# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2003**

**Commission file number 1-812**

# UNITED TECHNOLOGIES CORPORATION
**(Exact name of registrant as specified in its charter)**

| **DELAWARE** | **06 0570975** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **One Financial Plaza, Hartford, Connecticut** | **06103** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒. No ☐.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. ☐

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

The aggregate market value of the voting Common Stock held by non-affiliates at June 30, 2003 was approximately $33,127,792,701, based on the New York Stock Exchange closing price for such shares on that date. For purposes of this calculation, the Registrant has assumed that its directors and executive officers are affiliates.

At January 31, 2004, there were 515,369,672 shares of Common Stock outstanding.

List hereunder documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated: (1) Portions of the United Technologies Corporation 2003 Annual Report to Shareowners are incorporated by reference in Parts I, II and IV hereof; and (2) Portions of the United Technologies Corporation Proxy Statement for the 2004 Annual Meeting of Shareowners are incorporated by reference in Part III hereof.

**UNITED TECHNOLOGIES CORPORATION**

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**on Form 10-K for**
**Year Ended December 31, 2003**


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**UNITED TECHNOLOGIES CORPORATION**

**Annual Report on Form 10-K For Year Ended December 31, 2003**

Whenever reference is made in this Form 10-K to specific sections or pages of the Corporation's 2003 Annual Report to Shareowners, such sections or pages, as applicable, are incorporated herein by reference. The "Corporation", unless the context requires otherwise, means United Technologies Corporation (or "UTC") and its subsidiaries.

## Item 1. Business

### General

United Technologies Corporation was incorporated in Delaware in 1934. The Corporation provides high technology products and services to the building systems and aerospace industries worldwide. Growth is attributable to acquisitions and the internal development of existing businesses of the Corporation. The following description of the Corporation's business should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 2 through 15 of the Corporation's 2003 Annual Report to Shareowners, especially the information contained therein under the heading "Business Environment."

The Corporation's operating units include businesses with operations throughout the world. Otis, Carrier and Chubb serve customers in the commercial and residential property industries worldwide. Carrier also serves commercial and transport refrigeration customers. For 2003, commercial and industrial revenues generated by the Corporation (principally Otis, Carrier and Chubb operations) were 61 percent of the Corporation's consolidated revenues. For the third and fourth quarters of 2003, Chubb's revenues were 5 percent and 8 percent, respectively, of the Corporation's total revenues. Pratt & Whitney and the Flight Systems segment, which includes Hamilton Sundstrand and Sikorsky Aircraft ("Sikorsky"), primarily serve commercial and government customers in the aerospace industry and also in industrial markets. For 2003, military aerospace and commercial aerospace revenues were approximately 20 percent and 19 percent, respectively, of the Corporation's total revenues. Revenues for 2003 from outside the United States, including U.S. export sales, were 56 percent of the Corporation's total segment revenues.

As worldwide businesses, the Corporation's operations can be affected by a variety of economic and other factors, including those described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Corporation's 2003 Annual Report to Shareowners and those described in the "Business" section of this Form 10-K under the heading "Other Matters Relating to the Corporation's Business as a Whole." Each business unit is subject to significant competition from a large number of companies in the United States and other countries, and each competes on the basis of price, delivery schedule, product performance and service.

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

### Description of Business by Segment

The Corporation conducts its business through five principal segments: Otis, Carrier, Chubb, Pratt & Whitney and Flight Systems. The segments were generally determined based on the management structure of the businesses and the grouping of similar operating companies, where each management organization has general operating autonomy over a range of products and services. The Corporation has included Chubb plc, acquired in July 2003, as a segment for the first time in this Form 10-K. The principal products of each segment are as follows:

Otis —Otis elevators, escalators, automated people movers and service.

Carrier —Carrier commercial and residential heating, ventilating and air conditioning ("HVAC") systems and equipment, commercial and transport refrigeration equipment and aftermarket service and components.

Chubb —Chubb electronic security, fire detection and suppression, monitoring and rapid response systems and security personnel services.

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

Segment financial data for the years 2001 through 2003, including financial information about foreign and domestic operations and export sales, appears in Note 17 of Notes to Consolidated Financial Statements on pages 37 through 39 of the Corporation’s 2003 Annual Report to Shareowners.

**Otis**

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

Revenues generated by Otis’ international operations were 79 and 77 percent of total Otis segment revenues in 2003 and 2002, respectively. At December 31, 2003, Otis’ business backlog was $5,040 million as compared to $4,177 million at December 31, 2002. Substantially all of the business backlog at December 31, 2003 is expected to be realized as sales in 2004.

**Carrier**

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

Carrier has grown significantly in recent years as a result of acquisitions. Major acquisitions have included the August 1999 acquisition of International Comfort Products Corporation, a North American residential and light commercial HVAC equipment company; the February 2000 acquisition of the Electrolux Group’s commercial refrigeration business in Europe; and the November 2000 acquisition of Specialty Equipment Companies, a manufacturer of commercial refrigeration and food service equipment in the United States and Europe. Carrier participates in a joint venture with Toshiba Corporation in Japan. Carrier and the joint venture company, Toshiba Carrier Corporation, also participate in HVAC joint ventures in the U.K. and Thailand.

Revenues generated by Carrier’s international operations, including U.S. export sales, were 48 percent of total Carrier segment revenues in both 2003 and 2002. At December 31, 2003, Carrier’s business backlog was $1,037 million as compared to $1,028 million at December 31, 2002. Substantially all of the business backlog at December 31, 2003 is expected to be realized as sales in 2004.

**Chubb**

In July 2003, the Corporation acquired Chubb plc, a global provider of security and fire protection products and services. In the electronic security industry, Chubb provides system integration, installation and service of intruder alarms, access control and video surveillance systems. In the fire protection industry, Chubb provides system integration, installation and service of portable and fixed suppression systems and fire detection systems. Chubb also provides monitoring, response and security personnel services to complement both the electronic security and fire

equipment businesses. Chubb's operations are predominantly outside the U.S. Chubb is a leading provider of products and services in the U.K., France, Hong Kong, Australia, and Canada. Chubb products and services are used by architects, building owners and developers, security and fire consultants and other end-users requiring a high level of security for their businesses and residences. Chubb sells directly to the customer in most instances, with only a small proportion of sales through manufacturers' representatives, distributors and dealers.

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

**Pratt & Whitney**

Pratt & Whitney is among the world's leading suppliers of commercial, general aviation and military aircraft engines. Pratt & Whitney provides spare parts and aftermarket and fleet management services for the engines it produces, along with power generation and space propulsion systems. Pratt & Whitney products are sold principally to aircraft manufacturers, airlines and other aircraft operators, aircraft leasing companies and the U.S. and foreign governments. Pratt & Whitney sales in the U.S. and Canada are made directly to the customer and, to a limited extent, through independent distributors. Other export sales are made with the assistance of independent sales representatives. Sales to The Boeing Company ("Boeing") and Airbus Industrie ("Airbus") were 12 and 10 percent, respectively, of total Pratt & Whitney revenues in 2003, before taking into account discounts or financial incentives offered to customers.

Pratt & Whitney currently produces two families of large commercial jet engines: the PW4000 engine series (powering the Airbus A310-300, A300-600 and A330-200/300 series of aircraft; the Boeing 747-400, 767-200/300 and 777-200/300 series of aircraft; and the out-of-production Boeing MD-11 aircraft) and the PW2000 engine series (powering the Boeing 757-200/PF/300 aircraft). Also, Pratt & Whitney has entered into a Memorandum of Understanding with Airbus to develop, market and sell PW6000 series engines for installation on Airbus A318 aircraft, scheduled to enter service during 2005.

In view of the risk and cost associated with developing new engines, Pratt & Whitney has entered into certain collaboration arrangements in which costs, revenues and risks are shared. At December 31, 2003, the interests of other participants in Pratt & Whitney's current commercial jet engine production programs ranged from 14 to 29 percent. Pratt & Whitney also has a 33 percent interest in the International Aero Engines collaboration that sells and supports V2500 engines. Applications for the V2500 engine include Airbus' A319, A320 and A321 aircraft and Boeing's out-of-production MD-90. Pratt & Whitney has a 50 percent interest in an alliance with GE Aircraft Engines to develop, market and manufacture the GP7000 engine. At December 31, 2003, other participants held interests totaling 40 percent in Pratt & Whitney's share of this program. The alliance anticipates the first full engine test in February 2004. The new engine will power the Airbus A380 aircraft, with first aircraft deliveries scheduled for 2006.

Pratt & Whitney currently produces three military aircraft engines: the F119 (powering the two-engine F/A-22 fighter aircraft), the F100 (powering two-engine F-15 and single-engine F-16 fighter aircraft) and the F117 (powering four-engine C-17 transport aircraft). The F119 and F117 are currently the only sources of propulsion for the F/A-22 fighter aircraft and C-17 transport aircraft, respectively. Pratt & Whitney is under contract with the U.S. Air Force ("USAF") to complete flight-testing and initial production of F119 engines through 2004. The F119 has been approved for operational use by the USAF. All of Pratt & Whitney's F100 sales contracts are with the USAF or with foreign governments. All of Pratt & Whitney's F117 sales contracts are with either the USAF or Boeing. Pratt & Whitney is also under contract with the USAF to develop the F135 engine, a derivative of Pratt & Whitney's F119 engine, to power the single-engine F-35 Joint Strike Fighter aircraft being developed by Lockheed Martin. Management cannot predict with certainty whether, when, and in what quantities Pratt & Whitney will produce F135 engines.

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

Pratt & Whitney Space Propulsion ("SP") produces hydrogen-fueled rocket engines for commercial and U.S. Government space applications, advanced turbo pumps for NASA's Space Shuttle program and solid fuel propulsion systems for civil and military applications. SP also has a 50 percent interest in a joint venture with NPO Energomash that provides kerosene-fueled RD-180 rocket engines for satellite launch applications.

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

Revenues from Pratt & Whitney's international operations, including U.S. export sales, were 51 percent and 54 percent of total Pratt & Whitney segment revenues in each of 2003 and 2002, respectively. At December 31, 2003, Pratt & Whitney's business backlog was $14,375 million, including $2,728 million of U.S. Government funded contracts and subcontracts, as compared to $13,030 million and $2,001 million, respectively, at December 31, 2002. Of the total Pratt & Whitney backlog at December 31, 2003, approximately $4,689 million is expected to be realized as sales in 2004. Pratt & Whitney's backlog includes certain contracts for which actual costs may ultimately exceed total revenues. See Note 1 to Consolidated Financial Statements on pages 22 through 24 of the Corporation's 2003 Annual Report to Shareowners for a description of the Corporation's accounting for long-term contracts.

**Flight Systems**

The Corporation's Flight Systems segment provides global products and services through Hamilton Sundstrand and Sikorsky. The Corporation acquired Sundstrand Corporation in 1999 and combined it with the operations of the former Hamilton Standard.

Hamilton Sundstrand provides aerospace and industrial products and aftermarket services for diversified industries worldwide. Principal aerospace products include aircraft power generation management and distribution systems; environmental, flight, fuel and engine control systems; fuel and special fluid pumps; auxiliary power units; propeller systems; electronic controls and components; and specialized instruments and chemical detection and monitoring equipment. Hamilton Sundstrand is also the prime contractor for NASA's space suit/life support system and produces environmental control, life support, mechanical systems and thermal control systems for international space programs.

Hamilton Sundstrand's aerospace businesses serve commercial, military, regional, business and general aviation, as well as space and undersea applications. Aftermarket services include spare parts, overhaul and repair, engineering and technical support and fleet maintenance programs. Hamilton Sundstrand aerospace products are sold directly to airframe manufacturers, the U.S. Government, aircraft operators and independent distributors. Hamilton Sundstrand sales of aerospace products to Boeing, Pratt & Whitney and Airbus, collectively, including sales where the U.S. Government was the ultimate customer, were 13 percent of Flight Systems segment sales in 2003.

Hamilton Sundstrand's principal industrial products include air compressors, metering devices, fluid handling equipment and gear drives. Those products serve industries involved with raw material processing, bulk material handling and construction (including mining; metal and other material processing; hydrocarbon and chemical processing; and water and waste water treatment). These products are sold directly to end-users, through manufacturer representatives and distributors and through engineering contractors. Demand for Hamilton Sundstrand's industrial products is tied closely to the level of general economic activity. Hamilton Sundstrand believes that its research and development, proprietary technology and product and service reputations have been significant in maintaining its competitive standing.

Sikorsky is one of the world's largest manufacturers of military and commercial helicopters and is the primary supplier of utility helicopters to the U.S. Army and Navy. Sikorsky also supplies helicopters to foreign governments and the worldwide commercial market. Sikorsky's aftermarket business, which includes spare parts sales, overhaul and repair and service contracts for helicopters and other aircraft, has become a more significant part of Sikorsky's business in recent years. During 2002, Sikorsky acquired Derco Holding, a supplier of military aircraft logistics and component distribution, component repairs and aftermarket program management.

Current production programs at Sikorsky include the Black Hawk medium-transport helicopter for the U.S. and foreign governments, the MH-60S helicopter for the U.S. Navy, the International Naval Hawk for multiple naval missions, the S-76 helicopter for commercial operations, and beginning in 2003 the S-92 helicopter for commercial operations. Under a multi-year contract signed with the U.S. Government in 2002, Sikorsky has contracted to deliver 98 Army Black Hawk and 82 Navy MH-60S helicopters through June 2007. Under a $238 million research, development and test contract, Sikorsky is performing work to evaluate the potential for upgrading the U.S. Army fleet of Black Hawk helicopters.

Sikorsky launched production of the S-92 helicopter in early 2003 for the commercial market. A portion of the development and production of the S-92 is being performed in collaboration with companies in Brazil, the People's Republic of China, Japan, Spain and Taiwan. Deliveries of the S-92 will begin in 2004. Management cannot predict with certainty in what quantities the S-92 helicopter will be produced. Variants of the S-92 for military markets are currently in development, including a bid to provide the new U.S. presidential helicopter. Management cannot predict with certainty whether, when and in what quantities such helicopters will be produced.

Sikorsky has a 50 percent interest in a joint venture with Boeing for the development of the RAH-66 Comanche light attack and reconnaissance helicopter. The joint venture is performing under a cost reimbursement contract awarded by the U.S. Army in 2000. In November 2002, the U.S. Army awarded the joint venture a revised Engineering and Manufacturing Development contract that increased the contract value by $3.4 billion to $6.6 billion. Under the revised contract, the joint venture is required to deliver nine Comanche helicopters in 2005 and 2006 for test and evaluation purposes and to provide aircraft capability improvements through 2011. Management cannot predict with certainty whether, when, and in what quantities Comanche helicopters will be produced.

Revenues generated by the Flight Systems segment's international operations, including export sales, were 35 percent and 40 percent of total Flight Systems segment revenues in 2003 and 2002, respectively. At December 31, 2003, Flight Systems' business backlog was $4,271 million, including $2,347 million under funded contracts and subcontracts with the U.S. Government, as compared to $3,642 million and $1,839 million, respectively, at December 31, 2002. Of the total Flight Systems segment backlog at December 31, 2003, approximately $3,429 million is expected to be realized as sales in 2004.

**Pratt & Whitney and Flight Systems Aerospace and Defense Products**

The Corporation's aerospace and defense businesses are subject to substantial competition from domestic manufacturers, foreign manufacturers (whose governments sometimes provide research and development assistance, marketing subsidies and other assistance for their commercial products) and companies that obtain regulatory agency approval to manufacture spare parts. In particular, Pratt & Whitney experiences intense competition for new commercial airframe/engine combinations. Engine suppliers may offer substantial discounts and other financial incentives, performance and operating cost guarantees, participation in financing arrangements and maintenance agreements. Customer selections of engines and components can also have a significant impact on later sales of parts and services. Pratt & Whitney's major competitors in the sale of engines are General Electric Company ("GE") and Rolls Royce plc. (For information regarding customer financing commitments, participation in guarantees of customer financing arrangements and performance and operating cost guarantees, see Notes 4 and 15 of Notes to Consolidated Financial Statements on pages 24 to 25 and 36 of the Corporation's 2003 Annual Report to Shareowners.)

Other factors that can affect the results of the Corporation's aerospace and defense businesses include lengthy and costly development cycles and heavy dependence on a small number of products and programs. Sales of military products are affected by defense budgets in the U.S. and other countries, U.S. foreign policy and the level of activity in military flight operations. Military spare parts sales are affected by policies of the U.S. and other governments of purchasing parts from suppliers other than the original equipment manufacturer. Pratt & Whitney's and Flight Systems' operations can also be affected by a variety of economic and other factors including those described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Corporation's 2003 Annual Report to Shareowners and those described in the "Business" section of this Form 10-K under the heading "Other Matters Relating to the Corporation's Business as a Whole."

Significant elements of Pratt & Whitney's and Flight Systems' business, such as spare parts sales for engines and aircraft in service, have short lead times. Therefore, backlog information may not be indicative of future demand. Also, since a substantial portion of the backlog for commercial customers is scheduled for delivery beyond 2004, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled.

**Other**

UTC Power develops and markets distributed power generation systems, including fuel cells and microturbines, for use in commercial transportation and light industrial businesses, institutions and office buildings. In 2003, UTC Power began to integrate, sell and service microturbine-based combined heat and power (CHP) solutions for commercial buildings, including its Pure Comfort™ 240 product. The company is also developing the PureCycle™ product line, which utilizes an organic rankine cycle to convert waste heat into energy. Microturbines and organic rankine cycle devices are in an early stage of development and manufacturing. Continued technology advancement and cost reduction are required for wide-scale market acceptance.

UTC Fuel Cells, a part of UTC Power, is a world leader in fuel cell production and development for commercial, transportation and space applications. UTC Fuel Cells is the sole supplier of fuel cells for U.S. space missions and also offers a commercially available fuel cell power plant, known as the PureCell™ 200 (formerly known as the PC25™). More than 260 PureCell™ 200 units have been delivered around the world. Fuel cell power plants using proton exchange membrane technology ("PEM") are currently in development for transportation and stationary applications. UTC Fuel Cells is working with automakers and bus manufacturers, as well as the U.S. Government, on development and demonstration programs for vehicles. In December 2002, UTC Fuel Cells signed an agreement to license its PEM technology on a non-exclusive basis to Nissan Motor Company Ltd. ("Nissan") and to engage in joint development of this technology for automotive applications. In October 2003, Nissan unveiled its second generation zero-emission fuel cell vehicle powered by a UTC Fuel Cells power plant. In June 2003, UTC Fuel Cells announced an agreement with Hyundai Motor Co. ("Hyundai"), a partner with UTC Fuel Cells since 2000, to jointly develop a new automotive fuel cell power plant capable of operating in freezing conditions. Hyundai and UTC Fuel Cells intend to integrate the power plants into a new Hyundai sports utility vehicle platform. Hyundai plans to lease a number of such vehicles to fleet operators in 2004.

Although fuel cells are believed to be superior to conventional power generation technologies in terms of efficiency and environmental characteristics, the technology is still in development and current production rates remain low across the industry. Continued technology advancement and cost reduction of key fuel cell components are required to achieve wide-scale market acceptance. Government support for fuel cells is expected to impact the advancement of the technology. There is still significant uncertainty as to whether and when commercially viable PEM fuel cells will be produced. Toshiba Corporation owns a 10 percent equity interest in UTC Fuel Cells.

The results of UTC Power are included in the "Eliminations and other" category in the segment financial data in Note 17 of Notes to Consolidated Financial Statements on pages 37 through 39 of the Corporation's 2003 Annual Report to Shareowners.

## Other Matters Relating to the Corporation's Business as a Whole

### Research and Development

Since changes in technology can have a significant impact on the Corporation's operations and competitive position, the Corporation spends substantial amounts of its own funds on research and development. Such expenditures, which are charged to expense as incurred, were $1,027 million, or 3.3 percent of total sales in 2003, as compared with $1,191 million or 4.3 percent of total sales in 2002 and $1,254 million or 4.6 percent of total sales in 2001. The Corporation also performs research and development work under contracts funded by the U.S. Government and other customers. Such contract research and development, which is performed principally in the Pratt & Whitney segment and to a lesser extent in the Flight Systems segment, amounted to $1,580 million in 2003, as compared with $1,189 million in 2002 and $846 million in 2001.

### Contracts, Other Risk Factors, Environmental and Other Matters

U.S. Government contracts are subject to termination by the government, either for the convenience of the government or for default by the Corporation for failure to perform under the applicable contract. In the case of a termination for convenience, the Corporation normally is entitled to reimbursement for its allowable costs incurred, plus termination costs and a reasonable profit. If terminated by the government for default by the Corporation, the Corporation could be liable for additional costs incurred by the government in acquiring undelivered goods or services from another source and any other damages suffered by the government. Most of the Corporation's government sales are made under fixed-price type contracts; approximately $2.0 billion of the Corporation's total sales for 2003 were made under cost-reimbursement type contracts.

The Corporation is now, and believes that in light of the current government contracting environment it will be, the subject of one or more government investigations. See Item 3 – Legal Proceedings on pages 9 through 10 of this Form 10-K and Note 16 of Notes to Consolidated Financial Statements on page 36 of the Corporation's 2003 Annual Report to Shareowners for further discussion. If the Corporation or one of its business units were charged with wrongdoing as a result of any of these investigations or other government investigations (including violation of certain environmental or export laws), it could be suspended from bidding on or receiving awards of new government contracts pending the completion of legal proceedings. If convicted or found liable, the Corporation could be subject to fines, penalties, repayments and treble and other damages. Any contracts found to be tainted by fraud could be voided by the U.S. Government. The U.S. Government also reserves the rights to debar a contractor from receiving new government contracts for fraudulent, criminal or other seriously improper conduct. Debarment generally does not exceed three years. Independently, failure to comply with U.S. laws and regulations related to the export of goods and technology outside the U.S. could result in civil or criminal penalties and suspension or termination of the Corporation's export privileges.

The Corporation's contracts with the U.S. Government are subject to audits. Like many defense contractors, the Corporation has received audit reports from the U.S. Government which recommend that certain contract prices be reduced because cost or pricing data submitted in negotiation of the contract prices or cost accounting practices may not have been in conformance with government regulations. Some of these audit reports involve substantial amounts. The Corporation has made voluntary refunds in those cases it believes appropriate, has settled some allegations and continues to litigate certain cases. See Item 3 – Legal Proceedings on pages 9 through 10 of this Form 10-K and Note 16 of Notes to Consolidated Financial Statements on page 36 of the Corporation's 2003 Annual Report to Shareowners for further discussion.

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

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

The Corporation's operations are subject to and affected by environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over its foreign operations. The Corporation has incurred and will likely continue to incur liabilities under various state and federal statutes for the cleanup of pollutants previously released into the environment. The Corporation does not anticipate that compliance with current provisions relating to the protection of the environment or that any payments it may be required to make for these cleanup liabilities will have a material adverse effect upon its cash flows, competitive position, financial condition or results of operations. (Environmental matters are further addressed in Management's Discussion and Analysis of Financial Condition and Results of Operations on page 13 and Notes 1 and 16 of Notes to Consolidated Financial Statements on pages 22 and 36 of the Corporation's 2003 Annual Report to Shareowners.)

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

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

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

For a discussion of other risks to which the Corporation's financial condition, results of operations or cash flows may be subject, including the risks of the Corporation's international operations, see the "Business" section of this Form 10-K under the headings "General" and "Description of Business by Segment" and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 2 through 15 of the Corporation's 2003 Annual Report to Shareowners.

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

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

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

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. For additional information identifying factors that may cause actual results to vary materially from those stated in the forward-looking statements, see the Corporation's reports on Forms 10-Q and 8-K filed with the Securities and Exchange Commission from time to time. This Annual Report on Form 10-K for 2003 includes important information as to risk factors in the "Business" section under the headings "General", "Description of Business by Segment" and "Other Matters Relating to the Corporation's Business as a Whole" and in the "Legal Proceedings" section. Additional important information as to risk factors is included in the Corporation's 2003 Annual Report to Shareowners in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations", which is incorporated by reference in this Form 10-K.

**Employees**

At December 31, 2003, the Corporation's total employment was approximately 203,300. For discussion of the effects of the Corporation's restructuring actions on employment, see Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 7 through 8 and Note 12 of Notes to Consolidated Financial Statements on pages 32 through 34 of the Corporation's 2003 Annual Report to Shareowners.

## Item 2. Properties

The Corporation's fixed assets as of December 31, 2003 include the plants and warehouses set forth in the table below and a substantial quantity of machinery and equipment, most of which is general purpose machinery and equipment using special jigs, tools and fixtures and in many instances having automatic control features and special adaptations. The plants, warehouses, machinery and equipment in use as of December 31, 2003 are in good operating condition, are well maintained and substantially all are in regular use.

| | Square Feet in Thousands | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Otis** | **Carrier** | **Chubb** | **Pratt & Whitney** | **Flight Systems** | **Other** | **Total** |
| Plants in North America* | | | | | | | |
| Owned | 195 | 7,405 | — | 6,987 | 6,824 | — | 21,411 |
| Leased | 308 | 842 | 15 | 1,472 | 1,246 | 196 | 4,079 |
| Total | 503 | 8,247 | 15 | 8,459 | 8,070 | 196 | 25,490 |
| Warehouses in North America | | | | | | | |
| Owned | 602 | 1,680 | — | 1,142 | 544 | 35 | 4,003 |
| Leased | 536 | 5,586 | 24 | 539 | 434 | 14 | 7,133 |
| Total | 1,138 | 7,266 | 24 | 1,681 | 978 | 49 | 11,136 |
| Plants Outside North America | | | | | | | |
| Owned | 7,525 | 7,695 | 260 | 3,897 | 2,011 | — | 21,388 |
| Leased | 69 | 1,732 | 146 | 62 | 238 | — | 2,247 |
| Total | 7,594 | 9,427 | 406 | 3,959 | 2,249 | — | 23,635 |
| Warehouses Outside of North America | | | | | | | |
| Owned | 485 | 561 | 296 | 91 | 123 | — | 1,556 |
| Leased | 1,653 | 2,079 | 1,058 | 12 | 46 | — | 4,848 |
| Total | 2,138 | 2,640 | 1,354 | 103 | 169 | — | 6,404 |

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

For discussion of the effect of the Corporation's restructuring actions on production facilities, see Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 7 through 8 and Note 12 of Notes to the Consolidated Financial Statements on pages 32 through 34 of the Corporation's 2003 Annual Report to Shareowners.

Management believes that the fixed assets capitalized and the facilities in operation at December 31, 2003 for the production of the Corporation's products are suitable and adequate for the business conducted therein in the current business environment, are being appropriately utilized consistent with experience and have sufficient production capacity for their present intended purposes. Utilization of the facilities varies based on demand for the products. The Corporation continuously reviews its anticipated requirements for facilities and, based on that review, may from time to time adjust its facilities needs.

## Item 3. Legal Proceedings

As previously reported, the Department of Defense ("DoD") and the Corporation are litigating whether Pratt & Whitney's government cost accounting practices for certain engine parts are acceptable. The litigation, filed in 1994 with the Armed Services Board of Contract Appeals ("ASBCA"), No. 47416 et al., relates to the accounting for engine parts produced by foreign companies under commercial engine collaboration programs since 1984. The DoD initially claimed approximately $158 million in damages and approximately $103 million in interest through December 31, 1996. On July 31, 2001, the ASBCA issued a decision in favor of the Corporation. The DoD appealed this decision to the Court of Appeals for the Federal Circuit on November 29, 2001. On January 15, 2003, the Court of Appeals reversed the ASBCA and remanded the case to the ASBCA for further proceedings. The Corporation sought review by the U.S. Supreme Court, which was denied on November 10, 2003. On November 24, 2003, the DoD supplemented its original claim to add damages and interest for the period after 1996. The DoD's claim now totals approximately $367 million in damages through 2002 and approximately $388 million in interest through 2001. The Corporation plans to appeal this supplemental claim to the ASBCA.

As previously reported, the Corporation had pending against it a qui tam complaint under the civil False Claims Act in the U.S. District Court for the District of Connecticut: U.S. ex rel. Drake v. Norden Systems, Inc. and UTC, No. 394CV00963 (filed July 1997, and involving allegations of improper accounting for fixed assets). The Government has not intervened. The civil False Claims Act provides for treble damages and penalties of up to $10,000 per false claim submitted. The qui tam relator claimed unspecified damages (subject to trebling) and penalties. In February 2003, the Court granted the Corporation's motion to dismiss the case. The relator sought reconsideration, which was denied in June 2003. The relator has appealed to the U.S. Court of Appeals for the Second Circuit. A decision is expected in 2004.

As previously reported, in March 1999, the Department of Justice filed a civil False Claims Act complaint against the Corporation in the U.S. District Court for the Southern District of Ohio, No. C-3-99-093. This lawsuit relates to the "Fighter Engine Competition" between Pratt & Whitney's F100 engine and GE's F110 engine, for contracts awarded by the U.S. Air Force between fiscal years 1985 and 1990, inclusive. The Government alleges that Pratt & Whitney inflated its estimated costs for purchased parts and withheld data that would have revealed the overstatements. In mid-2002, the Court denied motions filed by the Corporation that could have resulted in dismissal of all or part of the Government's claims. On September 29, 2003, the Court allowed the Government to amend its complaint. The amended complaint includes allegations for which the Government alleges damages in excess of $141 million, and adds additional allegations without quantifying additional damages. The civil False Claims Act provides for treble damages and penalties of up to $10,000 per false claim submitted. The complaint includes common law claims on which interest would accrue. Trial of this matter is scheduled for the fourth quarter of 2004.

Like many other companies in recent years, the Corporation or its subsidiaries have been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain of the Corporation's products or premises. While the Corporation has never manufactured asbestos and no longer incorporates it in any currently-manufactured products, certain of its historical products, like those of many other manufacturers, have contained components incorporating asbestos. The Corporation has made no payment in a substantial majority of the cases closed to date. The remainder of the resolved cases have settled for amounts that are not material to the Corporation, and have been supported in part by insurance. At present, the Corporation is named in approximately 1,500 lawsuits involving approximately 24,000 individual claimants. More than 21,000 of these claimants are joined in lawsuits in Mississippi state courts. Typically, these Mississippi lawsuits name from 200 to more than 400 other companies as defendants along with the Corporation or its subsidiaries. The complaints do not identify any products of the Corporation or its named subsidiaries, or specify the amount of damages claimed. In addition, the complaints do not allege which claimants, if any, were exposed to asbestos attributable to the Corporation's products or premises, nor the extent, if any, to which such claimants have been harmed. Discovery has begun in some of the larger cases, but to date there has been only minimal product identification.

On December 16, 2003, the U.S. Environmental Protection Agency ("EPA") executed a search warrant at Hamilton Sundstrand. The search warrant, issued by the U.S. District Court for the District of Connecticut, sought records and data regarding the company's processes for monitoring, treating, testing and discharging wastewater at the company's Windsor Locks, Connecticut manufacturing facility. The company also has received a notice of violation associated with the same matter from the Connecticut Department of Environmental Protection. Several employees have been subpoenaed to testify before a federal grand jury, and the company also received a subpoena for records. The company is conducting its own investigation and is cooperating with federal and state officials in the investigation.

Should the Government ultimately prevail with respect to one or more of the significant government contract matters discussed above, the outcome could result in a material effect on the Corporation's results of operations in the period the matter is resolved. However, the Corporation does not believe that resolution of any of the government contracting matters discussed above or any other legal matters will have a material adverse effect upon the Corporation's competitive position, results of operations, cash flows or financial condition. A further discussion of government contracts and related investigations, as well as a discussion of the Corporation's environmental liabilities, can be found under the heading "Other Matters Relating to the Corporation's Business as a Whole – Contracts, Other Risk Factors, Environmental and Other Matters" in Item 1 – Business on pages 6 through 8 of this Form 10-K.

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

No matters were submitted to security holders for a vote during the fourth quarter ended December 31, 2003.

**– – –Executive Officers of the Registrant**

The following persons are executive officers of United Technologies Corporation:

| Name | Title | Other Business Experience Since 1/1/1999 | Age 2/1/04 |
|---|---|---|---|
| Tesfaye Aklilu | Vice President, Quality (since 1999) | Vice President, Quality, Pratt & Whitney | 59 |
| Ari Bousbib | President, Otis Elevator (since 2002) | Executive Vice President and Chief Operating Officer, Otis Elevator; Vice President, Corporate Strategy and Development, United Technologies Corporation | 42 |
| Kent L. Brittan | Vice President, Supply Management (since 1997) | — | 61 |
| William L. Bucknall, Jr. | Senior Vice President, Human Resources and Organization (since 1992) | — | 61 |
| John F. Cassidy, Jr. | Senior Vice President – Science and Technology (since 1998) and Vice President, United Technologies Research Center (since 1993) | — | 60 |
| Louis Chênevert | President, Pratt & Whitney (since 1999) | Executive Vice President-Operations, Pratt & Whitney | 46 |
| Geraud Darnis | President, Carrier Corporation (since 2001) | President, UT Power Solutions; President, Carrier Asia Pacific Operations; President, Carrier Europe-Middle East-Africa | 44 |
| George David | Chairman (since 1997), President (since 2002), and Chief Executive Officer (since 1994) | President, United Technologies Corporation (1992-1999) | 61 |
| John J. Doucette | Vice President, Chief Information Officer (since 2000) | Vice President & Chief Information Officer, Otis Elevator; Vice President & Chief Information Officer, GE Lighting; Chief Information Officer, GE Silicones | 44 |
| Stephen N. Finger | President, Sikorsky Aircraft (since July 2003) | President, Military Engines and Executive Vice President, Engineering and Operations, Pratt & Whitney | 55 |
| James E. Geisler | Vice President, Finance (since February 2004) | Director, Financial Planning and Analysis, Director, Investor Relations, Director, Strategic Planning, United Technologies Corporation | 37 |

| Name | Title | Other Business Experience Since 1/1/1999 | Age 2/1/04 |
|---|---|---|---|
| Ruth R. Harkin | Senior Vice President, International Affairs and Government Relations, United Technologies Corporation and Chair, United Technologies International (since 1997) | — | 59 |
| Gregory J. Hayes | Vice President, Accounting and Control (since February 2004), Controller (since 2003) | Vice President, Financial Planning and Analysis and Treasury, Hamilton Sundstrand; Director, Financial Planning & Controller, Aerospace, Hamilton Sundstrand; Vice President, Finance, Sundstrand Aerospace | 43 |
| George H. Jamison | Vice President, Communications (since January 2003) | Vice President, Communications, General Motors' Hughes Electronic Corporation; Manager, International Communications, General Electric Company | 47 |
| Todd J. Kallman | Vice President, Corporate Strategy and Development (since April 2003) | Vice President of Finance and Chief Financial Officer, Hamilton Sundstrand; Vice President, Finance, Americas, Dell Computer Corp.; Vice President, Finance, Worldwide Home and Small Business, Dell Computer Corp.; Vice President, Finance, Controller, Lockheed Martin Corporation | 47 |
| Robert F. Leduc | Executive Vice President and Chief Operating Officer, Pratt & Whitney (since 2000) and President, Large Commercial Engines (since 2001) | Executive Vice President, Pratt & Whitney | 47 |
| Ronald F. McKenna | President, Hamilton Sundstrand Corporation (since 1999) | Executive Vice President, Sundstrand Corporation and Chief Operating Officer, Sundstrand Aerospace | 63 |
| Stephen F. Page | Vice Chairman and Chief Financial Officer (since 2002) | President and Chief Executive Officer, Otis Elevator; Executive Vice President and Chief Financial Officer, United Technologies Corporation | 64 |
| Olivier J. Robert | President, Chubb plc (since July 2003) | Senior Vice President, Engineering and Operations, Otis Elevator | 52 |
| Thomas I. Rogan | Vice President, Treasurer (since 2001) | Vice President-Finance, Hamilton Sundstrand | 51 |
| William H. Trachsel | Senior Vice President and General Counsel (since January 2004) | Senior Vice President, General Counsel and Secretary, United Technologies Corporation | 60 |
| Jan van Dokkum | President, UTC Power (since 2002 ) | President and CEO, Siemens Power Transmission and Distribution, Inc. | 50 |

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

**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters**

The Comparative Stock Data appearing on page 41 of the Corporation's 2003 Annual Report to Shareowners containing the following data relating to the Corporation's Common Stock: principal market, quarterly high and low sales prices, approximate number of shareowners and frequency and amount of dividends is hereby incorporated by reference.

**Item 6. Selected Financial Data**

The Five Year Summary appearing on page 1 of the Corporation's 2003 Annual Report to Shareowners containing the following data: revenues, net income, basic and diluted earnings per share, cash dividends per common share, total assets and long-term debt is hereby incorporated by reference. See Notes to Consolidated Financial Statements appearing on pages 22 through 40 of the Corporation's 2003 Annual Report to Shareowners for a description of any accounting changes and acquisitions or dispositions of businesses materially affecting the comparability of the information reflected in such Five Year Summary.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 2 through 15 of the Corporation's 2003 Annual Report to Shareowners is hereby incorporated by reference.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

For information concerning market risk sensitive instruments, see discussion under the headings "Market Risk and Risk Management" in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 12 through 13 of the Corporation's Annual Report to Shareowners and "Hedging Activity" in Note 1, "Summary of Accounting Principles", Note 13, "Foreign Exchange" and Note 14, "Financial Instruments" of Notes to Consolidated Financial Statements on pages 23 and 34 through 35 of the Corporation's 2003 Annual Report to Shareowners.

**Item 8. Financial Statements and Supplementary Data**

The 2003 and 2002 Consolidated Balance Sheet, and other financial statements for the years 2003, 2002, and 2001, together with the report thereon of PricewaterhouseCoopers LLP dated January 20, 2004 appearing on pages 17 through 21 in the Corporation's 2003 Annual Report to Shareowners are incorporated by reference in this Form 10-K. The 2003 and 2002 Selected Quarterly Financial Data appearing on page 41 in the Corporation's 2003 Annual Report to Shareowners is incorporated by reference in this Form 10-K.

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

None.

**Item 9A. Controls and Procedures**

The Corporation has carried out an evaluation under the supervision and with the participation of the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon the Corporation's evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2003, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports the Corporation files and submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

There has been no change in the Corporation's internal control over financial reporting during the Corporation's fiscal year ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**Item 10. Directors and Executive Officers of the Registrant**

The information required by Item 10 with respect to directors, the Audit Committee of the Board of Directors and Audit Committee financial experts is incorporated herein by reference to the section of the Corporation's Proxy Statement for the 2004 Annual Meeting of Shareowners entitled "General Information Concerning the Board of Directors", subsections "Nominees" and "The Audit Committee", respectively. Information regarding executive officers is contained in Part I of this Form 10-K under the heading "—Executive Officers of the Registrant." Information concerning Section 16(a) compliance is incorporated by reference to the section of the Corporation's Proxy Statement for the 2004 Annual Meeting of Shareowners entitled "Section 16(a) Beneficial Ownership Reporting Compliance."

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

**Item 11. Executive Compensation**

The information required by Item 11 is incorporated herein by reference to the sections of the Corporation's Proxy Statement for the 2004 Annual Meeting of Shareowners entitled "Report of the Committee on Compensation and Executive Development" and "Compensation of Named Executive Officers." Such incorporation by reference shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

The information required by Item 12 is incorporated herein by reference to the sections of the Corporation's Proxy Statement for the 2004 Annual Meeting of Shareowners entitled "Security Ownership of Directors and Executive Officers" and "Equity Compensation Plan Information."

**Item 13. Certain Relationships and Related Transactions**

The information required by Item 13 is incorporated herein by reference to the section of the Corporation's Proxy Statement for the 2004 Annual Meeting of Shareowners entitled "Certain Transactions and Business Relationships."

**Item 14. Principal Accounting Fees and Services**

The information required by Item 14 is incorporated by reference to the section of the Corporation's Proxy Statement for the 2004 Annual Meeting of Shareowners entitled "Appointment of Independent Auditors", under the headings "Audit Fees", "Audit Related Fees", "Tax Fees" and "All Other Fees".

**Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K**

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements (incorporated by reference from the 2003 Annual Report to Shareowners):

| | Page Number in Annual Report |
|---|---|
| Report of Independent Auditors | 17 |
| Consolidated Statement of Operations for the three years ended December 31, 2003 | 18 |
| Consolidated Balance Sheet—December 31, 2003 and 2002 | 19 |
| Consolidated Statement of Cash Flows for the three years ended December 31, 2003 | 20 |
| Notes to Consolidated Financial Statements | 22 |
| Selected Quarterly Financial Data (Unaudited) | 41 |

(2) Financial Statement Schedule for the three years ended December 31, 2003:

| | Page Number in Form 10-K |
|---|---|
| Report of Independent Auditors on Financial Statement Schedule | S-I |
| Schedule II - Valuation and Qualifying Accounts | S-II |
| Consent of Independent Auditors | F-I |

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

(3) Exhibits:

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

| Exhibit Number | |
|---|---|
| 3(i) | Restated Certificate of Incorporation, restated as of December 11, 2003.** |
| 3(ii) | Bylaws as amended and restated effective March 21, 2001, incorporated by reference to Exhibit 3(ii) to the Corporation's Quarterly Report on Form 10-Q (Commission file number 1-812) for quarterly period ended March 31, 2001. |
| 4.1 | Amended and Restated Indenture, dated as of May 1, 2001, between the Corporation and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(a) to the Corporation's Registration Statement on Form S-3 (Commission File No. 333-60276, filed with the SEC on May 4, 2001). The Corporation hereby agrees to furnish to the Commission upon request a copy of each other instrument defining the rights of holders of long-term debt of the Corporation and its consolidated subsidiaries and any unconsolidated subsidiaries. |
| 10.1 | United Technologies Corporation Annual Executive Incentive Compensation Plan, as amended.* |
| 10.2 | United Technologies Corporation Executive Estate Preservation Program, incorporated by reference to Exhibit 10(iv) to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992. |
| 10.3 | United Technologies Corporation Pension Preservation Plan, as amended, incorporated by reference to Exhibit 10.3 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2002. |
| 10.4 | United Technologies Corporation Senior Executive Severance Plan, incorporated by reference to Exhibit 10(vi) to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992, and Amendment thereto.** |
| 10.5 | United Technologies Corporation Deferred Compensation Plan, as amended, incorporated by reference to Exhibit 10.5 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2002. |
| 10.6 | United Technologies Corporation Long Term Incentive Plan, as amended.** |
| 10.7 | United Technologies Corporation Executive Disability, Income Protection and Standard Separation Agreement Plan, incorporated by reference to Exhibit 10(xii) to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992. |
| 10.8 | United Technologies Corporation Directors' Restricted Stock/Unit Program, incorporated by reference to Exhibit 10(xiii) to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992. |
| 10.9 | United Technologies Corporation Board of Directors Deferred Stock Unit Plan*, and Amendment 1 thereto (incorporated by reference to Exhibit 10(iii)(A)(1) to the Corporation's Report on Form 10-Q (Commission file number 1-812 for quarterly period ended June 30, 2000). |

| | |
|---|---|
| 10.10 | United Technologies Corporation Pension Replacement Plan, as amended, incorporated by reference to Exhibit 10.10 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2002. |
| 10.11 | United Technologies Corporation Special Retention and Stock Appreciation Program, incorporated by reference to Exhibit 10(xvi) to the Corporation's Report on Form 10-Q (Commission file number 1-812) for quarterly period ended September 30, 1995. |
| 10.12 | United Technologies Corporation Nonemployee Director Stock Option Plan*, Amendment 1 thereto (incorporated by reference to Exhibit 10(iii)(A)(2) to the Corporation's Report on Form 10-Q (Commission file number 1-812) for quarterly period ended June 30, 2000), Amendment 2 thereto (incorporated by reference to Exhibit 10(iii)(A)(1) to the Corporation's Report on Form 10-Q (Commission file number 1-812) for quarterly period ended June 30, 2001), Amendment 3 thereto (incorporated by reference to Exhibit 10.17 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ending December 31, 2001), Amendment 4 thereto (incorporated by reference to Exhibit 10.12 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ending December 31, 2002) and Amendment 5 thereto.** |
| 10.13 | United Technologies Corporation Employee Stock Option Plan, incorporated by reference to Exhibit 10.13 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2002, and Amendment 1 thereto.** |
| 10.14 | United Technologies Corporation Employee Scholar Program, as amended on June 27, 2003.** |
| 11 | Statement Re: Computation of Per Share Earnings.** |
| 12 | Statements Re: Computation of Ratios.** |
| 13 | Annual Report to Shareowners for the year ended December 31, 2003 (except for the pages and information thereof expressly incorporated by reference in this Form 10-K, the Annual Report to Shareowners is provided solely for the information of the Securities and Exchange Commission and is not to be deemed "filed" as part of this Form 10-K).** |
| 14 | Code of Ethics. The UTC Code of Ethics may be accessed via the Corporation's website at http://www.utc.com/social/ethics/index.htm. |
| 21 | Subsidiaries of the Registrant.** |
| 23 | Consent of PricewaterhouseCoopers LLP, included as page F-I of this Form 10-K. |
| 24 | Powers of Attorney of Betsy J. Bernard, Jean-Pierre Garnier, Jamie S. Gorelick, Charles R. Lee, Richard D. McCormick, Harold W. McGraw III, Frank P. Popoff, H. Patrick Swygert, André Villeneuve, H. A. Wagner and Christine Todd Whitman.** |
| 31 | Rule 13a-14(a)/15d-14(a) Certifications.** |
| 32 | Section 1350 Certifications.** |

Notes to Exhibits List:

| | |
|---|---|
| * | Incorporated by reference to Exhibit of the same number to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995. |
| ** | Submitted electronically herewith. |

Exhibits 10.1 through 10.14 are contracts, arrangements or compensatory plans filed as exhibits pursuant to Item 15(c) of the requirements for Form 10-K reports.

(b) On October 16, 2003, the Corporation filed a Report on Form 8-K, furnishing under Item 12, an October 16, 2003 press release announcing its third quarter 2003 results. (Such press release is not incorporated by reference herein or deemed "filed" within the meaning of Section 18 of the Securities Act.)

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED TECHNOLOGIES CORPORATION
(Registrant)

/s/ Stephen F. Page

By: Stephen F. Page
Vice Chairman and Chief Financial Officer

Date: February 5, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on the date set forth below.

| Signature | Title | Date |
|---|---|---|
| /s/ George David<br>George David | Chairman, Director, President and Chief Executive Officer | February 5, 2004 |
| /s/ Stephen F. Page<br>Stephen F. Page | Vice Chairman, Director and Chief Financial Officer | February 5, 2004 |
| /s/ Gregory J. Hayes<br>Gregory J. Hayes | Vice President, Accounting and Control, Controller | February 5, 2004 |

/s/ William H. Trachsel

*By: William H. Trachsel
Attorney-in-Fact
Date: February 5, 2004

| Signature | Title | |
|---|---|---|
| BETSY J. BERNARD*<br>(Betsy J. Bernard) | Director | ) |
| JEAN-PIERRE GARNIER*<br>(Jean-Pierre Garnier) | Director | ) |
| JAMIE S. GORELICK*<br>(Jamie S. Gorelick) | Director | ) |
| CHARLES R. LEE*<br>(Charles R. Lee) | Director | ) |
| RICHARD D. MCCORMICK*<br>(Richard D. McCormick) | Director | ) |
| HAROLD W. McGRAW III*<br>(Harold W. McGraw III) | Director | ) |
| FRANK P. POPOFF*<br>(Frank P. Popoff) | Director | ) |
| H. PATRICK SWYGERT*<br>(H. Patrick Swygert) | Director | ) |
| ANDRÉ VILLENEUVE*<br>(André Villeneuve) | Director | ) |
| H. A. WAGNER*<br>(H. A. Wagner) | Director | ) |

| CHRISTINE TODD WHITMAN* | Director | ) |
|---|---|---|
| (Christine Todd Whitman) | | |

## REPORT OF INDEPENDENT AUDITORS ON

## FINANCIAL STATEMENT SCHEDULE

To the Board of Directors
of United Technologies Corporation

Our audits of the consolidated financial statements referred to in our report dated January 20, 2004, appearing in the 2003 Annual Report to Shareowners of United Technologies Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, the Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Hartford, Connecticut
January 20, 2004

**UNITED TECHNOLOGIES CORPORATION AND SUBSIDIARIES**
**Schedule II - Valuation and Qualifying Accounts**
**Three Years Ended December 31, 2003**
**(Millions of Dollars)**

**Allowances for Doubtful Accounts and Other Customer Financing Activity:**

| | |
|---|---|
| Balance December 31, 2000 | $ 491 |
| Provision charged to income | 93 |
| Doubtful accounts written off (net) | (59) |
| Other adjustments[1] | (33) |
| Balance December 31, 2001 | 492 |
| Provision charged to income | 88 |
| Doubtful accounts written off (net) | (118) |
| Other adjustments | (41) |
| Balance December 31, 2002 | 421 |
| Provision charged to income | 91 |
| Doubtful accounts written off (net) | (112) |
| Other adjustments | 84 |
| Balance December 31, 2003 | $ 484 |

**Future Income Tax Benefits - Valuation allowance:**

| | |
|---|---|
| Balance December 31, 2000 | $ 208 |
| Additions charged to income tax expense | 66 |
| Reductions credited to income tax expense | (94) |
| Balance December 31, 2001 | 180 |
| Additions charged to income tax expense | 82 |
| Reductions credited to income tax expense | (26) |
| Balance December 31, 2002 | 236 |
| Additions charged to goodwill, due to acquisitions | 273 |
| Additions charged to income tax expense | 62 |
| Reductions credited to income tax expense | (94) |
| Balance December 31, 2003 | $ 477 |

[1] The Corporation reclassified $48 million provided for aerospace customer financing exposures from the allowance for doubtful accounts primarily to accrued liabilities.

## CONSENT OF INDEPENDENT AUDITORS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-60276), in the Registration Statement on Form S-4 (No. 333-77991) as amended by Post-Effective Amendment No. 1 on Form S-8 (No. 333-77991-01), and in the Registration Statements on Form S-8 (Nos. 333-100724, 333-100723, 333-100718, 333-21853, 333-18743, 333-21851, 33-57769, 33-26580, 33-26627, 33-51385, 33-58937, 333-77817, 333-110020, 333-103307, 333-103306, 333-103305 and 333-82911) of United Technologies Corporation of our report dated January 20, 2004 relating to the financial statements, which appears in the 2003 Annual Report to Shareowners, which is incorporated by reference in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated January 20, 2004 on the Financial Statement Schedule, which appears on page S-I of this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Hartford, Connecticut
February 4, 2004

**Exhibit 3(i)**

(CONFORMED COPY)

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UNITED TECHNOLOGIES CORPORATION

Restated
Certificate of Incorporation

December 11, 2003

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RESTATED

CERTIFICATE OF INCORPORATION

of

UNITED TECHNOLOGIES CORPORATION

Pursuant to Section 245

of the General Corporation Law

of the State of Delaware

---

Original Certificate of Incorporation filed

with the Secretary of State

of the State of Delaware

on July 21, 1934,

under the name

United Aircraft Corporation

---

FIRST: The name of the Corporation is UNITED TECHNOLOGIES CORPORATION.

SECOND: Its registered office or place of business in the State of Delaware is to be located at Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent is The Corporation Trust Company and the address of the said registered agent is Corporation Trust Center, 1209 Orange Street, in the said City of Wilmington.

THIRD: The nature of the business, or objects or purposes to be transacted, promoted or carried on, are those necessary to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH: The total number of shares of stock of all classes which the Corporation shall have authority to issue is 2,250,000,000 shares, of which 250,000,000 shares shall be Preferred Stock of the par value of $1 each (hereinafter called “Preferred Stock”) and 2,000,000,000 shares shall be Common Stock of the par value of $1 each (hereinafter called “Common Stock”).

The designations and the powers, preferences and rights and the qualifications, limitations or restrictions thereof of the shares of each class are as follows:

1. The Preferred Stock may be issued from time to time in one or more series, the shares of each series to have such voting powers, full or limited, and such designations, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof as are stated and expressed herein or in the resolution or resolutions providing for the issue of such series, adopted by the Board of Directors as hereinafter provided.

2. Authority is hereby expressly granted to the Board of Directors of the Corporation, subject to the provisions of this Article Fourth and to the limitations prescribed by law, to authorize the issue of one or more series of Preferred Stock and with respect to each such series to fix by resolution or resolutions providing for the issue of such series the voting powers, full or limited, if any, of the shares of such series and the designations, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions thereof. The authority of the Board of Directors with respect to each series shall include, but not be limited to, the determination or fixing of the following:

(a) The designation of such series.

(b) The dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of stock, and whether such dividends shall be cumulative or non- cumulative.

(c) Whether the shares of such series shall be subject to redemption by the Corporation and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption.

(d) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series.

(e) Whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes or of any other series of any class or classes of stock of the Corporation, and, if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchange.

(f) The extent, if any, to which the holders of the shares of such series shall be entitled to vote with respect to the election of directors or otherwise.

(g) The restrictions, if any, on the issue or reissue or any additional Preferred Stock.

(h) The rights of the holders of the shares of such series upon the dissolution of, or upon the distribution of assets of, the Corporation.

3. Except as otherwise required by law and except for such voting powers with respect to the election of directors or other matters as may be stated in the resolution or resolutions of the Board of Directors providing for the issue of any series of Preferred Stock, the holders of any such series shall have no voting power whatsoever. Subject to such restrictions as may be stated in the resolution or resolutions of the Board of Directors providing for the issue of any series of Preferred Stock, any amendment to the Certificate of Incorporation which shall increase or decrease the authorized stock of any class or classes may be adopted by the affirmative vote of the holders of a majority of the outstanding shares of the voting stock of the Corporation.

4. No holder of stock of any class of the Corporation shall as such holder have any preemptive or preferential right of subscription to any stock of any class of the Corporation or to any obligations convertible into stock of the Corporation, issued or sold, or to any right of subscription to, or to any warrant or option for the purchase of any thereof, other than such (if any) as the Board of Directors of the Corporation, in its discretion, may determine from time to time.

5. The Corporation may from time to time issue and dispose of any of the authorized and unissued shares of Common Stock or of Preferred Stock for such consideration, not less than its par value, as may be fixed from time to time by the Board of Directors, without action by the stockholders. The Board of Directors may provide for payment therefor to be received by the Corporation in cash, property or services. Any and all such shares of the Preferred or Common Stock of the Corporation the issuance of which has been so authorized, and for which consideration so fixed by the Board of Directors has been paid or delivered, shall be deemed full paid stock and shall not be liable to any further call or assessment thereon.

FIFTH: The minimum amount of capital with which the Corporation will commence business is One Thousand Dollars.

SIXTH: The Corporation is to have perpetual existence.

SEVENTH: The private property of the stockholders shall not be subject to the payment of corporate debts.

EIGHTH: Subject to the provisions of the laws of the State of Delaware, the following provisions are adopted for the management of the business and for the conduct of the affairs of the Corporation, and for defining, limiting and regulating the powers of the Corporation, the directors and the stockholders:

(a) The books of the Corporation may be kept outside the State of Delaware at such place or places as may, from time to time, be designated by the Board of Directors.

(b) The business of the Corporation shall be managed by its Board of Directors; and the Board of Directors shall have power to exercise all the powers of the Corporation, including (but without limiting the generality hereof) the power to create mortgages upon the whole or any part of the property of the Corporation, real or personal, without any action of or by the stockholders, except as otherwise provided by statute or by the Bylaws.

(c) The number of the directors shall be fixed by the Bylaws, subject to alteration, from time to time, by amendment of the Bylaws either by the Board of Directors or the stockholders. An increase in the number of directors shall be deemed to create vacancies in the Board, to be filled in the manner provided in the Bylaws. Any director or any officer elected or appointed by the stockholders or by the Board of Directors may be removed at any time, in such manner as shall be provided in the Bylaws.

(d) The Board of Directors shall have power to make and alter Bylaws, *subject* to such restrictions upon the exercise of such power as may be imposed by the incorporators or the stockholders in any Bylaws adopted by them from time to time.

(e) The Board of Directors shall have power, in its discretion, to fix, determine and vary, from time to time, the amount to be retained as surplus and the amount or amounts to be set apart out of any of the funds of the Corporation available for dividends as working capital or a reserve or reserves for any proper purpose, and to abolish any such reserve in the manner in which it was created.

(f) The Board of Directors shall have power, in its discretion, from time to time, to determine whether and to what extent and at what times and places and under what conditions and regulations the books and accounts of the Corporation, or any of them, other than the stock ledger, shall be open to the inspection of stockholders; and no stockholder shall have any right to inspect any account or book or document of the Corporation, except as conferred by law or authorized by resolution of the directors or of the stockholders.

(g) Upon any sale, exchange or other disposal of the property and/or assets of the Corporation, payment therefor may be made either to the Corporation or directly to the stockholders in proportion to their interests, upon the surrender of their respective stock certificates, or otherwise, as the Board of Directors may determine.

(h) At all elections of directors of the Corporation, each holder of Common Stock shall be entitled to as many votes as shall equal the number of his shares of such stock multiplied by the number of directors to be elected by the holders of Common Stock, and he may cast all of such votes for a single director or may distribute them among the number to be voted for by the holders of the Common Stock, or any two or more of them as he may see fit.

(i) In case the Corporation shall enter into any contract or transact any business with one or more of its directors, or with any firm of which any director is a member, or with any corporation or association of which any director is a stockholder, director or officer, such contract or transaction shall not be invalidated or in any way affected by the fact that such director has or may have an interest therein which is or might be adverse to the interests of the Corporation, even though the vote of such director might have been necessary to obligate the Corporation upon such contract or transaction; *provided,* that the fact of such interest shall have been disclosed to the other directors or the stockholders of the Corporation, as the case may be, acting upon or with reference to such contract or transaction.

(j) Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

(k) The Corporation reserves the right to amend, alter, change, add to or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by statute; and all rights herein conferred are granted subject to this reservation.

NINTH: The stockholder vote required to approve Business Combinations (hereinafter defined) shall be as set forth in this Article Ninth.

SECTION 1. *Higher Vote for Business Combinations.* In addition to any affirmative vote required by law or this Certificate of Incorporation, and except as otherwise expressly provided in Section 3 of this Article Ninth:

A. any merger or consolidation of the Corporation or any Subsidiary (as hereinafter defined) with (i) any Interested Stockholder (as hereinafter defined) or (ii) any other corporation (whether or not itself an Interested Stockholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Stockholder; or

B. any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Stockholder or any Affiliate of any Interested Stockholder of any assets of the Corporation or any Subsidiary having an aggregate Fair Market Value of $25,000,000 or more; or

C. the issuance or transfer by the Corporation or any subsidiary (in one transaction or a series of transactions) of any securities of the Corporation or any Subsidiary to any Interested Stockholder or any Affiliate of any Interested Stockholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate Fair Market Value of $25,000,000 or more; or

D. the adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of an Interested Stockholder or any Affiliate of any Interested Stockholder; or

E. any reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Stockholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Corporation or any Subsidiary which is directly or indirectly owned by any Interested Stockholder or any Affiliate of any Interested Stockholder;

shall require the affirmative vote of the holders of at least 80% of the voting power of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"), voting together as a single class (it being understood that for purposes of this Article Ninth, each share of the Voting Stock shall have the number of votes granted to it pursuant to Article Fourth of this Certificate of Incorporation). Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

SECTION 2. *Definition of "Business Combination"*. The term "Business Combination" as used in this Article Ninth shall mean any transaction which is referred to in any one or more of paragraphs A through E of Section 1.

SECTION 3. *When Higher Vote is Not Required.* The provisions of Section 1 of this Article Ninth shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as is required by law and any other provision of this Certificate of Incorporation, if in the case of a Business Combination that does not involve any cash or other consideration being received by the stockholders of the Corporation, solely in their capacities as stockholders, the condition specified in the following paragraph A is met, or if in the case of any other Business Combination, the conditions specified in either of the following paragraphs A or B are met:

A. *Approval by Disinterested Directors.* The Business Combination shall have been approved by a majority of the Disinterested Directors (as hereinafter defined).

B. *Price and Procedure Requirements.* All of the following conditions shall have been met:

(i) The aggregate amount of the cash and the Fair Market Value (as hereinafter defined) as of the date of the consummation of the Business Combination (the "Consummation Date") of the consideration other than cash to be received per share by holders of Common Stock in such Business Combination shall be an amount at least equal to the higher of the following (it being intended that the requirements of this paragraph B(i) shall be required to be met with

respect to all shares of Common Stock outstanding, whether or not the Interested Stockholder has previously acquired any shares of the Common Stock):

(a) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of Common Stock acquired by it (1) within the two-year period immediately prior to the first public announcement of the proposal of the Business Combination (the "Announcement Date") or (2) in the transaction in which it became an Interested Stockholder, whichever is higher, plus interest compounded annually from the date on which the Interested Stockholder became an Interested Stockholder through the Consummation Date at the prime rate of interest of Citibank, N.A. (or other major bank headquartered in New York City selected by a majority of the Disinterested Directors) from time to time in effect in New York City, less the aggregate amount of any cash dividends paid, and the Fair Market Value of any dividends paid in other than cash, per share of Common Stock from the date on which the Interested Stockholder became an Interested Stockholder through the Consummation Date in an amount up to but not exceeding the amount of such interest payable per share of Common Stock; or

(b) the Fair Market Value per share of Common Stock on the Announcement Date.

(ii) The aggregate amount of the cash and the Fair Market Value as of the Consummation Date of the consideration other than cash to be received per share by holders of shares of any class of outstanding Voting Stock, other than the Common Stock, in such Business Combination shall be an amount at least equal to the highest of the following (it being intended that the requirements of this paragraph B (ii) shall be required to be met with respect to all shares of every such other class of outstanding Voting Stock, whether or not the Interested Stockholder has previously acquired any shares of a particular class of Voting Stock):

(a) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the Interested Stockholder for any shares of such class of Voting Stock acquired by it (1) within the two-year period immediately prior to the Announcement Date or (2) in the transaction in which it became an Interested Stockholder, whichever is higher, plus interest compounded annually from the date on which the Interested Stockholder became an Interested Stockholder through the Consummation Date at the prime rate of interest of Citibank, N.A. (or other major bank headquartered in New York City selected by a majority of the Disinterested Directors) from time to time in effect in New York City, less the aggregate amount of any cash dividends paid, and the Fair Market Value of any dividends paid in other than cash, per share of such class of Voting Stock from the date on which the Interested Stockholder became an Interested Stockholder through the Consummation Date in an amount up to but not exceeding the amount of such interest payable per share of such class of Voting Stock;

(b) the Fair Market Value per share of such class of Voting Stock on the Announcement Date; or

(c) the highest preferential amount per share to which the holders of shares of such class of Voting Stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation.

(iii) The consideration to be received by holders of a particular class of outstanding Voting Stock (including Common Stock) shall be in cash or in the same form as the Interested Stockholder has previously paid for shares of such class of Voting Stock. If the Interested Stockholder has paid for shares of any class of Voting Stock with varying forms of consideration, the form of consideration for such class of Voting Stock shall be either cash or the form used to acquire the largest number of shares of such class of Voting Stock previously acquired by it.

(iv) After such Interested Stockholder has become an Interested Stockholder and prior to the consummation of such Business Combination: (a) except as approved by a majority of the Disinterested Directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on the outstanding Preferred Stock; (b) there shall have been (1) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Disinterested Directors, and (2) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate is approved by a majority of the Disinterested Directors; and (c) such Interested Stockholder shall have not become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Interested Stockholder becoming an Interested Stockholder.

(v) After such Interested Stockholder has become an Interested Stockholder, such Interested Stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Corporation.

(vi) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public stockholders of the Corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

SECTION 4. *Certain Definitions.* For the purposes of this Article Ninth:

A. A “person” shall mean any individual, firm, corporation or other entity.

B. “Interested Stockholder” shall mean any person (other than the Corporation or any Subsidiary) who or which:

(i) is the beneficial owner, directly or indirectly, of more than 10% of the voting power of the outstanding Voting Stock; or

(ii) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding Voting Stock; or

(iii) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

C. A person shall be a “beneficial owner” of any Voting Stock:

(i) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or

(ii) which such person or any of its Affiliates or Associates has (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding; or

(iii) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

D. For the purposes of determining whether a person is an Interested Stockholder pursuant to paragraph B of this Section 4, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of paragraph C of this Section 4 but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

E. “Affiliate” or “Associate” shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on January 1, 1983.

F. “Subsidiary” means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Corporation; provided, however, that for the purposes of the definition of Interested Stockholder set forth in paragraph B of this Section 4, the term “Subsidiary” shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

G. “Disinterested Director” means any member of the Board of Directors of the Corporation (the “Board”) who is unaffiliated with the Interested Stockholder and was a member of the Board prior to the time that the Interested Stockholder became an Interested Stockholder, and any successor of a Disinterested Director who is unaffiliated with the Interested Stockholder and is recommended to succeed a Disinterested Director by a majority of Disinterested Directors then on the Board.

H. “Fair Market Value” means: (i) in the case of stock, the highest closing sale price during the 30- day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such exchange, the highest closing bid quotation with respect to a share of

such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc., Automated Quotations System or any system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined by a majority of the Disinterested Directors in good faith; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by a majority of the Disinterested Directors in good faith.

I. In the event of any Business Combination in which the Corporation survives, the phrase "consideration other than cash to be received" as used in paragraph B(i) and (ii) of Section 3 of this Article Ninth shall include the shares of Common Stock and/or the shares of any other class of outstanding Voting Stock retained by the holders of such shares.

SECTION *5. Powers of Disinterested Directors.* A majority of the Disinterested Directors of the Corporation shall have the power and duty to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article Ninth, including without limitation (A) whether a person is an Interested Stockholder, (B) the number of shares of Voting Stock beneficially owned by any person, (C) whether a person is an Affiliate or Associate of another, (D) whether the requirements of paragraph B of Section 3 have been met with respect to any Business Combination, and (E) whether the assets which are the subject of any Business Combination have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any Business Combination has, an aggregate Fair Market Value of $25,000,000 or more; and the good faith determination of a majority of the Disinterested Directors on such matters shall be conclusive and binding for all the purposes of this Article Ninth.

SECTION 6. *No effect on Fiduciary Obligations of Interested Stockholders.* Nothing contained in this Article Ninth shall be construed to relieve the Board of Directors or any Interested Stockholder from any fiduciary obligation imposed by law.

SECTION 7. *Amendment, Repeal, etc.* Notwithstanding any other provisions of this Certificate of Incorporation or the Bylaws of the Corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this Certificate of Incorporation or the Bylaws of the Corporation), the affirmative vote of the holders of 80% or more of the voting power of the shares of the then outstanding Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Ninth of this Certificate of Incorporation; provided, however, that the preceding provisions of this Section 7 shall not be applicable to any amendment to this Article Ninth of this Certificate of Incorporation, and such amendment shall require only such affirmative vote as is required by law and any other provisions of this Certificate of Incorporation, if such amendment shall have been approved by a majority of the Disinterested Directors.

TENTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law for payment of unlawful dividends or unlawful stock repurchases or redemption, or (iv) for any transaction from which the director derived an improper personal benefit.

I, WILLIAM H. TRACHSEL, Senior Vice President, General Counsel and Secretary of the aforesaid Corporation, hereby certify that the foregoing Restated Certificate of Incorporation of the said Corporation was duly proposed by the Board of Directors and that it only restates and integrates and does not further amend the provisions of the Corporation's certificate of incorporation as theretofore amended or supplemented, and that there is no discrepancy between those provisions and the provisions of the restated certificate.

IN WITNESS WHEREOF, I have executed this Restated Certificate of Incorporation under the seal of the aforesaid Corporation, duly attested, this 11th day of December 2003.

/s/ William H. Trachsel

William H. Trachsel
Senior Vice President, General Counsel and Secretary

Attest: [CORPORATE SEAL]

/s/ Charles F. Hildebrand

Charles F. Hildebrand
*Assistant Secretary*

State of Connecticut
SS: Hartford
County of Hartford

BE IT REMEMBERED that on this 11th day of December 2003 personally came before me, a notary public in and for the said State and County, WILLIAM H. TRACHSEL, Senior Vice President, General Counsel and Secretary of UNITED TECHNOLOGIES CORPORATION, a Corporation of the State of Delaware and the Corporation described in the foregoing Restated Certificate of Incorporation, known to me personally to be such Senior Vice President, General Counsel and Secretary, and he duly executed the said Restated Certificate of Incorporation before me and acknowledged the said Restated Certificate of Incorporation to be his act and deed and the act and deed of the said Corporation and the facts stated therein are true; and that the seal affixed to the said Restated Certificate of Incorporation and attested by the Assistant Secretary of the said Corporation is the common or corporate seal of the said Corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office the day and year as aforesaid.

/s/ Patricia N. Golias

Patricia N. Golias
*Notary Public*
*My Commission Expires November 30, 2004*

[NOTARY SEAL]

# UNITED TECHNOLOGIES CORPORATION
# SENIOR EXECUTIVE SEVERANCE PLAN

## AMENDMENT

Whereas, the Board of Directors has approved certain modifications and limitations to benefits under the Senior Executive Severance Plan (the "Plan") effective December 10, 2003 for participants who become covered under the Plan on and after such date;

Now therefore, the Plan is hereby amended as follows:

1. The paragraph captioned **"Agreements"** shall be amended and restated as follows:

   **Agreements.** Participants who became covered under the Plan before December 10, 2003 shall enter into a Senior Executive Severance Agreement with the Corporation substantially in the form approved by the Board and attached to this Plan as Exhibit A. Participants who become covered under the Plan on or after December 10, 2003 shall enter into a Senior Executive Severance Agreement substantially in the form approved by the Board and attached to this Plan as Exhibit B. The word "Agreement" as used herein refers to both forms of Senior Executive Severance Agreement unless otherwise specified. Each Agreement shall be executed by the Corporation and the Participant.

2. The paragraph captioned **"Severance Payments and Adjustments"** shall be amended and restated as follows:

   **Severance Payments and Adjustments.**

   **(a) Participants who become covered before December 10, 2003.**

   In the event of termination of the Participant's employment with the Corporation (including its Subsidiaries) for any reason (whether voluntary or involuntary, other than as a consequence of death or disability or of retirement at or after normal retirement date under the Corporation's pension plans) within (2) years after a Change of Control of the Corporation: (i) a cash payment will be made of up to three (3) times the Participant's highest annual salary and incentive compensation during the last three (3) years; (ii) a cash payment will be made of an amount equivalent to the maximum value of outstanding

performance units (or other non-stock rights); (iii) there will be accelerated vesting of outstanding stock options and stock appreciation rights and any other award under the United Technologies Corporation Long Term Incentive Plan (including awards subject to performance-based vesting criteria as well as awards subject to time-based vesting) or any similar plan that is either a succession plan or a predecessor plan to such plan; (iv) special retirement benefits will be provided to those Participants who would have qualified for benefits under the Corporation's pension plans if they had remained in the employ of the Corporation for an additional period of up to three (3) years; (v) other fringe benefits will continue or equivalent benefits will be provided for a period of up to three (3) years following termination; and (vi) such other arrangements will be made as the Board deems appropriate.

**(b) Participants who become covered on or after December 10, 2003.**

In the event of termination of the Participant's employment with the Corporation (including its Subsidiaries) for any reason (whether voluntary or involuntary, other than as a consequence of death or disability or of retirement at or after normal retirement date under the Corporation's pension plans) within two (2) years after a Change of Control of the Corporation, the Participant will receive a lump sum cash severance payment equal to 2.99 times: (a) the Participants then current base annual salary; plus (b) the amount of the most recent incentive compensation award under the Corporation's Annual Executive Incentive Compensation Plan (the "2.99X Severance Benefit"). If the Executive elects to receive extended coverage under any of the Corporation's welfare or fringe benefit programs, the amount of the 2.99X Severance Benefit will be reduced by the value of such extended coverage. Additional cash payments received by the Participant following termination that constitute a form of severance benefit will be subject to the 2.99X Severance Benefit limit and will reduce the amount of the lump sum severance payment. Acceleration of vesting of Long Term Incentive Plan awards as described in clause (iii) of the preceding paragraph will not be provided for in the Agreement. The treatment of such awards will be determined under the Long Term Incentive Plan and the value of any actions taken under such plan in response to a Change in Control shall not be included in the determination of the 2.99X Severance Benefit and will not reduce the amount of the lump sum payment. Special retirement benefits as described in clause (iv) of the preceding paragraph, (or other additional pension service recognition) will not be provided. The amounts paid under pension and savings plans will be determined in accordance with

the terms of such plans without modification by this Plan. Agreements will continue to provide for certain additional payments in the event a Participant becomes subject to an excise tax under Code Section 4999 and the amount of any such payments will not be included in the determination of the 2.99X Severance Benefit and will not reduce the amount of the lump sum payment. The payment of severance benefits in excess of the amounts described in this paragraph (B) shall require approval by a majority vote of the Corporation's Shareowners.

**UNITED TECHNOLOGIES CORPORATION**

William L. Bucknall, Jr.
Senior Vice President Human Resources
and Organization

Attest:

Richard M. Kaplan

Date: February 4, 2004

**EXHIBIT A**

**SENIOR EXECUTIVE SEVERANCE AGREEMENT**

**AGREEMENT** between United Technologies Corporation, a Delaware Corporation (the "Corporation"), and ____________(the "Executive").

**WITNESSETH:**

**WHEREAS**, the Board of Directors of the Corporation has approved the Corporation entering into severance agreements with key executives of the Corporation and its subsidiaries pursuant to the Senior Executive Severance Plan (the "Plan"); and

**WHEREAS**, the Executive is a key executive of the Corporation or one of its subsidiaries and has been selected by the Board of Directors of the Corporation as a key executive to be a Participant under the Plan;

**WHEREAS**, should the Corporation receive any proposal from a third person concerning a possible business combination with, or acquisition of equity securities of, the Corporation, the Board believes it imperative that the Corporation and the Board be able to rely upon the Executive to continue in his position, and that they be able to receive and rely upon the Executive's advice, if they request it, as to the best interests of the Corporation and its shareowners, without concern that the Executive might be distracted by the personal uncertainties and risks created by such a proposal; and

**WHEREAS**, should the Corporation receive any such proposals, in addition to the Executive's regular duties, he or she may be called upon to assist in the

assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Corporation and its shareowners, and to take such other actions as the Board might determine to be appropriate;

**NOW, THEREFORE**, to assure the Corporation that it will have the continued dedication of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Corporation, and to induce the Executive to remain in the employ of the Corporation, and for other good and valuable consideration, the Corporation and the Executive agree as follows:

In the event a third person begins a tender or exchange offer, circulates a proxy to shareowners, or takes other steps to effect a Change of Control of the Corporation (as hereafter defined), the Executive agrees that he or she will not voluntarily leave the employ of the Corporation, and will render the services contemplated in the recitals to this Agreement and the Plan, until the third person has abandoned or terminated such efforts to effect a Change of Control or until a Change of Control has occurred.

In the event the Executive's employment with the Corporation (including its subsidiaries) terminates for any reason (either voluntary or involuntary, other than as a consequence of his or her death or disability, or of retirement at or after normal retirement date under the Corporation's pension plans) within two (2) years after a Change of Control of the Corporation (as hereafter defined):

A. **Lump Sum Cash Payment.** On or before the Executive's last day of employment with the Corporation, the Corporation will pay to the Executive

as compensation for services rendered to the Corporation a lump sum cash amount (subject to any applicable payroll or other taxes required to be withheld) equal to three times the highest annual compensation (including only base salary and incentive compensation) paid or payable to the Executive by the Corporation for any of the three (3) years ending with the date of the Executive's termination. (The incentive compensation referred to in this paragraph is that amount paid or payable under the Incentive Compensation Plan, or any successor plans, of the Corporation.) In the event there are fewer than thirty-six (36) whole or partial months remaining from the date of the Executive's termination to his normal retirement date, the amount calculated in this paragraph will be reduced by multiplying it by a fraction the numerator of which is the number of whole or partial months so remaining to his normal retirement date and the denominator of which is thirty-six (36).

B. **Vesting of Long Term Incentive Awards.** The vesting period for any outstanding awards under the United Technologies Corporation Long Term Incentive Plan ( including awards subject to performance-based vesting criteria as well as time-based vesting), and any successor plan shall be changed to one (1) year from the date of grant of the particular Long Term Incentive Award. In addition, the Executive will have the right to exercise stock option awards and similar market-based Long Term Incentive Awards for a period of seven months following the termination of employment.

C. **Special Retirement Benefits.** The Executive will be eligible to receive "Special Retirement Benefits" as provided herein, so that the total retirement benefit will approximate the amount of retirement benefit that he

or she would have received had he or she continued in the employ of the Corporation for an additional three (3) years following termination (or until normal retirement date, whichever is earlier). These benefits will include all ancillary benefits, such as early retirement and survivor rights and benefits available at retirement, as well as benefits (if any) under any excess benefit Pension Plan and any successor plans of the Corporation. If the Executive's credited service with the Corporation plus three (3) years would result in vested benefits and/or eligibility for ancillary benefits under the Corporation's pension plans, the amount payable to the Executive or his or her beneficiaries hereunder shall equal the excess of the amount specified in paragraph (i) over that in (ii) below:

(i) The benefits that would be paid to the Executive or his or her beneficiaries, if the three (3) years (or the period to his normal retirement age, if less) following his termination are added to his credited service under the Corporation's pension plans (including the Pension Preservation Plan or any successor plans of the Corporation), and his final average earnings are the same as his actual average earnings (including the amount specified in Paragraph A as compensation for services rendered to the Corporation in the year of his termination);

(ii) The benefit that is payable to the Executive or his or her beneficiaries under the Corporation's pension plans (including the Pension Preservation Plan or any successor plans of the Corporation).

All these Special Retirement Benefits are provided on an unfunded basis and are not intended to meet the qualification requirements of Section 401 of the Internal Revenue Code. All Special Retirement Benefits shall be payable solely from the general assets of the Corporation or its appropriate affiliate.

D. **Other Provisions**.

(i) **Insurance and Other Special Benefits**. The Executive's participation in the life, accident and health insurance plans of the Corporation, and in fringe benefits provided the Executive prior to the Change of Control or his termination, shall be continued, or equivalent benefits provided, by the Corporation, at no direct cost to him, for a period of three (3) years from the date his employment terminates (or until his normal retirement date, whichever is sooner).

(ii) **Relocation Assistance**. Should the Executive move his residence in order to pursue other business opportunities within two (2) years of his termination, he will be reimbursed for any expenses incurred in that relocation (including taxes payable on the reimbursement) which are not reimbursed by another employer. Benefits under this provision will include the assistance in selling the Executive's home which was customarily provided by the Corporation to transferred executives prior to the Change of Control.

(iii) **Incentive Compensation**. Any awards previously made to the Executive under the Corporation's Incentive Compensation Plan and not previously paid shall immediately vest on the date of his

termination and shall be paid on that date and included as compensation in the year paid.

(iv) **Savings and Other Plans**. The Executive's participation in any applicable Savings, Retirement, Profit Sharing, Stock Option, and/or Stock Appreciation Rights Plan of the Corporation or any of its subsidiaries shall continue only through the last day of his employment. Any terminating distribution and/or vested rights under such Plans shall be governed by the terms of those respective Plans.

(v) **Continuing Obligations**. The Executive shall retain in confidence any confidential information known to him concerning the Corporation and its business so long as such information is not publicly disclosed.

E. **Certain Additional Payments by the Corporation**.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Corporation to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section E) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Executive shall be entitled to

receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section E(c), all determinations required to be made under this Section E, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by PricewaterhouseCoopers (the "Accounting Firm") which shall provide detailed supporting calculations both to the Corporation and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Corporation. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Corporation. Any Gross-Up Payment, as determined pursuant to this Section E, shall be paid by the Corporation to the Executive within five days of the receipt of the Accounting Firm's determination. If the

Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Corporation and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Corporation should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Corporation exhausts its remedies pursuant to Section E(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Corporation to or for the benefit of the Executive.

(c) The Executive shall notify the Corporation in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Corporation of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Corporation of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the

Corporation (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Corporation notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Corporation any information reasonably requested by the Corporation relating to such claim,

(ii) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Corporation,

(iii) cooperate with the Corporation in good faith in order effectively to contest such claim, and

(iv) permit the Corporation to participate in any proceedings relating to such claim;

provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing

provisions of this Section E(c), the Corporation shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs the Executive to pay such claim and sue for a refund, the Corporation shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Corporation pursuant to Section E(c), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Corporation's complying with the requirements of Section E(c)) promptly pay to the Corporation the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Corporation pursuant to Section E(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Corporation does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

F. **Definition of Change of Control**. For the purpose of this Agreement, a "Change of Control" shall be deemed to have taken place if:

(i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, acquires shares of the Corporation having 20% or more of the total number of votes that may be cast for the election of Directors of the Corporation; or

(ii) as the result of any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing transactions (a "Transaction"), the

persons who were directors of the Corporation before the Transaction shall cease to constitute a majority of the Board of Directors of the Corporation or any successor to the Corporation.

G. **General.**

(i) **Indemnification**. If litigation shall be brought to enforce or interpret any provision contained herein, the Corporation hereby indemnifies the Executive for his reasonable attorney's fees and disbursements incurred in such litigation, and hereby agrees to pay pre-judgment interest on any money judgment obtained by the Executive calculated at the Citibank prime interest rate in effect from time to time from the date that payment(s) to him should have been made under this Agreement.

(ii) **Payment Obligations Absolute**. The Corporation's obligation to pay the Executive the compensation and to make the arrangements provided herein shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation may have against him or anyone else. All amounts payable by the Corporation hereunder shall be paid without notice or demand. Except as expressly provided herein, the Corporation waives all rights which it may now have or may hereafter have conferred upon it, by statute or otherwise, to terminate, cancel or rescind this Agreement in whole or in part. Subject to the provisions of paragraph E, each and every payment made hereunder by the Corporation shall be final and the Corporation will not seek to recover

all or any part of such payment from the Executive or from whosoever may be entitled thereto, for any reason whatsoever.

(iii) **Successors**. This Agreement shall be binding upon and inure to the benefit of the Executive and his estate, and the Corporation and any successor of the Corporation, but neither this Agreement nor any rights arising hereunder may be assigned or pledged by the Executive.

(iv) **Severability**. Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(v) **Controlling Law**. This Agreement shall in all respects be governed by, and construed in accordance with, the laws of the State of Delaware.

(vi) **Termination**. This Agreement shall terminate if, in accordance with the Plan, the Board determines that the Executive is no longer a key executive to be included within the Plan and so notifies the Executive; except that, such determination shall not be made, and if made shall have no effect, during any period of time when the Corporation has knowledge that any third person has taken steps reasonably calculated to effect a Change of Control until, in the

opinion of the Board, the third person has abandoned or terminated his efforts to effect a Change of Control. Any decision by the Board that the third person has abandoned or terminated his efforts to effect a Change of Control shall be conclusive and binding on the Executive.

**IN WITNESS WHEREOF**, the parties have executed this Agreement on this ______ day of ______, 200_.

**UNITED TECHNOLOGIES CORPORATION**

By: ________________________________________

________________________________________

**EXHIBIT B**

**SENIOR EXECUTIVE SEVERANCE AGREEMENT**

**AGREEMENT** between United Technologies Corporation, a Delaware Corporation (the "Corporation"), and__________________________________ (the "Executive").

**WITNESSETH:**

**WHEREAS**, the Board of Directors of the Corporation has approved the Corporation entering into severance agreements with key executives of the Corporation and its subsidiaries pursuant to the Senior Executive Severance Plan, as amended (the "Plan"); and

**WHEREAS**, the Executive is a key executive of the Corporation or one of its subsidiaries and has been selected by the Board of Directors of the Corporation as a key executive to be a Participant under the Plan;

**WHEREAS**, should the Corporation receive any proposal from a third person concerning a possible business combination with, or acquisition of equity securities of, the Corporation, the Board believes it imperative that the Corporation and the Board be able to rely upon the Executive to continue in his or her position, and that they be able to receive and rely upon the Executive's advice, if they request it, as to the best interests of the Corporation and its shareowners, without concern that the Executive might be distracted by the personal uncertainties and risks created by such a proposal; and

**WHEREAS**, should the Corporation receive any such proposals, in addition to the Executive's regular duties, he or she may be called upon to assist in the

assessment of such proposals, advise management and the Board as to whether such proposals would be in the best interests of the Corporation and its shareowners, and to take such other actions as the Board might determine to be appropriate;

**NOW, THEREFORE**, to assure the Corporation that it will have the continued dedication of the Executive and the availability of his advice and counsel notwithstanding the possibility, threat or occurrence of a bid to take over control of the Corporation, and to induce the Executive to remain in the employ of the Corporation, and for other good and valuable consideration, the Corporation and the Executive agree as follows:

In the event a third person begins a tender or exchange offer, circulates a proxy to shareowners, or takes other steps to effect a Change of Control of the Corporation (as hereafter defined), the Executive agrees that he or she will not voluntarily leave the employ of the Corporation, and will render the services contemplated in the recitals to this Agreement and the Plan, until the third person has abandoned or terminated such efforts to effect a Change of Control or until a Change of Control has occurred.

In the event the Executive's employment with the Corporation (including its subsidiaries) terminates for any reason (either voluntary or involuntary, other than as a consequence of his death or disability, or of retirement at or after normal retirement date under the Corporation's pension plans) within two (2) years after a Change of Control of the Corporation (as hereafter defined) the following provisions will apply:

A. **Lump Sum Cash Payment**. On or before the Executive's last day of employment with the Corporation, the Corporation will pay to the Executive as compensation for services rendered to the Corporation a lump sum cash amount (subject to any applicable payroll or other taxes required to be withheld) equal to 2.99 multiplied times the sum of (a) the Executive's current annual base salary plus (b) the amount of the Executive's most recent incentive compensation award. (The incentive compensation referred to in this paragraph is that amount paid or payable under the Annual Executive Incentive Compensation Plan, or any successor plans, of the Corporation.) In the event there are fewer than thirty-six (36) whole or partial months remaining from the date of the Executive's termination to his or her normal retirement date, the amount calculated in this paragraph will be reduced by multiplying it by a fraction the numerator of which is the number of whole or partial months so remaining to his normal retirement date and the denominator of which is thirty-six (36).

B. **Certain Additional Payments by the Corporation**.

(i) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Corporation to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section B) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter

collectively referred to as the “Excise Tax”), then the Executive shall be entitled to receive an additional payment (a “Gross-Up Payment”) in an amount such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(ii) Subject to the provisions of Section B(iii), all determinations required to be made under this Section B, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by PricewaterhouseCoopers (the “Accounting Firm”) which shall provide detailed supporting calculations both to the Corporation and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Corporation. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Corporation. Any Gross-Up Payment, as determined pursuant to this Section B, shall be paid by the Corporation to the Executive within five days

of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Corporation and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Corporation should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Corporation exhausts its remedies pursuant to Section B(iii) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Corporation to or for the benefit of the Executive.

(iii) The Executive shall notify the Corporation in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Corporation of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Corporation of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-

day period following the date on which it gives such notice to the Corporation (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Corporation notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(a) give the Corporation any information reasonably requested by the Corporation relating to such claim,

(b) take such action in connection with contesting such claim as the Corporation shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Corporation,

(c) cooperate with the Corporation in good faith in order effectively to contest such claim, and

(d) permit the Corporation to participate in any proceedings relating to such claim,

provided, however, that the Corporation shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment

of costs and expenses. Without limitation on the foregoing provisions of this Section B(iii), the Corporation shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Corporation shall determine; provided, however, that if the Corporation directs the Executive to pay such claim and sue for a refund, the Corporation shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Corporation's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by the Corporation pursuant to Section B(iii), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Corporation's complying with the requirements of Section B(iii) promptly pay to the Corporation the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Corporation pursuant to Section B(iii), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Corporation does not notify the Executive in writing of its intent to contest such denial or refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

C. **Definition of Change of Control.** For the purpose of this Agreement, a "Change of Control" shall be deemed to have taken place if:

(i) a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, acquires shares of the Corporation having 20% or more of the total number of votes that may be cast for the election of Directors of the Corporation; or

(ii) as the result of any cash tender or exchange offer, merger or other business combination, sale of assets or contested election, or

any combination of the foregoing transactions (a “Transaction”), the persons who were directors of the Corporation before the Transaction shall cease to constitute a majority of the Board of Directors of the Corporation or any successor to the Corporation.

D. **General**.

(i) **Indemnification.** If litigation shall be brought to enforce or interpret any provision contained herein, the Corporation hereby indemnifies the Executive for his reasonable attorney’s fees and disbursements incurred in such litigation, and hereby agrees to pay pre-judgment interest on any money judgment obtained by the Executive calculated at the Citibank prime interest rate in effect from time to time from the date that payment(s) to him should have been made under this Agreement.

(ii) **Payment Obligations Absolute.** The Corporation’s obligation to pay the Executive the compensation and to make the arrangements provided herein shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation may have against him or anyone else. All amounts payable by the Corporation hereunder shall be paid without notice or demand. Except as expressly provided herein, the Corporation waives all rights which it may now have or may hereafter have conferred upon it, by statute or otherwise, to terminate, cancel or rescind this Agreement in whole or in part. Subject to the provisions of paragraph B, each and every payment made hereunder by the

Corporation shall be final and the Corporation will not seek to recover all or any part of such payment from the Executive or from whosoever may be entitled thereto, for any reason whatsoever.

(iii) **Successors.** This Agreement shall be binding upon and inure to the benefit of the Executive and his estate, and the Corporation and any successor of the Corporation, but neither this Agreement nor any rights arising hereunder may be assigned or pledged by the Executive.

(iv) **Severability.** Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(v) **Controlling Law.** This Agreement shall in all respects be governed by, and construed in accordance with, the laws of the State of Delaware.

(vi) **Termination.** This Agreement shall terminate if, in accordance with the Plan, the Board determines that the Executive is no longer a key executive to be included within the Plan and so notifies the Executive; except that, such determination shall not be made, and if made shall have no effect, during any period of time when the Corporation has knowledge that any third person has taken steps

reasonably calculated to effect a Change of Control until, in the opinion of the Board, the third person has abandoned or terminated his efforts to effect a Change of Control. Any decision by the Board that the third person has abandoned or terminated his efforts to affect a Change of Control shall be conclusive and binding on the Executive.

(vii) **Continuing Obligations.** The Executive shall retain in confidence any confidential information known to him concerning the Corporation and its business so long as such information is not publicly disclosed.

**IN WITNESS WHEREOF**, the parties have executed this Agreement on this ______ day of ________, 200_.

**UNITED TECHNOLOGIES CORPORATION**

By: ______________________________

______________________________

Executive

**Exhibit 10.6**

**UNITED TECHNOLOGIES CORPORATION**
**LONG TERM INCENTIVE PLAN**

**AMENDMENT**

**Whereas**, the United Technologies Corporation Long Term Incentive Plan (the "Plan") was adopted by the Corporation and approved by shareowners on April 24, 1989 and subsequently amended and approved again by shareowners on April 25, 1995; and

**Whereas**, the New York Stock Exchange has amended its listing standards relative to shareholder approval requirements of equity compensation arrangements to require, among other things, that the Plan have a ten-year term limit effective from the date of the most recent shareholder approval;

Now therefore, the Plan is hereby amended, effective as follows:

1. Section 8 of the Plan is amended by adding the following sentence at the end thereof:

   The Plan shall in no event continue beyond April 24, 2005 unless extended by a majority vote of the Corporation's shareowners.

**UNITED TECHNOLOGIES CORPORATION**

William L. Bucknall, Jr.
Sr. Vice President Human Resources
and Organization

Attest:

Richard M. Kaplan

Date: January 28, 2004

**Exhibit 10.12**

# UNITED TECHNOLOGIES CORPORATION
# NONEMPLOYEE DIRECTOR STOCK OPTION PLAN

## Amendment 5

**Whereas**, the United Technologies Corporation Nonemployee Director Stock Option Plan (the “Plan”) was adopted by the Corporation and approved by shareowners April 23, 1996; and

**Whereas**, the New York Stock Exchange has amended its listing standards relative to shareholder approval requirements of equity compensation arrangements to require, among other things, that the Plan have a ten-year term limit effective from the date of the most recent shareholder approval;

Now therefore, the Plan is hereby amended as follows:

1. Section 13 of the Plan is amended and restated as follows:

13. **Termination of Plan**

The Plan shall continue in effect until such time as the Board acts to terminate the Plan, provided, however, that the Plan shall not continue beyond April 22, 2006 unless extended by a majority vote of the Corporation’s shareowners.

**UNITED TECHNOLOGIES CORPORATION**

William L. Bucknall, Jr.
Sr. Vice President Human Resources
and Organization

Attest:

Richard M. Kaplan

Date: January 28, 2004

**Exhibit 10.13**

# UNITED TECHNOLOGIES CORPORATION
# EMPLOYEE STOCK OPTION PLAN

## Amendment 1

**Whereas,** the Board of Directors wishes to amend the United Technologies Corporation Employee Stock Option Plan (the "Plan") to limit the total number of shares to be offered under the Plan to 20,000,000;

Now therefore, the Plan is hereby amended, effective January 1, 2003, as follows:

Section 6 of the Plan is amended and restated as follows:

**Limitation on Number of Shares**

The number of shares with respect to which Stock Option Awards may be issued may not exceed: (i) four million shares of Common Stock in any calendar year; and (ii) twenty million shares in total with respect to awards made on and after January 1, 2003. The foregoing limitations shall be subject to adjustment as provided for in Section 10 hereof.

**UNITED TECHNOLOGIES CORPORATION**

William H. Trachsel
Sr. Vice President, General Counsel and Secretary

Attest:

Richard M. Kaplan
Date: June 27, 2003

**Exhibit 10.14**

# UNITED TECHNOLOGIES CORPORATION

## EMPLOYEE SCHOLAR PROGRAM

United Technologies Corporation (“UTC”), through its Employee Scholar Program (the “Program”), encourages eligible employees to develop additional skills and engage in studies at accredited colleges and universities. Under the Program, UTC pays for covered tuition and textbook expenses for participating employees and provides certain awards of UTC Common Stock, options and stock units upon completion of associate’s, bachelor’s, master’s, doctorate and equivalent degrees.

Active employees of UTC and its participating affiliated companies in the United States and other countries are eligible to participate. Extended benefits are provided to certain employees whose positions are eliminated due to restructuring or layoff.

In recognition of the accomplishments of eligible employees who are awarded degrees from accredited educational institutions while participating in the program, shares of UTC Common Stock, stock options or stock units are awarded. US.-based employees who satisfy Program requirements will be awarded a number of shares of UTC Common Stock valued at $5,000 for those completing an associate’s degree and $10,000 for those completing a bachelor’s, master’s or doctorate degree. Alternatively, participants may elect to receive 250 UTC Common Stock options for those completing an associate’s degree, or 500 UTC Common Stock options for those completing a bachelor’s, master’s or doctorate degree. Employees based outside the U.S. who satisfy Program requirements will be awarded a number of shares of UTC Common Stock valued at 9% of the average UTC salary in that country for participants completing the equivalent of an associate’s degree and 18% of the average salary in that country for participants completing the equivalent of a bachelor’s, master’s, or doctorate degree. The number of shares awarded in each case is determined using the closing price of UTC Common Stock on the New York Stock Exchange (“NYSE”) on the first trading day of the month following submission of a qualifying award request.

A maximum of 400,000 shares of UTC Common Stock (including share equivalents) may be awarded annually under the Program, subject to an aggregate limitation of 4,000,000 shares (including share equivalents) during the period from January 1, 2003 through December 31, 2012. UTC reserves the right to suspend, terminate or modify the terms of the Program at any time. This summary of the Program is qualified in its entirety by reference to UTC’s detailed policies and procedures implementing the Program, as amended from time to time. The sole purpose of the Program is to facilitate and encourage educational development and achievement and it is not intended to and shall not be construed to constitute an employee benefit plan or compensatory arrangement.

**EXHIBIT 11**

**UNITED TECHNOLOGIES CORPORATION AND SUBSIDIARIES**
**Statement Re: Computations of Per Share Earnings**

**For the Five Years Ended December 31, 2003**
**(Millions of Dollars, except per share amounts)**

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| Net Income | $ 2,361 | $ 2,236 | $ 1,938 | $ 1,808 | $ 1,531 |
| ESOP Convertible Preferred Stock dividend | (24) | (31) | (31) | (32) | (33) |
| Basic earnings for period | $ 2,337 | $ 2,205 | $ 1,907 | $ 1,776 | $ 1,498 |
| ESOP Convertible Preferred Stock adjustment | 23 | 29 | 28 | 28 | 28 |
| Diluted earnings for period | $ 2,360 | $ 2,234 | $ 1,935 | $ 1,804 | $ 1,526 |
| Basic average number of shares outstanding during the period (thousands) | 473,775 | 472,441 | 470,252 | 470,124 | 465,611 |
| Stock awards (thousands) | 7,017 | 7,067 | 9,156 | 11,256 | 13,806 |
| ESOP Convertible Preferred Stock (thousands) | 22,115 | 26,071 | 25,978 | 26,630 | 27,287 |
| Diluted average number of shares outstanding during the period (thousands) | 502,907 | 505,579 | 505,386 | 508,010 | 506,704 |
| Basic earnings per common share | $ 4.93 | $ 4.67 | $ 4.06 | $ 3.78 | $ 3.22 |
| Diluted earnings per common share | $ 4.69 | $ 4.42 | $ 3.83 | $ 3.55 | $ 3.01 |

**Exhibit 12**

**UNITED TECHNOLOGIES CORPORATION AND SUBSIDIARIES**
**Statement Re: Computation of Ratios**

**(Millions of Dollars)**

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** |
| Fixed Charges: | | | | | |
| Interest expense | $ 375 | $ 381 | $ 426 | $ 382 | $ 260 |
| Interest capitalized | 10 | 16 | 22 | 18 | 15 |
| One-third of rents* | 87 | 71 | 68 | 65 | 65 |
| | $ 472 | $ 468 | $ 516 | $ 465 | $ 340 |
| Earnings: | | | | | |
| Income from continuing operations before income taxes and minority interests | $ 3,470 | $ 3,276 | $ 2,807 | $ 2,758 | $ 1,257 |
| Fixed charges per above | 472 | 468 | 516 | 465 | 340 |
| Less: interest capitalized | (10) | (16) | (22) | (18) | (15) |
| | 462 | 452 | 494 | 447 | 325 |
| Amortization of interest capitalized | 4 | 4 | 18 | 21 | 25 |
| Total Earnings | $ 3,936 | $ 3,732 | $ 3,319 | $ 3,226 | $ 1,607 |
| Ratio of Earnings to Fixed Charges | 8.34 | 7.97 | 6.43 | 6.94 | 4.73 |

* Reasonable approximation of the interest factor.

## Five Year Summary

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **For the year** | | | | | |
| Revenues | **$ 31,034** | $ 28,212 | $ 27,897 | $ 26,583 | $ 24,127 |
| Research and development | **1,027** | 1,191 | 1,254 | 1,302 | 1,292 |
| Income from continuing operations[1] | **2,361** | 2,236 | 1,938 | 1,808 | 841 |
| Net income | **2,361** | 2,236 | 1,938 | 1,808 | 1,531 |
| Earnings per share: | | | | | |
| Basic: | | | | | |
| Continuing operations | **4.93** | 4.67 | 4.06 | 3.78 | 1.74 |
| Net earnings | **4.93** | 4.67 | 4.06 | 3.78 | 3.22 |
| Net earnings adjusted for SFAS No. 142 | | | 4.51 | 4.18 | 3.51 |
| Diluted: | | | | | |
| Continuing operations | **4.69** | 4.42 | 3.83 | 3.55 | 1.65 |
| Net earnings | **4.69** | 4.42 | 3.83 | 3.55 | 3.01 |
| Net earnings adjusted for SFAS No. 142 | | | 4.25 | 3.92 | 3.27 |
| Cash dividends per common share | **1.14** | .98 | .90 | .825 | .76 |
| Average number of shares of Common Stock outstanding: | | | | | |
| Basic | **473.8** | 472.4 | 470.2 | 470.1 | 465.6 |
| Diluted | **502.9** | 505.6 | 505.4 | 508.0 | 506.7 |
| Return on average common shareowners' equity, after tax | **24.2%** | 24.9% | 23.6% | 24.4% | 24.6% |
| Cash flow from operations | **2,875** | 2,853 | 2,976 | 2,631 | 2,401 |
| Capital expenditures | **530** | 586 | 793 | 937 | 762 |
| Acquisitions, including debt assumed | **2,305** | 424 | 525 | 1,340 | 6,268 |
| Share repurchase | **401** | 700 | 599 | 800 | 822 |
| **At year end** | | | | | |
| Working capital, continuing operations | **$ 2,069** | $ 4,050 | $ 3,094 | $ 1,864 | $ 1,898 |
| Total assets | **34,648** | 29,194 | 27,030 | 25,369 | 24,366 |
| Long-term debt, including current portion | **4,632** | 4,676 | 4,371 | 3,772 | 3,419 |
| Total debt | **5,301** | 4,873 | 4,959 | 4,811 | 4,321 |
| Debt to total capitalization | **31%** | 37% | 37% | 39% | 38% |
| ESOP Preferred Stock, net [2] | | 428 | 429 | 432 | 449 |
| Shareowners' equity | **11,707** | 8,355 | 8,369 | 7,662 | 7,117 |
| Number of employees - continuing operations | **203,300** | 155,000 | 152,000 | 153,800 | 148,300 |

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

(1) 1999 Income from continuing operations excludes the results of UT Automotive which was sold in 1999 and reflected in discontinued operations. The 1999 amount reflects restructuring and related charges of $1.1 billion.

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

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

## Management's Discussion and Analysis

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

### Business Overview

The Corporation is a global provider of high technology products and services to the building systems and aerospace industries. Its operations are classified into five principal segments: Otis, Carrier, Chubb, Pratt & Whitney and Flight Systems. Otis, Carrier and Chubb serve customers in the commercial and residential property industries worldwide. Carrier also serves commercial and transport refrigeration customers. Pratt & Whitney and the Flight Systems segment, which includes Hamilton Sundstrand and Sikorsky Aircraft ("Sikorsky"), primarily serve commercial and government customers in the aerospace industry and also serve customers in industrial markets. The percentage of consolidated revenues contributed in 2003 and 2002 by the Corporation's businesses is as follows:

| | 2003 | 2002 |
|---|---|---|
| Commercial and industrial | **61%** | 57% |
| Military aerospace | **20%** | 20% |
| Commercial aerospace | **19%** | 23% |
| | **100%** | 100% |

In 2003 and 2002, approximately 57% and 58%, respectively, of the Corporation's sales were generated from original equipment sales and 43% and 42%, respectively, were generated from aftermarket sales. The Corporation's segment operating results are discussed in the Segment Review and Note 17 of the Notes to Consolidated Financial Statements.

### Business Environment

As worldwide businesses, the Corporation's operations are affected by global, regional and industry economic and political factors. However, the Corporation's geographic and industry diversity, as well as the diversity of its product sales and services, has helped limit the impact of any one industry or the economy of any single country on the consolidated operating results. Economic conditions in the commercial airline industry, global refrigeration industries, and commercial heating, ventilating and air conditioning ("HVAC") and construction markets negatively impacted the Corporation's consolidated operating results in 2003 for a portion of the year. Strength in commercial and residential construction markets and a recovery in commercial HVAC markets and commercial aviation are expected to contribute positively to the Corporation's results in 2004.

The Corporation's growth strategy contemplates acquisitions. The rate and extent to which appropriate acquisition opportunities are available and to which acquired businesses are integrated and anticipated synergies and cost savings are achieved can affect the Corporation's operations and results.

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| Europe | **$ 7,150** | $ 5,573 | $ 4,716 | **23%** | 19% | 17% |
| Asia Pacific | **4,505** | 3,647 | 3,420 | **14%** | 13% | 12% |
| Other Foreign | **2,602** | 2,581 | 2,785 | **8%** | 9% | 10% |
| U.S. Exports | **3,329** | 4,053 | 3,947 | **11%** | 14% | 14% |
| International Segment Revenues | **$17,586** | $15,854 | $14,868 | **56%** | 55% | 53% |

As part of its globalization strategy, the Corporation has invested in businesses in certain countries, including Argentina, Brazil, the People's Republic of China, Russia and South Africa, which carry higher levels of currency, political and economic risk. At December 31, 2003, the Corporation's net investment in any one of these countries was less than 3% of consolidated equity.

During 2003, the strengthening of the euro had a significant favorable impact on the translation of foreign currency-denominated operating results into U.S. dollars. The favorable impact of foreign currency translation contributed $.23 of diluted earnings per share in 2003.

**OTIS** is the world's largest elevator and escalator manufacturing, installation and service company. Otis designs, manufactures, sells and installs a wide range of passenger and freight elevators, escalators and moving walkways. In addition to new equipment, Otis provides modernization products and services to upgrade elevators and escalators as well as maintenance services for the products it sells and those of other manufacturers. It serves an international customer base, principally in the commercial and residential property industries. In 2003, 79% of its revenues were generated outside the U.S. Otis' results can be impacted by various economic factors, including fluctuations in commercial construction, labor costs, interest rates, foreign currency exchange rates and raw material costs.

During 2003, building construction activity in Europe was mixed but remained essentially flat, and in Asia, activity was strong in both China and South Korea, but remained weak in Japan. U.S. office building construction starts continued to decline and national office vacancy rates increased as market conditions remained soft.

**CARRIER** is the world's largest manufacturer and distributor of commercial and residential HVAC systems and refrigeration and equipment. Carrier provides aftermarket services and components for its products and those of other manufacturers in both the HVAC and refrigeration industries. During 2003, 48% of Carrier's revenues were generated outside the U.S. and by U.S. exports. Carrier's results can be impacted by a number of external factors, including commercial and residential construction activity, production and utilization of transport equipment, weather conditions, fuel prices, interest rates, foreign currency exchange rates, raw material costs and industry capacity.

During 2003, U.S. commercial construction starts continued to decrease as did investment in replacement refrigeration, negatively impacting commercial HVAC and refrigeration equipment. The global transport refrigeration market improved in 2003, due in part to stabilizing fuel prices and favorable trends in interest rates. Strength in housing starts favorably impacted North American residential HVAC operations, while global commercial construction markets were weak for a portion of the year, and showed some improvement in the fourth quarter of 2003. Global pricing trends are expected to continue to present challenges to the North American and international HVAC and commercial refrigeration markets in 2004.

**CHUBB** is a global provider of security and fire protection products and services and was acquired by the Corporation on July 28, 2003. In the fire protection industry, Chubb provides system integration, installation and service of portable and fixed suppression systems and fire detection systems. In the electronic security industry, Chubb provides system integration, installation and service of intruder alarms, access control systems and video surveillance. Chubb also provides monitoring, response and security personnel services to complement both the fire and electronic security equipment businesses. Chubb's operations are predominantly outside the U.S. and Chubb is a leading provider of products and services in the U.K., France, Hong Kong, South Africa, Australia and Canada. For the five-month period ended December 31, 2003, 96% of Chubb's revenues were generated outside the U.S. Chubb's results can be impacted by a number of external factors, such as customer attrition, interest rates, foreign currency exchange rates, labor costs, commercial construction activity and other global economic and political factors.

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

Conditions in the airline industry stabilized in the second half of 2003, but continue to remain at low levels in areas such as flight schedules and employment. The number of idle aircraft continues to be at historically high levels. The airline industry continues to experience poor financial performance. Airlines and aircraft manufacturers continue to reduce supplier bases and seek lower cost packages. These conditions have resulted in decreased aerospace volume and orders in the Corporation's commercial aerospace businesses for a portion of 2003 but are expected to improve in 2004.

The Corporation's total sales to the U.S. Government increased in 2003 to $5.3 billion or 17% of total sales, compared with $4.6 billion or 16% of total sales in 2002 and $3.8 billion or 14% of total sales in 2001. The defense portion of the Corporation's aerospace businesses is affected by changes in market demand and the global political environment. The Corporation's participation in long-term production and development programs for the U.S. Government has contributed positively to the Corporation's results in 2003 and is expected to continue to benefit results in 2004.

**PRATT & WHITNEY** is among the world's leading suppliers of commercial, general aviation and military aircraft engines. Pratt & Whitney provides spare parts and aftermarket and fleet management services for the engines it produces, along with power generation and space propulsion systems. These products and services must adhere to strict regulatory and market-driven safety and performance standards which can create uncertainty regarding engine program profitability. The aftermarket business is impacted by competition and technological improvements to newer generation engines that increase reliability. Pratt & Whitney continues to enhance its programs through performance improvement measures and product base expansion. Manufacturing and aftermarket operations are benefiting from repositioning actions aimed at improving efficiency and from selective acquisitions and ventures.

Product base expansion includes Pratt & Whitney's development of large commercial engines for the narrow-bodied and wide-bodied aircraft markets and small commercial engines that have already been selected for new light jet aircraft programs. Investments in new commercial engines involve significant financial risk due to the size of the investment required and the technical issues surrounding new engine development. Pratt & Whitney is also positioned to deliver engines and aftermarket products and services for next generation fighter aircraft to both the U.S. and foreign governments. Pratt & Whitney's engines have been selected to power the Air Force's F/A-22 and F-35 Joint Strike Fighter aircraft. The F119 engine that powers the F/A-22 has been approved for operational use by the U.S. Air Force. The F-35 Joint Strike Fighter program is intended to lead to the development of a single aircraft, with configurations for conventional and short takeoff and landing, for the U.S. Navy, Air Force and Marine Corps, the United Kingdom Royal Navy and other international customers.

**FLIGHT SYSTEMS SEGMENT** provides global products and services through Hamilton Sundstrand and Sikorsky. Hamilton Sundstrand provides aerospace and industrial products and aftermarket services for diversified industries worldwide. Aerospace products include aircraft power generation management and distribution systems, and environmental, flight and fuel control systems. Industrial products include air compressors, metering devices, fluid handling equipment and gear drives. Hamilton Sundstrand is responding to industry conditions by focusing on development of new product and service offerings, acquisitions and actions aimed at improving efficiency and aftermarket growth opportunities.

Sikorsky is one of the world's largest manufacturers of military and commercial helicopters and provides aftermarket helicopter and aircraft products and services. It has responded to continued overcapacity among helicopter manufacturers by improving its cost structure, increasing the capabilities of its existing products, developing new products and expanding its aftermarket business. In its government business, Sikorsky will continue to supply Black Hawk helicopters and their derivatives to the U.S. and foreign governments under contracts extending into 2007. A Sikorsky-Boeing joint venture is under contract with the U.S. Army to develop the RAH-66 Comanche, nine of which are contracted for delivery in 2005-2006. Sikorsky is also leading an international team in developing the S-92, a large cabin derivative of the Black Hawk, for the commercial markets. Type certification of the S-92 was obtained from the U.S. Federal Aviation Administration in December 2002. Production of the S-92 began in 2003 and deliveries are scheduled to begin in 2004. Variants of the S-92 for military markets are currently in development.

**Critical Accounting Estimates**

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

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

Losses, if any, on long-term contracts are provided for when anticipated. Loss provisions are based upon excess inventoriable manufacturing, engineering, estimated product warranty and product performance guarantee costs in excess of the revenue from the products contemplated under the contractual arrangement. Revenue used in determining contract loss provisions is based upon an estimate of the quantity, pricing and timing of future product deliveries. The extent of progress toward completion on the Corporation's long-term commercial aerospace and helicopter contracts is measured using units of delivery. In addition, the Corporation uses the cost-to-cost method for development contracts in the aerospace businesses and for elevator and escalator installation and modernization contracts. For long-term aftermarket contracts revenue is recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract. Contract accounting also requires estimates of future costs over the performance period of the contract as well as an estimate of award fees and other sources of revenue.

Contract costs are incurred over a period of 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 the Corporation's ability to estimate costs precisely. As a result, the Corporation reviews and updates its cost estimates on significant contracts on a quarterly basis, and no less than annually for all others, or when circumstances change and warrant a modification to a previous estimate. Adjustments to contract loss provisions are recorded in earnings upon identification.

**INCOME TAXES.** The future tax benefit arising from net deductible temporary differences and tax carryforwards is $2.7 billion at December 31, 2003 and $3.1 billion at December 31, 2002. Management believes that the Corporation's earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided.

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

increase to income in the period in which that determination is made. Subsequently recognized tax benefits associated with valuation allowances recorded in a business combination will be recorded as an adjustment to goodwill. See Note 10 to the Consolidated Financial Statements for further discussion.

**GOODWILL AND INTANGIBLE ASSETS.** The Corporation completed acquisitions in 2003 of $2.3 billion, including approximately $1.2 billion of debt assumed. In July 2003, the Corporation completed its acquisition of Chubb plc, a global provider of security and fire protection equipment and services for approximately $2.0 billion, including 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. The Corporation has recorded goodwill of $9.3 billion at December 31, 2003 and $7.0 billion at December 31, 2002. See Note 2 to the Consolidated Financial Statements for further discussion.

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing. The identification and measurement of goodwill impairment involves the estimation of the fair value of reporting units. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment, which primarily incorporate management assumptions about expected future cash flows and contemplate other valuation techniques. Future cash flows can be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized with newly acquired entities. Although no goodwill impairment has been recorded to date, there can be no assurances that future goodwill impairments will not occur. See Note 7 to the Consolidated Financial Statements for further discussion.

**PRODUCT PERFORMANCE.** The Corporation extends performance and operating cost guarantees beyond its normal service and warranty policies for extended periods on some of its products, particularly commercial aircraft engines. Liability under such guarantees is based upon future product performance and durability. In addition, the Corporation incurs discretionary costs to service its products in connection with product performance issues. The Corporation accrues for such costs that are probable and can be reasonably estimated. The estimation of costs associated with these product performance and operating cost guarantees requires estimates over the full terms of the agreements, and requires 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.** The Corporation’s contracts with the U.S. Government are subject to government investigations and audits. Like many defense contractors, the Corporation has received audit reports which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports involve substantial amounts. The Corporation has made voluntary refunds in those cases it believes appropriate. In addition, the Corporation accrues for liabilities associated with those government contracting matters that are probable and can be reasonably estimated. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution. See Note 16 to the Consolidated Financial Statements for further discussion. The Corporation recorded sales to the U.S. Government of $5.3 billion in 2003 and $4.6 billion in 2002.

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

Market interest rates declined in 2003 and as a result, the discount rate used to measure pension liabilities and costs was lowered to 6.25%. Pension expense in 2004 is expected to be negatively impacted by these changes and the amortization of prior investment losses. See Note 11 to the Consolidated Financial Statements for further discussion.

**Results of Operations**

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Sales | **$ 30,723** | $ 27,980 | $ 27,486 |
| Financing revenues and other income, net | **311** | 232 | 411 |
| Revenues | **$ 31,034** | $ 28,212 | $ 27,897 |

Consolidated revenues increased 10% in 2003 and 1% in 2002. Foreign currency translation contributed approximately 40% of the 2003 revenue increase and had a minimal favorable impact in 2002.

Sales growth in 2003 reflects revenue contributed from the acquisition of Chubb and growth at Otis and Carrier, and higher military revenues at Pratt & Whitney and Hamilton Sundstrand. These increases were partially offset by lower commercial

aerospace volume and fewer helicopter shipments at Sikorsky. Sales in 2002 reflect growth at Otis and Sikorsky, largely offset by lower volume at Carrier and Pratt & Whitney.

Financing revenues and other income, net, increased $79 million in 2003 and decreased $179 million in 2002, respectively. The 2003 increase reflects a non-cash gain at Otis associated with an exchange of equity interests in China. The 2002 decrease reflects interest income associated with the settlement of prior year tax audits recorded in 2001.

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Cost of sales | **$22,508** | $20,161 | $20,087 |
| Gross margin percent | **26.7%** | 27.9% | 26.9% |

Gross margin decreased 1.2 percentage points in 2003 to 26.7% from 27.9% in 2002 primarily due to lower commercial aerospace spares volume and the absence of the approximate $100 million gain on the environmental insurance settlement recorded in 2002. These decreases were partially offset by margin improvement at Otis and $111 million lower restructuring charges in 2003. Gross margin increased to 27.9% in 2002 from 26.9% in 2001 due primarily to $230 million of goodwill amortization in 2001 which was discontinued in 2002 and the approximate $100 million gain on the environmental insurance settlement in 2002. These items contributed 1.2 percentage points to gross margin in 2002.

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Research and development — company funded | **$1,027** | $1,191 | $1,254 |
| Percent of sales | **3.3%** | 4.3% | 4.6% |

The Corporation's research and development spending includes both company and customer funded programs. Total research and development spending for the Corporation increased $227 million (10%) in 2003 to $2.6 billion and $280 million (13%) in 2002 to $2.4 billion.

Company funded research and development decreased $164 million (14%) in 2003 and $63 million (5%) in 2002. The 2003 decrease is primarily due to lower spending in the commercial aerospace businesses. The 2003 decrease also reflects a technology funding agreement at Pratt & Whitney Canada and lower spending on Sikorsky's S-92 program which received U.S. Federal Aviation Administration type certification during the fourth quarter of 2002. The 2002 decrease reflects the variable nature of engineering development program schedules at Pratt & Whitney and cost reduction actions at Carrier partially offset by increased spending on Sikorsky's S/H-92 program. Company funded research and development spending is subject to the variable nature of program development schedules. Company funded research and development spending in 2004 is expected to increase approximately $100 million over 2003 levels.

In addition to company funded programs, customer funded research and development was $1,580 million in 2003, $1,189 million in 2002, and $846 million in 2001. The 2003 and 2002 increases of $391 million and $343 million, respectively, are primarily attributable to the Corporation's Joint Strike Fighter program.

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Selling, general and administrative | **$3,654** | $3,203 | $3,323 |
| Percent of sales | **11.9%** | 11.4% | 12.1% |

Selling, general and administrative expenses as a percentage of sales increased five-tenths of a percent in 2003 and decreased seven-tenths of a percent in 2002. The 2003 increase was due primarily to the July 2003 acquisition of Chubb partially offset by $50 million lower restructuring charges in 2003. The 2002 decrease reflects the benefits of cost reduction actions, primarily at Carrier, and $43 million lower restructuring charges in 2002, when compared to 2001.

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Interest expense | **$375** | $381 | $426 |

Interest expense decreased 2% in 2003 and 11% in 2002. The decline in interest expense in 2002 is due primarily to lower short-term borrowings partially offset by the issuance of $500 million of 6.10% notes in April 2002.

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Average interest rate during the year: | | | |
| Short-term borrowings | **5.2%** | 9.4% | 7.0% |
| Total debt | **6.5%** | 6.9% | 7.3% |

The average interest rate during 2003 on short-term borrowings was less than that of total debt due to higher commercial paper balances partially offset by higher short-term borrowing rates in certain foreign operations. The weighted-average interest rate applicable to debt outstanding at December 31, 2003 was 3.2% for short-term borrowings and 6.1% for total debt.

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Effective income tax rate | **27.1%** | 27.1% | 26.9% |

The effective tax rate for 2003, 2002 and 2001 reflects the tax benefit associated with the lower tax rate on international earnings which the Corporation intends to permanently reinvest outside the United States. The 2003 rate also benefits from the tax loss associated with a non-core business partially offset by a reduced benefit from international activities attributable to recognition of foreign taxes as deductions instead of credits for U.S. tax purposes.

The 2002 rate reflects the benefit of increased use of certain tax planning strategies, including utilization of a capital loss carryback, and reflects the increase in pre-tax income from discontinuing amortization of non-deductible goodwill in accordance with SFAS No. 142. The 2001 effective tax rate reflects the impact of the favorable settlement of certain prior year tax audits. Excluding this settlement, the effective rate was 30.0%. The effective income tax rate for 2001, adjusted for the impact of SFAS No. 142 and excluding the favorable settlement of prior year tax audits in 2001, was 28.2%. The Corporation has generally continued to lower its effective tax rate by implementing tax reduction strategies. The Corporation expects its effective income tax rate in 2004 to approximate 28%, before the impact of the anticipated tax settlement described below.

In the normal course of business, the Corporation and its subsidiaries are examined by various tax authorities, including the Internal Revenue Service (“IRS”). The IRS is reviewing the Corporation’s claims for prior periods’ benefits as part of its routine examinations of the Corporation’s income tax returns. In 2004, the Corporation expects to resolve its claims and to settle other disputed issues related to prior open tax years from 1986 to 1993. Although the outcome of these matters cannot presently be determined, management believes that it may reach favorable settlement of these claims upon completion of the reviews by the IRS and U.S. Congress Joint Committee on Taxation. Any additional impact on the Corporation’s liability for income taxes cannot presently be determined, but the Corporation believes adequate provision has been made for potential adjustments.

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Net income | **$2,361** | $2,236 | $1,938 |
| Diluted earnings per share | **$ 4.69** | $ 4.42 | $ 3.83 |

Net income and diluted earnings per share increased $125 million (6%) and $.27 (6%) in 2003 compared to the same period of 2002. The favorable impact of foreign currency translation contributed $.23 per share in 2003.

Net income and diluted earnings per share increased $298 million (15%) and $.59 (15%) in 2002 compared to the same period in 2001. The favorable impact of foreign currency translation contributed $.05 per share in 2002.

Effective January 1, 2002, the Corporation ceased the amortization of goodwill in accordance with SFAS No. 142. As more fully described in Note 7 to the Consolidated Financial Statements, net income in 2001, adjusted to exclude amounts no longer being amortized, was $2,150 million. On that basis, diluted earnings per share would have been $4.25 in 2001.

The impact of goodwill amortization recorded in the Corporation’s segments, and the effect that discontinuing amortization would have had on certain income statement line item amounts in 2001 is as follows:

| IN MILLIONS OF DOLLARS | 2001 |
|---|---|
| Otis | $ 30 |
| Carrier | 74 |
| Pratt & Whitney | 23 |
| Flight Systems | 103 |
| Total segment goodwill amortization | 230 |
| Income taxes | (16) |
| Minority interest in subsidiaries’ earnings | (2) |
| Net income impact | $212 |
| Diluted earnings per share | $ .42 |

For additional discussion, see Notes 1, 2 and 7 to the Consolidated Financial Statements.

**Business Acquisitions**

During 2003, the Corporation invested $2.3 billion, including $1.2 billion of debt assumed, in the acquisition of businesses, primarily reflecting the Corporation’s acquisition of Chubb plc. During 2002, the Corporation invested $424 million, including debt assumed, in business acquisitions. That amount includes Sikorsky’s second quarter purchase of Derco Holding and acquisitions at Pratt & Whitney. For additional discussion of acquisitions, see “Liquidity and Financing Commitments” and Note 2 to the Consolidated Financial Statements.

**Restructuring and Other Costs**

**2003 Actions** As described in Note 12 to the Consolidated Financial Statements, during 2003, the Corporation recorded net pre-tax restructuring and related charges of $182 million. These charges relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of manufacturing facilities including Carrier’s Syracuse, New York-based container refrigeration and compressor manufacturing operations and Otis’ Bloomington, Indiana-based manufacturing, distribution and field tool operations. Those operations will be consolidated into facilities in growing Asian and other markets. The charges included $126 million recorded in cost of sales, $31 million in selling, general and administrative expenses and $25 million in other income.

These charges were recorded in the Corporation's segments as follows: Otis $65 million, Carrier $65 million, Pratt & Whitney $19 million, Flight Systems $23 million and Eliminations and other $10 million. The charges included $133 million for severance and related employee termination costs, $8 million for asset write-downs, largely related to manufacturing assets and exiting facilities that will no longer be utilized, and $41 million for facility exit and lease termination costs.

The 2003 actions are expected to result in net workforce reductions of approximately 4,000 hourly and salaried employees, the exiting of approximately 2.1 million square feet of facilities and the disposal of assets associated with the exited facilities. Approximately 75% of the total pre-tax charge will require cash payments which will be primarily funded by cash generated from operations. During 2003, the Corporation made pre-tax cash outflows of approximately $75 million related to the 2003 programs. Savings are expected to increase over a two year period resulting in recurring pre-tax savings of approximately $165 million annually. As of December 31, 2003, net workforce reductions of approximately 2,500 employees have been completed and one hundred thousand square feet of facilities have been exited. The majority of the remaining workforce and facility related cost reduction actions are targeted to be completed in 2004. A significant portion of the remaining square footage to be eliminated under the 2003 actions relates to the Syracuse, New York and Bloomington, Indiana facilities. Additional restructuring and related charges of $118 million are expected to be incurred to complete these actions, primarily in 2004. As of December 31, 2003, approximately $92 million of severance and related costs and $8 million of facility exit and lease termination accruals remain.

**2002 Actions** As described in Note 12 to the Consolidated Financial Statements, during 2002, the Corporation recorded net pre-tax restructuring and related charges totaling $321 million. These charges related to ongoing cost reduction efforts, including workforce reductions and consolidation of manufacturing, sales and service facilities, and included $237 million recorded in cost of sales and $81 million in selling, general and administrative expenses.

The charges were recorded in the Corporation's segments as follows: Otis $73 million, Carrier $114 million, Pratt & Whitney $80 million and Flight Systems $55 million. The charges included accruals of $203 million for severance and related employee termination costs, $48 million for asset write-downs, largely related to manufacturing assets and exiting facilities that will no longer be utilized, and $19 million for facility exit and lease termination costs. Additional charges associated with these restructuring actions totaling $51 million, that were not accruable at the time, were also recorded in 2002, primarily in the Carrier segment.

As of December 31, 2003, the 2002 actions have been completed substantially as planned having resulted in net workforce reductions of approximately 6,800 salaried and hourly employees, the exiting of approximately 1.6 million square feet of facilities and the disposal of assets associated with exited facilities. During 2002 and 2003, the Corporation made pre-tax cash outflows of approximately $251 million related to the 2002 programs. Savings are expected to increase over a two-year period resulting in recurring pre-tax savings of approximately $285 million annually.

**2004 Actions** In January 2004, the Corporation received a $250 million payment from DaimlerChrysler. In consideration for this payment, the Corporation has released DaimlerChrysler from certain commitments previously made in support of MTU Aero Engines GmbH. The Corporation expects to use this first quarter gain for additional cost reduction actions across the businesses. In addition, the Corporation may initiate other actions later in 2004 should the Corporation reach a favorable settlement of the 1986 to 1993 open tax years with the IRS and receive approval by the U.S. Congress Joint Committee on Taxation.

In February 2004, Carrier announced its intent to close its McMinnville, Tennessee manufacturing facility. The total cost of this action is expected to be approximately $120 million. During the first quarter of 2004, the Corporation expects to record charges of approximately $60 million related to this action primarily attributable to severance related costs and accelerated depreciation and asset writeoffs.

**Segment Review**

| | Revenues | | | Operating Profits | | | Operating Profit Margin | | |
|---|---|---|---|---|---|---|---|---|---|
| **IN MILLIONS OF DOLLARS** | **2003** | **2002** | **2001** | **2003** | **2002** | **2001** | **2003** | **2002** | **2001** |
| Otis | **$ 7,927** | $ 6,811 | $ 6,338 | **$ 1,377** | $ 1,057 | $ 847 | **17.4%** | 15.5% | 13.4% |
| Carrier | **9,246** | 8,773 | 8,895 | **911** | 779 | 590 | **9.9%** | 8.9% | 6.6% |
| Chubb | **1,136** | — | — | **55** | — | — | **4.8%** | — | — |
| Pratt & Whitney | **7,505** | 7,645 | 7,679 | **1,125** | 1,282 | 1,308 | **15.0%** | 16.8% | 17.0% |
| Flight Systems | **5,708** | 5,571 | 5,292 | **785** | 741 | 670 | **13.8%** | 13.3% | 12.7% |

Revenues, operating profits and operating profit margins of the Corporation's principal segments include the results of all majority-owned subsidiaries, consistent with the management reporting of these businesses. For certain of these subsidiaries, minority shareholders have rights which overcome the presumption of control as described in Note 17 to the Consolidated Financial Statements. In the Corporation's consolidated results, these subsidiaries are accounted for using the

equity method of accounting. Adjustments to reconcile segment reporting to consolidated results are included in “Eliminations and other,” which also includes certain small subsidiaries.

**2003 Compared to 2002**

**OTIS** revenues increased $1,116 million (16%) in 2003 reflecting increases in all geographic regions, particularly Asia and Europe. Foreign currency translation contributed approximately 50% of the increase, reflecting the continued strength of the euro in relation to the U.S. dollar.

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

**CARRIER** revenues increased $473 million (5%) in 2003. The increase primarily reflects growth in transport refrigeration and North American residential HVAC partially offset by weakness in global commercial HVAC and North American commercial refrigeration. Foreign currency translation contributed approximately 70% of the reported revenue increase, primarily reflecting the strength of the euro in relation to the U.S. dollar.

Carrier’s operating profits increased $132 million (17%) in 2003. The increase reflects higher volume in the transport refrigeration business and benefits of cost reduction and productivity actions, partially offset by lower profits in commercial refrigeration and continued unfavorable pricing trends in global commercial HVAC. The increase is also due to lower restructuring charges in 2003, which were $65 million in 2003 and $114 million in 2002. Approximately 30% of the reported operating profit increase is due to the favorable impact of foreign currency translation.

**PRATT & WHITNEY** revenues decreased $140 million, (2%) in 2003. The decrease was due primarily to declines in commercial aerospace spare parts volume and large commercial engine and aftermarket volume, largely offset by increased military revenues.

Pratt & Whitney operating profits decreased $157 million (12%) in 2003, reflecting declines in commercial aerospace spare parts volume and costs associated with a collaboration accounting matter, partially offset by the profit impact of increased military revenues, and lower research and development costs, reflecting a technology funding agreement at Pratt & Whitney Canada. The 2002 operating profit also includes PW6000 costs which were partially offset by the favorable impact of commercial engine contract changes, both recorded in the first quarter of 2002.

**FLIGHT SYSTEMS** revenues increased $137 million (2%) in 2003. The increase was due to higher military and industrial revenues at Hamilton Sundstrand and increased aftermarket revenues at Sikorsky, resulting in part from the acquisition of Derco Holding, largely offset by lower helicopter shipments at Sikorsky.

Flight Systems operating profits increased $44 million (6%) in 2003 due to higher operating profits at both Hamilton Sundstrand and Sikorsky. The operating profit increase was due primarily to lower restructuring charges in 2003, primarily at Hamilton Sundstrand. The 2003 results for Hamilton Sundstrand also reflect the favorable impact of a third quarter 2003 commercial contract termination and the estimated cost of a pending commercial litigation matter, the net impact of which were not material. The increase at Sikorsky was due primarily to aftermarket growth and lower post-certification S-92 spending, partially offset by fewer helicopter shipments.

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

**2002 Compared to 2001**

**OTIS** revenues increased $473 million (7%) in 2002 reflecting increases in all geographic regions and growth in both new equipment and service sales. Foreign currency translation increased revenues 2% in 2002, largely reflecting the strength of the euro in relation to the U.S. dollar. The 2002 increase also includes approximately two percentage points of organic growth, as well as the impact of acquisitions.

Otis operating profits increased $210 million (25%) in 2002. The operating profit increase reflects profit improvement in all geographic regions, primarily in Asia and Europe. The increase was due primarily to the profit impact of increased revenues, including those from recent acquisitions, productivity improvements and the absence of goodwill amortization in 2002. Foreign currency translation increased operating profits by 3% in 2002.

**CARRIER** revenues decreased $122 million (1%) in 2002. The decrease reflects continued weakness in the North American and European commercial HVAC markets, the commercial refrigeration business, and in Latin America, partially offset by increased volume in the transport refrigeration business. Foreign currency translation had a minimal impact in 2002, reflecting the strength of the U.S. dollar in relation to Latin American currencies, largely offset by the strengthening of the euro.

Carrier’s operating profits increased $189 million (32%) in 2002 reflecting $58 million lower restructuring charges in 2002, the benefit of cost reduction actions and the absence of goodwill amortization, partially offset by the profit impact of decreased volume, competitive pricing and continued performance issues in some of the acquired entities.

**PRATT & WHITNEY** revenues decreased $34 million, less than one percentage point, in 2002. The decrease was due primarily to lower volume at Pratt & Whitney Power Systems, declines in commercial spare parts sales, reflecting current conditions in the commercial airline industry, and lower engine volume at Pratt &

Whitney Canada. These decreases were partially offset by increases in military engine and commercial overhaul and repair revenue. Consistent with the Corporation's expectations, commercial spare parts orders declined approximately 10% in 2002.

Pratt & Whitney operating profits decreased $26 million (2%) in 2002, reflecting lower profits from Pratt & Whitney Canada, commercial spare parts and Pratt & Whitney Power Systems. The decreases were partially offset by higher military engine and commercial overhaul and repair profits. The results also reflect the favorable impact of commercial engine contract changes offset by estimated costs to support product warranties to certain customers and costs associated with the PW6000 program.

**FLIGHT SYSTEMS** revenues increased $279 million (5%) in 2002. The increase was due to higher value helicopter shipments and increased aftermarket revenues at Sikorsky, resulting in part from the acquisition of Derco Holding in the second quarter of 2002. These increases were partially offset by lower commercial aerospace aftermarket and industrial volume at Hamilton Sundstrand.

Flight Systems operating profits increased $71 million (11%) in 2002. The increase was due primarily to the discontinuance of goodwill amortization. Excluding goodwill amortization, operating profits decreased $32 million (4%) due primarily to lower commercial aerospace aftermarket and industrial volume at Hamilton Sundstrand and increased research and development spending at Sikorsky related to S-92 certification.

**Liquidity and Financing Commitments**

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Cash and cash equivalents | $ 1,623 | $ 2,080 |
| Total debt | 5,301 | 4,873 |
| Net debt (total debt less cash) | 3,678 | 2,793 |
| Shareowners' equity | 11,707 | 8,355 |
| Total capitalization (debt plus equity) | 17,008 | 13,228 |
| Debt to total capitalization | 31% | 37% |
| Net debt to total capitalization | 24% | 25% |

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

Net cash provided by operating activities in 2003 was $2,875 million compared to $2,853 million in 2002. The increase is primarily due to improved operating performance largely offset by an increase in voluntary cash contributions to the Corporation's pension plans. Pre-tax cash outflows associated with restructuring and other actions, including costs not accruable or contemplated when the actions were initiated, were $246 million in 2003 and $226 million in 2002.

**INVESTING CASH FLOWS**. Cash used in investing activities was $1,761 million in 2003 compared to $1,088 million in 2002. The increase from 2002 is primarily due to investments in businesses, partially offset by lower capital expenditures. Cash spending for investments in businesses in 2003 was $1.1 billion, primarily reflecting the Corporation's acquisition of Chubb plc for approximately $900 million cash and the assumption of approximately $1.1 billion of debt. Capital expenditures decreased $56 million in 2003, reflecting the Corporation's focus on capacity, productivity improvements and sharing of investments with vendors. Capital expenditures are expected to increase in 2004 to approximate anticipated depreciation levels. In 2002, the Corporation invested $424 million in the acquisition of businesses, consisting of $402 million of cash and $22 million of assumed debt. Cash spending for investments in 2002 includes Sikorsky's acquisition of Derco Holding and acquisitions at Pratt & Whitney. Acquisition activity in 2004 is expected to approximate $2.0 billion and is dependent upon the availability of appropriate acquisition opportunities.

Customer financing activities used net cash of $233 million in 2003, compared to $164 million in 2002, reflecting increased customer requirements for financing. While the Corporation expects that customer financing will be a net use of cash in 2004, actual funding is subject to usage under existing customer financing arrangements. At December 31, 2003, the Corporation had financing and rental commitments of $1.2 billion related to commercial aircraft, of which as much as $403 million may be required to be disbursed in 2004. The Corporation may also arrange for third-party investors to assume a portion of its commitments. Refer to Note 4 to the Consolidated Financial Statements for additional discussion of the Corporation's commercial aerospace industry assets and commitments.

**FINANCING CASH FLOWS**. Financing cash outflows for 2003 and 2002 include the Corporation's repurchase of 5.9 million and 10.9 million shares of Common Stock for $401 million and $700 million, respectively. Share repurchase continues to be a use of the Corporation's cash flows and has more than offset the dilutive effect resulting from the issuance of stock and options under stock-based employee benefit programs in 2001 and 2002. In October 2002, the Corporation announced that the Board of Directors authorized the repurchase of up to 30 million shares. The new authorization replaced the previous share repurchase authority. At December 31, 2003, 19.4 million shares remained available for repurchase under the authorized program. The Corporation expects total share repurchases in 2004 to approximate $600 million, however, total repurchases may vary depending upon the level of other investing activities.

At December 31, 2003, the Corporation had credit commitments from banks totaling $1.5 billion under a Revolving Credit Agreement, which serves as a back-up facility for issuance of commercial paper. At December 31, 2003, there were no borrowings under the Revolving Credit Agreement. In addition, at

December 31, 2003, approximately $1.3 billion was available under short-term lines of credit with local banks at the Corporation's various international subsidiaries.

As described in Note 9 to the Consolidated Financial Statements, the Corporation issued $500 million of long-term notes payable in 2002. The proceeds of the issuance were used for the repayment of commercial paper, to support investment activities, and for general corporate purposes, including repurchases of the Corporation's Common Stock. At December 31, 2003, up to approximately $1.1 billion of additional debt and equity securities could be issued under a shelf registration statement on file with the Securities and Exchange Commission.

The Board of Directors announced a 10% and a 30% increase in the dividend payable in the second and fourth quarters of 2003 to 27 and 35 cents per common share, respectively.

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

The funded status of the Corporation's pension plans is dependent upon many factors, including returns on invested assets, level of market interest rates and levels of voluntary contributions to the plans. In connection with the acquisition of Chubb, the Corporation acquired defined benefit pension plans with an aggregate unfunded liability of approximately $650 million. Declines in long-term interest rates have had a negative impact on the funded status of the plans. During 2003, the Corporation made voluntary cash contributions of $994 million to its pension plans. During 2002, the Corporation made voluntary contributions of $783 million to its pension plans, including $253 million of Treasury Stock. These contributions are reported as an increase in other assets in the Consolidated Balance Sheet. An independent manager has been appointed to hold and dispose of the shares from time to time in the open markets or otherwise. The Corporation can contribute cash to these plans at its discretion and plans to make an additional $500 million of contributions in 2004. As of December 31, 2003, the total investment by the defined benefit pension plans in the Corporation's securities, including the Treasury Stock transactions described above, is approximately 6% of total plan assets.

The Corporation's shareowners' equity is impacted by a variety of factors, including those items that are not reported in earnings but are reported directly in equity, such as foreign currency translation, minimum pension liability adjustments, unrealized holding gains and losses on available-for-sale securities and cash flow hedging transactions. The Corporation recorded a $570 million after-tax credit to equity, reflecting a decrease in the additional minimum liability under its pension plans of approximately $900 million, which is included in future pension and postretirement benefit obligations in the December 31, 2003 Consolidated Balance Sheet. See the Consolidated Statement of Changes in Shareowners' Equity for information on such non-shareowners' changes.

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

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

**Off-Balance Sheet Arrangements**

The Corporation extends a variety of financial guarantees to third parties in support of unconsolidated affiliates and for potential financing requirements of commercial aerospace customers.

The Corporation also has obligations arising from sales of certain businesses and assets, including representations and warranties and related indemnities for environmental, health and safety, tax and employment matters. Circumstances that could cause the contingent obligations and liabilities arising from these arrangements to become due are changes in an underlying transaction (e.g., hazardous waste discoveries, adverse tax audit, etc.), non-performance under a contract, customer requests for financing or deterioration in the financial condition of the guaranteed party.

A summary of the Corporation's contractual obligations and commitments as of December 31, 2003 is as follows:

| IN MILLIONS OF DOLLARS | | Payments Due by Period | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 Year** | **1-3 Years** | **3-5 Years** | **More than 5 Years** |
| Long-term debt | $ 4,632 | $ 375 | $ 749 | $ 69 | $3,439 |
| Operating leases | 1,059 | 292 | 390 | 190 | 187 |
| Purchase obligations | 6,145 | 2,483 | 1,460 | 602 | 1,600 |
| Other long-term liabilities | 1,639 | 591 | 302 | 204 | 542 |
| Total contractual obligations | $13,475 | $3,741 | $2,901 | $1,065 | $5,768 |

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. To the extent separately identifiable, purchase orders for products to be delivered under firm contracts with the U.S. Government and for which the Corporation has full recourse under normal contract termination clauses, have been excluded. In addition, as disclosed in Note 11 to the Consolidated Financial Statements, the Corporation expects to make $500 million of voluntary contributions to its pension plans in 2004 which have been excluded from the table above.

Other long-term liabilities primarily include those amounts on the Corporation's December 31, 2003 balance sheet representing obligations under product service and warranty policies, performance and operating cost guarantees and estimated environmental remediation costs. The timing of cash flows associated with these obligations are based upon management's estimates over the terms of these agreements and are largely based upon historical experience.

| IN MILLIONS OF DOLLARS | | Amount of Commitment Expiration per Period | | | |
|---|---|---|---|---|---|
| **Commercial Commitments** | **Committed** | **Less than 1 Year** | **1-3 Years** | **3-5 Years** | **More than 5 Years** |
| Commercial aerospace financing and rental commitments | $ 1,203 | $ 403 | $ 459 | $ 259 | $ 82 |
| IAE financing arrangements | 1,406 | 389 | 270 | 60 | 687 |
| Unconsolidated subsidiary debt guarantees | 191 | 46 | 103 | — | 42 |
| Commercial aerospace financing arrangements | 160 | 33 | 4 | 53 | 70 |
| Commercial customer financing arrangements | 66 | 42 | 24 | — | — |
| Total commercial commitments | $ 3,026 | $ 913 | $ 860 | $ 372 | $ 881 |

Refer to Notes 4, 9, 15 and 16 to the Consolidated Financial Statements for additional discussion on commercial commitments.

**Market Risk and Risk Management**

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

The Corporation has evaluated its exposure to changes in foreign currency exchange rates, interest rates and commodity prices in its market risk sensitive instruments, which are primarily cash, debt and derivative instruments, using a value at risk analysis. Based on a 95% confidence level and a one-day holding period, at December 31, 2003, the potential loss in fair value of the Corporation's market risk sensitive instruments was not material in relation to the Corporation's financial position, results of operations or cash flows. The Corporation's calculated value at risk exposure represents an estimate of reasonably possible net losses based on volatilities and correlations and is not necessarily indicative of actual results. Refer to Notes 1, 9, 13 and 14 to the Consolidated Financial Statements for additional discussion of foreign currency exchange, interest rates and financial instruments.

**FOREIGN CURRENCY EXPOSURES.** The Corporation has a large volume of foreign currency exposures that result from its international sales, purchases, investments, borrowings and other international transactions. International segment revenues, including U.S. export sales, averaged approximately $16 billion over the last three years. The Corporation actively manages foreign currency exposures that are associated with committed foreign currency purchases and sales and other assets and liabilities created in the normal course of business at the operating unit level. Exposures that cannot be naturally offset within an operating unit to an insignificant amount are hedged with foreign currency derivatives. The Corporation also has a significant amount of foreign currency net asset exposures. Currently, the Corporation does not hold any derivative contracts that hedge its foreign currency net asset exposures but may consider such strategies in the future.

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

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

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

**Environmental Matters**

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

The Corporation has identified approximately 480 locations, mostly in the United States, at which it may have some liability for remediating contamination. The Corporation does not believe that any individual location's exposure will have a material effect on the results of operations of the Corporation. Sites in the investigation or remediation stage represent approximately 95% of the Corporation's accrued environmental liability. The remaining 5% of the recorded liability consists of sites where the Corporation may have some liability but investigation is in the initial stages or has not begun.

The Corporation has been identified as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA" or Superfund) at approximately 100 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 the Corporation's share of responsibility varies from sole responsibility to very little responsibility. In estimating its liability for remediation, the Corporation considers its likely proportionate share of the anticipated remediation expense and the ability of other potentially responsible parties to fulfill their obligations.

At December 31, 2003, the Corporation had $449 million reserved for environmental remediation. Cash outflows for environmental remediation were $32 million in 2003, $42 million in 2002 and $61 million in 2001. The Corporation estimates that ongoing environmental remediation expenditures in each of the next two years will not exceed $60 million.

The Corporation has had insurance in force over its history with a number of insurance companies and has pursued litigation seeking indemnity and defense under these insurance policies in relation to its environmental liabilities. In January 2002, the Corporation settled the last of these lawsuits under an agreement providing for the Corporation to receive payments totaling approximately $100 million.

**U.S. Government**

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

As described in Note 16 to the Consolidated Financial Statements, in the fourth quarter of 2003, the Corporation received a demand notice for $755 million from the U.S. Department of Defense (DoD) relating to an ongoing dispute over Pratt & Whitney's government cost accounting practices for engine parts received from its partners on certain commercial engine collaboration programs from 1984 to the present.

In July 2001, the U.S. Armed Services Board of Contract Appeals (ASBCA) ruled that Pratt & Whitney's accounting for these parts was in compliance with government Cost Accounting Standards (CAS). The DoD appealed the ruling to the Court of Appeals for the Federal Circuit and in January 2003, the Court reversed the ASBCA's decision and remanded the case back to the ASBCA. The case is currently pending before the ASBCA.

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

Additional discussion of the Corporation's environmental and U.S. Government contract matters is included in "Critical Accounting Estimates – Contracting with the Federal Government" and Notes 1 and 16 to the Consolidated Financial Statements.

**Other**

The Corporation extends performance and operating cost guarantees beyond its normal warranty and service policies for extended periods on some of its products, particularly commercial aircraft engines. Liability under such guarantees is contingent upon future product performance and durability. In addition, the Corporation incurs discretionary costs to service its products in connection with product performance issues. The Corporation has accrued its estimated liability that may result under these guarantees and for service costs which are probable and can be reasonably estimated.

**New Accounting Pronouncements**

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN No. 46) was issued. The interpretation requires variable interest entities to be consolidated if the equity investment at risk is not sufficient to permit an entity to finance its activities without support from other parties or the equity investors lack certain specified characteristics of a controlling financial interest. The guidelines of the interpretation will become applicable for the Corporation in its first quarter 2004 financial statements. The Corporation is reviewing FIN No. 46 to determine its impact, if any, on future reporting periods, and does not currently anticipate any material accounting or disclosure requirement under the provisions of the interpretation.

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

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

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

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. For additional information identifying factors that may cause actual results to vary materially from those stated in the forward-looking statements, see the Corporation's reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission from time to time. The Corporation's Annual Report on Form 10-K for 2003 includes important information as to risk factors in the "Business" section under the headings "Description of Business by Segment" and "Other Matters Relating to the Corporation's Business as a Whole," and in the "Legal Proceedings" section.

## Management's Responsibility for Financial Statements and Controls

We believe it is critical to provide investors and other users of our financial statements with information that is relevant, objective, understandable and timely, so that they can make informed decisions. As a result, we have established and we maintain accounting systems and practices and internal control processes designed to provide reasonable assurance that transactions are properly executed and recorded and that our policies and procedures are carried out appropriately.

### Core Values

We are committed to performance and improving shareowner value. We communicate honestly to investors and strive to deliver what we promise. We conduct our business in accordance with the Corporation's Code of Ethics, which is distributed to employees across the Corporation and is published in 16 languages. Through our Business Practices Office, we have long-standing programs in place that allow employees, customers, suppliers and others to identify situations, on a confidential or anonymous basis, that may be in violation of the Corporation's Code of Ethics.

### Financial Controls and Transparency

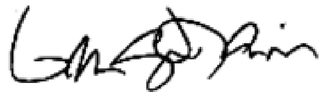
Our internal controls are designed to ensure that assets are safeguarded, transactions are executed according to management authorization and our financial systems and records can be relied upon for preparing our financial statements and related disclosures. Our system of internal controls includes continuous review of our financial policies and procedures to ensure accounting and regulatory issues have been appropriately addressed, recorded and disclosed. We execute periodic on-site accounting control and compliance reviews in each of our businesses to ensure policies and procedures are being followed. Our internal auditors test the adequacy of internal controls and compliance with policies, as well as perform a number of financial audits across the businesses throughout the year. The independent auditors perform audits of our financial statements, in which they examine evidence supporting the amounts and disclosures in our financial statements, and also consider our system of internal controls and procedures in planning and performing their audits. Their report appears on page 17.

### Management Controls

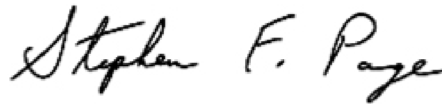
Our management team is committed to providing high-quality, relevant and timely information about our businesses. Management performs reviews of each of our businesses throughout the year, addressing issues ranging from financial performance and strategy to personnel and compliance. We require that each business unit president, chief financial officer and controller certify the accuracy of that business unit's financial information and its system of internal accounting and disclosure controls and procedures on a quarterly and annual basis. We also require each finance executive worldwide to acknowledge adherence to a series of principles and responsibilities governing the professional and ethical conduct expected within the UTC finance organization, as modeled after the Financial Executives International code of conduct.

Our Board of Directors normally meets seven times per year to provide oversight, to review corporate strategies and operations, and to assess management's conduct of the business. The Audit Committee of our Board of Directors is comprised of six individuals who are not employees or officers of the company and normally meets eight times per year. The Audit Committee is responsible for the appointment and oversight of the audit work performed by the independent auditors, as well as overseeing our financial reporting practices and internal control systems. The Audit Committee meets regularly with our internal auditors and independent auditors, as well as management. Both the internal auditors and independent auditors have full, unlimited access to the Audit Committee.

Management is responsible for implementing and maintaining adequate systems of internal and disclosure controls and procedures and for monitoring their effectiveness. We strive to recruit, train and retain high performance individuals to ensure that our controls are designed, implemented and maintained in a high-quality, reliable manner. We evaluated the systems of internal and disclosure controls and procedures as of December 31, 2003. Based on that evaluation, management believes the internal accounting controls provide reasonable assurance that the Corporation's assets are safeguarded, transactions are executed in accordance with management's authorizations, and the financial records are reliable for the purpose of preparing financial statements.



George David
Chairman and Chief Executive Officer



Stephen F. Page
Vice Chairman and Chief Financial Officer

**Report of Independent Auditors**

To the Shareowners of United Technologies Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of cash flows and of changes in shareowners' equity present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 7 to the Consolidated Financial Statements, effective January 1, 2002, the Corporation adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

PricewaterhouseCoopers LLP
Hartford, Connecticut
January 20, 2004

## Consolidated Statement of Operations

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Revenues** | | | |
| Product sales | **$22,363** | $21,189 | $20,907 |
| Service sales | **8,360** | 6,791 | 6,579 |
| Financing revenues and other income, net | **311** | 232 | 411 |
| | **31,034** | 28,212 | 27,897 |
| **Costs and Expenses** | | | |
| Cost of products sold | **17,084** | 15,717 | 15,826 |
| Cost of services sold | **5,424** | 4,444 | 4,261 |
| Research and development | **1,027** | 1,191 | 1,254 |
| Selling, general and administrative | **3,654** | 3,203 | 3,323 |
| Interest | **375** | 381 | 426 |
| | **27,564** | 24,936 | 25,090 |
| Income before income taxes and minority interests | **3,470** | 3,276 | 2,807 |
| Income taxes | **941** | 887 | 755 |
| Minority interests in subsidiaries' earnings | **168** | 153 | 114 |
| Net Income | **$ 2,361** | $ 2,236 | $ 1,938 |
| **Earnings per Share of Common Stock** | | | |
| Basic | **$ 4.93** | $ 4.67 | $ 4.06 |
| Diluted | **$ 4.69** | $ 4.42 | $ 3.83 |

See accompanying Notes to Consolidated Financial Statements

## Consolidated Balance Sheet

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS (SHARES IN THOUSANDS) | 2003 | 2002 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 1,623** | $ 2,080 |
| Accounts receivable (net of allowance for doubtful accounts of $421 and $380) | **5,187** | 4,277 |
| Inventories and contracts in progress | **3,794** | 3,803 |
| Future income tax benefits | **1,372** | 1,431 |
| Other current assets | **388** | 244 |
| Total Current Assets | **12,364** | 11,835 |
| Customer financing assets | **1,031** | 771 |
| Future income tax benefits | **1,283** | 1,678 |
| Fixed assets | **5,080** | 4,587 |
| Goodwill | **9,329** | 6,981 |
| Other assets | **5,561** | 3,342 |
| Total Assets | **$34,648** | $29,194 |
| **Liabilities and Shareowners' Equity** | | |
| Short-term borrowings | **$ 669** | $ 197 |
| Accounts payable | **2,867** | 2,095 |
| Accrued liabilities | **6,384** | 5,449 |
| Long-term debt currently due | **375** | 44 |
| Total Current Liabilities | **10,295** | 7,785 |
| Long-term debt | **4,257** | 4,632 |
| Future pension and postretirement benefit obligations | **4,752** | 5,088 |
| Other long-term liabilities | **2,928** | 2,317 |
| Commitments and contingent liabilities (Notes 4 and 16) | | |
| Minority interests in subsidiary companies | **709** | 589 |
| Series A ESOP Convertible Preferred Stock, $1 par value (Note 11) | **—** | 718 |
| ESOP deferred compensation | **—** | (290) |
| | **—** | 428 |
| Shareowners' Equity: | | |
| Capital Stock: | | |
| Preferred Stock, $1 par value; Authorized-250,000 shares; None issued or outstanding | **—** | — |
| Common Stock, $1 par value; Authorized-2,000,000 shares; Issued 656,911 and 607,038 shares | **6,587** | 5,447 |
| Treasury Stock-142,849 and 137,418 common shares at cost | **(5,335)** | (4,951) |
| Retained earnings | **12,527** | 10,836 |
| Unearned ESOP shares | **(273)** | — |
| Accumulated other non-shareowners' changes in equity: | | |
| Foreign currency translation | **(304)** | (832) |
| Minimum pension liability | **(1,581)** | (2,151) |
| Other | **86** | 6 |
| | **(1,799)** | (2,977) |
| Total Shareowners' Equity | **11,707** | 8,355 |
| Total Liabilities and Shareowners' Equity | **$34,648** | $29,194 |

See accompanying Notes to Consolidated Financial Statements

## Consolidated Statement of Cash Flows

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | **$ 2,361** | $ 2,236 | $ 1,938 |
| Adjustments to reconcile net income to net cash flows provided by operating activities: | | | |
| Depreciation and amortization | **799** | 727 | 905 |
| Deferred income tax provision | **254** | 318 | 297 |
| Minority interests in subsidiaries' earnings | **168** | 153 | 114 |
| Change in: | | | |
| Accounts receivable | **(26)** | 80 | 289 |
| Inventories and contracts in progress | **77** | 243 | (147) |
| Other current assets | **(14)** | 10 | 46 |
| Accounts payable and accrued liabilities | **19** | (217) | (64) |
| Voluntary contributions to pension plans | **(994)** | (530) | — |
| Other, net | **231** | (167) | (402) |
| Net Cash Provided by Operating Activities | **2,875** | 2,853 | 2,976 |
| **Investing Activities** | | | |
| Capital expenditures | **(530)** | (586) | (793) |
| Increase in customer financing assets | **(458)** | (386) | (360) |
| Decrease in customer financing assets | **225** | 222 | 237 |
| Business acquisitions | **(1,097)** | (402) | (439) |
| Dispositions of businesses | **15** | 26 | 17 |
| Other, net | **84** | 38 | 61 |
| Net Cash Used in Investing Activities | **(1,761)** | (1,088) | (1,277) |
| **Financing Activities** | | | |
| Issuance of long-term debt | **—** | 500 | 904 |
| Repayment of long-term debt | **(1,092)** | (231) | (354) |
| Increase (decrease) in short-term borrowings | **286** | (357) | (465) |
| Common Stock issued under employee stock plans | **331** | 183 | 224 |
| Dividends paid on Common Stock | **(533)** | (462) | (423) |
| Repurchase of Common Stock | **(401)** | (700) | (599) |
| Dividends to minority interests and other | **(287)** | (184) | (147) |
| Net Cash Used in Financing Activities | **(1,696)** | (1,251) | (860) |
| Effect of foreign exchange rate changes on Cash and cash equivalents | **125** | 8 | (29) |
| Net (decrease) increase in Cash and cash equivalents | **(457)** | 522 | 810 |
| Cash and cash equivalents, beginning of year | **2,080** | 1,558 | 748 |
| Cash and cash equivalents, end of year | **$ 1,623** | $ 2,080 | $ 1,558 |
| Supplemental Disclosure of Cash Flow Information: | | | |
| Interest paid, net of amounts capitalized | **$ 372** | $ 368 | $ 420 |
| Income taxes paid, net of refunds | **$ 378** | $ 396 | $ 497 |
| Non-cash investing and financing activities include: | | | |
| The 2002 and 2001 Treasury Stock contributions of $253 million and $247 million, respectively, to domestic defined benefit pension plans | | | |
| The 2003 conversion of the ESOP convertible preferred shares of $698 million into Common Shares | | | |

See accompanying Notes to Consolidated Financial Statements

## Consolidated Statement of Changes in Shareowners' Equity

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | Common Stock | Treasury Stock | Retained Earnings | Unearned ESOP Shares | Accumulated Other Non-Shareowners' Changes in Equity | Non-Shareowners' Changes in Equity for the Period |
|---|---|---|---|---|---|---|
| **December 31, 2000** | $ 4,665 | $ (3,955) | $ 7,743 | | $ (791) | $ 1,408 |
| Common Stock issued under employee plans (6.2 million shares), including tax benefit of $91 | 315 | 13 | (78) | | | |
| Common Stock contributed to defined benefit pension plans (4.1 million shares) | 110 | 137 | | | | |
| Common Stock repurchased (8.5 million shares) | | (599) | | | | |
| Dividends on Common Stock ($.90 per share) | | | (423) | | | |
| Dividends on ESOP Preferred Stock ($4.80 per share) | | | (31) | | | |
| **Non-Shareowners' Changes in Equity:** | | | | | | |
| Net income | | | 1,938 | | | $ 1,938 |
| Foreign currency translation adjustments | | | | | (142) | (142) |
| Minimum pension liability adjustments, net of income tax benefits of $303 | | | | | (519) | (519) |
| Unrealized holding gain on marketable equity securities, net of income taxes of $5 | | | | | 9 | 9 |
| Unrealized cash flow hedging loss, net of income tax benefits of $12 | | | | | (23) | (23) |
| **December 31, 2001** | $ 5,090 | $ (4,404) | $ 9,149 | | $ (1,466) | $ 1,263 |
| Common Stock issued under employee plans (4.2 million shares), including tax benefit of $45 | 247 | 10 | (56) | | | |
| Common Stock contributed to defined benefit pension plans (4.1 million shares) | 110 | 143 | | | | |
| Common Stock repurchased (10.9 million shares) | | (700) | | | | |
| Dividends on Common Stock ($.98 per share) | | | (462) | | | |
| Dividends on ESOP Preferred Stock ($4.80 per share) | | | (31) | | | |
| **Non-Shareowners' Changes in Equity:** | | | | | | |
| Net income | | | 2,236 | | | $ 2,236 |
| Foreign currency translation adjustments | | | | | 57 | 57 |
| Minimum pension liability adjustments, net of income tax benefits of $927 | | | | | (1,588) | (1,588) |
| Unrealized holding loss on marketable equity securities, net of income tax benefits of $4 | | | | | (7) | (7) |
| Unrealized cash flow hedging gain, net of income taxes of $14 | | | | | 27 | 27 |
| **December 31, 2002** | $ 5,447 | $ (4,951) | $ 10,836 | | $ (2,977) | $ 725 |
| Common Stock issued under employee plans (7.9 million shares), including tax benefit of $111 | **442** | **17** | **(104)** | **1** | | |
| Common Stock – ESOP conversion (42.5 million shares) | **698** | | | **(274)** | | |
| Common Stock repurchased (5.9 million shares) | | **(401)** | | | | |
| Dividends on Common Stock ($1.14 per share) | | | **(533)** | | | |
| Dividends on ESOP Preferred and Common Stock ($3.60 and $.35 per share, respectively) | | | **(33)** | | | |
| **Non-Shareowners' Changes in Equity:** | | | | | | |
| Net income | | | **2,361** | | | **$ 2,361** |
| Foreign currency translation adjustments | | | | | **528** | **528** |
| Minimum pension liability adjustments, net of income taxes of $332 | | | | | **570** | **570** |
| Unrealized holding gain on marketable equity securities, net of income taxes of $18 | | | | | **29** | **29** |
| Unrealized cash flow hedging gain, net of income taxes of $23 | | | | | **51** | **51** |
| **December 31, 2003** | **$ 6,587** | **$ (5,335)** | **$ 12,527** | **$ (273)** | **$ (1,799)** | **$ 3,539** |

See accompanying Notes to Consolidated Financial Statements

## Notes to Consolidated Financial Statements

### [note 1] Summary of Accounting Principles

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

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

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

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

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Retainage | **$ 53** | $ 40 |
| Unbilled receivables | **$199** | $180 |

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

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

**INVENTORIES AND CONTRACTS IN PROGRESS.** Inventories and contracts in progress are stated at the lower of cost or estimated realizable value and are primarily based on first-in, first-out ("FIFO") or average cost methods; however, certain subsidiaries use the last-in, first-out ("LIFO") method. If inventories which were valued using the LIFO method had been valued under the FIFO method, they would have been higher by $96 million and $103 million at December 31, 2003 and 2002, respectively.

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

Manufacturing costs are allocated to current production and firm contracts.

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

**GOODWILL AND OTHER INTANGIBLE ASSETS.** Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses and was historically amortized using the straight-line method of amortization over periods that ranged from 10 to 40 years. Effective July 1, 2001, the Corporation adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets," applicable to business combinations completed after June 30, 2001. In accordance with these standards, goodwill acquired after June 30, 2001 is not amortized.

As of January 1, 2002, the remaining provisions of SFAS No. 141 and No. 142 were effective for the Corporation. These standards require the use of the purchase method of accounting for business combinations, set forth the accounting for the initial recognition of acquired intangible assets and goodwill, and describe the accounting for intangible assets and goodwill subsequent to initial recognition. Under the provisions of these standards, goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization. All other intangible assets are amortized over their estimated useful lives. Goodwill and intangible assets are subject to annual impairment testing using the guidance and criteria described in the standards. This testing compares carrying values to fair values and when appropriate, the carrying value of these assets is required to be reduced to fair value.

Prior to the adoption of SFAS No. 142, the Corporation evaluated potential impairment of goodwill on an ongoing basis and of other intangible assets when appropriate. This evaluation compared the carrying value of assets to the sum of the undiscounted expected future cash flows. If an asset's carrying value exceeded the expected cash flows, the asset was written down to fair value.

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

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

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

Losses, if any, on contracts are provided for when anticipated. Loss provisions are based upon excess inventoriable manufacturing, engineering, estimated product warranty and product performance guarantee costs in excess of the revenue from products contemplated under the contractual arrangement. 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 the Corporation's long-term commercial aerospace and helicopter contracts is measured using units of delivery. In addition, the Corporation uses the cost-to-cost method for development contracts in the aerospace businesses and for elevator and escalator installation and modernization contracts. For long-term aftermarket contracts revenue is recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract. The Corporation reviews its cost estimates on significant contracts on a quarterly basis, and for others, no less frequently than annually, or when circumstances change and warrant a modification to a previous estimate. Adjustments to contract loss provisions are recorded in earnings upon identification.

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

Revenues from engine programs under collaboration agreements are recorded as earned and the collaborator share of revenue is recorded as a reduction of revenue at that time. Costs associated with engine programs under collaboration agreements are expensed as incurred. The collaborator share of program costs is recorded as a reduction of the related expense item at that time.

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

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

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

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

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

**STOCK-BASED COMPENSATION**. As more fully described in Note 11, the Corporation has long-term incentive plans authorizing various types of market and performance based incentive awards that may be granted to officers and employees. The Corporation applies APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its long-term incentive plans. The exercise price of stock options is set on the grant date and may not be less than the fair market value per share on that date. Stock options have a term of ten years and generally vest after three years.

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

| | Year Ended December 31 | | |
|---|---|---|---|
| IN MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS | 2003 | 2002 | 2001 |
| Net income, as reported | **$2,361** | $2,236 | $1,938 |
| Add: Stock-based employee compensation expense (benefit) included in net income, net of related tax effects | **8** | 3 | (1) |
| Less: Total stock-based employee compensation expense determined under Black-Scholes option pricing model, net of related tax effects | **(133)** | (121) | (101) |
| Pro forma net income | **$2,236** | $2,118 | $1,836 |
| Earnings per share: | | | |
| Basic – as reported | **$ 4.93** | $ 4.67 | $ 4.06 |
| Basic – pro forma | **$ 4.67** | $ 4.42 | $ 3.84 |
| Diluted – as reported | **$ 4.69** | $ 4.42 | $ 3.83 |
| Diluted – pro forma | **$ 4.44** | $ 4.19 | $ 3.64 |

**[note 2] Business Acquisitions**

**ACQUISITIONS.** The Corporation completed acquisitions in 2003, 2002 and 2001 for $2.3 billion, $424 million and $525 million, including debt assumed of $1.2 billion, $22 million and $86 million, respectively. The 2003 amount includes the acquisition of Chubb plc, a global provider of security and fire protection products and services on July 28, 2003. Under the terms of the purchase agreement, the Corporation acquired 100% of the outstanding shares of Chubb for approximately $900 million in cash and assumed approximately $1.1 billion of debt. As part of the Chubb acquisition, the Corporation recorded approximately $1.0 billion of identifiable intangible assets including trade names and customer related intangibles. Certain of the acquired trade names and the customer related intangibles, representing approximately half of the identifiable intangible assets, will be amortized over periods ranging from 7 to 30 years with a weighted average life of 11.4 years, and the remainder, primarily the Chubb trade name, has been assigned an indefinite life. The 2002 amount includes Sikorsky's acquisition of Derco Holding and acquisitions at Pratt & Whitney. The 2001 amount includes Hamilton Sundstrand's acquisition of Claverham Group LTD, Hamilton Sundstrand's and Pratt & Whitney's acquisitions of aftermarket businesses and a number of small acquisitions in the commercial businesses.

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 $2.1 billion in 2003, $156 million in 2002, and $307 million in 2001. The results of operations of acquired businesses have been included in the Consolidated Statement of Operations beginning as of the effective date of acquisition.

The final purchase price allocation for acquisitions is subject to the finalization of the valuation of certain assets and liabilities, plans for consolidation of facilities and relocation of employees and other integration activities. As a result, preliminary amounts assigned to assets and liabilities may be subject to revision in future periods. The Corporation is also evaluating the potential disposition of certain of the acquired Chubb businesses.

**[note 3] Earnings Per Share**

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | Income | Average Shares | Per Share Amount |
|---|---|---|---|
| **December 31, 2003** | | | |
| Net income | **$2,361** | | |
| Less: ESOP Stock dividends | **(24)** | | |
| Net income - basic | **2,337** | **473.8** | **$ 4.93** |
| Stock awards | **—** | **7.0** | |
| ESOP Stock adjustment | **23** | **22.1** | |
| Net income - diluted | **$2,360** | **502.9** | **$ 4.69** |
| **December 31, 2002** | | | |
| Net income | $2,236 | | |
| Less: ESOP Stock dividends | (31) | | |
| Net income - basic | 2,205 | 472.4 | $ 4.67 |
| Stock awards | — | 7.1 | |
| ESOP Stock adjustment | 29 | 26.1 | |
| Net income - diluted | $2,234 | 505.6 | $ 4.42 |
| **December 31, 2001** | | | |
| Net income | $1,938 | | |
| Less: ESOP Stock dividends | (31) | | |
| Net income - basic | 1,907 | 470.2 | $ 4.06 |
| Stock awards | — | 9.2 | |
| ESOP Stock adjustment | 28 | 26.0 | |
| Net income - diluted | $1,935 | 505.4 | $ 3.83 |

**[note 4] Commercial Aerospace Industry Assets and Commitments**

The Corporation has receivables and other financing assets with commercial aerospace industry customers totaling $2,003 million and $1,974 million at December 31, 2003 and 2002, respectively.

Customer financing assets related to commercial aerospace industry customers consist of products under lease of $415 million and notes and leases receivable of $483 million. The notes and leases receivable are scheduled to mature as follows: $91 million in 2004, $58 million in 2005, $41 million in 2006, $39 million in 2007, $30 million in 2008, and $224 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. The Corporation may also arrange for third-party investors to assume a

portion of its commitments. If financing commitments are exercised, debt financing is generally secured by assets with fair market values equal to or exceeding the financed amounts with interest rates established at the time of funding. The Corporation also may lease aircraft and subsequently sublease the aircraft to customers under long-term noncancelable operating leases. In some instances, customers may have minimum lease terms, which result in sublease periods shorter than the Corporation's lease obligation. Lastly, the Corporation has residual value and other guarantees related to various commercial aircraft engine 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.

The Corporation's commercial aerospace financing and rental commitments as of December 31, 2003 were $1,203 million and are exercisable as follows: $403 million in 2004, $307 million in 2005, $152 million in 2006, $16 million in 2007, $243 million in 2008, and $82 million thereafter. The Corporation's financing obligations with customers are contingent upon maintenance of certain levels of financial condition by the customers.

In addition, the Corporation had residual value and other guarantees of $160 million as of December 31, 2003.

The Corporation has a 33% interest in International Aero Engines AG ("IAE"), an international consortium of four shareholders organized to support the V2500 commercial aircraft engine program. The Corporation's interest in IAE is accounted for under the equity method of accounting. IAE may offer customer financing in the form of guarantees, secured debt or lease financing in connection with V2500 engine sales. At December 31, 2003, IAE had financing commitments of $936 million and asset value guarantees of $51 million. The Corporation's share of IAE's financing commitments and asset value guarantees was approximately $321 million at December 31, 2003. In addition, IAE had lease obligations under long-term noncancelable leases of approximately $419 million, on an undiscounted basis, through 2022 related to aircraft which are subleased to customers under long-term leases. These aircraft have fair market values which approximate the financed amounts, net of reserves. The shareholders of IAE have guaranteed IAE's financing arrangements to the extent of their respective ownership interests. In the event of default by a shareholder on certain of these financing arrangements, the other shareholders would be proportionately responsible.

Total reserves related to receivables and financing assets, financing commitments and guarantees were $288 million and $241 million at December 31, 2003 and 2002, respectively.

**[note 5] Inventories and Contracts in Progress**

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Inventories consist of the following: | | |
| Raw material | **$ 743** | $ 740 |
| Work-in-process | **1,118** | 1,026 |
| Finished goods | **2,221** | 2,329 |
| Contracts in progress | **2,363** | 2,177 |
| | **6,445** | 6,272 |
| Less: | | |
| Progress payments, secured by lien, on U.S. Government contracts | **(110)** | (123) |
| Billings on contracts in progress | **(2,541)** | (2,346) |
| | **$ 3,794** | $ 3,803 |

Raw materials, work-in-process and finished goods are net of valuation reserves of $692 million and $699 million as of December 31, 2003 and 2002, respectively.

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.

The Corporation's sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months at December 31, 2003 and 2002. Approximately 53% of total inventories and contracts in progress have been acquired or manufactured under such long-term contracts, a portion of which is not scheduled for delivery under long-term contracts within the next twelve months.

**[note 6] Fixed Assets**

| IN MILLIONS OF DOLLARS | Estimated Useful Lives | 2003 | 2002 |
|---|---|---|---|
| Land | | **$ 217** | $ 196 |
| Buildings and improvements | 20-40 years | **4,026** | 3,552 |
| Machinery, tools and equipment | 3-20 years | **7,597** | 6,904 |
| Other, including under construction | | **242** | 217 |
| | | **12,082** | 10,869 |
| Accumulated depreciation | | **(7,002)** | (6,282) |
| | | **$ 5,080** | $ 4,587 |

Depreciation expense was $677 million in 2003, $640 million in 2002 and $616 million in 2001.

**[note 7] Goodwill and Other Intangible Assets**

Effective January 1, 2002, the Corporation ceased the amortization of goodwill in accordance with SFAS No. 142. Results adjusted to exclude amounts no longer being amortized, are as follows:

| IN MILLIONS OF DOLLARS EXCEPT PER SHARE AMOUNTS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Reported net income | **$2,361** | $2,236 | $1,938 |
| Adjustments: | | | |
| Goodwill amortization | **—** | — | 230 |
| Income taxes | **—** | — | (16) |
| Minority interest in subsidiaries' earnings | **—** | — | (2) |
| Adjusted net income | **$2,361** | $2,236 | $2,150 |
| Basic earnings per share | | | |
| Reported | **$ 4.93** | $ 4.67 | $ 4.06 |
| Adjusted | **$ 4.93** | $ 4.67 | $ 4.51 |
| Diluted earnings per share | | | |
| Reported | **$ 4.69** | $ 4.42 | $ 3.83 |
| Adjusted | **$ 4.69** | $ 4.42 | $ 4.25 |

The changes in the carrying amount of goodwill for the year ended December 31, 2003, by segment, are as follows:

| IN MILLIONS OF DOLLARS | Otis | Carrier | Chubb | Pratt & Whitney | Flight Systems | Total Segments | Eliminations and Other | Total |
|---|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2003 | $753 | $2,000 | $ — | $ 451 | $3,781 | $ 6,985 | $ (4) | $6,981 |
| Goodwill resulting from business combinations completed or finalized | 141 | 11 | 1,922 | 5 | (1) | 2,078 | (6) | 2,072 |
| Foreign currency translation and other | 17 | 48 | 174 | 6 | 27 | 272 | 4 | 276 |
| **Balance as of December 31, 2003** | **$ 911** | **$ 2,059** | **$ 2,096** | **$ 462** | **$ 3,807** | **$ 9,335** | **$ (6)** | **$ 9,329** |

The increase in goodwill during 2003 resulted principally from business combinations completed or finalized in the period. Effective July 28, 2003, the Corporation acquired Chubb plc. Under the terms of the purchase agreement, the Corporation acquired 100% of the outstanding shares of Chubb for approximately $900 million in cash and assumed approximately $1.1 billion of debt. As part of the Chubb acquisition, the Corporation recorded approximately $1 billion of identifiable intangible assets, including trade names and customer related intangibles. Certain of the acquired trade names and the customer related intangibles, representing approximately half of the identifiable intangible assets, will be amortized over periods ranging from 7 to 30 years with a weighted average life of 11.4 years, and the remainder, primarily the Chubb trade name, has been assigned an indefinite life. The excess of the purchase price over the estimated fair values of the net assets acquired of $2.1 billion, including foreign currency translation of $174 million, has been recorded as goodwill. The final purchase price allocation is subject to the finalization of the valuation of certain assets and liabilities, plans for consolidation of facilities and relocation of employees and other integration activities. As a result, preliminary amounts assigned to assets and liabilities will be subject to revision in future periods. The Corporation is also evaluating potential disposition of certain of the acquired Chubb businesses. Goodwill is subject to annual impairment testing as required under SFAS No. 142. As of December 31, 2003, the Corporation was not required to recognize any goodwill impairment. There can be no assurance that goodwill impairment will not occur in the future.

Identifiable intangible assets as of December 31, 2003 are recorded in Other assets in the Consolidated Balance Sheet and are comprised of the following:

| IN MILLIONS OF DOLLARS | 2003 Gross Amount | 2003 Accumulated Amortization | 2002 Gross Amount | 2002 Accumulated Amortization |
|---|---|---|---|---|
| Amortized intangible assets | | | | |
| Purchased service contracts | **$ 894** | **$ (275)** | $ 684 | $ (199) |
| Patents and trademarks | **197** | **(34)** | 152 | (26) |
| Other, principally customer relationships | **581** | **(51)** | 60 | (17) |
| | **$1,672** | **$ (360)** | $ 896 | $ (242) |
| Unamortized intangible assets | | | | |
| Trademarks | **$ 583** | **$ —** | $ — | $ — |

Amortization of intangible assets for the year ended December 31, 2003 was $86 million. Amortization of these intangible assets during each of the next five years is expected to approximate $100 million.

**[note 8] Accrued Liabilities**

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Accrued salaries, wages and employee benefits | **$ 1,291** | $1,056 |
| Accrued restructuring costs | **100** | 182 |
| Service and warranty accruals | **534** | 690 |
| Advances on sales contracts | **917** | 795 |
| Income taxes payable | **521** | 381 |
| Other | **3,021** | 2,345 |
| | **$ 6,384** | $5,449 |

**[note 9] Borrowings and Lines of Credit**

Short-term borrowings consist of the following:

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Domestic borrowings | **$ 8** | $ 9 |
| Foreign bank borrowings | **321** | 188 |
| Commercial paper | **340** | — |
| | **$669** | $197 |

The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 2003 and 2002 were 3.2% and 7.0%, respectively. At December 31, 2003, approximately $1.3 billion was available under short-term lines of credit with local banks at the Corporation's various international subsidiaries.

At December 31, 2003, the Corporation had credit commitments from banks totaling $1.5 billion under a Revolving Credit Agreement, which serves as a back-up facility for issuance of commercial paper. There were no borrowings under the Revolving Credit Agreement at December 31, 2003.

Long-term debt consists of the following:

| IN MILLIONS OF DOLLARS | Weighted Average Interest Rate | Maturity | 2003 | 2002 |
|---|---|---|---|---|
| Notes and other debt denominated in: | | | | |
| U.S. dollars | 6.4% | 2004-2029 | **$4,407** | $4,425 |
| Foreign currency | 5.4% | 2004-2018 | **27** | 19 |
| ESOP debt | 7.7% | 2004-2009 | **198** | 232 |
| | | | **4,632** | 4,676 |
| Less: Long-term debt currently due | | | **375** | 44 |
| | | | **$4,257** | $4,632 |

Principal payments required on long-term debt for the next five years are: $375 million in 2004, $44 million in 2005, $705 million in 2006, $35 million in 2007, and $34 million in 2008.

The Corporation has entered into $225 million and $125 million of interest rate contracts in 2003 and 2002, respectively, which swap fixed interest rates for floating rates. The expiration dates of the various contracts are tied to scheduled debt payment dates and extend to 2006.

The Corporation issued $500 million of notes in 2002 under shelf registration statements previously filed with the Securities and Exchange Commission. The 2002 notes carry an interest rate of 6.10%. Proceeds from the debt issuances were used for general corporate purposes, including repayment of commercial paper, to support investment activities and repurchasing the Corporation's Common Stock.

At December 31, 2003, approximately $1.1 billion of additional debt and equity securities could be issued under a shelf registration statement on file with the Securities and Exchange Commission.

The percentage of total debt at floating interest rates was 19% and 13% at December 31, 2003 and 2002, respectively.

**[note 10] Taxes on Income**

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Current: | | | |
| United States: | | | |
| Federal | **$ 125** | $116 | $ 18 |
| State | **47** | 15 | 29 |
| Foreign | **515** | 438 | 411 |
| | **687** | 569 | 458 |
| Future: | | | |
| United States: | | | |
| Federal | **290** | 321 | 314 |
| State | **(77)** | 19 | (18) |
| Foreign | **41** | (22) | 1 |
| | **254** | 318 | 297 |
| Income tax expense | **$ 941** | $887 | $755 |
| Attributable to items (charged) credited to equity and goodwill | **$(240)** | $912 | $401 |

Future income taxes represent the tax effects of transactions which are reported in different periods for tax and financial reporting purposes. These amounts consist of the tax effects of temporary differences between the tax and financial reporting balance sheets and tax carryforwards. The tax effects of temporary differences and tax carryforwards which gave rise to future income tax benefits and payables at December 31, 2003 and 2002 are as follows:

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Future income tax benefits: | | |
| Insurance and employee benefits | **$1,024** | $1,445 |
| Other asset basis differences | **285** | 376 |
| Other liability basis differences | **1,092** | 1,037 |
| Tax loss carryforwards | **287** | 230 |
| Tax credit carryforwards | **444** | 257 |
| Valuation allowance | **(477)** | (236) |
| | **$2,655** | $3,109 |
| Future income taxes payable: | | |
| Fixed and intangible assets | **$ 376** | $ 84 |
| Other items, net | **173** | 79 |
| | **$ 549** | $ 163 |

Current and non-current future income tax benefits and payables within the same tax jurisdiction are generally offset for presentation in the Consolidated Balance Sheet. Valuation allowances have been established primarily for tax credit, tax loss carryforwards, and certain foreign temporary differences to reduce the future income tax benefits to expected realizable amounts. Of the total valuation allowance amount of $477 million, $272 million was established in purchase accounting, relating primarily to the purchase of Chubb. Subsequently recognized tax benefits associated with a valuation allowance recorded in a business combination will be recorded as an adjustment to goodwill.

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| United States | **$ 1,582** | $ 1,899 | $1,619 |
| Foreign | **1,888** | 1,377 | 1,188 |
| | **$ 3,470** | $ 3,276 | $2,807 |

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

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Statutory U.S. federal income tax rate | **35.0%** | 35.0% | 35.0% |
| Tax on international activities including exports | **(4.2)** | (7.0) | (6.2) |
| Goodwill | **—** | — | 1.8 |
| Benefit from non-core business losses | **(3.9)** | (0.7) | — |
| Tax audit settlement | **—** | — | (3.1) |
| Other | **0.2** | (0.2) | (0.6) |
| Effective income tax rate | **27.1%** | 27.1% | 26.9% |

The 2003 effective tax rate reflects the tax benefit associated with a tax loss on a non-core business partially offset by a reduced benefit from international activities attributable to recognition of foreign taxes as deductions and not credits for U.S. tax purposes.

The effective tax rate for 2002 reflects the benefit of increased use of certain tax-planning strategies, including utilization of a capital loss carryback, and the increase in pre-tax income from discontinuing amortization of non-deductible goodwill in accordance with SFAS No. 142.

The 2001 effective tax rate includes the impact of the favorable settlement of certain prior year tax audits. Excluding this settlement, the 2001 effective tax rate was 30.0%. The effective income tax rate adjusted for the impact of SFAS No. 142 and excluding the favorable settlement of prior year tax audits in 2001 was 28.2%.

Tax credit carryforwards at December 31, 2003 were $444 million of which $13 million expire from 2004-2008 and $165 million from 2014-2023.

Tax loss carryforwards, principally state and foreign, at December 31, 2003 were $1,799 million of which $1,396 million expire as follows: $232 million from 2004-2008, $145 million from 2009-2013, and $1,019 million from 2014-2023.

**[note 11] Employee Benefit Plans**

The Corporation and its subsidiaries sponsor numerous domestic and foreign employee benefit plans. Those plans are discussed below.

**EMPLOYEE SAVINGS PLANS.** The Corporation and certain subsidiaries sponsor various employee savings plans. Total employer contributions were $155 million, $133 million and $123 million for 2003, 2002 and 2001, respectively.

The Corporation's nonunion domestic employee savings plan uses an Employee Stock Ownership Plan ("ESOP") for employer contributions. External borrowings, guaranteed by the Corporation and reported as debt in the Consolidated Balance Sheet, were used

by the ESOP to fund a portion of its purchase of ESOP Convertible Preferred Stock (ESOP Preferred Stock) from the Corporation. On November 6, 2003, the Corporation and Trustee effected the conversion of all 10.6 million outstanding shares of ESOP Preferred Stock into 42.5 million shares of Common Stock. At the time of the conversion, each share of ESOP Preferred Stock was convertible into four shares of Common Stock, had a guaranteed minimum value of $65, a $4.80 annual dividend and was redeemable by the Corporation at any time for $65 per share. The Preferred guarantee and dividend were equivalent to $16.25 and $1.20, respectively, per share of Common Stock. Upon withdrawal, shares of the ESOP Preferred Stock were convertible into Common Stock or, if the value of the Common Stock was less than the guaranteed value of ESOP Preferred Stock, redeemable at their guaranteed value. Because of its guaranteed value, the ESOP Preferred Stock was classified outside of Shareowners' Equity. In the December 31, 2003 balance sheet, Common Stock held by the ESOP is now classified as permanent equity because it no longer has a guaranteed value. Common Stock held by the ESOP is included in the average number of Common Shares outstanding for both basic and diluted earnings per share.

Shares of Common Stock are credited to employees' ESOP accounts at fair value on the date earned. Cash dividends on Common Stock held by the ESOP are used for debt service payments. Participants receive additional shares in lieu of cash dividends. As ESOP debt service payments are made, Common Stock is released from an unreleased shares account. ESOP debt may be prepaid or re-amortized to either increase or decrease the number of shares released so that the value of released shares equals the value of plan benefit. The Corporation may also, at its option, contribute additional Common Stock or cash to the ESOP. At December 31, 2003, 26 million common shares had been committed to employees, leaving 16.8 million common shares in the ESOP Trust, with an approximate fair value of $1.6 billion.

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

As more fully described in Note 2, on July 28, 2003, the Corporation acquired Chubb plc, including its defined benefit pension plans. The impact of the acquisition of those plans on the Corporation's funded status is reflected as acquisitions in the following table.

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| **Change in Benefit Obligation:** | | |
| Beginning balance | **$13,925** | $12,354 |
| Service cost | **285** | 255 |
| Interest cost | **910** | 884 |
| Actuarial loss | **727** | 1,272 |
| Total benefits paid | **(862)** | (839) |
| Net settlement and curtailment loss (gain) | **3** | (11) |
| Acquisitions | **1,846** | — |
| Other | **392** | 10 |
| Ending balance | **$17,226** | $13,925 |
| **Change in Plan Assets:** | | |
| Beginning balance | **$10,025** | $10,025 |
| Actual return on plan assets | **1,979** | (295) |
| Employer contributions | **1,009** | 1,060 |
| Benefits paid from plan assets | **(837)** | (808) |
| Acquisitions | **1,176** | — |
| Other | **146** | 43 |
| Ending balance | **$13,498** | $10,025 |
| Funded status | **$ (3,728)** | $ (3,900) |
| Unrecognized net actuarial loss | **4,867** | 4,891 |
| Unrecognized prior service cost | **225** | 143 |
| Unrecognized net obligation at transition | **4** | 5 |
| Net amount recognized | **$ 1,368** | $ 1,139 |
| **Amounts Recognized in the Consolidated Balance Sheet Consist of:** | | |
| Prepaid benefit cost | **$ 2,365** | $ 1,537 |
| Accrued benefit cost | **(3,594)** | (3,985) |
| Intangible assets | **78** | 180 |
| Accumulated other non-shareowners' changes in equity | **2,519** | 3,407 |
| Net amount recognized | **$ 1,368** | $ 1,139 |

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

The accumulated benefit obligation for all defined benefit pension plans was $15.6 billion and $12.4 billion at December 31, 2003 and 2002, respectively.

Qualified domestic pension plan benefits comprise approximately 76% of the projected benefit obligation. Benefits for unionized employees are generally based on a stated amount for each year of service. For non-unionized employees, benefits are generally based on an employee's years of service and compensation near retirement. A cash balance formula was recently adopted for newly hired non-unionized employees and for other non-unionized employees who made a one-time voluntary election to have future benefit accruals determined under this formula. Certain foreign plans, which comprise approximately 22% of the projected benefit obligation, are considered defined benefit plans for accounting purposes. Non-qualified

domestic pension plans provide supplementary retirement benefits to certain employees and are not a material component of the projected benefit obligation.

During 2003 and 2002, the Corporation voluntarily contributed cash of $994 million and $530 million, respectively, to its defined benefit pension plans. During 2002, the Corporation also contributed $253 million of Treasury Stock to these plans.

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| (Decrease) increase in minimum pension liability included in comprehensive income (net of tax) | **$(570)** | $1,588 |

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Projected benefit obligation | **$ 14,460** | $ 13,853 |
| Accumulated benefit obligation | **12,800** | 12,399 |
| Fair value of plan assets | **10,657** | 9,960 |

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Components of Net Periodic Benefit Cost:** | | | |
| Pension Benefits: | | | |
| Service cost | **$ 293** | $ 255 | $ 250 |
| Interest cost | **948** | 884 | 869 |
| Expected return on plan assets | **(1,140)** | (1,116) | (1,135) |
| Amortization of prior service cost | **49** | 39 | 36 |
| Amortization of unrecognized net transition obligation (asset) | **2** | 2 | (2) |
| Recognized actuarial net loss | **28** | 4 | 14 |
| Net settlement and curtailment loss | **49** | 37 | 46 |
| Net periodic pension benefit cost – employer | **$ 229** | $ 105 | $ 78 |
| Net periodic pension benefit cost – multiemployer plans | **$ 76** | $ 55 | $ 45 |

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

| | Benefit Obligation | | Net Cost | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 | 2001 |
| Discount rate | **6.1%** | 6.6% | **6.6%** | 7.4% | 7.4% |
| Salary scale | **4.0%** | 4.4% | **4.4%** | 4.7% | 4.9% |
| Expected return on plan assets | **—** | — | **8.4%** | 9.6% | 9.7% |

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

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

The allocation of pension plan assets is as follows:

| Asset Category | Target Allocation | Percentage of Plan Assets | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Equity securities | **65%-75%** | **72%** | 62% |
| Debt securities | **15%-25%** | **20%** | 29% |
| Real estate | **0%-5%** | **3%** | 4% |
| Other | **0%-5%** | **5%** | 5% |
| | | **100%** | 100% |

Equity securities include approximately 6% of the Corporation's Common Stock at December 31, 2003 and 2002. Assets are rebalanced to the target asset allocation at least once per calendar quarter.

**Estimated Future Contributions and Benefit Payments**

The Corporation expects to contribute approximately $500 million in cash to its defined benefit pension plans in 2004. Contributions do not reflect benefits to be paid directly from corporate assets.

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

| IN MILLIONS OF DOLLARS | |
|---|---|
| 2004 | **$ 959** |
| 2005 | **976** |
| 2006 | **994** |
| 2007 | **1,019** |
| 2008 | **1,048** |

| 2009-2013 | **5,751** |
|---|---|

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

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

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduced a plan sponsor subsidy based on a percentage of a beneficiary's annual prescription drug benefits, within defined limits, and the opportunity for a retiree to obtain prescription drug benefits under Medicare.

Certain employees are covered under legacy benefit provisions that include prescription drug coverage for Medicare-eligible retirees. In order to coordinate this coverage with the Act, the Corporation plans to complete a strategic review of its postretirement plans during the two year transitional period provided in the Act. In accordance with FASB Staff Position FAS 106-1, the benefit obligation and net periodic benefit cost do not reflect any potential effects of the Act. Since the Corporation has already taken steps to limit its postretirement medical benefits, any reductions in postretirement benefit costs resulting from the Act are not expected to be material.

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| **Change in Benefit Obligation:** | | |
| Beginning balance | **$ 997** | $ 1,040 |
| Service cost | **8** | 11 |
| Interest cost | **65** | 73 |
| Actuarial loss | **77** | 16 |
| Total benefits paid | **(127)** | (114) |
| Net settlement and curtailment loss (gain) | **8** | (59) |
| Other | **37** | 30 |
| Ending balance | **$ 1,065** | $ 997 |
| **Change in Plan Assets:** | | |
| Beginning balance | **$ 53** | $ 62 |
| Actual return on plan assets | **4** | (1) |
| Employer contributions | **7** | 1 |
| Benefits paid from plan assets | **(14)** | (13) |
| Other | **5** | 4 |
| Ending balance | **$ 55** | $ 53 |
| Funded status | **$(1,010)** | $ (944) |
| Unrecognized net actuarial gain | **(8)** | (102) |
| Unrecognized prior service cost | **(74)** | (94) |
| Unrecognized net obligation at transition | **—** | — |
| Net amount recognized | **$(1,092)** | $(1,140) |
| **Amounts Recognized in the Consolidated Balance Sheet Consist of:** | | |
| Accrued benefit liability | **$(1,092)** | $(1,140) |

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| **Components of Net Periodic Benefit Cost:** | | | |
| Other Postretirement Benefits: | | | |
| Service cost | **$ 8** | $ 11 | $ 15 |
| Interest cost | **64** | 73 | 85 |
| Expected return on plan assets | **(4)** | (5) | (7) |
| Amortization of prior service cost | **(21)** | (19) | (13) |
| Net settlement and curtailment gain | **(15)** | (57) | (3) |
| Net periodic other postretirement benefit cost | **$ 32** | $ 3 | $ 77 |

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

| | Benefit Obligation | | Net Cost | | |
|---|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 | 2001 |
| Discount rate | **6.3%** | 6.7% | **6.7%** | 7.5% | 7.5% |
| Expected return on plan assets | — | — | **8.3%** | 9.6% | 9.6% |

Assumed health care cost trend rates are as follows:

| | 2003 | 2002 |
|---|---|---|
| Health care cost trend rate assumed for next year | **10%** | 10% |
| Rate that the cost trend rate gradually declines to | **5%** | 5% |
| Year that the rate reaches the rate it is assumed to remain at | **2014** | 2013 |

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:

| | 2003 One-Percentage-Point | |
|---|---|---|
| | Increase | Decrease |
| Effect on total service and interest cost | 3 | (3) |
| Effect on postretirement benefit obligation | 38 | (36) |

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

| IN MILLIONS OF DOLLARS | |
|---|---|
| 2004 | **$ 93** |
| 2005 | **86** |
| 2006 | **85** |
| 2007 | **83** |
| 2008 | **79** |
| 2009-2013 | **346** |

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

A summary of the transactions under all plans for the three years ended December 31, 2003 follows:

| | Stock Options | | |
|---|---|---|---|
| SHARES AND UNITS IN THOUSANDS | Shares | Average Price | Other Incentive Shares/Units |
| Outstanding at: | | | |
| December 31, 2000 | 42,392 | $ 40.93 | 483 |
| Granted | 8,255 | 75.60 | 78 |
| Exercised/earned | (6,206) | 26.83 | (127) |
| Canceled | (1,292) | 66.33 | (40) |
| December 31, 2001 | 43,149 | $ 48.85 | 394 |
| Granted | 10,313 | 65.18 | 280 |
| Exercised/earned | (4,031) | 32.01 | (88) |
| Canceled | (1,383) | 68.99 | (16) |
| December 31, 2002 | 48,048 | $ 53.19 | 570 |
| Granted | **6,612** | **62.75** | **47** |
| Exercised/earned | **(8,577)** | **36.58** | **(292)** |
| Canceled | **(993)** | **62.14** | **(3)** |
| **December 31, 2003** | **45,090** | **$ 57.55** | **322** |

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

The following table summarizes information about stock options outstanding and exercisable (in thousands) at December 31, 2003:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Price | Shares | Average Price | Remaining Term | Shares | Average Price |
| $10.01-$25.00 | 3,032 | $ 19.91 | 1.40 | 3,032 | $ 19.91 |
| $25.01-$40.00 | 6,722 | 35.01 | 3.10 | 6,722 | 35.01 |
| $40.01-$55.00 | 5,095 | 52.00 | 4.40 | 5,082 | 47.09 |
| $55.01-$70.00 | 20,506 | 63.86 | 7.60 | 5,223 | 58.00 |
| $70.01-$85.00 | 9,733 | 74.43 | 6.50 | 3,385 | 70.52 |
| $85.01-$100.00 | 2 | 85.80 | 9.80 | — | — |

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

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| Risk-free interest rate | **3.0%** | 4.4% | 4.8% |
| Expected life | **5 years** | 5 years | 5 years |
| Expected volatility | **39%** | 39% | 36% |
| Expected dividend yield | **1.8%** | 1.6% | 1.3% |

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

The weighted-average grant date fair values of options granted during 2003, 2002 and 2001 were $20.82, $23.30 and $24.83, respectively.

**[note 12] Restructuring**

The Corporation may initiate restructuring actions which could involve workforce reductions, the consolidation of facilities or other actions the Corporation considers necessary in its ongoing efforts to reduce costs.

The accounting for costs associated with restructuring actions is dependent upon the nature of such costs. As a matter of practice, the Corporation provides severance and other termination benefits in the event of a workforce reduction. As appropriate, such costs are accrued at the time it becomes probable that a

workforce reduction will occur and affected employees will collect benefits as required by SFAS No. 112, "Employers' Accounting for Postemployment Benefits."

**2003 ACTIONS.** During 2003, the Corporation recorded net pre-tax restructuring and related charges totaling $182 million in the Corporation's segments as follows: Otis $65 million, Carrier $65 million, Pratt & Whitney $19 million, Flight Systems $23 million and Eliminations and other $10 million. These charges relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of manufacturing facilities including Carrier's

Syracuse, New York-based container refrigeration and compressor manufacturing operations and Otis' Bloomington, Indiana-based manufacturing, distribution and field tool operations. Those operations will be consolidated into facilities in growing Asian and other markets. The charges included $126 million recorded in cost of sales, $31 million in selling, general and administrative expenses and $25 million in other income.

The 2003 actions are expected to result in net workforce reductions of approximately 4,000 hourly and salaried employees, the exiting of approximately 2.1 million square feet of facilities and the disposal of assets associated with the exited facilities. As of December 31, 2003, net workforce reductions of approximately 2,500 employees have been completed and one hundred thousand square feet of facilities have been exited. The majority of the remaining workforce and facility related cost reduction actions are targeted to be completed in 2004. A significant portion of the remaining square footage to be eliminated under the 2003 actions relates to the Syracuse, New York and Bloomington, Indiana facilities.

The following tables summarize the 2003 restructuring actions accrued by type and related activity and by total costs expected to be incurred by type and by segment:

| IN MILLIONS OF DOLLARS | Severance and Related Costs | Asset Write-downs | Facility Exit and Lease Termination Costs | Total |
|---|---|---|---|---|
| Total accrued charges | $ 150 | $ 8 | $ 22 | $180 |
| Non-accruable costs | — | — | 19 | 19 |
| Prior period reversals | (17) | — | — | (17) |
| Net pre-tax restructuring charges | 133 | 8 | 41 | 182 |
| Utilization | (41) | (8) | (33) | (82) |
| Restructuring accruals at December 31, 2003 | $ 92 | $ — | $ 8 | $100 |

Prior period reversals are related to restructuring actions initiated in 2002 and 2001, primarily due to foreign currency translation.

Expected costs for the 2003 programs by type are as follows:

| IN MILLIONS OF DOLLARS | Severance and Related Costs | Asset Write-downs | Facility Exit and Lease Termination Costs | Total |
|---|---|---|---|---|
| Expected costs | $ 182 | $ 8 | $ 127 | $ 317 |
| Costs incurred | (150) | (8) | (41) | (199) |
| Remaining costs | $ 32 | $ — | $ 86 | $ 118 |

Expected costs for the 2003 programs by segment are as follows:

| IN MILLIONS OF DOLLARS | Otis | Carrier | Pratt & Whitney | Flight Systems | Eliminations & Other | Total |
|---|---|---|---|---|---|---|
| Expected costs | $106 | $ 124 | $ 46 | $ 31 | $ 10 | $ 317 |
| Costs incurred | (71) | (65) | (27) | (26) | (10) | (199) |
| Remaining cost | $ 35 | $ 59 | $ 19 | $ 5 | $ — | $ 118 |

**2002 ACTIONS.** During 2002, the Corporation recorded net pre-tax restructuring and related charges totaling $321 million. These charges related to ongoing cost reduction efforts, including workforce reductions and consolidation of manufacturing, sales and service facilities, and included $237 million recorded in cost of sales and $81 million in selling, general and administrative expenses.

The charges were recorded in the Corporation's segments as follows: Otis $73 million, Carrier $114 million, Pratt & Whitney $80 million and Flight Systems $55 million. The charges included accruals of $203 million for severance and related employee termination costs, $48 million for asset write-downs, largely related to manufacturing assets and exiting facilities that will no longer be utilized, and $19 million for facility exit and lease termination costs. Additional charges associated with these restructuring actions totaling $51 million that were not accruable at the time were also recorded in 2002, primarily in the Carrier segment.

As of December 31, 2003, the 2002 actions have been completed substantially as planned having resulted in net workforce reductions of approximately 6,800 salaried and hourly employees, the exiting of approximately 1.6 million square feet of facilities and the disposal of assets associated with exited facilities.

**[note 13] Foreign Exchange**

The Corporation conducts business in many different currencies and, accordingly, is subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of the Corporation's foreign subsidiaries are measured using the local currency as the functional currency. Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the respective balance sheet dates, and income and expense items are translated at the average exchange rates during the respective periods. The aggregate effects of translating the balance sheets of these subsidiaries are deferred as a separate component of shareowners' equity. The Corporation had foreign currency net assets in more than forty currencies, aggregating $6.5 billion and $4.2 billion at December 31, 2003 and 2002, respectively.

The notional amount of foreign exchange contracts hedging foreign currency transactions was $4.9 billion and $2.9 billion at December 31, 2003 and 2002, respectively.

**[note 14] Financial Instruments**

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

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

The non-shareowner changes in equity associated with hedging activity for the twelve months ended December 31, 2003 and 2002 were as follows:

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Balance at January 1 | **$ 4** | $(23) |
| Cash flow hedging gain (loss), net | **66** | (6) |
| Net (gain) loss reclassified to sales or cost of products sold | **(15)** | 33 |
| Balance at December 31 | **$ 55** | $ 4 |

Of the amount recorded in shareowners' equity, a $75 million pre-tax gain is expected to be reclassified into sales or cost of products sold to reflect the fixed prices obtained from hedging within the next twelve months. Gains and losses recognized in earnings related to fair value hedges and the discontinuance or the ineffectiveness of cash flow hedges were immaterial for the years ended December 31, 2003 and 2002. At December 31, 2003, all derivative contracts accounted for as cash flow hedges mature by March 2006.

All derivative instruments are recorded on the balance sheet at fair value. At December 31, 2003 and 2002, the fair value of derivatives recorded as assets is $162 million and $58 million, respectively, and the fair value of derivatives recorded as liabilities is $56 million and $39 million, respectively. The Corporation uses derivatives to hedge forecasted cash flows associated with foreign currency commitments or forecasted commodity purchases which are accounted for as cash flow hedges. In addition, the Corporation uses derivatives, such as interest rate swaps which are accounted for as fair value hedges.

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

| | 2003 | | 2002 | |
|---|---|---|---|---|
| IN MILLIONS OF DOLLARS | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial Assets and Liabilities** | | | | |
| Marketable equity securities | **$ 79** | **$ 79** | $ 17 | $ 17 |
| Long-term receivables | **128** | **125** | 155 | 151 |
| Customer financing note receivables | **439** | **425** | 301 | 299 |
| Short-term borrowings | **(669)** | **(669)** | (197) | (197) |
| Long-term debt | **(4,614)** | **(5,363)** | (4,657) | (5,374) |

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

The values of marketable equity securities represent the Corporation's investment in common stock that is classified as available for sale and is accounted for at fair value.

The Corporation had outstanding financing and rental commitments totaling $1.2 billion at December 31, 2003. 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 15] Guarantees**

The Corporation extends a variety of financial guarantees to third parties. As of December 31, 2003 and 2002 the following financial guarantees were outstanding:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| IN MILLIONS OF DOLLARS | Maximum Potential Payment | Carrying Amount of Liability | Maximum Potential Payment | Carrying Amount of Liability |
| Credit facilities and debt obligations - unconsolidated subsidiaries (expire 2004 - 2011) | $ 191 | $ 9 | $ 259 | $ — |
| IAE's financing arrangements (See Note 4) | 1,406 | 22 | 1,232 | 22 |
| Commercial aerospace financing arrangements (See Note 4) | 160 | 36 | 164 | 26 |
| Commercial customer financing arrangements | 66 | 1 | 62 | — |

The Company also has obligations arising from sales of certain businesses and assets, including representations and warranties and related indemnities for environmental, health and safety, tax and employment matters. The maximum potential payment related to these obligations is not a specified amount as a number of the obligations do not contain financial caps. The carrying amount of liabilities related to these obligations was $191 million and $186 million at December 31, 2003 and 2002, respectively. For additional information regarding the environmental indemnifications see Note 16.

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

The Corporation provides service and warranty policies on its products and extends performance and operating cost guarantees beyond its normal service and warranty policies on some of its products, particularly commercial aircraft engines. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Liability for performance and operating cost guarantees is based upon future product performance and durability, and is estimated largely based upon historical experience. Adjustments are made to accruals as claim data and historical experience warrant. In addition, the Corporation incurs discretionary costs to service its products in connection with product performance issues.

The changes in the carrying amount of service and product warranties and product performance guarantees for the years ended December 31, 2003 and 2002, are as follows:

| IN MILLIONS OF DOLLARS | 2003 | 2002 |
|---|---|---|
| Balance as of January 1 | $ 1,116 | $ 1,177 |
| Warranties and guarantees issued | 448 | 385 |
| Settlements made | (405) | (500) |
| Adjustments to provision | 2 | 54 |
| **Balance as of December 31** | **$ 1,161** | $ 1,116 |

**[note 16] Commitments and Contingent Liabilities**

**LEASES.** The Corporation occupies space and uses certain equipment under lease arrangements. Rental commitments of $1,059 million at December 31, 2003 under long-term noncancelable operating leases are payable as follows: $292 million in 2004, $227 million in 2005, $163 million in 2006, $114 million in 2007, $76 million in 2008 and $187 million thereafter.

Rent expense was $261 million in 2003, $214 million in 2002 and $204 million in 2001.

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

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

The Corporation has had insurance in force over its history with a number of insurance companies and has pursued litigation seeking indemnity and defense under these insurance policies in relation to its environmental liabilities. In January 2002, the Corporation settled the last of these lawsuits under an agreement providing for the Corporation to receive payments totaling approximately $100 million. Accrued environmental liabilities are not reduced by potential insurance reimbursements.

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

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

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

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

**OTHER.** The Corporation extends performance and operating cost guarantees beyond its normal warranty and service policies for extended periods on some of its products, particularly commercial aircraft engines. Liability under such guarantees is contingent upon future product performance and durability. In addition, the Corporation incurs discretionary costs to service its products in connection with product performance issues. The Corporation has accrued its estimated liability that may result under these guarantees and for service costs which are probable and can be reasonably estimated.

The Corporation also has other commitments and contingent liabilities related to legal proceedings and matters arising out of the normal course of business.

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

**[note 17] Segment Financial Data**

The Corporation's operations are classified in five principal segments. During 2003, Chubb plc was acquired and added as one of the five segments. Those segments were generally determined based on the management of the businesses and on the basis of separate groups of operating companies, each with general operating autonomy over diversified products and services.

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

**CARRIER** products include heating, ventilating and air conditioning systems and equipment, commercial and transport refrigeration equipment and service for a diversified international customer base principally in commercial and residential real estate development.

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

**PRATT & WHITNEY** products include aircraft engines and spare parts sold to a diversified customer base, including international and domestic commercial airlines and aircraft leasing companies, aircraft manufacturers, and U.S. and non-U.S. 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.

**FLIGHT SYSTEMS** provides global aerospace and industrial products and services through Hamilton Sundstrand and Sikorsky. Hamilton Sundstrand provides aerospace and industrial products for diversified industries. Aerospace products include aircraft power generation management and distribution systems, and environmental, flight and fuel control systems. Sikorsky products include military and commercial helicopters, aftermarket products and service.

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

Segment information for the years ended December 31 follows:

**Segment Information**

| | Total Revenues | | | Operating Profits | | |
|---|---|---|---|---|---|---|
| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Otis | **$ 7,927** | $ 6,811 | $ 6,338 | **$ 1,377** | $ 1,057 | $ 847 |
| Carrier | **9,246** | 8,773 | 8,895 | **911** | 779 | 590 |
| Chubb | **1,136** | — | — | **55** | — | — |
| Pratt & Whitney | **7,505** | 7,645 | 7,679 | **1,125** | 1,282 | 1,308 |
| Flight Systems | **5,708** | 5,571 | 5,292 | **785** | 741 | 670 |
| Total segment | **31,522** | 28,800 | 28,204 | **4,253** | 3,859 | 3,415 |
| Eliminations and other | **(488)** | (588) | (307) | **(174)** | (27) | 25 |
| General corporate expenses | **—** | — | — | **(234)** | (175) | (207) |
| Consolidated | **$ 31,034** | $ 28,212 | $ 27,897 | **3,845** | 3,657 | 3,233 |
| Interest expense | | | | **(375)** | (381) | (426) |
| Income before income taxes and minority interests | | | | **$ 3,470** | $ 3,276 | $ 2,807 |

Goodwill amortization recorded in segment operating profits for the year ended December 31, 2001 is as follows: Otis – $30 million, Carrier – $74 million, Pratt & Whitney – $23 million, and Flight Systems – $103 million.

| IN MILLIONS OF DOLLARS | Total Assets | | | Capital Expenditures | | | Depreciation & Amortization | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Otis | **$ 4,946** | $ 4,144 | $ 3,777 | **$ 77** | $ 81 | $ 80 | **$ 154** | $ 138 | $ 159 |
| Carrier | **7,720** | 7,431 | 7,202 | **89** | 94 | 226 | **182** | 189 | 248 |
| Chubb | **4,396** | — | — | **16** | — | — | **44** | — | — |
| Pratt & Whitney | **6,648** | 6,082 | 6,090 | **192** | 257 | 343 | **214** | 209 | 223 |
| Flight Systems | **8,478** | 8,005 | 7,724 | **138** | 127 | 125 | **167** | 169 | 259 |
| Total segment | **32,188** | 25,662 | 24,793 | **512** | 559 | 774 | **761** | 705 | 889 |
| Eliminations and other | **2,460** | 3,532 | 2,237 | **18** | 27 | 19 | **38** | 22 | 16 |
| Consolidated | **$ 34,648** | $ 29,194 | $ 27,030 | **$ 530** | $ 586 | $ 793 | **$ 799** | $ 727 | $ 905 |

**SEGMENT REVENUES AND OPERATING PROFIT.** Total revenues by segment include intersegment sales, which are generally made at prices approximating those that the selling entity is able to obtain on external sales. Operating profits by segment include income before interest expense, income taxes and minority interest.

**Geographic Areas**

| IN MILLIONS OF DOLLARS | External Revenues | | | Operating Profits | | | Long-Lived Assets | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| United States operations | **$ 16,988** | $ 16,760 | $ 17,109 | **$ 2,156** | $ 2,289 | $ 1,987 | **$ 8,675** | $ 8,648 | $ 8,489 |
| International operations | | | | | | | | | |
| Europe | **7,150** | 5,573 | 4,716 | **970** | 690 | 570 | **4,984** | 1,547 | 1,188 |
| Asia Pacific | **4,505** | 3,647 | 3,420 | **722** | 573 | 416 | **1,663** | 1,428 | 1,404 |
| Other | **2,602** | 2,581 | 2,785 | **404** | 307 | 442 | **682** | 521 | 574 |
| Eliminations and other | **(211)** | (349) | (133) | **(407)** | (202) | (182) | **300** | 78 | 72 |
| Consolidated | **$ 31,034** | $ 28,212 | $ 27,897 | **$ 3,845** | $ 3,657 | $ 3,233 | **$ 16,304** | $ 12,222 | $ 11,727 |

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

Revenues from United States operations include export sales as follows:

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Europe | **$ 1,171** | $ 1,422 | $ 1,314 |
| Asia Pacific | **1,145** | 1,594 | 1,484 |
| Other | **1,013** | 1,037 | 1,149 |
| | **$ 3,329** | $ 4,053 | $ 3,947 |

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

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

| IN MILLIONS OF DOLLARS | 2003 | 2002 | 2001 |
|---|---|---|---|
| Pratt & Whitney | **$ 3,025** | $ 2,489 | $ 1,708 |
| Flight Systems | **$ 2,196** | $ 2,015 | $ 2,037 |

**[note 18] Subsequent Events (Unaudited)**

In January 2004, the Corporation received a $250 million payment from DaimlerChrysler. In consideration for this payment, the Corporation has released DaimlerChrysler from certain commitments previously made in support of MTU Aero Engines GmbH. The Corporation expects to use this first quarter gain for additional cost reduction actions across the businesses.

In February 2004, Carrier announced its intent to close its McMinnville, Tennessee manufacturing facility. The total cost of this action is expected to be approximately $120 million. During the first quarter of 2004, the Corporation expects to record charges of approximately $60 million related to this action primarily attributable to severance related costs and accelerated depreciation and asset writeoffs.

**Selected Quarterly Financial Data (Unaudited)**

| IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS | 2003 Quarters | | | | 2002 Quarters | | | |
|---|---|---|---|---|---|---|---|---|
| | **First** | **Second** | **Third** | **Fourth** | **First** | **Second** | **Third** | **Fourth** |
| Sales | **$ 6,653** | **$ 7,708** | **$ 7,875** | **$ 8,487** | $ 6,321 | $ 7,271 | $ 7,250 | $ 7,138 |
| Gross margin | **1,787** | **2,089** | **2,162** | **2,177** | 1,836 | 2,081 | 2,012 | 1,890 |
| Net income | **502** | **632** | **639** | **588** | 467 | 624 | 612 | 533 |
| Earnings per share of Common Stock: | | | | | | | | |
| Basic | **$ 1.05** | **$ 1.33** | **$ 1.34** | **$ 1.21** | $ .97 | $ 1.30 | $ 1.28 | $ 1.11 |
| Diluted | **$ 1.00** | **$ 1.26** | **$ 1.27** | **$ 1.16** | $ .92 | $ 1.23 | $ 1.21 | $ 1.06 |

**Comparative Stock Data**

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | **High** | **Low** | **Dividend** | **High** | **Low** | **Dividend** |
| Common Stock | | | | | | |
| First quarter | **$ 66.21** | **$ 54.15** | **$ .245** | $ 77.25 | $ 59.37 | $ .245 |
| Second quarter | **$ 73.51** | **$ 58.75** | **$ .270** | $ 75.00 | $ 64.85 | $ .245 |
| Third quarter | **$ 80.25** | **$ 71.29** | **$ .270** | $ 71.00 | $ 55.98 | $ .245 |
| Fourth quarter | **$ 95.54** | **$ 79.88** | **$ .350** | $ 65.83 | $ 49.19 | $ .245 |

The Corporation's Common Stock is listed on the New York Stock Exchange. The high and low prices are based on the Composite Tape of the New York Stock Exchange. There were approximately 26,000 common shareowners of record at December 31, 2003.

# DIRECTORS

## Board of Directors

**Betsy J. Bernard**
Former President
AT&T Corporation
(Telecommunications)

**Stephen F. Page**
Vice Chairman and
Chief Financial Officer

**George David**
Chairman and
Chief Executive Officer

**Frank P. Popoff**
Retired Chairman and
Chief Executive Officer
The Dow Chemical Company
(Chemicals and Chemical Products)

**Jean-Pierre Garnier**
Chief Executive Officer
GlaxoSmithKline plc
(Pharmaceuticals)

**H. Patrick Swygert**
President
Howard University

**Jamie S. Gorelick**
Partner
Wilmer Cutler Pickering LLP

**André Villeneuve**
Chairman
Euronext.LIFFE
(London Futures and Derivatives Exchange)

**Charles R. Lee**
Retired Chairman and
Co-Chief Executive
Officer
Verizon Communications
(Telecommunications)

**H. A. Wagner**
Retired Chairman
Air Products and Chemicals, Inc.
(Industrial Gases and Chemicals)

**Richard D. McCormick**
Honorary Chairman
International Chamber of
Commerce (ICC)

**Christine Todd Whitman**
Former EPA Administrator and
Former Governor of New Jersey

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

## Permanent Committees

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Jamie S. Gorelick
Richard D. McCormick
Harold McGraw III
André Villeneuve
H. A. Wagner

**Compensation & Executive Development**
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Jean-Pierre Garnier
Charles R. Lee
Richard D. McCormick
Frank P. Popoff

**Executive Committee**
George David, Chairman
Charles R. Lee
Stephen F. Page
Frank P. Popoff
H. A. Wagner

**Finance Committee**
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George David
Jamie S. Gorelick
Stephen F. Page
Frank P. Popoff
H. Patrick Swygert
André Villeneuve
Christine Todd Whitman

**Committee on Nominations and Governance**
Richard D. McCormick, Chairman
Betsy J. Bernard
Jean-Pierre Garnier
Charles R. Lee
H. Patrick Swygert
H. A. Wagner

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

## LEADERSHIP

**Mario Abajo**
President,
South Europe, Middle East
and Western Asia, Otis

**David Adler**
Senior Vice President,
Worldwide Customer Service,
Sikorsky

**Tesfaye Aklilu**
Vice President, Quality

**Ted F. Amyuni**
Senior Vice President,
Operations, Carrier

**Alain M. Bellemare**
President,
Pratt & Whitney Canada

**Richard H. Bennett, Jr.**
Vice President,
Environment,
Health & Safety

**Todd Bluedorn**
President, North
America Commercial,
Carrier

**Ari Bousbib**
President, Otis

**John W. Boyd**
Vice President, Operations,
Hamilton Sundstrand

**Kent L. Brittan**
Vice President,
Supply Management

**William M. Brown**
President, Asia Pacific,
Carrier

**William L. Bucknall, Jr.**
Senior Vice President, Human
Resources and Organization

**John F. Cassidy, Jr.**
Senior Vice President,
Science and Technology

**Tony Chamberlain**
President, Australasia, Chubb

**Louis R. Chênevert**
President, Pratt & Whitney

**Jean Colpin**
Director, United Technologies
Research Center

**Halsey Cook**
President, North America
Residential, Carrier

**Geraud Darnis**
President, Carrier

**George David**
Chairman and
Chief Executive Officer

**John Doucette**
Vice President and
Chief Information Officer

**Thomas E. Farmer**
President, Military Engines,
Pratt & Whitney

**Stephen N. Finger**
President, Sikorsky

**James E. Geisler**
Vice President, Finance

**James L. Gingrich**
President,
Flight Systems and Services,
Hamilton Sundstrand

**Patrick J. Gnazzo**
Vice President,
Business Practices

**Bruno Grob**
President, North Europe, Otis

**Anthony J. Guzzi**
President,
Carrier Distribution & Service

**Ruth R. Harkin**
Senior Vice President,
International Affairs and
Government Relations

**Gregory J. Hayes**
Vice President, Accounting and
Control

**David P. Hess**
President,
Aerospace Power Systems,
Hamilton Sundstrand

**Darryl Hughes**
President, Security Business,
United Kingdom, Ireland &
South Africa, Chubb

**Tadayuki Inoue**
President, Japan, Otis

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Vice President, Communications

**Todd Kallman**
Vice President, Corporate
Strategy & Development

**Edwin W. Laprade**
President, Industrial,
Hamilton Sundstrand

**John P. Leary**
Vice President,
Employee Relations

**Robert Leduc**
Executive Vice President and
Chief Operating Officer,
Pratt & Whitney and President,
Large Commercial Engines

**Patrick L'Hostis**
President, Europe,
Middle East and Africa,
Carrier

**Richard Laubenstein**
President,
Carrier Transicold

**Arthur W. Lucas**
Senior Vice President,
Engineering,
Pratt & Whitney

**Paul W. Martin**
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Government & Advanced Programs,
Sikorsky

**Ronald F. McKenna**
President,
Hamilton Sundstrand

**Raymond J. Moncini**
President, North and South
America, Otis

**Larry O. Moore**
Senior Vice President,
Module Centers and
Operations, Pratt & Whitney

**Robert R. Moore**
Senior Vice President,
Production Operations,
Sikorsky

**Joseph R. Ornelas**
Vice President,
Engineering & Technology, Hamilton
Sundstrand

**Stephen F. Page**
Vice Chairman and
Chief Financial Officer

**Eric Patry**
President, Continental Europe,
Chubb

**Jeffrey P. Pino**
Senior Vice President,
Marketing & Commercial
Programs, Sikorsky

**Carlos Renck**
President, Latin America,
Carrier

**Jürgen Reuning**
President, Central and
East Europe, Otis

**Jeffrey P. Rhodenbaugh**
President, Commercial
Refrigeration, Carrier

**Olivier J. Robert**
President, Chubb

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

**William H. Trachsel**
Senior Vice President
and General Counsel

**Tobin J. Treichel**
Vice President, Tax

**Joseph E. Triompo**
President, Engine and Control
Systems, Hamilton Sundstrand

**Debra A. Valentine**
Vice President, Secretary and
Associate General Counsel

**Jan van Dokkum**
President, UTC Power

**Charles M. Vo**
President,
North Asia Pacific, Otis

**Randal E. Wilcox**
President,
South Asia Pacific, Otis

## SHAREOWNER INFORMATION

**Corporate Office**

United Technologies Corporation
One Financial Plaza
Hartford, Connecticut 06103
Telephone 1-860-728-7000

This annual report is made available to shareowners in advance of the annual meeting of shareowners to be held at 2:00 p.m., April 14, 2004, at the Pratt & Whitney Space Propulsion facility in Jupiter, Florida. The proxy statement will be made available to shareowners on or about February 27, 2004, at which time proxies for the meeting will be requested.

Information about UTC, including financial information, can be found at our Website: http://www.utc.com.

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

**Ticker Symbol:** UTX

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

EquiServe Trust Company, N.A.
P.O. Box 43069
Providence, RI
02940-3069
Telephone: 1-800-519-3111
Website: http://www.equiserve.com

TDD: 1-800-952-9245
Telecommunications device for the hearing impaired.

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

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

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

**Additional Information**
Shareowners may obtain a copy of the United Technologies Report on Form 10-K for 2003 filed with the Securities and Exchange Commission by writing to:

Corporate Secretary
United Technologies Corporation
One Financial Plaza
Hartford, Connecticut 06103

For additional information about the Corporation please contact Investor Relations at the above corporate office address, or visit our Website at http://www.utc.com.

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

To access the service, dial 1-800-881-1914 from any touch-tone phone and follow the recorded instructions.

**Direct Registration System**
If your shares are held in street name through a broker and you are interested in participating in the Direct Registration System, you may have your broker transfer the shares to EquiServe Trust Company, N.A., electronically through the Direct Registration System. Interested investors can request a description of this book-entry form of registration by calling Shareowner Information Services at 1-800-881-1914.

**Environmentally Friendly Report**
This annual report is printed on recycled and recyclable paper.

WWW.UTC.COM

WWW.CARRIER.COM
WWW.CHUBBPLC.COM
WWW.HAMILTONSUNDSTRANDCORP.COM
WWW.OTIS.COM
WWW.PRATT-WHITNEY.COM
WWW.SIKORSKY.COM
WWW.UTC POWER.COM

Exhibit 21

**UNITED TECHNOLOGIES CORPORATION**
**Subsidiaries of the Registrant**
**December 31, 2003**

| Entity Name | State/Country of Incorporation |
|---|---|
| Beesail Limited | England |
| Cade Industries, Inc. | Wisconsin |
| CalPeak Power LLC | Delaware |
| Caricor Ltd. | Delaware |
| Carlyle Scroll Holdings Inc. | Delaware |
| Carmel Forge Limited (The) | Israel |
| Carrier Air Conditioning Pty. Limited | Australia |
| Carrier Aircon Limited | India |
| Carrier China Limited | Hong Kong |
| Carrier Corporation | Delaware |
| Carrier Commercial Refrigeration, Inc. | Delaware |
| Carrier Espana, SL | Spain |
| Carrier HVACR Investments B.V. | Netherlands |
| Carrier LG Limited | Korea, Republic of |
| Carrier Ltd. | Korea, Republic of |
| Carrier Mexico S.A. de C.V. | Mexico |
| Carrier Nederland BV | Netherlands |
| Carrier Sales and Distribution, LLC | Delaware |
| Carrier SAS | France |
| Carrier SpA | Italy |
| Carrier Singapore (PTE) Limited | Singapore |
| Carrier Transicold Europe S.A.S. | France |
| CEAM – Construzioni Elettromeccaniche Ascensori e Montacarichi S.r.l. | Italy |
| Ceesail Limited | England |
| Cheetah Acquisitions Limited | England |
| China Tianjin Otis Elevator Company, Ltd. | China |
| Chubb China Holdings Limited | Hong Kong |
| Chubb Electronic Security Limited | England |
| Chubb Fire Limited | England |
| Chubb Group Limited | England |
| Chubb Group Properties Limited | England |
| Chubb Group Security Limited | England |
| Chubb Holdings Inc. | Delaware |
| Chubb International Holdings Limited | England |
| Chubb International Limited | England |
| Chubb (Netherlands) Limited | England |
| Chubb New Zealand Limited | New Zealand |
| Chubb (North America) Limited | England |
| Chubb plc | England |
| Chubb SC Beveiligingen B.V. | Netherlands |
| Chubb Securite SAS | France |
| Chubb Security Australia Pty Ltd | Australia |
| Chubb Security Holdings Australia Limited | Australia |
| Chubb Security Limited | England |
| Chubb Security Services Limited | Australia |
| Chubb Security Systems, Inc. | Texas |
| Chubb (UK) Limited | England |
| Chubb White Peak (UK) Limited | England |
| Claverham 98 Limited | England |
| Claverham Group Limited | England |
| Compagnie Centrale SICLI SAS | France |
| CSG Security Inc | Canada |

| | |
|---|---|
| Delta Elevator Service Corporation | Massachusetts |
| Derco Aerospace, Inc. | Wisconsin |
| Eagle Services Asia Private Limited | Singapore |
| Elevadores Otis Ltda. | Brazil |
| Empresas Carrier, S.A. De C.V. | Mexico |
| Euromicro Microtecnica B.V. | Netherlands |
| FFE Building Services Limited | Australia |
| FH 1997 Limited | England |
| Foray 414 Limited | England |
| Generale Frigorifique “SASU” | France |
| Guardforce Limited | Hong Kong |
| Hamilton Sundstrand Corporation | Delaware |
| Hamilton Sundstrand Holdings, Inc. | Delaware |
| Hamilton Sundstrand International Holdings Ltd. | Cayman Islands |
| Hamilton Sundstrand Pacific Aerospace PTE Ltd. | Singapore |
| Hamilton Sundstrand Power Systems, Inc. | Delaware |
| Hamilton Sundstrand UK Holdings Limited | England |
| Hangzhou Xizi Otis Elevator Company Limited | China |
| Helicopter Support, Inc. | Connecticut |
| Homogeneous Metals, Inc. | New York |
| International Comfort Products, LLC | Delaware |
| Johns Perry Lifts Holdings LDC | Cayman Islands |
| Latin American Holding, Inc. | Delaware |
| Mircrotecnica Srl | Italy |
| Milton Roy Company | Pennsylvania |
| Misr Refrigeration And Air Conditioning Manufacturing Company S.A.E. | Egypt |
| Moonless Limited | England |
| Moonmore Limited | England |
| Nippon Otis Elevator Company | Japan |
| North American Elevator Services Company | Delaware |
| OOO Otis Lift | Russian Federation |
| Otis | France |
| Otis Canada, Inc. | Ontario |
| Otis E&M Company Limited | England |
| Otis Elevadores, Lda. | Portugal |
| Otis Elevator (China) Investment Company Limited | China |
| Otis Elevator Company | New Jersey |
| Otis Elevator Company (Delaware) | Delaware |
| Otis Elevator Company (H.K.) Limited | Hong Kong |
| Otis Elevator Company (India) Limited | India |
| Otis Elevator Company Pty. Ltd. | Australia |
| Otis Far East Holdings Limited | Hong Kong |
| Otis Gesellschaft m.b.h. | Austria |
| Otis GmbH & Co. OHG | Germany |
| Otis Holdings GmbH & Co. OHG | Germany |
| Otis International Holdings UK Limited | England |
| Otis Investments Plc | England |
| Otis LG Elevator Company | Korea, Republic of |
| Otis Lifts Holding Company | Cayman Islands |
| Otis Limited | England |
| Otis Pacific Holdings B.V. | Netherlands |
| Otis S.p.A. | Italy |
| Otis Srl | Italy |
| Otis Servizi S.r.l. | Italy |
| Parkview Participations LLC | Delaware |
| Pilgrim House Group Limited | England |
| Pratt & Whitney AutoAir, Inc. | Michigan |
| Pratt & Whitney Canada Corp. | Canada |
| Pratt & Whitney Canada Leasing Inc. | Canada |
| Pratt & Whitney Component Solutions, Inc. | Michigan |

| | |
|---|---|
| **Pratt & Whitney Compressor Airfoil Holdings, Inc.** | **Delaware** |
| **Pratt & Whitney Engine Leasing, LLC** | **Delaware** |
| **Pratt & Whitney Engine Services, Inc.** | **Delaware** |
| **Pratt & Whitney Holdings LLC** | **Cayman Islands** |
| **Pratt & Whitney Military Aftermarket Services, Inc.** | **Delaware** |
| **Pratt & Whitney Norway Engine Center AS** | **Norway** |
| **Pratt & Whitney Power Systems, Inc.** | **Delaware** |
| **Pratt & Whitney Services, Inc.** | **Delaware** |
| **Profroid Industries S.A.S.U.** | **France** |
| **Ratier-Figeac, SAS** | **France** |
| **Security Monitoring Centres Limited** | **England** |
| **SlCLl SA** | **France** |
| **Sikorsky Aircraft Corporation** | **Delaware** |
| **Sikorsky Export Corporation** | **Delaware** |
| **Sikorsky International Operations, Inc.** | **Delaware** |
| **Sirius Korea Limited** | **England** |
| **Springer Carrier Ltda.** | **Brazil** |
| **Sullair Corporation** | **Indiana** |
| **Sundstrand Holding S.A.R.L.** | **France** |
| **Sundyne Corporation** | **Delaware** |
| **The Falk Corporation** | **Delaware** |
| **Toshiba Carrier (Thailand) Co., Ltd.** | **Thailand** |
| **Toshiba Carrier UK Limited** | **England** |
| **Turbine Overhaul Services Pte Ltd** | **Singapore** |
| **United Technologies Canada, Limited** | **Canada** |
| **United Technologies Electronic Controls, Inc.** | **Delaware** |
| **United Technologies Far East Limited** | **Hong Kong** |
| **United Technologies France SAS** | **France** |
| **United Technologies Holding GmbH** | **Germany** |
| **United Technologies Holdings B.V.** | **Netherlands** |
| **United Technologies Holdings Italy Srl** | **Italy** |
| **United Technologies Holdings Limited** | **England** |
| **United Technologies Holdings S.A.** | **France** |
| **United Technologies Intercompany Lending Ireland Limited** | **Ireland** |
| **United Technologies International Corporation (UTIC)** | **Delaware** |
| **United Technologies International Corporation-Asia Private Limited** | **Singapore** |
| **United Technologies International Operations, Inc.** | **Delaware** |
| **United Technologies International SAS** | **France** |
| **United Technologies Treasury Center, Inc.** | **Delaware** |
| **UT Finance Corporation** | **Delaware** |
| **UT Insurance (Vermont) Inc.** | **Vermont** |
| **UT Leasing Services, Inc.** | **Delaware** |
| **UT Park View, Inc.** | **Delaware** |
| **U.T. Holdings (U.K.) Ltd.** | **Delaware** |
| **UTC Canada Corporation** | **New Brunswick** |
| **UTC Fuel Cells, LLC** | **Delaware** |
| **UTCL Holdings, Limited** | **Canada** |
| **UTCL Investments B.V.** | **Netherlands** |
| **UTSTA Pte Ltd** | **Singapore** |
| **Vigitel SA** | **France** |
| **White Peak Finance Ireland, Limited** | **Ireland** |
| **Wytwornia Sprzetu Komunikacyjnego "PZL-Rzeszow" S.A.** | **Poland** |
| **Zardoya Otis, S.A.** | **Spain** |

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

**Exhibit 24**

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints WILLIAM H. TRACHSEL, STEPHEN F. PAGE and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2003, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ Betsy J. Bernard

Betsy J. Bernard

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints WILLIAM H. TRACHSEL, STEPHEN F. PAGE and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2003, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ Jean-Pierre Garnier

Jean-Pierre Garnier

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ Jamie S. Gorelick

Jamie S. Gorelick

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ Charles R. Lee

Charles R. Lee

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ Richard D. McCormick

Richard D. McCormick

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ Harold McGraw III

Harold McGraw III

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ Frank P. Popoff

Frank P. Popoff

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ H. Patrick Swygert

H. Patrick Swygert

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ André Villeneuve

André Villeneuve

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ H. A. Wagner

H. A. Wagner

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 2nd day of February, 2004.

/s/ Christine Todd Whitman

Christine Todd Whitman

**Exhibit 31**

**CERTIFICATION**

I, George David, certify that:

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

/s/ George David

Date: February 5, 2004

George David
Chairman and Chief Executive Officer

**Exhibit 31**

## CERTIFICATION

I, Stephen F. Page, certify that:

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

/s/ Stephen F. Page

Date: February 5, 2004

Stephen F. Page
Vice Chairman and Chief Financial Officer

**Exhibit 32**

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

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

The Annual Report on Form 10-K for the year ended December 31, 2003 (the "Form 10-K") of the Corporation fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Dated: February 5, 2004

/s/ George David

George David
Chairman and Chief Executive Officer

/s/ Stephen F. Page

Stephen F. Page
Vice Chairman and Chief Financial Officer