</u> | <u>3,276</u> |
| Income before income taxes and minority interests | 4,107 | 3,470 | 3,276 |
| Income taxes | 1,085 | 941 | 887 |
| Minority interests in subsidiaries' earnings | 234 | 168 | 153 |
| | <u>2,788</u> | <u>2,361</u> | <u>2,236</u> |
| Net Income | \$ 2,788 | \$ 2,361 | \$ 2,236 |
| Earnings per Share of Common Stock | | | |
| Basic | \$ 5.62 | \$ 4.93 | \$ 4.67 |
| Diluted | \$ 5.52 | \$ 4.69 | \$ 4.42 |

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheet

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE (SHARES IN THOUSANDS)

| | 2004 | 2003 |
|--|-----------------|-----------------|
| Assets | | |
| Cash and cash equivalents | \$ 2,265 | \$ 1,623 |
| Accounts receivable (net of allowance for doubtful accounts of \$368 and \$421) | 6,315 | 5,187 |
| Inventories and contracts in progress | 5,006 | 4,420 |
| Future income tax benefits | 1,441 | 1,372 |
| Other current assets | 495 | 388 |
| Total Current Assets | 15,522 | 12,990 |
| Customer financing assets | 1,090 | 1,031 |
| Future income tax benefits | 1,124 | 1,283 |
| Fixed assets | 5,231 | 5,080 |
| Goodwill | 10,111 | 9,329 |
| Intangible assets | 2,016 | 1,895 |
| Other assets | 4,941 | 3,666 |
| Total Assets | \$40,035 | \$35,274 |
| Liabilities and Shareowners' Equity | | |
| Short-term borrowings | \$ 1,320 | \$ 669 |
| Accounts payable | 3,490 | 2,612 |
| Accrued liabilities | 8,097 | 7,265 |
| Long-term debt currently due | 40 | 375 |
| Total Current Liabilities | 12,947 | 10,921 |
| Long-term debt | 4,231 | 4,257 |
| Future pension and postretirement benefit obligations | 4,595 | 4,752 |
| Other long-term liabilities | 3,344 | 2,928 |
| Commitments and contingent liabilities (Notes 4 and 15) | | |
| Minority interests in subsidiary companies | 910 | 709 |
| Total Liabilities | 26,027 | 23,567 |
| Shareowners' Equity: | | |
| Capital Stock: | | |
| Preferred Stock, \$1 par value; Authorized- 250,000 shares; None issued or outstanding | — | — |
| Common Stock, \$1 par value; Authorized- 2,000,000 shares; Issued 664,420 and 656,911 shares | 7,159 | 6,587 |
| Treasury Stock 153,322 and 142,849 common shares at cost | (6,312) | (5,335) |
| Retained earnings | 14,569 | 12,527 |
| Unearned ESOP shares | (256) | (273) |
| Accumulated other non-shareowners' changes in equity: | | |
| Foreign currency translation | 210 | (304) |
| Minimum pension liability | (1,549) | (1,581) |
| Other | 187 | 86 |
| Total Accumulated Other Non-Shareowners' Changes in Equity | (1,152) | (1,799) |
| Total Shareowners' Equity | 14,008 | 11,707 |
| Total Liabilities and Shareowners' Equity | \$40,035 | \$35,274 |

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

IN MILLIONS OF DOLLARS

| | 2004 | 2003 | 2002 |
|--|----------------|----------------|----------------|
| Operating Activities | | | |
| Net income | \$ 2,788 | \$ 2,361 | \$ 2,236 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | | |
| Depreciation and amortization | 978 | 799 | 727 |
| Deferred income tax provision | 209 | 254 | 318 |
| Minority interests in subsidiaries' earnings | 234 | 168 | 153 |
| Change in: | | | |
| Accounts receivable | (346) | (26) | 80 |
| Inventories and contracts in progress | (144) | 41 | 194 |
| Other current assets | 23 | (14) | 10 |
| Accounts payable and accrued liabilities | 380 | 55 | (168) |
| Voluntary contributions to pension plans | (906) | (994) | (530) |
| Other, net | 483 | 231 | (167) |
| Net Cash Provided by Operating Activities | 3,699 | 2,875 | 2,853 |
| Investing Activities | | | |
| Capital expenditures | (795) | (530) | (586) |
| Increase in customer financing assets | (309) | (458) | (386) |
| Decrease in customer financing assets | 258 | 225 | 222 |
| Business acquisitions | (1,075) | (1,097) | (402) |
| Dispositions of businesses | 27 | 15 | 26 |
| Other, net | 132 | 84 | 38 |
| Net Cash Used in Investing Activities | (1,762) | (1,761) | (1,088) |
| Financing Activities | | | |
| Issuance of long-term debt | — | — | 500 |
| Repayment of long-term debt | (535) | (1,092) | (231) |
| Increase (decrease) in short-term borrowings | 577 | 286 | (357) |
| Common Stock issued under employee stock plans | 431 | 331 | 183 |
| Dividends paid on Common Stock | (660) | (533) | (462) |
| Repurchase of Common Stock | (992) | (401) | (700) |
| Dividends to minority interests and other | (223) | (287) | (184) |
| Net Cash Used in Financing Activities | (1,402) | (1,696) | (1,251) |
| Effect of foreign exchange rate changes on Cash and cash equivalents | 107 | 125 | 8 |
| Net increase (decrease) in Cash and cash equivalents | 642 | (457) | 522 |
| Cash and cash equivalents, beginning of year | 1,623 | 2,080 | 1,558 |
| Cash and cash equivalents, end of year | \$ 2,265 | \$ 1,623 | \$ 2,080 |
| Supplemental Disclosure of Cash Flow Information: | | | |
| Interest paid, net of amounts capitalized | \$ 522 | \$ 372 | \$ 368 |
| Income taxes paid, net of refunds | \$ 758 | \$ 378 | \$ 396 |
| Non-cash investing and financing activities include: | | | |
| The 2002 Treasury Stock contribution of \$253 million to domestic defined benefit pension plans | | | |
| The 2003 conversion of the ESOP convertible preferred shares of \$698 million into Common Shares | | | |

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Changes in Shareowners' Equity

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | Common Stock | Treasury Stock | Retained Earnings | Unearned ESOP Shares | Accumulated Other Non- Shareowners' Changes in Equity | Non- Shareowners' Changes in Equity for the Period |
|---|-----------------|-------------------|----------------------|----------------------------|---|---|
| December 31, 2001 | \$ 5,090 | \$(4,404) | \$ 9,149 | \$ — | \$ (1,466) | \$ 1,263 |
| Common Stock issued under employee plans (4.2 million shares), including tax benefit of \$45 | 247 | 10 | (56) | | | |
| Common Stock contributed to defined benefit pension plans (4.1 million shares) | 110 | 143 | | | | |
| Common Stock repurchased (10.9 million shares) | | (700) | | | | |
| Dividends on Common Stock (\$.98 per share) | | | (462) | | | |
| Dividends on ESOP Preferred Stock (\$4.80 per share) | | | (31) | | | |
| Non-Shareowners' Changes in Equity: | | | | | | |
| Net income | | | 2,236 | | | \$ 2,236 |
| Foreign currency translation adjustments | | | | | 57 | 57 |
| Minimum pension liability adjustments, net of income tax benefits of \$927 | | | | | (1,588) | (1,588) |
| Unrealized holding loss on marketable equity securities, net of income tax benefits of \$4 | | | | | (7) | (7) |
| Unrealized cash flow hedging gain, net of income taxes of \$14 | | | | | 27 | 27 |
| December 31, 2002 | \$ 5,447 | \$(4,951) | \$10,836 | \$ — | \$ (2,977) | \$ 725 |
| Common Stock issued under employee plans (7.9 million shares), including tax benefit of \$111 | 442 | 17 | (104) | 1 | | |
| Common Stock – ESOP conversion (42.5 million shares) | 698 | | | (274) | | |
| Common Stock repurchased (5.9 million shares) | | (401) | | | | |
| Dividends on Common Stock (\$1.14 per share) | | | (533) | | | |
| Dividends on ESOP Preferred and Common Stock (\$3.60 and \$.35 per share, respectively) | | | (33) | | | |
| Non-Shareowners' Changes in Equity: | | | | | | |
| Net income | | | 2,361 | | | \$ 2,361 |
| Foreign currency translation adjustments | | | | | 528 | 528 |
| Minimum pension liability adjustments, net of income taxes of \$332 | | | | | 570 | 570 |
| Unrealized holding gain on marketable equity securities, net of income taxes of \$18 | | | | | 29 | 29 |
| Unrealized cash flow hedging gain, net of income taxes of \$23 | | | | | 51 | 51 |
| December 31, 2003 | \$ 6,587 | \$(5,335) | \$12,527 | \$ (273) | \$ (1,799) | \$ 3,539 |
| Common Stock issued under employee plans (7.9 million shares), including tax benefit of \$141 | 572 | 15 | (51) | 17 | | |
| Common Stock repurchased (10.9 million shares) | | (992) | | | | |
| Dividends on Common Stock (\$1.40 per share) | | | (660) | | | |
| Dividends on ESOP Common Stock (\$1.40 per share) | | | (35) | | | |
| Non-Shareowners' Changes in Equity: | | | | | | |
| Net income | | | 2,788 | | | \$ 2,788 |
| Foreign currency translation adjustments | | | | | 514 | 514 |
| Minimum pension liability adjustments, net of income taxes of \$46 | | | | | 32 | 32 |
| Unrealized holding gain on marketable equity securities, net of income taxes of \$57 | | | | | 91 | 91 |
| Unrealized cash flow hedging gain, net of income taxes of \$7 | | | | | 10 | 10 |
| December 31, 2004 | \$ 7,159 | \$(6,312) | \$14,569 | \$ (256) | \$ (1,152) | \$ 3,435 |

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

[note 1] Summary of Accounting Principles

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

CONSOLIDATION. The consolidated financial statements include the accounts of UTC and its controlled subsidiaries. Intercompany transactions have been eliminated.

CASH AND CASH EQUIVALENTS. Cash and cash equivalents includes cash on hand, demand deposits and short-term cash investments which are highly liquid in nature and have original maturities of three months or less.

ACCOUNTS RECEIVABLE. Current and long-term accounts receivable include:

| IN MILLIONS OF DOLLARS | 2004 | 2003 |
|------------------------|-------|-------|
| Retainage | \$ 67 | \$ 53 |
| Unbilled receivables | \$454 | \$199 |

Retainage represents amounts, which, pursuant to the contract, are not due until project completion and acceptance by the customer. Unbilled receivables represent revenues that are not currently billable to the customer under the terms of the contract. These items are expected to be collected in the normal course of business. Long-term accounts receivable are included in Other assets in the Consolidated Balance Sheet.

MARKETABLE EQUITY SECURITIES. Equity securities that have a readily determinable fair value and management does not intend to trade are classified as available for sale and carried at fair value. Unrealized holding gains and losses are recorded as a separate component of shareowners' equity, net of deferred income taxes.

INVENTORIES AND CONTRACTS IN PROGRESS. Inventories and contracts in progress are stated at the lower of cost or estimated realizable value and are primarily based on first-in, first-out ("FIFO") or average cost methods; however, certain subsidiaries use the last-in, first-out ("LIFO") method. If inventories which were valued using the LIFO method had been valued under the FIFO method, they would have been higher by \$114 million and \$96 million at December 31, 2004 and 2003, respectively.

Costs accumulated against specific contracts or orders are at actual cost. Materials in excess of requirements for contracts and current or anticipated orders have been reserved as appropriate.

Manufacturing costs are allocated to current production and firm contracts.

FIXED ASSETS. Fixed assets are stated at cost. Depreciation is computed over the assets' useful lives using the straight-line method, except for aerospace assets acquired prior to January 1, 1999, which are depreciated using accelerated methods.

GOODWILL AND OTHER INTANGIBLE ASSETS. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized. All other intangible assets are amortized over their estimated useful lives. Goodwill and indefinite-lived intangible assets are subject to annual impairment testing using the guidance and criteria described in Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets". This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value. During 2004, UTC was not required to record any impairment on goodwill or indefinite-lived intangibles.

OTHER LONG-LIVED ASSETS. UTC evaluates the potential impairment of other long-lived assets when appropriate. If the carrying value of assets exceeds the sum of the undiscounted expected future cash flows, the carrying value of the asset is written down to fair value.

INCOME TAXES. UTC has exposures related to tax filings in the ordinary course of business. UTC periodically assesses its liabilities and contingencies for all tax years under audit based upon the latest information available. For those matters where it is probable that an adjustment will be asserted, UTC has recorded its best estimate of tax liability, including related interest charges, in its consolidated financial statements.

REVENUE RECOGNITION. Sales under government and commercial fixed-price contracts and government fixed-price-incentive contracts are recorded at the time deliveries are made or, in some cases, on a percentage-of-completion basis. Sales under cost-reimbursement contracts are recorded as work is performed.

Sales under elevator and escalator installation and modernization contracts are accounted for under the percentage-of-completion method.

Losses, if any, on contracts are provided for when anticipated. Loss provisions on original equipment contracts are recognized to the extent that estimated inventoriable manufacturing, engineering, estimated product warranty and product performance guarantee costs exceed the projected revenue from the products contemplated under the contractual arrangement. Products contemplated under the contractual arrangement include products purchased under the contract and, in the aerospace business, required replacement parts that are purchased separately and subsequently for incorporation into the original

equipment. Revenue projections used in determining contract loss provisions are based upon estimates of the quantity, pricing and timing of future product deliveries. Losses are recognized on shipment to the extent that inventoriable manufacturing costs, estimated warranty costs and product performance guarantee costs exceed revenue realized. Contract accounting requires estimates of future costs over the performance period of the contract as well as estimates of award fees and other sources of revenue. These estimates are subject to change and result in adjustments to margins on contracts in progress. The extent of progress toward completion on UTC's long-term commercial aerospace equipment and helicopter contracts is measured using units of delivery. In addition, UTC uses the cost-to-cost method for development contracts in the aerospace businesses and for elevator and escalator installation and modernization contracts. For long-term aftermarket contracts revenue is recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract. UTC reviews its cost estimates on significant contracts on a quarterly basis, and for others, no less frequently than annually, or when circumstances change and warrant a modification to a previous estimate. Adjustments to contract loss provisions are recorded in earnings upon identification.

Service sales, representing aftermarket repair and maintenance activities, are recognized over the contractual period or as services are performed.

Revenues from engine programs under collaboration agreements are recorded as earned and the collaborator share of revenue is recorded as a reduction of revenue at that time. The collaborator share of revenues under Pratt & Whitney's engine programs was approximately \$583 million, \$542 million and \$595 million for 2004, 2003 and 2002, respectively. Costs associated with engine programs under collaboration agreements are expensed as incurred. The collaborator share of program costs is recorded as a reduction of the related expense item at that time.

RESEARCH AND DEVELOPMENT. Research and development costs not specifically covered by contracts and those related to UTC-sponsored share of research and development activity in connection with cost-sharing arrangements are charged to expense as incurred.

Research and development costs incurred under contracts with customers are expensed as incurred and are reported as a component of cost of products sold. Revenue from such contracts is recognized as product sales when earned.

HEDGING ACTIVITY. UTC uses derivative instruments, including swaps, forward contracts and options, to manage certain foreign currency, interest rate and commodity price exposures. Derivative instruments are viewed as risk management tools by UTC and are not used for trading or speculative purposes. Derivatives used for hedging purposes must be designated and effective as a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

All derivative instruments are recorded on the balance sheet at fair value. Derivatives used to hedge foreign-currency-denominated balance sheet items are reported directly in earnings along with offsetting transaction gains and losses on the items being hedged. Derivatives used to hedge forecasted cash flows associated with foreign currency commitments or forecasted commodity purchases are accounted for as cash flow hedges. Gains and losses on derivatives designated as cash flow hedges are recorded in other comprehensive income and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. The ineffective portion of all hedges, if any, is recognized currently in earnings.

ENVIRONMENTAL. Environmental investigatory, remediation, operating and maintenance costs are accrued when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, including existing technology, current laws and regulations and prior remediation experience. Where no amount within a range of estimates is more likely, the minimum is accrued. For sites with multiple responsible parties, UTC considers its likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. Liabilities with fixed or reliably determinable future cash payments are discounted. Accrued environmental liabilities are not reduced by potential insurance reimbursements.

STOCK-BASED COMPENSATION. As more fully described in Note 10, UTC has long-term incentive plans authorizing various types of market and performance based incentive awards that may be granted to officers and employees. UTC applies APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its long-term incentive plans. The exercise price of stock options is set on the grant date and may not be less than the fair market value per share on that date. Stock options have a term of ten years and generally vest after three years.

The following table illustrates the effect on net income and earnings per share as if the Black-Scholes fair value method described in SFAS No. 123, "Accounting for Stock-Based Compensation" had been applied to UTC's long-term incentive plans:

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | Year Ended December 31 | | |
|---|------------------------|----------------|----------------|
| | 2004 | 2003 | 2002 |
| Net income, as reported | \$2,788 | \$2,361 | \$2,236 |
| Add: Stock-based employee compensation expense included in net income, net of related tax effects | 4 | 8 | 3 |
| Less: Total stock-based employee compensation expense determined under Black-Scholes option pricing model, net of related tax effects | (119) | (133) | (121) |
| Pro forma net income | \$2,673 | \$2,236 | \$2,118 |
| Earnings per share: | | | |
| Basic – as reported | \$ 5.62 | \$ 4.93 | \$ 4.67 |
| Basic – pro forma | \$ 5.39 | \$ 4.67 | \$ 4.42 |
| Diluted – as reported | \$ 5.52 | \$ 4.69 | \$ 4.42 |
| Diluted – pro forma | \$ 5.29 | \$ 4.44 | \$ 4.19 |

[note 2] Business Acquisitions, Goodwill and Intangible Assets

BUSINESS ACQUISITIONS. UTC's investments in businesses in 2004, 2003 and 2002 totaled \$1.3 billion, \$2.3 billion and \$424 million, including debt assumed of \$220 million, \$1.2 billion and \$22 million, respectively.

The 2004 amount consisted of acquisitions at Carrier, Hamilton Sundstrand and the purchase of slightly less than 20% of Kidde shares for \$450 million. Carrier's 2004 acquisitions include its fourth quarter acquisition of Linde AG's refrigeration division ("Linde") for \$324 million, including assumed debt of \$162 million, of which the majority has been repaid as of December 31, 2004. As part of the Linde acquisition, UTC recorded approximately \$60 million of goodwill and \$36 million of intangible assets. Linde, a commercial refrigeration business headquartered in Germany, has annual sales of approximately \$1 billion. Its operations include manufacturing facilities in Europe, Asia and South America. The final purchase price allocation of Linde is subject to many factors, including finalization of the valuation of certain tangible and intangible assets, liabilities, and integration investments necessary to leverage scale across complementary refrigeration product platforms and geographies. These investments are likely to include manufacturing consolidations.

The 2003 amount includes the acquisition of Chubb plc, on July 28, 2003. Under the terms of the tender offer, UTC acquired 100% of the outstanding shares of Chubb for approximately \$900 million in cash and assumed approximately \$1.1 billion of debt. Because UTC provides equipment and services for many buildings worldwide, the acquisition of Chubb expands UTC's building system offerings globally. The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the July 28, 2003 acquisition date:

IN MILLIONS OF DOLLARS

| | |
|--|----------------|
| Current assets | \$ 887 |
| Property, plant and equipment | 260 |
| Intangible assets | 962 |
| Goodwill | 1,979 |
| Total assets acquired | \$4,088 |
| Accounts payable and accrued liabilities | \$1,042 |
| Short-term borrowings | 103 |
| Long-term debt | 1,039 |
| Pension and postretirement obligations | 573 |
| Other liabilities | 295 |
| Total liabilities assumed | \$3,052 |
| Net assets acquired | \$1,036 |

In connection with the acquisition of Chubb, UTC recorded \$962 million of identifiable intangible assets. The Chubb trademark, valued at \$535 million, was assigned an indefinite life. The amortized intangible assets and the related weighted average amortization periods are as follows: trademarks - \$32 million (30 years), customer relationships - \$389 million (10 years) and completed technology - \$6 million (7 years).

The 2002 amount includes Sikorsky's acquisition of Derco Holding and acquisitions at Pratt & Whitney.

The assets and liabilities of the acquired businesses are accounted for under the purchase method of accounting and recorded at their fair values at the dates of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an increase in goodwill of \$471 million in 2004, \$2.1 billion in 2003, and \$156 million in 2002. The results of operations of acquired businesses have been included in the Consolidated Statement of Operations beginning as of the effective date of acquisition. The final purchase price allocation for acquisitions is subject to the finalization of the valuation of certain assets and liabilities, plans for consolidation of facilities and relocation of employees and other integration activities. As a result, preliminary amounts assigned to assets and liabilities will be subject to revision in future periods.

GOODWILL. The changes in the carrying amount of goodwill, by segment, are as follows:

| IN MILLIONS OF DOLLARS | Balance as of January 1, 2004 | Goodwill resulting from business combinations | Foreign currency translation and other | Balance as of December 31, 2004 |
|------------------------|-------------------------------|---|--|---------------------------------|
| Otis | \$ 911 | \$ 26 | \$ 51 | \$ 988 |
| Carrier | 2,059 | 141 | 31 | 2,231 |
| Chubb | 2,096 | 202 | 192 | 2,490 |
| Pratt & Whitney | 462 | 10 | 3 | 475 |
| Hamilton Sundstrand | 3,678 | (20) | 27 | 3,685 |
| Sikorsky | 129 | 25 | — | 154 |
| Total Segments | 9,335 | 384 | 304 | 10,023 |
| Eliminations & Other | (6) | 87 | 7 | 88 |
| Total | \$9,329 | \$ 471 | \$ 311 | \$10,111 |

The increase in goodwill during 2004 was due primarily to acquisitions by Carrier and finalization of purchase accounting for the July 2003 acquisition of Chubb. Estimated costs relating to restructuring actions that directly impact Chubb's operations and employees were \$162 million as of December 31, 2004, and were accounted for as purchase accounting adjustments. Approximately half of the restructuring was related to severance with the remainder related to asset write-downs and other facility exit costs. In addition, UTC settled open claims and other disputed items with the IRS with respect to the pre-acquisition tax years of Sundstrand Corporation, which was acquired by UTC in 1999. The effects of the Sundstrand settlement were recorded as a reduction to goodwill recorded as part of UTC's 1999 acquisition of Sundstrand.

INTANGIBLE ASSETS. Identifiable intangible assets are comprised of the following:

| IN MILLIONS OF DOLLARS | 2004 | | 2003 | |
|---|----------------|--------------------------|----------------|--------------------------|
| | Gross Amount | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Amortized intangible assets | | | | |
| Purchased service contracts | \$ 997 | \$ (349) | \$ 894 | \$ (275) |
| Patents and trademarks | 254 | (44) | 197 | (34) |
| Other, principally customer relationships | 682 | (122) | 581 | (51) |
| | <u>\$1,933</u> | <u>\$ (515)</u> | <u>\$1,672</u> | <u>\$ (360)</u> |
| Unamortized intangible assets | | | | |
| Trademarks | \$ 598 | \$ — | \$ 583 | \$ — |

Amortization of intangible assets for the year ended December 31, 2004 was \$133 million. Amortization of these intangible assets for 2005 through 2009 is expected to approximate \$130 million per year.

[note 3] Earnings Per Share

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | Income | Average Shares | Per Share Amount |
|---|----------------|----------------|------------------|
| December 31, 2004 | | | |
| Net income | \$2,788 | | |
| Net income - basic | 2,788 | 496.4 | \$ 5.62 |
| Stock awards | — | 9.0 | |
| Net income – diluted | \$2,788 | 505.4 | \$ 5.52 |
| December 31, 2003 | | | |
| Net income | \$2,361 | | |
| Less: ESOP Stock dividends | (24) | | |
| Net income - basic | 2,337 | 473.8 | \$ 4.93 |
| Stock awards | — | 7.0 | |
| ESOP Stock adjustment | 23 | 22.1 | |
| Net income – diluted | \$2,360 | 502.9 | \$ 4.69 |
| December 31, 2002 | | | |
| Net income | \$2,236 | | |
| Less: ESOP Stock dividends | (31) | | |
| Net income - basic | 2,205 | 472.4 | \$ 4.67 |
| Stock awards | — | 7.1 | |
| ESOP Stock adjustment | 29 | 26.1 | |
| Net income – diluted | \$2,234 | 505.6 | \$ 4.42 |

[note 4] Commercial Aerospace Industry Assets and Commitments

UTC has receivables and other financing assets with commercial aerospace industry customers totaling \$2,358 million and \$2,003 million at December 31, 2004 and 2003, respectively.

Customer financing assets related to commercial aerospace industry customers consist of products under lease of \$530 million and notes and leases receivable of \$555 million. The notes and leases receivable are scheduled to mature as follows: \$93 million in 2005, \$38 million in 2006, \$27 million in 2007, \$23 million in 2008, \$14 million in 2009, and \$360 million thereafter.

Financing commitments, in the form of secured debt, guarantees or lease financing, are provided to commercial aerospace customers. The extent to which the financing commitments will be utilized is not currently known, since customers may be able to obtain more favorable terms from other financing sources. UTC may also arrange for third-party investors to assume a portion of its commitments. If financing commitments are exercised, debt financing is generally secured by assets with fair market values equal to or exceeding the financed amounts with interest rates established at the time of funding. UTC also may lease aircraft and subsequently sublease the aircraft to customers under long-term noncancelable operating leases. In some instances, customers may have minimum lease terms, which result in sublease periods shorter than UTC's lease obligation. Lastly, UTC has made residual value and other guarantees related to various commercial aerospace customer-financing arrangements. The estimated fair market values of the guaranteed assets equal or exceed the value of the related guarantees, net of existing reserves.

UTC's commercial aerospace financing and rental commitments as of December 31, 2004 were \$838 million and are exercisable as follows: \$292 million in 2005, \$106 million in 2006, \$102 million in 2007, \$244 million in 2008, \$9 million in 2009, and \$85 million thereafter. UTC's financing obligations with customers are contingent upon maintenance of certain levels of financial condition by the customers.

In addition, UTC had residual value and other guarantees of \$163 million as of December 31, 2004.

UTC has a 33% interest in International Aero Engines AG (IAE), an international consortium of four shareholders organized to support the V2500 commercial aircraft engine program. UTC's interest in IAE is accounted for under the equity method of accounting. IAE may offer customer financing in the form of guarantees, secured debt or lease financing in connection with V2500 engine sales. At December 31, 2004, IAE had financing commitments of \$743 million and asset value guarantees of \$85 million. UTC's share of IAE's financing commitments and asset value guarantees was approximately \$269 million at December 31, 2004. In addition, IAE had lease obligations under long-term noncancelable leases of approximately \$396 million, on an undiscounted basis, through 2020 related to aircraft, which are subleased to customers under long-term leases. These aircraft have fair market values, which approximate the financed amounts, net of reserves. The shareholders of IAE have guaranteed IAE's financing arrangements to the extent of their respective ownership interests. In the event of default by a shareholder on certain of these financing arrangements, the other shareholders would be proportionately responsible.

Total reserves related to receivables and financing assets, financing commitments and guarantees were \$284 million and \$288 million at December 31, 2004 and 2003, respectively.

[note 5] Inventories and Contracts in Progress

| IN MILLIONS OF DOLLARS | 2004 | 2003 |
|--|-----------------|-----------------|
| Inventories consist of the following: | | |
| Raw material | \$ 844 | \$ 743 |
| Work-in-process | 1,283 | 1,118 |
| Finished goods | 2,603 | 2,221 |
| Contracts in progress | 2,643 | 2,363 |
| | <u>7,373</u> | <u>6,445</u> |
| Less: | | |
| Progress payments, secured by lien, on U.S. Government contracts | (128) | (110) |
| Billings on contracts in progress | (2,239) | (1,915) |
| | <u>\$ 5,006</u> | <u>\$ 4,420</u> |

Raw materials, work-in-process and finished goods are net of valuation reserves of \$686 million and \$692 million as of December 31, 2004 and 2003, respectively. In 2004, UTC reclassified approximately \$626 million of prior year amounts from inventory to accrued liabilities.

Contracts in progress principally relate to elevator and escalator contracts and include costs of manufactured components, accumulated installation costs and estimated earnings on incomplete contracts.

UTC's sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months at December 31, 2004 and 2003. Approximately 53% of total inventories and contracts in progress have been acquired or manufactured under such long-term contracts, a portion of which is not scheduled for delivery under long-term contracts within the next twelve months.

[note 6] Fixed Assets

| IN MILLIONS OF DOLLARS | Estimated Useful Lives | 2004 | 2003 |
|-------------------------------------|------------------------|-----------------|-----------------|
| Land | | \$ 240 | \$ 217 |
| Buildings and improvements | 20-40 years | 4,143 | 4,026 |
| Machinery, tools and equipment | 3-20 years | 7,959 | 7,597 |
| Other, including under construction | | 394 | 242 |
| | | <u>12,736</u> | <u>12,082</u> |
| Accumulated depreciation | | (7,505) | (7,002) |
| | | <u>\$ 5,231</u> | <u>\$ 5,080</u> |

Depreciation expense was \$793 million in 2004, \$677 million in 2003 and \$640 million in 2002.

[note 7] Accrued Liabilities

| IN MILLIONS OF DOLLARS | 2004 | 2003 |
|--|----------------|----------------|
| Advances on sales contracts and service billings | \$2,208 | \$1,808 |
| Accrued salaries, wages and employee benefits | 1,627 | 1,291 |
| Litigation and contract matters | 823 | 825 |
| Service and warranty | 465 | 534 |
| Income taxes payable | 351 | 521 |
| Accrued restructuring costs | 380 | 100 |
| Other | 2,243 | 2,186 |
| | <u>\$8,097</u> | <u>\$7,265</u> |

[note 8] Borrowings and Lines of Credit

Short-term borrowings consist of the following:

| IN MILLIONS OF DOLLARS | 2004 | 2003 |
|-------------------------|----------------|--------------|
| Domestic borrowings | \$ 14 | \$ 8 |
| Foreign bank borrowings | 302 | 321 |
| Commercial paper | 1,004 | 340 |
| | <u>\$1,320</u> | <u>\$669</u> |

The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 2004 and 2003 were 3.3% and 3.2%, respectively. At December 31, 2004, approximately \$1.7 billion was available under short-term lines of credit with local banks at UTC's various domestic

and international subsidiaries.

At December 31, 2004, UTC had credit commitments from banks under two revolving credit agreements, the first of which for \$1.5 billion serves as back-up facility for issuance of commercial paper. The second, for \$2.5 billion, is in support of UTC's offer to acquire Kidde. There were no borrowings under these revolving credit agreements at December 31, 2004.

Long-term debt consists of the following:

| IN MILLIONS OF DOLLARS | Weighted Average Interest Rate | Maturity | 2004 | 2003 |
|---|--------------------------------------|-----------|----------------|---------|
| Notes and other debt denominated in: | | | | |
| U.S. dollars | 6.7% | 2005-2029 | \$4,063 | \$4,407 |
| Foreign currency | 5.0% | 2005-2018 | 44 | 27 |
| ESOP debt | 7.7% | 2005-2009 | 164 | 198 |
| | | | 4,271 | 4,632 |
| Less: Long-term debt currently due | | | 40 | 375 |
| | | | \$4,231 | \$4,257 |

Principal payments required on long-term debt for the next five years are: \$40 million in 2005, \$704 million in 2006, \$37 million in 2007, \$37 million in 2008, and \$435 million in 2009.

UTC has entered into \$200 million and \$225 million of interest rate contracts in 2004 and 2003, respectively, which swap fixed interest rates for floating rates. The expiration dates of the various contracts are tied to scheduled debt payment dates and extend to 2006.

At December 31, 2004, approximately \$2 billion of additional debt and equity securities could be issued under shelf registration statements on file with the Securities and Exchange Commission.

The percentage of total debt at floating interest rates was 34% and 26% at December 31, 2004 and 2003, respectively.

[note 9] Taxes on Income

Significant components of income tax provision (benefit) for each year are as follows:

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|--|----------------|----------------|--------------|
| Current: | | | |
| United States: | | | |
| Federal | \$ 186 | \$ 125 | \$116 |
| State | 52 | 47 | 15 |
| Foreign | 638 | 515 | 438 |
| | <u>876</u> | <u>687</u> | <u>569</u> |
| Future: | | | |
| United States: | | | |
| Federal | 295 | 290 | 321 |
| State | (39) | (77) | 19 |
| Foreign | (47) | 41 | (22) |
| | <u>209</u> | <u>254</u> | <u>318</u> |
| Income tax expense | \$1,085 | \$ 941 | \$887 |
| Attributable to items credited (charged) to equity and goodwill | \$ 150 | \$(240) | \$912 |

Future income taxes represent the tax effects of transactions, which are reported in different periods for tax and financial reporting purposes. These amounts consist of the tax effects of temporary differences between the tax and financial reporting balance sheets and tax carryforwards. The tax effects of temporary differences and tax carryforwards which gave rise to future income tax benefits and payables at December 31, 2004 and 2003 are as follows:

| IN MILLIONS OF DOLLARS | 2004 | 2003 |
|-------------------------------------|----------------|----------------|
| Future income tax benefits: | | |
| Insurance and employee benefits | \$ 771 | \$1,024 |
| Other asset basis differences | 343 | 285 |
| Other liability basis differences | 1,143 | 1,092 |
| Tax loss carryforwards | 387 | 287 |
| Tax credit carryforwards | 388 | 444 |
| Valuation allowance | (467) | (477) |
| | <u>\$2,565</u> | <u>\$2,655</u> |
| Future income taxes payable: | | |
| Fixed and intangible assets | \$ 381 | \$ 376 |
| Other items, net | 322 | 173 |
| | <u>\$ 703</u> | <u>\$ 549</u> |

Current and non-current future income tax benefits and payables within the same tax jurisdiction are generally offset for presentation in the Consolidated Balance Sheet. Valuation allowances have been established primarily for tax credit, tax loss carryforwards, and certain foreign temporary differences to reduce the future income tax benefits to expected realizable amounts. Of the total valuation allowance amount of \$467 million, \$244 million was established in purchase accounting, relating primarily to the purchase of Chubb. Subsequently recognized tax benefits associated with a valuation allowance recorded in a business combination will be recorded as an adjustment to goodwill.

The sources of income from continuing operations before income taxes and minority interests are:

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|------------------------|-----------------------|-----------------------|-----------------------|
| United States | \$1,952 | \$1,582 | \$1,899 |
| Foreign | 2,155 | 1,888 | 1,377 |
| | <u>\$4,107</u> | <u>\$3,470</u> | <u>\$3,276</u> |

United States income taxes have not been provided on undistributed earnings of international subsidiaries. It is not practicable to estimate the amount of tax that might be payable. UTC's intention is to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so. Accordingly, UTC believes that any U.S. tax on repatriated earnings would be substantially offset by U.S. foreign tax credits.

The American Jobs Creation Act, signed into law in October of 2004, provides UTC an opportunity to repatriate up to \$500 million of reinvested foreign earnings and to claim an 85% dividend received deduction against the repatriated amount. UTC is evaluating the effects of the repatriation provision and expects to make a decision on implementation later in 2005.

Differences between effective income tax rates and the statutory U.S. federal income tax rates are as follows:

| | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|---|--------------|-------------|-------------|
| Statutory U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| Tax on international activities including exports | (7.8) | (4.2) | (7.0) |
| Benefit from non-core business losses | — | (3.9) | (0.7) |
| Tax audit settlement | (1.8) | — | — |
| Other | 1.0 | 0.2 | (0.2) |
| Effective income tax rate | 26.4% | 27.1% | 27.1% |

The effective tax rate for 2004, 2003 and 2002 reflects the tax benefit associated with the lower tax rate on international earnings.

The 2004 rate includes the favorable impact of the settlement of federal tax claims and other disputed items related to tax years 1986 to 1993.

The 2003 rate also benefits from a tax loss associated with a non-core business (3.9%) substantially offset by a reduced benefit (3.8%) from international activities attributable to recognition of foreign taxes as deductions and not credits for U.S. income tax purposes. The tax loss was attributable to a worthless stock deduction UTC was entitled to in 2003, relating primarily to a diminution in value of its subsidiary, International Comfort Products, USA (ICP, USA) and other events that fixed the loss in 2003, which included the transfer of certain of ICP, USA's assets to Carrier and the sale of ICP, USA to a third party. The third party sale of the ICP assets did not result in a significant loss for financial accounting purposes.

The effective tax rate for 2002 reflects the benefit of increased use of certain tax-planning strategies, including utilization of a capital loss carryback.

Tax credit carryforwards at December 31, 2004 were \$388 million, of which \$147 million expire as follows: \$12 million expire from 2005 – 2009, \$4 million from 2010 – 2014, and \$131 million from 2015 – 2024.

Tax loss carryforwards, principally state and foreign, at December 31, 2004 were \$2,013 million of which \$1,388 million expire as follows: \$376 million from 2005-2009, \$145 million from 2010-2014, and \$867 million from 2015-2024.

[note 10] Employee Benefit Plans

UTC and its subsidiaries sponsor numerous domestic and foreign employee benefit plans, which are discussed below.

EMPLOYEE SAVINGS PLANS. UTC and certain subsidiaries sponsor various employee savings plans. UTC's contributions to employer sponsored defined contribution plans were \$145 million, \$122 million and \$111 million for 2004, 2003 and 2002, respectively.

UTC's non-union domestic employee savings plan uses an Employee Stock Ownership Plan (ESOP) for employer contributions. External borrowings, guaranteed by UTC and reported as debt in the Consolidated Balance Sheet, were used by the ESOP to fund a portion of its purchase of ESOP Convertible Preferred Stock (ESOP Preferred Stock) from UTC. On November 6, 2003, UTC and Trustee effected the conversion of all 10.6 million outstanding shares of ESOP Preferred Stock into 42.5 million shares of Common Stock. At the time of the conversion, each share of ESOP Preferred Stock was convertible into four shares of Common Stock, had a guaranteed minimum value of \$65, a \$4.80 annual dividend and was redeemable by UTC at any time for \$65 per share. Because of its guaranteed value, the ESOP Preferred Stock was classified outside of Shareowners' Equity. In the December 31, 2003 balance sheet, Common Stock held by the ESOP and committed to employees is classified as permanent equity because it no longer has a guaranteed value. Common Stock held by the ESOP is included in the average number of Common Shares outstanding for both basic and diluted earnings per share.

Shares of Common Stock are credited to employees' ESOP accounts at fair value on the date earned. Cash dividends on Common Stock held by the ESOP are used for debt service payments. Participants receive additional shares in lieu of cash dividends. As ESOP debt service payments are made, Common Stock is released from an unreleased shares account. ESOP debt may be prepaid or re-amortized to either increase or decrease the number of shares released so that the value of released shares equals the value of plan benefit. UTC may also, at its option, contribute additional Common Stock or cash to the ESOP. At December 31, 2004, 24.3 million common shares had been committed to employees, leaving 15.6 million common shares in the ESOP Trust, with an approximate fair value of \$1.6 billion.

PENSION PLANS. UTC and its subsidiaries sponsor both funded and unfunded domestic and foreign defined benefit pension plans that cover the majority of its employees.

UTC uses a November 30 measurement date for a majority of its pension plans.

IN MILLIONS OF DOLLARS

| | 2004 | 2003 |
|---|-----------------|-----------------|
| Change in Benefit Obligation: | | |
| Beginning balance | \$17,226 | \$13,925 |
| Service cost | 347 | 293 |
| Interest cost | 1,032 | 948 |
| Actuarial loss | 629 | 727 |
| Total benefits paid | (1,009) | (862) |
| Net settlement and curtailment (gain) loss | (25) | 3 |
| Acquisitions | 236 | 1,800 |
| Other | 375 | 392 |
| Ending balance | <u>\$18,811</u> | <u>\$17,226</u> |
| Change in Plan Assets: | | |
| Beginning balance | \$13,498 | \$10,025 |
| Actual return on plan assets | 1,872 | 1,979 |
| Employer contributions | 1,016 | 1,009 |
| Benefits paid from plan assets | (958) | (837) |
| Acquisitions | 63 | 1,176 |
| Other | 181 | 146 |
| Ending balance | <u>\$15,672</u> | <u>\$13,498</u> |
| Funded status | \$ (3,139) | \$ (3,728) |
| Unrecognized net actuarial loss | 4,791 | 4,867 |
| Unrecognized prior service cost | 244 | 225 |
| Unrecognized net transition obligation | 17 | 4 |
| Net amount recognized | <u>\$ 1,913</u> | <u>\$ 1,368</u> |
| Amounts Recognized in the Consolidated Balance Sheet Consist of: | | |
| Prepaid benefit cost | \$ 2,756 | \$ 2,365 |
| Accrued benefit cost | (3,377) | (3,594) |
| Intangible assets | 75 | 78 |
| Accumulated other non-shareowners' changes in equity | 2,459 | 2,519 |
| Net amount recognized | <u>\$ 1,913</u> | <u>\$ 1,368</u> |

The amounts included in Other in the preceding table reflect the impact of foreign exchange translation, primarily for plans in England and Canada, and amendments to certain domestic plans.

The accumulated benefit obligation for all defined benefit pension plans was \$17.2 billion and \$15.6 billion at December 31, 2004 and 2003,

respectively.

Qualified domestic pension plan benefits comprise approximately 74% of the projected benefit obligation. Benefits for union employees are generally based on a stated amount for each year of service. For non-union employees, benefits are generally based on an employee's years of service and compensation near retirement. A cash balance formula was adopted in 2003 for newly hired non-union employees and for other non-union employees who made a one-time voluntary election to have future benefit accruals determined under this formula. Certain foreign plans, which comprise approximately 25% of the projected benefit obligation, are considered defined benefit plans for accounting purposes. Non-qualified domestic pension plans provide supplementary retirement benefits to certain employees and are not a material component of the projected benefit obligation.

During 2004 and 2003, UTC voluntarily contributed cash of \$906 million and \$994 million, respectively, to its defined benefit pension plans.

IN MILLIONS OF DOLLARS

| | <u>2004</u> | <u>2003</u> |
|---|---------------|----------------|
| Decrease in minimum pension liability included in comprehensive income (net of tax) | \$(32) | \$(570) |

Information for pension plans with accumulated benefit obligation in excess of plan assets:

IN MILLIONS OF DOLLARS

| | 2004 | 2003 |
|--------------------------------|----------|----------|
| Projected benefit obligation | \$15,455 | \$14,460 |
| Accumulated benefit obligation | 13,942 | 12,800 |
| Fair value of plan assets | 12,151 | 10,657 |

IN MILLIONS OF DOLLARS

| | 2004 | 2003 | 2002 |
|--|---------|---------|---------|
| Components of Net Periodic Benefit Cost: | | | |
| Pension Benefits: | | | |
| Service cost | \$ 347 | \$ 293 | \$ 255 |
| Interest cost | 1,032 | 948 | 884 |
| Expected return on plan assets | (1,261) | (1,140) | (1,116) |
| Amortization of prior service cost | 27 | 28 | 39 |
| Amortization of unrecognized net transition obligation | 3 | 2 | 2 |
| Recognized actuarial net loss | 145 | 49 | 4 |
| Net settlement and curtailment loss | 53 | 49 | 37 |
| Net periodic pension benefit cost – employer | \$ 346 | \$ 229 | \$ 105 |

Contributions to multiemployer plans were \$101 million, \$76 million and \$55 million for 2004, 2003 and 2002, respectively.

Major assumptions used in determining the benefit obligation and net cost for pension plans are presented in the following table as weighted-averages:

| | Benefit Obligation | | Net Cost | | |
|--------------------------------|--------------------|------|----------|------|------|
| | 2004 | 2003 | 2004 | 2003 | 2002 |
| Discount rate | 5.9% | 6.1% | 6.1% | 6.6% | 7.4% |
| Salary scale | 4.0% | 4.0% | 4.0% | 4.4% | 4.7% |
| Expected return on plan assets | — | — | 8.3% | 8.4% | 9.6% |

In determining the expected return on plan assets, UTC considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, UTC may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

Asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk and providing adequate liquidity to meet immediate and future benefit payment requirements.

The allocation of pension plan assets is as follows:

| Asset Category | Target Allocation | Percentage of Plan Assets | |
|-------------------|-------------------|---------------------------|------|
| | 2005 | 2004 | 2003 |
| Equity securities | 65%-75% | 72% | 72% |
| Debt securities | 15%-25% | 20% | 20% |
| Real estate | 0%-5% | 4% | 3% |
| Other | 0%-7% | 4% | 5% |
| | | 100% | 100% |

Total plan assets include approximately 4% and 5% of UTC's Common Stock at December 31, 2004 and 2003, respectively. Assets are rebalanced to the target asset allocation at least once per calendar quarter.

Estimated Future Contributions and Benefit Payments

UTC expects to make voluntary contributions of approximately \$500 million in cash to its defined benefit pension plans in 2005. Contributions do not reflect benefits to be paid directly from corporate assets.

Benefit payments, including amounts to be paid from corporate assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

IN MILLIONS OF DOLLARS

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010-2014 |
|-------|---------|---------|---------|---------|-----------|
| \$992 | \$1,011 | \$1,038 | \$1,067 | \$1,104 | \$ 5,928 |

POSTRETIREMENT BENEFIT PLANS. UTC and its subsidiaries also sponsor a number of postretirement benefit plans that provide health and life benefits to eligible retirees. Such benefits are provided primarily from domestic plans, which comprise approximately 90% of the benefit obligation. The postretirement plans are primarily unfunded. The allocation of assets in funded plans is approximately 70% equity and 30% fixed income.

Certain employees are covered under legacy benefit provisions that include prescription drug coverage for Medicare-eligible retirees. In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a plan sponsor subsidy based on a percentage of a beneficiary's annual prescription drug benefits, within defined limits, and the opportunity for a retiree to obtain prescription drug benefits under Medicare. The impact of the subsidy on the postretirement benefit obligation and net periodic cost was not material in 2004.

UTC uses a November 30 measurement date for a majority of its postretirement benefit plans.

| IN MILLIONS OF DOLLARS | 2004 | 2003 |
|---|------------------|------------------|
| Change in Benefit Obligation: | | |
| Beginning balance | \$ 1,065 | \$ 997 |
| Service cost | 7 | 8 |
| Interest cost | 61 | 65 |
| Actuarial (gain) loss | (35) | 77 |
| Total benefits paid | (98) | (94) |
| Net settlement and curtailment loss | 6 | 8 |
| Other | (5) | 4 |
| Ending balance | <u>\$ 1,001</u> | <u>\$ 1,065</u> |
| Change in Plan Assets: | | |
| Beginning balance | \$ 55 | \$ 53 |
| Actual return on plan assets | 10 | 4 |
| Employer contributions | 2 | 7 |
| Benefits paid from plan assets | (9) | (11) |
| Other | 1 | 2 |
| Ending balance | <u>\$ 59</u> | <u>\$ 55</u> |
| Funded status | \$ (942) | \$(1,010) |
| Unrecognized net actuarial gain | (39) | (8) |
| Unrecognized prior service cost | (65) | (74) |
| Net amount recognized | <u>\$(1,046)</u> | <u>\$(1,092)</u> |
| Amounts Recognized in the Consolidated Balance Sheet Consist of: | | |
| Accrued benefit liability | <u>\$(1,046)</u> | <u>\$(1,092)</u> |

IN MILLIONS OF DOLLARS

| | 2004 | 2003 | 2002 |
|---|--------------|--------------|-------------|
| Components of Net Periodic Benefit Cost: | | | |
| Other Postretirement Benefits: | | | |
| Service cost | \$ 7 | \$ 8 | \$ 11 |
| Interest cost | 61 | 64 | 73 |
| Expected return on plan assets | (4) | (4) | (5) |
| Amortization of prior service cost | (23) | (21) | (19) |
| Net settlement and curtailment gain | (5) | (15) | (57) |
| Net periodic other postretirement benefit cost | \$ 36 | \$ 32 | \$ 3 |

During 2002, UTC modified the postretirement medical and life insurance benefits provided to certain employees, resulting in the recognition of a \$43 million curtailment gain. The gain was recorded in segment cost of products sold and selling, general and administrative expenses.

Major assumptions used in determining the benefit obligation and net cost for postretirement plans are presented in the following table as weighted-averages:

| | Benefit Obligation | | Net Cost | | |
|--------------------------------|-----------------------|------|----------|------|------|
| | 2004 | 2003 | 2004 | 2003 | 2002 |
| Discount rate | 6.0% | 6.3% | 6.3% | 6.7% | 7.5% |
| Expected return on plan assets | — | — | 7.5% | 8.3% | 9.6% |

Assumed health care cost trend rates are as follows:

| | 2004 | 2003 |
|--|------|------|
| Health care cost trend rate assumed for next year | 10% | 10% |
| Rate that the cost trend rate gradually declines to | 5% | 5% |
| Year that the rate reaches the rate it is assumed to remain at | 2015 | 2014 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | 2004 One-Percentage-Point | |
|---|------------------------------|----------|
| | Increase | Decrease |
| Effect on total service and interest cost | 3 | (3) |
| Effect on postretirement benefit obligation | 40 | (38) |

Estimated Future Benefit Payments. Benefit payments, including net amounts to be paid from corporate assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

| IN MILLIONS OF DOLLARS | | | | | |
|------------------------|------|------|------|------|-----------|
| 2005 | 2006 | 2007 | 2008 | 2009 | 2010-2014 |
| \$ 96 | \$94 | \$93 | \$90 | \$86 | \$ 374 |

STOCK-BASED COMPENSATION. UTC has long-term incentive plans authorizing various types of market and performance-based incentive awards, which may be granted to officers and employees. UTC's Long-Term Incentive Plan provides for the annual grant of awards in an amount not to exceed 2% of the aggregate shares of Common Stock, treasury shares and potentially dilutive common shares for the preceding year. The Long-Term Incentive Plan has a ten year term from the date of the most recent shareowner approval and will expire April 24, 2005. In addition, up to 4 million options on Common Stock may be granted annually under UTC's Employee Stock Option Plan. No more than 20 million shares, in the aggregate, may be granted after June 30, 2003.

A summary of the transactions under all plans for the three years ended December 31, 2004 follows:

| SHARES AND UNITS IN THOUSANDS | Stock Options | | |
|-------------------------------|---------------|------------------|------------------------------------|
| | Shares | Average Price | Other Incentive Shares/Units |
| Outstanding at: | | | |
| December 31, 2001 | 43,149 | \$48.85 | 394 |
| Granted | 10,313 | 65.18 | 280 |
| Exercised/earned | (4,031) | 32.01 | (88) |
| Canceled | (1,383) | 68.99 | (16) |
| December 31, 2002 | 48,048 | \$53.19 | 570 |
| Granted | 6,612 | 62.75 | 47 |
| Exercised/earned | (8,577) | 36.58 | (292) |

| | | | |
|--------------------------|----------------|----------------|--------------|
| Canceled | (993) | 62.14 | (3) |
| December 31, 2003 | 45,090 | \$57.55 | 322 |
| Granted | 8,074 | 93.36 | 387 |
| Exercised/earned | (8,472) | 44.09 | (109) |
| Canceled | (953) | 69.06 | (249) |
| December 31, 2004 | 43,739 | \$66.51 | 351 |

Granted options in the above table include options issued in connection with business combinations.

The following table summarizes information about stock options outstanding and exercisable (in thousands) at December 31, 2004:

| Exercise Price | Options Outstanding | | | Options Exercisable | |
|------------------|---------------------|---------------|----------------|---------------------|---------------|
| | Shares | Average Price | Remaining Term | Shares | Average Price |
| \$15.01-\$30.00 | 1,255 | \$24.73 | 1.0 | 1,255 | \$ 24.73 |
| \$30.01-\$45.00 | 3,956 | \$36.37 | 2.5 | 3,956 | \$ 36.37 |
| \$45.01-\$60.00 | 4,786 | \$52.99 | 3.9 | 4,751 | \$ 52.95 |
| \$60.01-\$75.00 | 20,264 | \$64.96 | 6.6 | 6,294 | \$ 65.51 |
| \$75.01-\$90.00 | 5,892 | \$76.12 | 5.9 | 5,813 | \$ 75.94 |
| \$90.01-\$105.00 | 7,586 | \$94.36 | 9.1 | 5 | \$ 94.92 |

In accordance with SFAS No. 123, "Accounting for Stock Issued to Employees," the fair value of each stock option has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | 2004 | 2003 | 2002 |
|-------------------------|---------|---------|---------|
| Risk-free interest rate | 3.1% | 3.0% | 4.4% |
| Expected life | 5 years | 5 years | 5 years |
| Expected volatility | 38% | 39% | 39% |
| Expected dividend yield | 1.5% | 1.8% | 1.6% |

A table illustrating the effect on net income and earnings per share as if the Black-Scholes fair value method had been applied to long-term incentive plans is presented in Note 1.

The weighted-average grant date fair values of options granted during 2004, 2003 and 2002 were \$30.88, \$20.82 and \$23.30, respectively.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment." The standard requires that the cost of stock options be measured at fair value on the grant date and recognized in the statement of operations. UTC has elected to adopt the standard effective January 1, 2005 using the modified retrospective method described in the standard. Accordingly, beginning with the first quarter of 2005, all periods prior to January 1, 2005 will be restated to reflect the impact of the standard as if it had been adopted on January 1, 1995, the original effective date of SFAS No. 123. In accordance with the standard, the amounts that will be reported in the statement of operations for the restated periods will be the pro forma amounts previously reported under SFAS No. 123 using a Black-Scholes valuation. Awards granted after January 1, 2005 will be valued using a binomial lattice model.

[note 11] Restructuring

During 2004, UTC recorded net pre-tax restructuring and related charges totaling \$632 million for new and ongoing restructuring actions. UTC recorded charges in the segments as follows: Otis \$144 million, Carrier \$241 million, Pratt & Whitney \$152 million, Hamilton Sundstrand \$71 million, Sikorsky \$9 million and Eliminations and other \$15 million. The charges include \$546 million in cost of sales, \$74 million in selling, general and administrative expenses and \$12 million in other income. As described below, these charges relate to actions initiated during 2004 and 2003. For a discussion of restructuring actions associated with business acquisitions, see Note 2.

2004 Actions. During 2004, UTC initiated restructuring actions relating to ongoing cost reduction efforts, including global workforce reductions and the consolidation of manufacturing, sales and service facilities including Carrier's McMinnville, Tennessee commercial air conditioning and ventilation product manufacturing facility, Otis' Stadthagen, Germany escalator manufacturing facility and Pratt & Whitney's Space Propulsion facility located in San Jose, California. During 2004, net pre-tax restructuring and related charges, totaling \$542 million, included \$458 million recorded in cost of sales, \$72 million in selling, general and administrative expenses and \$12 million in other income.

The 2004 actions that have occurred during the year resulted in net workforce reductions of approximately 3,500 employees and the exiting of 1.0 million net square feet of facilities. The remaining workforce and facility related cost reductions are targeted for completion during 2005 and early 2006.

The following table summarizes the restructuring accrual balances and utilization by cost type for the 2004 programs:

| IN MILLIONS OF DOLLARS | Severance | Asset Write-downs | Facility Exit and Lease Termination Costs | Total |
|-------------------------------------|---------------|-------------------|---|---------------|
| Net pre-tax charges | \$ 324 | \$ 79 | \$ 139 | \$ 542 |
| Utilization | (118) | (79) | (128) | (325) |
| Balance at December 31, 2004 | \$ 206 | \$ — | \$ 11 | \$ 217 |

The following table summarizes expected, incurred and remaining costs for the 2004 programs by type:

| IN MILLIONS OF DOLLARS | Severance | Asset Write-downs | Facility Exit and Lease Termination Costs | Total |
|---|--------------|-------------------|---|---------------|
| Expected costs | \$ 341 | \$ 79 | \$ 249 | \$ 669 |
| Costs incurred through December 31, 2004 | (324) | (79) | (139) | (542) |
| Remaining costs at December 31, 2004 | \$ 17 | \$ — | \$ 110 | \$ 127 |

The following table summarizes expected, incurred and remaining costs for the 2004 programs by segment:

| IN MILLIONS OF DOLLARS | Expected Costs | Costs Incurred through December 31, 2004 | Remaining Costs at December 31, 2004 |
|------------------------|----------------|--|--------------------------------------|
| Otis | \$ 126 | \$ (120) | \$ 6 |
| Carrier | 205 | (179) | 26 |
| Pratt & Whitney | 179 | (149) | 30 |
| Hamilton Sundstrand | 135 | (70) | 65 |
| Sikorsky | 9 | (9) | — |
| Eliminations & Other | 15 | (15) | — |

| | | | |
|-------|--------|----------|--------|
| Total | \$ 669 | \$ (542) | \$ 127 |
|-------|--------|----------|--------|

2003 Actions. During 2004, UTC recorded net pre-tax restructuring and related charges of \$90 million for actions initiated during 2003. The charges relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of manufacturing, sales and service facilities including Carrier's Syracuse, New York-based container refrigeration and compressor manufacturing operations and Otis' Bloomington, Indiana-based manufacturing, distribution

and field tool operations. The charges included \$88 million recorded in cost of sales and \$2 million in selling, general and administrative expenses.

As of December 31, 2004, net workforce reductions of approximately 4,000 employees have been completed and 1.5 million net square feet of facilities have been exited since the actions were initiated. The balance of the remaining workforce and facility related cost reduction actions are targeted for completion through early 2005.

The following table summarizes the restructuring accrual balances and utilization by cost type for the 2003 programs:

| IN MILLIONS OF DOLLARS | Severance | Facility Exit and Lease Termination Costs | Total |
|-------------------------------------|--------------|--|--------------|
| Balance at January 1, 2004 | \$ 92 | \$ 8 | \$ 100 |
| Net pre-tax charges | 21 | 69 | 90 |
| Utilization | (100) | (70) | (170) |
| Balance at December 31, 2004 | \$ 13 | \$ 7 | \$ 20 |

The following table summarizes expected, incurred and remaining costs for the 2003 programs by type:

| IN MILLIONS OF DOLLARS | Severance | Asset Write- downs | Facility Exit and Lease Termination Costs | Total |
|---|-------------|--------------------------|--|-------------|
| Expected costs | \$ 171 | \$ 8 | \$ 116 | \$ 295 |
| Costs incurred through December 31, 2003 | (150) | (8) | (41) | (199) |
| Costs incurred through December 31, 2004 | (21) | (—) | (69) | (90) |
| Remaining costs at December 31, 2004 | \$ — | \$ — | \$ 6 | \$ 6 |

The following table summarizes expected, incurred and remaining costs for the 2003 programs by segment:

| IN MILLIONS OF DOLLARS | Expected Costs | Costs Incurred through December 31, 2003 | Costs Incurred through December 31, 2004 | Remaining Costs at December 31, 2004 |
|------------------------|-------------------|--|--|---|
| Otis | \$ 97 | \$ (71) | \$ (24) | \$ 2 |
| Carrier | 130 | (65) | (62) | 3 |
| Pratt & Whitney | 31 | (27) | (3) | 1 |
| Hamilton Sundstrand | 27 | (26) | (1) | — |
| Eliminations & Other | 10 | (10) | — | — |
| Total | \$ 295 | \$ (199) | \$ (90) | \$ 6 |

[note 12] Foreign Exchange

UTC conducts business in many different currencies and, accordingly, is subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of UTC's foreign subsidiaries are measured using the local currency as the functional currency. Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the respective balance sheet dates, and income and expense items are translated at the average exchange rates during the respective periods. The aggregate effects of translating the balance sheets of these subsidiaries are deferred as a separate component of Shareowners' Equity. UTC had foreign currency net assets in more than forty currencies, aggregating \$8.5 billion and \$6.5 billion at December 31, 2004 and 2003, respectively.

The notional amount of foreign exchange contracts hedging foreign currency transactions was \$5.7 billion and \$4.9 billion at December 31, 2004 and 2003, respectively.

[note 13] Financial Instruments

UTC operates internationally and, in the normal course of business, is exposed to fluctuations in interest rates, foreign exchange rates and commodity prices. These fluctuations can increase the costs of financing, investing and operating the business. UTC manages its foreign currency transaction risks and some commodity exposures to acceptable limits through the use of derivatives designated as hedges.

By nature, all financial instruments involve market and credit risks. UTC enters into derivative and other financial instruments with major investment grade financial institutions and has policies to monitor the credit risk of those counterparties. UTC limits counterparty exposure and concentration of risk by diversifying counterparties. UTC does not anticipate non-performance by any of these counterparties.

The non-shareowner changes in equity associated with hedging activity for the twelve months ended December 31, 2004 and 2003 were as follows:

| IN MILLIONS OF DOLLARS | 2004 | 2003 |
|-----------------------------|-------|------|
| Balance at January 1 | \$ 55 | \$ 4 |
| Cash flow hedging gain, net | 86 | 66 |

| | | |
|---|--------------|--------------|
| Net (gain) reclassified to sales or cost of products sold | <u>(76)</u> | <u>(15)</u> |
| Balance at December 31 | <u>\$ 65</u> | <u>\$ 55</u> |

Of the amount recorded in Shareowners' Equity, a \$67 million pre-tax gain is expected to be reclassified into sales or cost of products sold to reflect the fixed prices obtained from hedging within the next twelve months. Gains and losses recognized in earnings related to the discontinuance or the ineffectiveness of cash flow and fair value hedges were immaterial for the years ended December 31, 2004 and 2003. At December 31, 2004, all derivative contracts accounted for as cash flow hedges mature by October 2009.

All derivative instruments are recorded on the balance sheet at fair value. At December 31, 2004 and 2003, the fair value of derivatives recorded as assets is \$165 million and \$162 million, respectively, and the fair value of derivatives recorded as liabilities is \$43 million and \$56 million, respectively. UTC uses derivatives to hedge forecasted cash flows associated with foreign currency commitments or forecasted commodity purchases, which are

accounted for as cash flow hedges. In addition, UTC uses derivatives, such as interest rate swaps, which are accounted for as fair value hedges.

The carrying amounts and fair values of financial instruments at December 31 are as follows:

| IN MILLIONS OF DOLLARS | 2004 | | 2003 | |
|---|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets and Liabilities | | | | |
| Marketable equity securities | \$ 746 | \$ 746 | \$ 79 | \$ 79 |
| Long-term receivables | 170 | 166 | 128 | 125 |
| Customer financing note receivables | 483 | 465 | 439 | 425 |
| Short-term borrowings | (1,320) | (1,320) | (669) | (669) |
| Long-term debt | (4,243) | (4,941) | (4,614) | (5,363) |

The above fair values were computed based on comparable transactions, quoted market prices, discounted future cash flows or an estimate of the amount to be received or paid to terminate or settle the agreement, as applicable.

The values of marketable equity securities represent UTC's investment in common stock that is classified as available for sale and is accounted for at fair value. The increase in marketable equity securities primarily reflects the initial purchase of Kidde shares.

UTC had outstanding financing and rental commitments totaling \$838 million at December 31, 2004. Risks associated with changes in interest rates on these commitments are mitigated by the fact that interest rates are variable during the commitment term and are set at the date of funding based on current market conditions, the fair value of the underlying collateral and the credit worthiness of the customers. As a result, the fair value of these financings is expected to equal the amounts funded.

The fair value of the commitment itself is not readily determinable and is not considered significant. Additional information pertaining to these commitments is included in Note 4.

[note 14] Guarantees

UTC extends a variety of financial guarantees to third parties. As of December 31, 2004 and 2003 the following financial guarantees were outstanding:

| IN MILLIONS OF DOLLARS | 2004 | | 2003 | |
|--|---------------------------|------------------------------|---------------------------|------------------------------|
| | Maximum Potential Payment | Carrying Amount of Liability | Maximum Potential Payment | Carrying Amount of Liability |
| Credit facilities and debt obligations - unconsolidated subsidiaries (expire 2005 to 2010) | \$ 160 | \$ 4 | \$ 191 | \$ 9 |
| IAE's financing arrangements (See Note 4) | 1,224 | 22 | 1,406 | 22 |
| Commercial aerospace financing arrangements (See Note 4) | 163 | 31 | 160 | 36 |
| Commercial customer financing arrangements | 61 | 1 | 66 | 1 |
| Performance guarantees | 111 | — | — | — |

UTC also has obligations arising from sales of certain businesses and assets, including representations and warranties and related indemnities for environmental, health and safety, tax and employment matters. The maximum potential payment related to these obligations is not a specified amount as a number of the obligations do not contain financial caps. The carrying amount of liabilities related to these obligations was \$156 million and \$191 million at December 31, 2004 and 2003, respectively. For additional information regarding the environmental indemnifications, see Note 15.

UTC accrues for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued. In accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," for guarantees issued after December 31, 2002, UTC records a liability for the fair value of such guarantees in the balance sheet.

UTC provides service and warranty policies on its products and extends performance and operating cost guarantees beyond its normal service and warranty policies on some of its products, particularly commercial aircraft engines. In addition, UTC incurs discretionary costs to service its products in connection with product performance issues. Liability for performance and operating cost guarantees is based upon future product performance and durability, and is estimated largely based upon historical experience. Adjustments are made to accruals as claim data and historical experience warrant. The changes in the carrying amount of service and product warranties and product performance guarantees for the years ended December 31, 2004 and 2003, are as follows:

| IN MILLIONS OF DOLLARS | 2004 | 2003 |
|----------------------------------|----------------|----------------|
| Balance as of January 1 | \$1,161 | \$1,116 |
| Warranties and guarantees issued | 453 | 448 |
| Settlements made | (433) | (405) |
| Adjustments to provision | 4 | 2 |
| Balance as of December 31 | \$1,185 | \$1,161 |

[note 15] Commitments and Contingent Liabilities

LEASES. UTC occupies space and uses certain equipment under lease arrangements. Rental commitments of \$1,138 million at December 31, 2004 under long-term noncancelable operating leases are payable as follows: \$330 million in 2005, \$248 million in 2006, \$172 million in 2007, \$116 million in 2008, \$83 million in 2009 and \$189 million thereafter.

Rent expense was \$321 million in 2004, \$261 million in 2003 and \$214 million in 2002.

Additional information pertaining to commercial aerospace rental commitments is included in Note 4.

ENVIRONMENTAL. UTC's operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over its foreign operations. As described in Note 1, UTC has accrued for the costs of environmental remediation activities and periodically reassesses these amounts. Management believes that the likelihood of incurring losses materially in excess of amounts accrued is remote.

GOVERNMENT. UTC is the subject of one or more investigations and legal proceedings initiated by the U.S. Government with respect to government contract matters. UTC believes that in light of the current U.S. Government contracting environment it will be the subject of one or more U.S. Government investigations. If UTC or one of its business units were charged with wrongdoing as a result of any of these investigations or other government investigations (including violations of certain environmental or export laws) it could be suspended from bidding on or receiving awards of new U.S. Government contracts pending the completion of legal proceedings. If convicted or found liable, UTC could be fined and debarred from new U.S. Government contracting for a period generally not to exceed three years. Any contracts found to be tainted by fraud could be voided by the U.S. Government.

UTC's contracts with the U.S. Government are also subject to audits. Like many defense contractors, UTC has received audit reports, which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports have involved substantial amounts. UTC has made voluntary refunds in those cases it believes appropriate and continues to litigate certain cases. In addition, UTC accrues for liabilities associated with those matters that are probable and can be reasonably estimated.

As previously disclosed, in the fourth quarter of 2003, UTC received a demand notice for \$755 million from the U.S. Department of Defense relating to an on-going dispute over Pratt & Whitney's government cost accounting practices for engine parts received from its partners on certain commercial engine collaboration programs from 1984 to the present. The case is currently pending before the Armed Services Board of Contract Appeals (ASBCA).

In addition, and as previously disclosed, the U.S. Department of Justice (DOJ) filed a complaint against UTC in 1999 under the civil False Claims Act and other theories related to the "Fighter Engine Competition" between Pratt & Whitney's F100 engine and GE's F110 engine. The DOJ alleges that the Government overpaid for engines because Pratt & Whitney inflated certain costs and withheld data. The Government claims damages of \$624 million. UTC believes this estimate is substantially overstated, denies any liability and is vigorously defending the matter. Trial of this matter was completed in December 2004 and a decision is expected in 2005.

Should the U.S. Government ultimately prevail with respect to one or more of the significant government contracting matters discussed above the outcome could result in a material effect on UTC's results of operations in the period the matter is resolved. However, UTC believes that the resolution of these matters will not have a material adverse effect on UTC's results of operations, competitive position, cash flows or financial condition.

As previously disclosed, the European Commission's competition directorate (the Commission) conducted inspections in early 2004 at offices of UTC's Otis subsidiary in Berlin, Brussels, Luxembourg and Paris. The inspections relate to the Commission's ongoing investigation of possible unlawful collusive arrangements involving the elevator and escalator industry in Europe. UTC is cooperating fully with the Commission's investigation. Based on the results of its own internal investigation, UTC believes that some Otis employees in limited European locations engaged in activities at a local level in violation of Otis and UTC policies, and may have violated applicable competition law. It is still too early in the Commission's investigation for UTC to reasonably estimate the civil fines to which it would likely be subject. The aggregate amount of such fines, if ultimately imposed, could be material to UTC's operating results for the period in which the liability would be recognized or cash flows for the period in which the fines would be paid. UTC does not believe that any such fines would have a material adverse effect on UTC's financial condition, or that the resolution of this matter would have a material adverse effect on Otis' competitive position.

OTHER. As described in Note 14, UTC extends performance and operating cost guarantees beyond its normal warranty and service policies for extended periods on some of its products. UTC has accrued its estimated liability that may result under these guarantees and for service costs, which are probable and can be reasonably estimated.

UTC has accrued for environmental investigatory, remediation, operating and maintenance costs, performance guarantees and other litigation and claims based on management's estimate of the probable outcome of these matters. While it is possible that the outcome of these matters may differ from the recorded liability, management believes that resolution of these matters will not have a material impact on UTC's financial position, results of operations or cash flows.

UTC also has other commitments and contingent liabilities related to legal proceedings, self insurance programs and matters arising out of the normal course of business.

[note 16] Segment Financial Data

UTC's operations are classified in six principal segments. During the fourth quarter, Hamilton Sundstrand and Sikorsky, formerly aggregated within the Flight Systems segment, are now reported as separate segments. Those segments were generally determined based on the management of the businesses and on the basis of separate groups of operating companies, each with general operating autonomy over diversified products and services.

OTIS products include elevators, escalators, moving walkways, service and spare parts sold to a diversified international customer base principally in the commercial and residential property industries.

CARRIER products include commercial, industrial and residential heating, ventilating and air conditioning (HVAC) systems and equipment, commercial and transport refrigeration systems and equipment, building controls and energy management and air quality systems, and aftermarket service and components.

CHUBB products include electronic security systems and fire detection and suppression, monitoring and rapid response systems, security personnel services and service for a diversified international customer base principally in the commercial and residential property industries.

PRATT & WHITNEY products include commercial, general aviation and military aircraft engines, parts and service, industrial

gas turbines and space propulsion sold to a diversified customer base, including international and domestic commercial airlines and aircraft leasing companies, aircraft manufacturers, and U.S. and foreign governments. Pratt & Whitney also provides product support and a full range of overhaul, repair and fleet management services and produces land-based power generation equipment.

HAMILTON SUNDSTRAND provides aerospace and industrial products for diversified industries. Aerospace products include power generation, management and distribution systems, and flight, engine and environmental control systems, auxiliary power units and propeller systems. Industrial products include air compressors, metering devices, fluid handling equipment and gear drives.

SIKORSKY products include military and commercial helicopters, aftermarket helicopter and aircraft parts and service.

Segment and geographic data include the results of all majority-owned businesses, consistent with the management reporting of these businesses. For certain of these subsidiaries, minority shareholders have rights which, under the provisions of EITF 96-16 "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights," overcome the presumption of control. The participating rights granted by contract to minority shareholders that overcome the presumption of control include minority participation in the appointment, dismissal and compensation of senior management, approval of organizational structure changes, policies, annual operating and capital plans, including approval of merger and acquisition investment activities, and annual dividend plans. These and other participating rights that allow the minority shareholder to participate in decisions that occur as part of the ordinary course of business are represented through the minority shareholder's ability to block actions proposed by the majority interest. In UTC's consolidated results, through the year ended December 31, 2003, these entities were accounted for under the equity method of accounting.

Effective January 1, 2004, UTC adopted the provisions of *FASB Interpretation No. 46R "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51"* ("FIN 46"). This interpretation requires consolidation of variable interest entities if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack certain characteristics. While the adoption of FIN 46 did not have a material impact on UTC's results of operations, financial condition or cash flows in 2004, it did result in the consolidation of certain entities that were previously accounted for under the equity method of accounting under the provisions of EITF 96-16. Adjustments to reconcile segment reporting to consolidated results are included in "Eliminations and other," which also includes certain small subsidiaries.

Segment information for the years ended December 31 is as follows:

Segment Information

| IN MILLIONS OF DOLLARS | Total Revenues | | | Operating Profits | | |
|----------------------------|----------------|----------|----------|-------------------|----------|----------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Otis | \$ 8,999 | \$ 7,927 | \$ 6,811 | \$ 1,504 | \$ 1,377 | \$ 1,057 |
| Carrier | 10,636 | 9,246 | 8,773 | 879 | 911 | 779 |
| Chubb | 2,881 | 1,136 | — | 138 | 55 | — |
| Pratt & Whitney | 8,303 | 7,505 | 7,645 | 1,143 | 1,125 | 1,282 |
| Hamilton Sundstrand | 3,928 | 3,605 | 3,453 | 610 | 582 | 565 |
| Sikorsky | 2,506 | 2,184 | 2,179 | 213 | 203 | 176 |
| Total segment | 37,253 | 31,603 | 28,861 | 4,487 | 4,253 | 3,859 |
| Eliminations and other | 192 | (569) | (649) | 262 | (174) | (27) |
| General corporate expenses | — | — | — | (279) | (234) | (175) |
| Consolidated | \$37,445 | \$31,034 | \$28,212 | \$4,470 | \$3,845 | \$3,657 |

| IN MILLIONS OF DOLLARS | Total Assets | | | Capital Expenditures | | | Depreciation & Amortization | | |
|------------------------|--------------|----------|----------|----------------------|-------|-------|-----------------------------|--------|--------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Otis | \$ 5,939 | \$ 5,572 | \$ 4,734 | \$ 79 | \$ 77 | \$ 81 | \$ 175 | \$ 154 | \$ 138 |
| Carrier | 9,166 | 7,720 | 7,431 | 176 | 89 | 94 | 200 | 182 | 189 |
| Chubb | 4,974 | 4,396 | — | 69 | 16 | — | 95 | 44 | — |
| Pratt & Whitney | 7,366 | 6,648 | 6,082 | 244 | 192 | 257 | 273 | 214 | 209 |
| Hamilton Sundstrand | 7,473 | 6,905 | 6,675 | 134 | 103 | 85 | 129 | 130 | 127 |
| Sikorsky | 1,965 | 1,573 | 1,330 | 46 | 35 | 41 | 42 | 37 | 42 |
| Total segment | 36,883 | 32,814 | 26,252 | 748 | 512 | 558 | 914 | 761 | 705 |
| Eliminations and other | 3,152 | 2,460 | 3,532 | 47 | 18 | 28 | 64 | 38 | 22 |
| Consolidated | \$40,035 | \$35,274 | \$29,784 | \$795 | \$530 | \$586 | \$978 | \$799 | \$727 |

SEGMENT REVENUES AND OPERATING PROFIT. Total revenues by segment include intersegment sales, which are generally made at prices approximating those that the selling entity is able to obtain on external sales.

Geographic Areas

| IN MILLIONS OF DOLLARS | External Revenues | | | Operating Profits | | | Long-Lived Assets | | |
|--------------------------|-------------------|----------|----------|-------------------|---------|---------|-------------------|----------|----------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| United States operations | \$18,519 | \$16,988 | \$16,760 | \$2,091 | \$2,156 | \$2,289 | \$ 8,680 | \$ 8,675 | \$ 8,648 |
| International operations | | | | | | | | | |
| Europe | 9,396 | 7,150 | 5,573 | 1,187 | 970 | 690 | 4,888 | 4,984 | 1,547 |
| Asia Pacific | 5,723 | 4,505 | 3,647 | 796 | 722 | 573 | 2,287 | 1,663 | 1,428 |
| Other | 3,296 | 2,602 | 2,581 | 414 | 404 | 307 | 1,062 | 682 | 521 |
| Eliminations and other | 511 | (211) | (349) | (18) | (407) | (202) | 441 | 300 | 78 |
| Consolidated | \$37,445 | \$31,034 | \$28,212 | \$4,470 | \$3,845 | \$3,657 | \$17,358 | \$16,304 | \$12,222 |

GEOGRAPHIC EXTERNAL REVENUES AND OPERATING PROFIT. Geographic external revenues and operating profits are attributed to the geographic regions based on their location of origin. United States external revenues include export sales to commercial customers outside the U.S. and sales to the U.S. Government, commercial and affiliated customers, which are known to be for resale to customers outside the U.S.

Revenues from United States operations include export sales as follows:

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|------------------------|---------|---------|---------|
| Europe | \$1,126 | \$1,171 | \$1,422 |
| Asia Pacific | 1,309 | 1,145 | 1,594 |
| Other | 1,128 | 1,013 | 1,037 |
| | \$3,563 | \$3,329 | \$4,053 |

GEOGRAPHIC LONG-LIVED ASSETS. Long-lived assets include net fixed assets, goodwill and intangibles, which can be attributed to the specific geographic regions.

MAJOR CUSTOMERS. Revenues include sales under prime contracts and subcontracts to the U.S. Government, primarily related to Pratt & Whitney, Hamilton Sundstrand and Sikorsky products, as follows:

| IN MILLIONS OF DOLLARS | 2004 | 2003 | 2002 |
|------------------------|---------|---------|---------|
| Pratt & Whitney | \$2,990 | \$3,025 | \$2,489 |
| Hamilton Sundstrand | 761 | 681 | 592 |
| Sikorsky | 1,692 | 1,515 | 1,423 |
| Other | 62 | 48 | 50 |
| | \$5,505 | \$5,269 | \$4,554 |

Selected Quarterly Financial Data (Unaudited)

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | 2004 Quarters | | | | 2003 Quarters | | | |
|---|---------------|---------|---------|---------|---------------|---------|---------|---------|
| | First | Second | Third | Fourth | First | Second | Third | Fourth |
| Sales | \$8,357 | \$9,455 | \$9,248 | \$9,640 | \$6,653 | \$7,708 | \$7,875 | \$8,487 |
| Gross margin | 2,087 | 2,484 | 2,451 | 2,457 | 1,787 | 2,089 | 2,162 | 2,177 |
| Net income | 579 | 837 | 722 | 650 | 502 | 632 | 639 | 588 |
| Earnings per share of Common Stock: | | | | | | | | |
| Basic | \$ 1.16 | \$ 1.69 | \$ 1.46 | \$ 1.31 | \$ 1.05 | \$ 1.33 | \$ 1.34 | \$ 1.21 |
| Diluted | \$ 1.14 | \$ 1.66 | \$ 1.43 | \$ 1.29 | \$ 1.00 | \$ 1.26 | \$ 1.27 | \$ 1.16 |

Comparative Stock Data

| | 2004 | | | 2003 | | | |
|----------------|------|----------|----------|---------|---------|----------|---------|
| | High | Low | Dividend | High | Low | Dividend | |
| Common Stock | | | | | | | |
| First quarter | | \$ 97.50 | \$84.05 | \$.350 | \$66.21 | \$54.15 | \$.245 |
| Second quarter | | \$ 91.48 | \$81.50 | \$.350 | \$73.51 | \$58.75 | \$.270 |
| Third quarter | | \$ 95.79 | \$88.31 | \$.350 | \$80.25 | \$71.29 | \$.270 |
| Fourth quarter | | \$105.52 | \$89.90 | \$.350 | \$95.54 | \$79.88 | \$.350 |

UTC's Common Stock is listed on the New York Stock Exchange. The high and low prices are based on the Composite Tape of the New York Stock Exchange. There were approximately 26,000 common shareowners of record at December 31, 2004.

Board of Directors

Betsy J. Bernard

Former President
AT&T Corporation
(Telecommunications)

George David

Chairman and
Chief Executive Officer

Jean-Pierre Garnier

Chief Executive Officer
GlaxoSmithKline plc
(Pharmaceuticals)

Jamie S. Gorelick

Partner
Wilmer Cutler Pickering
Hale and Dorr LLP

Charles R. Lee

Retired Chairman
and Co-Chief Executive Officer
Verizon Communications
(Telecommunications)

Richard D. McCormick

Retired Chairman, President
and Chief Executive Officer
US West, Inc.

Harold McGraw III

Chairman, President and
Chief Executive Officer
The McGraw-Hill Companies
(Global Information Services)

Frank P. Popoff

Retired Chairman and
Chief Executive Officer
The Dow Chemical Company
(Chemicals and Chemical Products)

H. Patrick Swygert

President
Howard University

André Villeneuve

Chairman
Euronext.LIFFE
(London Futures and Derivatives
Exchange)

H. A. Wagner

Retired Chairman
Air Products and Chemicals, Inc.
(Industrial Gases and Chemicals)

Christine Todd Whitman

President
The Whitman Strategy Group

Permanent Committees

Audit Committee

Frank P. Popoff, Chairman
Jamie S. Gorelick
Richard D. McCormick
H. Patrick Swygert
André Villeneuve
H. A. Wagner

Compensation & Executive Development

H. A. Wagner, Chairman
Jean-Pierre Garnier
Charles R. Lee
Richard D. McCormick
Frank P. Popoff

Executive Committee

George David, Chairman
Charles R. Lee
Frank P. Popoff
H. A. Wagner

Finance Committee

Charles R. Lee, Chairman
George David
Jamie S. Gorelick
Harold McGraw III
Frank P. Popoff
André Villeneuve
Christine Todd Whitman

Committee on Nomination and Governance

Richard D. McCormick, Chairman
Betsy J. Bernard
Jean-Pierre Garnier
Charles R. Lee
H. Patrick Swygert
H. A. Wagner

Public Issues Review Committee

Jean-Pierre Garnier, Chairman
Betsy J. Bernard
Jamie S. Gorelick
Harold McGraw III
H. Patrick Swygert
André Villeneuve
Christine Todd Whitman

Leadership

Mario Abajo

President, South Europe and Middle East, Otis

David Adler

Senior Vice President, Worldwide Customer Service, Sikorsky

Tesfaye Aklilu

Vice President, Quality and Manufacturing

Ted F. Amyuni

Senior Vice President, Operations, Carrier

Alain M. Bellemare

President, Pratt & Whitney Canada

Richard H. Bennett, Jr.

Vice President, Environment, Health & Safety

Todd Bluedorn

President, North and South America, Otis

Ari Bousbib

President, Otis

Kent L. Brittan

Vice President, Supply Management

William M. Brown

President, Asia Pacific, Carrier

William L. Bucknall, Jr.

Senior Vice President, Human Resources and Organization

John F. Cassidy, Jr.

Senior Vice President, Science and Technology

Tony Chamberlain

President, Australasia, Chubb

Louis R. Chênevert

President, Pratt & Whitney

Jean Colpin

Director, United Technologies Research Center

Halsey Cook

President, North America Residential, Carrier

Geraud Darnis

President, Carrier

George David

Chairman and Chief Executive Officer

John Doucette

Vice President and Chief Information Officer

Michael R. Dumais

Vice President and General Manager, Customer Service, Hamilton Sundstrand

Thomas E. Farmer

President, Military Engines, Pratt & Whitney

Stephen N. Finger

President, Sikorsky

Kenneth P. Fox

President, North America Commercial, Carrier

James E. Geisler

Vice President, Finance

Bruno Grob

President, North and East Europe, Otis

Gregory J. Hayes

Vice President, Accounting and Control

Stephen N. Heath

President, Commercial Engines, Pratt & Whitney

David P. Hess

President, Hamilton Sundstrand

Darryl Hughes

President, U.K., Ireland & S. Africa, Chubb

Tadayuki Inoue

President, Japan, Otis

George H. Jamison

Vice President, Communications

Todd Kallman

Vice President, Corporate Strategy & Development

James E. Keenan

Senior Vice President and General Manager, Aftermarket Services, Pratt & Whitney

Edwin W. Laprade

President, Industrial, Hamilton Sundstrand

Richard Laubenstein

President, Carrier Transicold

John P. Leary

Vice President, Employee Relations

Robert Leduc

President, Flight Systems, Hamilton Sundstrand

Patrick L'Hostis

President, Europe, Middle East and Africa, Carrier

Arthur W. Lucas

Senior Vice President, Engineering, Pratt & Whitney

Paul W. Martin

Senior Vice President, U.S. Government & Advanced Development Programs, Sikorsky

Ronald F. McKenna

Chairman, Hamilton Sundstrand

Didier Michaud

President, U.K. & Central Europe Area, Otis

Raymond J. Moncini

Senior Vice President, Operations, Otis

Michael Monts

Vice President, Business Practices

Larry O. Moore

Senior Vice President, Module Centers and Operations, Pratt & Whitney

Timothy M. Morris

President, Aerospace Power Systems, Hamilton Sundstrand

Eric Patry

President, Europe, Chubb

Jeffrey P. Pino

Senior Vice President, Marketing & Commercial Programs, Sikorsky

Olivier J. Robert

President, Chubb

Thomas I. Rogan

Vice President, Treasurer

Kelly A. Romano

President, Carrier Distribution, Americas

Richard J. Sanfrey

President, North America Commercial Refrigeration, Carrier

William H. Trachsel

Senior Vice President and General Counsel

Tobin J. Treichel

Vice President, Tax

Joseph E. Triampo

President, Engine and Control Systems, Hamilton Sundstrand

Debra A. Valentine

Vice President, Secretary and Associate General Counsel

Jan van Dokkum

President, UTC Power

Charles Vo

President, North Asia Pacific, Otis

Randal E. Wilcox

President, South Asia Pacific, Otis

Shareowner Information

Corporate Office

United Technologies Corporation
United Technologies Building
Hartford, Connecticut 06101
Telephone 860.728.7000

This report is made available to share-owners in advance of the annual meeting of shareowners to be held at 2:00 p.m., April 13, 2005, in New York, New York. The proxy statement will be made available to shareowners on or about February 25, 2005, at which time proxies for the meeting will be requested.

Information about UTC, including financial information, can be found at our Web site:
www.utc.com

Stock Listing

New York, London, Paris, Frankfurt, Brussels and Swiss Stock Exchanges

Ticker Symbol: UTX

Transfer Agent and Registrar

EquiServe Trust Company, N.A., is the transfer agent, registrar and dividend disbursing agent for UTC's Common Stock. Questions and communications regarding transfer of stock, replacement of lost certificates, dividends and address changes and the Dividend Reinvestment and Stock Purchase Plan should be directed to:

EquiServe Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069
Telephone: 1.800.519.3111
Web site: <http://www.equiserve.com>

TDD: 1.800.952.9245
Telecommunications device for the hearing impaired.

Certifications

UTC has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2004 filed with the Securities and Exchange Commission certificates of its Chief Executive Officer and principal financial officers certifying, among other things, the information contained in the Form 10-K. UTC has also submitted to the New York Stock Exchange (NYSE) a certificate of UTC's Chief Executive Officer certifying that he was not aware of any violation by UTC of NYSE corporate governance listing standards as of the date of the certification.

Dividends

Dividends are usually paid on the 10th day of March, June, September and December.

Electronic Access

Shareowners of record may sign up at the following Web site for electronic access to future annual reports and proxy materials, rather than receiving mailed copies:
<http://www.econsent.com/utx>

Your enrollment is revocable until each year's record date for the annual meeting. Beneficial shareowners may be able to request electronic access by contacting your broker or bank, or ADP at:
www.utc.com/investors/econsent/ics.htm.

Additional Information

Shareowners may obtain a copy of the United Technologies Report on Form 10-K for 2004 filed with the Securities and Exchange Commission by writing to:

Corporate Secretary
United Technologies Corporation
United Technologies Building
Hartford, Connecticut 06101

For additional information about the corporation please contact Investor Relations at the above corporate office address, or visit our Web site at <http://www.utc.com>.

Shareowner Information Services

Our Internet and telephone services give shareowners fast access to UTC financial results. The 24-hour-a-day, toll-free telephone service includes recorded summaries of UTC's quarterly earnings information and other company news. Callers also may request copies of our quarterly earnings and news releases, by either fax or mail, and obtain copies of the UTC Annual Report and Form 10-K.

To access the service, dial 1.800.881.1914 from any touch-tone phone and follow the recorded instructions.

Direct Registration System

If your shares are held in street name through a broker and you are interested in participating in the Direct Registration System, you may have your broker transfer the shares to EquiServe Trust Company, N.A., electronically through the Direct Registration System. Interested investors can request a description of this book-entry form of registration by calling Shareowner Information Services at 1.800.881.1914.

Environmentally Friendly Report

This annual report is printed on recycled and recyclable paper.

WWW.UTC.COM

WWW.CARRIER.COM
WWW.CHUBBPLC.COM
WWW.HAMILTONSUNDSTRAND.COM
WWW.OTIS.COM
WWW.PRATT-WHITNEY.COM
WWW.SIKORSKY.COM
WWW.UTCPower.COM

United Technologies Corporation
Subsidiaries and Affiliates
December 31, 2004

| Entity Name | State/Country of Incorporation |
|--|--------------------------------|
| Albatre - Servicos de Consultadoria e Marketing, Lda. | Portugal |
| Anoxina - Servicos de Consultadoria, Lda. | Portugal |
| Cade Industries, Inc. | Wisconsin |
| CalPeak Power LLC | Delaware |
| Caricor Ltd. | Delaware |
| Carlyle Scroll Holdings Inc. | Delaware |
| Carmel Forge Limited | Israel |
| Carrier Air Conditioning Pty. Limited | Australia |
| Carrier Air Conditioning Sales & Services (Shanghai) Co Ltd | China |
| Carrier Aircon Limited | India |
| Carrier China Limited | Hong Kong |
| Carrier Corporation | Delaware |
| Carrier Commercial Refrigeration, Inc. | Delaware |
| Carrier Espana, SL | Spain |
| Carrier HVACR Investments B.V. | Netherlands |
| Carrier LG Limited | Korea, Republic of |
| Carrier Ltd. | Korea, Republic of |
| Carrier Mexico S.A. de C.V. | Mexico |
| Carrier Sales and Distribution, LLC | Delaware |
| Carrier SAS | France |
| Carrier SpA | Italy |
| Carrier Singapore (PTE) Limited | Singapore |
| Carrier South Africa (Proprietary) Limited | South Africa |
| Carrier Transicold Europe S.A.S. | France |
| CEAM - Costruzioni Elettromeccaniche Ascensori e Montacarichi S.r.l. | Italy |
| Ceesail Limited | England |
| Cheetah Acquisitions Limited | England |
| China Tianjin Otis Elevator Company, Ltd. | China |
| Chubb (Australia) Limited | England |
| Chubb (UK) Limited | England |
| Chubb Acquisition Inc. | Delaware |
| Chubb Asia Holdings Limited | England |
| Chubb Australia Limited | Australia |
| Chubb China Holdings Limited | Hong Kong |
| Chubb Electronic Security Limited | England |
| Chubb Fire Limited | England |
| Chubb Fire Safety Limited | Australia |
| Chubb Group (International) Limited | England |
| Chubb Group Limited | England |
| Chubb Group Properties Limited | England |
| Chubb Group Security Limited | England |
| Chubb Holdings Inc. | Delaware |
| Chubb Holdings Limited | South Africa |
| Chubb Hong Kong Limited | Hong Kong |
| Chubb International Holdings Limited | England |
| Chubb International Limited | England |
| Chubb International (Netherlands) BV | Netherlands |
| Chubb Investments Limited | England |
| Chubb Limited | England |
| Chubb New Zealand Limited | New Zealand |
| Chubb Overseas Investments Limited | England |
| Chubb Protective Services Australia | Australia |
| Chubb SC Beveiligingen B.V. | Netherlands |
| Chubb Securite SAS | France |
| Chubb Security Australia Pty Ltd | Australia |
| Chubb Security Holdings Australia Limited | Australia |
| Chubb Security Limited | England |
| Chubb Security Personnel Limited | England |
| Chubb Security SA (Pty) Ltd | South Africa |
| Chubb Security Services Limited | Australia |
| Chubb White Peak (UK) Limited | England |
| Claverham 98 Limited | England |

| | |
|--|--------------------|
| Claverham Group Limited | England |
| Compagnie Centrale SICLI SAS | France |
| Concepcion-Carrier AirConditioning Company | Philippines |
| CSG Security Inc | Canada |
| Derco Aerospace, Inc. | Wisconsin |
| Eagle Services Asia Private Limited | Singapore |
| Elevadores Otis Ltda. | Brazil |
| Empresas Carrier, S.A. De C.V. | Mexico |
| Euromicro Microtecnica B.V. | Netherlands |
| FH 1997 Limited | England |
| Foray 414 Limited | England |
| Generale Frigorifique "SASU" | France |
| Guardforce Group Limited | Cayman Islands |
| Guardforce Limited | Hong Kong |
| Hamilton Sundstrand Corporation | Delaware |
| Hamilton Sundstrand de Puerto Rico, Inc. | Delaware |
| Hamilton Sundstrand Holdings, Inc. | Delaware |
| Hamilton Sundstrand International Holdings Ltd. | Cayman Islands |
| Hamilton Sundstrand Pacific Aerospace PTE Ltd. | Singapore |
| Hamilton Sundstrand Power Systems, Inc. | Delaware |
| Hamilton Sundstrand UK Holdings Limited | England |
| Helicopter Support, Inc. | Connecticut |
| Homogeneous Metals, Inc. | New York |
| HS Marston Aerospace Ltd. | England |
| International Comfort Products, LLC | Delaware |
| Johns Perry Lifts Holdings LDC | Cayman Islands |
| Kaysail Limited | England |
| Latin American Holding, Inc. | Delaware |
| LFC S.A.S. | France |
| Linde Frigera spol. s.r.o. | Czech Republic |
| Linde Kältetechnik GmbH & Co. KG | Germany |
| Linde Refrigeration and Retail Systems Ltd | England |
| Mircrotecnica Srl | Italy |
| Milton Roy Company | Pennsylvania |
| Misr Refrigeration And Air Conditioning Manufacturing Company S.A.E. | Egypt |
| Moonless Limited | England |
| Moonmore Limited | England |
| MSS Security Services Pty Ltd | Australia |
| Nippon Otis Elevator Company | Japan |
| Onity, S.L. | Spain |
| Otis Canada, Inc. | Ontario |
| Otis Elevadores, Lda. | Portugal |
| Otis Elevator (China) Investment Company Limited | China |
| Otis Elevator Company | Delaware |
| Otis Elevator Company | New Jersey |
| Otis Elevator Company (H.K.) Limited | Hong Kong |
| Otis Elevator Company (India) Limited | India |
| Otis Elevator Company Pty. Ltd. | Australia |
| Otis Far East Holdings Limited | Hong Kong |
| Otis Gesellschaft m.b.h. | Austria |
| Otis GmbH & Co. OHG | Germany |
| Otis Holdings GmbH & Co. OHG | Germany |
| Otis International Holdings UK Limited | England |
| Otis Investments Plc | England |
| Otis LG Elevator Company | Korea, Republic of |
| Otis Lifts Holding Company | Cayman Islands |
| Otis Limited | England |
| Otis Pacific Holdings B.V. | Netherlands |
| Otis S.C.S | France |
| Otis S.p.A. | Italy |
| Otis Srl | Italy |
| Otis Servizi S.r.l. | Italy |
| OTIS ZAT | Ukraine |
| P&WC Aircraft Service (U.K.) Limited | England |
| Parkview Participations LLC | Delaware |
| Pilgrim House Group Limited | England |
| Power Transmission Industries Do Brasil S.A. | Brazil |
| Pratt & Whitney Air New Zealand Services | New Zealand |
| Pratt & Whitney AutoAir, Inc. | Michigan |

| | |
|--|----------------|
| Pratt & Whitney Canada Corp. | Canada |
| Pratt & Whitney CES, LLC | Delaware |
| Pratt & Whitney Component Solutions, Inc. | Michigan |
| Pratt & Whitney Compressor Airfoil Holdings, Inc. | Delaware |
| Pratt & Whitney Engine Leasing, LLC | Delaware |
| Pratt & Whitney Engine Services, Inc. | Delaware |
| Pratt & Whitney Holdings LLC | Cayman Islands |
| Pratt & Whitney Military Aftermarket Services, Inc. | Delaware |
| Pratt & Whitney Norway Engine Center AS | Norway |
| Pratt & Whitney Power Systems, Inc. | Delaware |
| Pratt & Whitney Services, Inc. | Delaware |
| Pratt and Whitney SARL | France |
| Profroid Industries S.A.S.U. | France |
| Ratier-Figeac, SAS | France |
| Shanghai Yileng Carrier Air Conditioning Equipment Company Limited | China |
| SICLI SA | France |
| Sicur SA | Switzerland |
| Sikorsky Aircraft Corporation | Delaware |
| Sikorsky Export Corporation | Delaware |
| Sikorsky International Operations, Inc. | Delaware |
| Sirius Korea Limited | England |
| Springer Carrier Ltda. | Brazil |
| Sullair Corporation | Indiana |
| Sullair Europe | France |
| Sundstrand Holding S.A.R.L. | France |
| Sundyne Corporation | Delaware |
| The Falk Corporation | Delaware |
| Toshiba Carrier (Thailand) Co., Ltd. | Thailand |
| Toshiba Carrier UK Limited | England |
| Turbine Overhaul Services Pte Ltd | Singapore |
| United Technologies Canada, Limited | Canada |
| United Technologies Electronic Controls, Inc. | Delaware |
| United Technologies Far East Limited | Hong Kong |
| United Technologies France SAS | France |
| United Technologies Holding GmbH | Germany |
| United Technologies Holdings B.V. | Netherlands |
| United Technologies Holdings Italy Srl | Italy |
| United Technologies Holdings Limited | England |
| United Technologies Holdings S.A. | France |
| United Technologies Intercompany Lending Ireland Limited | Ireland |
| United Technologies International Corporation (UTIC) | Delaware |
| United Technologies International Corporation-Asia Private Limited | Singapore |
| United Technologies International Operations, Inc. | Delaware |
| United Technologies International SAS | France |
| United Technologies Luxembourg, S.a.r.l. | Luxembourg |
| United Technologies Treasury Center, Inc. | Delaware |
| UT Finance Corporation | Delaware |
| UT Insurance (Vermont) Inc. | Vermont |
| UT Leasing Services, Inc. | Delaware |
| UT Luxembourg Holding I S.a.r.l. | Luxembourg |
| UT Luxembourg Holding II S.a.r.l. | Luxembourg |
| UT Park View, Inc. | Delaware |
| U.T. Holdings (U.K.) Ltd. | Delaware |
| UTC Canada Corporation | New Brunswick |
| UTC Fuel Cells, LLC | Delaware |
| UTCL Holdings, Limited | New Brunswick |
| UTCL Investments B.V. | Netherlands |
| UTSTA Pte Ltd | Singapore |
| Vigitel SA | France |
| White Peak Finance Ireland Limited | Ireland |
| Wytwornia Sprzetu Komunikacyjnego "PZL-Rzeszow" S.A. | Poland |
| Xizi Otis Elevator Company Limited | China |
| Zardoya Otis, S.A. | Spain |

Other subsidiaries of the Registrant have been omitted from this listing since, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2004, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ BETSY J. BERNARD

Betsy J. Bernard

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2004, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ JEAN-PIERRE GARNIER

Jean-Pierre Garnier

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2004, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ JAMIE S. GORELICK

Jamie S. Gorelick

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2004, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ CHARLES R. LEE

Charles R. Lee

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ RICHARD D. MCCORMICK
Richard D. McCormick

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ HAROLD MCGRAW III

Harold McGraw III

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ FRANK P. POPOFF

Frank P. Popoff

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ H. PATRICK SWYGERT

H. Patrick Swygart

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ **ANDRÉ VILLENEUVE**

André Villeneuve

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ H. A. WAGNER

H. A. Wagner

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2004, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 7th day of February, 2005.

/s/ CHRISTINE TODD WHITMAN

Christine Todd Whitman

CERTIFICATION

I, George David, certify that:

1. I have reviewed this annual report on Form 10-K of United Technologies Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ George David

George David
Chairman and Chief Executive Officer

Date: February 10, 2005

CERTIFICATION

I, James E. Geisler, certify that:

1. I have reviewed this annual report on Form 10-K of United Technologies Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ James E. Geisler

James E. Geisler
Vice President, Finance

Date: February 10, 2005

CERTIFICATION

I, Gregory J. Hayes, certify that:

1. I have reviewed this annual report on Form 10-K of United Technologies Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gregory J. Hayes

Gregory J. Hayes
Vice President, Accounting and Control;
Controller

Date: February 10, 2005

Section 1350 Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of United Technologies Corporation, a Delaware corporation (the "Corporation"), does hereby certify that:

The Annual Report on Form 10-K for the year ended December 31, 2004 (the "Form 10-K") of the Corporation fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated: February 10, 2005

/s/ George David

George David
Chairman and Chief Executive Officer

/s/ James E. Geisler

James E. Geisler
Vice President, Finance

/s/ Gregory J. Hayes

Gregory J. Hayes
Vice President, Accounting and Control;
Controller