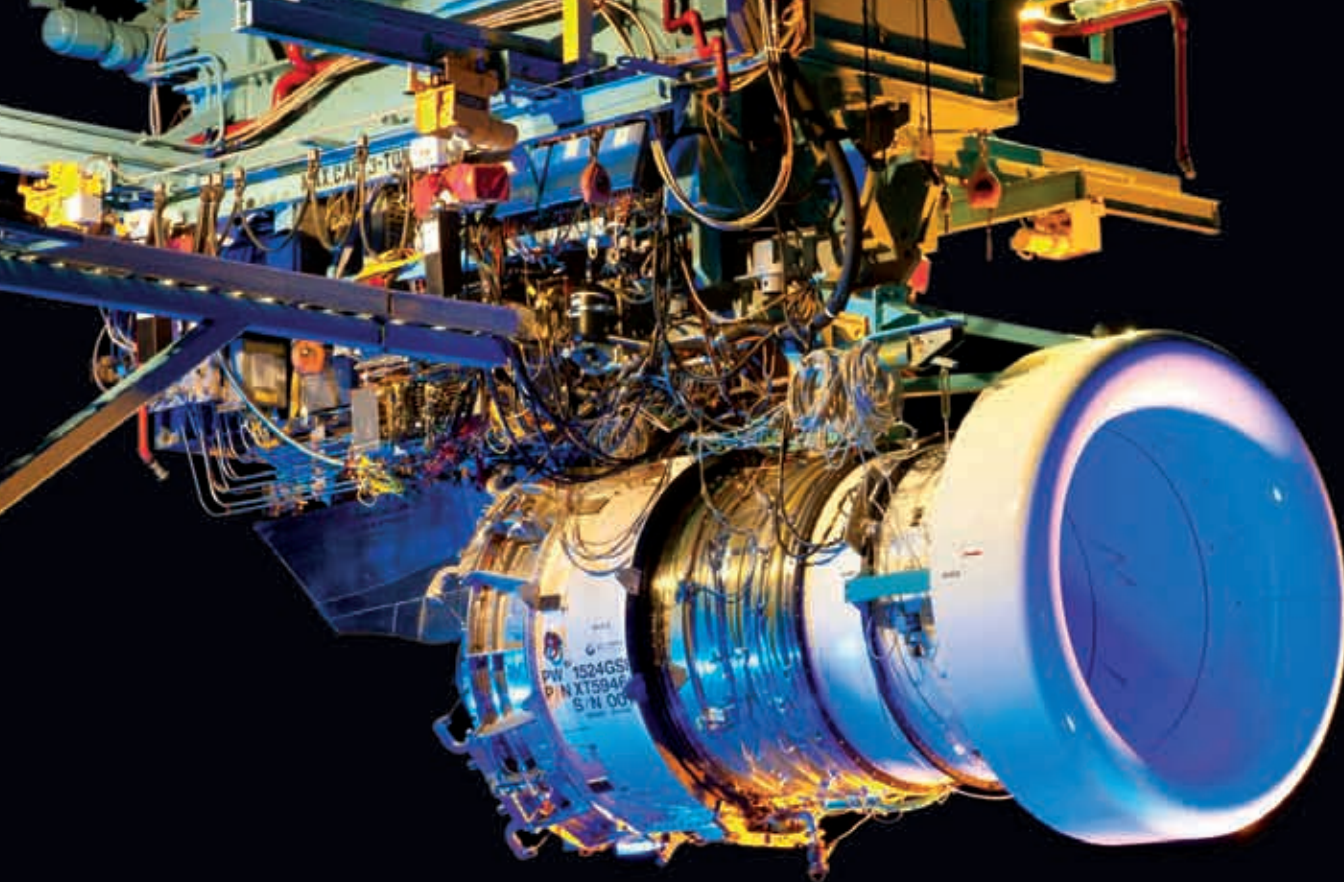


**UNITED  
TECHNOLOGIES  
CORPORATION  
ANNUAL REPORT  
BIG GOALS.  
BIG RESULTS.**

**2010 FINANCIAL AND  
CORPORATE RESPONSIBILITY  
PERFORMANCE**



**United Technologies Corporation (UTC)** is a diversified company that provides a broad range of high-technology products and services to the global aerospace and building systems industries. Its businesses include Carrier heating, air-conditioning and refrigeration solutions; Hamilton Sundstrand aerospace and industrial systems; Otis elevators and escalators; Pratt & Whitney engines; Sikorsky helicopters; and UTC Fire & Security systems. The company also operates a central research organization that pursues technologies for improving the performance, energy efficiency and cost of UTC products and processes. UTC is a member of the Fortune 50, the Dow Jones Industrial Average and the Dow Jones Sustainability Indexes.

**Pratt & Whitney's PurePower PW1000G engine** is just one example of how UTC businesses set big goals and deliver big results. When it goes into service in 2013, the PurePower PW1000G engine will be the cleanest, quietest, and most cost- and energy-efficient engine on the market. The engine has been chosen to power the Bombardier CSeries, the Mitsubishi Aircraft Corporation's new regional jet, Irkut Corporation's new MC-21 and the Airbus A320neo aircraft.

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**WE SET BIG GOALS  
AND DELIVER BIG  
RESULTS. WE MAKE  
PRODUCTS THAT  
MAKE MODERN  
LIFE POSSIBLE –  
PRODUCTS THAT  
ARE BETTER, FASTER,  
MORE EFFICIENT.**





**Louis R. Chênevert**  
CHAIRMAN &  
CHIEF EXECUTIVE OFFICER

Louis Chênevert stands in front of a mockup of the Sikorsky S-97 Raider. Sikorsky is building two prototype light tactical helicopters based on its revolutionary X2 Technology demonstrator. The S-97 Raider is expected to deliver significant improvements over other light military helicopters, including better turning radius, speed, payload, flight endurance and hover capability, and reduced acoustic noise.



**D**ear Shareowner 2010 was another strong year for United Technologies. Solid execution across our business units delivered double-digit earnings growth despite numerous challenges in many of our end markets. In addition to meeting our 2010 financial goals, we positioned United Technologies for sustained double-digit earnings growth in the future. We expanded our presence in higher-growth emerging markets, increased our investment in game-changing technologies, and maintained our focus on cost reduction and disciplined cash redeployment.

Proactive restructuring and improved productivity drove exceptional margin expansion across United Technologies last year. Along with strong operating performance came strong cash generation, with cash flow from operations less capital expenditures again exceeding net income. We returned approximately 75 percent of this cash flow to shareowners through dividends and share repurchases.\* We also increased the dividend 10 percent, marking the 74th consecutive year United Technologies has paid dividends to shareowners. In addition, UTC repurchased \$2.2 billion in stock, completed nearly \$3 billion in acquisitions and contributed more than \$1.5 billion to our global pension plans.

Over the past decade, United Technologies has continued to outperform our peers and key market indices on total shareowner return. For the period from December 31, 2000, through December 31, 2010, UTC has delivered total shareowner return of 140 percent, nearly four times the Dow Jones Industrials and more than nine times the S&P 500.

We look to 2011 with confidence in our ability to again deliver solid earnings growth. Despite continued uncertainty in the strength and timing of the global economic recovery, we see improvement in most of our end markets, with particular strength in emerging markets and commercial aerospace. These improving markets give us confidence in our ability to accelerate top-line organic growth in 2011. Our lean cost structure resulting from aggressive restructuring actions will allow us to convert growth opportunities into strong bottom-line results.

Looking further ahead, research and development focused on game-changing technologies will continue to drive growth. Last year, UTC invested more than \$3.6 billion in company- and customer-funded R&D, including the innovative Sikorsky X2 Technology demonstrator and Pratt & Whitney's revolutionary PurePower Geared Turbofan engine. In December, Airbus became the fourth aircraft manufacturer to select the Geared Turbofan engine when it announced the new engine option (neo) for its A320 family of aircraft. We believe this selection will greatly enhance Pratt & Whitney's position in the commercial aircraft market for decades to come and validates our strategy of investing in technologies in anticipation of where our markets are headed.

Also positioning UTC for long-term growth are the aggressive restructuring and portfolio improvements we have made. One example is Carrier's business transformation over the last few years. Carrier realigned its portfolio by divesting low-performing, non-core assets and investing in high-technology, energy-efficient, and environmentally sound products and services. As a result, Carrier has become a stronger, more focused and higher returns business.

UTC's portfolio was further strengthened by the \$1.8 billion acquisition of GE Security, which closed in March 2010. This acquisition added scale, market reach and product offerings, enhancing UTC Fire & Security's status as a leading franchise in the \$100 billion global fire safety and electronic security industry. Solid execution and integration made this acquisition accretive in year one, ahead of schedule, demonstrating our disciplined approach to acquisitions and capital redeployment.

\* This represents funds returned to shareowners as a percentage of a cash flow measure we call free cash flow. We define free cash flow as cash flow from operations less capital expenditures. In 2010, UTC generated cash flow from operations of \$5.9 billion and capital expenditures were approximately \$900 million, resulting in free cash flow of \$5 billion. We returned approximately 63 percent of cash flow from operations to shareowners through dividends and share repurchases.

Across the entire company, our ACE (Achieving Competitive Excellence) operating system continues to drive cost reduction, improved efficiencies and customer satisfaction. Having achieved our goal of certifying 70 percent of UTC sites at ACE Silver or Gold, we set higher targets in 2010 with a new goal of 80 percent by 2012. We recognize that improving our supply chain performance is critical to sustaining the benefits of ACE, which is why we also increased the target number of suppliers in our industry-leading Supplier Gold program from 50 to 70 percent of UTC's key supplier spend.

Just as important as our business accomplishments is the manner in which we achieve them. UTC has an unwavering commitment to maintaining the highest ethical standards, to providing a safe and healthy workplace for our employees, and to demonstrating environmental leadership in our operations and products. To measure our performance in these areas, we established an aggressive set of four-year performance goals in 2006. We closed 2010 exceeding our targets with a 73 percent reduction in the lost workday incident rate, a 24 percent absolute reduction in water consumption, and a 22 percent absolute reduction in greenhouse gas emissions.

Building upon this success, we launched new 2015 Sustainability Goals in January 2011. These goals again include aggressive absolute reduction targets for greenhouse gas emissions, water consumption and non-recycled waste. Our 2015 goals set higher targets for employee safety worldwide and greater energy-efficiency performance for all new products. We also have expanded our goals to include targeted supply chain reductions. The evolution of our Sustainability Goals reflects our culture of continuous improvement and reaffirms our belief that profitability and responsibility go hand in hand.

In closing, I continue to see tremendous opportunities for United Technologies. Our portfolio of products and services uniquely positions UTC to support, and to benefit from, widespread urbanization and growth in today's emerging markets. Countries such as China and India are already seeing big changes with much more to come. Around the world, more skyscrapers, schools, airports, hospitals and stadiums are being built – and the need for air travel between cities is increasingly evident. As this occurs, and global demand for energy rises, the need for energy-efficient solutions creates additional opportunities. UTC's energy-efficient innovations of today will be the best practices of tomorrow, reducing environmental impact, eliminating waste and driving our long-term growth.

As always, the performance highlighted throughout this report reflects the dedication and commitment of an experienced senior management team and more than 200,000 UTC employees around the world. On behalf of all shareowners, we again thank employees for their many contributions and for making UTC a truly extraordinary company.

It also is appropriate to thank all of our customers for the trust and confidence they place in us. We remain committed to finding better, faster and more efficient ways to deliver value. We will continue to set big goals and deliver big results for our customers and shareowners.



**Louis R. Chênevert**  
Chairman & Chief Executive Officer

**OUR PRODUCTS  
AND TECHNOLOGIES  
ARE POWERING THE  
FUTURE – AT HOME,  
AT WORK AND  
EVERYWHERE IN  
BETWEEN.**



# COMMERCIAL

*Big Goals. Big Results.*

## Reaching New **Heights**

On January 4, 2010, the world's tallest building, Burj Khalifa, was inaugurated in Dubai, United Arab Emirates. Standing approximately 2,720 feet (828 meters) tall, it is the centerpiece of downtown Dubai and a testament to the expertise and leadership of the men and women of Otis. For more than five years, Otis employees from around the world worked in partnership with their customers in every phase of the project – from the design to the engineering to the installation of escalators and elevators to the project management phases of construction. Today visitors and residents are transported by state-of-the-art Otis systems, which include elevators that set world records for travel distance and landing deck height.



## Cool It

*For Less Money. Less Environmental Impact. Maximum Performance.*

The transportation and delivery of perishables just got a boost from one of Carrier's newest innovations, the Vector 1550 trailer refrigeration unit. Building on the success of the Vector series, the new unit features all-electric technology to lower energy consumption, enhance environmental performance and provide maximum cold-chain protection.

Late in the year, Carrier introduced the world's first natural refrigerant technology for container refrigeration. It will be used in Carrier's new NaturaLINE units, which are being engineered to deliver the same industry-leading efficiencies as the company's PrimeLINE units.



**Didier Michaud-Daniel**  
PRESIDENT,  
OTIS

*"People ask how we sustain margins of more than 20 percent. The answer is Otis' culture, which focuses on operating efficiencies and delivering the highest quality, innovative products, and the highest standard of service to our customers."*



**Geraud Darnis**  
PRESIDENT,  
CARRIER

*"Our business transformation strategy is delivering higher returns, superior growth and industry-leading margins."*



Big Markets,  
Big Inroads

A Carrier employee in Shanghai

UTC's commercial businesses are ramping up their presence in two of the world's fastest growing economies: China and India.

Carrier and Otis have received significant new contracts from the Dalian Wanda Group, one of China's leading real estate enterprises. Carrier was awarded a one-year purchasing contract for up to 300 chillers with an expected value of up to \$30 million. Otis won a three-year agreement to provide more than

1,500 elevators and escalators for commercial projects. UTC Fire & Security has completed approximately 20 projects with the Dalian Wanda Group and has others in progress.

In India, Otis was selected to supply and install escalators and Gen2 elevators with ReGen drives for the Capital office building in Mumbai. UTC Fire & Security has established the India Innovation & Engineering Center in Hyderabad to develop, localize, and integrate

fire and security products, and support UTC Fire & Security's global product development.

During the year, Carrier completed the installation of eight Evergreen 19XRD chillers and six AquaForce 30XA air-cooled chillers at Delhi International Airport's Terminal 3. Carrier also was awarded a contract to supply nine Evergreen 19XR chillers and six AquaForce 30XW water-cooled chillers for the Delhi Metro.

### bottom line



## Margin Expansion Targets

|                     |                |
|---------------------|----------------|
| CARRIER             | 12% BY 2012    |
| OTIS                | SUSTAINED 20+% |
| UTC FIRE & SECURITY | 15% BY 2012    |



## Acquisition Brings Slate of High-Tech Products and Esteemed Brands

UTC's acquisition of GE Security brought together two world-class companies and established UTC Fire & Security as a leader in the large, global fire and security industry. The acquisition added a mix of strong brands, including Edwards and Interlogix, and created a balanced geographic presence in North America, Europe and Asia. Among new product offerings is the Interactive Services platform. Anchored by an Interlogix touch screen, shown here, the system manages wireless cameras, thermostats, lighting and more. The revolutionary technology provides information via the Internet or smartphones, giving homeowners the ability to view and control their security and lifestyle systems in new and more efficient ways. Leading broadband companies and industry alarm dealers have partnered with UTC Fire & Security to bundle high-speed data, monitored security and lifestyle management services using this new platform.



**William M. Brown**  
PRESIDENT,  
UTC FIRE & SECURITY

*"Seven years ago, UTC Fire & Security didn't exist. Today we are a \$6.5 billion company with market-leading positions and operations around the globe."*



### bottom line

**50**

In 2010, UTC Fire & Security launched 50 new products, including the Lenel Integrated Locking System (ILS). The modular design of the ILS works with the company's OnGuard security management software to bring online access control functionality to electromechanical locks.

**1 in 2**

new elevators installed worldwide is in China, and Otis is the leading new-equipment provider there as well as the leading provider for the global elevator and escalator markets.



# FIFA World Cup 2010

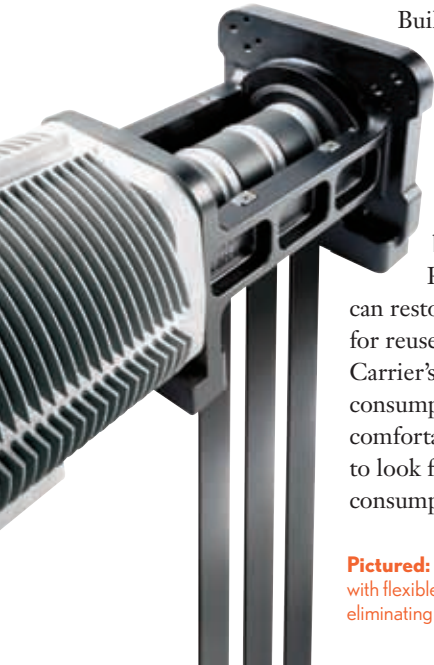
## Big Wins for UTC Commercial Businesses



The FIFA World Cup football (soccer) tournament is one of the biggest draws in the sports world, and Carrier, Otis and UTC Fire & Security were well represented at the 2010 games in South Africa. In preparation for the event, South Africa built five new stadiums and modernized and expanded five others. UTC Fire & Security provided a wide array of protection at each of the stadiums, including high-end fire detection and evacuation solutions as well as integrated video, access control and intrusion systems. Otis provided 137 elevators and escalators for stadiums and surrounding infrastructure projects. Carrier was selected by several leading consulting engineers to provide expertise and products for eight venues, including the architecturally beautiful and carbon-neutral Moses Mabhida Stadium, shown here, in Durban. The stadium uses four Evergreen 30HX high-efficiency, water-cooled chillers.

## Green Technologies

*Help Improve Building Efficiencies*



Buildings account for almost 40 percent of the world's energy use and a large portion of the world's greenhouse gas emissions. Technology exists today that can economically reduce energy consumption in buildings by at least 50 percent. At UTC, we continue to develop and market products that can harness the energy that is all too often lost in buildings. One example is Otis' Gen2 elevators with ReGen drives, which capture energy normally lost and can restore this energy back to the building's electrical grid for reuse. Building automation systems by Automated Logic, Carrier's building controls company, lower a building's energy consumption and reduce operating costs while maintaining a comfortable and productive work environment. We continue to look for added opportunities to reduce building energy consumption through our Integrated Building Solutions team.

**Pictured:** Otis' energy-efficient Gen2 compact gearless elevator machine with flexible belts minimizes noise, vibration and energy consumption while eliminating the need for additional cable and gear lubricants.

## GREEN NOTES

Otis is launching The Way to Green, an initiative aimed at incorporating environmental awareness into every aspect of its operations. The program will encompass a broad range of activities, from installing ReGen drives and LED lighting to right-sizing maintenance vehicles, collecting rainwater and recycling water.

In 2010, Carrier launched its CO<sub>2</sub>NSERVATION Meter, which calculates greenhouse gas emissions avoided as a result of customers installing high-efficiency Carrier products since 2000. Over the period, Carrier equipment has helped avoid greenhouse gas emissions of more than 70 million metric tons of carbon dioxide equivalent, comparable to removing more than 13 million cars from the road.

UTC Fire & Security's Fireeye company launched a new electronic combustion control system designed for the commercial boiler segment that can increase fuel efficiency and significantly reduce greenhouse gas emissions while making a customer's boiler equipment more productive and reliable.

*"We make modern life possible."*

**Louis R. Chênevert** CHAIRMAN & CHIEF EXECUTIVE OFFICER

To continue our legacy of making modern life possible, we pledged \$1.5 million to establish the Willis H. Carrier Total Indoor Environmental Quality lab, which was dedicated in 2010 at the Syracuse Center of Excellence in Environmental and Energy Systems in New York. Named after the inventor of modern air conditioning and the founder of Carrier, the 10,000-square-foot lab – the first of its kind – facilitates cutting-edge research into the factors that affect human health and performance in building environments, including temperature, humidity, air quality, lighting and sound.

# AEROSPACE

*Big Goals. Big Results.*



## Sikorsky X2 Surpasses **250 Knots**

The revolutionary Sikorsky X2 Technology demonstrator, shown here, continues to stretch the boundaries for vertical flight. Late in the year, Sikorsky proved the technology can substantially increase the cruise speed of today's helicopters by surpassing its target flight speed of 250 knots.

The X2 Technology demonstrator, which incorporates fly-by-wire and other advanced technologies, has set new standards for helicopter performance. In flight tests, it met

or exceeded all expectations for demonstrating that a helicopter can cruise comfortably at 250 knots while retaining excellent low-speed handling, efficient hovering, and a seamless and simple transition to high speed.

Building on the success of the X2 Technology demonstrator, Sikorsky will design, build and fly two prototype light tactical helicopters. Called the S-97 Raider, the prototypes will be used for flight test and evaluation by the U.S. Armed Forces. They are expected to demonstrate significant improvements over other light military helicopters. The S-97 Raider will reduce the turning radius and acoustic noise signature dramatically while significantly increasing the aircraft's speed, payload, flight endurance, and hot and high hover capability.



# T A R G E T

## F135 Engine Continues To Achieve New Milestones

Pratt & Whitney's F135 propulsion system, the engine of choice for the U.S. military's fifth-generation F-35 Lightning II aircraft, continues to achieve new milestones. In late 2010, the company received initial service release (ISR) certification from the U.S. government for the short takeoff/vertical landing (STOVL) variant, clearing the way for the engine's use in the field. The F135

team achieved ISR certification for the conventional takeoff/landing and carrier variants in February 2010. The first production F-35 will arrive at Eglin Air Force Base in Florida in 2011 to begin training operations with the U.S. military.

The F135 also achieved a number of other milestones during the year, including powering the successful first flight of the U.S. Navy's F-35C Lightning II Carrier Variant, the first supersonic flight of the F-35B STOVL variant and the execution of 10 flawless vertical landings.

### GREEN NOTES

With the Sabatier Reactor System, **Hamilton Sundstrand** has developed a creative way to provide water to the International Space Station. Delivered in 2010, the system combines hydrogen and carbon dioxide to produce water and methane. The methane is vented, and the water is treated for use in drinking, personal hygiene and scientific experiments.

**Pratt & Whitney** is offering its airline customers EcoFlight Solutions, a new comprehensive program to help save fuel and reduce emissions. A team of experts will analyze airline operations, identify potential fuel-saving opportunities, drive implementation and track results. Fuel is the No. 1 expense for airlines, accounting for up to 50 percent of their operating expenses.

**Sikorsky** has built the Firefly, an all-electric helicopter technology demonstrator that will test the feasibility and showcase the benefits of electrically powered helicopters. Project Firefly is expected to drive the future development of improved, state-of-the-art green technologies and practices.



**Jeffrey P. Pino**  
PRESIDENT,  
SIKORSKY

*"As we continue to push the envelope for vertical flight, we shape and create tomorrow's markets for high-speed, highly maneuverable, quieter and self-actualized rotorcraft."*



**David P. Hess**  
PRESIDENT,  
PRATT & WHITNEY

*"We have developed a game-changing jet engine with Geared Turbofan technology that will redefine the marketplace for the next generation of aircraft."*

### bottom line

# The GAME CHANGER

When it enters service in 2013, **Pratt & Whitney's** PurePower PW1000G engine promises to deliver double-digit reductions in fuel burn, cut nitrogen oxide emissions by one-half, lower airport community noise by up to 75 percent and generate cost savings of up to an estimated \$1.5 million per aircraft per year compared to the best-performing engines of similar thrust currently in service.



## AEROSPACE



### A Key Differentiator

*Hamilton Sundstrand's Customer Response Center*

Hamilton Sundstrand offers aerospace customers world-class aftermarket service with custom-tailored agreements. The company's new state-of-the-art Customer Response Center is the most recent example of its commitment to quality service. Staffed by a team of engineers around the clock, seven days a week, its ultimate goal is to respond to customers immediately

and address technical issues and aircraft spare-part orders in real time. Located at the company's headquarters in Windsor Locks, Conn., the facility is a key differentiator in the industry. It is the first facility of its type to provide a single resource that can coordinate and address issues across a diverse customer base of commercial, military and business aircraft operators.



### Localizing the Supply Chain in Fast-Growing Markets

In 2010, Tata Advanced Systems Ltd. (TASL) started assembly operations for Sikorsky at its Hyderabad facility. The first Sikorsky S-92 helicopter cabin made in India is expected to be completed in the first half of 2011. A joint-venture agreement between Tata and Sikorsky was signed in late 2009 to manufacture the detail parts used by TASL to build S-92 cabins.

The Tata joint venture demonstrates Sikorsky's focus on building partnerships to increase the localization of its products. Sikorsky also has strategic sourcing agreements for the S-92 helicopter with companies in Brazil, China and Spain.

The S-92 search and rescue helicopter is the most advanced aircraft in Sikorsky's civil product line.

#### bottom line

# 200<sup>th</sup>

Sikorsky delivered the 200th UH-60M **BLACK HAWK** helicopter to the U.S. Army. The U.S. Armed Forces operate more than 2,700 BLACK HAWK helicopters in different variations, undertaking a variety of missions, including medevac and troop transport.



**Alain M. Bellemare**  
PRESIDENT,  
HAMILTON SUNDSTRAND

*"We are committed to exceeding our customers' expectations – from offering them the most advanced, integrated aerospace systems to providing timely, expert technical support."*



## Pratt & Whitney to Power Sikorsky's New S-76D Helicopter

Sikorsky's new S-76D helicopter will be equipped with Pratt & Whitney Canada's PW210S engine. The PW210S engine was chosen for its best-in-class power-to-weight ratio, low fuel consumption, rapid takeoff capability, dual-channel full-authority digital engine controls and ease of maintenance. The aircraft also is equipped with new de-ice blades and a Thales avionics suite.

The S-76D helicopter, which has entered final assembly production, is the next generation of the popular S-76 helicopter. The S-76D helicopter is designed to perform an array of civil missions, including executive transport, offshore petroleum operations support and emergency medical services. It will be the most technologically advanced, efficient and the quietest helicopter in its class. First deliveries are scheduled for 2012.



## Helping Develop China's First Large Commercial Jetliner

Hamilton Sundstrand continues to grow its already large presence in the expanding China aviation market. During the year, the company was selected to provide additional content on the new C919 aircraft being developed by the Commercial Aircraft Corporation of China Ltd. (COMAC). The C919 is expected to enter service in 2016.

Hamilton Sundstrand will provide pilot controls and the ram air turbine emergency power system. Its Kidde Aerospace & Defense business will provide integrated fire and overheat protection systems.

In November, Hamilton Sundstrand signed a joint-venture framework contract with China's AVIC Electromechanical Systems Co. Ltd. to co-develop and manufacture the C919's electric power system, including generation and distribution. The joint-venture company will be the tier-one supplier of the electric power system to COMAC on the C919 program.

**250,000,**

**Sikorsky's S-92** helicopter surpassed 250,000 fleet flight hours.

**100**

**million**

Hamilton Sundstrand achieved more than 100 million hours of flight services under long-term support agreements.



# OUR APPROACH

*Big Goals. Big Results.*



**R**ESPONSIBILITY AND OPERATIONAL EXCELLENCE are fully integrated at UTC. How our people perform is as important as how our products operate. We recruit the best talent, and our employees set big goals and use the best processes to solve some of the world's greatest challenges – safely, ethically and profitably. Our approach drives big results.

As United Technologies continues to grow in markets around the globe, we bring with us a belief that successful businesses improve the human condition. Our Supplier Gold program combined with our Sustainability Goals (see page 17)

enable us to fully leverage our approach and ensure that performance and responsibility go hand in hand in every aspect of our operations. Everywhere we do business, we measure success with the same set of financial, operational, ethical, and environmental and safety metrics.

We value diversity in our supply chain, and we are committed to our local sourcing strategy. Our strategy supports growth in emerging markets such as India, where our current sales of approximately \$600 million are targeted to grow to \$2.5 billion by 2015. Shown here is United Technologies Chairman & CEO Louis Chênevert at UTC's India Supplier Conference in Bangalore.

## Creating an Ethical Culture

**G**OVERNANCE AT UTC begins with our Code of Ethics, created in 1990 and relaunched in 2006. The Code was adopted by UTC's Board of Directors, which, as of January 1, 2011, has 13 directors, 12 of whom are independent. As we work to build a culture of ethics and compliance, we seek candid feedback from employees.

**Our biennial Global Employee Survey** provides an opportunity for employees to comment on UTC's ethical climate as well as

issues ranging from management communications and employee engagement to training and safety.

**The global Ombudsman/DIALOG program** is a confidential communication channel for employees to raise questions or concerns regarding policies or to report potential ethics violations. Since 1986, more than 91,500 inquires have been submitted.

UTC's Code of Ethics, which includes our policy on citizenship and human rights, is available online.

### 2010 Results

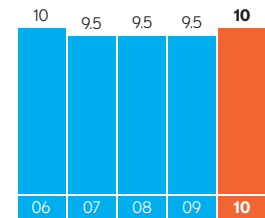
In recognition of UTC's leadership in developing internal systems to promote, shape and measure ethical behavior across all levels of the company, UTC received the 2010 Stanley C. Pace Leadership in Ethics Award from the Ethics Resource Center, a nongovernmental organization focused on fostering ethical business practices.

*"UTC has approached ethics with the same rigor and energy as other business imperatives. We believe that's the kind of leadership that deserves recognition."*

PATRICIA HARNED, **President, Ethics Resource Center**

### GovernanceMetrics International Accountability Rating

Compared to S&P 500 companies



## Investing in Our People

**O**UR EMPLOYEE SCHOLAR PROGRAM demonstrates UTC's commitment to support lifelong learning for all our employees. The Employee Scholar Program (ESP) is one of the most comprehensive company-sponsored employee education programs in the world. The program provides employees the resources to stay current in their chosen field or pursue new career opportunities. UTC has invested more than \$900 million in this program since 1996, and more than 30,000 degrees have been earned by employees in more than 50 countries.

A diverse, well-educated workforce makes us a stronger, more competitive company. One way we recruit our diverse

and talented workforce is through partnerships with organizations like INROADS, a nonprofit that provides career training and internships for minority youth. UTC's 25-year partnership with INROADS includes serving the last four consecutive years as its top corporate sponsor.

*"As a long-term corporate partner, UTC's commitment to INROADS has been extraordinary. UTC's leadership has played a key role in helping us achieve our goal of placing talented minority youth in business and industry, and preparing them for corporate and community leadership."*

FOREST T. HARPER, **President & CEO, INROADS**

### 2010 Results

**Anna Stachowicz** is a financial analyst in Engineering Finance at Pratt & Whitney in Poland. She is one of more than 12,500 UTC employees who were enrolled in degree programs in 2010 through our Employee Scholar Program. Anna wanted to pursue a degree in finance and accounting, and UTC offered her that opportunity.

*"The Employee Scholar Program is providing new learning experiences and opportunities for career development that I would not have had otherwise. For me, the ESP demonstrates UTC's commitment to employees and their future."*

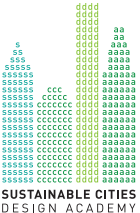




# OUR APPROACH

## Community Matters

**CORPORATE RESPONSIBILITY** at UTC includes minimizing the environmental impact of our products and operations, providing a safe work environment for employees, developing energy-efficient products, and supporting charitable and social causes in the communities where we do business. To effectively respond to the needs of our communities, we focus our charitable giving on issues that allow us to leverage our employee volunteer efforts, including:



**Building Sustainable Cities** to promote environmental responsibility through sustainable building practices in urban areas. In partnership with the American Architectural Foundation, we established the Sustainable Cities Design Academy, which brings together architects, urban planners, developers, and government, business and community leaders to help develop long-term solutions for sustainable building and infrastructure designs.



**Supporting Vibrant Communities** to enhance the well-being of the communities in which we operate. Positive engagement encourages growth and vitality and helps us attract and retain the best employees. For more than half a century, UTC employees have been financial contributors – as well as active volunteers – for United Way Community Campaigns. Our combined giving totals more than \$100 million over the last two decades.



**Advancing Science, Technology, Engineering and Mathematics (STEM) Education** to support the development of the next generation of engineers and researchers. Our mentor program with FIRST (For Inspiration and Recognition of Science and Technology) grew to include nearly 75 student teams across North America in 2010.



**Investing in Emerging Markets** to demonstrate our commitment to employees and neighborhoods located in the more than 180 countries where UTC does business. We partnered with the Chinese Society for Urban Studies (CSUS), under the Ministry of Housing and Urban Rural Development, to support a multi-year research project and campaign promoting sustainable building practices in China. The result: an Eco-City Index System that will be used as a tool to both guide and measure China's planning and development as well as its existing sustainability practices.

### 2010 Results

As part of our long-standing commitments to sustainable practices and educational enrichment, United Technologies made a multiyear, multimillion-dollar commitment to serve as the founding sponsor of the U.S. Green Building Council's Center for Green Schools. The center will focus on the design and construction of green, energy-efficient K-12 schools, colleges and universities throughout the United States.



*"The Center for Green Schools will be our greatest initiative since LEED,\* and we are once again proud to have UTC as a founding partner."*

RICK FEDRIZZI, **President, CEO & Founding Chairman, U.S. Green Building Council**

*\*Leadership in Energy & Environmental Design (LEED) is a green building certification system developed in 1998.*



# Sustainability Goals and Progress

**T**HE DRIVING FORCE behind UTC's environment, health and safety (EH&S) goals is the belief that our workplaces should be free from all hazards and that the environmental impact of our products, factories and suppliers should be minimized and, where possible, eliminated. Since our first EH&S goals were established in 1991, United Technologies has improved employee health and safety, significantly reduced hazardous waste and air emissions, and reduced the environmental impact of our products.

2010 marks the end of our most recent EH&S goal period. In 2006, we built on our previous program and set new, aggressive performance targets, including the launch of our first supplier targets to better drive EH&S performance across our supply chain. We also introduced targets for improving energy efficiency, reducing packaging

and continuing efforts to eliminate materials of concern in new products. As a result of many employee initiatives, by the end of 2010, we had exceeded our environmental, safety and supplier goals, and made significant progress against our compliance and product goals. Safety is an important metric for us. We are pleased that UTC has decreased employee work-related injuries every year since 1991. Sadly, six UTC employees lost their lives in 2010. While our safety improvements are notable, we will never be satisfied until every employee returns home safely.

## 2007 – 2010 Results

Led by employees in Collierville, Tenn., **Carrier** reduced evaporative lubricant use by nearly 600 tons across its manufacturing facilities. **Pratt & Whitney** employees in Middletown, Conn., and **Hamilton Sundstrand** employees across four sites reduced water consumption by 4.3 million gallons and 15 million gallons, respectively. Our critical suppliers also have made great strides. Almost all 1,751 suppliers participating in our supplier EH&S program are meeting key performance metrics. To learn more about how we achieved these results and to track our progress on other initiatives, visit [www.utc.com/responsibility](http://www.utc.com/responsibility).

Our record of performance has positioned UTC to confidently set aggressive new 2015 Sustainability Goals. These new goals build on our history and include additional challenges that reflect the continuing evolution of our program. The goals raise the bar across every facet of our operations, from safety to environmental management. They will be measured against

the 2006 baseline to show continuity and progress. The goals were developed in collaboration with business unit management and approved by UTC's Board of Directors. During the goal development process, we solicited external feedback from nongovernmental organizations and benchmarked peer companies and other best-in-class programs.

|  |   |  |   |
|--|---|--|---|
| <p><b>SITE ENVIRONMENTAL</b></p> <p>We are extending our 2010 aggressive absolute targets for air, water, energy, greenhouse gases and waste with a continued focus on environmental impact and cost reduction. The reductions will be measured against the 2006 baseline.</p> | <p><b>HEALTH, SAFETY &amp; COMPLIANCE</b></p> <p>We are expanding our 2010 goals of zero fatalities and serious injuries to include subcontractors and are extending our goal of zero adverse regulatory compliance events. We are targeting the elimination of certain noise and chemical exposures, and making all UTC facilities tobacco free by 2015.</p> | <p><b>SUPPLIER</b></p> <p>We are continuing to focus on critical supplier health, safety and compliance expectations.</p> <p>We are working with suppliers to share knowledge and expertise on Supplier Energy &amp; Greenhouse Gas Reduction.</p> | <p><b>PRODUCTS</b></p> <p>We are implementing a design-for-sustainability process and setting a goal to eliminate adverse impacts as early as possible in product design.</p> |
| <p><b>Doing more with less.</b></p>  | <p><b>Advancing worker protection and compliance.</b></p>   | <p><b>Creating competitive advantage.</b></p>  | <p><b>Leveraging expertise.</b></p>   |

*“Working with UTC to help set its 2015 Sustainability Goals, the World Resources Institute was able to help the company further define the areas where it has the most significant impact and continue to demonstrate how sustainability is integral to its business.”*

KIRSTY JENKINSON, **Director, Markets & Enterprise Program, World Resources Institute**

For more information on our performance against our 2010 EH&S goals and the establishment of our 2015 Sustainability Goals, please see our Key Performance Indicators on page 19 and visit [www.utc.com/responsibility](http://www.utc.com/responsibility).

# AT A GLANCE

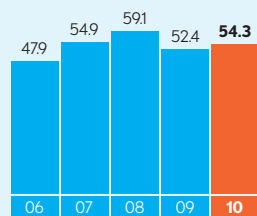
## Financials

**United Technologies Corporation** provides high-technology products and services to the building systems and aerospace industries worldwide through our industry-leading businesses. In 2010, earnings per share increased 15 percent on strong

margin expansion and sales growth conversion. Net sales increased 4 percent to \$54.3 billion. Cash flow from operations less capital expenditures exceeded net income attributable to common shareowners.

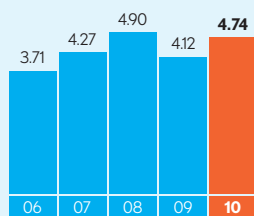
### Net sales

Dollars in billions



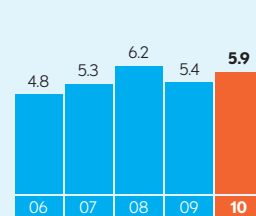
### Diluted earnings per common share

Dollars per share



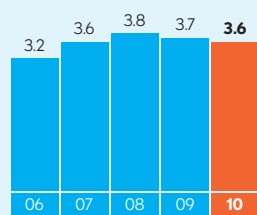
### Cash flow from operations

Dollars in billions



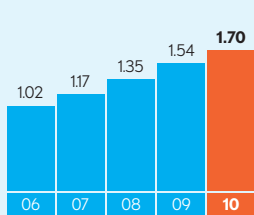
### Research and development<sup>(1)</sup>

Dollars in billions



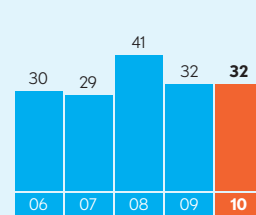
### Dividends paid per common share

Dollars per share



### Debt to capital<sup>(2)</sup>

Percent

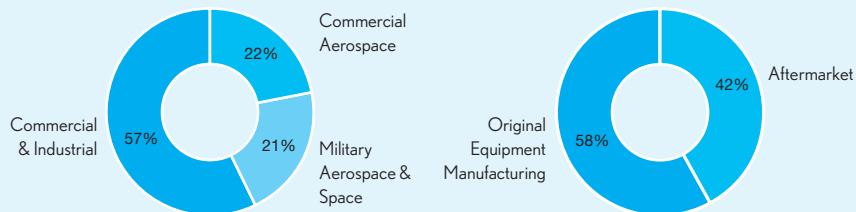


<sup>(1)</sup> Amounts include company- and customer-funded research and development.

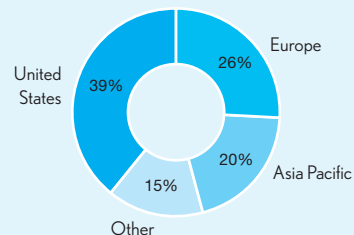
<sup>(2)</sup> The increase in the 2008 debt to capitalization ratio reflects unrealized losses of approximately \$4.2 billion, net of taxes, associated with the effect of market conditions on our pension plans, and 2008 debt issuances totaling \$2.25 billion. The decrease in the 2009 debt to total capitalization ratio, as compared to 2008, reflects the impact of positive returns on our pension plans, the beneficial impact of foreign exchange rate movement and the reduction of approximately \$1.7 billion of total debt.

**Businesses in balance** UTC's balanced portfolio of businesses spans geographies, markets and customer relationships.

### Net sales by type as a percent of total net sales



### Net sales by geography as a percent of total net sales



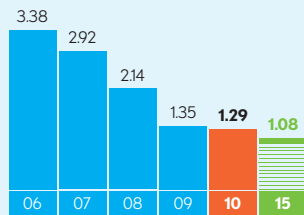
## Corporate Responsibility

**Key Performance Indicators** measure UTC's sustainability goals and performance. UTC environmental reporting standards encourage the ongoing analysis and correction of data, as applicable, following the close of a reporting period. Previously reported annual environmental metric results

may change between annual reporting periods, and UTC will include any prior year data revisions in current reporting. Additional information detailing our progress is available at [www.utc.com/responsibility](http://www.utc.com/responsibility).

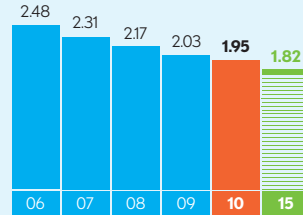
### Non-greenhouse gas emissions

Million lbs



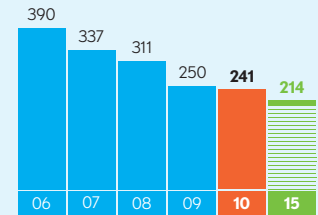
### Greenhouse gas emissions

Million metric tons CO<sub>2</sub>e



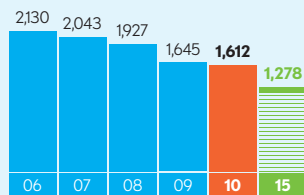
### Industrial process waste

Million lbs



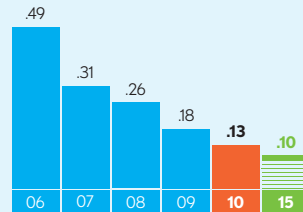
### Worldwide water consumption

Million gals



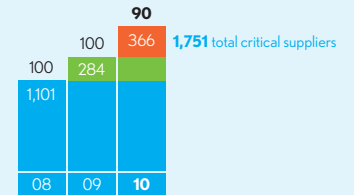
### Lost workday incident rate

Cases/100 employees



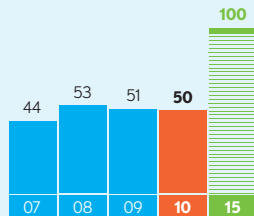
### Supplier EH&S

Percent critical suppliers meeting expectations



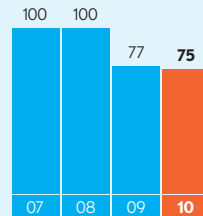
### Materials of concern

Percent new products meeting elimination target



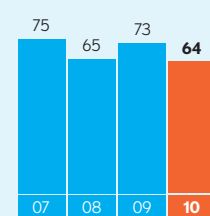
### Packaging\*

Percent new products meeting 10 percent reduction target



### Energy efficiency\*

Percent new products meeting 10 percent improvement target



\*These two metrics are being incorporated into the new 2015 design-for-sustainability goal.

# COMMERCIAL BUSINESS UNITS

## Highlights

### CARRIER

EMPLOYEES: 29,149

NET SALES: \$11.4 BILLION

OPERATING PROFIT: \$1.1 BILLION



Heating, ventilation, air-conditioning and refrigeration systems, controls, services and sustainable solutions for residential, commercial, industrial, food service and transportation applications.

**Highlights:** Carrier is well on its way to completing the portfolio realignment it began in 2008. To date, it has joint-ventured, sold or closed more than 30 businesses representing \$2.5 billion in net sales, making its operations leaner and far less complex. It is investing in growth platforms where it has leading market positions, technology-intensive products and cost leadership. These actions have accelerated Carrier's transformation into a company with higher returns, superior growth prospects and industry-leading margins.



ITC Hotel Royal Gardenia, Bengaluru, India

### OTIS

EMPLOYEES: 60,020

NET SALES: \$11.6 BILLION

OPERATING PROFIT: \$2.6 BILLION



Design, manufacture, installation, service and upgrade of elevators, escalators and moving walkways for all buildings, including commercial, residential, multipurpose malls, educational institutions and urban transportation systems.

**Highlights:** Otis continues to solidify its position as one of the largest elevator providers to the high-rise market. Late in the year, the landmark 68-story Bitexco Financial Tower opened in Ho Chi Minh City, Vietnam. This Grade A+ commercial skyscraper, the first and only in Vietnam, is equipped with high-speed elevators and the country's first double-deck elevator, all manufactured by Otis. Twenty-one elevators are equipped with Otis'



Bitexco Financial Tower, Ho Chi Minh City, Vietnam

### UTC FIRE & SECURITY

EMPLOYEES: 46,288

NET SALES: \$6.5 BILLION

OPERATING PROFIT: \$714 MILLION



Fire detection, alarm and suppression systems; specialty detection products and combustion controls; fire safety services; security software and hardware systems; design, manufacturing, integration, installation and servicing of access control, intruder alarm, video surveillance, and fire systems; security monitoring and response.

**Highlights:** UTC Fire & Security is expanding its presence in key emerging markets, including the Middle East, China and India. In the Middle East, the company established joint ventures in Qatar, the United Arab Emirates and Kuwait that will help it better meet customer needs in the region. It won contracts to design, supply and commission a



Chek Lap Kok Airport, Hong Kong



Carrier continues to introduce products to help customers reduce energy costs and environmental impact. Among them is its newest series of WeatherMaster rooftops with the company's non-ozone-depleting Puron refrigerant. The new WeatherMaster rooftop has some of the highest efficiencies in its segment, surpassing new federal regulation minimums by more than 20 percent and the U.S. Environmental Protection Agency's ENERGY STAR efficiency levels by as much as 12 percent.

Carrier continues to have success with its innovative, natural-refrigerant-based CO<sub>2</sub>OLtec food retail refrigeration system. CO<sub>2</sub>OLtec reduces greenhouse gas emissions and is up to 10 percent more energy efficient than standard hydrofluorocarbon solutions. At the end of 2010, more than 200 stores had installed CO<sub>2</sub>OLtec refrigeration systems, double the number from a year ago.

Carrier continues to add to its broad range of green building capabilities. During the year, the company launched the AdvanTE<sup>3</sup>C Solutions Center, which comprises a global group of experts who apply

technology in innovative ways to help customers realize maximum energy efficiency and environmental benefits in commercial buildings.

Carrier won a number of major contracts during the year. The company will be a leading heating, ventilation and air-conditioning supplier for the 2012 Olympics in London. It also will supply Evergreen 19XRD chillers to the new Muscat International Airport in Oman. Its Automated Logic subsidiary will provide a building management system at 4 World Trade Center, a 65-story building that is targeting Gold certification by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED).

**Left:** ITC Hotel Royal Gardenia, Bengaluru, India, is Asia's first and the world's largest LEED Platinum-rated "green" hotel. The hotel is made comfortable using Carrier's Evergreen 23XRV, the world's most efficient screw chiller.

Compass destination management system. Ten Otis escalators transport visitors and occupants throughout the building.

Work also is progressing on the Seoul International Finance Center, where Otis is providing 73 elevators, including six energy-efficient Gen2 systems, along with 38 escalators and 14 moving walkways. The center is expected to open in late 2011.

Otis has been chosen to provide 88 energy-efficient elevators, escalators and moving walkways to Los Angeles International Airport, the world's busiest origin and destination airport. Otis equipment was selected for the Bradley West project, a major modernization of the Tom Bradley International Terminal. The Bradley West project is designed to achieve Silver certification from the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED). It is scheduled for completion in late 2012.

More than 200,000 Gen2 elevators have been sold worldwide since the product was launched a decade ago. Gen2 elevators are up to 50 percent more energy efficient than conventional systems. When combined with ReGen drives, Gen2 elevators are up to 75 percent more energy efficient than conventional systems without regenerative drives.

Demand continues to rise for Otis' comprehensive and priority Elite service program. A key differentiator for the company, it offers an unprecedented level of service and benefits that are focused on customer needs and helps ensure maximum equipment reliability and efficient repairs. At the end of 2010, approximately 20,000 Elite service subscriptions had been sold, more than double the number of subscriptions from the previous year.

**Left:** The world-class and iconic Bitexco Financial Tower in Ho Chi Minh City, Vietnam, opened in 2010 equipped with state-of-the-art Otis elevators and escalators.

firefighting system for an oil terminal in the United Arab Emirates and to provide firefighting equipment for oil fields in Abu Dhabi.

UTC Fire & Security is well positioned for growth in China and in 2010 secured a large number of contracts for major infrastructure upgrades and new projects. These included providing fire detection, alarm and video surveillance systems for Metro Line 5 in Shenzhen and Marioff's water-mist fire suppression systems to protect the High Speed Railway Control Center in Guangzhou. In Hong Kong, UTC Fire & Security was awarded a contract to design, supply, install, test and commission an integrated fire system for the Cathay Pacific cargo terminal at the Chek Lap Kok Airport. It is one of the largest fire installation contracts awarded in Hong Kong in the past 20 years.

In India, UTC Fire & Security will provide a turnkey security solution to the world-class integrated Terminal 2 at Mumbai's Chhatrapati Shivaji International Airport.

Also in the transportation segment, the company is growing its presence with the MobileView video surveillance system that provides improved public safety on buses and subways. A recent contract will install bus camera security systems on 426 buses in New York City with the option for an additional 1,150. This supplements systems already installed in the United States.

A key growth area for UTC Fire & Security is the petrochemical, oil and gas segment, where the company won a significant contract to protect facilities associated with Western Australia's offshore Gorgon natural gas development.

**Left:** UTC Fire & Security will design, supply, install, test and commission an integrated fire system for the Cathay Pacific cargo terminal at Hong Kong's Chek Lap Kok Airport.

# AEROSPACE BUSINESS UNITS

## Highlights

**HAMILTON SUNDSTRAND**

EMPLOYEES: **16,877**

NET SALES: **\$5.6 BILLION**

OPERATING PROFIT: **\$918 MILLION**



Electrical power generation and distribution systems; engine accessories and control systems; flight control systems and pilot controls; propulsion systems; environmental control systems; Auxiliary Power Units; LED lighting; fire protection products for aircraft and military ground vehicles; prime contractor of NASA's spacesuit/life support system; electric power system and several systems for international space programs, including fuel cells for the U.S. space shuttle program; industrial products, including portable and stationary air compressors, high-pressure pumps, gas compressors, and metering pumps and systems.



Gulfstream G650 business jet

**PRATT & WHITNEY**

EMPLOYEES: **35,113**

NET SALES: **\$12.9 BILLION**

OPERATING PROFIT: **\$2.0 BILLION**



Turbofan engines for large commercial, business and military aircraft; turboprop engines for regional airline, business, utility and military aircraft; turboshaft engines for commercial and military helicopters; land-based gas turbine and geothermal power solutions for the industrial and utility markets; maintenance, repair and overhaul services, including the sale of spare parts as well as fleet management services; liquid space propulsion systems for military and commercial applications, including NASA's space shuttle and Constellation programs.

**Highlights:** At the end of the year, Pratt & Whitney had completed more than 100 hours of testing on its first PurePower engine, successfully



Space Shuttle Atlantis

**SIKORSKY**

EMPLOYEES: **18,072**

NET SALES: **\$6.7 BILLION**

OPERATING PROFIT: **\$716 MILLION**



Military and commercial helicopters; fixed-wing aircraft; spare parts and maintenance, repair and overhaul services for helicopters and fixed-wing aircraft; civil helicopter operations.

**Highlights:** In 2010, a Sikorsky S-70i BLACK HAWK helicopter flew in Poland for the first time, marking a historic milestone for the company's state-of-the-art manufacturing facility in Mielec. It was the second helicopter assembled at the facility, which was acquired in 2007. The first helicopter assembled at Mielec was flight-tested in the United States and is now being fitted with options. The S-70i helicopter is the newest BLACK HAWK variant



S-70i BLACK HAWK helicopter

**Highlights:** Hamilton Sundstrand is supplying key systems for next-generation commercial aircraft, including Bombardier's C-Series and Irkut Corporation's new MC-21.

Hamilton Sundstrand has provided nine major systems for Boeing's new 787 Dreamliner jet and continues to support testing and certification of the aircraft. Boeing's new 747-8 airliner, also equipped with Hamilton Sundstrand systems, completed key flight tests during the year.

The company will provide a new auxiliary power unit for the U.S. Navy E-6B TACAMO aircraft, which acts as an airborne command post and communications relay in times of crisis. The aircraft builds on Hamilton Sundstrand's extensive portfolio of military auxiliary power unit applications.

For the new Airbus A350 XWB jetliner, Hamilton Sundstrand is developing side stick pilot controls, electrical power generation, emergency electrical power systems, cabin ventilation, overheat detection systems and the pneumatic start system for the Trent XWB engine. The Airbus A400M is undergoing flight testing equipped

with one of the world's highest horsepower propellers in production. The propeller is built by Hamilton Sundstrand's Ratier Figeac unit. Hamilton Sundstrand also is providing the auxiliary power unit and the secondary electrical power distribution center and electric ram air turbine.

During the year, NASA awarded Hamilton Sundstrand a contract worth up to \$729 million to supply and maintain its space suits.

Hamilton Sundstrand's industrial business, which comprises Milton Roy, Sullair and Sundyne, is recognized as a global leader in critical pump technologies and compressed air solutions. In addition to meeting demand in a wide range of developed markets, these products are used extensively in the infrastructure of the world's emerging economies.

**Left:** Hamilton Sundstrand will provide a number of key systems for Gulfstream's new G650 business jet, which is currently undergoing certification. These include the main and emergency electrical power generating and primary power distribution systems and the fire-detection system.

validating performance expectations of its new generation of commercial jet engines, including full engine operability, engine fuel and lubrication systems, and overall mechanical characteristics. More than 260 hours of core testing also validated the performance of the PurePower PW800 engine, which is being developed for the next generation of large business jets.

In 2010, Pratt & Whitney Canada launched a compressor demonstrator program for an all-new advanced turboprop engine aimed at powering the next generation of regional turboprop aircraft. Like the PurePower family of engines, it is expected to set new standards for the regional market by targeting double-digit reductions in fuel burn and environmental emissions over the current fleet. The company will begin testing in 2011.

A Center of Excellence has opened in Istanbul to offer customers in the region advanced engine maintenance, repair and overhauls. The Pratt & Whitney Turkish Engine Center was built to the highest

environmental standards and was awarded Gold certification by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED).

Pratt & Whitney's EcoPower engine wash system has now expanded to India. EcoPower systems save customers money by improving engine performance and reducing carbon dioxide emissions. In 2010, more than 6,500 EcoPower washes were completed, a 26 percent increase over the previous year.

Pratt & Whitney Rocketdyne, which has been a NASA partner since the agency's inception, received a \$60.3 million contract to continue maintaining the space shuttle's main engines.

**Left:** Pratt & Whitney Rocketdyne has been the power behind more than 1,600 rocket launches and has been a key engine provider to the U.S. space program since its inception.

for international markets. The Mielec facility is on track to deliver the S-70i to its launch customer, the Kingdom of Saudi Arabia, beginning in 2011.

Saudi Arabia's Ministry of Interior also will purchase 12 S-76D helicopters, with an option to purchase an additional eight. The S-76D helicopter is the next-generation model of the popular S-76 helicopter, which has been in service since 1979. Like its predecessor, it will be especially suited for corporate, helitaxi, and offshore crude oil and natural gas support missions. First deliveries are scheduled for 2012.

The first flight of the Sikorsky Autonomous Formation Flying (AFF) system was achieved during the year. The AFF system reduces a helicopter pilot's workload by automating routine formation flight.

During the year, the company began testing key systems to be installed on the CH-53K helicopter, the new heavy-lift aircraft being built for the U.S. Marine Corps. The systems will be tested in Sikorsky's third fly-by-wire systems integration lab, a state-of-the-art facility that

brings together a team of experts across different disciplines and joins them with the design, test and flight test teams to enable a smooth integration into the flight test program.

Sikorsky Aerospace Services (SAS) continues to advance its goal of becoming the most comprehensive aviation support company in the world. In 2010, it formed a joint venture to provide world-class military aviation maintenance, repair and overhaul services to the United Arab Emirates armed forces and other military operators internationally. It also signed an agreement to authorize a customer service center in Mumbai, India. SAS expanded its portfolio by acquiring LifePort, a premier aftermarket OEM (original equipment manufacturer) that specializes in mission equipment.

**Left:** The first flight of Sikorsky's S-70i helicopter, manufactured and assembled in Poland, was completed during the year. The S-70i is the newest BLACK HAWK variant for international markets.



## OUR COMMITMENTS

Our Commitments define who we are and how we work. They focus our businesses and move us forward.

### **Performance**

Our customers have a choice, and how we perform determines whether they choose us. We aim high, set ambitious goals and deliver results, and we use customer feedback to recalibrate when necessary. We move quickly and make timely, well-reasoned decisions because our future depends on them. We invest authority where it needs to be, in the hands of the people closest to the customer and the work.

### **Innovation**

We are a company of ideas that are nurtured by a commitment to research and development. The achievements of our founders inspire us to reach always for the next innovative and powerful and marketable idea. We seek and share ideas openly and encourage diversity of experience and opinion.

### **Opportunity**

Our employees' ideas and inspiration create opportunities constantly, and without limits. We improve continuously everything we do, as a company and as individuals. We support and pursue lifelong learning to expand our knowledge and capabilities and to engage with the world outside UTC. Confidence spurs us to take prudent risks, to experiment, to cooperate with each other and, always, to learn from the consequences of our actions.

### **Responsibility**

Successful businesses improve the human condition. We maintain the highest ethical, environmental and safety standards everywhere, and we encourage and celebrate our employees' active roles in their communities.

### **Results**

We are a preferred investment because we meet aggressive targets whatever the economic environment. We communicate honestly and forthrightly to investors, and deliver consistently what we promise. We are a company of realists and optimists, and we project these values in everything we do.

## FINANCIAL TABLE OF CONTENTS

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## FIVE - YEAR SUMMARY

(Dollars in millions, except per share amounts)

|  | 2010             | 2009      | 2008      | 2007      | 2006      |
|--|------------------|-----------|-----------|-----------|-----------|
| <b>For the year</b>                                    |                  |           |           |           |           |
| Net sales  | <b>\$ 54,326</b> | \$ 52,425 | \$ 59,119 | \$ 54,876 | \$ 47,940 |
| Research and development                               | <b>1,746</b>     | 1,558     | 1,771     | 1,678     | 1,529     |
| Restructuring and other costs                          | <b>443</b>       | 830       | 357       | 166       | 288       |
| Net income   | <b>4,711</b>     | 4,179     | 5,053     | 4,548     | 3,998     |
| Net income attributable to common shareowners          | <b>4,373</b>     | 3,829     | 4,689     | 4,224     | 3,732     |
| Earnings per share:                                    |                  |           |           |           |           |
| Basic:   |                  |           |           |           |           |
| Net income attributable to common shareowners          | <b>4.82</b>      | 4.17      | 5.00      | 4.38      | 3.81      |
| Diluted:   |                  |           |           |           |           |
| Net income attributable to common shareowners          | <b>4.74</b>      | 4.12      | 4.90      | 4.27      | 3.71      |
| Cash dividends per common share                        | <b>1.70</b>      | 1.54      | 1.35      | 1.17      | 1.02      |
| Average number of shares of Common Stock outstanding:  |                  |           |           |           |           |
| Basic  | <b>908</b>       | 917       | 938       | 964       | 980       |
| Diluted  | <b>923</b>       | 929       | 956       | 989       | 1,006     |
| Cash flow from operations                              | <b>5,906</b>     | 5,353     | 6,161     | 5,330     | 4,803     |
| Capital expenditures                                   | <b>865</b>       | 826       | 1,216     | 1,153     | 954       |
| Acquisitions, including debt assumed <sup>4</sup>      | <b>2,797</b>     | 703       | 1,448     | 2,336     | 1,049     |
| Repurchase of Common Stock                             | <b>2,200</b>     | 1,100     | 3,160     | 2,001     | 2,068     |
| Dividends paid on Common Stock <sup>1</sup>            | <b>1,482</b>     | 1,356     | 1,210     | 1,080     | 951       |
| <b>At year end</b>                                     |                  |           |           |           |           |
| Working capital  | <b>\$ 5,778</b>  | \$ 5,281  | \$ 4,665  | \$ 4,602  | \$ 3,636  |
| Total assets <sup>2,4</sup>                            | <b>58,493</b>    | 55,762    | 56,837    | 54,888    | 47,382    |
| Long-term debt, including current portion <sup>3</sup> | <b>10,173</b>    | 9,490     | 10,453    | 8,063     | 7,074     |
| Total debt <sup>3</sup>                                | <b>10,289</b>    | 9,744     | 11,476    | 9,148     | 7,931     |
| Debt to total capitalization <sup>2,3</sup>            | <b>32%</b>       | 32%       | 41%       | 29%       | 30%       |
| Total equity <sup>2,3</sup>                            | <b>22,332</b>    | 20,999    | 16,681    | 22,064    | 18,133    |
| Number of employees <sup>4</sup>                       | <b>208,200</b>   | 206,700   | 223,100   | 225,600   | 214,500   |

**Note 1** Excludes dividends paid on Employee Stock Ownership Plan Common Stock.

**Note 2** During 2006, we adopted the accounting related to Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans which resulted in an approximately \$1.8 billion non-cash charge to equity and a \$2.4 billion non-cash reduction to total assets. In addition, we early-adopted the measurement date provisions of this standard effective January 1, 2007, which increased shareowners' equity by approximately \$425 million and decreased long-term liabilities by approximately \$620 million.

**Note 3** The increase in the 2008 debt to total capitalization ratio, as compared to 2007, reflects unrealized losses of approximately \$4.2 billion, net of taxes, associated with the effect of market conditions on our pension plans, and the 2008 debt issuances totaling \$2.25 billion. The decrease in the 2009 debt to total capitalization ratio, as compared to 2008, reflects the reversal of unrealized losses in our pension plans of approximately \$1.1 billion, the beneficial impact of foreign exchange rate movement of approximately \$1.0 billion, and the reduction of approximately \$1.7 billion of total debt.

**Note 4** The increase in 2010, as compared with 2009, includes the impact of acquisitions across the company, most notably the 2010 acquisition of the GE Security business within the UTC Fire & Security segment. The increase in the number of employees in 2010 associated with acquisition activity was partially offset by headcount reductions associated with initiated restructuring actions.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

#### Business Overview

We are a global provider of high technology products and services to the building systems and aerospace industries. Our operations are classified into six principal business segments: Otis, Carrier, UTC Fire & Security, Pratt & Whitney, Hamilton Sundstrand and Sikorsky. Otis, Carrier and UTC Fire & Security are collectively referred to as the "commercial businesses," while Pratt & Whitney, Hamilton Sundstrand and Sikorsky are collectively referred to as the "aerospace businesses." Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. We previously reported "Other income, net," which included "Interest income," as a component of "Revenues." "Other income, net," excluding "Interest income," is now reflected as a component of "Costs, Expenses and Other," while "Interest income" is now netted with "Interest expense" for financial statement presentation.

The commercial businesses generally serve customers in the worldwide commercial and residential property industries, although Carrier also serves customers in the commercial and transport refrigeration industries. The aerospace businesses serve commercial and government aerospace customers in both the original equipment and aftermarket parts and services markets. In addition, a portion of these businesses serve customers in certain industrial markets. Our consolidated net sales were derived from the commercial and aerospace businesses as follows (sales from Hamilton Sundstrand's and Pratt & Whitney's industrial markets are included in "commercial and industrial"):

|                              | 2010 | 2009 | 2008 |
|------------------------------|------|------|------|
| Commercial and industrial    | 57%  | 58%  | 61%  |
| Military aerospace and space | 21%  | 21%  | 17%  |
| Commercial aerospace         | 22%  | 21%  | 22%  |
|                              | 100% | 100% | 100% |

In each of 2010 and 2009, approximately 58% of our consolidated sales were original equipment and 42% were aftermarket parts and services, while in 2008 the amounts were 60% and 40%, respectively.

As worldwide businesses, our operations can be affected by industrial, economic and political factors on both a regional and global level. To limit the impact of any one industry or the economy of any single country on our consolidated operating results, our strategy has been, and continues to be, the maintenance of a balanced and diversified portfolio of businesses. Our businesses include both commercial and aerospace operations, original equipment manufacturing

(OEM) and extensive related aftermarket parts and services businesses, as well as the combination of shorter cycles in our commercial and industrial businesses, particularly Carrier, and longer cycles in our aerospace businesses. Our customers include companies in the private sector and governments, and our businesses reflect an extensive geographic diversification that has evolved with the continued globalization of world economies. The composition of net sales from outside the United States, including U.S. export sales, in dollars and as a percentage of total segment sales, is as follows:

| <i>(Dollars in millions)</i> | 2010     | 2009     | 2008     | 2010 | 2009 | 2008 |
|------------------------------|----------|----------|----------|------|------|------|
| Europe                       | \$11,957 | \$12,216 | \$15,129 | 22%  | 23%  | 25%  |
| Asia Pacific                 | 7,986    | 7,173    | 8,218    | 14%  | 14%  | 14%  |
| Other Non-U.S.               | 5,374    | 4,991    | 6,432    | 10%  | 9%   | 11%  |
| U.S. Exports                 | 7,724    | 6,996    | 7,262    | 14%  | 13%  | 12%  |
| International segment sales  | \$33,041 | \$31,376 | \$37,041 | 60%  | 59%  | 62%  |

As part of our growth strategy, we invest in businesses in certain countries that carry high levels of currency, political and/or economic risk, such as Argentina, Brazil, China, India, Mexico, Russia, South Africa and countries in the Middle East. At December 31, 2010, the net assets in any one of these countries did not exceed 7% of consolidated shareowners' equity.

The global economy, which experienced a significant downturn through 2008 and 2009, began showing signs of gradual improvement in 2010; however, the overall rate of global recovery experienced during the course of 2010 has been uneven. Global gross domestic product growth in 2010 was led by emerging markets. In the developed economies, particularly in Europe where the recovery is sluggish, the unwinding of fiscal stimuli and lingering high unemployment have encouraged the use of expansionary monetary policies to sustain economic recoveries. Although consumer confidence in the U.S. has improved since the economic downturn, it remains low, while unemployment remains high and the housing market depressed. Conversely, global aerospace markets are trending favorably with commercial airline traffic, pricing, and capacity utilization continuing to increase. We are beginning to see a modest recovery in the commercial construction markets in the U.S., although, globally, construction markets remain generally weak, with the exception of some emerging markets. The combination of these market factors led to consolidated net sales growth of 4%, when compared with 2009, including 2% organic sales growth. The organic sales growth was led by increases at Carrier, Sikorsky and at Pratt & Whitney. These net increases more than offset the organic sales contraction at both Otis and UTC Fire & Security as certain of their markets have been slower to recover from the economic downturn.



Despite the uneven economic recovery throughout 2010, our fourth quarter short cycle shipments and order rates were robust and consistent with our expectations for sales growth in 2011. In the fourth quarter of 2010, as compared with the same period in 2009, commercial aerospace spares orders at Pratt & Whitney and Hamilton Sundstrand increased 45% and 31%, respectively, and Carrier's shipments of U.S. residential systems improved 9%. For the full year 2010 as compared with 2009, commercial aerospace spares orders at Pratt & Whitney and Hamilton Sundstrand increased 18% and 16%, respectively, and Carrier's shipments of U.S. residential systems improved 4%. These improvements contributed to the 2% organic sales growth noted above and should also contribute positively to 2011. Orders in our longer cycle businesses also improved for the full year, as compared with 2009, as Otis new equipment orders grew 7%, global new equipment orders at Carrier's commercial HVAC business grew 7% and total orders at UTC Fire & Security, driven by the acquisition of the GE Security business, grew approximately 25% year-over-year, as compared with 2009.

Consistent with prior years, our backlog includes both short cycle orders that are expected to be realized in the near term, as well as longer cycle orders that may be recognized over a period of years. With improving end market environments and the expected conversion of a portion of backlog into sales in 2011, we are expecting organic sales growth in 2011 to range from 3% to 5%.

Although the projected increase in organic growth, if realized, will contribute to operating profit growth, we continue to invest in new platforms and markets that position us for growth, while remaining focused on structural cost reduction, operational improvements and disciplined cash redeployment. These actions contributed to our earnings growth and operating profit margin expansion during 2010. The strategies we initiated in late 2008 and early 2009 to address the then expected global economic challenges and volume declines have better positioned us for earnings growth as the global economy recovers. As disclosed in 2009, we announced a significant restructuring initiative in early 2009 designed to reduce structural and overhead costs across all of our businesses in order to partially mitigate the adverse volume impact. Restructuring costs in 2010 and 2009 totaled \$443 million and \$830 million, respectively. As a result of the higher sales volumes, the beneficial impact from our continued focus on cost reduction and previously initiated restructuring actions and lower year-over-year restructuring costs, segment operating margin increased 140 basis points from 13.2% in 2009 to 14.6% in 2010. This year-over-year increase includes a 40 basis point net benefit from lower restructuring charges and non-recurring items. While we expect to benefit in 2011 from cost reductions realized on the restructuring actions undertaken in prior years, we also expect an adverse impact on operating

profits in 2011 from gross commodity cost increases of approximately \$150 million and incremental research and development investment of approximately \$175 million.

As discussed below in "Results of Operations," operating profit in each of 2010 and 2009 includes the impact from non-recurring items including the adverse effect of asset impairment charges in 2010, and the beneficial impact of gains related to business divestiture activities, primarily related to Carrier's ongoing portfolio transformation, in both 2009 and 2010. Our earnings growth strategy contemplates earnings from organic sales growth, including growth from new product development and product improvements, structural cost reductions, operational improvements, and incremental earnings from our investments in acquisitions. We invested \$2.8 billion (including debt assumed of \$39 million) and \$703 million in the acquisition of businesses across the entire company in 2010 and 2009, respectively. Our investment in businesses in 2010 principally reflects the acquisitions of the General Electric (GE) Security business and Clipper Windpower Plc (Clipper). Acquisitions in 2009 consisted principally of a number of small acquisitions in both our aerospace and commercial businesses.

On March 1, 2010, we completed the acquisition of the GE Security business for approximately \$1.8 billion, including debt assumed of \$32 million. The GE Security business, which is being integrated into our UTC Fire & Security segment, supplies security and fire safety technologies for commercial and residential applications through a broad product portfolio that includes fire detection and life safety systems, intrusion alarms, and video surveillance and access control systems. This business enhanced UTC Fire & Security's geographic diversity with its strong North American presence and also increased UTC Fire & Security's product and technology offerings. In connection with this transaction, we recorded approximately \$600 million of identifiable intangible assets and \$1.1 billion of goodwill. The goodwill recorded reflects synergies expected to be realized through the combination of GE Security's products, resources and management talent with those of the existing UTC Fire & Security business to enhance competitiveness, accelerate the development of certain product offerings, drive improved operational performance and secure additional service channels. Additionally, the combined businesses have provided the opportunity for significant improvements to the cost structure through the rationalization of general and administrative expenditures as well as research and development efforts.

During 2010, we also completed the acquisition of Clipper, a publicly-held California-based wind turbine manufacturer. This investment is intended to expand our power generation portfolio and allow us to enter the wind power market by leveraging our expertise in blade technology, turbines and gearbox design. In the first half of 2010, we

acquired a 49.9% equity stake in Clipper. In December 2010, we completed the acquisition of all of the remaining shares of Clipper. The total cost of our investment in Clipper is approximately £240 million (approximately \$385 million). In connection with this transaction, we recorded approximately \$400 million of goodwill and identifiable intangible assets. Prior to the December 2010 purchase of the remaining shares of Clipper, we accounted for this investment under the equity method of accounting. During the quarter ended September 30, 2010, we recorded a \$159 million other-than-temporary impairment charge, on our investment in Clipper, in order to write-down our investment to market value as of September 30, 2010. This impairment is recorded within "Other income, net" on our Consolidated Statement of Operations. In December 2010, as a result of the acquisition of a controlling interest and the remaining shares of Clipper, we recorded a \$21 million gain from the re-measurement to fair value of our previously held equity interest. The financial results of Clipper are included within the "Eliminations and other" category in the segment financial data in Note 18 to the Consolidated Financial Statements.

Both acquisition and restructuring costs associated with a business combination are expensed as incurred. Depending on the nature and level of acquisition activity, earnings could be adversely impacted due to acquisition and restructuring actions initiated in connection with the integration of the acquisitions.

During 2010, we recorded approximately \$86 million of asset impairment charges, for assets that have met the held-for-sale criteria, related to disposition activity within both Carrier and Hamilton Sundstrand. These asset impairment charges are recorded within Cost of products sold on our Consolidated Statement of Operations. The asset impairment charges consist of a \$58 million charge associated with Carrier's ongoing portfolio transformation to a higher returns business and a \$28 million charge at Hamilton Sundstrand related to the expected disposition of an aerospace business as part of Hamilton Sundstrand's efforts to implement low cost sourcing initiatives.

For additional discussion of acquisitions and restructuring, see "Liquidity and Financial Condition," "Restructuring and Other Costs" and Notes 2 and 12 to the Consolidated Financial Statements.

## Results of Operations

### Net Sales

| <i>(Dollars in millions)</i>     | 2010            | 2009      | 2008     |
|----------------------------------|-----------------|-----------|----------|
| Net sales                        | <b>\$54,326</b> | \$ 52,425 | \$59,119 |
| Percentage change year-over-year | <b>3.6%</b>     | (11.3)%   | 7.7%     |

The 4% increase in consolidated net sales in 2010, as compared with 2009, reflects organic sales growth (2%), the beneficial impact of foreign currency translation (1%) and the impact of net acquisitions (1%). The impact of net acquisitions primarily reflects the acquisition of the GE Security business at UTC Fire & Security, net of the impact of dispositions from the portfolio transformation efforts undertaken at Carrier. As discussed above in the "Business Overview," the organic sales increase was largely led by Carrier, Sikorsky, and Pratt & Whitney. These organic increases were partially offset by organic sales contraction at both Otis and UTC Fire & Security. The organic sales growth at Carrier was driven by continuing strength in the transport refrigeration business, while Sikorsky's growth was primarily attributable to higher military sales. The organic contraction at Otis was due to a decline in new equipment sales as a result of continued commercial and residential market weakness. In addition, the decline at UTC Fire & Security reflects contraction in the service and install business as a result of weak economic conditions in principal markets.

The 11% decline in consolidated net sales in 2009, as compared with 2008, reflects organic sales contraction (7%), the adverse impact from foreign currency translation (3%) and the impact of net divestitures (1%) resulting from the portfolio rationalization efforts undertaken, principally at Carrier. The organic decline in net sales reflects volume decreases at most of our businesses resulting from the challenging global economic conditions experienced during 2009. The depressed residential housing and commercial construction markets drove volume declines across all of our commercial businesses, while declines in aerospace aftermarket sales at both Pratt & Whitney and Hamilton Sundstrand, coupled with the adverse impact from a depressed business jet market, led to an overall decline in aerospace sales. Record aircraft deliveries at Sikorsky helped to partially mitigate the effect of other aerospace volume losses.

### Cost of Products and Services Sold

| <i>(Dollars in millions)</i>             | 2010            | 2009      | 2008     |
|--|-----------------|-----------|----------|
| Cost of products sold                    | <b>\$28,956</b> | \$ 28,905 | \$32,833 |
| Percentage of product sales              | <b>74.9%</b>    | 77.4%     | 75.9%    |
| Cost of services sold                    | <b>\$10,458</b> | \$ 9,956  | \$10,804 |
| Percentage of service sales              | <b>66.7%</b>    | 66.0%     | 68.0%    |
| Total cost of products and services sold | <b>\$39,414</b> | \$ 38,861 | \$43,637 |
| Percentage change year-over-year         | <b>1.4%</b>     | (10.9)%   | 6.7%     |

The factors contributing to the total percentage change year-over-year in total cost of products and services sold are as follows:

|                                    | 2010       | 2009         |
|------------------------------------|------------|--------------|
| Organic volume                     | 1 %        | (7)%         |
| Foreign currency translation       | 1 %        | (3)%         |
| Acquisitions and divestitures, net | —          | (2)%         |
| Restructuring                      | (1)%       | 1 %          |
| <b>Total % Change</b>              | <b>1 %</b> | <b>(11)%</b> |

Year-over-year, both total cost of products and services sold and overall sales volumes increased in 2010, as compared with 2009, and decreased in 2009, as compared with 2008. The year-over-year increase in total cost of products and services sold in 2010, as compared with 2009, reflects an increase in costs as a result of increased sales volumes. Total cost of products and services sold increased organically (1%) at a rate lower than organic sales growth of 2% reflecting the beneficial impact from operational improvements, cost savings and restructuring actions taken. The 11% year-over-year reduction in 2009 in total cost of products and services sold, as compared with 2008, primarily reflects a decline in costs associated with the lower organic sales volumes as well as the favorable impact of foreign currency translation.

### Gross Margin

| (Dollars in millions)   | 2010            | 2009     | 2008     |
|-------------------------|-----------------|----------|----------|
| Gross margin            | <b>\$14,912</b> | \$13,564 | \$15,482 |
| Percentage of net sales | <b>27.4%</b>    | 25.9%    | 26.2%    |

The 2010 year-over-year increase in gross margin as a percentage of sales of 150 basis points, was driven primarily by increased volumes and lower cost of sales resulting from continued focus on cost reductions, savings from previously initiated restructuring actions and net operational efficiencies. Gross margin as a percentage of sales in 2010 also reflects the benefits of the shift in mix from new equipment sales to higher margin service sales at Otis, the increase in higher margin aerospace aftermarket sales at the aerospace businesses, and the beneficial impact from net acquisition/disposition activity. The beneficial impact of lower year-over-year restructuring charges (20 basis points) was offset by the adverse impact of asset impairment charges (20 basis points) recorded in 2010, related to disposition activity at Carrier and Hamilton Sundstrand.

The 2009 year-over-year decrease in gross margin as a percentage of sales of 30 basis points primarily reflects higher year-over-year restructuring charges (50 basis points). Continued focus on cost reduction, savings from previously initiated restructuring actions, net operational efficiencies,

margin growth experienced at Otis from lower commodity prices and the continued shift toward higher margin contractual maintenance sales offset the adverse impacts of lower sales volumes, particularly in our higher margin aerospace aftermarket and transport refrigeration businesses.

### Research and Development

| (Dollars in millions)   | 2010           | 2009    | 2008    |
|-------------------------|----------------|---------|---------|
| Company-funded          | <b>\$1,746</b> | \$1,558 | \$1,771 |
| Percentage of net sales | <b>3.2%</b>    | 3.0%    | 3.0%    |
| Customer-funded         | <b>\$1,890</b> | \$2,095 | \$2,008 |
| Percentage of net sales | <b>3.5%</b>    | 4.0%    | 3.4%    |

Research and development spending is subject to the variable nature of program development schedules and, therefore, year-over-year variations in spending levels are expected. The majority of the company-funded spending is incurred by the aerospace businesses and relates largely to the next generation product family at Pratt & Whitney, the Boeing 787 program at Hamilton Sundstrand, and various programs at Sikorsky. The year-over-year increase in company-funded research and development in 2010, compared with 2009, primarily reflects increases at Pratt & Whitney associated with the next generation product family, increases at both Hamilton Sundstrand and Sikorsky as they continue to ramp up new product development programs, and an increase at UTC Fire & Security related to the acquisition in 2010 of the GE Security business. The decrease in company-funded research and development in 2009, compared with 2008, principally reflects lower expenditures at Pratt & Whitney and Hamilton Sundstrand resulting from shifts in the timing of program development activities, lower requirements on key development programs, and the continued focus on cost reduction. The decrease at Pratt & Whitney was driven largely by the timing of program development activities, while the decrease at Hamilton Sundstrand primarily reflects lower expenditures on the Boeing 787-8 program with the first flight having taken place in December 2009.

Company-funded research and development spending for 2011 is expected to increase by approximately \$175 million from 2010 levels as a result of our continued focus on developing new technologies, led by Pratt & Whitney.

The decrease in customer-funded research and development in 2010, compared with 2009, was primarily driven by a decrease at Pratt & Whitney related to a reduction in development spending on the Joint Strike Fighter program. The increase in customer-funded research and development in 2009, compared with 2008, largely reflects increases on various commercial and space programs at Hamilton Sundstrand, and higher development spending on the CH-53K program at

Sikorsky, partially offset by reduced expenditures at Pratt & Whitney on the Joint Strike Fighter development program as it nears completion.

### **Selling, General and Administrative**

| <i>(Dollars in millions)</i>        | <b>2010</b>    | 2009     | 2008     |
|-------------------------------------|----------------|----------|----------|
| Selling, general and administrative | <b>\$6,024</b> | \$ 6,036 | \$ 6,724 |
| Percentage of net sales             | <b>11.1%</b>   | 11.5%    | 11.4%    |

The decrease in selling, general and administrative expenses in 2010, as compared with 2009, is due primarily to a continued focus on cost reduction and the impact from restructuring and cost saving initiatives undertaken in 2009 in anticipation of adverse economic conditions. These improvements were partially offset by the impact of recent acquisitions. As a percentage of sales, the 40 basis point year-over-year decrease primarily reflects the impact of lower restructuring costs.

Similar to the year-over-year change in 2010, the decrease in selling, general and administrative expenses in 2009, as compared with 2008, is due primarily to a continued focus on cost reduction and the impact from restructuring and cost saving initiatives undertaken in 2008 and 2009 in anticipation of adverse economic conditions. As a percentage of sales, selling, general and administrative expenses increased 10 basis points from 2008 to 2009 reflecting higher restructuring costs (approximately 30 basis points) and lower sales volumes. The benefit from cost reduction actions in such areas as travel, employee attrition, employee salary related reductions, and the favorable impact of foreign exchange more than offset the adverse impact of the higher restructuring costs.

### **Other Income, Net**

| <i>(Dollars in millions)</i> | <b>2010</b>   | 2009    | 2008    |
|------------------------------|---------------|---------|---------|
| Other income, net            | <b>\$(44)</b> | \$(407) | \$(522) |

Other income, net includes the operational impact of equity earnings in unconsolidated entities, royalty income, foreign exchange gains and losses as well as other ongoing items and non-recurring items. The year-over-year change in other income, net in 2010, as compared with 2009, largely reflects a \$159 million other-than-temporary impairment charge recorded in 2010 on our then equity investment in Clipper in order to bring the investment to market value, the absence of an approximately \$60 million gain recognized in 2009 from the contribution of the majority of Carrier's U.S. Residential Sales and Distribution business into a new venture, the absence of a \$52 million gain recognized in 2009 at Otis on the re-measurement to fair value of an interest in a joint

venture as well as the absence of gains from 2009 related to business divestiture activity across the company. The decline in other income, net year-over-year also reflects the adverse impact from an approximately \$30 million valuation allowance charge recorded in 2010 related to an unconsolidated foreign venture at Carrier, equity losses associated with our recently acquired Clipper business, and costs associated with the early extinguishment of some debt in 2010. These adverse impacts were partially offset by a \$21 million non-taxable gain recognized in the fourth quarter of 2010 on the re-measurement to fair value of our previously held equity interest in Clipper resulting from the purchase of a controlling interest.

The year-over-year change in other income, net in 2009, as compared with 2008, largely reflects the absence of gains from the sale of marketable securities, lower royalties across the businesses, lower net year-over-year gains on various fixed asset disposals, lower joint venture equity income at Carrier, and lower net year-over-year gains generated from business divestiture activity. These decreases were partially offset by lower net hedging costs on our cash management activities in 2009.

### **Interest Expense, Net**

| <i>(Dollars in millions)</i>                      | <b>2010</b>   | 2009   | 2008   |
|---|---------------|--------|--------|
| Interest expense                                  | <b>\$ 750</b> | \$ 705 | \$ 689 |
| Interest income                                   | <b>(102)</b>  | (88)   | (116)  |
| Interest expense, net                             | <b>\$ 648</b> | \$ 617 | \$ 573 |
| Average interest expense rate during the year on: |               |        |        |
| Short-term borrowings                             | <b>1.8%</b>   | 3.1%   | 5.6%   |
| Total debt  | <b>5.6%</b>   | 5.8%   | 5.9%   |

The increase in interest expense in 2010 as compared with 2009 largely reflects the impact of long-term debt issuances during the course of the year, partially offset by the absence of interest associated with the early redemption and repayment of long-term debt in 2010. Interest expense on our long-term debt increased as a result of the issuance of two series of fixed rate long-term notes totaling \$2.25 billion in February 2010 (see further discussion in the "Liquidity and Financial Condition" section). This impact was partially offset by the absence of interest associated with the repayment at maturity in May 2010 of our \$600 million of 4.375% notes due 2010, the early redemption in June 2010 of the entire \$500 million outstanding principal amount of our 7.125% notes that would have otherwise been due November 2010, and the early redemption in September 2010 of the entire \$500 million outstanding principal amount of our 6.350% notes that would have otherwise been due March 2011. Aside from the impact of debt repayments and redemptions noted above, the additional



interest associated with the issuance of the long-term debt in February 2010 was also partially offset by the absence of interest related to the repayment in June 2009 of our \$400 million 6.500% notes due 2009. Interest expense also reflects the lower cost associated with our commercial paper borrowings. Interest income in 2010 includes a favorable pre-tax interest adjustment of approximately \$24 million associated with the resolution of an uncertain temporary tax item in the second quarter.

The increase in interest expense in 2009, as compared with 2008, is primarily attributable to higher interest charges related to our deferred compensation plan. Increased interest expense resulting from the issuances of \$1.25 billion and \$1.0 billion of long-term debt in December and May 2008, respectively, was partially offset by lower interest expense resulting from the absence of interest on \$933 million in notes that were redeemed in 2009 and to the lower cost associated with our commercial paper borrowings. The redemptions as well as the lower cost of borrowing noted above resulted in a decline in the average interest rate in 2009 as compared with 2008. Interest income in 2009 includes \$17 million of favorable pre-tax interest income adjustments pertaining to global tax examination activity related primarily to the completion of our review of the 2004 to 2005 Internal Revenue Service (IRS) audit report.

The weighted-average interest rate applicable to debt outstanding at December 31, 2010 was 6.3% for short-term borrowings and 5.9% for total debt as compared to 4.8% and 6.1%, respectively, at December 31, 2009. The three month LIBOR rate as of December 31, 2010, 2009 and 2008 was 0.3%, 0.3% and 1.4%, respectively.

### Income Taxes

|                           | 2010  | 2009  | 2008  |
|---------------------------|-------|-------|-------|
| Effective income tax rate | 27.9% | 27.4% | 27.1% |

The effective income tax rates for 2010, 2009 and 2008 reflect tax benefits associated with lower tax rates on international earnings, which we intend to permanently reinvest outside the United States. The 2010 effective income tax rate increased as compared to 2009 due to the absence of certain discrete items which had a net favorable impact in 2009, as disclosed below. The 2010 effective income tax rate reflects a non-recurring tax expense reduction associated with management's decision to repatriate additional high tax dividends from the current year to the U.S. in 2010 as a result of recent U.S. tax legislation. This is partially offset by the non-deductibility of impairment charges, the adverse impact from the health care legislation related to the Medicare Part D program and other increases to UTC's effective income tax rate.

The 2009 effective income tax rate reflects approximately \$38 million of tax expense reductions relating to re-evaluation of our liabilities and contingencies based on global examination activity during the year including the IRS's completion of 2004 and 2005 examination fieldwork and our related protest filing. As a result of the global examination activity, we recognized approximately \$18 million of associated pre-tax interest income adjustments during 2009.

The 2008 effective income tax rate reflects approximately \$62 million of tax expense reductions, principally relating to re-evaluation of our liabilities and contingencies based upon resolution of disputed tax matters with the Appeals Division of the IRS for tax years 2000 through 2003.

We expect our full year annual effective income tax rate in 2011 to be approximately 30.5%. As a result of 2010 U.S. tax legislation and the impact on our tax rate, we anticipate variability in the tax rate quarter to quarter with a higher rate in the first half of 2011. This is due to the tax impacts associated with planned internal legal entity reorganizations that are expected to occur during 2011 with completion of the predominant portion of these projects expected in the second half.

For additional discussion of income taxes, see "Critical Accounting Estimates – Income Taxes" and Note 10 to the Consolidated Financial Statements.

### Net Income and Earnings Per Share

| <i>(Dollars in millions, except per share amounts)</i>  | 2010    | 2009    | 2008    |
|---|---------|---------|---------|
| Net income  | \$4,711 | \$4,179 | \$5,053 |
| Less: Noncontrolling interest in subsidiaries' earnings | 338     | 350     | 364     |
| Net income attributable to common shareowners           | \$4,373 | \$3,829 | \$4,689 |
| Diluted earnings per share                              | \$ 4.74 | \$ 4.12 | \$ 4.90 |

Although the average foreign exchange rate of the U.S. dollar was stronger in 2010, as compared to 2009, against certain currencies such as the Euro, the impact of foreign currency generated a net positive impact of \$.12 per diluted share on our operational performance in 2010. This year-over-year impact primarily represents the beneficial impact of hedging at Pratt & Whitney Canada (P&WC), which more than offset the net adverse foreign currency translation impact. The weakness of the U.S. dollar against the Canadian dollar in 2010 generated an adverse foreign currency translation impact as the majority of P&WC's sales are denominated in U.S. dollars, while a significant portion of its costs are incurred in local currencies. To help mitigate the volatility of foreign currency exchange rates on our operating results, we maintain foreign currency hedging programs, the majority of which are

entered into by P&WC. As a result of hedging programs currently in place, P&WC's 2011 full year operating results are expected to include an adverse impact of hedging of \$75 million. In 2009, foreign currency generated an adverse impact on our operational results of \$.22 per share while in 2008, foreign currency had a favorable impact of \$.06 per share. For additional discussion of foreign currency exposure, see "Market Risk and Risk Management – Foreign Currency Exposures."

Diluted earnings per share for 2010 include a net charge of \$.29 per share from restructuring and non-recurring items. Besides the restructuring charges of \$443 million, non-recurring items included the \$159 million other-than-temporary impairment charge on our investment in Clipper, \$86 million of asset impairment charges related to disposition activity within both Carrier and Hamilton Sundstrand, a \$140 million net tax benefit associated with management's decision to repatriate additional high tax dividends from the current year to the U.S. in 2010 and 2011 as a result of recent U.S. tax legislation, an approximately \$55 million net tax benefit associated with the completion of the acquisition of all the remaining shares of Clipper, \$53 million of net gains from dispositions related to Carrier's ongoing portfolio transformation, a favorable pre-tax interest adjustment of \$24 million associated with the resolution of an uncertain tax item, and a \$21 million non-cash, non-taxable gain recognized on the re-measurement to fair value of our previously held equity interest in Clipper.

### Restructuring and Other Costs

We recorded net pre-tax restructuring and other costs totaling \$443 million in 2010 and \$830 million in 2009 for new and ongoing restructuring actions. We recorded these charges in the segments as follows:

| <i>(Dollars in millions)</i> | 2010         | 2009         |
|------------------------------|--------------|--------------|
| Otis                         | \$ 83        | \$158        |
| Carrier                      | 75           | 210          |
| UTC Fire & Security          | 78           | 112          |
| Pratt & Whitney              | 138          | 190          |
| Hamilton Sundstrand          | 37           | 88           |
| Sikorsky                     | 14           | 7            |
| Eliminations and other       | 18           | 62           |
| General corporate expenses   | —            | 3            |
| <b>Total</b>                 | <b>\$443</b> | <b>\$830</b> |

The 2010 charges consist of \$283 million in cost of sales, \$159 million in selling, general and administrative expenses and \$1 million in other income, net, and, as described below, primarily relate to actions initiated during 2010 and 2009. Restructuring costs reflected in Eliminations and other largely reflect curtailment charges required under our domestic

pension plans due to the significant headcount reductions associated with the various restructuring actions. The 2009 charges consist of \$420 million in cost of sales, \$364 million in selling, general and administrative expenses and \$46 million in other income, net. The 2009 charges relate principally to actions initiated during 2009.

Restructuring actions are an essential component of our operating margin improvement efforts and relate to both existing operations and those recently acquired. As a result of the severity of the global economic downturn, the level of restructuring initiated in 2009 was significantly in excess of that incurred in prior years. These actions were initiated to help mitigate the impact of the global economic downturn and better position us for a resumption of expected future earnings growth. When completed, these actions will result in global employment reductions, primarily in overhead and selling, general and administrative functions of approximately 14,400. We have also acquired certain businesses at beneficial values in past years, such as Kidde and Initial Electronic Security Group (IESG), with the expectation of restructuring the underlying cost structure in order to bring operating margins up to expected levels. Restructuring actions typically focus on streamlining costs through workforce reductions, the consolidation of manufacturing, sales and service facilities, and the transfer of work to more cost-effective locations. For acquisitions prior to January 1, 2009, the costs of restructuring actions at the acquired company contemplated at the date of acquisition are recorded under purchase accounting and actions initiated subsequently are recorded through operating results by being expensed. However, effective January 1, 2009 under the Business Combinations Topic of the FASB ASC, restructuring costs associated with a business combination are expensed. We expect to incur additional restructuring costs in 2011 of approximately \$150 million to \$200 million, including trailing costs related to prior actions, associated with our continuing cost reduction efforts and to the integration of acquisitions. The expected adverse impact on earnings in 2011 from anticipated additional restructuring costs is expected to be offset by the beneficial impact from non-recurring items. Although no specific plans for significant actions have been finalized at this time, we continue to closely monitor the economic environment and may undertake further restructuring actions to keep our cost structure aligned with the demands of the prevailing market conditions.

*2010 Actions.* During 2010, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and consolidation of field operations. We recorded net pre-tax restructuring and other charges totaling \$371 million as follows: Otis \$87 million, Carrier \$74 million, UTC Fire & Security \$64 million, Pratt & Whitney \$84 million,

Hamilton Sundstrand \$29 million, Sikorsky \$15 million and Eliminations and other \$18 million. The charges consist of \$221 million in cost of sales and \$150 million in selling, general and administrative expenses. Those costs consist of \$301 million for severance and related employee termination costs, \$19 million for asset write-downs and \$51 million for facility exit, lease termination and other related costs.

We expect the actions initiated in 2010, once fully complete, to result in net workforce reductions of approximately 5,000 hourly and salaried employees, the exiting of approximately 3.9 million net square feet of facilities and the disposal of assets associated with the exited facilities. As of December 31, 2010, we have completed, with respect to the actions initiated in 2010, net workforce reductions of approximately 2,400 employees, and 300,000 net square feet of facilities have been exited. We are targeting to complete in 2011 the majority of the remaining workforce and facility related cost reduction actions initiated in 2010. Approximately 70% of the total pre-tax charge will require cash payments, which we have and expect to continue to fund with cash generated from operations. During 2010, we had cash outflows of approximately \$107 million related to the 2010 actions. We expect to incur additional restructuring and other charges of \$235 million to complete these actions. We expect recurring pre-tax savings to increase over the two-year period subsequent to initiating the actions to approximately \$350 million annually, of which approximately \$64 million was realized in 2010.

*2009 Actions.* During 2010, we recorded net pre-tax restructuring and other charges (reversals) of \$85 million for actions initiated in 2009. The 2009 actions relate to ongoing cost reduction efforts, including workforce reductions, the

consolidation of field operations and the consolidation of repair and overhaul operations. We recorded the charges (reversals) in 2010 as follows: Otis (\$3 million), Carrier \$11 million, UTC Fire & Security \$14 million, Pratt & Whitney \$56 million, Hamilton Sundstrand \$8 million, and Sikorsky (\$1 million). The charges consist of \$63 million in cost of sales, \$21 million in selling, general and administrative expenses and \$1 million in other income, net. Those costs consisted of \$19 million for severance and related employee termination costs, \$13 million for asset write-downs and \$53 million for facility exit, lease termination and other related costs.

We expect the actions initiated in 2009, once fully completed, to result in net workforce reductions of approximately 14,400 hourly and salaried employees, the exiting of approximately 4.7 million net square feet of facilities and the disposal of assets associated with the exited facilities. As of December 31, 2010, we have completed, with respect to the actions initiated in 2009, net workforce reductions of approximately 13,400 employees and exited 1.3 million net square feet of facilities. We are targeting to complete in 2011 the majority of the remaining workforce and all facility related cost reduction actions initiated in 2009. Approximately 70% of the total pre-tax charge will require cash payments, which we have and expect to continue to fund with cash generated from operations. During 2010, we had cash outflows of approximately \$236 million related to the 2009 actions. We expect to incur additional restructuring and other charges of \$90 million to complete these actions. We expect recurring pre-tax savings to increase over the two-year period subsequent to initiating the actions to approximately \$700 million annually.

For additional discussion of restructuring, see Note 12 to the Consolidated Financial Statements.

## Segment Review

| (Dollars in millions)      | Net Sales       |          |          | Operating Profits |         |         | Operating Profit Margin |       |       |
|----------------------------|-----------------|----------|----------|-------------------|---------|---------|-------------------------|-------|-------|
|                            | 2010            | 2009     | 2008     | 2010              | 2009    | 2008    | 2010                    | 2009  | 2008  |
| Otis                       | <b>\$11,579</b> | \$11,723 | \$12,884 | <b>\$2,575</b>    | \$2,447 | \$2,477 | <b>22.2%</b>            | 20.9% | 19.2% |
| Carrier                    | <b>11,386</b>   | 11,335   | 14,817   | <b>1,062</b>      | 740     | 1,316   | <b>9.3%</b>             | 6.5%  | 8.9%  |
| UTC Fire & Security        | <b>6,490</b>    | 5,503    | 6,446    | <b>714</b>        | 493     | 542     | <b>11.0%</b>            | 9.0%  | 8.4%  |
| Pratt & Whitney            | <b>12,935</b>   | 12,392   | 13,849   | <b>1,987</b>      | 1,835   | 2,122   | <b>15.4%</b>            | 14.8% | 15.3% |
| Hamilton Sundstrand        | <b>5,608</b>    | 5,560    | 6,127    | <b>918</b>        | 857     | 1,099   | <b>16.4%</b>            | 15.4% | 17.9% |
| Sikorsky                   | <b>6,684</b>    | 6,287    | 5,346    | <b>716</b>        | 608     | 478     | <b>10.7%</b>            | 9.7%  | 8.9%  |
| Total segment              | <b>54,682</b>   | 52,800   | 59,469   | <b>7,972</b>      | 6,980   | 8,034   | <b>14.6%</b>            | 13.2% | 13.5% |
| Eliminations and other     | <b>(356)</b>    | (375)    | (350)    | <b>(409)</b>      | (255)   | (117)   |                         |       |       |
| General corporate expenses | <b>—</b>        | —        | —        | <b>(377)</b>      | (348)   | (408)   |                         |       |       |
| Consolidated               | <b>\$54,326</b> | \$52,425 | \$59,119 | <b>\$7,186</b>    | \$6,377 | \$7,509 | <b>13.2%</b>            | 12.2% | 12.7% |

## Commercial Businesses

The financial performance of our commercial businesses can be influenced by a number of external factors including fluctuations in residential and commercial construction activity,

regulatory changes, interest rates, labor costs, foreign currency exchange rates, customer attrition, raw material and energy costs, tightening of credit markets and other global and political factors. Carrier's financial performance can also be

influenced by production and utilization of transport equipment, and for its residential business, weather conditions. Geographic and industry diversity across the commercial businesses help to balance the impact of such factors on our consolidated operating results, particularly in the face of uneven economic growth. Our short cycle markets are recovering as expected and our emerging markets continue to gain traction. We are beginning to see a modest recovery in the commercial construction markets in the U.S., although they are still weak. Carrier returned to organic sales growth in 2010, led by the transportation businesses. The transport refrigeration markets have benefited from a resumption of unit replacement demand, while U.S. residential new construction starts remain at low levels. Short cycle shipments and order rates were robust in the fourth quarter of 2010, consistent with our expectations for sales growth in 2011.

In 2010, 73% of total commercial business sales were generated outside the United States, including U.S. export sales, as compared to 71% in 2009. The following table shows sales generated outside the United States for each of the commercial business segments:

|                     | 2010       | 2009 |
|---------------------|------------|------|
| Otis                | <b>82%</b> | 80%  |
| Carrier             | <b>56%</b> | 55%  |
| UTC Fire & Security | <b>84%</b> | 82%  |

**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 and repair services for both its products and those of other manufacturers. Otis serves customers in the commercial and residential property industries around the world. Otis sells directly to the end customer and, to a limited extent, through sales representatives and distributors.

Factors Contributing to Total % Change Year-Over-Year in:

|  | 2010        |                   | 2009      |                   |
|--|-------------|-------------------|-----------|-------------------|
|  | Net Sales   | Operating Profits | Net Sales | Operating Profits |
| Organic sales / Operational operating profit | <b>(3)%</b> | <b>6 %</b>        | (6)%      | 6 %               |
| Foreign currency translation                 | <b>1 %</b>  | <b>(1)%</b>       | (4)%      | (4)%              |
| Acquisitions and divestitures, net           | <b>1 %</b>  | —                 | 1 %       | —                 |
| Restructuring                                | —           | <b>3 %</b>        | —         | (6)%              |
| Other  | —           | <b>(3)%</b>       | —         | 3 %               |
| Total % Change                               | <b>(1)%</b> | <b>5 %</b>        | (9)%      | (1)%              |

#### 2010 Compared with 2009

Otis's sales decreased \$144 million (1%) in 2010, as compared with 2009. The organic sales decline was due to a decrease in new equipment sales volume as a result of lower opening backlog entering the year, partially offset by a strong volume rebound in China. The decrease in new equipment sales was partially offset by continued growth in the contractual maintenance business. New equipment orders improved 7% versus the prior year, led by strong order growth in China. Selling prices remained under pressure in most markets.

Otis's operating profits increased \$128 million (5%) in 2010, as compared with 2009. Operational profit improvement (6%) resulted from higher maintenance volume and the benefits from ongoing cost reduction initiatives, more than offsetting the impact of lower new equipment volume and pricing. The decrease contributed by "Other" primarily reflects the absence of a \$52 million gain recognized in 2009 on the re-measurement to fair value of a previously held equity interest in a joint venture resulting from the purchase of a controlling interest.

#### 2009 Compared with 2008

Otis's sales decreased \$1,161 million (9%) in 2009, as compared with 2008. The organic sales decline was attributable to a decrease in new equipment sales as difficult economic conditions adversely impacted global construction. New equipment orders declined 31% versus the prior year, which contributed to lower new equipment sales across all geographic regions.

Otis's operating profits decreased \$30 million (1%) in 2009, as compared with 2008. Operational profit improvement resulted from increased volume and improved margins in the contractual maintenance business, lower commodity costs and the benefits from aggressive cost reduction initiatives. Improved margins in the contractual maintenance business were the result of productivity improvements from restructuring and other cost reduction actions. The 3% increase contributed by "Other" in 2009 reflects a gain recognized in the second quarter of 2009 on the re-measurement to fair value of a previously held equity interest in a joint venture resulting from the purchase of a controlling interest, and the absence of provisions for certain accounting issues discovered at a subsidiary in Brazil in late 2008.

**Carrier** is the world's largest provider of HVAC and refrigeration solutions, including controls for residential, commercial, industrial and transportation applications. Carrier also provides installation, retrofit and aftermarket services for the products it sells and those of other manufacturers in the HVAC and refrigeration industries. During 2010 and 2009, as



part of its ongoing business transformation strategy, Carrier completed divestitures of several lower-margin businesses, acquired several higher margin service businesses, and formed ventures in parts of the U.S., Europe, the Middle East, Australia and Asia. Carrier's products and services are sold under Carrier and other brand names to building contractors and owners, homeowners, transportation companies, retail stores and food service companies. Carrier sells directly to the end customer and through manufacturers' representatives, distributors, wholesalers, dealers and retail outlets. Certain of Carrier's HVAC businesses are seasonal and can be impacted by weather. Carrier customarily offers its customers incentives to purchase products to ensure an adequate supply of its products in the distribution channels. The principal incentive program provides reimbursements to distributors for offering promotional pricing on Carrier products. We account for incentive payments made as a reduction to sales.

Factors Contributing to Total % Change Year-Over-Year in:

|  | 2010      |                   | 2009      |                   |
|--|-----------|-------------------|-----------|-------------------|
|  | Net Sales | Operating Profits | Net Sales | Operating Profits |
| Organic sales / Operational operating profit | 6 %       | 39 %              | (16)%     | (34)%             |
| Foreign currency translation                 | 1 %       | —                 | (3)%      | (1)%              |
| Acquisitions and divestitures, net           | (7)%      | 3 %               | (5)%      | (3)%              |
| Restructuring                                | —         | 18 %              | —         | (5)%              |
| Other  | —         | (16)%             | —         | (1)%              |
| Total % Change                               | —         | 44 %              | (24)%     | (44)%             |

#### 2010 Compared with 2009

Carrier's sales increased \$51 million in 2010, as compared with 2009. Organic sales growth of 6% was driven primarily by improvement in the transport refrigeration and Asian and Latin America HVAC markets, partially offset by a decline in the European commercial HVAC equipment markets. The 7% decrease contributed by "Acquisitions and divestitures, net" in 2010 primarily reflects the net year-over-year impact from the disposition of businesses and the formation of noncontrolling ventures globally.

Carrier's operating profits increased \$322 million (44%) in 2010, as compared with 2009. The operational profit improvement (39%) was largely driven by strong conversion on the organic sales growth, particularly in the higher margin transport refrigeration business, combined with the carry-over benefits of cost reduction and restructuring (combined 54%), partially offset by increased commodity costs and adverse pricing (17%). The decrease contributed by "Other" primarily reflects the year-over-year net impact of gains and losses resulting from dispositions associated with Carrier's ongoing portfolio transformation. This includes an approximately \$58 million asset impairment charge in 2010 associated with

disposition activity as well as the absence of an approximately \$60 million gain recognized in 2009 from the contribution of the majority of Carrier's U.S. Residential Sales and Distribution business into a new venture formed with Watsco, Inc.

#### 2009 Compared with 2008

Carrier's sales decreased \$3,482 million (24%) in 2009, as compared with 2008. The decline in organic sales is a result of weak market conditions across all businesses, particularly the higher margin transport refrigeration business where organic sales declined 37% in 2009.

Carrier's operating profits decreased \$576 million (44%) in 2009 compared with 2008 as almost all businesses experienced earnings declines due to unfavorable market conditions. The operational profit decrease was primarily due to the volume decline (57%), especially in our higher margin transport refrigeration business, the adverse cost impact from worldwide currency shifts (5%), and lower equity income from a joint venture in Japan (2%). These adverse impacts were partially offset by the favorable impact from aggressive cost reduction and restructuring actions, and lower net commodity costs (net combined 30%). The 1% decrease in "Other" primarily reflects lower gains from net acquisition and divestiture activities. The decrease contributed by "Acquisitions and divestitures, net" for both sales and operating profits reflects the net year-over-year operational impact from acquisitions and divestitures completed in the preceding twelve months, including the transaction with Watsco, Inc.

**UTC Fire & Security** is a global provider of security and fire safety products and services. UTC Fire & Security provides electronic security products such as intruder alarms, access control systems, and video surveillance systems and designs and manufactures a wide range of fire safety products including specialty hazard detection and fixed suppression products, portable fire extinguishers, fire detection and life safety systems, and other firefighting equipment. Services provided to the electronic security and fire safety industries include systems integration, video surveillance, installation, maintenance and inspection services. UTC Fire & Security also provides monitoring, response and security personnel services, including cash-in-transit security, to complement its electronic security and fire safety businesses. In 2010, we completed the acquisition of the GE Security business from GE. With the acquisition of GE Security, UTC strengthened its portfolio of security and fire safety technologies for commercial and residential applications, including fire detection and life safety systems, intrusion alarms, video surveillance and access control systems, and also significantly enhanced UTC Fire & Security's North American presence. UTC Fire & Security products and services are used by governments, financial institutions, 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. UTC Fire & Security provides its products and services under Chubb, Kidde and other brand names and sells directly to the customer as well as through manufacturer representatives, distributors, dealers and U.S. retail distribution.

*Factors Contributing to Total % Change Year-Over-Year in:*

|  | 2010        |                   | 2009      |                   |
|--|-------------|-------------------|-----------|-------------------|
|  | Net Sales   | Operating Profits | Net Sales | Operating Profits |
| Organic sales / Operational operating profit | <b>(3)%</b> | <b>2%</b>         | (7)%      | 4 %               |
| Foreign currency translation                 | <b>2 %</b>  | <b>2%</b>         | (7)%      | (9)%              |
| Acquisitions and divestitures, net           | <b>19%</b>  | <b>34%</b>        | (1)%      | 4 %               |
| Restructuring                                | <b>—</b>    | <b>7%</b>         | —         | (9)%              |
| Other  | <b>—</b>    | <b>—</b>          | —         | 1 %               |
| Total % Change                               | <b>18%</b>  | <b>45%</b>        | (15)%     | (9)%              |

#### *2010 Compared with 2009*

UTC Fire & Security's sales increased \$987 million (18%) in 2010, as compared with 2009. Organically, the 3% sales contraction was driven by declines in the service and install businesses, while the products businesses were flat year-over-year. Geographically, the service and install businesses experienced weakness in Europe and the Americas in 2010 as a result of poor economic conditions, partially offset by growth in Asia. The increase contributed by "Acquisitions and divestitures, net" reflects the net year-over-year impact from acquisition and divestitures completed in the preceding twelve months, led by the acquisition in March 2010 of the GE Security business.

UTC Fire & Security's operating profits increased \$221 million (45%) in 2010, as compared with 2009. The 2% operational profit improvement reflects the benefits of integrating operations, restructuring actions taken, and productivity initiatives, partially offset by the impact of organic volume contraction. The increase contributed by "Acquisitions and divestitures, net" primarily reflects the acquisition in March 2010 of the GE Security business.

#### *2009 Compared with 2008*

UTC Fire & Security's sales decreased \$943 million (15%) in 2009, as compared with 2008. Organic sales contraction was primarily caused by declines in both the Americas and United Kingdom Fire Safety and Electronic Security businesses.

UTC Fire & Security's operating profits decreased \$49 million (9%) in 2009, as compared with 2008. The operational profit improvement was due principally to the integration of field operations, the benefits of net cost reductions from previous restructuring actions, and the integration and continuing productivity and cost control initiatives which,

when combined, more than offset the impact of the lower sales. The increase contributed by "Acquisitions and divestitures, net" reflects the net year-over-year impact from acquisition and divestitures completed in the preceding twelve months, including the third quarter of 2009 acquisition of additional shares of GST, a fire alarm system provider in China.

#### **Aerospace Businesses**

The financial performance of Pratt & Whitney, Hamilton Sundstrand and Sikorsky is directly tied to the economic conditions of the commercial aerospace and defense industries. 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. At times, the aerospace businesses also enter into development programs and firm fixed-price development contracts, which may require the company to bear cost overruns related to unforeseen technical and design challenges that arise during the development stage of the program. Customer selections of engines and components can also have a significant impact on later sales of parts and service. Predicted traffic levels, load factors, worldwide airline profits, general economic activity and global defense spending have been reliable indicators for new aircraft and aftermarket orders within the aerospace industry. Spare part sales and aftermarket service trends are affected by many factors, including usage, technological improvements, pricing, regulatory changes and the 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.

The commercial airline industry rebounded in 2010 and continues to gain traction, as airlines benefit from airline traffic growth, higher yields and rising load factors. All major U.S. airlines and most European and Asian airlines returned to profitability in 2010. Airline traffic, as measured by revenue passenger miles (RPMs), grew in 2010, as compared with 2009, and we project RPMs to continue to grow by approximately 6% in 2011. Although airlines returned to profitability in 2010, rising fuel prices will challenge the airlines in the near term to maintain capacity disciplines, raise fares, and consider the need for more fuel efficient aircraft. We have also seen a favorable trend in commercial aftermarket growth as airlines were adding capacity to their fleets leading to additional overhaul and repair maintenance requirements. Orders of short cycle commercial aerospace spares grew year-over-year, with 18% growth in Pratt & Whitney's large commercial spares orders and a 16% increase in Hamilton Sundstrand's commercial spares orders. These increases in order rates have led to a corresponding increase in commercial aerospace aftermarket volume at both Pratt &

Whitney and Hamilton Sundstrand, and accordingly, consolidated commercial aerospace aftermarket sales increased 10% in 2010, as compared to 2009. We expect commercial aerospace aftermarket sales will continue to grow in 2011.

Similar to 2009, the overall business jet market continued to be weak in 2010, reflecting the conditions from a sluggish global economy and weak corporate profits. Despite this, we are seeing some improvement in business aircraft indicators, including a decrease in used aircraft inventory in 2010, as compared to 2009, although used aircraft inventory remains high, as well as a reduction in cancellations at business jet manufacturers. However, the level of net orders has not been substantial enough to grow backlogs. As a result of the ongoing market weakness, we do not expect a recovery in the business jet OEM market until at least 2012. This weakness will continue to put pressure on P&WC and corresponding engine shipments although we expect total overall engine shipments at P&WC to increase in 2011, as compared to 2010, due to increases across other platforms, such as helicopters.

Although commercial helicopter deliveries remained low in 2010, commercial helicopter orders increased towards the second half of 2010, indicative of a potentially healthier market. However, it is not clear whether this level of activity will continue with stability. Uncertainty among helicopter operators regarding the impact of the offshore drilling moratorium in the U.S. remains, but has been moderated by exploration and production initiatives in developing markets. Strong government military spending continued to drive military helicopter demand and, as a result, Sikorsky's military backlog remains strong. Consolidated military OEM sales increased 4% in 2010, as compared with 2009, driven by Sikorsky. For 2011, we expect production of U.S. government Black Hawk and Naval Hawk helicopters at Sikorsky to level off, with demand for international military helicopters increasing.

Deficit reduction measures considered by the U.S. government are expected to pressure the U.S. Department of Defense budget in the coming years, resulting in a decline in U.S. Department of Defense spending. Total sales to the U.S. government of \$9.9 billion, \$9.3 billion, and \$8.0 billion in 2010, 2009, and 2008, respectively, were 18% of total UTC sales in 2010 and 2009, and 14% in 2008. The defense portion of our aerospace business is affected by changes in market demand and the global political environment. Our participation in long-term production and development programs for the U.S. government has contributed positively to our results in 2010 and is expected to continue to benefit results in 2011.

**Pratt & Whitney** is among the world's leading suppliers of aircraft engines for the commercial, military, business jet and

general aviation markets. Pratt & Whitney Global Services provides maintenance, repair and overhaul services, including the sale of spare parts, as well as fleet management services for large commercial engines. Pratt & Whitney produces families of engines for wide and narrow body aircraft in the commercial and military markets. Pratt & Whitney Power Systems sells aero-derivative engines for industrial applications. P&WC is a world leader in the production of engines powering business, regional, light jet, utility and military aircraft and helicopters and provides related maintenance, repair and overhaul services, including sale of spare parts, as well as fleet management services. Pratt & Whitney Rocketdyne (PWR) is a leader in the design, development and manufacture of sophisticated space propulsion systems for military and commercial applications, including the U.S. space shuttle program. Pratt & Whitney's products are sold principally to aircraft manufacturers, airlines and other aircraft operators, aircraft leasing companies, space launch vehicle providers and the U.S. and foreign governments. Pratt & Whitney's products and services must adhere to strict regulatory and market-driven safety and performance standards. The frequently changing nature of these standards, along with the long duration of aircraft engine development, production and support programs, creates uncertainty regarding engine program profitability. The vast majority of sales are made directly to the end customer and, to a limited extent, through independent distributors and foreign sales representatives.

Pratt & Whitney is currently developing technology intended to enable it to power proposed and future aircraft, including the PurePower PW1000G Geared TurboFan engine. The PurePower PW1000G engine targets a significant reduction in fuel burn and noise levels with lower environmental emissions and operating costs than current production engines. In December 2010, Airbus announced that it will offer the PurePower PW1000G engine as a new engine option to power its A320neo family of aircraft scheduled to enter service in 2016. Additionally, PurePower PW1000G engine models have been selected by Bombardier to power the new CSeries passenger aircraft and by Mitsubishi Heavy Industries to power the new Mitsubishi Regional Jet (MRJ), scheduled to enter into service in 2013 and 2014, respectively. In 2009, the Irkut Corporation of Russia also selected the PurePower PW1000G engine to power the proposed new Irkut MC-21 passenger aircraft, which is planned to enter into service in 2016. The success of these aircraft and the PurePower PW1000G engine is dependent upon many factors including technological challenges, aircraft demand, and regulatory approval. Based on these factors, as well as the level of success of aircraft program launches by aircraft manufacturers and other conditions, additional investment in the PurePower program may be required.

In view of the risks and costs associated with developing new engines, Pratt & Whitney has entered into collaboration arrangements in which sales, costs and risks are shared. At December 31, 2010, the interests of third party participants in Pratt & Whitney-directed commercial jet engine programs ranged from 14 percent to 48 percent. In addition, Pratt & Whitney has interests in other engine programs, including a 33 percent interest in the International Aero Engines (IAE) collaboration, which sells and supports V2500 engines for the Airbus A320 family of aircraft. At December 31, 2010, portions of Pratt & Whitney's interests in IAE (equivalent to 4 percent of the overall IAE collaboration) were held by third party participants. Pratt & Whitney also has a 50 percent interest in the Engine Alliance (EA), a joint venture with GE Aviation, which markets and manufactures the GP7000 engine for the Airbus A380 aircraft. At December 31, 2010, 40 percent of Pratt & Whitney's 50 percent interest in the EA was held by third party participants. Pratt & Whitney continues to pursue additional collaboration partners.

Factors Contributing to Total % Change Year-Over-Year in:

|  | 2010      |                   | 2009      |                   |
|--|-----------|-------------------|-----------|-------------------|
|  | Net Sales | Operating Profits | Net Sales | Operating Profits |
| Organic sales* / Operational operating profit* | —         | (3)%              | (9)%      | (5)%              |
| Foreign currency (including P&WC net hedging)* | 4 %       | 9 %               | (2)%      | (6)%              |
| Restructuring                                  | —         | 3 %               | —         | (3)%              |
| Other  | —         | (1)%              | —         | —                 |
| Total % Change                                 | 4 %       | 8 %               | (11)%     | (14)%             |

\* As discussed further in the "Business Overview" and "Results of Operations" sections, for Pratt & Whitney only, the transactional impact of foreign exchange hedging at P&WC has been netted against the translational foreign exchange impact for presentation purposes in the above table. For all other segments, these foreign exchange transactional impacts are included within the organic sales/operational operating profit caption in their respective tables. Due to its significance to Pratt & Whitney's overall operating results, we believe it is useful to segregate the foreign exchange transactional impact in order to clearly identify the underlying financial performance.

#### 2010 Compared with 2009

Pratt & Whitney's sales increased \$543 million (4%) in 2010, as compared with 2009. Organic sales were essentially flat year-over-year. Growth in the large commercial engine business (4%), driven by higher commercial spares and aftermarket sales volumes, and an increase in the military engine business (1%) on higher engine deliveries, were mostly offset by lower sales at P&WC (2%) due to decreased engine sales volume and a decline at Pratt & Whitney Power Systems (2%) from lower industrial sales volumes. The impact from foreign currency

(4%) reflects the beneficial transactional impact of foreign exchange hedging at P&WC.

Pratt & Whitney's operating profits increased \$152 million (8%) in 2010, as compared with 2009. The operational profit decline (3%) primarily reflects higher year-over-year research and development costs. Lower profits at P&WC (9%) driven by decreased engine sales volumes were offset by higher profit contribution from the large commercial engine business (6%) driven by higher commercial spares and aftermarket sales volumes and an increase in the military engine business (3%).

#### 2009 Compared with 2008

Pratt & Whitney's sales decreased \$1,457 million (11%) in 2009, as compared with 2008. The decrease was primarily attributable to decreased engine shipments and lower aftermarket volume at P&WC (4%), lower commercial spares and aftermarket volume (4%), and the adverse impact of net hedging activity (2%).

Pratt & Whitney's operating profits decreased \$287 million (14%) in 2009, as compared with 2008. The operational decline was primarily driven by lower aftermarket volumes and decreased engine shipments in the large commercial engine business (9%) and at P&WC (5%), partially offset by the favorable impact of lower research and development spending (6%) and the profit contribution from higher military engine volumes (2%).

**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 aerospace products, such as power generation, management and distribution systems, flight control systems, engine control systems, environmental control systems, fire protection and detection systems, auxiliary power units and propeller systems, serve commercial, military, regional, business and general aviation, as well as military ground vehicle, 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. and foreign governments, aircraft operators and independent distributors. Hamilton Sundstrand's principal industrial products, such as air compressors, metering pumps and fluid handling equipment, serve industries involved with chemical and hydrocarbon processing, oil and gas production, water and wastewater treatment and construction. Hamilton Sundstrand sells these products under the Sullair, Sundyne, Milton Roy and other brand names directly to end



users, and through manufacturer representatives and distributors.

*Factors Contributing to Total % Change Year-Over-Year in:*

|  | 2010       |                   | 2009        |                   |
|--|------------|-------------------|-------------|-------------------|
|  | Net Sales  | Operating Profits | Net Sales   | Operating Profits |
| Organic sales / Operational operating profit | 1 %        | 8 %               | (7)%        | (11)%             |
| Foreign currency translation                 | —          | (1)%              | (1)%        | (1)%              |
| Acquisitions and divestitures, net           | —          | —                 | (1)%        | (1)%              |
| Restructuring                                | —          | 6 %               | —           | (7)%              |
| Other  | —          | (6)%              | —           | (2)%              |
| <b>Total % Change</b>                        | <b>1 %</b> | <b>7 %</b>        | <b>(9)%</b> | <b>(22)%</b>      |

#### *2010 Compared with 2009*

Hamilton Sundstrand's sales increased \$48 million (1%) in 2010, as compared with 2009. The organic sales growth reflects higher volumes in the industrial business (2%), partially offset by a decline in the aerospace business (1%). The industrial business increase was led by the compressor business attributable to general increases in infrastructure and industrial spending particularly in the U.S. and Asia. The decline within the aerospace business reflects lower OEM sales volume (2%) partially offset by an increase in the aftermarket business (1%) primarily as a result of higher commercial spares and repair volume.

Hamilton Sundstrand's operating profits increased \$61 million (7%) in 2010, as compared with 2009. The 8% improvement in operational profit reflects an increase in the industrial business (7%), reflecting the benefit from higher volumes and cost reduction initiatives, and an increase within the aerospace business (1%). The 1% improvement within aerospace reflects favorable net operating performance, including the benefit of ongoing cost reduction initiatives, and volume growth from higher margin commercial aftermarket sales partially offset by the impact from adverse mix within OEM sales (net combined 8%). This 8% improvement was mostly offset by higher year-over-year research and development costs (7%). The decrease contributed by "Other" primarily reflects the impact of an asset impairment charge recorded in 2010 related to the expected disposition of an aerospace business and the absence of a gain from the sale of a business in 2009.

#### *2009 Compared with 2008*

Hamilton Sundstrand's sales decreased \$567 million (9%) in 2009, as compared with 2008. The organic sales decline reflects lower volumes in both the industrial (4%) and aerospace (3%) businesses. The decrease within aerospace was primarily attributable to aftermarket volume declines.

Hamilton Sundstrand's operating profits decreased \$242 million (22%) in 2009, as compared with 2008. The decrease in operational profit reflects declines in the aerospace (13%) and industrial (4%) businesses, partially offset by lower year-over-year research and development costs (6%). The 2% decrease in "Other" primarily reflects the net year-over-year impact of gains recognized in 2008 relating to divestiture activities.

**Sikorsky** is the world's largest helicopter company. Sikorsky manufactures military and commercial helicopters and also provides aftermarket helicopter and aircraft parts and services. In December 2007, the U.S. government and Sikorsky signed a five-year multi-service contract for 537 H-60 helicopters to be delivered to the U.S. Army and U.S. Navy, which include the UH-60M, HH-60M, MH-60S and MH-60R. The current contract value for expected deliveries over the five year term is approximately \$8.5 billion and includes options for an additional 263 aircraft, spare parts, and kits, with the total contract value potentially reaching \$11.6 billion making it the largest contract in UTC and Sikorsky history. Actual production quantities will be determined year-by-year over the life of the program based on funding allocations set by Congress and Pentagon acquisition priorities. The deliveries of the aircraft are scheduled to be made through 2012. Sikorsky is also developing the CH-53K next generation heavy lift helicopter for the U.S. Marine Corps and the CH-148 derivative of the H-92 helicopter, a military variant of the S-92 helicopter, for the Canadian government. The latter is being developed under an approximately \$3 billion firm, fixed-price contract that provides for the development, production, and 24-year logistical support of 28 helicopters. This is the largest and most expansive fixed-price development contract in Sikorsky's history. As previously disclosed, in June 2010 Sikorsky and the Canadian government signed contract amendments that revised the delivery schedule and contract specifications, and established the requirements for the first six interim aircraft deliveries to enable initial operational test and evaluation activities prior to the scheduled delivery of final configuration helicopters starting in June 2012. The amendments also included modifications to the liquidated damages schedule, readjustment of payment schedules, resolution of open disputes and other program enhancements. Delivery of the interim configuration helicopters was scheduled to commence in November 2010, but is now expected to begin in the first quarter of 2011. 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 principally made to the U.S. and foreign governments, and commercial helicopter operators. Sikorsky is increasingly engaging in logistics support programs and partnering with its government and commercial

customers to manage and provide logistics, maintenance and repair services.

| <i>Factors Contributing to Total % Change Year-Over-Year in:</i> |            |                   |           |                   |
|--|------------|-------------------|-----------|-------------------|
| 2010   |            | 2009              |           |                   |
|  | Net Sales  | Operating Profits | Net Sales | Operating Profits |
| Organic sales / Operational operating profit                     | 6 %        | 17 %              | 18 %      | 36 %              |
| Acquisitions and divestitures, net                               | —          | (1)%              | —         | —                 |
| Restructuring  | —          | (1)%              | —         | (1)%              |
| Other  | —          | 3 %               | —         | (8)%              |
| <b>Total % Change</b>  | <b>6 %</b> | <b>18 %</b>       | 18 %      | 27 %              |

#### *2010 Compared with 2009*

Sikorsky's sales increased \$397 million (6%) in 2010, as compared with 2009. The organic sales growth was primarily attributable to higher military aircraft sales (6%), partially offset by the impact of fewer aircraft deliveries from commercial operations (2%) due to continued commercial market weakness. Sales from aftermarket support increased (2%) primarily driven by higher military sales volume and aircraft modernizations.

Sikorsky's operating profits increased \$108 million (18%) in 2010, as compared with 2009. The operational profit improvement was primarily attributable to increased military aircraft sales (15%), partially offset by a decline in commercial operations (2%) due to unfavorable aircraft configuration mix and fewer deliveries as a result of continued commercial market weakness. Improvement in aftermarket support (4%) was driven by higher military sales and aircraft modernizations. Higher year-over-year research and development costs were substantially offset by lower manufacturing costs. The 3% increase contributed by "Other" primarily reflects the absence of prior year costs associated with a union contract ratified in 2009.

#### *2009 Compared with 2008*

Sikorsky's sales increased \$941 million (18%) in 2009, as compared with 2008. The organic sales increase was primarily driven by higher volumes of military aircraft deliveries partially offset by a reduction in commercial aircraft sales due to a competitive marketplace.

Sikorsky's operating profits increased \$130 million (27%) in 2009, as compared with 2008. The operational profit improvement was primarily attributable to increased aircraft deliveries and favorable aircraft mix (41%) within the military market, partially offset by reduced operational profit (10%) within commercial operations due primarily to a competitive marketplace. The remainder of the increase is primarily comprised of favorable contract adjustments. The 8% decrease in "Other" primarily reflects the adverse impact associated with a new union contract.

#### **Eliminations and other**

Eliminations and other reflects the elimination of sales, other income and operating profit transacted between segments, as well as the operating results of certain smaller businesses such as UTC Power and Clipper. The year-over-year change in the operating profit elimination in 2010, as compared with 2009, is primarily attributable to the previously disclosed impairment charge on our investment in Clipper and higher legal costs, partially offset by the net impact from the absence of certain items in 2009. These prior year items include curtailment charges related to the impact of headcount reductions on our domestic pension plans and to increased inventory reserves and project related reserves recorded at UTC Power.

#### **Liquidity and Financial Condition**

| <i>(Dollars in millions)</i>   | 2010            | 2009     |
|--|-----------------|----------|
| Cash and cash equivalents  | <b>\$ 4,083</b> | \$ 4,449 |
| Total debt   | <b>10,289</b>   | 9,744    |
| Net debt (total debt less cash and cash equivalents)                 | <b>6,206</b>    | 5,295    |
| Total equity   | <b>22,332</b>   | 20,999   |
| Total capitalization (debt plus equity)                              | <b>32,621</b>   | 30,743   |
| Net capitalization (debt plus equity less cash and cash equivalents) | <b>28,538</b>   | 26,294   |
| Debt to total capitalization   | <b>32%</b>      | 32%      |
| Net debt to net capitalization                                       | <b>22%</b>      | 20%      |

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Our principal source of liquidity is operating cash flows, which, after netting out capital expenditures, we target to equal or exceed net income attributable to common shareowners. In addition to operating cash flows, other significant factors that affect our overall management of liquidity include: capital expenditures, customer financing requirements, investments in businesses, dividends, common stock repurchases, pension funding, access to the commercial paper markets, adequacy of available bank lines of credit, and the ability to attract long-term capital at satisfactory terms.

Although the global financial crisis experienced over the last several years has subsided, the recovery remains fragile and uneven and demand for credit availability remains high. In light of these circumstances, we continue to assess our current business, are closely monitoring the impact on our customers and suppliers, and have determined that overall there has not been a significant effect on our financial position, results of operations or liquidity during 2010. Due to the substantial improvement in equity markets during the course of 2010 and 2009, our domestic pension funds experienced a positive return on assets of approximately 15% and 21%, respectively. The continued recognition of prior pension losses and the impact of a lower discount rate, partially offset by additional funding and the positive returns experienced during 2010, is expected to

increase pension expense in 2011 by approximately \$150 million as compared to 2010.

Approximately 89% of our domestic pension plans are invested in readily-liquid investments, including equity, fixed income, asset backed receivables and structured products. The balance of our domestic pension plans (11%) is invested in less-liquid but market-valued investments, including real estate and private equity.

As discussed further below, our strong debt ratings and financial position have historically enabled us to issue long-term debt at favorable market rates, including our issuance of \$2.25 billion of long-term debt in February 2010. Our ability to obtain debt financing at comparable risk-based interest rates is partly a function of our existing debt-to-total-capitalization level as well as our current credit standing.

At December 31, 2010, we had new committed revolving credit agreements from banks permitting aggregate borrowings of up to \$3.0 billion under a \$1.6 billion revolving credit agreement and a \$1.4 billion multicurrency revolving credit agreement, which expire in November 2014 and December 2014, respectively. These new revolving credit agreements were signed on November 30, 2010 and December 3, 2010, respectively, to replace our former revolving credit agreements which had permitted aggregate borrowings of up to \$2.5 billion under a \$1.5 billion revolving credit agreement and a \$1.0 billion multicurrency revolving credit agreement which were set to expire in October 2011 and November 2011, respectively. As of December 31, 2010 and 2009, there were no borrowings under these revolving credit agreements. The undrawn portions of our revolving credit agreements are also available to serve as backup facilities for the issuance of commercial paper. In December 2010, our maximum commercial paper borrowing authority was increased from \$2.5 billion to \$3 billion. In addition, at December 31, 2010, approximately \$2 billion was available under short-term lines of credit with local banks at our various domestic and international subsidiaries.

We continue to have access to the commercial paper markets and our existing credit facilities, and expect to continue to generate strong operating cash flows. While the impact of continued market volatility cannot be predicted, we believe we have sufficient operating flexibility, cash reserves and funding sources to maintain adequate amounts of liquidity and to meet our future operating cash needs.

Given our extensive international operations, most of our cash is denominated in foreign currencies. We manage our worldwide cash requirements by considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences or be subject to capital controls; however, those balances are

generally available without legal restrictions to fund ordinary business operations. As discussed in Note 10, with few exceptions, U.S. income taxes have not been provided on undistributed earnings of international subsidiaries. Our intention is to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so.

As also discussed in Note 10, changes in U.S. tax legislation enacted during 2010 led to management's decision to repatriate an increased amount of current year high tax dividends to the U.S. in 2010. The favorable tax benefit generated by these dividends was substantially offset by the tax cost related to the repatriation of other current year earnings. As a result, approximately \$2.5 billion of foreign subsidiary cash was repatriated to the U.S. during 2010, primarily through receipt of dividends from current year earnings, the tax free return of capital, and intercompany loans. These funds were largely used to repay commercial paper borrowings at yearend.

On occasion, we are required to maintain cash deposits with certain banks with respect to contractual obligations related to acquisitions or divestitures or other legal obligations. As of December 31, 2010 and 2009, the amount of restricted cash was approximately \$75 million and \$43 million. As of December 31, 2010, all restricted cash was included in current assets. As of December 31, 2009, approximately \$41 million of restricted cash was included in current assets and \$2 million was included in long-term assets.

We believe our future operating cash flows will be sufficient to meet our future operating cash needs. Further, our ability to obtain debt or equity financing, as well as the availability under committed credit lines, provides additional potential sources of liquidity should they be required.

#### **Cash Flow from Operating Activities**

| <i>(Dollars in millions)</i>                    | <b>2010</b>    | 2009    |
|---|----------------|---------|
| Net cash flows provided by operating activities | <b>\$5,906</b> | \$5,353 |

The increase in cash generated from operating activities in 2010 as compared with 2009, is due to the increase in net income attributable to common shareowners. Higher working capital cash requirements in 2010 were offset by the net combined improvements in other operational accounts reflecting normal operational activity. Although working capital generated a \$525 million cash inflow in 2010, it was \$540 million lower than the approximately \$1.1 billion cash inflow generated during 2009. This decline of \$540 million in 2010 was primarily driven by improved sales volumes that resulted in higher working capital requirements. Although working capital levels grew, the rate of growth was restrained due to a strong management focus on base working capital levels.

The funded status of our pension plans is dependent upon many factors, including returns on invested assets and the level

of market interest rates. We can contribute cash or company stock to our plans at our discretion, subject to applicable regulations. Total cash contributions to our global defined benefit pension plans during each of 2010 and 2009 were approximately \$1.3 billion. We also contributed \$250 million in UTC common stock to these plans during 2010. We did not contribute any UTC common stock to these plans during 2009. As of December 31, 2010, the total investment by the defined benefit pension plans in our securities was approximately 3% of total plan assets. Improved investment returns and additional voluntary pension contributions during 2010 have improved the funded status of all plans, helping to minimize future funding requirements. We expect to make contributions of approximately \$450 million to our global pension plans in 2011, including approximately \$250 million to our domestic plans. Contributions to our defined pension plans in 2011 are expected to meet or exceed the current funding requirements.

#### Cash Flow from Investing Activities

| <i>(Dollars in millions)</i>                | 2010             | 2009      |
|---|------------------|-----------|
| Net cash flows used in investing activities | <b>\$(3,187)</b> | \$(1,104) |

The year-over-year increase in the net use of cash flows from investing activities is largely a result of a \$2.1 billion increase in our cash investment in businesses in 2010 as compared with 2009. The cash investment in businesses across all of our operations in 2010 was approximately \$2.8 billion and primarily reflects the acquisition of the GE Security business for approximately \$1.8 billion and the acquisition of Clipper for approximately \$350 million. The remainder consisted of a number of small acquisitions in both our aerospace and commercial businesses. Cash investment in businesses across all of our operations in 2009 was \$703 million and primarily consisted of a number of small acquisitions in both our aerospace and commercial businesses, including the acquisition of a controlling interest in GST Holdings Limited (GST), a fire alarm system provider in China. The acquisition of these additional shares in GST was partially funded from cash that was previously restricted. We expect total investments in businesses in 2011 to approximate \$1.5 billion; however, actual acquisition spending may vary depending upon the timing, availability and appropriate value of acquisition opportunities.

Customer financing activities was a net use of cash of \$55 million in 2010, compared to a net use of cash of \$91 million for 2009. While we expect that 2011 customer financing activity will be a net use of funds, actual funding is subject to usage under existing customer financing commitments during the year. We may also arrange for third-party investors to assume a portion of our commitments. We had commercial aerospace financing and other contractual commitments of

approximately \$2.0 billion related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms at December 31, 2010; as much as \$384 million of the outstanding commitments may be required to be disbursed during 2011. Refer to Note 4 to the Consolidated Financial Statements for additional discussion of our commercial aerospace industry assets and commitments.

#### Cash Flow from Financing Activities

| <i>(Dollars in millions)</i>                | 2010             | 2009      |
|---|------------------|-----------|
| Net cash flows used in financing activities | <b>\$(3,153)</b> | \$(4,191) |

The timing and levels of certain cash flow activities, such as acquisitions and repurchases of our stock, have resulted in the issuance of both long-term and short-term debt. Commercial paper borrowings and revolving credit facilities provide short-term liquidity to supplement operating cash flows and are used for general corporate purposes, including the funding of potential acquisitions and repurchases of our stock. We had no commercial paper outstanding at December 31, 2010 or 2009. During the fourth quarter of 2010, the cash that management decided to repatriate to the U.S., as a result of recent U.S. tax law changes, was largely used to repay commercial paper balances that were outstanding as of September 30, 2010.

In February 2010, we issued \$2.25 billion of long-term debt. We used the net proceeds from these issuances primarily to fund a portion of the acquisition of the GE Security business and to repay commercial paper borrowings. In May 2010, we repaid the entire \$600 million outstanding principal amount of our 4.375% notes at maturity. In June 2010, we redeemed the entire \$500 million outstanding principal amount of our 7.125% notes that would otherwise have been due November 15, 2010 and in September 2010, we redeemed the entire \$500 million outstanding principal amount of our 6.350% notes that would otherwise have been due March 1, 2011. In February 2009, we redeemed the entire \$500 million outstanding principal amount of our LIBOR+.07% floating rate notes that would otherwise have been due June 1, 2009 at a redemption price in U.S. dollars equal to 100% of the principal amount, plus interest accrued. In June 2009, we repaid the entire \$400 million outstanding principal amount of our 6.500% notes due 2009 at maturity. In December 2009, we redeemed the entire \$33 million outstanding principal amount of our 7.675% ESOP debt that was due December 10, 2009 at a redemption price in U.S. dollars equal to 100% of the principal amount, plus interest accrued.

Financing cash outflows for 2010 and 2009 included the repurchase of 31.0 million and 19.1 million shares of our common stock for approximately \$2.2 billion and \$1.1 billion,



respectively, under a 60 million share repurchase program. On March 10, 2010, the Board of Directors authorized a new 60 million common share repurchase program that replaced the previous program, approved in June 2008, which was nearing completion. Approximately 4.9 million of the shares repurchased during 2010 were repurchased under the previous program and approximately 26.1 million under the new program. In addition to management's view that the repurchase of our common stock is a beneficial investment, we also repurchase to offset the dilutive effect of the issuance of stock and options under the stock-based employee benefit programs. At December 31, 2010, we had remaining authority to repurchase approximately 33.9 million shares under the current program. We expect total share repurchases in 2011 to approximate \$2.5 billion; however, total repurchases may vary depending upon various factors including the level of other investing activities.

We paid dividends of \$0.425 per share in the first quarter of 2010 totaling \$373 million, \$0.425 per share in the second quarter of 2010 totaling \$371 million, \$0.425 per share in the third quarter of 2010 totaling \$370 million, and \$0.425 per share in the fourth quarter of 2010 totaling \$368 million. During 2009, an aggregate \$1,356 million of cash dividends were paid to shareholders.

### **Critical Accounting Estimates**

Preparation of our 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.* We utilize percentage of completion accounting on certain of our long-term contracts. The percentage of completion method requires estimates of future revenues and costs over the full term of product and/or service delivery. We also utilize the completed-contract method of accounting on certain lesser value commercial contracts. Under the completed-contract method, sales and cost of sales are recognized when a contract is completed.

Losses, if any, on long-term contracts are provided for when anticipated. We recognize loss provisions on original equipment contracts to the extent that estimated inventoriable manufacturing, engineering, product warranty and product

performance guarantee costs, as appropriate, exceed the projected revenue from the products contemplated under the contractual arrangement. For new commitments, we generally record loss provisions at the earlier of contract announcement or contract signing except for certain requirements contracts under which losses are recorded based upon receipt of the purchase order. For existing commitments, anticipated losses on contracts are recognized in the period in which losses become evident. Products contemplated under the contractual arrangement include products purchased under the contract and, in the large commercial engine business, future highly probable sales of replacement parts required by regulation that are expected to be purchased 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. We generally recognize losses on shipment to the extent that inventoriable manufacturing costs, estimated warranty costs and product performance guarantee costs, as appropriate, exceed revenue realized. We measure the extent of progress toward completion on our long-term commercial aerospace equipment and helicopter contracts using units of delivery. In addition, we use the cost-to-cost method for elevator and escalator sales, installation and modernization contracts in the commercial businesses. For long-term aftermarket contracts, we recognize revenue 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 judgment. 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 our ability to estimate costs precisely. As a result, we review and update our cost estimates on significant contracts on a quarterly basis, and no less frequently than annually for all others, or when circumstances change and warrant a modification to a previous estimate. We record adjustments to contract loss provisions in earnings in the period identified.

*Income Taxes.* The future tax benefit arising from net deductible temporary differences and tax carryforwards was \$3.6 billion at December 31, 2010 and \$3.8 billion at December 31, 2009. Management believes that our 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, we estimate 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 affected by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event we were to determine that we would not be able to realize all or a portion of our deferred tax assets in the future, we would reduce such amounts through an increase to tax expense in the period in which that determination is made or when tax law changes are enacted. Conversely, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through a decrease to tax expense in the period in which that determination is made. Effective with our January 1, 2009 adoption of the provisions of the Business Combinations Topic of the FASB ASC, adjustments for valuation allowances on deferred taxes and acquired tax contingencies associated with a business combination will generally affect income tax expense as opposed to being recorded as an adjustment to goodwill.

In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. See Notes 1 and 10 to the Consolidated Financial Statements for further discussion.

*Goodwill and Intangible Assets.* Our investments in businesses in 2010 totaled \$2.8 billion, including approximately \$39 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. Intangible assets consist of service portfolios, patents and trademarks, customer relationships and other intangible assets. Included within other intangible assets are commercial aerospace payments made to secure certain contractual rights to provide product on new aircraft platforms. Payments made on these contractual commitments are to be amortized as the related units are delivered.

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing. This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value. 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 incorporates management assumptions about expected future cash flows, includes market assumptions, and contemplates 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. We completed our assessment of goodwill as of July 1, 2010 and determined that no impairment existed at that date. Although no significant goodwill impairment has been recorded to date, there can be no assurances that future goodwill impairments will not occur. However, a 10% decrease in the estimated fair value of any of our reporting units at the date of our 2010 assessment would not have resulted in a goodwill impairment charge. See Note 2 to the Consolidated Financial Statements for further discussion.

*Product Performance.* We extend performance and operating cost guarantees beyond our normal service and warranty policies for extended periods on some of our products, particularly commercial aircraft engines. Liability under such guarantees is based upon future product performance and durability. In addition, we incur discretionary costs to service our products in connection with product performance issues. We accrue 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 15 to the Consolidated Financial Statements for further discussion.

*Contracting with the U.S. Government.* Our contracts with the U.S. government are subject to government oversight and audit. Like many defense contractors, we have 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. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and continue to litigate certain cases. In addition, we accrue 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 17 to the Consolidated Financial Statements for further discussion. We recorded sales to the U.S. government of \$9.9 billion, \$9.3 billion, and \$8.0 billion in 2010, 2009, and 2008, respectively.

*Employee Benefit Plans.* We 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 at December 31. 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.

In the following table, we show the sensitivity of our pension and other postretirement benefit plan liabilities and net annual periodic cost to a 25 basis point change in the discount rate as of December 31, 2010.

| <i>(Dollars in millions)</i>                  | Increase in<br>Discount Rate<br>of 25 bps | Decrease in<br>Discount Rate<br>of 25 bps |
|---|---|---|
| Pension plans                                 |   |   |
| Projected benefit obligation                  | \$(691)                                   | \$715                                     |
| Net periodic pension cost                     | (62)                                      | 64  |
| Other postretirement benefit plans            |   |   |
| Accumulated postretirement benefit obligation | (13)                                      | 13  |
| Net periodic postretirement benefit cost      | —   | —   |

Pension expense is also sensitive to changes in the expected long-term rate of asset return. An increase or decrease of 25 basis points in the expected long-term rate of asset return would have decreased or increased 2010 pension expense by approximately \$52 million.

The weighted-average discount rate used to measure pension liabilities and costs is set by reference to UTC specific analysis using each plan's specific cash flows and is then compared to high-quality bond indices for reasonableness. Global market interest rates have decreased in 2010 as compared with 2009 and, as a result, the weighted-average discount rate used to measure pension liabilities decreased from 5.9% in 2009 to 5.4% in 2010. In December 2009, we amended the salaried retirement plans (qualified and non-qualified) to change the retirement formula effective January 1, 2015. At that time, final average earnings (FAE) and credited service will stop under the formula applicable for hires before July 1, 2002.

Employees hired after 2009 are not eligible for any defined benefit pension plan and will instead receive an enhanced benefit under the UTC Savings Plan. The continued recognition of prior pension losses and the impact of a lower discount rate, as partially offset by positive returns experienced during 2010 and additional funding during 2010, will increase pension costs in 2011, as compared to 2010, by approximately \$150 million. See Note 11 to the Consolidated Financial Statements for further discussion.

*Inventory Valuation Reserves.* Inventory valuation reserves are established in order to report inventories at the lower of cost or market value on our Consolidated Balance Sheet. The determination of inventory valuation reserves requires management to make estimates and judgments on the future salability of inventories. Valuation reserves for excess, obsolete, and slow-moving inventory are estimated by comparing the inventory levels of individual parts to both future sales forecasts or production requirements and historical usage rates in order to identify inventory where the resale value or replacement value is less than inventoriable cost. Other factors that management considers in determining the adequacy of these reserves include whether individual inventory parts meet current specifications and cannot be substituted for a part currently being sold or used as a service part, overall market conditions, and other inventory management initiatives.

As of December 31, 2010 and 2009, we had \$799 million and \$683 million, respectively, of inventory valuation reserves recorded. Although management believes these reserves are adequate, any abrupt changes in market conditions may require us to record additional inventory valuation reserves.

#### **Off-Balance Sheet Arrangements and Contractual Obligations**

We extend a variety of financial guarantees to third parties in support of unconsolidated affiliates and for potential financing requirements of commercial aerospace customers. We also have obligations arising from sales of certain businesses and assets, including indemnities for representations and warranties and 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 include changes in an underlying transaction (e.g., hazardous waste discoveries, etc.), nonperformance under a contract, customer requests for financing, or deterioration in the financial condition of the guaranteed party.

A summary of our consolidated contractual obligations and commitments as of December 31, 2010 is as follows:

| (Dollars in millions)            | Total           | Payments Due by Period |           |           |            |
|----------------------------------|-----------------|------------------------|-----------|-----------|------------|
|                                  |                 | 2011                   | 2012-2013 | 2014-2015 | Thereafter |
| Long-term debt – principal       | <b>\$10,173</b> | \$ 163                 | \$ 547    | \$1,245   | \$ 8,218   |
| Long-term debt – future interest | <b>8,738</b>    | 584                    | 1,129     | 1,076     | 5,949      |
| Operating leases                 | <b>1,805</b>    | 500                    | 670       | 279       | 356        |
| Purchase obligations             | <b>13,161</b>   | 7,314                  | 3,400     | 1,094     | 1,353      |
| Other long-term liabilities      | <b>4,025</b>    | 1,146                  | 1,180     | 1,026     | 673        |
| Total contractual obligations    | <b>\$37,902</b> | \$9,707                | \$6,926   | \$4,720   | \$16,549   |

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 27% of the purchase obligations disclosed above represent purchase orders for products to be delivered under firm contracts with the U.S. government for which we have full recourse under customary contract termination clauses.

Other long-term liabilities primarily include those amounts on our December 31, 2010 balance sheet representing obligations under product service and warranty policies, performance and operating cost guarantees, estimated environmental remediation costs and expected contributions under employee benefit programs. The timing of expected cash flows associated with these obligations is based upon management's estimates over the terms of these agreements and is largely based upon historical experience.

The above table does not reflect unrecognized tax benefits of \$891 million, the timing of which is uncertain, except for approximately \$60 million that may become payable during 2011. Refer to Note 10 to the Consolidated Financial Statements for additional discussion on unrecognized tax benefits.

## Commercial Commitments

| (Dollars in millions)  | Committed      | Amount of Commitment Expiration per Period |           |           |            |
|--|----------------|--|-----------|-----------|------------|
|  |                | 2011                                       | 2012-2013 | 2014-2015 | Thereafter |
| Commercial aerospace financing and other contractual commitments | <b>\$2,032</b> | \$384                                      | \$ 524    | \$377     | \$ 747     |
| IAE financing arrangements*                                      | <b>992</b>     | 224  | 391       | 284       | 93         |
| Unconsolidated subsidiary debt guarantees                        | <b>225</b>     | 105  | 42        | —         | 78         |
| Commercial aerospace financing arrangements                      | <b>336</b>     | 22   | 50        | 9         | 255        |
| Commercial customer financing arrangements                       | <b>191</b>     | 191  | —         | —         | —          |
| Performance guarantees   | <b>40</b>      | 40   | —         | —         | —          |
| Total commercial commitments                                     | <b>\$3,816</b> | \$966                                      | \$1,007   | \$670     | \$1,173    |

\* Represents IAE's gross obligation; our proportionate share of IAE's obligations are 33%.

Refer to Notes 4, 15, and 17 to the Consolidated Financial Statements for additional discussion on contractual and commercial commitments.

## Market Risk and Risk Management

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

We have evaluated our exposure to changes in foreign currency exchange rates, interest rates and commodity prices in our 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, 2010, the potential loss in fair value on our market risk sensitive instruments was not material in relation to our financial position, results of operations or cash flows. Our 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 and 13 to the Consolidated Financial Statements for additional discussion of foreign currency exchange, interest rates and financial instruments.

*Foreign Currency Exposures.* We have a large volume of foreign currency exposures that result from our international sales, purchases, investments, borrowings and other international transactions. International segment sales, including U.S. export sales, averaged approximately \$34 billion over the last three years. We actively manage 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. More than insignificant exposures that cannot be naturally offset within an operating unit are hedged with foreign currency derivatives. We also have a significant amount of foreign currency net asset exposures. Currently, we do not hold any derivative contracts that hedge our foreign currency net asset exposures but may consider such strategies in the future.

Within aerospace, our sales are typically denominated in U.S. dollars under accepted industry convention. However, for our non-U.S. based entities, such as P&WC, a substantial portion of their costs are incurred in local currencies. Consequently, there is a foreign currency exchange impact and risk to operational results as U.S. dollars must be converted to local currencies such as the Canadian dollar in order to meet local currency cost obligations. In order to minimize the exposure that exists from changes in the exchange rate of the U.S. dollar against these other currencies, we hedge a certain portion of sales to secure the rates at which U.S. dollars will be converted. The majority of this hedging activity occurs at P&WC. At P&WC, firm and forecasted sales for both engines and spare parts are hedged at varying amounts up to 32 months on the U.S. dollar sales exposure as represented by the excess of U.S. dollar sales over U.S. dollar denominated purchases. Hedging gains and losses resulting from movements in foreign currency exchange rates are partially offset by the foreign currency translation impacts that are generated on the translation of local currency operating results into U.S. dollars for reporting purposes. While the objective of the hedging program is to minimize the foreign currency exchange impact on operating results, there are typically variances between the hedging gains or losses and the translational impact due to the length of hedging contracts, changes in the sales profile, volatility in the exchange rates and other such operational considerations.

*Interest Rate Exposures.* Our long-term debt portfolio consists mostly of fixed-rate instruments. From time to time, we may hedge to floating rates using 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. We issue commercial paper, which exposes us to changes in interest rates. Currently, we do not hold any derivative contracts that hedge our interest exposures, but may consider such strategies in the future.

*Commodity Price Exposures.* We are exposed to volatility in the prices of raw materials used in some of our products and from time to time we may use forward contracts in limited circumstances to manage some of those exposures. In the future, if hedges are used, gains and losses may affect earnings. There were no significant outstanding commodity hedges as of December 31, 2010.

#### **Environmental Matters**

Our operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. As a result, we have established, and continually update, policies relating to environmental standards of performance for our operations worldwide. We believe that expenditures necessary to comply with the present regulations governing environmental protection will not have a material effect upon our competitive position, results of operations, cash flows or financial condition.

We have identified 596 locations, mostly in the United States, at which we may have some liability for remediating contamination. We have resolved our liability at 242 of these locations. We do not believe that any individual location's exposure will have a material effect on our results of operations. Sites in the investigation, remediation or operation and maintenance stage represent approximately 90% of our accrued environmental remediation reserve.

We have been identified as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA or Superfund) at 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 our share of responsibility varies from sole responsibility to very little responsibility. In estimating our liability for remediation, we consider our likely proportionate share of the anticipated remediation expense and the ability of other potentially responsible parties to fulfill their obligations.

At December 31, 2010 and 2009, we had \$605 million and \$539 million reserved for environmental remediation, respectively. Cash outflows for environmental remediation were \$44 million in 2010, \$49 million in 2009 and \$46 million in 2008. We estimate that ongoing environmental remediation expenditures in each of the next two years will not exceed approximately \$66 million.

### **Government Matters**

As described in “Critical Accounting Estimates – Contracting with the U.S. government,” our 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. We are also the subject of one or more investigations and legal proceedings initiated by the U.S. government with respect to government contract matters.

As previously disclosed, the Department of Justice (DOJ) sued us in 1999 in the U.S. District Court for the Southern District of Ohio, claiming that Pratt & Whitney violated the civil False Claims Act and common law. This lawsuit relates to the “Fighter Engine Competition” between Pratt & Whitney’s F100 engine and General Electric’s F110 engine. The DOJ alleges that the government overpaid for F100 engines under contracts awarded by the U.S. Air Force in fiscal years 1985 through 1990 because Pratt & Whitney inflated its estimated costs for some purchased parts and withheld data that would have revealed the overstatements. At trial of this matter, completed in December 2004, the government claimed Pratt & Whitney’s liability to be \$624 million. On August 1, 2008, the trial court judge held that the Air Force had not suffered any actual damages because Pratt & Whitney had made significant price concessions. However, the trial court judge found that Pratt & Whitney violated the False Claims Act due to inaccurate statements contained in its 1983 offer. In the absence of actual damages, the trial court judge awarded the DOJ the maximum civil penalty of \$7.09 million, or \$10,000 for each of the 709 invoices Pratt & Whitney submitted in 1989 and later under the contracts. In September 2008, both the DOJ and UTC appealed the decision to the Sixth Circuit Court of Appeals. In November 2010, the Sixth Circuit affirmed Pratt & Whitney’s liability under the False Claims Act and remanded the case to the U.S. District Court for further proceedings on the question of damages. Should the government ultimately prevail, the outcome of this matter could result in a material adverse effect on our results of operations in the period in which a liability would be recognized or cash flows for the period in which damages would be paid.

As previously disclosed, in December 2008, the Department of Defense (DOD) issued a contract claim against Sikorsky to recover overpayments the DOD alleges it has incurred since January 2003 in connection with cost accounting changes approved by the DOD and implemented by Sikorsky in 1999 and 2006. These changes relate to the calculation of material overhead rates in government contracts. The DOD claims that Sikorsky’s liability is approximately \$88 million (including interest through December 2010). We believe this claim is without merit, and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims, which is pending.

### **Other Matters**

As previously disclosed, on August 27, 2010, Rolls-Royce plc (Rolls-Royce) sued Pratt & Whitney in the U.S. District Court for the Eastern District of Virginia, alleging that fan blades on certain engines manufactured by Pratt & Whitney infringe a U.S. patent held by Rolls-Royce. Rolls-Royce seeks damages in an unspecified amount plus interest, an injunction, a finding of willful infringement, and attorneys’ fees. We intend to vigorously defend the case and believe that Rolls-Royce’s patent is invalid and that Pratt & Whitney’s products do not infringe it. Trial in the matter could take place as early as March 2011. Should the plaintiff ultimately prevail, the outcome of this matter could result in a material adverse effect on our results of operations in the period in which a liability would be recognized or cash flows for the period in which damages would be paid. On November 5, 2010, Pratt & Whitney amended its previously-disclosed complaint against Rolls-Royce in the U.S. District Court for the District of Connecticut, adding Rolls-Royce Group plc (Rolls-Royce Group), the parent of Rolls-Royce, as a party, omitting previously asserted claims, and alleging that certain turbomachinery blades, engines and components manufactured by Rolls-Royce infringe a U.S. patent held by Pratt & Whitney. Pratt & Whitney seeks an injunction, damages, interest, attorney’s fees and other relief. On November 5, 2010, Pratt & Whitney also filed complaints against Rolls-Royce in the High Court of Justice, Chancery Division, Patent Court (HCJ) in the United Kingdom (UK) and with the U.S. International Trade Commission (ITC). The HCJ action alleges similar infringement claims against Rolls-Royce based upon a UK patent held by Pratt & Whitney and seeks damages plus interest and all other relief to which Pratt & Whitney is entitled, including attorney’s fees, expenses, and a permanent order preventing further infringements. The ITC complaint seeks a permanent exclusion order barring the importation into the U.S. of infringing turbomachinery blades, engines and engine components manufactured by Rolls-Royce and Rolls-Royce Group, and requests a permanent cease-and-desist order against Rolls-Royce and Rolls-Royce Group preventing further importing, marketing, advertising, demonstrating, testing, distributing, licensing, offering for sale, or use of such infringing turbomachinery blades, engines and engine components.

Except as otherwise noted, we do not believe that resolution of any of the above matters will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition.

Additional discussion of our environmental, U.S. government contract matters, product performance and other contingent liabilities is included in “Critical Accounting Estimates” and Notes 1, 15 and 17 to the Consolidated

Financial Statements. For additional discussion of our legal proceedings, see Item 3, “Legal Proceedings,” in our Annual Report on Form 10-K for 2010 (2010 Form 10-K).

### **New Accounting Pronouncements**

In October 2009, the FASB issued ASU No. 2009-13, “Multiple-Deliverable Revenue Arrangements.” This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting in addition to establishing a selling price hierarchy in determining the selling price of a deliverable. Significantly enhanced disclosures are required to provide information about a vendor’s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. Additional disclosures are also required of the significant judgments made, changes to those judgments, and how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We have evaluated this new ASU and have determined that it will not have a significant impact on the determination or reporting of our financial results.

In October 2009, the FASB issued ASU No. 2009-14, “Certain Revenue Arrangements That Include Software Elements.” This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are “essential to the functionality,” and scopes these products out of current software revenue guidance. The new guidance includes factors to help companies determine what software elements are considered “essential to the functionality.” The amendments will subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We have evaluated this new ASU and have determined that it will not have a significant impact on the determination or reporting of our financial results.

In April 2010, the FASB issued ASU No. 2010-17, “Milestone Method of Revenue Recognition.” This ASU allows entities to make a policy election to use the milestone method

of revenue recognition and provides guidance on defining a milestone and the criteria that should be met for applying the milestone method. The scope of this ASU is limited to the transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, substantive milestones and factors considered in that determination. The amendments in this ASU are effective prospectively to milestones achieved in fiscal years, and interim periods within those years, beginning after June 15, 2010. Early application and retrospective application are permitted. We have evaluated this new ASU and have determined that it will not have a significant impact on the determination or reporting of our financial results.

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

This 2010 Annual Report to Shareowners (2010 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 our future operating and financial performance, 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,” “will,” “should,” “see,” “guidance” 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 sales, earnings, cash flow, results of operations, uses of cash and other measures of financial performance;
- the effect of economic conditions in the markets in which we operate and in the United States and globally and any changes therein, including financial market conditions, fluctuation in commodity prices, interest rates and foreign currency exchange rates, levels of end market demand in construction and in both the commercial and defense segments of the aerospace industry, levels of air travel, financial difficulties (including bankruptcy) of commercial airlines, the impact of weather conditions and the financial condition of our customers and suppliers;
- delays and disruption in delivery of materials and services from suppliers;

- new business opportunities;
- cost reduction efforts and restructuring costs and savings and other consequences thereof;
- the scope, nature or impact of acquisition and divestiture activity including integration of acquired businesses into our existing businesses;
- the development, production, delivery, support, performance and anticipated benefits of advanced technologies and new products and services;
- the anticipated benefits of diversification and balance of operations across product lines, regions and industries;
- the impact of the negotiation of collective bargaining agreements and labor disputes;
- the outcome of legal proceedings and other contingencies;
- future repurchases of our common stock;
- future levels of indebtedness and capital and research and development spending;
- future availability of credit;
- pension plan assumptions and future contributions; and
- the effect of changes in tax, environmental and other laws and regulations in the United States and other countries in which we operate.

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. Our Annual Report on Form 10-K for 2010 includes important information as to factors that may cause actual results to vary materially from those stated in the forward-looking statements. See the “Notes to Consolidated Financial Statements” under the heading “Contingent Liabilities,” the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Business Overview,” “Critical Accounting Estimates,” “Results of Operations,” and “Liquidity and Financial Condition,” and the section titled “Risk Factors.” Our Annual Report on Form 10-K for 2010 also includes important information as to these risk factors in the “Business” section under the headings “General,” “Description of Business by Segment” and “Other Matters Relating to Our Business as a Whole,” and in the “Legal Proceedings” section. Additional important information as to these factors is included in this 2010 Annual Report in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Environmental Matters” and “Restructuring and Other Costs.” For additional information identifying factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Forms 10-K, 10-Q and 8-K filed with the SEC from time to time.

### **Management’s Report on Internal Control over Financial Reporting**

The management of UTC is responsible for establishing and maintaining adequate 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 accounting principles generally accepted in the United States of America. 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, 2010. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations 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, 2010. The effectiveness of UTC’s internal control over financial reporting, as of December 31, 2010, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.



**Louis R. Chênevert**  
Chairman & Chief Executive Officer



**Gregory J. Hayes**  
Senior Vice President and Chief Financial Officer



**Peter F. Longo**  
Vice President, Controller



## Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of changes in equity present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Corporation's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in the Notes to the consolidated financial statements, the Corporation changed the manner in which it accounts for business combinations and noncontrolling interests in 2009.

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.



Hartford, Connecticut  
February 10, 2011

## CONSOLIDATED STATEMENT OF OPERATIONS

| <i>(Dollars in millions, except per share amounts; shares in millions)</i> | 2010            | 2009     | 2008     |
|--|-----------------|----------|----------|
| Net Sales:   |                 |          |          |
| Product sales  | <b>\$38,641</b> | \$37,332 | \$43,234 |
| Service sales  | <b>15,685</b>   | 15,093   | 15,885   |
|  | <b>54,326</b>   | 52,425   | 59,119   |
| Costs, Expenses and Other:   |                 |          |          |
| Cost of products sold  | <b>28,956</b>   | 28,905   | 32,833   |
| Cost of services sold  | <b>10,458</b>   | 9,956    | 10,804   |
| Research and development   | <b>1,746</b>    | 1,558    | 1,771    |
| Selling, general and administrative  | <b>6,024</b>    | 6,036    | 6,724    |
| Other income, net  | <b>(44)</b>     | (407)    | (522)    |
| Operating profit   | <b>7,186</b>    | 6,377    | 7,509    |
| Interest expense, net  | <b>648</b>      | 617      | 573      |
| Income before income taxes   | <b>6,538</b>    | 5,760    | 6,936    |
| Income tax expense   | <b>1,827</b>    | 1,581    | 1,883    |
| Net income   | <b>4,711</b>    | 4,179    | 5,053    |
| Less: Noncontrolling interest in subsidiaries' earnings                    | <b>338</b>      | 350      | 364      |
| Net income attributable to common shareowners                              | <b>\$ 4,373</b> | \$ 3,829 | \$ 4,689 |
| <b>Earnings Per Share of Common Stock:</b>                                 |                 |          |          |
| Basic  | <b>\$ 4.82</b>  | \$ 4.17  | \$ 5.00  |
| Diluted  | <b>\$ 4.74</b>  | \$ 4.12  | \$ 4.90  |
| Dividends Per Share of Common Stock  | <b>\$ 1.70</b>  | \$ 1.54  | \$ 1.35  |
| Weighted average number of shares outstanding:                             |                 |          |          |
| Basic shares   | <b>907.9</b>    | 917.4    | 937.8    |
| Diluted shares   | <b>922.7</b>    | 928.8    | 956.4    |

See accompanying Notes to Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEET

(Dollars in millions, except per share amounts; shares in thousands)

|   | 2010             | 2009      |
|---|------------------|-----------|
| <b>Assets</b>   |                  |           |
| Cash and cash equivalents   | \$ 4,083         | \$ 4,449  |
| Accounts receivable (net of allowance for doubtful accounts of \$402 and \$390)                 | 8,925            | 8,469     |
| Inventories and contracts in progress, net  | 7,766            | 7,509     |
| Future income tax benefits, current   | 1,623            | 1,689     |
| Other assets, current   | 1,113            | 1,078     |
| <b>Total Current Assets</b>   | <b>23,510</b>    | 23,194    |
| Customer financing assets   | 1,118            | 1,047     |
| Future income tax benefits  | 1,970            | 2,102     |
| Fixed assets, net   | 6,280            | 6,364     |
| Goodwill  | 17,721           | 16,298    |
| Intangible assets, net  | 4,060            | 3,538     |
| Other assets  | 3,834            | 3,219     |
| <b>Total Assets</b>   | <b>\$ 58,493</b> | \$ 55,762 |
| <b>Liabilities and Equity</b>   |                  |           |
| Short-term borrowings   | \$ 116           | \$ 254    |
| Accounts payable  | 5,206            | 4,634     |
| Accrued liabilities   | 12,247           | 11,792    |
| Long-term debt currently due  | 163              | 1,233     |
| <b>Total Current Liabilities</b>  | <b>17,732</b>    | 17,913    |
| Long-term debt  | 10,010           | 8,257     |
| Future pension and postretirement benefit obligations   | 3,592            | 4,150     |
| Other long-term liabilities   | 4,510            | 4,054     |
| <b>Total Liabilities</b>  | <b>35,844</b>    | 34,374    |
| Commitments and contingent liabilities (Notes 4 and 17)   |                  |           |
| Redeemable noncontrolling interest  | 317              | 389       |
| Shareowners' Equity:  |                  |           |
| Capital Stock:  |                  |           |
| Preferred Stock, \$1 par value; 250,000 shares authorized; None issued or outstanding           | —                | —         |
| Common Stock, \$1 par value; 4,000,000 shares authorized; 1,393,297 and 1,381,700 shares issued | 12,597           | 11,746    |
| Treasury Stock – 472,028 and 444,958 common shares at cost                                      | (17,468)         | (15,408)  |
| Retained earnings   | 30,191           | 27,396    |
| Unearned ESOP shares  | (166)            | (181)     |
| Accumulated other comprehensive income (loss):  |                  |           |
| Foreign currency translation  | 366              | 379       |
| Other   | (4,135)          | (3,866)   |
| <b>Total Accumulated other comprehensive loss</b>   | <b>(3,769)</b>   | (3,487)   |
| <b>Total Shareowners' Equity</b>  | <b>21,385</b>    | 20,066    |
| Noncontrolling interest   | 947              | 933       |
| <b>Total Equity</b>   | <b>22,332</b>    | 20,999    |
| <b>Total Liabilities and Equity</b>   | <b>\$ 58,493</b> | \$ 55,762 |

See accompanying Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

| <i>(Dollars in millions)</i>   | 2010            | 2009     | 2008     |
|--|-----------------|----------|----------|
| <b>Operating Activities:</b>   |                 |          |          |
| Net income attributable to common shareowners  | <b>\$ 4,373</b> | \$ 3,829 | \$ 4,689 |
| Noncontrolling interest in subsidiaries' earnings  | <b>338</b>      | 350      | 364      |
| Net income   | <b>4,711</b>    | 4,179    | 5,053    |
| Adjustments to reconcile net income to net cash flows provided by operating activities:                              |                 |          |          |
| Depreciation and amortization  | <b>1,356</b>    | 1,258    | 1,321    |
| Deferred income tax provision  | <b>413</b>      | 451      | 45       |
| Stock compensation cost  | <b>154</b>      | 153      | 211      |
| Change in:   |                 |          |          |
| Accounts receivable  | <b>(319)</b>    | 955      | (546)    |
| Inventories and contracts in progress  | <b>(244)</b>    | 695      | (562)    |
| Other current assets   | <b>(17)</b>     | (3)      | 35       |
| Accounts payable and accrued liabilities   | <b>1,105</b>    | (582)    | 843      |
| Global pension contributions   | <b>(1,299)</b>  | (1,270)  | (193)    |
| Other operating activities, net  | <b>46</b>       | (483)    | (46)     |
| Net cash flows provided by operating activities  | <b>5,906</b>    | 5,353    | 6,161    |
| <b>Investing Activities:</b>   |                 |          |          |
| Capital expenditures   | <b>(865)</b>    | (826)    | (1,216)  |
| Increase in customer financing assets  | <b>(217)</b>    | (171)    | (285)    |
| Decrease in customer financing assets  | <b>162</b>      | 80       | 138      |
| Investments in businesses  | <b>(2,758)</b>  | (703)    | (1,252)  |
| Dispositions of businesses   | <b>208</b>      | 158      | 337      |
| Other investing activities, net  | <b>283</b>      | 358      | (58)     |
| Net cash flows used in investing activities  | <b>(3,187)</b>  | (1,104)  | (2,336)  |
| <b>Financing Activities:</b>   |                 |          |          |
| Issuance of long-term debt   | <b>2,362</b>    | 37       | 2,248    |
| Repayment of long-term debt  | <b>(1,751)</b>  | (1,012)  | (48)     |
| (Decrease) increase in short-term borrowings, net  | <b>(141)</b>    | (762)    | 91       |
| Common Stock issued under employee stock plans   | <b>386</b>      | 342      | 163      |
| Dividends paid on Common Stock   | <b>(1,482)</b>  | (1,356)  | (1,210)  |
| Repurchase of Common Stock   | <b>(2,200)</b>  | (1,100)  | (3,160)  |
| Other financing activities, net  | <b>(327)</b>    | (340)    | (322)    |
| Net cash flows used in financing activities  | <b>(3,153)</b>  | (4,191)  | (2,238)  |
| Effect of foreign exchange rate changes on cash and cash equivalents   | <b>68</b>       | 64       | (164)    |
| Net (decrease) increase in cash and cash equivalents   | <b>(366)</b>    | 122      | 1,423    |
| Cash and cash equivalents, beginning of year   | <b>4,449</b>    | 4,327    | 2,904    |
| Cash and cash equivalents, end of year   | <b>\$ 4,083</b> | \$ 4,449 | \$ 4,327 |
| <b>Supplemental Disclosure of Cash Flow Information:</b>   |                 |          |          |
| Interest paid, net of amounts capitalized  | <b>\$ 753</b>   | \$ 704   | \$ 659   |
| Income taxes paid, net of refunds  | <b>\$ 1,222</b> | \$ 1,396 | \$ 1,912 |
| Non-cash investing and financing activities include:   |                 |          |          |
| Contributions of UTC Common Stock to domestic defined benefit pension plans of \$250 in 2010 and 2008, respectively. |                 |          |          |

See accompanying Notes to Consolidated Financial Statements



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| <i>(Dollars in millions)</i>   | Comprehensive<br>Income (Loss) | Common Stock    |
|--|--------------------------------|-----------------|
| <b>Balance at December 31, 2007</b>  |                                | <b>\$10,572</b> |
| Comprehensive income (loss):   |                                |                 |
| Net income   | \$ 5,053                       |                 |
| Redeemable noncontrolling interest in subsidiaries' earnings                               |                                |                 |
| Other comprehensive income (loss), net of tax:   |                                |                 |
| Foreign currency translation adjustments   | (1,951)                        |                 |
| Change in pension and post-retirement benefit plans, net of tax benefit of \$2,512         | (4,153)                        |                 |
| Unrealized loss on available-for-sale securities, net of tax benefit of \$41               | (59)                           |                 |
| Change in unrealized cash flow hedging, net of tax benefit of \$127                        | (310)                          |                 |
| Total other comprehensive loss, net of tax   | (6,473)                        |                 |
| Comprehensive loss   | \$(1,420)                      |                 |
| Common Stock issued under employee plans (5.7 million shares), net of tax benefit of \$32  |                                | 525             |
| Common Stock contributed to defined benefit pension plans (5.0 million shares)             |                                | 82              |
| Common Stock repurchased (50.4 million shares)   |                                |                 |
| Dividends on Common Stock  |                                |                 |
| Dividends on ESOP Common Stock   |                                |                 |
| Dividends attributable to noncontrolling interest  |                                |                 |
| Redeemable noncontrolling interest accretion   |                                |                 |
| Other changes in noncontrolling interest   |                                |                 |
| <b>Balance at December 31, 2008</b>  |                                | <b>\$11,179</b> |
| Comprehensive income (loss):   |                                |                 |
| Net income   | \$ 4,179                       |                 |
| Redeemable noncontrolling interest in subsidiaries' earnings                               |                                |                 |
| Other comprehensive income (loss), net of tax:   |                                |                 |
| Foreign currency translation adjustments   | 1,023                          |                 |
| Change in pension and post-retirement benefit plans, net of income taxes of \$569          | 1,073                          |                 |
| Unrealized gain on available-for-sale securities, net of income taxes of \$66              | 99                             |                 |
| Change in unrealized cash flow hedging, net of income taxes of \$106                       | 255                            |                 |
| Total other comprehensive income, net of tax   | 2,450                          |                 |
| Comprehensive income   | \$ 6,629                       |                 |
| Common Stock issued under employee plans (11.9 million shares), net of tax benefit of \$50 |                                | 634             |
| Common Stock repurchased (19.1 million shares)   |                                |                 |
| Dividends on Common Stock  |                                |                 |
| Dividends on ESOP Common Stock   |                                |                 |
| Dividends attributable to noncontrolling interest  |                                |                 |
| Redeemable noncontrolling interest accretion   |                                |                 |
| Purchase of subsidiary shares from noncontrolling interest                                 |                                | (67)            |
| Acquired noncontrolling interest   |                                |                 |
| Other changes in noncontrolling interest   |                                |                 |
| <b>Balance at December 31, 2009</b>  |                                | <b>\$11,746</b> |
| Comprehensive income (loss):   |                                |                 |
| Net income   | \$ 4,711                       |                 |
| Redeemable noncontrolling interest in subsidiaries' earnings                               |                                |                 |
| Other comprehensive income (loss), net of tax:   |                                |                 |
| Foreign currency translation adjustments   | (18)                           |                 |
| Change in pension and post-retirement benefit plans, net of tax benefit of \$224           | (336)                          |                 |
| Unrealized gain on available-for-sale securities, net of income taxes of \$61              | 96                             |                 |
| Change in unrealized cash flow hedging, net of tax benefit of \$18                         | (29)                           |                 |
| Total other comprehensive loss, net of tax   | (287)                          |                 |
| Comprehensive income   | \$ 4,424                       |                 |
| Common Stock issued under employee plans (11.8 million shares), net of tax benefit of \$94 |                                | 746             |
| Common Stock contributed to defined benefit pension plans (3.8 million shares)             |                                | 117             |
| Common Stock repurchased (31.0 million shares)   |                                |                 |
| Dividends on Common Stock  |                                |                 |
| Dividends on ESOP Common Stock   |                                |                 |
| Dividends attributable to noncontrolling interest  |                                |                 |
| Redeemable noncontrolling interest accretion   |                                |                 |
| Purchase of subsidiary shares from noncontrolling interest                                 |                                | (12)            |
| Sale of subsidiary shares in noncontrolling interest                                       |                                |                 |
| Other changes in noncontrolling interest   |                                |                 |
| <b>Balance at December 31, 2010</b>  |                                | <b>\$12,597</b> |

See accompanying Notes to Consolidated Financial Statements

## Shareowners' Equity

| Treasury Stock       | Retained Earnings                      | Unearned ESOP Shares | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interest | Total Equity   | Redeemable Noncontrolling Interest |
|----------------------|--|----------------------|---|-------------------------|--|------------------------------------|
| <b>\$(11,338)</b>    | <b>\$21,631</b>                        | <b>\$(214)</b>       | <b>\$ 578</b>                                 | <b>\$835</b>            | <b>\$22,064</b>  | <b>\$203</b>                       |
|                      | 4,689                                  |                      |   | 364<br>(19)             | 5,053<br>(19)  | 19                                 |
|                      |  |                      | (1,990)<br>(4,153)<br>(59)<br>(310)           | 1                       | (1,989)<br>(4,153)<br>(59)<br>(310)  | 38                                 |
|                      |  |                      |   |                         |  |                                    |
| 14<br>168<br>(3,160) | (19)<br><br>(1,210)<br>(52)<br><br>(5) | 14                   |   |                         | 534<br>250<br>(3,160)<br>(1,210)<br>(52)<br>(305)<br>(5)<br>42             | (20)<br>5                          |
| <b>\$(14,316)</b>    | <b>\$25,034</b>                        | <b>\$(200)</b>       | <b>\$(5,934)</b>                              | <b>\$918</b>            | <b>\$16,681</b>  | <b>\$245</b>                       |
|                      | 3,829                                  |                      |   | 350<br>(17)             | 4,179<br>(17)  | 17                                 |
|                      |  |                      | 1,020<br>1,073<br>99<br>255                   | 8                       | 1,028<br>1,073<br>99<br>255  | (5)                                |
|                      |  |                      |   |                         |  |                                    |
| 8<br>(1,100)         | (43)<br><br>(1,356)<br>(59)<br><br>(9) | 19                   |   |                         | 618<br>(1,100)<br>(1,356)<br>(59)<br>(329)<br>(9)<br>(25)<br>36<br>(8)     | (17)<br>9<br>(3)<br>143            |
| <b>\$(15,408)</b>    | <b>\$27,396</b>                        | <b>\$(181)</b>       | <b>\$(3,487)</b>                              | <b>\$933</b>            | <b>\$20,999</b>  | <b>\$389</b>                       |
|                      | 4,373                                  |                      |   | 338<br>(24)             | 4,711<br>(24)  | 24                                 |
|                      |  |                      | (13)<br>(336)<br>96<br>(29)                   | —                       | (13)<br>(336)<br>96<br>(29)  | (5)                                |
|                      |  |                      |   |                         |  |                                    |
| 7<br>133<br>(2,200)  | (43)<br><br>(1,482)<br>(62)<br><br>9   | 15                   |   |                         | 725<br>250<br>(2,200)<br>(1,482)<br>(62)<br>(338)<br>9<br>(12)<br>38<br>12 | (19)<br>(9)<br>(65)<br>2           |
| <b>\$(17,468)</b>    | <b>\$30,191</b>                        | <b>\$(166)</b>       | <b>\$(3,769)</b>                              | <b>\$947</b>            | <b>\$22,332</b>  | <b>\$317</b>                       |

## 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 the prior year amounts to conform to the current year presentation. We previously reported "Other income, net," which included "Interest income," as a component of "Revenues." "Other income, net," excluding "Interest income," is now reflected as a component of "Costs, Expenses and Other," while "Interest income" is now netted with "Interest expense" for financial statement presentation.

*Consolidation.* The Consolidated Financial Statements include the accounts of United Technologies Corporation (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 that are highly liquid in nature and have original maturities of three months or less.

On occasion, we are required to maintain cash deposits with certain banks with respect to contractual obligations related to acquisitions or divestitures or other legal obligations. As of December 31, 2010 and 2009, the amount of restricted cash was approximately \$75 million and \$43 million. As of December 31, 2010, all restricted cash is included in current assets, while as of December 31, 2009, approximately \$41 million is included in current assets and \$2 million is included in long-term assets.

*Accounts Receivable.* Current and long-term accounts receivable include retainage of \$165 million and \$156 million and unbilled receivables of \$862 million and \$902 million as of December 31, 2010 and 2009, respectively.

Retainage represents amounts that, pursuant to the applicable 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 that we do 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 Carrier entities use the last-in, first-out (LIFO) method. If inventories that were valued using the LIFO method had been valued under the FIFO method, they would have been higher by \$137 million and \$147 million at December 31, 2010 and 2009, respectively.

Costs accumulated against specific contracts or orders are at actual cost. Inventory 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 recorded over the fixed assets' useful lives using the straight-line method.

*Goodwill and 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. Goodwill and indefinite-lived intangible assets are subject to annual impairment testing using the guidance and criteria described in the Intangibles – Goodwill and Other Topic of the FASB ASC. This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value. During 2010, 2009, and 2008, we were not required to record any impairment on goodwill or indefinite-lived intangibles.

Intangible assets consist of service portfolios, patents and trademarks, customer relationships and other intangible assets. Useful lives of finite lived intangible assets are estimated based upon the nature of the intangible asset and the industry in which the intangible asset is used. Estimated useful lives of service portfolios generally range from 5 to 30 years. Estimated useful lives of patents and finite-lived trademarks range from 3 to 40 years. Estimated useful lives of customer relationships and other assets range from 2 to 32 years. These intangible assets are amortized based on the pattern in which the economic benefits of the intangible assets are consumed. If a pattern of economic benefit cannot be reliably determined, a straight-line amortization method is used. Included within other intangible assets are commercial aerospace payments made to secure certain contractual rights to provide product on new aircraft platforms. Payments made on these contractual commitments are to be amortized as the related units are delivered.

*Other Long-lived Assets.* We evaluate the potential impairment of other long-lived assets when appropriate. If the carrying value of other long-lived assets exceeds the sum of the

undiscounted expected future cash flows, the carrying value is written down to fair value. During the year ended December 31, 2010, we had certain non-recurring measurements resulting in impairment charges of \$245 million. See Note 13 to the Consolidated Financial Statements for additional information.

*Income Taxes.* In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest expense has also been recognized. We recognize accrued interest related to unrecognized tax benefits in interest expense. Penalties, if incurred, would be recognized as a component of income tax expense.

*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 for elevators, escalators, 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, product warranty and product performance guarantee costs, as appropriate, exceed the projected revenue from the products contemplated under the contractual arrangement. For new commitments, we generally record loss provisions at the earlier of contract announcement or contract signing except for certain requirements contracts under which losses are recorded upon receipt of the purchase order. For existing commitments, anticipated losses on contracts are recognized in the period in which losses become evident. Products contemplated under contractual arrangement include products purchased under contract and, in the large commercial engine business, future highly probable sales of replacement parts required by regulation that are expected to be purchased 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 generally recognized on shipment to the extent that inventoriable manufacturing costs, estimated warranty costs and product performance guarantee costs, as appropriate, 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 our long-term commercial aerospace equipment and helicopter contracts is measured using units of delivery. In addition, we use the cost-to-cost method for elevator and escalator sales, installation and modernization contracts in the commercial businesses. 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. We review our 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. In the commercial businesses, revenue is generally recognized on a straight line basis. In the aerospace businesses, revenue is generally recognized in proportion to cost.

Sales generated from engine programs, spare parts sales, and aftermarket business under collaboration arrangements are recorded as earned in our financial statements. Amounts attributable to our collaborative partners for their share of revenues are recorded as an expense in our financial statements based upon the terms and nature of the arrangement. Costs associated with engine programs under collaborative arrangements are expensed as incurred. Under these arrangements, collaborators contribute their program share of engine parts, incur their own production costs and make certain payments to Pratt & Whitney for shared or joint program costs. The reimbursement of a collaborator's 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 the company sponsored share of research and development activity in connection with cost-sharing arrangements are charged to expense as incurred. Government research and development support, not associated with specific contracts, is recorded as a reduction to research and development expense in the period earned. Repayment, if any, is in the form of future royalties and is conditioned upon the achievement of certain financial targets.



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.

*Foreign Exchange and Hedging Activity.* We conduct business in many different currencies and, accordingly, are subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of our 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 shareholders' equity.

We have used 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 us and are not used for trading or speculative purposes. Derivatives used for hedging purposes may be designated and effective as a hedge of the identified risk exposure at the inception of the 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 may be accounted for as cash flow hedges, as deemed appropriate. 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.

Additional information pertaining to foreign currency forward contracts is included in Note 13 to the Consolidated Financial Statements.

*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, we consider our 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.

*Asset Retirement Obligations.* We record the fair value of legal obligations associated with the retirement of tangible long-lived assets in the period in which it is determined to exist, if a reasonable estimate of fair value can be made. Upon initial recognition of a liability, we capitalize the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is increased for changes in its present value and the capitalized cost is depreciated over the useful life of the related asset. We have determined that conditional legal obligations exist for certain of our worldwide owned and leased facilities related primarily to building materials. As of December 31, 2010 and 2009, the outstanding liability for asset retirement obligations was \$189 million and \$157 million, respectively.

*Pension and Postretirement Obligations.* Guidance under the Compensation – Retirement Benefits Topic of the FASB ASC requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under this guidance, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost.

## **Note 2: Business Acquisitions, Dispositions, Goodwill and Intangible Assets**

*Business Acquisitions and Dispositions.* Our investments in businesses in 2010, 2009 and 2008 totaled \$2.8 billion (including debt assumed of \$39 million), \$703 million and \$1.4 billion (including debt assumed of \$196 million), respectively.

On March 1, 2010, we completed the acquisition of the GE Security business for approximately \$1.8 billion, including debt assumed of \$32 million. The GE Security business supplies security and fire safety technologies for commercial and residential applications through a broad product portfolio that includes fire detection and life safety systems, intrusion alarms, and video surveillance and access control systems. This business, which is being integrated into our UTC Fire & Security segment, enhanced UTC Fire & Security's geographic diversity through GE Security's strong North American presence, while increasing total product and technology

offerings. In connection with the acquisition of GE Security, we recorded approximately \$600 million of identifiable intangible assets and \$1.1 billion of goodwill. The goodwill recorded reflects synergies expected to be realized through the combination of GE Security's products, resources and management talent with those of the existing UTC Fire & Security business to enhance competitiveness, accelerate the development of certain product offerings, drive improved operational performance and secure additional service channels. Additionally, the combined business have provided the opportunity for significant improvements to the cost structure through the rationalization of general and administrative expenditures as well as research and development efforts.

During 2010, we completed the acquisition of Clipper, a publicly-held California-based wind turbine manufacturer. This investment is intended to expand our power generation portfolio and allow us to enter the wind power market by leveraging our expertise in blade technology, turbines and gearbox design. In the first half of 2010, we acquired a 49.9% equity stake in Clipper. In December 2010, we completed the acquisition of all the remaining shares of Clipper. The total cost of our investment in Clipper is approximately £240 million (approximately \$385 million). In connection with this transaction, we recorded approximately \$400 million of goodwill and identifiable intangible assets. Prior to the December 2010 purchase of the remaining shares of Clipper, we accounted for this investment under the equity method of accounting. During the quarter ended September 30, 2010, we recorded a \$159 million other-than-temporary impairment charge on our investment in Clipper, in order to write-down our investment to market value as of September 30, 2010. This impairment is recorded within "Other income, net" on our Consolidated Statement of Operations. In December 2010, as a result of the acquisition of a controlling interest and the remaining shares of Clipper, we recorded a \$21 million gain from the re-measurement to fair value of our previously held equity interest. The financial results of Clipper are included within the "Eliminations and other" category in the segment financial data in Note 18 to the Consolidated Financial Statements.

During 2010, we recorded approximately \$86 million of asset impairment charges, for assets that have met the "held-for-sale" criteria, related to disposition activity within both Carrier and Hamilton Sundstrand. These asset impairment charges are recorded within Cost of products sold on our Consolidated Statement of Operations. The asset impairment charges consist of a \$58 million charge associated with Carrier's ongoing portfolio transformation to a higher returns business and a \$28 million charge at Hamilton Sundstrand related to the expected disposition of an aerospace business as part of Hamilton Sundstrand's efforts to implement low cost sourcing initiatives.

In August 2009, we completed the acquisition of the remaining 71% interest in GST Holdings Limited (GST), a fire alarm provider in China, for approximately \$250 million bringing our total investment in GST to approximately \$360 million. We recorded over \$200 million of goodwill and approximately \$100 million of identified intangible assets in connection with GST. With the acquisition of the remaining 71% of GST, UTC Fire & Security further strengthened its presence in the Chinese fire safety industry.

In July 2009, Carrier and Watsco, Inc. (Watsco) formed Carrier Enterprise, LLC, a joint venture to distribute Carrier, Bryant, Payne and Totaline residential and light commercial HVAC products in the U.S. Sunbelt region and selected territories in the Caribbean and Latin America. As part of the transaction, Carrier contributed its distribution businesses located in these regions into the new venture. In consideration of its contribution, Carrier received approximately 3 million shares of common stock of Watsco and a 40 percent noncontrolling interest in the new venture, which included a business contributed by Watsco. Watsco owns a 60 percent interest in the venture with options to purchase an additional 20 percent interest from Carrier in future years. Carrier recognized a gain of approximately \$60 million in 2009 as a result of its contribution of the majority of its U.S. residential sales and distribution businesses in this new venture.

The 2008 investments consisted primarily of a number of small acquisitions in our commercial businesses.

We account for business combinations as required by the provisions of the Business Combinations Topic of the FASB ASC, which includes provisions that we adopted effective January 1, 2009. The accounting for business combinations retains the underlying concepts of the previously issued standard in that all business combinations are still required to be accounted for at fair value, but changes the method of applying the acquisition method in a number of significant aspects. Acquisition costs are generally expensed as incurred; noncontrolling interests are valued at fair value at the acquisition date; in-process research and development is recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination are generally expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally affect income tax expense. These changes are effective on a prospective basis for all of our business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Adjustments for valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to January 1, 2009 would also apply the revised accounting for business combination provisions.

During the measurement period we will recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period shall not exceed one year from the acquisition date. Further, any associated restructuring activities will be expensed in future periods and not recorded through purchase accounting as previously done for acquisitions occurring prior to January 1, 2009.

There was no significant impact on our acquisition activity in 2010 or 2009 from the changes in the provisions of accounting for business combinations.

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 \$1.7 billion in 2010, \$630 million in 2009, and \$825 million in 2008. The results of operations of acquired businesses have been included in the Consolidated Statement of Operations beginning as of the effective date of acquisition.

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

| <i>(Dollars in millions)</i> | Balance as of January 1, 2010 | Goodwill resulting from business combinations | Foreign currency translation and other | Balance as of December 31, 2010 |
|------------------------------|-------------------------------|---|--|---------------------------------|
| Otis                         | \$ 1,382                      | \$ 100  | \$ (12)                                | <b>\$ 1,470</b>                 |
| Carrier                      | 3,252                         | 11  | (92)                                   | <b>3,171</b>                    |
| UTC Fire & Security          | 5,641                         | 1,106   | (101)                                  | <b>6,646</b>                    |
| Pratt & Whitney              | 1,237                         | —   | (13)                                   | <b>1,224</b>                    |
| Hamilton Sundstrand          | 4,496                         | 23  | (28)                                   | <b>4,491</b>                    |
| Sikorsky                     | 250                           | 81  | (1)                                    | <b>330</b>                      |
| Total Segments               | 16,258                        | 1,321   | (247)                                  | <b>17,332</b>                   |
| Eliminations and other       | 40                            | 349   | —                                      | <b>389</b>                      |
| Total                        | \$16,298                      | \$1,670                                       | \$(247)                                | <b>\$17,721</b>                 |

*Intangible Assets.* Identifiable intangible assets are comprised of the following:

| <i>(Dollars in millions)</i>              | 2010           |                          | 2009         |                          |
|---|----------------|--------------------------|--------------|--------------------------|
|   | Gross Amount   | Accumulated Amortization | Gross Amount | Accumulated Amortization |
| Amortized:                                |                |                          |              |                          |
| Service portfolios                        | <b>\$1,950</b> | <b>\$ (942)</b>          | \$1,814      | \$ (833)                 |
| Patents and trademarks                    | <b>441</b>     | <b>(153)</b>             | 369          | (120)                    |
| Other, principally customer relationships | <b>3,229</b>   | <b>(1,222)</b>           | 2,624        | (1,047)                  |
|   | <b>5,620</b>   | <b>(2,317)</b>           | 4,807        | (2,000)                  |
| Unamortized:                              |                |                          |              |                          |
| Trademarks and other                      | <b>757</b>     | —                        | 731          | —                        |
| Total                                     | <b>\$6,377</b> | <b>\$(2,317)</b>         | \$5,538      | \$(2,000)                |

Amortization of intangible assets in 2010 and 2009 was \$387 million and \$347 million, respectively. Amortization of these intangible assets for 2011 through 2015 is expected to approximate \$315 million per year.

### Note 3: Earnings Per Share

| <i>(Dollars in millions, except per share amounts; shares in millions)</i> | 2010           | 2009    | 2008    |
|--|----------------|---------|---------|
| Net income attributable to common shareowners                              | <b>\$4,373</b> | \$3,829 | \$4,689 |
| Basic weighted average shares outstanding                                  | <b>907.9</b>   | 917.4   | 937.8   |
| Stock awards   | <b>14.8</b>    | 11.4    | 18.6    |
| Diluted weighted average shares outstanding                                | <b>922.7</b>   | 928.8   | 956.4   |
| Earnings Per Share of Common Stock:  |                |         |         |
| Basic  | <b>\$ 4.82</b> | \$ 4.17 | \$ 5.00 |
| Diluted  | <b>\$ 4.74</b> | \$ 4.12 | \$ 4.90 |

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock appreciation rights and stock options when the average market price of the common stock is lower than the exercise price of the related stock awards during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would have been antidilutive. For 2010, 2009, and 2008 the number of stock awards excluded from the computation was 11.4 million, 20.2 million and 8.9 million, respectively.

### Note 4: Commercial Aerospace Industry Assets and Commitments

We have receivables and other financing assets with commercial aerospace industry customers totaling \$3,384 million and \$3,016 million at December 31, 2010 and 2009, respectively. Customer financing assets related to commercial aerospace industry customers consist of products under lease of \$713 million and notes and leases receivable of \$416 million. The notes and leases receivable are scheduled to mature as follows: \$56 million in 2011, \$41 million in 2012, \$54 million in 2013, \$26 million in 2014, \$27 million in 2015, and \$212 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. We may also arrange for third-party investors to assume a portion of these 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. We may also lease aircraft and subsequently sublease the aircraft to customers under long-term non-cancelable operating leases. In some instances, customers may have minimum lease terms that result in sublease periods shorter than our lease obligation. Lastly, we have 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. We also have other contractual commitments, including commitments to secure certain contractual rights to provide product on new aircraft platforms. Payments made on these contractual commitments are included within other intangible assets and are to be amortized as the related units are delivered.

Our commercial aerospace financing and other contractual commitments as of December 31, 2010 were \$2,032 million and are exercisable as follows: \$384 million in 2011, \$224 million in 2012, \$300 million in 2013, \$241 million in 2014, \$136 million in 2015, and \$747 million thereafter. Our financing obligations with customers are contingent upon maintenance of certain levels of financial condition by the customers. In addition, we have residual value and other guarantees of \$336 million as of December 31, 2010.

We have long-term aftermarket maintenance contracts with commercial aerospace industry customers for which revenue is recognized in proportion to actual costs incurred relative to total expected costs to be incurred over the respective contract periods. Billings, however, are typically based on factors such as engine flight hours. The timing differences between the billings and the maintenance costs incurred generates both deferred assets and deferred revenues. Deferred assets under these long-term aftermarket contracts totaled \$290 million and \$270 million at December 31, 2010 and 2009, respectively and are included in Other assets in the accompanying Consolidated Balance Sheets. Deferred revenues generated totaled \$1,474 million and \$1,238 million at December 31, 2010 and 2009, respectively, and are included in Accrued liabilities and Other long-term liabilities in the accompanying Consolidated Balance Sheets.

We have a 33% interest in International Aero Engines AG (IAE), an international consortium of four shareholders organized to support the V2500 commercial aircraft engine program. Our 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, 2010, IAE had financing commitments of \$709 million and asset value guarantees of \$42 million. Our share of IAE's financing commitments and asset value guarantees was approximately

\$244 million at December 31, 2010. In addition, IAE had lease obligations under long-term noncancelable leases of approximately \$241 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.

Reserves related to aerospace receivables and financing assets were \$133 million and \$141 million at December 31, 2010 and 2009, respectively. Reserves related to financing commitments and guarantees were \$38 million and \$34 million at December 31, 2010 and 2009, respectively.

#### Note 5: Inventories & Contracts in Progress

| <i>(Dollars in millions)</i>                                     | 2010            | 2009     |
|--|-----------------|----------|
| Raw materials  | <b>\$ 1,221</b> | \$ 1,281 |
| Work-in-process  | <b>3,259</b>    | 3,097    |
| Finished goods   | <b>3,026</b>    | 2,889    |
| Contracts in progress  | <b>6,340</b>    | 6,479    |
|  | <b>13,846</b>   | 13,746   |
| Less:  |                 |          |
| Progress payments, secured by lien, on U.S. Government contracts | <b>(275)</b>    | (264)    |
| Billings on contracts in progress                                | <b>(5,805)</b>  | (5,973)  |
|  | <b>\$ 7,766</b> | \$ 7,509 |

Raw materials, work-in-process and finished goods are net of valuation reserves of \$799 million and \$683 million as of December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, inventory also includes capitalized contract development costs of \$804 million and \$862 million, respectively, related to certain aerospace programs. These capitalized costs will be liquidated as production units are delivered to the customer. The capitalized contract development costs within inventory principally relate to capitalized costs on Sikorsky's CH-148 contract with the Canadian government. The CH-148 is a derivative of the H-92, a military variant of the S-92.

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.

Our sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months. At December 31, 2010 and 2009, approximately 75% and 73%, respectively, 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 within the next twelve months.

#### Note 6: Fixed Assets

| <i>(Dollars in millions)</i>        | Estimated Useful Lives | 2010            | 2009     |
|-------------------------------------|------------------------|-----------------|----------|
| Land                                |                        | \$ 342          | \$ 345   |
| Buildings and improvements          | 12-40 years            | 4,908           | 4,898    |
| Machinery, tools and equipment      | 3-20 years             | 10,010          | 9,941    |
| Other, including under construction |                        | 654             | 493      |
|                                     |                        | <b>15,914</b>   | 15,677   |
| Accumulated depreciation            |                        | <b>(9,634)</b>  | (9,313)  |
|                                     |                        | <b>\$ 6,280</b> | \$ 6,364 |

Depreciation expense was \$900 million in 2010, \$852 million in 2009 and \$865 million in 2008.

#### Note 7: Accrued Liabilities

| <i>(Dollars in millions)</i>                     | 2010            | 2009     |
|--|-----------------|----------|
| Advances on sales contracts and service billings | \$ 5,203        | \$ 5,267 |
| Accrued salaries, wages and employee benefits    | 1,918           | 1,801    |
| Litigation and contract matters                  | 577             | 541      |
| Income taxes payable                             | 504             | 348      |
| Service and warranty accruals                    | 449             | 447      |
| Accrued restructuring costs                      | 358             | 403      |
| Interest payable                                 | 294             | 296      |
| Accrued workers compensation                     | 210             | 181      |
| Accrued property, sales and use taxes            | 209             | 196      |
| Other  | 2,525           | 2,312    |
|  | <b>\$12,247</b> | \$11,792 |

#### Note 8: Borrowings and Lines of Credit

Short-term borrowings were \$116 million and \$254 million as of December 31, 2010 and 2009, respectively. The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 2010 and 2009 were 6.3% and 4.8%, respectively. At December 31, 2010, approximately \$2.0 billion was available under short-term lines of credit with local banks at our various domestic and international subsidiaries. As of December 31, 2010 and 2009, we did not have any outstanding commercial paper. We generally use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions and repurchases of our common stock.

At December 31, 2010, we had new committed revolving credit agreements from banks permitting aggregate borrowings of up to \$3.0 billion under a \$1.6 billion revolving credit agreement and a \$1.4 billion multicurrency revolving credit agreement, which expire in November 2014 and December

2014, respectively. These new revolving credit agreements were entered into on November 30, 2010 and December 3, 2010, respectively, to replace our former revolving credit agreements which had permitted aggregate borrowings of up to \$2.5 billion under a \$1.5 billion revolving credit agreement and a \$1.0 billion multicurrency revolving credit agreement which were set to expire in October 2011 and November 2011, respectively. As of December 31, 2010 and 2009, there were no borrowings under these revolving credit agreements. The undrawn portions under both of these agreements are also available to serve as backup facilities for the issuance of commercial paper.

Our long-term debt consists of the following:

| <i>(Dollars in millions)</i>         | 2010            | 2009     |
|--------------------------------------|-----------------|----------|
| 4.375% notes due 2010 *              | \$ —            | \$ 600   |
| 7.125% notes due 2010 *              | —               | 500      |
| 6.350% notes due 2011 *              | —               | 500      |
| 6.100% notes due 2012 *              | 500             | 500      |
| 4.875% notes due 2015 *              | 1,200           | 1,200    |
| 5.375% notes due 2017 *              | 1,000           | 1,000    |
| 6.125% notes due 2019 *              | 1,250           | 1,250    |
| 8.875% notes due 2019                | 272             | 272      |
| 4.500% notes due 2020 *              | 1,250           | —        |
| 8.750% notes due 2021                | 250             | 250      |
| 6.700% notes due 2028                | 400             | 400      |
| 7.500% notes due 2029 *              | 550             | 550      |
| 5.400% notes due 2035 *              | 600             | 600      |
| 6.050% notes due 2036 *              | 600             | 600      |
| 6.125% notes due 2038 *              | 1,000           | 1,000    |
| 5.700% notes due 2040 *              | 1,000           | —        |
| Project financing obligations        | 141             | 158      |
| Other (including capitalized leases) | 160             | 110      |
| Total long-term debt                 | <b>10,173</b>   | 9,490    |
| Less current portion                 | <b>(163)</b>    | (1,233)  |
| Long-term portion                    | <b>\$10,010</b> | \$ 8,257 |

\* We may redeem the above notes, in whole or in part, at our option at any time at a redemption price in U.S. dollars equal to the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed, discounted to the redemption date on a semiannual basis at the adjusted treasury rate plus 10-50 basis points. The redemption price will also include interest accrued to the date of redemption on the principal balance of the notes being redeemed.

In February 2010, we issued two series of fixed rate notes that pay interest semiannually, in arrears, on April 15 and October 15 of each year beginning October 15, 2010. The \$1.25 billion principal amount of fixed rate notes bears interest at a rate equal to 4.500% per year and matures on April 15, 2020. The \$1.0 billion principal amount of fixed rate notes bears interest at a rate equal to 5.700% per year and matures on April 15, 2040. The proceeds from these notes were used primarily to fund a portion of the acquisition of the GE Security business, and to repay commercial paper borrowings.

In May 2010, we repaid the entire \$600 million outstanding principal amount of our 4.375% notes at maturity. In June 2010, we redeemed the entire \$500 million outstanding principal amount of our 7.125% notes that would otherwise have been due November 15, 2010 and in September 2010, we redeemed the entire \$500 million outstanding principal amount of our 6.350% notes that would otherwise have been due March 1, 2011.

The project financing obligations noted above are associated with the sale of rights to unbilled revenues related to the ongoing activity of an entity owned by Carrier. The percentage of total debt at floating interest rates was 2% and 3% at December 31, 2010 and 2009, respectively.

The schedule of principal payments required on long-term debt for the next five years and thereafter is:

| <i>(Dollars in millions)</i> |                 |
|------------------------------|-----------------|
| 2011                         | <b>\$ 163</b>   |
| 2012                         | <b>543</b>      |
| 2013                         | <b>4</b>        |
| 2014                         | <b>39</b>       |
| 2015                         | <b>1,206</b>    |
| Thereafter                   | <b>8,218</b>    |
| <b>Total</b>                 | <b>\$10,173</b> |

We have an existing universal shelf registration statement filed with the Securities and Exchange Commission (SEC) for an indeterminate amount of securities for future issuance, subject to our internal limitations on the amount of debt to be issued under this shelf registration statement.

#### Note 9: Equity

Consistent with the requirements under the Business Combinations Topic of the FASB ASC and the accounting for noncontrolling interests in Consolidated Financial Statements, as adopted in 2009, changes in noncontrolling interests that do not result in a change of control and where there is a difference between fair value and carrying value are accounted for as equity transactions. A summary of these changes in ownership interests in subsidiaries and the pro-forma effect on Net income attributable to common shareowners had they been recorded through net income is provided below:

| <i>(Dollars in millions)</i>   | 2010           | 2009    | 2008    |
|--|----------------|---------|---------|
| Net income attributable to common shareowners  | <b>\$4,373</b> | \$3,829 | \$4,689 |
| Transfers to noncontrolling interests—<br>Decrease in common stock for purchase of subsidiary shares | <b>(12)</b>    | (67)    | —       |
| Net income attributable to common shareowners after transfers to noncontrolling interests            | <b>\$4,361</b> | \$3,762 | \$4,689 |

#### Note 10: Income Taxes

The income tax expense (benefit) for the years ended December 31, consisted of the following components:

| <i>(Dollars in millions)</i>                                    | 2010           | 2009     | 2008    |
|---|----------------|----------|---------|
| Current:  |                |          |         |
| United States:  |                |          |         |
| Federal   | <b>\$ 122</b>  | \$ 239   | \$ 576  |
| State   | <b>128</b>     | 54       | 51      |
| Foreign   | <b>1,164</b>   | 837      | 1,211   |
|   | <b>1,414</b>   | 1,130    | 1,838   |
| Future:   |                |          |         |
| United States:  |                |          |         |
| Federal   | <b>\$ 461</b>  | \$ 370   | \$ 142  |
| State   | <b>—</b>       | 41       | (52)    |
| Foreign   | <b>(48)</b>    | 40       | (45)    |
|   | <b>413</b>     | 451      | 45      |
| <b>Income tax expense</b>                                       | <b>\$1,827</b> | \$1,581  | \$1,883 |
| Attributable to items credited (charged) to equity and goodwill | <b>\$ 276</b>  | \$ (782) | \$2,818 |

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. Pursuant to the Income Taxes Topic of the FASB ASC, 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.

The tax effects of net temporary differences and tax carryforwards which gave rise to future income tax benefits and payables at December 31, 2010 and 2009 are as follows:

| <i>(Dollars in millions)</i>      | 2010           | 2009    |
|-----------------------------------|----------------|---------|
| Future income tax benefits:       |                |         |
| Insurance and employee benefits   | <b>\$1,986</b> | \$2,209 |
| Other asset basis differences     | <b>(540)</b>   | (357)   |
| Other liability basis differences | <b>958</b>     | 901     |
| Tax loss carryforwards            | <b>729</b>     | 764     |
| Tax credit carryforwards          | <b>1,371</b>   | 1,177   |
| Valuation allowance               | <b>(911)</b>   | (903)   |
|                                   | <b>\$3,593</b> | \$3,791 |
| Future income taxes payable:      |                |         |
| Fixed assets                      | <b>\$ 647</b>  | \$ 650  |
| Other items, net                  | <b>190</b>     | 123     |
|                                   | <b>\$ 837</b>  | \$ 773  |

Valuation allowances have been established primarily for tax credit carryforwards, tax loss carryforwards, and certain foreign temporary differences to reduce the future income tax benefits to expected realizable amounts. Upon the January 1,

2009 adoption of the additional guidance issued under the Income Taxes Topic of the FASB ASC related to the accounting for business combinations, changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense including those associated with acquisitions that closed prior to the date of adoption.

The sources of income before income taxes are:

| <i>(Dollars in millions)</i> | 2010           | 2009    | 2008    |
|------------------------------|----------------|---------|---------|
| United States                | <b>\$2,655</b> | \$2,584 | \$2,899 |
| Foreign                      | <b>3,883</b>   | 3,176   | 4,037   |
|                              | <b>\$6,538</b> | \$5,760 | \$6,936 |

With few exceptions, U.S. 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. Our intention is to reinvest these earnings permanently outside the U.S. or to repatriate the earnings only when it is tax effective to do so. Accordingly, we believe that U.S. tax on any earnings that might be repatriated would be substantially offset by U.S. foreign tax credits.

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

|  | 2010          | 2009   | 2008   |
|--|---------------|--------|--------|
| Statutory U.S. federal income tax rate | <b>35.0 %</b> | 35.0 % | 35.0 % |
| Tax on international activities        | <b>(7.6)%</b> | (6.9)% | (6.9)% |
| Tax audit settlements                  | —             | (0.7)% | (0.8)% |
| Other                                  | <b>0.5 %</b>  | —      | (0.2)% |
| Effective income tax rate              | <b>27.9 %</b> | 27.4 % | 27.1 % |

The 2010 effective tax rate increased as compared to 2009 due to the absence of certain discrete items which had a net favorable impact in 2009. The 2010 effective tax rate reflects a non-recurring tax expense reduction associated with management's decision to repatriate additional high tax dividends from the current year to the U.S. in 2010 as a result of recent U.S. tax legislation. This is partially offset by the non-deductibility of impairment charges, the adverse impact from the health care legislation related to the Medicare Part D program and other increases to our effective tax rate.

The 2009 effective tax rate reflects approximately \$38 million of tax expense reductions relating to re-evaluation of our liabilities and contingencies based on global examination activity, including the IRS's completion of 2004 and 2005 examination fieldwork and our related protest filing. As a result of the global examination activity, we recognized approximately \$18 million of associated pre-tax interest income adjustments during 2009.

The 2008 effective tax rate reflects \$62 million of tax expense reductions, principally related to the resolution of disputes with the Appeals Division of the IRS for tax years 2000 through 2003.

In the normal course of business, various tax authorities examine us, including the IRS. The IRS review of tax years 2006 through 2008 is ongoing. Although the outcome of these matters cannot be currently determined, we believe adequate provision has been made for any potential unfavorable financial statement impact.

At December 31, 2010, tax credit carryforwards, principally state and federal, and tax loss carryforwards, principally state and foreign, were as follows:

| <i>(Dollars in millions)</i> | Tax Credit<br>Carryforwards | Tax Loss<br>Carryforwards |
|------------------------------|-----------------------------|---------------------------|
| Expiration period:           |                             |                           |
| 2011-2015                    | \$ 29                       | \$ 508                    |
| 2016-2020                    | 397                         | 232                       |
| 2021-2030                    | 248                         | 574                       |
| Indefinite                   | 697                         | 1,999                     |
| Total                        | \$1,371                     | \$3,313                   |

At December 31, 2010, we had gross tax-effected unrecognized tax benefits of \$891 million, all of which, if recognized, would impact the effective tax rate. A reconciliation of the beginning and ending amounts of unrecognized tax benefits and interest expense related to unrecognized tax benefits for the years ended December 31, 2010, 2009, and 2008 is as follows:

| <i>(Dollars in millions)</i>                                | 2010         | 2009   | 2008   |
|---|--------------|--------|--------|
| Balance at January 1  | <b>\$793</b> | \$ 773 | \$ 798 |
| Additions for tax positions related to the current year     | <b>115</b>   | 90     | 112    |
| Additions for tax positions of prior years                  | <b>80</b>    | 174    | 66     |
| Reductions for tax positions of prior years                 | <b>(81)</b>  | (20)   | (85)   |
| Settlements   | <b>(16)</b>  | (224)  | (118)  |
| Balance at December 31                                      | <b>\$891</b> | \$ 793 | \$ 773 |
| Gross interest expense related to unrecognized tax benefits | <b>\$ 27</b> | \$ 21  | \$ 39  |
| Total accrued interest balance at December 31               | <b>\$144</b> | \$ 142 | \$ 161 |

Included in the balances at December 31, 2009 and 2008, were \$57 million and \$63 million, respectively, of tax positions whose tax characterization was highly certain but for which there was uncertainty about the timing of tax return inclusion. During 2010, the uncertainty was removed as a result of an accounting method change approved by the Internal Revenue Service.

We conduct business globally and, as a result, UTC or one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Belgium, Canada, China, France, Germany, Hong Kong, Italy, Japan, South Korea, Singapore, Spain, the United Kingdom and the United States. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 1998.

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may change within a range of a net increase of \$40 million to a net decrease of \$170 million resulting from additional worldwide uncertain tax positions, from the re-evaluation of current uncertain tax positions arising from developments in examinations, in appeals, or in the courts, or from the closure of tax statutes. Not included in the range is €197 million (approximately \$259 million) of tax benefits that we have claimed related to a 1998 German reorganization. These tax benefits are currently being reviewed by the German Tax Office in the course of an audit of tax years 1999 to 2000. In 2008 the German Federal Tax Court denied benefits to another taxpayer in a case involving a German tax law relevant to our reorganization. The determination of the German Federal Tax Court on this other matter was appealed to the European Court of Justice (ECJ) to determine if the underlying German tax law is violative of European Union (EU) principles. On September 17, 2009 the ECJ issued an opinion in this case that is generally favorable to the other taxpayer and referred the case back to the German Federal Tax Court for further consideration of certain related issues. In May 2010, the German Federal Tax Court released its decision, in which it resolved certain tax issues that may be relevant to our audit and remanded the case to a lower court for further development. After consideration of the ECJ decision and the latest German Federal Tax Court decision, we continue to believe that it is more likely than not that the relevant German tax law is violative of EU principles and we have not

accrued tax expense for this matter. As we continue to monitor developments related to this matter, it may become necessary for us to accrue tax expense and related interest.

#### **Note 11: Employee Benefit Plans**

We sponsor numerous domestic and foreign employee benefit plans, which are discussed below.

*Employee Savings Plans.* We sponsor various employee savings plans. Our contributions to employer sponsored defined contribution plans were \$200 million, \$192 million and \$212 million for 2010, 2009 and 2008, respectively. Effective January 1, 2010, newly hired non-union domestic employees receive all of their retirement benefits through the defined contribution savings plan.

Our non-union domestic employee savings plan uses an Employee Stock Ownership Plan (ESOP) for employer contributions. External borrowings were used by the ESOP to fund a portion of its purchase of ESOP stock from us. The external borrowings have been extinguished and only re-amortized loans remain between the company and the ESOP Trust. 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. We may also, at our option, contribute additional common stock or cash to the ESOP.

Shares of common stock are allocated 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. Common stock allocated to ESOP participants is included in the average number of common shares outstanding for both basic and diluted earnings per share. At December 31, 2010, 35.6 million common shares had been allocated to employees, leaving 20.4 million unallocated common shares in the ESOP Trust, with an approximate fair value of \$1.6 billion.



*Pension Plans.* We sponsor both funded and unfunded domestic and foreign defined benefit pension plans that cover the majority of our employees. Our plans use a December 31 measurement date consistent with our fiscal year.

| <i>(Dollars in millions)</i>  | 2010              | 2009       |
|---|-------------------|------------|
| <b>Change in Benefit Obligation:</b>  |                   |            |
| Beginning balance   | <b>\$ 22,271</b>  | \$ 21,511  |
| Service cost  | <b>396</b>        | 429        |
| Interest cost   | <b>1,287</b>      | 1,285      |
| Actuarial loss  | <b>1,625</b>      | 471        |
| Total benefits paid   | <b>(1,216)</b>    | (1,162)    |
| Net settlement and curtailment gain   | <b>(37)</b>       | (62)       |
| Plan amendments   | <b>121</b>        | (534)      |
| Other   | <b>(2)</b>        | 333        |
| Ending balance  | <b>\$ 24,445</b>  | \$ 22,271  |
| <b>Change in Plan Assets:</b>   |                   |            |
| Beginning balance   | <b>\$ 19,377</b>  | \$ 15,940  |
| Actual return on plan assets  | <b>2,635</b>      | 3,004      |
| Employer contributions  | <b>1,621</b>      | 1,308      |
| Benefits paid from plan assets  | <b>(1,216)</b>    | (1,111)    |
| Other   | <b>(33)</b>       | 236        |
| Ending balance  | <b>\$ 22,384</b>  | \$ 19,377  |
| <b>Funded Status:</b>   |                   |            |
| Fair value of plan assets   | <b>\$ 22,384</b>  | \$ 19,377  |
| Benefit obligations   | <b>(24,445)</b>   | (22,271)   |
| Funded status of plan   | <b>\$ (2,061)</b> | \$ (2,894) |
| <b>Amounts Recognized in the Consolidated Balance Sheet Consist of:</b>         |                   |            |
| Noncurrent assets   | <b>\$ 637</b>     | \$ 341     |
| Current liability   | <b>(58)</b>       | (72)       |
| Noncurrent liability  | <b>(2,640)</b>    | (3,163)    |
| Net amount recognized   | <b>\$ (2,061)</b> | \$ (2,894) |
| <b>Amounts Recognized in Accumulated Other Comprehensive Income Consist of:</b> |                   |            |
| Net actuarial loss  | <b>\$ 7,223</b>   | \$ 6,767   |
| Prior service credit  | <b>(184)</b>      | (313)      |
| Transition obligation   | <b>6</b>          | 7          |
| Net amount recognized   | <b>\$ 7,045</b>   | \$ 6,461   |

The amounts included in "Other" in the preceding table reflect the impact of foreign exchange translation, primarily for plans in the United Kingdom and Canada.

Qualified domestic pension plan benefits comprise approximately 76% 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. Effective January 1, 2015, this formula will change to the existing cash balance formula that 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. This plan change resulted in a \$623 million reduction in the projected benefit obligation as of December 31, 2009. Certain foreign plans, which comprise approximately 23% of the projected benefit obligation, are considered defined benefit plans for accounting purposes. Nonqualified domestic pension plans provide supplementary retirement benefits to certain employees and are not a material component of the projected benefit obligation.

We made \$1,001 million of cash contributions and contributed \$250 million in UTC common stock to our domestic defined benefit pension plans and made \$298 million of cash contributions to our foreign defined benefit pension plans in 2010. In 2009, we made \$951 million of cash contributions to our domestic defined benefit pension plans and made \$319 million of cash contributions to our foreign defined benefit pension plans.

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

| <i>(Dollars in millions)</i>   | 2010            | 2009     |
|--------------------------------|-----------------|----------|
| Projected benefit obligation   | <b>\$21,556</b> | \$18,327 |
| Accumulated benefit obligation | <b>20,562</b>   | 17,342   |
| Fair value of plan assets      | <b>18,885</b>   | 15,315   |

The accumulated benefit obligation for all defined benefit pension plans was \$23.2 billion and \$20.8 billion at December 31, 2010 and 2009, respectively.

The components of the net periodic pension cost are as follows:

| <i>(Dollars in millions)</i>                           | 2010           | 2009    | 2008    |
|--|----------------|---------|---------|
| <b>Pension Benefits:</b>                               |                |         |         |
| Service cost   | <b>\$ 396</b>  | \$ 429  | \$ 446  |
| Interest cost  | <b>1,287</b>   | 1,285   | 1,263   |
| Expected return on plan assets                         | <b>(1,735)</b> | (1,634) | (1,663) |
| Amortization of prior service (credits) costs          | <b>(18)</b>    | 56      | 49      |
| Amortization of unrecognized net transition obligation | <b>1</b>       | 1       | 1       |
| Recognized actuarial net loss                          | <b>285</b>     | 226     | 119     |
| Net settlement and curtailment loss                    | <b>2</b>       | 102     | 1       |
| Net periodic pension cost – employer                   | <b>\$ 218</b>  | \$ 465  | \$ 216  |

Other changes in plan assets and benefit obligations recognized in other comprehensive income in 2010 are as follows:

*(Dollars in millions)*

|   |               |
|---|---------------|
| Current year actuarial loss   | <b>\$ 728</b> |
| Amortization of actuarial loss  | <b>(285)</b>  |
| Current year prior service cost   | <b>121</b>    |
| Amortization of prior service credit  | <b>18</b>     |
| Amortization of transition obligation   | <b>(1)</b>    |
| Other   | <b>(22)</b>   |
| <b>Total recognized in other comprehensive income</b>                             | <b>559</b>    |
| <b>Net recognized in net periodic pension cost and other comprehensive income</b> | <b>\$ 777</b> |

The estimated amount that will be amortized from accumulated other comprehensive income into net periodic pension cost in 2011 is as follows:

*(Dollars in millions)*

|                       |              |
|-----------------------|--------------|
| Net actuarial loss    | <b>\$461</b> |
| Prior service credit  | <b>(12)</b>  |
| Transition obligation | <b>1</b>     |
|                       | <b>\$450</b> |

Contributions to multiemployer plans were \$117 million, \$126 million and \$163 million for 2010, 2009 and 2008, respectively.

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

|                                | <i>Benefit Obligation</i> |      | <i>Net Cost</i> |      |      |
|--------------------------------|---------------------------|------|-----------------|------|------|
|                                | <b>2010</b>               | 2009 | <b>2010</b>     | 2009 | 2008 |
| Discount rate                  | <b>5.4%</b>               | 5.9% | <b>5.9%</b>     | 6.1% | 6.0% |
| Salary scale                   | <b>4.4%</b>               | 4.4% | <b>4.4%</b>     | 4.4% | 4.4% |
| Expected return on plan assets | —                         | —    | <b>8.0%</b>     | 8.2% | 8.3% |

In determining the expected return on plan assets, we consider 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, we may consult with and consider the opinions of financial and other professionals in developing appropriate capital market assumptions. Return projections are also validated using a simulation model that incorporates yield curves, credit spreads and risk premiums to project long-term prospective returns.

The plan's investment management objectives include maintaining an adequate level of diversification, to reduce interest rate and market risk, and to provide adequate liquidity to meet immediate and future benefit payment requirements. The overall investment strategy targets a mix of 67% growth seeking assets and 33% income generating assets using a wide diversification of asset types, fund strategies and investment managers. The growth seeking allocation consists of global public equities in developed and emerging countries, private equity, real estate and balanced market risk strategies. Within global equities, 12% of the portfolio is an enhanced equity strategy that invests in publicly traded equity and fixed income securities, derivatives and foreign currency. Investments in private equity are primarily via limited partnership interests in buy-out strategies with smaller allocations in distressed debt funds. The real estate strategy is principally concentrated in directly held U.S. core investments with some smaller investments in international, value-added and opportunistic strategies. Within the income generating assets, the fixed income portfolio consists of a broadly diversified portfolio of corporate bonds, global government bonds and U.S. Treasury STRIPS. These investments are designed to hedge 40% of the interest rate sensitivity of the pension plan liabilities.

The fair values of pension plan assets at December 31, 2010 and 2009 by asset category are as follows:

| <i>(Dollars in millions)</i>             | Quoted Prices in<br>Active Markets<br>For Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | <b>Total</b>     |
|--|--|--|--|------------------|
| <b>Asset Category:</b>                   |  |  |  |                  |
| Public Equities                          |  |  |  |                  |
| Global Equities                          | \$5,332  | \$ 7   | \$ 1   | <b>\$ 5,340</b>  |
| Global Equity<br>Commingled<br>Funds (a) | —  | 3,200  | —  | <b>3,200</b>     |
| Enhanced Global<br>Equities (b)          | 57   | 1,662  | 245  | <b>1,964</b>     |
| Private Equities (c)                     | —  | —  | 1,134  | <b>1,134</b>     |
| Fixed Income Securities                  |  |  |  |                  |
| Governments                              | 691  | 1,149  | —  | <b>1,840</b>     |
| Corporate Bonds                          | 21   | 5,424  | —  | <b>5,445</b>     |
| Structured Products (d)                  | —  | 76   | —  | <b>76</b>        |
| Real Estate (e)                          | —  | 26   | 944  | <b>970</b>       |
| Other (f)                                | —  | 1,517  | —  | <b>1,517</b>     |
| Cash & Cash<br>Equivalents (g)           | —  | 293  | —  | <b>293</b>       |
| Subtotal                                 | \$6,101  | \$13,354   | \$2,324  | <b>21,779</b>    |
| Other Assets &<br>Liabilities (h)        |  |  |  | <b>605</b>       |
| <b>Total at December 31, 2010</b>        |  |  |  | <b>\$22,384</b>  |
| Public Equities                          |  |  |  |                  |
| Global Equities                          | \$4,595  | \$ 4   | \$ —   | \$ 4,599         |
| Global Equity<br>Commingled Funds<br>(a) | 77   | 2,695  | —  | 2,772            |
| Enhanced Global<br>Equities (b)          | 22   | 1,538  | 11   | 1,571            |
| Private Equities (c)                     | —  | —  | 1,045  | 1,045            |
| Fixed Income Securities                  |  |  |  |                  |
| Governments                              | 149  | 786  | —  | 935              |
| Corporate Bonds                          | 76   | 5,620  | —  | 5,696            |
| Structured Products (d)                  | —  | 1  | —  | 1                |
| Real Estate (e)                          | —  | 51   | 715  | 766              |
| Other (f)                                | 50   | 1,100  | —  | 1,150            |
| Cash & Cash<br>Equivalents (g)           | 190  | 241  | —  | 431              |
| Subtotal                                 | \$5,159  | \$12,036   | \$1,771  | 18,966           |
| Other Assets &<br>Liabilities (h)        |  |  |  | 411              |
| <b>Total at December 31, 2009</b>        |  |  |  | <b>\$ 19,377</b> |

- (a) Represents commingled funds that invest primarily in common stocks.
- (b) Represents enhanced equity separate account and commingled fund portfolios. A portion of the portfolio may include long-short market neutral and relative value strategies that invest in publicly traded, equity and fixed income securities, as well as derivatives of equity and fixed income securities and foreign currency.
- (c) Represents limited partner investments with general partners that primarily invest in debt and equity.
- (d) Represents mortgage and asset-backed securities.
- (e) Represents investments in real estate including commingled funds and directly held properties.
- (f) Represents insurance contracts and global balanced risk commingled funds consisting mainly of equity, bonds and some commodities.
- (g) Represents short-term commercial paper, bonds and other cash or cash-like instruments.
- (h) Represents trust receivables and payables that are not leveled.

Derivatives in the plan are primarily used to manage risk and gain asset class exposure while still maintaining liquidity. Derivative instruments mainly consist of equity futures, interest rate futures, interest rate swaps and currency forward contracts.

Our common stock represents approximately 3% and 4% of total plan assets at December 31, 2010 and 2009, respectively. We review our assets at least quarterly to ensure we are within the targeted asset allocation ranges and, if necessary, asset balances are adjusted back within target allocations. We employ a broadly diversified investment manager structure that includes diversification by active and passive management, style, capitalization, country, sector, industry and number of investment managers.

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed due to the following:

| <i>Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</i> |                 |                                |                          |                  |                 |              |                |
|---|-----------------|--------------------------------|--------------------------|------------------|-----------------|--------------|----------------|
| <i>(Dollars in millions)</i>  | Global Equities | Global Equity Commingled Funds | Enhanced Global Equities | Private Equities | Corporate Bonds | Real Estate  | Total          |
| Balance, December 31, 2008  | \$—             | \$ 21                          | \$ 7                     | \$ 990           | \$ 96           | \$ 894       | \$ 2,008       |
| Realized (losses) gains   | —               | (4)                            | —                        | (90)             | 13              | (35)         | (116)          |
| Unrealized gains (losses) relating to instruments still held in the reporting period      | —               | 5                              | —                        | 140              | 30              | (228)        | (53)           |
| Purchases, sales, and settlements, net  | —               | (22)                           | 4                        | 5                | (139)           | 84           | (68)           |
| Balance, December 31, 2009  | —               | —                              | 11                       | 1,045            | —               | 715          | 1,771          |
| Realized gains (losses)   | —               | —                              | —                        | 157              | —               | (6)          | 151            |
| Unrealized gains relating to instruments still held in the reporting period               | —               | —                              | 9                        | 51               | —               | 63           | 123            |
| Purchases, sales, and settlements, net  | 1               | —                              | 225                      | (119)            | —               | 150          | 257            |
| Transfers in, net   | —               | —                              | —                        | —                | —               | 22           | 22             |
| <b>Balance, December 31, 2010</b>   | <b>\$ 1</b>     | <b>\$ —</b>                    | <b>\$245</b>             | <b>\$1,134</b>   | <b>\$ —</b>     | <b>\$944</b> | <b>\$2,324</b> |

Quoted market prices are used to value investments when available. Investments in securities traded on exchanges, including listed futures and options, are valued at the last reported sale prices on the last business day of the year or, if not available, the last reported bid prices. Fixed income securities are primarily measured using a market approach pricing methodology, where observable prices are obtained by market transactions involving identical or comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar investments. Investment contracts are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations. Real estate investments are valued on a quarterly basis using discounted cash flow models which consider long-term lease estimates, future rental receipts and estimated residual values. Valuation estimates are supplemented by third-party appraisals on an annual basis.

Private Equity limited partnerships are valued quarterly using discounted cash flows, earnings multiples and market multiples. Valuation adjustments reflect changes in operating

results, financial condition, or prospects of the applicable portfolio company. Over-the-counter securities and government obligations are valued at the bid prices or the average of the bid and ask prices on the last business day of the year from published sources or, if not available, from other sources considered reliable, generally broker quotes. Temporary cash investments are stated at cost, which approximates fair value.

#### **Estimated Future Contributions and Benefit Payments**

We expect to make contributions of approximately \$450 million to our global pension plans in 2011, including approximately \$250 million to our domestic plans. 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: \$1,290 million in 2011, \$1,334 million in 2012, \$1,374 million in 2013, \$1,430 million in 2014, \$1,489 million in 2015, and \$8,416 million from 2016 through 2020.



*Postretirement Benefit Plans.* We 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 86% of the benefit obligation. The postretirement plans are primarily unfunded. Assets in funded plans are primarily invested in cash and cash equivalents.

| <i>(Dollars in millions)</i>  | 2010    | 2009    |
|---|---------|---------|
| <b>Change in Benefit Obligation:</b>  |         |         |
| Beginning balance   | \$ 876  | \$ 871  |
| Service cost  | 2       | 2       |
| Interest cost   | 46      | 50      |
| Actuarial (gain) loss   | (29)    | 20      |
| Total benefits paid   | (105)   | (83)    |
| Other   | 42      | 16      |
| Ending balance  | \$ 832  | \$ 876  |
| <b>Change in Plan Assets:</b>   |         |         |
| Beginning balance   | \$ 11   | \$ 16   |
| Actual return on plan assets  | (1)     | —       |
| Employer contributions  | 76      | 73      |
| Benefits paid from plan assets  | (105)   | (83)    |
| Other   | 29      | 5       |
| Ending balance  | \$ 10   | \$ 11   |
| <b>Funded Status:</b>   |         |         |
| Fair value of plan assets   | \$ 10   | \$ 11   |
| Benefit obligations   | (832)   | (876)   |
| Funded status of plan   | \$(822) | \$(865) |
| <b>Amounts Recognized in the Consolidated Balance Sheet Consist of:</b>         |         |         |
| Current liability   | \$ (66) | \$ (81) |
| Noncurrent liability  | (756)   | (784)   |
|   | \$(822) | \$(865) |
| <b>Amounts Recognized in Accumulated Other Comprehensive Income Consist of:</b> |         |         |
| Net actuarial gain  | \$(130) | \$(104) |
| Prior service cost (credit)   | 1       | (2)     |
|   | \$(129) | \$(106) |

The components of net periodic benefit cost are as follows:

| <i>(Dollars in millions)</i>                   | 2010 | 2009 | 2008 |
|--|------|------|------|
| <b>Other Postretirement Benefits:</b>          |      |      |      |
| Service cost                                   | \$ 2 | \$ 2 | \$ 3 |
| Interest cost                                  | 46   | 50   | 53   |
| Expected return on plan assets                 | (1)  | (1)  | (2)  |
| Amortization of prior service credit           | (2)  | (2)  | (6)  |
| Recognized actuarial net gain                  | (1)  | (3)  | —    |
| Net periodic other postretirement benefit cost | \$44 | \$46 | \$48 |

Other changes in plan assets and benefit obligations recognized in other comprehensive income in 2010 are as follows:

| <i>(Dollars in millions)</i>  |        |
|---|--------|
| Current year actuarial gain   | \$(27) |
| Amortization of prior service credit  | 2      |
| Amortization of actuarial net gain  | 1      |
| Total recognized in other comprehensive income  | (24)   |
| Net recognized in net periodic other postretirement benefit cost and other comprehensive income | \$ 20  |

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2011 include actuarial net gains of \$9 million and prior service credits of \$2 million.

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

|                                | <i>Benefit Obligation</i> |      | <i>Net Cost</i> |      |      |
|--------------------------------|---------------------------|------|-----------------|------|------|
|                                | 2010                      | 2009 | 2010            | 2009 | 2008 |
| Discount rate                  | 4.9%                      | 5.5% | 5.5%            | 6.0% | 5.9% |
| Expected return on plan assets | —                         | —    | 5.0%            | 5.8% | 7.8% |

Assumed health care cost trend rates are as follows:

|  | 2010 | 2009 |
|--|------|------|
| Health care cost trend rate assumed for next year              | 9.0% | 8.0% |
| Rate that the cost trend rate gradually declines to            | 5.0% | 5.0% |
| Year that the rate reaches the rate it is assumed to remain at | 2019 | 2016 |

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:

| <i>(Dollars in millions)</i>                | <i>2010 One-Percentage-Point</i> |          |
|---|----------------------------------|----------|
|   | Increase                         | Decrease |
| Effect on total service and interest cost   | \$ 2                             | \$ (2)   |
| Effect on postretirement benefit obligation | \$44                             | \$(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: \$73 million in 2011, \$71 million in 2012, \$69 million in 2013, \$67 million in 2014, \$65 million in 2015, and \$263 million from 2016 through 2020.

*Stock-based Compensation.* We have long-term incentive plans authorizing various types of market and performance based incentive awards that may be granted to officers and employees. Our Long Term Incentive Plan (LTIP) was initially approved on April 13, 2005 and amended in 2008 to increase the maximum number of shares available for award under the LTIP to 71 million shares. Following initial approval of the LTIP, we may not grant any new awards under previously existing equity compensation plans. As of December 31, 2010, approximately 16 million shares remain available for awards under the LTIP. The LTIP does not contain an annual award limit. We expect that the shares awarded on an annual basis will range from 1% to 1.5% of shares outstanding. The LTIP will expire after all shares have been awarded or April 30, 2014, whichever is sooner.

Under all long-term incentive plans, the exercise price of awards is set on the grant date and may not be less than the fair market value per share on that date. Generally, stock appreciation rights and stock options have a term of ten years and a minimum three-year vesting period. In the event of retirement, awards held for more than one year shall immediately become vested and exercisable. In addition, under the LTIP, awards with performance-based vesting generally have a minimum three-year vesting period and vest based on performance against pre-established metrics. In the event of retirement, awards held more than one year remain eligible to vest. We have historically repurchased shares of our common stock in an amount at least equal to the number of shares issued under our equity compensation arrangements and expect to continue this policy.

A summary of the transactions under all long-term incentive plans for the year ended December 31, 2010 follows:

|  | <i>Stock Options</i> |                       | <i>Stock Appreciation Rights</i> |                       | <i>Performance Share Units</i> |                        | <i>Other Incentive Shares / Units</i> |
|--|----------------------|-----------------------|----------------------------------|-----------------------|--------------------------------|------------------------|---------------------------------------|
|  | <i>Shares</i>        | <i>Average Price*</i> | <i>Shares</i>                    | <i>Average Price*</i> | <i>Units</i>                   | <i>Average Price**</i> |                                       |
| <i>(shares and units in thousands)</i> |                      |                       |                                  |                       |                                |                        |                                       |
| Outstanding at:                        |                      |                       |                                  |                       |                                |                        |                                       |
| December 31, 2009                      | 38,896               | \$ 42.10              | 27,337                           | \$ 62.70              | 3,112                          | \$ 63.12               | 631                                   |
| <b>Granted</b>                         | <b>529</b>           | <b>73.70</b>          | <b>6,033</b>                     | <b>72.98</b>          | <b>1,002</b>                   | <b>71.63</b>           | <b>279</b>                            |
| <b>Exercised/earned</b>                | <b>(11,904)</b>      | <b>37.21</b>          | <b>(1,230)</b>                   | <b>59.94</b>          | <b>(973)</b>                   | <b>62.81</b>           | <b>(69)</b>                           |
| <b>Cancelled</b>                       | <b>(184)</b>         | <b>44.34</b>          | <b>(920)</b>                     | <b>65.08</b>          | <b>(117)</b>                   | <b>65.22</b>           | <b>(34)</b>                           |
| <b>December 31, 2010</b>               | <b>27,337</b>        | <b>\$44.82</b>        | <b>31,220</b>                    | <b>\$64.72</b>        | <b>3,024</b>                   | <b>\$65.96</b>         | <b>807</b>                            |

\* weighted-average exercise price

\*\* weighted-average grant stock price

The weighted-average grant date fair value of stock options and stock appreciation rights granted during 2010, 2009 and 2008 was \$17.86, \$16.01 and \$21.16, respectively. The weighted-average grant date fair value of performance share units, which vest upon achieving certain performance metrics, granted during 2010, 2009, and 2008 was \$78.73,

We measure the cost of all share-based payments, including stock options, at fair value on the grant date and recognize this cost in the statement of operations. For the years ended December 31, 2010, 2009 and 2008, \$154 million, \$153 million and \$211 million, respectively, of compensation cost was recognized in operating results. The associated future income tax benefit recognized was \$47 million, \$49 million and \$72 million for the years ended December 31, 2010, 2009 and 2008, respectively.

For the years ended December 31, 2010, 2009 and 2008, the amount of cash received from the exercise of stock options was \$386 million, \$342 million and \$163 million, respectively, with an associated tax benefit realized of \$139 million, \$95 million and \$49 million, respectively. In addition, for the years ended December 31, 2010 and 2009, the associated tax benefit realized from the vesting of performance share units was \$20 million and \$33 million, respectively. Also, in accordance with the Compensation – Stock Compensation Topic of the FASB ASC, for the years ended December 31, 2010, 2009 and 2008, \$94 million, \$50 million and \$32 million, respectively, of certain tax benefits have been reported as operating cash outflows with corresponding cash inflows from financing activities.

At December 31, 2010, there was \$148 million of total unrecognized compensation cost related to non-vested equity awards granted under long-term incentive plans. This cost is expected to be recognized ratably over a weighted-average period of 1.5 years.

\$61.56 and \$84.01, respectively. The total fair value of awards vested during the years ended December 31, 2010, 2009 and 2008 was \$172 million, \$235 million and \$144 million, respectively. The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of stock options and stock appreciation rights

exercised during the years ended December 31, 2010, 2009 and 2008 was \$446 million, \$296 million and \$173 million, respectively. The total intrinsic value (which is the stock price

at vesting) of performance share units vested was \$62 million and \$100 million during the years ended December 31, 2010 and 2009, respectively.

The following table summarizes information about equity awards outstanding that are vested and expected to vest and equity awards outstanding that are exercisable at December 31, 2010:

| <i>(shares in thousands, aggregate intrinsic value in millions)</i> | <i>Equity Awards Vested and Expected to Vest</i> |                |                           |                  | <i>Equity Awards That Are Exercisable</i> |                |                           |                  |
|---|--|----------------|---------------------------|------------------|---|----------------|---------------------------|------------------|
|   | Awards   | Average Price* | Aggregate Intrinsic Value | Remaining Term** | Awards                                    | Average Price* | Aggregate Intrinsic Value | Remaining Term** |
| Stock Options/Stock Appreciation Rights                             | 58,065   | \$55.11        | \$1,371                   | 5.2              | 39,016                                    | \$49.57        | \$1,137                   | 3.8              |
| Performance Share Units/Restricted Stock                            | 2,402  | —              | \$ 189                    | 1.3              |   |                |                           |                  |

\* weighted-average exercise price per share

\*\* weighted-average contractual remaining term in years

The fair value of each option award is estimated on the date of grant using a binomial lattice model. The following table indicates the assumptions used in estimating fair value for the years ended December 31, 2010, 2009 and 2008. Because lattice-based option models incorporate ranges of assumptions for inputs, those ranges are as follows:

|                             | 2010               | 2009      | 2008        |
|-----------------------------|--------------------|-----------|-------------|
| Expected volatility         | <b>24% - 28%</b>   | 30% - 42% | 23% - 26%   |
| Weighted-average volatility | <b>25%</b>         | 30%       | 23%         |
| Expected term (in years)    | <b>7.4 - 7.9</b>   | 7.4 - 7.9 | 7.9 - 8.7   |
| Expected dividends          | <b>2.7%</b>        | 2.1%      | 1.6%        |
| Risk-free rate              | <b>0.1% - 4.0%</b> | 0% - 2.5% | 2.9% - 4.0% |

Expected volatilities are based on the returns of our stock, including implied volatilities from traded options on our stock for the binomial lattice model. We use historical data to estimate equity award exercise and employee termination behavior within the valuation model. Separate employee groups and equity award characteristics are considered separately for valuation purposes. The expected term represents an estimate of the period of time equity awards are expected to remain outstanding. The risk-free rate is based on the term structure of interest rates at the time of equity award grant.

#### Note 12: Restructuring and Other Costs

During 2010, we recorded net pre-tax restructuring and other costs totaling \$443 million for new and ongoing restructuring actions. We recorded charges in the segments as follows:

| <i>(Dollars in millions)</i> |              |
|------------------------------|--------------|
| Otis                         | \$ 83        |
| Carrier                      | 75           |
| UTC Fire & Security          | 78           |
| Pratt & Whitney              | 138          |
| Hamilton Sundstrand          | 37           |
| Sikorsky                     | 14           |
| Eliminations and other       | 18           |
| <b>Total</b>                 | <b>\$443</b> |

The net costs consist of \$283 million recorded in cost of sales, \$159 million in selling, general and administrative expenses and \$1 million in other income, net. As described below, these charges primarily relate to actions initiated during 2010 and 2009.

**2010 Actions.** During 2010, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and consolidation of field operations. We recorded net pre-tax restructuring and other costs totaling \$371 million for restructuring actions initiated in 2010, consisting of \$221 million in cost of sales and \$150 million in selling, general and administrative expenses.

We expect the actions that were initiated in 2010 to result in net workforce reductions of approximately 5,000 hourly and salaried employees, the exiting of approximately 3.9 million net square feet of facilities and the disposal of assets associated with exited facilities. As of December 31, 2010, we have completed, with respect to the actions initiated in 2010, net workforce reductions of approximately 2,400 employees and 300,000 net square feet of facilities have been exited. We are targeting to

complete in 2011 the majority of the remaining workforce and all facility related cost reduction actions initiated in 2010. No specific plans for significant other actions have been finalized at this time.

The following table summarizes the accrual balances and utilization by cost type for the 2010 restructuring actions:

| <i>(Dollars in millions)</i>        | Severance    | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total        |
|-------------------------------------|--------------|-------------------|--|--------------|
| Net pre-tax restructuring charges   | \$ 301       | \$ 19             | \$ 51  | \$ 371       |
| Utilization and foreign exchange    | (98)         | (19)              | (27)   | (144)        |
| <b>Balance at December 31, 2010</b> | <b>\$203</b> | <b>\$ —</b>       | <b>\$24</b>                                      | <b>\$227</b> |

The following table summarizes expected, incurred and remaining costs for the 2010 restructuring actions by type:

| <i>(Dollars in millions)</i>                | Severance    | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total        |
|---|--------------|-------------------|--|--------------|
| Expected costs                              | \$ 327       | \$ 19             | \$ 111   | \$ 457       |
| Costs incurred during 2010                  | (301)        | (19)              | (51)   | (371)        |
| <b>Remaining costs at December 31, 2010</b> | <b>\$ 26</b> | <b>\$ —</b>       | <b>\$ 60</b>                                     | <b>\$ 86</b> |

The following table summarizes expected, incurred and remaining costs for the 2010 restructuring actions by segment:

| <i>(Dollars in millions)</i> | Expected Costs | Costs Incurred During 2010 | Remaining Costs at December 31, 2010 |
|------------------------------|----------------|----------------------------|--------------------------------------|
| Otis                         | \$ 90          | <b>\$ (87)</b>             | <b>\$ 3</b>                          |
| Carrier                      | 108            | <b>(74)</b>                | <b>34</b>                            |
| UTC Fire & Security          | 90             | <b>(64)</b>                | <b>26</b>                            |
| Pratt & Whitney              | 90             | <b>(84)</b>                | <b>6</b>                             |
| Hamilton Sundstrand          | 43             | <b>(29)</b>                | <b>14</b>                            |
| Sikorsky                     | 18             | <b>(15)</b>                | <b>3</b>                             |
| Eliminations and other       | 18             | <b>(18)</b>                | <b>—</b>                             |
| Total                        | \$457          | <b>\$(371)</b>             | <b>\$86</b>                          |

**2009 Actions.** During 2010, we recorded net pre-tax restructuring and other costs totaling \$85 million for restructuring actions initiated in 2009, consisting of \$63 million in cost of sales and \$21 million in selling, general and administrative expenses and \$1 million in other income, net. The 2009 actions relate to ongoing cost reduction efforts, including workforce reductions, the consolidation of field operations and the consolidation of repair and overhaul operations.

As of December 31, 2010, we have completed net workforce reductions of approximately 13,400 employees of an expected 14,400, and have exited 1.3 million net square feet of facilities of an expected 4.7 million net square feet. The remaining workforce and facility reduction actions are targeted for completion during 2011.

The following table summarizes the restructuring accrual balances and utilization by cost type for the 2009 programs:

| <i>(Dollars in millions)</i>              | Severance    | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total        |
|---|--------------|-------------------|--|--------------|
| Restructuring accruals at January 1, 2010 | \$ 295       | \$ —              | \$ 17  | \$ 312       |
| Net pre-tax restructuring charges         | 19           | 13                | 53   | 85           |
| Utilization and foreign exchange          | (201)        | (13)              | (52)   | (266)        |
| <b>Balance at December 31, 2010</b>       | <b>\$113</b> | <b>\$ —</b>       | <b>\$18</b>                                      | <b>\$131</b> |

The following table summarizes expected, incurred and remaining costs for the 2009 programs by type:

| <i>(Dollars in millions)</i>                | Severance    | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total        |
|---|--------------|-------------------|--|--------------|
| Expected costs                              | \$ 711       | \$ 82             | \$ 118   | \$ 911       |
| Costs incurred during 2009                  | (680)        | (69)              | (53)   | (802)        |
| Costs incurred during 2010                  | (19)         | (13)              | (53)   | (85)         |
| <b>Remaining costs at December 31, 2010</b> | <b>\$ 12</b> | <b>\$ —</b>       | <b>\$ 12</b>                                     | <b>\$ 24</b> |

The following table summarizes expected, incurred and remaining costs for the 2009 programs by segment:

| <i>(Dollars in millions)</i> | Expected Costs | Costs Incurred During 2009 | Costs Incurred During 2010 | Remaining Costs at December 31, 2010 |
|------------------------------|----------------|----------------------------|----------------------------|--------------------------------------|
| Otis                         | \$155          | \$(157)                    | <b>\$ 3</b>                | <b>\$ 1</b>                          |
| Carrier                      | 229            | (205)                      | <b>(11)</b>                | <b>13</b>                            |
| UTC Fire & Security          | 119            | (103)                      | <b>(14)</b>                | <b>2</b>                             |
| Pratt & Whitney              | 233            | (174)                      | <b>(56)</b>                | <b>3</b>                             |
| Hamilton Sundstrand          | 103            | (90)                       | <b>(8)</b>                 | <b>5</b>                             |
| Sikorsky                     | 6              | (7)                        | <b>1</b>                   | <b>—</b>                             |
| Eliminations and other       | 63             | (63)                       | <b>—</b>                   | <b>—</b>                             |
| General corporate expenses   | 3              | (3)                        | <b>—</b>                   | <b>—</b>                             |
| Total                        | \$911          | \$(802)                    | <b>\$(85)</b>              | <b>\$24</b>                          |

### Note 13: Financial Instruments

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under the Derivatives and Hedging Topic of the FASB ASC and those utilized as economic hedges. We operate internationally and, in the normal course of business, are



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. We have used derivative instruments, including swaps, forward contracts and options to manage certain foreign currency, interest rate and commodity price exposures.

By nature, all financial instruments involve market and credit risks. We enter into derivative and other financial instruments with major investment grade financial institutions and have policies to monitor the credit risk of those counterparties. We limit counterparty exposure and concentration of risk by diversifying counterparties. While there can be no assurance, we do not anticipate any material non-performance by any of these counterparties.

*Foreign Currency Forward Contracts.* We manage our foreign currency transaction risks to acceptable limits through the use of derivatives to hedge forecasted cash flows associated with foreign currency transaction exposures which are accounted for as cash flow hedges, as deemed appropriate. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the hedge accounting criteria of the Derivatives and Hedging Topic of the FASB ASC, changes in the derivatives' fair value are not included in current earnings but are included in Accumulated other comprehensive loss. These changes in fair value will subsequently be reclassified into earnings as a component of product sales or expenses, as applicable, when the forecasted transaction occurs. To the extent that a previously designated hedging transaction is no longer an effective hedge, any ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period it occurs.

To the extent the hedge accounting criteria are not met, the foreign currency forward contracts are utilized as economic hedges and changes in the fair value of these contracts are recorded currently in earnings in the period in which they occur. These include hedges that are used to reduce exchange rate risks arising from the change in fair value of certain foreign currency denominated assets and liabilities (i.e. payables, receivables) and other economic hedges where the hedge accounting criteria were not met.

The four quarter rolling average of the notional amount of foreign exchange contracts hedging foreign currency transactions was \$8.5 billion and \$9.0 billion at December 31, 2010 and 2009, respectively.

Additional information pertaining to foreign exchange and hedging activities is included in Note 1 to the Consolidated Financial Statements.

*Commodity Forward Contracts.* We enter into commodity forward contracts to reduce the risk of fluctuations in the price we pay for certain commodities (for example, nickel) which are used directly in the production of our products, or are components of the products we procure to use in the production of our products. These hedges are economic hedges and the changes in fair value of these contracts are recorded currently in earnings in the period in which they occur. The fair value and outstanding notional amount of contracts hedging commodity exposures were insignificant at December 31, 2010 and 2009, respectively.

The following table summarizes the fair value of derivative instruments as of December 31:

| <i>(Dollars in millions)</i>                       | Balance Sheet Asset Location     | 2010         | 2009  |
|--|----------------------------------|--------------|-------|
| Derivatives designated as hedging instruments:     |                                  |              |       |
| Foreign Exchange Contracts                         | Other assets, current            | <b>\$ 73</b> | \$107 |
| Foreign Exchange Contracts                         | Other assets                     | <b>24</b>    | 33    |
|  |                                  | <b>97</b>    | 140   |
| Derivatives not designated as hedging instruments: |                                  |              |       |
| Foreign Exchange Contracts                         | Other assets, current            | <b>31</b>    | 113   |
| Foreign Exchange Contracts                         | Other assets                     | <b>5</b>     | 5     |
|  |                                  | <b>36</b>    | 118   |
| <b>Total Asset Derivative Contracts</b>            |                                  | <b>\$133</b> | \$258 |
|  | Balance Sheet Liability Location |              |       |
| Derivatives designated as hedging instruments:     |                                  |              |       |
| Foreign Exchange Contracts                         | Accrued liabilities              | <b>\$ 16</b> | \$ 31 |
| Foreign Exchange Contracts                         | Other long-term liabilities      | <b>1</b>     | 4     |
|  |                                  | <b>17</b>    | 35    |
| Derivatives not designated as hedging instruments: |                                  |              |       |
| Foreign Exchange Contracts                         | Accrued liabilities              | <b>33</b>    | 106   |
| Foreign Exchange Contracts                         | Other long-term liabilities      | <b>3</b>     | 3     |
|  |                                  | <b>36</b>    | 109   |
| <b>Total Liability Derivative Contracts</b>        |                                  | <b>\$ 53</b> | \$144 |

The impact from foreign exchange derivative instruments that qualified as cash flow hedges for the period was as follows:

| <i>(Dollars in millions)</i>  | December 31, |        |
|---|--------------|--------|
|   | 2010         | 2009   |
| Gain recorded in Accumulated other comprehensive loss   | <b>\$ 72</b> | \$ 192 |
| Gain (loss) reclassified from Accumulated other comprehensive loss into Product sales (effective portion) | <b>119</b>   | (165)  |
| Loss recognized in Other income, net on derivatives (ineffective portion)                                 | <b>—</b>     | (5)    |

Assuming current market conditions continue, a \$58 million pre-tax gain is expected to be reclassified from Accumulated other comprehensive loss into Product sales to reflect the fixed prices obtained from foreign exchange hedging within the next 12 months. At December 31, 2010, all derivative contracts accounted for as cash flow hedges mature by February 2013.

The effect on the Consolidated Statement of Operations from foreign exchange contracts not designated as hedging instruments was as follows:

| <i>(Dollars in millions)</i>                | December 31, |        |
|---|--------------|--------|
|   | 2010         | 2009   |
| Gain (loss) recognized in Other income, net | <b>\$153</b> | \$(59) |

*Fair Value Disclosure.* The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Topic indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability, and also defines fair value based upon an exit price model.

During 2010, we had certain non-recurring measurements resulting in impairment charges as well as a gain on the re-measurement to fair value of a previously held equity interest. As previously disclosed, during 2010, we recorded approximately \$86 million of asset impairment charges associated with disposition activity within both Carrier and Hamilton Sundstrand and also recorded an other-than-temporary impairment charge of \$159 million on our equity investment in Clipper, which had a previous carrying value of approximately \$248 million. The impairment charge recorded on our investment in Clipper was determined by comparing the carrying value of our investment to the closing market value of the shares on September 30, 2010. In December 2010, as a result of the acquisition of a controlling interest and all of the remaining shares of Clipper, we recorded a \$21 million gain from the re-measurement to fair value of our previously held equity interest. For additional discussion refer to Note 2.

*Valuation Hierarchy.* The Fair Value Measurements and Disclosure Topic of the FASB ASC establishes a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-6, "Improving Disclosures about Fair Value Measurements," which requires interim disclosures regarding significant transfers in and out of Level 1 and Level 2 fair value measurements. Additionally, this ASU requires disclosure for each class of assets and liabilities and disclosures about the valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements. These disclosures are required for fair value measurements that fall in either Level 2 or Level 3. Further, the ASU requires separate presentation of Level 3 activity for the fair value measurements. We adopted the interim disclosure requirements under this Topic during the quarter ended March 31, 2010, with the exception of the separate presentation in the Level 3 activity roll-forward, which is not effective until fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2010 and 2009:

| <i>(Dollars in millions)</i>  | Total Carrying Value at December 31, 2010 | Quoted price in active markets (Level 1) | Significant other observable inputs (Level 2) | Unobservable inputs (Level 3) |
|-------------------------------|---|--|---|-------------------------------|
| Available-for-sale securities | \$829                                     | \$829                                    | \$ —  | \$—                           |
| Derivative assets             | 133                                       | —  | 133   | —                             |
| Derivative liabilities        | 53  | —  | 53  | —                             |

| <i>(Dollars in millions)</i>  | Total Carrying Value at December 31, 2009 | Quoted price in active markets (Level 1) | Significant other observable inputs (Level 2) | Unobservable inputs (Level 3) |
|-------------------------------|---|--|---|-------------------------------|
| Available-for-sale securities | \$ 664                                    | \$664                                    | \$ —  | \$—                           |
| Derivative assets             | 258                                       | —  | 258   | —                             |
| Derivative liabilities        | 144                                       | —  | 144   | —                             |

*Valuation Techniques.* Our available-for-sale securities are comprised of equity investments that are traded in active markets, either domestically or internationally. They are measured at fair value using closing stock prices from active markets and are classified within Level 1 of the valuation hierarchy. Our derivative assets and liabilities include foreign exchange and commodity derivatives that are measured at fair value using internal models based on observable market inputs such as forward rates, interest rates, our own credit risk and our counterparties' credit risks. Based on these inputs, the derivative assets and liabilities are classified within Level 2 of the valuation hierarchy. Based on our continued ability to trade securities and enter into forward contracts, we consider the markets for our fair value instruments to be active. As of December 31, 2010, there were no significant transfers in and out of Level 1 and Level 2.

As of December 31, 2010, there has not been any significant impact to the fair value of our derivative liabilities due to our own credit risk. Similarly, there has not been any significant adverse impact to our derivative assets based on our evaluation of our counterparties' credit risks.

The carrying amounts and fair values of financial instruments at December 31, 2010 and 2009 were as follows:

|   | 2010            |            | 2009            |            |
|---|-----------------|------------|-----------------|------------|
| <i>(Dollars in millions)</i>                  | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term receivables                         | \$ 300          | \$ 276     | \$ 430          | \$ 408     |
| Customer financing notes receivable           | 376             | 346        | 350             | 264        |
| Long-term debt (excluding capitalized leases) | (10,117)        | (11,500)   | (9,442)         | (10,361)   |

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. Differences from carrying amounts are attributable to interest and or credit rate changes subsequent to when the transaction occurred. The fair values of Cash and cash equivalents, Accounts receivable, net, Short-term borrowings, and Accounts payable approximate the carrying amounts due to the short-term maturities of these instruments.

We had outstanding commercial aerospace financing and other contractual commitments totaling \$2,032 million at December 31, 2010. 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: Credit Quality of Long - Term Receivables**

In July 2010, the FASB issued ASU No. 2010-20, "Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (ASU). This ASU is intended to enhance a financial statement user's ability to evaluate the entity's credit risk exposures and adequacy of its allowance for credit losses by requiring additional disclosure about the nature of credit risk inherent in the portfolio of receivables, factors and methodologies used in estimating the allowance for credit losses and activity that occurs during a period for both financing receivables and allowance for credit losses. The scope of this ASU is limited to financing receivables, as defined, and excludes short-term trade accounts receivable and receivables measured at fair value or lower of cost or fair value. We adopted the disclosures under this ASU for the reporting period ended December 31, 2010, with the exception of disclosures about activity that occurs during a reporting period, which are effective for interim and annual periods beginning on or after December 15, 2010.

A long-term or financing receivable represents a contractual right to receive money on demand or on fixed and determinable dates, including trade receivable balances with maturity dates greater than one year. Our long-term and financing receivables primarily represent balances related to the aerospace businesses such as long-term trade accounts receivable, leases, and notes receivable. We also have other long-term receivables in the commercial businesses; however, both the individual and aggregate amounts are not significant.

Our classes within aerospace long-term receivables are comprised of long-term trade accounts receivable and notes and leases receivable. Long-term trade accounts receivable represent amounts arising from the sale of goods and services with a contractual maturity date of greater than one year and are recognized as Other assets in our Consolidated Balance Sheet. Notes and leases receivable represent notes and lease receivables other than receivables related to operating leases, and are recognized as Customer financing assets in our Consolidated Balance Sheet. The following table summarizes the balance by class of aerospace long-term receivables as of December 31, 2010:

*(Dollars in millions)*

|                                     |              |
|-------------------------------------|--------------|
| Long-term trade accounts receivable | <b>\$119</b> |
| Notes and leases receivable         | <b>416</b>   |
| <b>Total long-term receivables</b>  | <b>\$535</b> |

Economic conditions and air travel influence the operating environment for most airlines, and the financial performance of our aerospace businesses is directly tied to the economic conditions of the commercial aerospace and defense industries. Additionally, the value of the collateral is also closely tied to commercial airline performance and may be subject to exposure of reduced valuation as a result of market declines. We determine a receivable is impaired when, based on current information and events, it is probable that we will be unable to collect amounts due according to the original contractual terms of the receivable agreement. Factors considered in assessing collectability and risk include, but are not limited to, examination of credit quality indicators and other evaluation measures, underlying value of any collateral or security interests, significant past due balances, historical losses, and existing economic conditions.

Long-term receivables can be considered delinquent if payment has not been received in accordance with the agreement. If determined delinquent, long-term trade accounts receivable and notes and leases receivable balances accruing interest may be placed on nonaccrual status. We record potential losses related to long-term receivables when identified. The reserve for credit losses on these receivables relates to specifically identified receivables that are evaluated individually for impairment. For notes and leases receivable we determine a specific reserve for exposure based on the difference between the carrying value of the receivable and the estimated fair value of the related collateral in connection with the evaluation of credit risk and collectability. For long-term trade accounts receivable we evaluate credit risk and collectability individually to determine if an allowance is necessary. Uncollectible long-term receivables are written-off when collection of the indebtedness has been pursued for a reasonable period of time without collection; the customer is no longer in operation; or judgment has been levied, but the underlying assets are not adequate to satisfy the indebtedness. At December 31, 2010, we do not have any significant balances that are considered to be delinquent, on non-accrual status, past due 90 days or more, or considered to be impaired.

The following table summarizes the reserve for estimated credit losses and exposures, and the associated aerospace long-term receivables at December 31, 2010:

| <i>(Dollars in millions)</i>                          | Long-term receivables | Reserve for credit losses and exposure |
|---|-----------------------|--|
| Ending balance: individually evaluated for impairment | \$535                 | \$42                                   |

We determine credit ratings for each customer in the portfolio based upon public information and information obtained directly from our customers. We conduct a review of



customer credit ratings, published historical credit default rates for different rating categories, and multiple third party aircraft value publications as a basis to validate the reasonableness of the allowance for losses on these balances quarterly or when events and circumstances warrant. The credit ratings listed below range from “A” which indicates an extremely strong capacity to meet financial obligations and the receivable is either collateralized or uncollateralized, to “D” which indicates that payment is in default and the receivable is uncollateralized. There can be no assurance that actual results will not differ from estimates or that consideration of these factors in the future will not result in an increase or decrease to the allowance for credit losses on long-term receivables.

The following table summarizes the credit risk profile by creditworthiness category for aerospace long-term receivable balances at December 31, 2010:

| <i>(Dollars in millions)</i>                         | Long-term trade accounts receivable | Notes and leases receivable |
|--|-------------------------------------|-----------------------------|
| A – (low risk, collateralized/uncollateralized)      | \$114                               | \$ —                        |
| B – (moderate risk, collateralized/uncollateralized) | 5                                   | 336                         |
| C – (high risk, collateralized/uncollateralized)     | —                                   | 80                          |
| D – (in default, uncollateralized)                   | —                                   | —                           |
| <b>Total</b>   | <b>\$119</b>                        | <b>\$416</b>                |

#### Note 15: Guarantees

We extend a variety of financial guarantees to third parties. As of December 31, 2010 and 2009 the following financial guarantees were outstanding:

| <i>(Dollars in millions)</i>   | 2010                      |                              | 2009                      |                              |
|--|---------------------------|------------------------------|---------------------------|------------------------------|
|  | Maximum Potential Payment | Carrying Amount of Liability | Maximum Potential Payment | Carrying Amount of Liability |
| Credit facilities and debt obligations – unconsolidated subsidiaries (expire 2011 to 2034) | <b>\$225</b>              | <b>\$ 3</b>                  | \$ 243                    | \$73                         |
| IAE’s financing arrangements* (See Note 4)   | <b>992</b>                | <b>12</b>                    | 1,186                     | 13                           |
| Commercial aerospace financing arrangements (See Note 4)                                   | <b>336</b>                | <b>12</b>                    | 320                       | 12                           |
| Commercial customer financing arrangements   | <b>191</b>                | <b>1</b>                     | 229                       | 1                            |
| Performance guarantees   | <b>40</b>                 | <b>—</b>                     | 39                        | —                            |

\* Represents IAE’s gross obligation; our proportionate share of IAE’s obligations are 33%.

We also have obligations arising from sales of certain businesses and assets, including from 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 \$139 million and \$137 million at December 31, 2010 and 2009, respectively. For additional information regarding the environmental indemnifications, see Note 17.

We accrue 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 the Guarantees Topic of FASB ASC, we record a liability for the fair value of such guarantees in the balance sheet.

We provide service and warranty policies on our products and extend performance and operating cost guarantees beyond our normal service and warranty policies on some of our products, particularly commercial aircraft engines. In addition, we incur discretionary costs to service our products in connection with specific product performance issues. Liabilities for performance and operating cost guarantees are based upon future product performance and durability, and are largely estimated 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, 2010 and 2009 are as follows:

| <i>(Dollars in millions)</i>                 | 2010           | 2009    |
|--|----------------|---------|
| Balance as of January 1                      | <b>\$1,072</b> | \$1,136 |
| Warranties and performance guarantees issued | <b>440</b>     | 400     |
| Settlements made                             | <b>(379)</b>   | (424)   |
| Other  | <b>3</b>       | (40)    |
| <b>Balance as of December 31</b>             | <b>\$1,136</b> | \$1,072 |

#### Note 16: Collaborative Arrangements

In view of the risks and costs associated with developing new engines, Pratt & Whitney has entered into certain collaboration arrangements in which costs, sales and risks are shared. Sales generated from engine programs, spare parts sales, and aftermarket business under collaboration arrangements are recorded as earned in our financial statements. Amounts attributable to our collaborative partners for their share of sales are recorded as an expense in our financial statements based upon the terms and nature of the arrangement. Costs associated with engine programs under collaborative arrangements are expensed as incurred. Under these arrangements, collaborators contribute their program share of engine parts, incur their own production costs and make certain payments to Pratt & Whitney for shared or joint program costs. The reimbursement of the collaborator’s share

of program costs is recorded as a reduction of the related expense item at that time. As of December 31, 2010, the collaborators' interests in all commercial engine programs ranged from 12 percent to 48 percent. Pratt & Whitney directs those programs and is the principal participant in all existing collaborative arrangements. There are no individually significant collaborative arrangements and none of the partners exceed 31 percent share in an individual program.

The following table illustrates the income statement classification and amounts attributable to transactions arising from the collaborative arrangements between participants for each period presented:

| <i>(Dollars in millions)</i>   | 2010          | 2009  | 2008    |
|--|---------------|-------|---------|
| Collaborator share of sales:   |               |       |         |
| Cost of products sold  | <b>\$ 850</b> | \$772 | \$1,059 |
| Cost of services sold  | <b>38</b>     | 29    | 17      |
| Collaborator share of program costs<br>(reimbursement of expenses incurred): |               |       |         |
| Cost of products sold  | <b>(83)</b>   | (66)  | (83)    |
| Research and development   | <b>(135)</b>  | (97)  | (61)    |
| Selling, general and administrative  | <b>(5)</b>    | (4)   | (11)    |

#### **Note 17: Contingent Liabilities**

*Leases.* We occupy space and use certain equipment under lease arrangements. Rental commitments of \$1,805 million at December 31, 2010 under long-term noncancelable operating leases are payable as follows: \$500 million in 2011, \$393 million in 2012, \$277 million in 2013, \$179 million in 2014, \$100 million in 2015 and \$356 million thereafter. Rent expense was \$445 million in 2010, \$463 million in 2009 and \$504 million in 2008.

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

*Environmental.* Our operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. As described in Note 1, we have accrued for the costs of environmental remediation activities and periodically reassess these amounts. We believe that the likelihood of incurring losses materially in excess of amounts accrued is remote. At December 31, 2010, we had \$605 million reserved for environmental remediation. Additional information pertaining to environmental matters is included in Note 1 to the Consolidated Financial Statements.

*Government.* We are now, and believe that in light of the current U.S. government contracting environment we will continue to be, the subject of one or more U.S. government investigations. If we or one of our 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) the U.S. government could suspend us from bidding on or receiving awards of new U.S. government contracts pending the completion of legal proceedings. If convicted or found liable, the U.S. government could fine and debar us from new U.S. government contracting for a period generally not to exceed three years. The U.S. government could void any contracts found to be tainted by fraud.

Our contracts with the U.S. government are also subject to audits. Like many defense contractors, we have received audit reports, which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports involved substantial amounts. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and continue to litigate certain cases. In addition, we accrue for liabilities associated with those matters that are probable and can be reasonably estimated. The most likely settlement amount to be incurred is accrued based upon a range of estimates. Where no amount within a range of estimates is more likely, then we accrued the minimum amount.

As previously disclosed, the Department of Justice (DOJ) sued us in 1999 in the U.S. District Court for the Southern District of Ohio, claiming that Pratt & Whitney violated the civil False Claims Act and common law. This lawsuit relates to the "Fighter Engine Competition" between Pratt & Whitney's F100 engine and General Electric's F110 engine. The DOJ alleges that the government overpaid for F100 engines under contracts awarded by the U.S. Air Force in fiscal years 1985 through 1990 because Pratt & Whitney inflated its estimated costs for some purchased parts and withheld data that would have revealed the overstatements. At trial of this matter, completed in December 2004, the government claimed Pratt & Whitney's liability to be \$624 million. On August 1, 2008, the trial court judge held that the Air Force had not suffered any actual damages because Pratt & Whitney had made significant price concessions. However, the trial court judge found that Pratt & Whitney violated the False Claims Act due to inaccurate statements contained in its 1983 offer. In the absence of actual damages, the trial court judge awarded the DOJ the maximum civil penalty of \$7.09 million, or \$10,000 for each of the 709 invoices Pratt & Whitney submitted in 1989 and later under the contracts. In September 2008, both the DOJ and UTC appealed the decision to the Sixth Circuit Court of Appeals. In November 2010, the Sixth Circuit affirmed Pratt & Whitney's liability under the False Claims Act and remanded the case to the U.S. District Court for further proceedings on the question of damages. Should the government ultimately prevail, the outcome of this matter could result in a material adverse effect on our results of

operations in the period in which a liability would be recognized or cash flows for the period in which damages would be paid.

As previously disclosed, in December 2008, the Department of Defense (DOD) issued a contract claim against Sikorsky to recover overpayments the DOD alleges it has incurred since January 2003 in connection with cost accounting changes approved by the DOD and implemented by Sikorsky in 1999 and 2006. These changes relate to the calculation of material overhead rates in government contracts. The DOD claims that Sikorsky's liability is approximately \$88 million (including interest through December 2010). We believe this claim is without merit and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims, which is pending.

*Other.* As previously disclosed, on August 27, 2010, Rolls-Royce plc (Rolls-Royce) sued Pratt & Whitney in the U.S. District Court for the Eastern District of Virginia, alleging that fan blades on certain engines manufactured by Pratt & Whitney infringe a U.S. patent held by Rolls-Royce. Rolls-Royce seeks damages in an unspecified amount plus interest, an injunction, a finding of willful infringement, and attorneys' fees. We intend to vigorously defend the case and believe that Rolls-Royce's patent is invalid and that Pratt & Whitney's products do not infringe it. Trial in the matter could take place as early as March 2011. Should the plaintiff ultimately prevail, the outcome of this matter could result in a material adverse effect on our results of operations in the period in which a liability would be recognized or cash flows for the period in which damages would be paid. On November 5, 2010, Pratt & Whitney amended its previously-disclosed complaint against Rolls-Royce in the U.S. District Court for the District of Connecticut, adding Rolls-Royce Group plc (Rolls-Royce Group), the parent of Rolls-Royce, as a party, omitting previously asserted claims, and alleging that certain turbomachinery blades, engines and components manufactured by Rolls-Royce infringe a U.S. patent held by Pratt & Whitney. Pratt & Whitney seeks an injunction, damages, interest, attorney's fees and other relief. On November 5, 2010, Pratt & Whitney also filed complaints against Rolls-Royce in the High Court of Justice, Chancery Division, Patent Court (HCJ) in the United Kingdom (UK) and with the U.S. International Trade Commission (ITC). The HCJ action alleges similar infringement claims against Rolls-Royce based upon a UK patent held by Pratt & Whitney and seeks damages plus interest and all other relief to which Pratt & Whitney is entitled, including attorney's fees, expenses, and a permanent order preventing further infringements. The ITC complaint seeks a permanent exclusion order barring the importation into the U.S. of infringing turbomachinery blades, engines and

engine components manufactured by Rolls-Royce and Rolls-Royce Group, and requests a permanent cease-and-desist order against Rolls-Royce and Rolls-Royce Group preventing further importing, marketing, advertising, demonstrating, testing, distributing, licensing, offering for sale, or use of such infringing turbomachinery blades, engines and engine components.

Except as otherwise noted, we do not believe that resolution of any of the above matters will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition.

As described in Note 15, we extend performance and operating cost guarantees beyond our normal warranty and service policies for extended periods in some of our products. We have accrued our estimate of the liability that may result under these guarantees and for service costs, which are probable and can be reasonably estimated.

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

We also have other commitments and contingent liabilities related to legal proceedings, self-insurance programs and matters arising out of the normal course of business. We accrue contingencies based upon a range of possible outcomes. If no amount within this range is a better estimate than any other, then we accrue the minimum amount.

#### **Note 18: Segment Financial Data**

Our operations are classified in six principal segments. The segments are 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 and service sold to customers in the commercial and residential property industries around the world.

*Carrier* products include HVAC and refrigeration systems, controls, services and energy efficient products for residential, commercial, industrial and transportation applications.

*UTC Fire & Security* products include fire and special hazard and suppression systems and firefighting equipment, security, monitoring and rapid response systems and service and security

personnel for a diversified international customer base principally in the industrial, commercial and residential property sectors.

*Pratt & Whitney* products include commercial, military, business jet and general aviation aircraft engines, parts and services, industrial gas turbines, geothermal power systems 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 and aftermarket services for diversified industries worldwide. Aerospace products include power generation, management and distribution systems, flight systems, engine control systems, environmental control systems, fire protection and detection systems, auxiliary power units and propeller systems. Industrial products include air compressors, metering pumps and fluid handling equipment.

*Sikorsky* products include military and commercial helicopters, aftermarket helicopter and aircraft parts and services.

*Segment Information.* Total sales by segment include intersegment sales, which are generally made at prices approximating those that the selling entity is able to obtain on external sales. Segment information for the years ended December 31 is as follows:

| (Dollars in millions)      | Net Sales       |          |          | Operating Profits |         |         |
|----------------------------|-----------------|----------|----------|-------------------|---------|---------|
|                            | 2010            | 2009     | 2008     | 2010              | 2009    | 2008    |
| Otis                       | <b>\$11,579</b> | \$11,723 | \$12,884 | <b>\$2,575</b>    | \$2,447 | \$2,477 |
| Carrier                    | <b>11,386</b>   | 11,335   | 14,817   | <b>1,062</b>      | 740     | 1,316   |
| UTC Fire & Security        | <b>6,490</b>    | 5,503    | 6,446    | <b>714</b>        | 493     | 542     |
| Pratt & Whitney            | <b>12,935</b>   | 12,392   | 13,849   | <b>1,987</b>      | 1,835   | 2,122   |
| Hamilton Sundstrand        | <b>5,608</b>    | 5,560    | 6,127    | <b>918</b>        | 857     | 1,099   |
| Sikorsky                   | <b>6,684</b>    | 6,287    | 5,346    | <b>716</b>        | 608     | 478     |
| Total segment              | <b>54,682</b>   | 52,800   | 59,469   | <b>7,972</b>      | 6,980   | 8,034   |
| Eliminations and other     | <b>(356)</b>    | (375)    | (350)    | <b>(409)</b>      | (255)   | (117)   |
| General corporate expenses | <b>—</b>        | —        | —        | <b>(377)</b>      | (348)   | (408)   |
| Consolidated               | <b>\$54,326</b> | \$52,425 | \$59,119 | <b>\$7,186</b>    | \$6,377 | \$7,509 |

| (Dollars in millions)  | Total Assets    |          |          | Capital Expenditures |       |         | Depreciation & Amortization |         |         |
|------------------------|-----------------|----------|----------|----------------------|-------|---------|-----------------------------|---------|---------|
|                        | 2010            | 2009     | 2008     | 2010                 | 2009  | 2008    | 2010                        | 2009    | 2008    |
| Otis                   | <b>\$ 8,097</b> | \$ 7,908 | \$ 7,731 | <b>\$ 55</b>         | \$ 67 | \$ 150  | <b>\$ 211</b>               | \$ 204  | \$ 203  |
| Carrier                | <b>9,472</b>    | 9,804    | 10,810   | <b>138</b>           | 90    | 191     | <b>183</b>                  | 191     | 194     |
| UTC Fire & Security    | <b>12,365</b>   | 10,304   | 10,022   | <b>96</b>            | 72    | 95      | <b>274</b>                  | 214     | 238     |
| Pratt & Whitney        | <b>10,139</b>   | 10,063   | 10,018   | <b>321</b>           | 288   | 412     | <b>340</b>                  | 329     | 368     |
| Hamilton Sundstrand    | <b>8,540</b>    | 8,509    | 8,648    | <b>117</b>           | 114   | 141     | <b>172</b>                  | 174     | 178     |
| Sikorsky               | <b>4,521</b>    | 4,167    | 3,985    | <b>108</b>           | 95    | 165     | <b>83</b>                   | 68      | 62      |
| Total segment          | <b>53,134</b>   | 50,755   | 51,214   | <b>835</b>           | 726   | 1,154   | <b>1,263</b>                | 1,180   | 1,243   |
| Eliminations and other | <b>5,359</b>    | 5,007    | 5,623    | <b>30</b>            | 100   | 62      | <b>93</b>                   | 78      | 78      |
| Consolidated           | <b>\$58,493</b> | \$55,762 | \$56,837 | <b>\$865</b>         | \$826 | \$1,216 | <b>\$1,356</b>              | \$1,258 | \$1,321 |



*Geographic External Sales and Operating Profit.* Geographic external sales and operating profits are attributed to the geographic regions based on their location of origin. U.S. external sales 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. Long-lived assets are net fixed assets attributed to the specific geographic regions.

| <i>(Dollars in millions)</i> | <i>External Net Sales</i> |          |          | <i>Operating Profits</i> |         |         | <i>Long-Lived Assets</i> |         |         |
|------------------------------|---------------------------|----------|----------|--------------------------|---------|---------|--------------------------|---------|---------|
|                              | <b>2010</b>               | 2009     | 2008     | <b>2010</b>              | 2009    | 2008    | <b>2010</b>              | 2009    | 2008    |
| United States Operations     | <b>\$28,911</b>           | \$27,990 | \$29,208 | <b>\$4,112</b>           | \$3,771 | \$3,945 | <b>\$3,013</b>           | \$3,096 | \$3,198 |
| International Operations     |                           |          |          |                          |         |         |                          |         |         |
| Europe                       | <b>11,957</b>             | 12,216   | 15,129   | <b>1,872</b>             | 1,743   | 2,219   | <b>1,282</b>             | 1,346   | 1,347   |
| Asia Pacific                 | <b>7,986</b>              | 7,173    | 8,218    | <b>1,229</b>             | 990     | 1,037   | <b>839</b>               | 845     | 800     |
| Other                        | <b>5,374</b>              | 4,991    | 6,432    | <b>759</b>               | 476     | 833     | <b>804</b>               | 714     | 671     |
| Eliminations and other       | <b>98</b>                 | 55       | 132      | <b>(786)</b>             | (603)   | (525)   | <b>342</b>               | 363     | 332     |
| Consolidated                 | <b>\$54,326</b>           | \$52,425 | \$59,119 | <b>\$7,186</b>           | \$6,377 | \$7,509 | <b>\$6,280</b>           | \$6,364 | \$6,348 |

Sales from U.S. operations include export sales as follows:

| <i>(Dollars in millions)</i> | <b>2010</b>    | 2009    | 2008    |
|------------------------------|----------------|---------|---------|
| Europe                       | <b>\$2,188</b> | \$2,089 | \$2,180 |
| Asia Pacific                 | <b>2,721</b>   | 2,430   | 2,221   |
| Other                        | <b>2,815</b>   | 2,477   | 2,861   |
|                              | <b>\$7,724</b> | \$6,996 | \$7,262 |

*Major Customers.* Net Sales include sales under prime contracts and subcontracts to the U.S. government, primarily related to Pratt & Whitney, Hamilton Sundstrand and Sikorsky products, as follows:

| <i>(Dollars in millions)</i> | <b>2010</b>    | 2009    | 2008    |
|------------------------------|----------------|---------|---------|
| Pratt & Whitney              | <b>\$4,081</b> | \$3,942 | \$3,804 |
| Hamilton Sundstrand          | <b>1,137</b>   | 1,230   | 1,089   |
| Sikorsky                     | <b>4,529</b>   | 3,979   | 3,063   |
| Other                        | <b>153</b>     | 127     | 35      |
|                              | <b>\$9,900</b> | \$9,278 | \$7,991 |

### Selected Quarterly Financial Data (Unaudited)

| <i>(Dollars in millions, except per share amounts)</i> | <b>2010 Quarters</b> |                 |                 |                 | <b>2009 Quarters</b> |          |          |          |
|--|----------------------|-----------------|-----------------|-----------------|----------------------|----------|----------|----------|
|  | <b>First</b>         | <b>Second</b>   | <b>Third</b>    | <b>Fourth</b>   | First                | Second   | Third    | Fourth   |
| Net Sales  | <b>\$12,040</b>      | <b>\$13,802</b> | <b>\$13,620</b> | <b>\$14,864</b> | \$12,199             | \$13,060 | \$13,187 | \$13,979 |
| Gross margin   | <b>3,308</b>         | <b>3,787</b>    | <b>3,953</b>    | <b>3,864</b>    | 3,092                | 3,459    | 3,351    | 3,662    |
| Net income attributable to common shareowners          | <b>866</b>           | <b>1,110</b>    | <b>1,198</b>    | <b>1,199</b>    | 722                  | 976      | 1,058    | 1,073    |
| Earnings per share of Common Stock:                    |                      |                 |                 |                 |                      |          |          |          |
| Basic – net income                                     | <b>\$ .95</b>        | <b>\$ 1.22</b>  | <b>\$ 1.32</b>  | <b>\$ 1.33</b>  | \$ .79               | \$ 1.06  | \$ 1.15  | \$ 1.17  |
| Diluted – net income                                   | <b>\$ .93</b>        | <b>\$ 1.20</b>  | <b>\$ 1.30</b>  | <b>\$ 1.31</b>  | \$ .78               | \$ 1.05  | \$ 1.14  | \$ 1.15  |

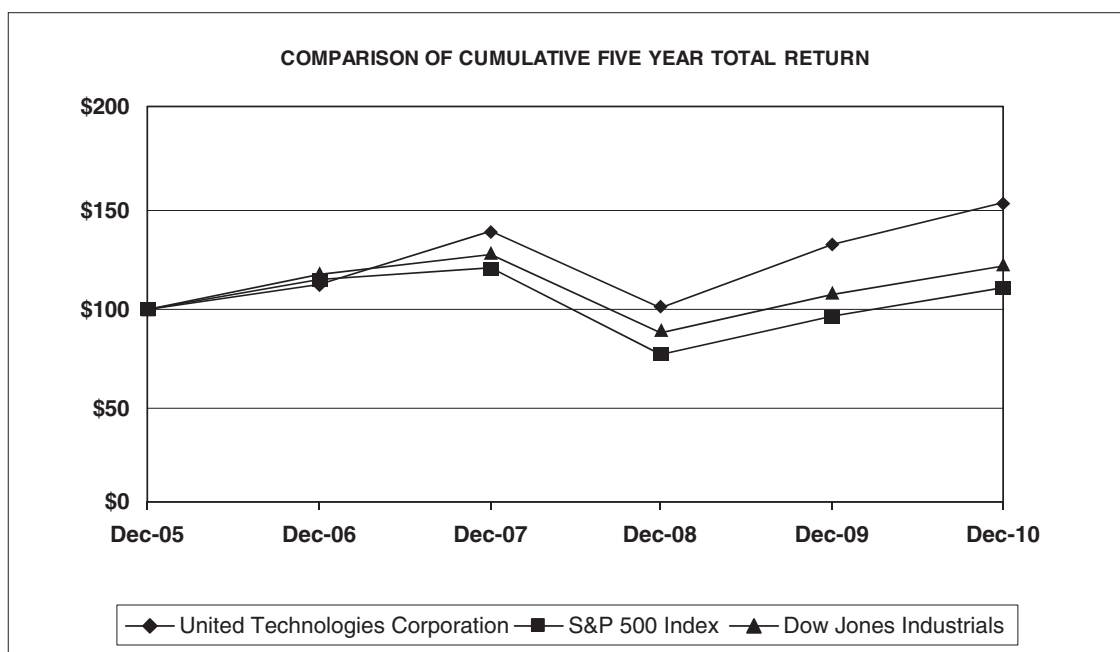
### Comparative Stock Data (Unaudited)

| Common Stock   | 2010    |         |          | 2009    |         |          |
|----------------|---------|---------|----------|---------|---------|----------|
|                | High    | Low     | Dividend | High    | Low     | Dividend |
| First quarter  | \$74.85 | \$65.01 | \$ .425  | \$55.51 | \$37.40 | \$.385   |
| Second quarter | \$77.09 | \$62.88 | \$ .425  | \$56.99 | \$42.06 | \$.385   |
| Third quarter  | \$73.81 | \$63.62 | \$ .425  | \$63.72 | \$49.00 | \$.385   |
| Fourth quarter | \$79.70 | \$70.23 | \$ .425  | \$70.89 | \$59.31 | \$.385   |

Our 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 24,784 registered shareholders at January 31, 2011.

### Performance Graph (Unaudited)

The following graph presents the cumulative total shareholder return for the five years ending December 31, 2010 for our common stock, as compared to the Standard & Poor's 500 Stock Index and to the Dow Jones 30 Industrial Average. Our common stock price is a component of both indices. These figures assume that all dividends paid over the five-year period were reinvested, and that the starting value of each index and the investment in common stock was \$100.00 on December 31, 2005.



|                                 | December |          |          |          |          |                 |
|---------------------------------|----------|----------|----------|----------|----------|-----------------|
|                                 | 2005     | 2006     | 2007     | 2008     | 2009     | 2010            |
| United Technologies Corporation | \$100.00 | \$113.66 | \$141.44 | \$101.23 | \$134.93 | <b>\$156.83</b> |
| S&P 500 Index                   | \$100.00 | \$115.79 | \$122.16 | \$ 76.96 | \$ 97.33 | <b>\$111.99</b> |
| Dow Jones Industrial Average    | \$100.00 | \$119.03 | \$129.58 | \$ 88.23 | \$108.21 | <b>\$123.42</b> |

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Pratt & Whitney

**Carey E. Bond**  
President, Sikorsky Global  
Helicopters and  
Chief Marketing Officer

**J. Thomas Bowler, Jr.**  
Senior Vice President,  
Human Resources and  
Organization

**Matthew F. Bromberg**  
Vice President and  
General Manager,  
Customer Service,  
Hamilton Sundstrand

**William M. Brown**  
President,  
UTC Fire & Security

**Scott A. Buckhout**  
President,  
Global Fire Products,  
UTC Fire & Security

**Louis R. Chênevert**  
Chairman & Chief  
Executive Officer

**Peter C. Christman, Jr.**  
President, Pratt & Whitney  
Power Systems

**Geraud Darnis**  
President, Carrier

**Nancy M. Davis**  
Vice President and  
Chief Information Officer

**Pierre Dejoux**  
President, South Asia Pacific  
and Gulf, Otis

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Vice President, Operations

**Michael R. Dumais**  
Vice President, Operations,  
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General Counsel

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Customers and Business  
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Hamilton Sundstrand

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Europe and Africa, Otis

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and Central Europe, Otis

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Senior Vice President and  
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Vice President, Secretary  
and Associate General  
Counsel

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**Ervin F. Lauterbach**  
President, Building Systems  
and Services,  
North America, Carrier

**Robert F. Leduc**  
President, 787, Space Systems  
and U.S. Classified Programs,  
Hamilton Sundstrand

**Peter F. Longo**  
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**James G. Maser**  
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Pratt & Whitney Rocketdyne

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**David E. Parekh**  
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Director, United Technologies  
Research Center

**Jeffrey P. Pino**  
President, Sikorsky

**Thomas I. Rogan**  
Vice President, Treasurer

**Kelly Romano**  
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Sales and Marketing,  
UTC Fire & Security

**John Saabas**  
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Pratt & Whitney Canada

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**Gregg Ward**  
Senior Vice President,  
Government Affairs

**Randal E. Wilcox**  
President, North and  
South America, Otis



## SHAREOWNER INFORMATION

### Corporate Office

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

This report is made available to shareowners in advance of the annual meeting of shareowners to be held at 2 p.m., April 13, 2011, in Phoenix, Arizona. The proxy statement will be made available to shareowners on or about February 25, 2011, at which time proxies for the meeting will be requested.

Information about UTC, including financial information, can be found at our website: [www.utc.com](http://www.utc.com).

### Stock Listing

New York Stock Exchange

### Ticker Symbol

UTX

### Transfer Agent and Registrar

Computershare 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 Direct Stock Purchase and Dividend Reinvestment Plan should be directed to:

Computershare Trust Company, N.A.  
250 Royall Street  
Canton, Massachusetts 02021  
Telephone:

Within the U.S.: 1.800.488.9281

Outside the U.S.: 1.781.575.2724

Website: [www.computershare.com/investor](http://www.computershare.com/investor)

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 2010 filed with the Securities and Exchange Commission certificates of its Chief Executive Officer, Chief Financial Officer and Controller certifying, among other things, the information contained in the Form 10-K.

Annually UTC submits 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

Rather than receiving mailed copies, registered shareowners may sign up at the following website for electronic communications, including annual meeting materials, stock plan statements and tax documents: [www.computershare-na.com/green](http://www.computershare-na.com/green).

For annual meeting materials, your enrollment is revocable until a week before each year's record date for the annual meeting. Beneficial shareowners may be able to request electronic access by contacting their broker or bank, or Broadridge Financial Solutions at: <http://enroll.icsdelivery.com/utc>.

### Additional Information

Shareowners may obtain a copy of the UTC Annual Report on Form 10-K for fiscal year 2010 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 UTC, please contact Investor Relations at the above corporate office address or visit our website at: [www.utc.com](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 touchtone 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 Computershare 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 Shareholder Direct at: 1.800.881.1914.

### Environmentally Friendly Report

This annual report is printed on recycled and recyclable paper.

[www.utc.com](http://www.utc.com)

[www.carrier.com](http://www.carrier.com)

[www.hamiltonsundstrand.com](http://www.hamiltonsundstrand.com)

[www.otis.com](http://www.otis.com)

[www.pw.utc.com](http://www.pw.utc.com)

[www.sikorsky.com](http://www.sikorsky.com)

[www.utcfreandsecurity.com](http://www.utcfreandsecurity.com)

[www.utcpower.com](http://www.utcpower.com)

## AWARDS/RECOGNITION

UTC named No. 1 **Most Admired** aerospace and defense company by *Fortune* magazine.

UTC included in **World's Most Respected Companies** by *Barron's* magazine.

UTC's chief executive officer, chief financial officer and investor relations team given top rankings in the **2010 All-America Executive Team**, Aerospace & Defense Electronics sector, by *Institutional Investor* magazine.

UTC named to the **Dow Jones Sustainability Index** for the 12th consecutive year.

UTC ranked first in the U.S. Transportation and Aerospace category and 28th overall in the 2010 **Green Rankings** by *Newsweek* magazine.

UTC ranked 14th in the 2010 **Top 50 Organizations for Multicultural Business Opportunities** by DiversityBusiness.com.

UTC ranked 28th in the **Top 50 Companies for Women Engineers Readers' Choice Award** by *Woman Engineer* magazine.

UTC inducted into the Hall of Fame of **The Business Committee for the Arts** in recognition of UTC's contributions of more than \$55 million over time for art exhibitions in 13 countries on four continents.

Chairman & CEO Louis Chênevert honored with the **Fire Commissioner's Humanitarian Award** given by the FDNY Foundation (New York City Fire Department) in recognition of UTC's generous and longtime support for fire prevention and public safety in New York City.

## STAKEHOLDER ENGAGEMENT

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For six years, UTC has sought feedback on its corporate responsibility reporting and performance. In 2010, we asked stakeholders in Europe and the United States to provide analysis and commentary on UTC's environmental efforts. They commended our efforts but asked for more details on the development of our environmental strategy and its integration with our business efforts. We also met with stakeholders on issues ranging from human rights policies to community engagement and worked to incorporate feedback into our approach and ongoing efforts.

This report and its associated web content at [utc.com](http://utc.com) provide detailed examples of how our approach to integrating responsibility into our operations drives results.

Your feedback is important to us. Please tell us what you think of our financial and corporate responsibility performance and reporting. A response form is available at [www.utc.com/responsibility](http://www.utc.com/responsibility).

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United Technologies Corporation and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of United Technologies Corporation and its subsidiaries.

Names of other companies, abbreviations thereof, logos of other companies, and product and service designators of other companies are either the registered or unregistered trademarks or trade names of their respective owners.

All paper used in this report is certified to the Forest Stewardship Council (FSC) standards. The cover and narrative section are printed on Monadnock Astrolite PC FSC, made with 100 percent post-consumer recycled content, using 100 percent renewable electricity and manufactured carbon neutral. The financial section is printed on Domtar PCW Opaque Recycled FSC, utilizing up to 30 percent post-consumer recycled content and made with improved energy efficiency and the use of cogeneration and hydroelectricity.



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United Technologies Building  
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[www.utc.com](http://www.utc.com)

Carrier  
Hamilton Sundstrand  
Otis  
Pratt & Whitney  
Sikorsky  
UTC Fire & Security  
UTC Power