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, 2005

Commission file number 1-812

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

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

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

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

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 is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒. No ☐.

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐. No ☒.

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐.

Indicate by check mark whether the Registrant is a shell company (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, 2005 was approximately $52,491,077,414, 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, 2006, there were 1,015,427,109 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 2005 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 2006 Annual Meeting of Shareowners are incorporated by reference in Part III hereof.

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UNITED TECHNOLOGIES CORPORATION

Annual Report on Form 10-K for Year Ended December 31, 2005

Whenever reference is made in this Form 10-K to specific sections of UTC's 2005 Annual Report to Shareowners, those sections are incorporated herein by reference. United Technologies Corporation and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or tradenames of United Technologies Corporation and its subsidiaries. As used herein, the terms "we", "us", "our" or "UTC", unless the context requires otherwise, mean United Technologies Corporation and its subsidiaries.

PART I

Item 1. Business

General

United Technologies Corporation was incorporated in Delaware in 1934. UTC provides high technology products and services to the building systems and aerospace industries worldwide. Growth is attributable to acquisitions and the internal development of our existing businesses. The following description of our business should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2005 Annual Report, especially the information contained therein under the heading "Business Overview."

Our operating units include businesses with operations throughout the world. Otis, Carrier and UTC Fire & Security (collectively referred to as the commercial businesses) serve customers in the commercial and residential property industries worldwide. Carrier also serves commercial, industrial, transport refrigeration and food service equipment customers. Pratt & Whitney, Hamilton Sundstrand and Sikorsky Aircraft (collectively referred to as the aerospace businesses) primarily serve commercial and government customers in the aerospace industry. Hamilton Sundstrand and Pratt &Whitney also serve some customers in industrial markets. For 2005, our commercial and industrial revenues (generated principally by our commercial businesses) were 64 percent of our consolidated revenues, and military aerospace and commercial aerospace revenues were approximately 16 percent and 20 percent, respectively, of our total revenues. Revenues for 2005 from outside the United States, including U.S. export sales, were 61 percent of our total segment revenues.

As worldwide businesses, our 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 our 2005 Annual Report, in this Item 1 under the heading "Other Matters Relating to Our Business as a Whole", in Item 1A. "Risk Factors" and in "Cautionary Note Concerning Factors That May Affect Future Results" in this Form 10-K. Each business unit is subject to significant competition from a large number of companies in the United States and other countries, and each competes on the basis of price, delivery schedule, product performance and service.

This Form 10-K and our quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge through the Investor Relations section of our 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

We conduct our business through six principal segments: Otis, Carrier, UTC Fire & Security, Pratt & Whitney, Hamilton Sundstrand and Sikorsky. Each segment groups similar operating companies and its management organization has general operating autonomy over a range of products and services. The principal products and services of each segment are as follows:

Otis	—Otis elevators, escalators, moving walkways and service.
Carrier	—Carrier commercial, residential and industrial heating, ventilating and air conditioning (HVAC) systems and equipment, commercial and transport refrigeration, food service equipment, building automation and controls, energy management and air quality systems, and aftermarket service and components.
UTC Fire and Security	—UTC Fire & Security electronic security, monitoring and rapid response systems and service, security personnel services, fire detection, protection and suppression systems and fire fighting equipment.
Pratt & Whitney	—Pratt & Whitney commercial, general aviation and military aircraft engines, parts and service, industrial gas turbines and space propulsion.
Hamilton Sundstrand	—Hamilton Sundstrand aerospace products and aftermarket services, including power generation, management and distribution systems, flight, engine, fire protection and detection and environmental control systems, auxiliary power units and propeller systems, and industrial products, including air compressors, metering pumps and fluid handling equipment.
Sikorsky	—Sikorsky commercial and military helicopters, aftermarket helicopter and aircraft parts and service.

Segment financial data for the years 2003 through 2005, including financial information about foreign and domestic operations and export sales, appears in Note 16 of “Notes to Consolidated Financial Statements” in our 2005 Annual Report.

Otis

Otis is the world’s largest elevator and escalator manufacturing, installation and service company. Otis designs, manufactures, sells and installs a wide range of passenger and freight elevators for low-, medium- and high-speed applications, as well as a broad line of escalators and moving walkways. In addition to new equipment, Otis provides modernization products to upgrade elevators and escalators as well as maintenance services for both its products and 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 80 percent and 79 percent of total Otis segment revenues in 2005 and 2004, respectively. At December 31, 2005, Otis’ business backlog was $5,807 million as compared to $5,611 million at December 31, 2004. Substantially all the business backlog at December 31, 2005 is expected to be realized as sales in 2006.

Carrier

Carrier is the world’s largest manufacturer and distributor of heating, ventilating and air-conditioning (HVAC) systems; it also offers refrigeration and food service equipment, and related controls for residential, commercial, industrial and transportation applications. Carrier also provides aftermarket services and components for the products it sells and those of other manufacturers in both the HVAC and refrigeration industries. Carrier’s products and services are sold under Carrier and other brand names to building contractors and building owners, homeowners, shipping and trucking companies, supermarkets and food service companies. Sales are made both directly to the customer and through manufacturers’ representatives, distributors, dealers, wholesalers and retail outlets.

Carrier has grown significantly in recent years partially as a result of acquisitions, most recently with the October 2004 acquisition of the commercial refrigeration business of Linde AG, which has operations in Europe, Asia and South America.

Revenues generated by Carrier’s international operations, including U.S. export sales, were 55 percent and 51 percent of total Carrier segment revenues in 2005 and 2004, respectively. At December 31, 2005, Carrier’s business backlog was $2,099 million as compared to $1,464 million at December 31, 2004. Substantially all the business backlog at December 31, 2005 is expected to be realized as sales in 2006.

UTC Fire & Security

UTC Fire & Security (UTC F&S) is a global provider of security and fire safety products and services. We created the UTC F&S segment in the second quarter of 2005 upon acquiring Kidde plc. Kidde is a global provider of fire safety products and services to commercial, industrial, aerospace and retail customers in 29 countries. The UTC F&S segment includes our former Chubb segment and Kidde’s industrial, residential and commercial fire safety businesses. In the electronic security industry, UTC F&S provides system integration, installation and service of intruder alarms, access control systems and video surveillance systems. In the fire safety industry, UTC F&S designs, integrates, installs and services fire detection and fixed suppression systems and manufactures, sells and services portable fire extinguishers and other fire fighting equipment. UTC F&S also provides monitoring, response and security personnel services, including cash-in-transit security. Its products and services are used by governments, architects, building owners and developers, security and fire consultants and other end-users requiring a high level of security and fire protection for their businesses and residences. Kidde’s U.S. presence will complement the largely European and Australian revenue base of the existing Chubb operations.

Also in the second quarter of 2005, we completed the acquisition of privately-held Lenel Systems International Inc. Lenel is a leader in the development and delivery of scalable, integrated security software systems and business solutions for both commercial and government security customers. Lenel is being integrated into the UTC F&S segment and will augment existing product technology, enhancing the company’s ability to service homeland security customers and others demanding highly integrated systems.

UTC F&S provides its products and services under Chubb, Kidde, Lenel and other brand names and sells directly to the customer as well as through manufacturers’ representatives, distributors and dealers. For the year ended December 31, 2005, 87 percent of total UTC F&S segment revenues were generated outside the U.S. At December 31, 2005, UTC F&S’ business backlog was $582 million as compared to $311 million at December 31, 2004. Substantially all the business backlog at December 31, 2005 is expected to be realized as sales in 2006.

Pratt & Whitney

Pratt & Whitney is among the world's leading suppliers of commercial, general aviation and military aircraft engines. Pratt & Whitney provides spare parts and aftermarket and fleet management services for the engines it produces, along with power generation and space propulsion systems. Pratt & Whitney continues to enhance its programs through performance improvement measures and product base expansion. Products are sold principally to aircraft manufacturers, airlines and other aircraft operators, aircraft leasing companies, space launch vehicle providers and U.S. and foreign governments. Sales in the U.S. and Canada are made directly to the customer and, to a limited extent, through independent distributors. Other export sales are made with the assistance of independent sales representatives. Sales to The Boeing Company and Airbus Industrie were 9 and 13 percent, respectively, of total Pratt & Whitney revenues in 2005, 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 out-of-production Boeing 757-200/PF/300 aircraft). Production of the PW2000 will continue to support commercial customers. Its military version, the F117, powers the C-17 transport aircraft.

Pratt & Whitney's product base expansion includes the development of large commercial engines for the narrow-body and wide-body aircraft markets and small commercial engines developed by Pratt & Whitney Canada that have been selected for new light jet aircraft programs. In the narrow-body market, the PW6000 powers the Airbus A318 aircraft. Both engine and aircraft have completed certification and entry into service is expected in 2007. In the wide-body market, Pratt & Whitney has a 50 percent interest in the Engine Alliance (EA) with GE Aircraft Engines to develop, market and manufacture the GP7000 engine (powering the Airbus A380 aircraft). The EA completed all FAA engine certification testing on the GP7000 and received FAR 33 engine certification in December 2005. EASA certification of the A380 aircraft with the GP7000 engine is expected in 2007. Flight testing of the GP7000 on the Airbus A380 will commence in the first half of 2006, with expected entry into service in 2007.

In view of the risk and cost associated with developing new engines, Pratt & Whitney has entered into certain collaboration arrangements to share these costs, risks and resulting revenues. At December 31, 2005, the interests of participants in current Pratt & Whitney-directed commercial jet engine production programs ranged from 14 to 29 percent. In addition, Pratt & Whitney has interests in other programs. These include its 33 percent interest in the International Aero Engines collaboration that sells and supports V2500 engines (powering Airbus' A319, A320 and A321 aircraft and Boeing's out-of-production MD-90 aircraft) and its 50 percent interest in the EA described above. At December 31, 2005, other participants held interests totaling 40 percent of Pratt & Whitney's share of the EA.

Pratt & Whitney currently produces three military aircraft engines that are sold to the U.S. Air Force (USAF) or foreign governments: the F119 (sole source power for the two-engine F-22A fighter aircraft); the F100 (powering two-engine F-15 and single-engine F-16 fighter aircraft); and the F117 (sole source power for the four-engine C-17 transport aircraft). Pratt & Whitney is also under contract with the USAF to develop the F135 engine, a derivative of Pratt & Whitney's F119 engine, to power the single-engine F-35 Joint Strike Fighter aircraft being developed by Lockheed Martin.

Pratt & Whitney Canada (P&WC) is a world leader in aviation engines for the business, regional, very light jet, utility and military aircraft and helicopter markets. P&WC also designs and manufactures engines for auxiliary power units and industrial applications. Its operations and service network span the globe. P&WC is developing the PW600 engine series for the very light jet market. PW600 models have been selected to power Cessna Aircraft's Citation Mustang, Eclipse Aviation's Eclipse 500 and Embraer's Phenom 100 aircraft.

Pratt & Whitney management cannot predict with certainty whether, when and in what quantities it or its affiliates will produce the commercial and military engines currently in development or pending required certifications.

In the third quarter of 2005, we acquired the Rocketdyne Propulsion & Power business from Boeing. Rocketdyne is a leader in the design, development and manufacture of sophisticated aerospace propulsion systems, including the Space Shuttle Main Engine (SSME) and engines for the Delta family of launch vehicles. The Rocketdyne business is being integrated with Pratt & Whitney's existing space propulsion, space power and energy businesses, which now does business as Pratt & Whitney Rocketdyne (PWR). PWR offers a complete line of space propulsion products for commercial and governmental applications. These products include booster and upper stage engines for the Delta and Atlas launch vehicles, the SSME and small missile class propulsion systems. Development programs support the advancement of hypersonic technology and NASA's exploration initiative. These products are sold to the U.S. government and to aerospace companies. P&W 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. P&W discontinued its manufacture of solid fuel propulsion systems in the second quarter of 2005.

Pratt & Whitney Power Systems (PWPS) manufactures and supplies industrial power generation and mechanical drive equipment in the one megawatt to 60 megawatts range, and spare parts and service for equipment of other manufacturers. PWPS also provides gas turbines for marine propulsion applications.

Revenues from Pratt & Whitney's international operations, including U.S. export sales, were 54 percent and 52 percent of total Pratt & Whitney segment revenues in 2005 and 2004, respectively. At December 31, 2005, Pratt & Whitney's business backlog was $16,831 million, including $2,959 million of U.S. government funded contracts and subcontracts, as compared to $12,832 million and $2,563 million, respectively, at December 31, 2004. Of the total Pratt & Whitney backlog at December 31, 2005, approximately $5,497 million is expected to be realized as sales in 2006. Pratt & Whitney's backlog includes certain contracts for which actual costs may ultimately exceed total revenues. See Note 1 to Consolidated Financial Statements in our 2005 Annual Report for a description of our accounting for long-term contracts.

Hamilton Sundstrand

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

Hamilton Sundstrand's aerospace products, such as power generation management and distribution systems, flight, engine and environmental control systems, and auxiliary power units and propeller systems, serve commercial, military, regional, business and general aviation, as well as space and undersea applications. Aftermarket services include spare parts, overhaul and repair, engineering and technical support and fleet maintenance programs. Hamilton Sundstrand sells aerospace products to airframe manufacturers, the U.S. government, aircraft operators and independent distributors. Hamilton Sundstrand is engaged in development programs for the Boeing 787 aircraft, the Airbus A-380 commercial aircraft and the A400M military aircraft. 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 sales of aerospace products to Boeing, Pratt & Whitney and Airbus, collectively, including sales where the U.S. government was the ultimate customer, were 19 percent of Hamilton Sundstrand segment sales in 2005.

We included Kidde's aircraft fire protection systems business in the Hamilton Sundstrand segment. This business will complement Hamilton Sundstrand's aerospace products and services.

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

Revenues generated by Hamilton Sundstrand's international operations, including U.S. export sales, were 45 percent and 43 percent of total Hamilton Sundstrand segment revenues in 2005 and 2004, respectively. At December 31, 2005, Hamilton Sundstrand's business backlog was $2,823 million, including $805 million under U.S. government funded contracts and subcontracts, as compared to $2,064 million and $479 million, respectively, at December 31, 2004. Of the total Hamilton Sundstrand backlog at December 31, 2005, approximately $2,182 million is expected to be realized as sales in 2006.

Sikorsky

Sikorsky is one of the world's largest manufacturers of military and commercial helicopters and also provides aftermarket helicopter and aircraft products and services.

Current production programs at Sikorsky include the UH-60L Black Hawk medium-transport helicopter for the U.S. and foreign governments, the MH-60S and MH-60R helicopters for the U.S. Navy, the International Naval Hawk for multiple naval missions, and the S-76 and the S-92 helicopters for commercial operations. In June 2005, the U.S. Army awarded Sikorsky a low rate initial production contract for new UH-60M Black Hawk advanced utility helicopters. This contract is the last phase before the Army makes the full rate production decision. Development of the H-92 helicopter for military markets has commenced. In 2005, Sikorsky also announced the development of the S-76D helicopter, which is expected to be the next generation of the S-76 helicopter. In September 2004, Sikorsky acquired Schweizer Aircraft, which specializes in the light helicopter, reconnaissance aircraft and unmanned aerial vehicle (UAV) markets. In December 2005, Sikorsky acquired Keystone Ranger Holdings, Inc., a provider of helicopter completion, overhaul and repair services and flight operations.

Sikorsky's aftermarket business includes spare parts sales, overhaul and repair services, maintenance contracts, and logistics support programs for helicopters and other aircraft. Sales are made directly by Sikorsky and also by Sikorsky's subsidiaries and joint ventures. Sikorsky is increasingly engaging in logistics support programs and partnering with its government and commercial customers to manage and provide maintenance and repair services.

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As previously disclosed, in March 2004 the U.S. Army decided to terminate the RAH-66 Comanche™ helicopter program. The Sikorsky- Boeing joint venture that worked on the program is in the final stages of the termination process with the U.S. Army.

Revenues generated by Sikorsky's international operations, including U.S. export sales, were 31 percent and 24 percent of total Sikorsky revenues in each of 2005 and 2004, respectively. At December 31, 2005, Sikorsky's business backlog was $7,531 million, including $2,261 million under U.S. government funded contracts and subcontracts, as compared to $6,916 million and $2,349 million, respectively, at December 31, 2004. Of the total Sikorsky backlog at December 31, 2005, approximately $2,561 million is expected to be realized as sales in 2006.

Competition and Other Factors Affecting Our Aerospace Businesses

Our aerospace 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. In addition, the U.S. and other governments' policies of purchasing parts from suppliers other than the original equipment manufacturer affect military spare parts sales. Significant elements of our aerospace businesses, 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. The operations of our aerospace businesses can also be affected by a variety of economic and other factors including those described in "Other Matters Relating to Our Business as a Whole" in this section and in Item 1A. "Risk Factors" of this Form 10-K and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2005 Annual Report. Pratt & Whitney's major competitors in the sale of engines are GE Aircraft Engines and Rolls Royce plc. For information regarding customer financing commitments, participation in guarantees of customer financing arrangements and performance and operating cost guarantees, see Notes 4 and 14 of "Notes to Consolidated Financial Statements" in our 2005 Annual Report.

Other

UTC Power develops and markets distributed power generation systems, including stationary fuel cells and combined cooling, heating and power (CCHP) systems, for the on-site power market. Commercial building applications, light industrial businesses, institutions, office buildings and hotels use these on-site products. The CCHP solutions for commercial buildings are marketed as the Pure Comfort product family. In 2004, we introduced the PureCycle 200 product, which utilizes an organic rankine cycle to convert waste heat into energy. Microturbines and organic rankine cycle devices are in an early stage of development and manufacturing. Continued technology advancement and cost reduction are required for wide-scale market acceptance.

UTC Fuel Cells, a part of UTC Power, is a world leader in fuel cell production and development for commercial, transportation and space applications. UTC Fuel Cells is the sole supplier of fuel cells for U.S. space missions and also offers a commercially available fuel cell power plant for on-site power applications, known as the PureCell 200, which uses proven phosphoric acid fuel cell technology. In the transportation market, UTC Fuel Cells is working with automotive and bus manufacturers, as well as the U.S. government, on development and demonstration programs for vehicles. In 2005, UTC Fuel Cells provided PureMotion 120 fuel cell power plants for buses intended for revenue service in California. UTC Power is actively pursuing further commercialization of these power plants. UTC Fuel Cells is also providing fuel cells to Hyundai Motor Corporation under the U.S. Department of Energy Freedom Car Program. UTC Power continues to work closely with many of the major automobile manufacturers to advance the technology of hydrogen fuel cell powered cars. Fuel cell power plants using proton exchange membrane technology (PEM) are currently in development for transportation and on-site applications.

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 is needed to advance fuel cell technology to a truly commercial stage. There is still significant uncertainty as to whether and when commercially viable PEM fuel cells will be produced.

The results of UTC Power are included in the "Eliminations and other" category in the segment financial data in Note 16 of "Notes to Consolidated Financial Statements" in our 2005 Annual Report.

Other Matters Relating to Our Business as a Whole

Research and Development

Since changes in technology can have a significant impact on our operations and competitive position, we spend substantial amounts of our own funds on research and development. These expenditures, which are charged to expense as incurred, were $1,367 million, or 3.2 percent of total sales in 2005, as compared with $1,267 million or 3.5 percent of total sales in 2004 and $1,040 million or 3.4 percent of total sales in 2003. We also perform research and development work under contracts funded by the U.S. government and other customers. This contract research and development, which is performed principally in the Pratt & Whitney segment and to a lesser extent in the Hamilton Sundstrand and Sikorsky segments, amounted to $1,498 million in 2005, as compared with $1,619 million in 2004 and $1,580 million in 2003.

U.S. Government Contracts

U.S. government contracts are subject to termination by the government, either for the convenience of the government or for default as a result of our failure to perform under the applicable contract. In the case of a termination for convenience, we would normally be entitled to reimbursement for our allowable costs incurred, plus termination costs and a reasonable profit. If terminated by the government as a result of our default, we could be liable for additional costs the government incurs in acquiring undelivered goods or services from another source and any other damages it suffers. Most of our U.S. government sales are made under fixed-price type contracts; approximately $2 billion of our total sales for 2005 were made under cost-reimbursement type contracts.

Our contracts with the U.S. government are also subject to audits. Like many defense contractors, we have received audit reports from the U.S. government which recommend that we reduce certain contract prices because cost or pricing data we submitted in negotiation of the contract prices or cost accounting practices may not have conformed to government regulations. Some of these audit reports have involved substantial amounts. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and we continue to litigate certain cases. For further discussion of risks related to government contracting, see the discussion in Item 1A. “Risk Factors” and Item 3 “Legal Proceedings” in this Form 10-K and Note 15 of “Notes to Consolidated Financial Statements” in our 2005 Annual Report for further discussion.

Compliance with Environmental and Other Government Regulations

Our 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 our foreign operations. We have incurred and will likely continue to incur liabilities under various government statutes for the cleanup of pollutants previously released into the environment. We do not anticipate that compliance with current provisions relating to the protection of the environment or that any payments we may be required to make for cleanup liabilities will have a material adverse effect upon our cash flows, competitive position, financial condition or results of operations. (Environmental matters are further addressed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Notes 1 and 15 of “Notes to Consolidated Financial Statements” in our 2005 Annual Report.)

Most of the U.S. laws governing environmental matters include criminal provisions. If we 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 we are awarded until the Environmental Protection Agency certified that the condition giving rise to the violation had been corrected.

We conduct our businesses through subsidiaries and affiliates worldwide. Changes in legislation or government policies can affect our worldwide operations. For example, governmental regulation of refrigerants and energy efficiency standards, elevator safety codes and fire safety regulations are important to the businesses of Carrier, Otis and UTC F&S respectively, while government safety and performance regulations, restrictions on aircraft engine noise and emissions and government procurement practices can impact our aerospace businesses.

Intellectual Property and Raw Materials

We maintain a portfolio of patents, trademarks, licenses and franchises related to our businesses. While this portfolio is cumulatively important to our business, we do not believe that the loss of any one or group of related patents, trademarks, licenses or franchises would have a material adverse effect on our overall business or on any of our operating segments.

We believe we have adequate sources for our purchases of materials, components, services and supplies used in our manufacturing. We work continuously with our supply base to ensure an adequate source of supply and to reduce costs. We pursue cost reductions through a number of mechanisms, including consolidating our purchases, reducing the number of suppliers, strategic global sourcing and using online bidding competitions among potential suppliers. In some instances, we depend upon a single source of supply or participate in commodity markets that may be subject to allocations by suppliers. Like other users in the U.S., we are largely dependent upon foreign sources for certain raw materials requirements such as

cobalt (Africa, Australia and Russia), tantalum (Australia and Asia), chromium (Africa and Kazakhstan) and rhenium (Chile and Kazakhstan). We have 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. We believe that our supply management practices are based on an appropriate balancing of the foreseeable risks and the costs of alternative practices. Although recent high prices for some raw materials important to some of our businesses (steel, copper, aluminum), have caused margin and cost pressures, we do not foresee any near term unavailability of materials, components or supplies that would have an adverse effect on our business, or on any of our business segments. For further discussion of the possible effects of the cost and availability of raw materials on our business, see Item IA. “Risk Factors” in this Form 10-K.

Employees and Employee Relations

At December 31, 2005, our total employment was approximately 222,200, approximately 67 percent of which represents employees based outside the United States. During 2005, we renegotiated multi-year collective bargaining agreements covering certain workers at Carrier and Otis. In 2006, collective bargaining agreements covering certain workers at Sikorsky and Carrier are subject to renegotiation. For discussion of the effects of our restructuring actions on employment, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 11 of “Notes to Consolidated Financial Statements” in our 2005 Annual Report.

For a discussion of other matters which may affect our financial condition, results of operations or cash flows, including the risks of our international operations, see the further discussion under the headings “General” and “Description of Business by Segment” in this section and Item 1A. “Risk Factors” in this Form 10-K and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2005 Annual Report.

Item 1A. Risk Factors

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, see the discussion in “Other Matters Relating to Our Business as a Whole” and “Cautionary Note Concerning Factors That May Affect Future Results” in this Form 10-K and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Notes to Consolidated Financial Statements” in our 2005 Annual Report.

Our Financial Performance Is Dependent on the Conditions of the Aerospace and Construction Industries

The results of our commercial and military aerospace businesses, which generated 36 percent of our revenues in 2005, are directly tied to the economic conditions in the commercial aviation and defense industries. The aviation industry is cyclical, and capital spending by airlines and aircraft manufacturers may be influenced by a wide variety of factors including current and predicted traffic levels, load factors, aircraft fuel pricing, labor issues, competition, the retirement of older aircraft, regulatory changes, terrorism and related safety concerns, general economic conditions, worldwide airline profits and backlog levels. Also, since a substantial portion of the backlog for commercial customers is scheduled for delivery beyond 2006, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled. In addition, our aerospace businesses face intense competition from domestic and foreign manufacturers of new equipment and spare parts. The defense industry is also affected by a changing global political environment, continued pressure on U.S. and global defense spending and U.S. foreign policy and the level of activity in military flight operations. Spare parts sales and aftermarket service trends are affected by similar factors, including usage, pricing, regulatory changes, the retirement of older aircraft and technological improvements to new engines that increase reliability. Furthermore, because of the lengthy research and development cycle involved in bringing products in these business segments to market, we cannot predict the economic conditions that will exist when any new product is complete. A reduction in capital spending in the aviation or defense industries could have a significant effect on the demand for our products, which could have an adverse effect on our financial performance or results of operations.

The results of our commercial and industrial businesses, which generated 64 percent of our revenues in 2005, are influenced by a number of external factors including fluctuations in residential and commercial construction activity, interest rates, labor costs, foreign currency exchange rates, customer attrition, raw material and energy costs and other global and political factors. In addition to these factors, Carrier’s financial performance can also be influenced by production and utilization of transport equipment and, in its residential business, weather conditions in seasonal periods.

Our Business May Be Affected by Government Contracting Risks

U.S. government contracts are subject to termination by the government, either for the convenience of the government or for default as a result of our failure to perform under the applicable contract. If terminated by the government as a result of

our default, we could be liable for additional costs the government incurs in acquiring undelivered goods or services from another source and any other damages it suffers. We are now, and believe that in light of the current U.S. government contracting environment we will continue to be, the subject of one or more U.S. government investigations. If we or one of our business units were charged with wrongdoing as a result of any U.S. government investigations (including violation of certain environmental or export laws), we could be suspended from bidding on or receiving awards of new U.S. government contracts pending the completion of legal proceedings. If convicted or found liable, we could be subject to fines, penalties, repayments and treble and other damages. Any contracts found to be tainted by fraud could be voided by the U.S. government. The U.S. government also reserves the right to debar a contractor from receiving new government contracts for fraudulent, criminal or other seriously improper conduct. Debarment generally does not 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 our export privileges.

Our International Operations Subject Us to Economic Risk As Our Results of Operations May Be Adversely Affected by Foreign Currency Fluctuations and Changes in Local Government Regulation

We conduct our business on a global basis, with 61 percent of our total 2005 segment revenues, including U.S. export sales, derived from operations outside of the United States. Fluctuations in exchange rates may affect product demand in export markets and affect reported profits of our non-U.S. operations (primarily the commercial businesses) where transactions are generally denominated in local currencies. In addition, currency fluctuations may affect the prices we pay suppliers for materials used in our products. Our financial statements are denominated in U.S. dollars. Accordingly, fluctuations in exchange rates may also give rise to translation gains or losses when financial statements on non-U.S. operating units are translated into U.S. dollars. Given that the majority of our revenues are non-U.S. based, a strengthening of the U.S. dollar against other major foreign currencies could adversely affect our results of operations.

Our international sales and operations are subject to risks associated with changes in local government laws, regulations and policies, including those related to tariffs and trade barriers, investments, taxation, exchange controls, employment regulations, and repatriation of earnings. Our international sales and operations are also sensitive to changes in foreign national priorities, including government budgets, as well as to political and economic instability. International transactions may involve increased financial and legal risks due to differing legal systems and customs in foreign countries. For example, as a condition of sale or to the awarding of a contract, some international customers require us to agree to offset arrangements, which may include in-country purchases, manufacturing and financial support arrangements. The contract may provide for penalties in the event we fail to perform in accordance with the offset requirements. In addition, as part of our globalization strategy, we have invested in certain countries, including Argentina, Brazil, China Russia and South Africa, which carry high levels of currency, political and economic risk. While these factors or the impact of these factors are difficult to predict, any one or more of them could adversely affect our business, financial condition or operating results.

We Use a Variety of Raw Materials in Our Businesses, and Significant Shortages or Price Increases Could Increase Our Operating Costs and Adversely Impact the Competitive Positions of Our Products

Our reliance on foreign suppliers and commodity markets to secure raw materials used in our products exposes us to volatility in the prices and availability of raw materials. In some instances, we depend upon a single source of supply or participate in commodity markets that may be subject to allocations by suppliers. A disruption in deliveries from our suppliers, price increases, or decreased availability of raw materials or commodities, could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. We believe that our supply management practices are based on an appropriate balancing of the foreseeable risks and the costs of alternative practices. Nonetheless, price increases or the unavailability of some raw materials may have an adverse effect on our results of operations or financial condition.

We Engage in Acquisitions, and May Encounter Difficulties Integrating Acquired Businesses with Our Current Operations; Therefore, We May Not Realize the Anticipated Benefits of the Acquisitions

We seek to grow through strategic acquisitions. In the past several years, we have made various acquisitions and entered into joint venture arrangements intended to complement and expand our businesses, and may continue to do so in the future. The success of these transactions will depend on our ability to integrate assets and personnel acquired in these transactions, apply our internal controls processes to these acquired businesses, and cooperate with our strategic partners. We may encounter difficulties in integrating acquisitions with our operations, and in managing strategic investments. Furthermore, we may not realize the degree, or timing, of benefits we anticipate when we first enter into a transaction. Any of the foregoing could adversely affect our business and results of operations.

We Are Subject to Litigation That Could Adversely Affect Our Operating Results

Our results may be affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty. As required by GAAP, we estimate material loss contingencies and establish reserves based on our assessment of contingencies where liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a liability or as a reserve against assets in our financial statements and could result in an adverse effect on our results of operations in the period in which a liability would be recognized or cash flows for the period in which damages would be paid. For a description of current legal proceedings, see Item 3 "Legal Proceedings" in this Form 10-K.

Item 1B. Unresolved Staff Comments

None

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 our future operating and financial performance, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as "believe," "expect," "plans," "strategy," "prospects," "estimate," "project," "target," "anticipate" and other words of similar meaning in connection with a discussion of future operating or financial performance. These include, among others, statements relating to:

- Future earnings and other measurements of financial performance
- Future cash flow and uses of cash
- The effect of economic downturns or growth in particular regions
- The effect of changes in the level of activity in particular industries or markets
- The availability and cost of materials, components, services and supplies
- The scope, nature or impact of acquisition activity and integration into our businesses
- Product developments and new business opportunities
- Restructuring costs and savings
- The effective negotiation of collective bargaining agreements
- 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 our reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission from time to time. This Annual Report on Form 10-K for 2005 includes important information as to these factors in the "Business" section under the headings "General", "Description of Business by Segment" and "Other Matters Relating to Our Business as a Whole" and in the "Risk Factors" and "Legal Proceedings" sections. Additional important information as to these factors is included in our 2005 Annual Report in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Item 2. Properties

Our fixed assets as of December 31, 2005 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, 2005 are in good operating condition, are well maintained and substantially all are in regular use.

	Square Feet in Thousands							
	Otis	Carrier	UTC Fire & Security	Pratt & Whitney	Hamilton Sundstrand	Sikorsky	Other **	Total
Plants in North America*								
Owned	92	5,034	873	7,497	3,445	2,055	—	18,996
Leased	307	795	719	1,277	664	336	177	4,275
Total	399	5,829	1,592	8,774	4,109	2,391	177	23,271
Warehouses in North America								
Owned	216	3,523	167	486	202	130	35	4,759
Leased	540	6,348	442	678	80	182	8	8,278
Total	756	9,871	609	1,164	282	312	43	13,037
Plants Outside North America								
Owned	4,106	5,101	1,740	4,114	1,766	—	—	16,827
Leased	216	1,350	764	132	181	177	—	2,820
Total	4,322	6,451	2,504	4,246	1,947	177	—	19,647
Warehouses Outside North America								
Owned	680	3,640	279	105	280	—	—	4,984
Leased	1,670	3,284	1,716	85	138	23	—	6,916
Total	2,350	6,924	1,995	190	418	23	—	11,900

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

** Includes United Technologies Research Center and UTC Power.

For discussion of the effect of our restructuring actions on production facilities, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 11 of "Notes to Consolidated Financial Statements" in our 2005 Annual Report.

Our management believes that the fixed assets capitalized and the facilities in operation at December 31, 2005 for the production of our products are suitable and adequate for the business conducted therein in the current business environment and have sufficient production capacity for their present intended purposes. Utilization of the facilities varies based on demand for the products. We continuously review our anticipated requirements for facilities and, based on that review, may from time to time adjust our facility needs.

Item 3. Legal Proceedings

As previously reported, we are in litigation with the Department of Defense (DoD) as to whether Pratt & Whitney's government cost accounting practices for engine parts produced by foreign companies under commercial engine collaboration programs since 1984 are acceptable. In 2001, the Armed Services Board of Contract Appeals (ASBCA) ruled in our favor, but the U.S. Court of Appeals for the Federal Circuit reversed in 2003 and remanded the case to the ASBCA to determine the appropriate accounting. The U.S. Supreme Court declined to review that decision. In November 2003, the DoD supplemented its claim to add damages and interest for the period after 1996, bringing DoD's claim to approximately $367 million in damages through 2002 and approximately $388 million in interest through 2001. Our appeal of this supplemental claim has been consolidated with the original matter.

As previously reported, the Department of Justice (DOJ) sued us in 1999 in the U.S. District Court for the Southern District of Ohio, claiming that Pratt & Whitney violated the civil False Claims Act and common law. This lawsuit relates to the "Fighter Engine Competition" between Pratt & Whitney's F100 engine and GE's F110 engine. The DOJ alleges that the government overpaid for F100 engines under contracts awarded by the U.S. Air Force in fiscal years 1985 through 1990 because Pratt & Whitney inflated its estimated costs for some purchased parts and withheld data that would have revealed the overstatements. Treble damages and penalties of up to $10,000 per false claim could be assessed if the court finds that Pratt & Whitney violated the civil False Claims Act, and common law damages would accrue pre-judgment interest. Trial of this matter was completed in December 2004. At trial, the government claimed Pratt & Whitney's liability is $624 million. We believe that this estimate is substantially overstated, denied any liability and vigorously defended against the DOJ's claims. A decision is expected in 2006.

Should the government ultimately prevail with respect to either of the foregoing government contract matters discussed above, the outcome could result in a material effect on our results of operations in the period in which a liability would be recognized or cash flows for the period in which damages would be paid. However, we do not believe that resolution of any of these government contracting matters will have a material adverse effect upon our competitive position, results of operations or financial condition.

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

As previously reported, the European Commission's Competition Directorate (the "EU Commission") conducted inspections in early 2004 at offices of our Otis subsidiary in Berlin, Brussels, Luxembourg and Paris relating to an investigation of possible unlawful collusive arrangements involving the European elevator and escalator industry. Based on the results of our own internal investigation, we believe that some Otis employees engaged in activities at a local level in Belgium, Luxembourg, The Netherlands and Germany in violation of Otis and UTC policies and European competition law. On October 13, 2005, we received a Statement of Objections from the EU Commission relating to this investigation. The Statement of Objections, an administrative complaint, alleges infringements of EU competition rules by certain elevator companies, including Otis, in Belgium, Luxembourg, The Netherlands and Germany. We are carefully reviewing the Statement of Objections and will respond timely to the EU Commission. As we have from the start, we continue to cooperate fully with the EU Commission. As previously disclosed, we believe it is still too early in the EU Commission's investigation for us to reasonably estimate the range of civil fines to which we or Otis would likely be subject. The aggregate amount of such fines, if ultimately imposed, could be material to our operating results for the period in which the liability would be recognized or cash flows for the period in which the fines would be paid. We do not believe that any such fines would have a material adverse effect on our financial condition, or that the resolution of this matter would have a material adverse effect on Otis' competitive position.

Since the EU Commission's investigation became public, class action lawsuits have been filed in various federal district courts in the United States alleging that we, Otis and other elevator manufacturers engaged in violations of Sections 1 and 2 of the Sherman Act. Those lawsuits have been transferred to and consolidated in the U.S. District Court for the Southern District of New York. The lawsuits do not specify the amount of damages claimed. We believe that these lawsuits are the result of press reports about the EU Commission's investigation. We believe that the lawsuits are devoid of merit and will defend them vigorously.

As previously reported, in December 2003, the U.S. Environmental Protection Agency (EPA) executed a search warrant at Hamilton Sundstrand, seeking records and data regarding the processes for monitoring, treating, testing and discharging wastewater at Hamilton Sundstrand's Windsor Locks, Connecticut manufacturing facility. Hamilton Sundstrand has also received a notice of violation associated with the same matter from the Connecticut Department of Environmental Protection. Several employees have been subpoenaed to testify before a federal grand jury, and Hamilton Sundstrand also received subpoenas for records. With the assistance of independent consultants, Hamilton Sundstrand has reviewed the operations of the wastewater treatment facility, modified the physical plant and improved operating procedures. Hamilton Sundstrand continues to cooperate with federal and state officials in the investigation.

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

The Korean Fair Trade Commission recently conducted an inspection at the office of Otis' Korean subsidiary in connection with an investigation of possible unlawful collusive arrangements in the Korean elevator industry. Based on the

results of our internal investigation, we believe that some employees at this subsidiary engaged in activities at a local level in violation of Otis and UTC policies and Korean competition law. We are cooperating fully with the investigation. We do not believe that any fines that may be imposed will be material to UTC or have a materially adverse impact on Otis' competitive position.

As previously reported, like many other companies in recent years, we or our subsidiaries have been named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain of our products or premises. While we have never manufactured asbestos and no longer incorporate it in any currently manufactured products, certain of our historical products, like those of many other manufacturers, have contained components incorporating asbestos. We have 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 us, and have been supported in part by insurance. At present, we are named in approximately 2,270 lawsuits involving approximately 20,100 individual claimants. In our report on Form 10-K for the year period ended December 31, 2004, we reported that approximately 18,000 were then joined in lawsuits in Mississippi state courts. Typically, these Mississippi lawsuits named from 200 to 400 other companies as defendants along with us or our subsidiaries. The complaints did not identify any of our products or products of our subsidiaries, or specify the amount of damages claimed. In addition, the complaints did not allege which claimants, if any, were exposed to asbestos attributable to our products or premises, nor the extent, if any, to which such claimants had been harmed. Since our previous report, as a result of changes in the law governing joinder and pleading in Mississippi, approximately 5,700 Mississippi claimants have been transferred to the Federal Multidistrict Litigation asbestos docket in Pennsylvania. Many other claimants have been dismissed without prejudice and required to file claims, if they can, that allege more specifically the claimant's exposure to asbestos and the resulting harm. At present, the total number of claimants in Mississippi is approximately 6,300.

Except as otherwise noted above, we do not believe that resolution of any of the legal matters discussed above will have a material adverse effect upon our 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 our environmental liabilities, can be found under the heading "Other Matters Relating to Our Business as a Whole – Compliance with Environmental and Other Government Regulations" in Item 1 "Business" and in Item 1A. "Risk Factors" in this Form 10-K.

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

No matters were submitted to security holders for a vote during the fourth quarter ended December 31, 2005.

Executive Officers of the Registrant

The following persons are executive officers of United Technologies Corporation:

Name	Title	Other Business Experience Since 1/1/2001	Age 2/9/06
Ari Bousbib	President, Otis Elevator (since 2002)	Executive Vice President and Chief Operating Officer, Otis Elevator	44
William M. Brown	President, UTC Fire & Security (since January 2006)	President, Asia Pacific, Carrier Corporation; President, Carrier Transicold	43
William L. Bucknall, Jr.	Senior Vice President, Human Resources and Organization (since 1992)	—	63
Louis Chênevert	President, Pratt & Whitney (since 1999)	—	48
Geraud Darnis	President, Carrier Corporation (since 2001)	President, UT Power Solutions; President, Carrier Asia Pacific Operations	46
George David	Chairman (since 1997), President (since 2002), and Chief Executive Officer (since 1994)	—	63
Stephen N. Finger	President, Sikorsky Aircraft (since 2003)	President, Military Engines and Executive Vice President, Engineering and Operations, Pratt & Whitney	57
James E. Geisler	Vice President, Finance (since 2004)	Director, Financial Planning and Analysis; Director, Investor Relations	39
Gregory J. Hayes	Vice President, Accounting and Control (since 2004), Controller (since 2003)	Vice President, Financial Planning and Analysis and Treasury, Hamilton Sundstrand	45
David P. Hess	President, Hamilton Sundstrand Corporation (since January 2005)	President, Hamilton Sundstrand Aerospace Power Systems; Vice President and General Manager, Air Management and Power Systems, Hamilton Sundstrand	50
Todd J. Kallman	Vice President, Corporate Strategy and Development (since 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.	49
Thomas I. Rogan	Vice President, Treasurer (since 2001)	Vice President, Finance, Hamilton Sundstrand	53
William H. Trachsel	Senior Vice President and General Counsel (since 2004)	Senior Vice President, General Counsel and Secretary, United Technologies Corporation	62
Jan van Dokkum	President, UTC Power (since 2002)	President and CEO, Siemens Power Transmission and Distribution, Inc.	52

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

PART II

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

The Comparative Stock Data appearing in our 2005 Annual Report containing the following data relating to our 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. The information required by Item 5 with respect to securities authorized for issuance under equity compensation plans is set forth in Part III, Item 12 of this Form 10-K.

Issuer Purchases of Equity Securities

The following table provides information about our purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2005.

2005	Total Number of Shares Purchased (000's)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (000's)	Maximum Number of Shares that may yet be Purchased Under the Program (000's)
October 1 – October 31	989	51.25	985	45,536
November 1 – November 30	2,258	51.80	2,249	43,287
December 1 – December 31	4,981	54.89	4,628	38,660
Total	8,228	53.61	7,862	38,660

In March 2005, we announced that our Board of Directors authorized the repurchase of up to 60 million shares of our Common Stock. Shares may be purchased on the open market, in privately negotiated transactions, or both. We may also acquire shares outside of the program in connection with stock swap exercises of employee stock options and the surrender of shares to cover taxes on vesting of restricted stock. Approximately 356,000 shares were acquired in non-cash stock swap transactions and upon vesting of restricted stock during the quarter.

Item 6. Selected Financial Data

The Five Year Summary appearing in our 2005 Annual Report, containing revenues, net income, basic and diluted earnings per share, cash dividends per common share, total assets and long-term debt, is hereby incorporated by reference. See “Notes to Consolidated Financial Statements” in our 2005 Annual Report for a description of any accounting changes and acquisitions or dispositions of businesses materially affecting the comparability of the information reflected in the Five Year Summary.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations in our 2005 Annual Report is hereby incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information concerning market risk sensitive instruments, see discussion under the headings “Market Risk and Risk Management” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2005 Annual Report and “Hedging Activity” in Note 1, Note 12 and Note 13 of “Notes to Consolidated Financial Statements” in our 2005 Annual Report.

Item 8. Financial Statements and Supplementary Data

The 2005 and 2004 Consolidated Balance Sheet, and other financial statements for the years 2005, 2004, and 2003, together with the report thereon of PricewaterhouseCoopers LLP dated February 9, 2006 in our 2005 Annual Report are incorporated by reference in this Form 10-K. The 2005 and 2004 unaudited Selected Quarterly Financial Data appearing in our 2005 Annual Report is incorporated by reference in this Form 10-K.

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

None.

Item 9A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, we carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer, the Vice President, Accounting and Control and the Vice President, Finance, of the effectiveness of the design and operation of our 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 our evaluation, our Chief Executive Officer, our Vice President, Accounting and Control and our Vice President, Finance concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer, our Vice President, Accounting and Control and our Vice President, Finance, as appropriate, to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control—Integrated Framework.* Our management concluded that based on its assessment, our internal control over financial reporting was effective as of December 31, 2005. Our management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in our 2005 Annual Report.

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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During 2005, we invested approximately $4.6 billion, including debt assumed, in the acquisition of businesses across all our operations. As part of our ongoing integration activities, we are continuing to incorporate our controls and procedures into these recently acquired businesses.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by Item 10 with respect to directors, the Audit Committee of the Board of Directors and Audit Committee financial experts is incorporated herein by reference to the section of our Proxy Statement for the 2006 Annual Meeting of Shareowners entitled "General Information Concerning the Board of Directors", subsections "Nominees" and "The Audit Committee". Information regarding executive officers is contained in Part I of this Form 10-K under the heading "—Executive Officers of the Registrant." Information concerning Section 16(a) compliance is incorporated by reference to the section of our Proxy Statement for the 2006 Annual Meeting of Shareowners entitled "Section 16(a) Beneficial Ownership Reporting Compliance."

We have adopted a code of ethics that applies to all our directors, officers, employees and representatives. This code is publicly available on our website at http://www.utc.com/responsibility/economic/ethics/english/coe_english.pdf. 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 our website. Our corporate governance principles and the charters of our 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 our website at http://investors.utc.com/charters.cfm. These materials may also be requested in print free of charge by writing to our 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 our Proxy Statement for the 2006 Annual Meeting of Shareowners entitled "Report of the Committee on Compensation and Executive Development" and "Compensation of Named Executive Officers." Such incorporation by reference shall not be deemed to specifically incorporate by reference the information referred to in Item 402(a)(8) of Regulation S-K.

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

The information relating to security ownership of certain beneficial owners and management required by Item 12 is incorporated herein by reference to the section of our Proxy Statement for the 2006 Annual Meeting entitled "Security Ownership of Directors, Executive Officers and Certain Beneficial Owners." The equity Compensation Plan Information required by Item 12 is set forth in the table below.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2005 concerning common stock issuable under equity compensation plans.

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	70,413,134(1)	$ 36.07	36,096,251(2)
Equity compensation plans not approved by security holders	15,958,925(3)	$ 37.80	0
Total	86,372,059	$ 36.39(4)	36,096,251

(1) Consists of options awarded under the 1989 Long Term Incentive Plan (the "1989 LTIP"), the 2005 Long Term Incentive Plan (the "2005 LTIP") and the Non-Employee Director Stock Option Plan (the "Non-Employee Director Plan"). Options issued under the 1989 LTIP include options that resulted from the conversion of awards granted under equity compensation plans of Sundstrand Corp. at the time it was merged into Hamilton Sundstrand Corp. This amount includes 250,800 restricted shares.

(2) Represents the maximum number of shares of Common Stock available to be awarded as of December 31, 2005.

(3) Consists of options awarded under the Employee Stock Option Plan. Effective April 14, 2005, all equity compensation awards are now provided under the shareowner approved 2005 LTIP.

(4) Weighted-average calculation does not include restricted shares because they have no exercise price.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is incorporated herein by reference to the section of our Proxy Statement for the 2006 Annual Meeting 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 our Proxy Statement for the 2006 Annual Meeting entitled "Appointment of a Firm of Independent Registered Public Accountants to Serve as Independent Auditors", under the headings "Audit Fees", "Audit Related Fees", "Tax Fees" and "All Other Fees".

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements (incorporated by reference from the 2005 Annual Report):

Page Number in

	Annual Report
Report of Independent Registered Public Accounting Firm	19
Consolidated Statement of Operations for the three years ended December 31, 2005	20
Consolidated Balance Sheet—December 31, 2005 and 2004	21
Consolidated Statement of Cash Flows for the three years ended December 31, 2005	22
Notes to Consolidated Financial Statements	24
Selected Quarterly Financial Data (Unaudited)	47

(2) Financial Statement Schedule for the three years ended December 31, 2005:

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

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

(3) Exhibits:

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

Exhibit Number	
3(i)	Restated Certificate of Incorporation, incorporated by reference to Exhibit 3(i) of UTC's Annual Report on Form 10-K for the year ended December 31, 2003.
3(ii)	Bylaws as amended and restated effective February 6, 2006, incorporated by reference to Exhibit 3(ii) to UTC's Current Report on Form 8-K (Commission file number 1-812) filed February 8, 2006.
4.1	Amended and Restated Indenture, dated as of May 1, 2001, between UTC and The Bank of New York, as trustee (incorporated by reference to Exhibit 4(a) to UTC's Registration Statement on Form S-3 (Commission File No. 333-60276) filed with the SEC on May 4, 2001). UTC hereby agrees to furnish to the Commission upon request a copy of each other instrument defining the rights of holders of long-term debt of UTC and its consolidated subsidiaries and any unconsolidated subsidiaries.
10.1	United Technologies Corporation Annual Executive Incentive Compensation Plan, as amended (incorporated by reference to Exhibit 10.1 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995).
10.2	United Technologies Corporation Executive Estate Preservation Program, incorporated by reference to Exhibit 10(iv) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992.
10.3	United Technologies Corporation Pension Preservation Plan, as amended and restated, incorporated by reference to Exhibit 10.3 to UTC's Annual Report on Form 10-K (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 UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992, and Amendment thereto, incorporated by reference to Exhibit 10.4 of UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003.
10.5	United Technologies Corporation Deferred Compensation Plan, as amended and restated, incorporated by reference to Exhibit 10.5 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2002.
10.6	United Technologies Corporation Long Term Incentive Plan, as amended, incorporated by reference to Exhibit 10.11 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1989, as amended by Amendment No. 1 filed as Exhibit 10.6 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995 and Amendment No. 2 filed as Exhibit 10.6 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003.

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10.7	United Technologies Corporation Executive Leadership Program, incorporated by reference to Exhibit 10.7 to the Corporation's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004, as amended.*
10.8	United Technologies Corporation Directors' Restricted Stock/Unit Program, incorporated by reference to Exhibit 10(xiii) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992.
10.9	United Technologies Corporation Board of Directors Deferred Stock Unit Plan (incorporated by reference to Exhibit 10.9 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995), and Amendment 1 thereto (incorporated by reference to Exhibit 10(iii)(A)(1) to UTC's Report on Form 10-Q for quarterly period ended June 30, 2000).
10.10	United Technologies Corporation Pension Replacement Plan, as amended and restated, incorporated by reference to Exhibit 10.10 to UTC's Annual Report on Form 10-K (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 UTC's Report on Form 10-Q (Commission file number 1-812) for quarterly period ended September 30, 1995.
10.12	United Technologies Corporation Nonemployee Director Stock Option Plan (incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995), Amendment 1 thereto (incorporated by reference to Exhibit 10(iii)(A)(2) to UTC's Report on Form 10-Q for quarterly period ended June 30, 2000), Amendment 2 thereto (incorporated by reference to Exhibit 10(iii)(A)(1) to UTC's Report on Form 10-Q for quarterly period ended June 30, 2001), Amendment 3 thereto (incorporated by reference to Exhibit 10.17 to UTC's Annual Report on Form 10-K for fiscal year ending December 31, 2001), Amendment 4 thereto (incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ending December 31, 2002) and Amendment 5 thereto (incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003).
10.13	United Technologies Corporation Employee Stock Option Plan, incorporated by reference to Exhibit 10.13 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2002, and Amendment 1 thereto (incorporated by reference to Exhibit 10.13 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003).
10.14	United Technologies Corporation Employee Scholar Program, as amended and restated on June 27, 2003, incorporated by reference to Exhibit 10.14 of UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003.
10.15	Nonqualified Stock Option and Dividend Equivalent Award Schedule of Terms relating to the United Technologies Corporation Long Term Incentive Plan (previously filed as Exhibit 10.11 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1989, as amended by Amendment No. 1 filed as Exhibit 10.6 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995 and Amendment No. 2 filed as Exhibit 10.6 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003), incorporated by reference to Exhibit 10.15 to UTC's Annual Report on form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2004.
10.16	Restricted Stock Award Schedule of Terms and Form of Award relating to the United Technologies Corporation Long Term Incentive Plan (previously filed as Exhibit 10.11 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1989, as amended by Amendment No. 1 filed as Exhibit 10.6 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995 and Amendment No. 2 filed as Exhibit 10.6 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003), incorporated by reference to Exhibit 10.1 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
10.17	Nonqualified Stock Option Award Schedule of Terms and Form of Award relating to the United Technologies Corporation Long-Term Incentive Plan (previously filed as Exhibit 10.11 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1989, as amended by Amendment No. 1 filed as Exhibit 10.6 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995 and Amendment No. 2 filed as Exhibit 10.6 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003), incorporated by reference to Exhibit 10.2 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
10.18	Restricted Stock Unit Award relating to the United Technologies Corporation Directors' Restricted Stock/Unit Program (previously filed as 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), incorporated by reference to Exhibit 10.3 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
10.19	Form of Award relating to the United Technologies Corporation Nonemployee Director Stock Option Plan (previously filed as Exhibit 10.17 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995, as amended by Amendment 1 thereto (previously filed as Exhibit 10(iii)(A)(2) to the Corporation's Report on Form 10-Q for quarterly period ended June 30, 2000), Amendment 2 thereto (previously filed as 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 (previously filed as 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 (previously filed as Exhibit 10.12 to the Corporation's Annual Report on Form 10-K for fiscal year ending December 31, 2002) and Amendment 5 thereto (previously filed as Exhibit 10.12 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ending December 31, 2003)), incorporated by reference to Exhibit 10.4 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
10.20	Recognition Stock Option Program Prospectus and Statement of Award relating to the United Technologies Corporation Employee Stock Option Plan (previously filed as 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, as amended by Amendment 1, filed as Exhibit 10.13 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003), incorporated by reference to Exhibit 10.5 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
10.21	Continuous Improvement Incentive Program Non-qualified Stock Option and Dividend Equivalent Award Schedule of Terms and Forms of Award relating to the United Technologies Corporation Long Term Incentive Plan (previously filed as Exhibit 10.11 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1989, as amended by Amendment No. 1 filed as Exhibit 10.6 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995 and Amendment No. 2 filed as Exhibit 10.6 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003),

incorporated by reference to Exhibit 10.6 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.

10.22 Retainer Payment Election Form relating to the United Technologies Corporation Board of Directors Deferred Stock Unit Plan (previously filed as Exhibit 10.14 to the Corporation's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended 1995, as amended by Amendment No. 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)), incorporated by reference to Exhibit 10.8 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.

10.23 United Technologies Corporation 2005 Long Term Incentive Plan, incorporated by reference to Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed April 18, 2005.

10.24 Schedule of Terms for restricted stock awards relating to the United Technologies Corporation 2005 Long Term Incentive Plan (previously filed as Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed April 18, 2005), incorporated by reference to Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed September 20, 2005.

10.25 Form of Award Agreement for restricted stock awards relating to the United Technologies Corporation 2005 Long Term Incentive Plan (previously filed as Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed April 18, 2005), incorporated by reference to Exhibit 10.2 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed September 20, 2005.

10.26 Schedule of Terms for non-qualified stock option awards relating to the United Technologies Corporation 2005 Long Term Incentive Plan (previously filed as Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed April 18, 2005), incorporated by reference to Exhibit 10.3 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed September 20, 2005.

10.27	Form of Award Agreement for non-qualified stock option awards relating to the United Technologies Corporation 2005 Long Term Incentive Plan (previously filed as Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed April 18, 2005), incorporated by reference to Exhibit 10.4 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed September 20, 2005.
10.28	Form of Award Agreement for performance share unit and stock appreciation rights awards relating to the United Technologies Corporation 2005 Long Term Incentive Plan (previously filed as Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed April 18, 2005), incorporated by reference to Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed December 20, 2005.
10.29	Schedule of Terms for performance share unit awards relating to the United Technologies Corporation 2005 Long Term Incentive Plan (previously filed as Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed April 18, 2005), incorporated by reference to Exhibit 10.2 to UTC's Current Reported on Form 8-K (Commission file number 1-812) filed December 20, 2005.
10.30	Form of Award Agreement for stock appreciation rights awards relating to the United Technologies Corporation 2005 Long Term Incentive Plan (previously filed as Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed April 18, 2005), incorporated by reference to Exhibit 10.3 to UTC's Current Reported on Form 8-K (Commission file number 1-812) filed December 20, 2005.
11	Statement Re: Computations of Per Share Earnings.*
12	Statement Re: Computation of Ratios.*
13	Annual Report for the year ended December 31, 2005 (except for the information thereof expressly incorporated by reference in this Form 10-K, the Annual Report is provided solely for the information of the Securities and Exchange Commission and is not to be deemed "filed" as part of this Form 10-K).*
14	Code of Ethics. The UTC Code of Ethics may be accessed via UTC's website at http://www.utc.com/responsibility/economic/ethics/english/coe_english.pdf.
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 John V. Faraci, 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:

* Submitted electronically herewith.

Exhibits 10.1 through 10.30 are contracts, arrangements or compensatory plans filed as exhibits pursuant to Item 15(b) of the requirements for Form 10-K reports.

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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)

By: /s/ JAMES E. GEISLER

James E. Geisler
Vice-President, Finance

By: /s/ GREGORY J. HAYES

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

Date: February 9, 2006

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 **George David**	Chairman, Director, President and Chief Executive Officer	February 9, 2006
/S/ JAMES E. GEISLER **James E. Geisler**	Vice President, Finance	February 9, 2006
/S/ GREGORY J. HAYES **Gregory J. Hayes**	Vice President, Accounting and Control; Controller	February 9, 2006
/S/ JOHN V. FARACI* **(John V. Faraci)**	Director)	
/S/ JEAN-PIERRE GARNIER* **(Jean-Pierre Garnier)**	Director)	
/S/ JAMIE S. GORELICK* **(Jamie S. Gorelick)**	Director)	
/S/ CHARLES R. LEE* **(Charles R. Lee)**	Director)	
/S/ RICHARD D. MCCORMICK* **(Richard D. McCormick)**	Director)	
/S/ HAROLD W. MCGRAW III* **(Harold W. McGraw III)**	Director)	
/S/ FRANK P. POPOFF* **(Frank P. Popoff)**	Director)	
/S/ H. PATRICK SWYGERT* **(H. Patrick Swygert)**	Director)	
/S/ ANDRÉ VILLENEUVE* **(André Villeneuve)**	Director)	
/S/ H. A. WAGNER* **(H. A. Wagner)**	Director)	
/S/ CHRISTINE TODD WHITMAN*	Director)	

(Christine Todd Whitman)

* By: /s/ DEBRA A. VALENTINE

Debra A. Valentine
Vice President, Secretary and
Associate General Counsel, as Attorney-in-Fact

Date: February 9, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON

FINANCIAL STATEMENT SCHEDULE

To the Board of Directors
of United Technologies Corporation:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of internal control over financial reporting and of the effectiveness of internal control over financial reporting referred to in our report dated February 9, 2006, appearing in the 2005 Annual Report to Shareowners of United Technologies Corporation (which report, consolidated financial statements and assessment 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, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
February 9, 2006

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UNITED TECHNOLOGIES CORPORATION AND SUBSIDIARIES
Schedule II - Valuation and Qualifying Accounts
Three Years Ended December 31, 2005
(Millions of Dollars)

Allowances for Doubtful Accounts and Other Customer Financing Activity:

Balance December 31, 2002	$ 421
Provision charged to income	91
Doubtful accounts written off (net)	(112)
Other adjustments	84
Balance December 31, 2003	484
Provision charged to income	73
Doubtful accounts written off (net)	(131)
Other adjustments	26
Balance December 31, 2004	452
Provision charged to income	85
Doubtful accounts written off (net)	(90)
Other adjustments	(21)
Balance December 31, 2005	$ 426

Future Income Tax Benefits - Valuation allowance:

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
Additions charged to income tax expense	61
Reductions charged to goodwill, due to acquisitions	(28)
Reductions credited to income tax expense	(19)
Other adjustments	(24)
Balance December 31, 2004	467
Additions charged to income tax expense	39
Reductions charged to goodwill, due to acquisitions	(6)
Reductions credited to income tax expense	(15)
Other adjustments	11
Balance December 31, 2005	$ 496

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-124743), 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) and in the Registration Statements on Form S-8 (Nos. 333-125476, 333-125478, 333-125293, 333-100724, 333-100723, 333-100718, 333-21853, 333-18743, 333-21851, 033-57769, 033-51385, 033-58937, 333-77817, 333-110020, 333-103307, 333-103306, 333-103305, 333-82911) of United Technologies Corporation of our report dated February 9, 2006 relating to the financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in the 2005 Annual Report to Shareowners, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 9, 2006 relating to the financial statement schedule, which appears on page S-I of this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
February 9, 2006

Exhibit 10.7

United Technologies Corporation Executive Leadership Group

February 2006 Amendments

The Corporation's Executive Leadership Group Program (the "ELG") has been amended, effective February 3, 2006, to provide for a restricted share unit retention award (an "RSU Retention Award") that will replace Standard Separation Arrangement benefits in the case of retirement on or after age 62 with at least three years of ELG service. RSU Retention Awards will not be provided to executives who became ELG members prior to June 7, 2005 (i.e. the date the Standard Separation Arrangement was modified to preclude payments after age 62). Under the revised program, ELG members will forfeit their RSU Retention Award if they terminate employment with the Corporation for any reason prior to age 62. However, all ELG members, including those with RSU Retention Awards, retain their eligibility for the Standard Separation Arrangement in the event of termination prior to age 62, subject to and in accordance with the terms of the Program. Upon vesting in an RSU Retention Award, an ELG member will be subject to the same covenants and restrictions as provided for in the Standard Separation Arrangement.

The RSU Retention Award will consist of RSUs equal in value to two times base salary as of the date of appointment to the ELG. RSU Retention Awards will be credited with dividend equivalents. Following retirement, the Award will be settled in shares of Common Stock. Installment distributions will be available.

The annual perquisite allowance for executives admitted to the ELG on or after June 7, 2005 will be 8% of base salary. Other ELG benefits remain unchanged.

These program modifications will not affect executives who became ELG members prior to June 7, 2005.

EXHIBIT 11

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

For the Five Years Ended December 31, 2005
(Millions of dollars, except per share amounts)

	2005	2004	2003	2002	2001
Net Income	$ 3,069	$ 2,673	$ 2,236	$ 2,118	$ 1,836
ESOP Convertible Preferred Stock dividend	—	—	(24)	(31)	(31)
Basic earnings for period	$ 3,069	$ 2,673	$ 2,212	$ 2,087	$ 1,805
ESOP Convertible Preferred Stock adjustment	—	—	23	29	28
Diluted earnings for period	$ 3,069	$ 2,673	$ 2,235	$ 2,116	$ 1,833
Basic average number of shares outstanding during the period (thousands)	991,200	992,800	947,600	944,900	940,500
Stock awards (thousands)	23,300	18,000	14,000	14,100	18,300
ESOP Convertible Preferred Stock (thousands)	—	—	44,200	52,100	52,000
Diluted average number of shares outstanding during the period (thousands)	1,014,500	1,010,800	1,005,800	1,011,100	1,010,800
Basic earnings per common share	$ 3.10	$ 2.69	$ 2.33	$ 2.21	$ 1.92
Diluted earnings per common share	$ 3.03	$ 2.64	$ 2.22	$ 2.09	$ 1.81

Exhibit 12

United Technologies Corporation and Subsidiaries
Statement Re: Computation of Ratios

In Millions of Dollars	Full year				
	2005	2004	2003	2002	2001
Fixed Charges:					
Interest Expense	$ 498	$ 363	$ 375	$ 381	$ 426
Interest Capitalized	16	11	10	16	22
One-third of rents*	100	107	87	71	68
Total Fixed Charges	$ 614	$ 481	$ 472	$ 468	$ 516
Earnings:					
Income before income taxes and minority interests	$4,684	$3,938	$3,272	$3,090	$2,646
Fixed Charges per above	614	481	472	468	516
Less: interest capitalized	(16)	(11)	(10)	(16)	(22)
	598	470	462	452	494
Amortization of interest capitalized	10	3	4	4	18
Total Earnings	$5,292	$4,411	$3,738	$3,546	$3,158
Ratio of Earnings to Fixed Charges	8.62	9.17	7.92	7.58	6.12

* Reasonable approximation of the interest factor

FIVE-YEAR SUMMARY

(in millions, except per share amounts)	2005	2004	2003	2002	2001
For the year					
Revenues	**$ 42,725**	$ 37,445	$ 31,034	$ 28,212	$ 27,897
Research and development	**1,367**	1,267	1,040	1,203	1,264
Income before cumulative effect of a change in accounting principle [1]	**3,164**	2,673	2,236	2,118	1,836
Net income	**3,069**	2,673	2,236	2,118	1,836
Earnings per share:					
Basic:					
Income before cumulative effect of a change in accounting principle [1]	**3.19**	2.69	2.33	2.21	1.92
Cumulative effect of a change in accounting principle [1]	**(.09)**	—	—	—	—
Net income	**3.10**	2.69	2.33	2.21	1.92
Net earnings adjusted for SFAS No. 142					2.15
Diluted:					
Income before cumulative effect of a change in accounting principle [1]	**3.12**	2.64	2.22	2.09	1.81
Cumulative effect of a change in accounting principle [1]	**(.09)**	—	—	—	—
Net income	**3.03**	2.64	2.22	2.09	1.81
Net earnings adjusted for SFAS No. 142					2.03
Cash dividends per common share	**.88**	.70	.57	.49	.45
Average number of shares of Common Stock outstanding:					
Basic	**991**	993	948	945	940
Diluted	**1,014**	1,011	1,006	1,011	1,011
Cash flow from operations	**4,334**	3,596	2,827	2,829	2,917
Voluntary pension contributions [2]	**663**	906	994	530	—
Capital expenditures	**929**	795	530	586	793
Acquisitions, including debt assumed	**4,583**	1,295	2,305	424	525
Share repurchase	**1,181**	992	401	700	599
Dividends on Common Stock [3]	**832**	660	533	462	423
At year end					
Working capital	**$ 1,861**	$ 2,575	$ 2,069	$ 4,050	$ 3,094
Total assets	**45,925**	40,441	35,674	30,254	28,060
Long-term debt, including current portion	**6,628**	4,271	4,632	4,676	4,371
Total debt	**8,240**	5,591	5,301	4,873	4,959
Debt to total capitalization	**33%**	28%	31%	36%	37%
ESOP Preferred Stock, net [4]	**—**	—	—	428	429
Shareowners' equity	**16,991**	14,266	11,953	8,557	8,515
Number of employees	**222,200**	209,700	203,300	155,000	152,000

Note 1: During 2005, we acquired Kidde, which in conjunction with Chubb (acquired during 2003) forms the newly created UTC Fire & Security segment.

Note 2: During 2005, a 2-for-1 split of our Common Stock was effected in the form of a share dividend. All common share and per share amounts have been adjusted to reflect the split for all periods shown.

[1] During 2005, we adopted the provisions of FIN 47, "Accounting for Conditional Asset Retirement Obligations" and SFAS 123R, "Share-Based Payment".

[2] Principally represents cash contributions. In addition, during 2005, 2002 and 2001 we contributed Treasury Stock of $157, $253 and $247, respectively.

[3] Excludes dividend paid on ESOP stock.

[4] During 2003, we converted all of our outstanding shares of ESOP Preferred Stock into Common Stock.

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

Management's Discussion and Analysis

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

Business Overview

We are a global provider of high technology products and services to the building systems and aerospace industries. Our operations are classified into six principal business segments: Otis, Carrier, UTC Fire & Security, Pratt & Whitney, Hamilton Sundstrand and Sikorsky Aircraft. The UTC Fire & Security segment was created in the second quarter of 2005 upon the acquisition of Kidde plc and includes our former Chubb segment and the acquired Kidde business, excluding the aircraft fire protection systems business, which is included in the Hamilton Sundstrand segment. Otis, Carrier and UTC Fire & Security are collectively referred to as the "commercial businesses", while Pratt & Whitney, Hamilton Sundstrand and Sikorsky are collectively referred to as the "aerospace businesses". The commercial businesses generally serve customers in the worldwide commercial and residential property industries, although Carrier also serves customers in the commercial and transport refrigeration industries. The aerospace businesses serve both commercial and government aerospace customers. In addition, a portion of these businesses serve customers in the industrial markets. Our 2005 and 2004 consolidated revenues were derived from the commercial and aerospace businesses as follows (revenues from Hamilton Sundstrand's and Pratt & Whitney's industrial markets are included in "commercial and industrial"):

	2005	2004
Commercial and industrial	**64%**	64%
Military aerospace	**16%**	18%
Commercial aerospace	**20%**	18%
	100%	100%

In both 2005 and 2004, approximately 58% of our consolidated sales were original equipment and 42% aftermarket parts and services.

Organic revenue growth for 2005 was 7%, which reflected the positive economics in many of our underlying markets including residential and commercial construction, transportation refrigeration and commercial aerospace. These beneficial conditions are expected to continue in 2006, contributing to an anticipated additional 5% organic growth. Our geographic diversity also benefited organic growth as worldwide economic conditions were generally favorable across all regions in 2005, including the emerging markets, where we have continued to invest. This geographic diversity as well as our industry, product sales and services diversity, has helped limit the impact of any one industry or the economy of any single country on the consolidated operating results. As part of our strategy, we have invested in businesses in certain countries, including Argentina, China and Russia, that carry high levels of currency, political and economic risk. At December 31, 2005, our investment in any one of these countries did not exceed 2% of consolidated shareowners' equity. Revenues from outside the U.S., including United States export sales, in dollars and as a percentage of total segment revenues, were as follows:

(in millions of dollars)	2005	2004	2003	2005	2004	2003
Europe	**$11,255**	$ 9,389	$ 7,143	**26%**	25%	23%
Asia Pacific	**6,525**	5,717	4,499	**15%**	15%	14%
Other Foreign	**4,137**	3,288	2,588	**10%**	9%	8%
U.S. Exports	**4,124**	3,563	3,329	**10%**	10%	11%
International Segment Revenues	**$26,041**	$21,957	$17,559	**61%**	59%	56%

During 2005, the effect of translation of foreign currency-denominated operating results into U.S. dollars was not material and did not impact diluted earnings per share. With the gain in the strength of the U.S. dollar against certain currencies such as the euro in the later part of 2005, we are anticipating a potentially adverse impact to operating results from the translation of foreign currency-denominated operating results into U.S. dollars in 2006.

Our earnings growth strategy contemplates investments in acquisitions as well as organic revenue growth, including growth from new product development and product improvements. In 2005 and 2004, we invested $4.6 billion and $1.3 billion, including debt assumed of $523 million and $220 million, respectively, in the acquisition of businesses across all our operations. These acquisitions, which contributed approximately half of our revenue growth in 2005, included Kidde (acquired for $3.1 billion), Rocketdyne Power & Propulsion (acquired for $700 million) and Lenel Systems International, Inc. (acquired for $440 million). Kidde is a U.K – based provider of fire safety products and services, including aircraft fire protection systems, with operations in 29 countries. The addition of Kidde's fire suppression products and services to our existing fire safety business establishes UTC Fire & Security as a global leader within the fire safety industry. Kidde's aerospace business complements the existing Hamilton Sundstrand business by providing additional integrated systems for many of the same aircraft for which Hamilton Sundstrand is a key supplier. In 2005, Kidde contributed approximately $1.4 billion in combined

revenues to the UTC Fire & Security and Hamilton Sundstrand segments. The Rocketdyne business, acquired from The Boeing Company in the third quarter of 2005, strengthens our existing space propulsion, space power and energy businesses by increasing product breadth and leveraging complementary technologies. In 2005, Rocketdyne contributed approximately $200 million in combined revenues to the Pratt & Whitney and Hamilton Sundstrand segments. Lenel is being integrated into the UTC Fire & Security segment and will augment existing technology by providing high-end, integrated electronic security solutions. Lenel did not contribute significantly to consolidated revenues in 2005. In 2004, acquisitions consisted primarily of the initial purchases of Kidde shares for $450 million and the acquisition of the commercial refrigeration business of Linde AG for $324 million.

In addition to the investments in acquisitions, we also invested $267 million and $632 million in 2005 and 2004, respectively, in restructuring actions across our businesses. These restructuring actions, as well as ongoing acquisition integration efforts, cost control and operating efficiencies helped lead to an operating margin improvement in 2005. This improvement was partially offset by dilutive effects of the Kidde and Linde acquisitions, and the adverse impact of commodity and energy cost increases. After a partial recovery through price increases, commodity and energy cost increases had a net negative impact on operating results for 2005 of approximately $150 million. These cost increases are expected to have a further adverse impact of approximately $100 million in 2006.

For additional discussion of acquisitions and restructuring, see “Liquidity and Financing Commitments”, “Restructuring and Other Costs” and Notes 2 and 11 to the Consolidated Financial Statements.

Results of Operations

Revenues

(in millions of dollars)	2005	2004	2003
Sales	**$42,278**	$36,700	$30,723
Financing revenues and other income, net	**447**	745	311
Revenues	**$42,725**	$37,445	$31,034

The consolidated revenue increase of 14% in 2005 to $42.7 billion reflects revenues from acquisitions of 7% and organic growth of 7%. Acquisition revenues principally resulted from the acquisition of Kidde in the second quarter of 2005, and Carrier’s acquisition of Linde in the fourth quarter of 2004. All segments experienced organic sales growth in 2005. Within the commercial businesses, generally favorable worldwide economic conditions resulted in growth across all geographic regions. Otis also benefited from a strong order backlog coming into 2005. North American construction activity and favorable weather conditions generated growth in Carrier’s North American heating, ventilating and air conditioning (HVAC) business, which helped to offset the decline in European HVAC revenues resulting from a cool summer selling season. Strong commercial aerospace original equipment market (OEM) and aftermarket volume across all segments have led the growth in aerospace revenues. Military aerospace volume was generally flat as lower aftermarket revenues at Hamilton Sundstrand and the loss of the Comanche program at Sikorsky were offset by growth in OEM revenues at Hamilton Sundstrand and Pratt & Whitney, as well as aftermarket revenues at Pratt & Whitney and Sikorsky.

The consolidated revenue increase of 21% in 2004 to $37.4 billion reflected organic growth of 8%, revenues from acquisitions of 8% and a 3% contribution from the favorable impact of foreign currency translation primarily due to the strength of the euro in relation to the U.S. dollar.

The decrease in financing revenues and other income, net, results primarily from the inclusion of a $250 million payment from DaimlerChrysler associated with the release of DaimlerChrysler from commitments made in support of MTU Aero Engines GmBH in other income in the first quarter of 2004. The decrease is also attributable to higher tax adjustments in 2004 (approximately $200 million pretax interest income) associated with the settlement of the 1986 to 1993 U.S. federal tax audits compared to the approximately $45 million of pretax interest income primarily associated with the reevaluation of liabilities and contingencies in light of the completion of the examinations of the 1994 through 1999 tax years and commencement of the 2000-2003 tax years, recorded in the second quarter of 2005. The decrease was partially offset by gains of approximately $110 million recognized in 2005 on shares held in Snecma, a French aerospace company. The 2004 increase as compared to 2003 is due principally to the same aforementioned items.

Gross Margin

(in millions of dollars)	2005	2004	2003
Gross margin	**$11,343**	$9,458	$8,192
Percentage of sales	**26.8%**	25.8%	26.7%

The 100 basis point improvement in gross margin (product and service sales less cost of product and services sold) in 2005, is primarily the result of lower restructuring costs of $365 million (approximately 90 basis points). After a partial recovery through pricing, increased commodity and energy costs had a net adverse impact on gross margin of approximately $150 million (approximately 40 basis points), which was effectively offset by the savings realized on current and prior year restructuring actions, operational efficiencies and a better mix in the aerospace businesses including higher commercial aftermarket sales. Gross margin decreased

90 basis points in 2004, due primarily to higher restructuring charges of $420 million (approximately 110 basis points) and increased commodity costs of $200 million (approximately 50 basis points) partially offset by margin improvement from higher commercial aerospace volume.

Research and Development

(in millions of dollars)	2005	2004	2003
Company funded	**$1,367**	$1,267	$1,040
Percentage of sales	**3.2%**	3.5%	3.4%
Customer funded	**$1,478**	$1,585	$1,580
Percentage of sales	**3.5%**	4.3%	5.1%

The 8% increase in company funded research and development in 2005 is primarily attributable to spending on the Boeing 787 program at Hamilton Sundstrand (3%), H-92 program spending at Sikorsky (2%) and to spending at companies acquired by Carrier and UTC Fire & Security (combined 3%). Approximately 75% of the 2004 increase was due to increased spending on commercial engine programs at Pratt & Whitney. The remainder primarily reflects increases at Carrier and Hamilton Sundstrand. Company funded research and development spending is subject to the variable nature of program development schedules.

The 2005 decrease in customer funded research and development was principally the result of the Comanche program termination at Sikorsky (15%), offset partially by increased space development spending at Hamilton Sundstrand associated with ongoing efforts at acquired companies.

Company funded research and development spending for the full year 2006 is expected to increase slightly over 2005 levels due principally to continued spending on aircraft programs such as the Boeing 787. Combined company and customer funded research and development spending in 2006 is expected to approximate 2005 levels.

Selling, General and Administrative

(in millions of dollars)	2005	2004	2003
Selling, general and administrative	**$5,241**	$4,635	$3,816
Percentage of sales	**12.4%**	12.6%	12.4%

The 2005 increase in selling, general and administrative expenses is due principally to the acquisitions of Kidde and Linde (10%), with the balance largely incurred in support of volume increases across the businesses. The reduction as a percent of sales is attributable to cost control initiatives and to the savings from prior restructuring actions. The 2004 increase primarily reflects the July 2003 acquisition of Chubb (12%), the impact of foreign currency translation, primarily at Carrier and Otis, and higher restructuring charges (1%).

Interest Expense

(in millions of dollars)	2005	2004	2003
Interest expense	**$498**	$363	$375
Average interest rate during the year:			
Short-term borrowings	**5.5%**	4.9%	5.2%
Total debt	**6.3%**	6.3%	6.5%

Interest expense increased in 2005, primarily as a result of the $2.4 billion of long-term debt issuance and higher average commercial paper balance in connection with the acquisitions of Kidde, Rocketdyne and Lenel, as well as higher average interest rates on short-term borrowings. The decrease in 2004 was due primarily to lower average long-term borrowings in 2004 as compared to 2003.

The average interest rate for commercial paper increased in 2005 as compared to 2004 generating the increase in the average short-term borrowing rate. The weighted-average interest rate applicable to debt outstanding at December 31, 2005 was 5.2% for short-term borrowings and 6.1% for total debt as compared to 3.3% and 5.9%, respectively, at December 31, 2004.

Income Taxes

	2005	2004	2003
Effective income tax rate	**26.8%**	26.2%	26.5%

The effective tax rate for 2005, 2004 and 2003 reflects the tax benefit associated with the lower tax rate on international earnings, which we intend to permanently reinvest outside the United States. The 2005 effective rate reflects a benefit of approximately $135 million related to an amended return, filed in 2005, which claimed credits for 2003 foreign taxes previously recognized as deductions.

The 2005 effective tax rate reflects a tax benefit of approximately $19 million associated with noncore business divestitures. We recognized a tax cost related to the tax gain from the sale of a Hamilton Sundstrand division and tax benefits related to tax losses from the sale of a Carrier refrigeration operation and from the sale and liquidation of a Pratt & Whitney subsidiary. The third-party sales did not result in significant pretax gains or losses for financial reporting purposes.

In the normal course of business, various tax authorities examine us, including the IRS. In 2005, the IRS substantially completed its examination of tax years 1994 through 1999 and commenced its examination of tax years 2000 through 2003. The 2005 effective tax rate reflects an approximately $66 million reduction in tax expense primarily as a result of the reevaluation of our liabilities and contingencies in light of the completion and commencement of exam cycles. We are pursuing the resolution of a disputed issue related to the 1999 disposition of a business segment with the Appeals Division of the IRS. We expect to resolve the Appeals matter in 2006 and to complete the examination phase of the 2000 through 2003 audit in 2007. Although the outcome of these matters cannot currently be determined, we believe adequate provision has been made for any potential unfavorable financial statement impact.

The 2004 effective tax rate reflects an approximately $80 million reduction in tax expense as a result of a settlement with the IRS and final review by the U.S. Congress Joint Commission on Taxation with respect to claims and other disputed items related to the 1986 to 1993 tax years.

As described in Note 9 to the Consolidated Financial Statements, the 2003 rate also benefited from a $448 million tax loss associated with a noncore business (4.1%) substantially offset by a reduced benefit (4.0%) from international activities attributable to recognition of foreign taxes as deductions and not credits for U.S. income tax purposes. The tax loss was attributable to a worthless stock deduction we were entitled to in 2003, relating primarily to a diminution in value of our subsidiary, International Comfort Products, USA (ICP, USA) and other events that fixed the loss in 2003, which included the transfer of certain of ICP, USA's assets to Carrier and the sale of ICP, USA to a third party. The third-party sale of the ICP, USA assets did not result in a significant loss for financial accounting purposes.

The American Jobs Creation Act, signed into law in October 2004, provided an opportunity in 2005 to repatriate up to $500 million of reinvested foreign earnings and to claim an 85% dividend received deduction against the repatriated amount. We have evaluated the potential effects of the repatriation provision and have decided not to repatriate earnings under the provision.

We expect our effective income tax rate in 2006 to approximate 28%, before any impact from ongoing tax examinations.

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

Net Income and Earnings Per Share

(in millions of dollars, except per share amounts)	2005	2004	2003
Income before cumulative effect of a change in accounting principle	**$3,164**	$2,673	$2,236
Cumulative effect of a change in accounting principle	**95**	—	—
Net income	**$3,069**	$2,673	$2,236
Diluted Earnings per Share:			
Income before cumulative effect of a change in accounting principle	**$ 3.12**	$ 2.64	$ 2.22
Cumulative effect of a change in accounting principle	**.09**	—	—
Net income	**$ 3.03**	$ 2.64	$ 2.22

The impact of foreign currency translation did not have an impact on earnings per share in 2005. For 2004 and 2003, the favorable impact of foreign currency translation contributed $.09 and $.12 per share, respectively. As discussed in Note 1 to the Consolidated Financial Statements, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for

Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)" effective December 31, 2005. The cumulative effect of this adoption reduced 2005 diluted earnings per share by $.09 and is not expected to have a significant impact to future operating results.

Restructuring and Other Costs

We recorded net pretax restructuring and related charges totaling $267 million in 2005 and $632 million in 2004 for new and ongoing restructuring actions. We recorded these charges in the segments as follows:

(in millions of dollars)	2005	2004
Otis	**$52**	$144
Carrier	**80**	241
UTC Fire & Security	**21**	—
Pratt & Whitney	**39**	152
Hamilton Sundstrand	**66**	71
Sikorsky	**3**	9
Eliminations and Other	**6**	15

The 2005 charges include $180 million in cost of sales, $73 million in selling, general and administrative expenses and $14 million in other income. The 2004 charges include $546 million in cost of sales, $74 million in selling, general and administrative expenses and $12 million in other income. As described below, these charges relate to actions initiated during 2005 and 2004. For a discussion of restructuring actions associated with business acquisitions, see Note 2 to the Consolidated Financial Statements.

Restructuring actions are an essential component of our operating margin improvement efforts and relate to both existing operations and those recently acquired. We have acquired certain businesses at beneficial values, such as Linde, Chubb and Kidde, with the expectation of restructuring the underlying cost structure in order to bring operating margins up to expected levels. Restructuring actions focus on streamlining costs through workforce reductions, the consolidation of manufacturing, sales and service facilities, and the transfer of work to more cost-effective locations. For acquisitions, the costs of restructuring actions are recorded under purchase accounting for the first year after acquisition. Actions initiated subsequently are recorded through operating results.

In 2005, the more significant actions relate to the consolidation of manufacturing operations at Hamilton Sundstrand, including the closure of a portion of Rockford Manufacturing, and general overhead reduction efforts principally at Carrier and Otis. These actions, when complete, will provide for workforce reductions of approximately 3,000 hourly and salaried employees, the exiting of approximately 1.7 million net square feet of facilities and the disposal of assets associated with the exited facilities. Savings are expected to increase over the two-year period subsequent to initiating the actions, resulting in recurring pretax savings of approximately $110 million. We expect pre-tax cash outflows on these programs to be approximately $130 million, of which $57 million has been funded to date.

During 2004, we focused on a reduction of manufacturing footprint with the announced closures of Carrier's McMinnville, Tennessee, commercial air conditioning and ventilation product manufacturing facility, Otis' Stadthagen, Germany, escalator manufacturing facility and Pratt & Whitney's Space Propulsion facility in San Jose, California. These actions, when complete, will provide for workforce reductions of approximately 5,400 hourly and salaried employees, the exiting of approximately 5.7 million net square feet of facilities and the disposal of assets associated with the exited facilities. Savings are expected to increase over the two-year period subsequent to initiating the actions, resulting in recurring pretax savings of approximately $295 million annually. We expect pretax cash outflows on these programs to be approximately $385 million, of which $320 million has been funded to date. As of December 31, 2005, the 2004 actions have been completed substantially as planned.

We may initiate additional restructuring actions in 2006 through our continuing cost-reduction efforts. No specific plans for significant new actions have been finalized at this time. However, it is management's expectation that when significant favorable items are recorded in a period, restructuring actions will also be initiated in that period when practical.

Segment Review

(in millions of dollars)	Revenues			Operating Profits			Operating Profit Margin		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Otis	**$ 9,575**	$ 8,937	$7,882	**$1,712**	$1,413	$1,301	**17.9%**	15.8%	16.5%
Carrier	**12,512**	10,620	9,232	**1,104**	830	853	**8.8%**	7.8%	9.2%
UTC Fire & Security	**4,250**	2,879	1,135	**235**	130	53	**5.5%**	4.5%	4.7%
Pratt & Whitney	**9,295**	8,281	7,484	**1,449**	1,083	1,063	**15.6%**	13.1%	14.2%
Hamilton Sundstrand	**4,382**	3,921	3,598	**675**	583	554	**15.4%**	14.9%	15.4%
Sikorsky	**2,802**	2,506	2,184	**250**	200	190	**8.9%**	8.0%	8.7%

Commercial Businesses

The financial performance of our commercial businesses can be influenced by a number of external factors including fluctuations in residential and commercial construction activity, interest rates, labor costs, foreign currency exchange rates, customer attrition, raw material and energy costs and other global and political factors. Carrier's financial performance can also be influenced by production and utilization of transport equipment, and in its residential business, weather conditions in seasonal periods. In 2005, 69% of total commercial business revenues was generated outside the U.S., as compared to 68% in 2004. The following table shows revenues generated outside the U.S. for each of the segments in our commercial businesses:

	2005	2004
Otis	**80%**	79%
Carrier	**55%**	51%
UTC Fire & Security	**87%**	96%

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

In 2005, North American office and residential building construction starts were flat compared with 2004; modest growth is expected in 2006. The elevator new equipment market in Europe experienced growth in 2005; however, this growth is not expected to continue in 2006. In Asia, strong growth in the new equipment market in China was partially offset by a decline in Korea and soft conditions in Japan. Continued growth in China is anticipated in 2006, while Korean and Japanese markets are expected to remain soft.

Otis revenues increased $638 million (7%) in 2005, reflecting growth in all geographic regions. The 2005 increase reflects volume growth (5%) and the favorable impact of foreign currency translation (2%). The 2004 increase of $1,055 million (13%) reflects the favorable impact of foreign currency translation (6%), higher volume (5%) and the impact of acquisitions (2%).

Otis operating profits increased $299 million (21%) in 2005 compared with 2004. The operating profit increase reflects profit improvement at constant currency due to higher volume, product cost reduction and operational efficiencies (12%); lower restructuring charges (7%) and the favorable impact of foreign currency translation (2%). Operating profits increased $112 million (9%) in 2004 compared to 2003. The operating profit increase reflects profit improvement at constant currency (12%), primarily in Europe and Asia, and the favorable impact of foreign currency translation (7%), partially offset by higher restructuring charges (6%) and the absence in 2004 of an approximate $50 million (4%) non-cash gain in 2003 associated with an exchange of equity interests in China.

CARRIER is the world's largest manufacturer and distributor of HVAC systems; and also offers refrigeration and food service equipment, and related controls, for residential, commercial, industrial and transportation applications. Carrier also provides aftermarket services and components for the products it sells and those of other manufacturers in both the HVAC and refrigeration industries. During 2005, a warm summer combined with additional 10 SEER volume in advance of the new U.S. minimum efficiency standard resulted in higher demand for the North American residential HVAC business, which helped to offset the earlier adverse effects of an unseasonably cool spring. Conversely, Europe experienced cool temperatures throughout the selling season, which weakened demand there for residential HVAC compared to the prior year. As of December 31, 2005, inventory levels in the North American and European HVAC

distribution channels were higher than market averages driven by the weaker than anticipated selling season in Europe in both 2004 and 2005, and higher customer orders in advance of the aforementioned U.S. efficiency standard change and the related factory ramp-up in the first quarter of 2006. Transport refrigeration remained solid, primarily driven by the strong truck and trailer business. The commercial HVAC market rebounded in North America, but was flat in Europe and down in the Asia Pacific region. Finally, the integration of Linde and resulting productivity improvements had a favorable impact on 2005 results.

As a result of commodity cost increases in 2004 and 2005, Carrier implemented price increases in 2005 on many of its products, which helped to mitigate the impact. Cost pressures from commodity price increases are expected to continue in 2006.

Carrier revenues increased $1,892 million (18%) in 2005 compared to 2004. The increase primarily resulted from acquisitions (9%), principally Linde, and growth in the North American HVAC business (6%). Revenues in 2004 increased $1,388 million (15%) reflecting volume growth (9%), with North American HVAC contributing 45% of the increase, Asia-25%, transport refrigeration-20%, and Europe-10%, the favorable impact of foreign currency translation (3%) and the impact of acquisitions (3%), primarily reflecting the fourth quarter acquisition of Linde.

Carrier's operating profits increased $274 million (33%) in 2005 compared to 2004 due in large part to a reduction in restructuring charges of $161 million (19%). The net impact of higher volumes and restructuring benefits (15%), Linde (8%), and favorable foreign currency translation (1%) was partially offset by higher commodity costs including a related LIFO charge, net of price increases (6%) and the expenses related to a new 13 SEER platform (4%). Operating profits decreased $23 million (3%) in 2004. Higher restructuring costs (21%) and unfavorable commodity pricing (14%) in 2004 more than offset profit improvements from higher volume and factory productivity (28%), primarily attributable to the transport refrigeration, Europe and North American HVAC businesses, and the favorable impact of foreign currency translation (4%).

UTC FIRE & SECURITY is a global provider of security and fire safety products and services. We created the UTC Fire & Security segment in the second quarter of 2005 upon acquiring Kidde. The UTC Fire & Security segment includes our former Chubb segment, and Kidde's industrial, residential and commercial fire safety businesses. In the electronic security industry, UTC Fire & Security provides system integration, installation and service of intruder alarms, access control systems and video surveillance systems. In the fire safety industry, UTC Fire & Security designs, integrates, installs and services fire detection and fixed suppression systems and manufactures, sells and services portable fire extinguishers and other fire fighting equipment. UTC Fire & Security also provides monitoring, response and security personnel services, including cash-in-transit security, to complement both the fire and electronic security equipment businesses. UTC Fire & Security's operations are predominantly outside the U.S.

UTC Fire & Security revenues increased $1,371 million (48%) in 2005 as compared with 2004 due largely to the acquisition of Kidde (43%) in the second quarter. Volume and pricing increases (combined 3%) and foreign currency translation (2%), contributed the remainder. Revenues for the full year of 2004 totaled $2,879 million compared to $1,135 million reported for five months of 2003. Approximately 80% of the reported revenues in 2004 and 2003 were contributed by fire and security services in Australasia, the United Kingdom and Continental Europe. Fire protection revenues increased in the last five months of 2004 compared to the same period in 2003, due largely to the favorable impact of foreign currency translation.

Operating profit increased $105 million (81%) in 2005 as compared with 2004, with acquisitions (63%) contributing the majority. The balance of the operating profit increase, in the legacy Chubb business, was generated principally from increased volume, pricing and net cost reductions from previous restructuring actions (combined 27%), offset partially by additional restructuring charges (16%). Operating profit was $130 million in 2004 compared to $53 million reported for five months of 2003. Operating profit margin was relatively flat for the last five months of 2004 compared to the same period of 2003.

Aerospace Businesses

The financial performance of Pratt & Whitney, Hamilton Sundstrand and Sikorsky is directly tied to the economic conditions of the commercial aerospace and defense industries. Traffic growth, load factors, worldwide airline profits, general economic activity and global defense spending have been reliable indicators for new aircraft and aftermarket orders in the aerospace industry. Spare part sales and aftermarket service trends are affected 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.

The continued growth in revenue passenger miles (RPMs) is benefiting both commercial aircraft production as well as aftermarket service and spares revenue levels. The commercial airline industry, however, continues to experience poor financial performance, which was exacerbated in 2005 by escalating fuel prices. As such, airlines and aircraft manufacturers will continue to pursue lower-cost packages from their suppliers. The bankruptcy filings of major U.S. airlines during 2005 did not have a significant impact on our operating results. Notwithstanding the health of the airlines, strong production levels at airframers, as well as the continued high usage of aircraft, as evidenced by the growth in RPMs, drove growth in the aerospace businesses in 2005. Growth was further augmented by strong commercial helicopter sales, which are benefiting from higher corporate profits and increased oil industry activity. Further increases in RPMs and continued positive global economic conditions are expected to result in increased commercial aerospace volume in 2006.

Our total sales to the U.S. government increased in 2005 to $5.8 billion or 14% of total sales, compared with $5.5 billion or 15% of total sales in 2004 and $5.3 billion or 17% of total sales in 2003. The defense portion of our aerospace business is affected by changes in market demand and the global political environment. Our participation in long-term production and development programs for the U.S. government has contributed positively to our results in 2005 and is expected to continue to benefit results in 2006.

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

Investments in new commercial engines involve significant risk due to the size of the investment required and the technical issues surrounding new engine development. In order to lessen its risk on engine development and to improve program economics, Pratt & Whitney has also entered into collaboration agreements.

Pratt & Whitney revenues increased $1,014 million (12%) in 2005 as compared with 2004. This increase is primarily attributable to higher aftermarket services and commercial engine revenues (6%) and higher Pratt & Whitney Canada volume (5%), including engine sales, spares and service. Acquisitions, principally Rocketdyne, contributed approximately $200 million (3%) of the increase. Military aerospace revenues were relatively flat in 2005 compared to 2004. Revenues increased $797 million (11%) in 2004. The 2004 increase is due primarily to higher commercial aerospace revenues (9%), mainly related to higher engine shipments at Pratt & Whitney Canada and higher commercial aftermarket volume.

Pratt & Whitney operating profits increased $366 million (34%) in 2005 as compared with 2004. This increase is primarily attributable to higher aftermarket services and commercial engine volumes (10%), increased volume at Pratt & Whitney Canada (6%), lower restructuring costs (10%) and $42 million (4%) of first quarter 2004 costs associated with a collaboration accounting litigation matter.
Operating profits increased $20 million (2%) in 2004 due primarily to increased commercial aerospace profits (29%), reflecting higher volume at Pratt & Whitney Canada and higher volume, cost reduction and productivity in the commercial aftermarket business, partially offset by higher company funded research and development spending (15%) and higher restructuring charges (13%).

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

Hamilton Sundstrand revenues increased $461 million (12%) as compared with 2004 due principally to the net impact of acquisitions and divestitures (5%), and volume growth in both the aerospace (4%) and industrial (2%) businesses. Within aerospace, increased commercial aftermarket volume was partially offset by continued declines in military aftermarket volume. Revenues increased $323 million (9%) in 2004. The increase was due to higher aerospace revenues (4%), higher industrial revenues (4%), and the favorable impact of foreign currency translation of approximately 2%. The aerospace revenues reflect both higher original equipment and aftermarket volumes.

Hamilton Sundstrand operating profit increased $92 million (16%) as compared with 2004 due principally to the net impact of acquisitions and divestitures (11%), and volume growth in both the commercial aftermarket (6%) and industrial businesses (2%). This operating profit improvement was partially offset by the effects of increased development spending, net of gains on the disposition of noncore businesses, principally Falk. Operating profits increased $29 million (5%) in 2004. The operating profit increase was due primarily to higher aerospace profits (9%), and higher industrial profits (4%), partially offset by higher restructuring charges in 2004 (8%). The aerospace results reflect higher aftermarket volumes.

SIKORSKY is one of the world's largest manufacturers of military and commercial helicopters and provides aftermarket helicopter and aircraft products and services. Sikorsky has focused on improving its cost structure, increasing the capabilities of its existing products, developing new products and expanding its aftermarket business. In its government business, Sikorsky continues to supply Black Hawk

helicopters and their derivatives to the U.S. and foreign governments.

Sikorsky revenues increased $296 million (12%) in 2005 as compared to 2004 with commercial aircraft deliveries (10%) and strong aftermarket sales (10%) offsetting the loss of Comanche revenues (10%). Revenues increased $322 million (15%) in 2004. The increase was due primarily to higher helicopter program revenues (11%) and aftermarket revenues (6%), partially offset by lower Comanche revenues (2%).

Sikorsky's operating profit increased $50 million (25%) in 2005 as compared to 2004 due principally to higher aircraft and aftermarket volume (47%). The balance of the operating profit change primarily reflects the termination of the Comanche program (12%) and an increase in development spending (11%), offset by lower restructuring charges (3%). Operating profit increased $10 million (5%) in 2004. The increase reflects the profit impact of the increased helicopter and aftermarket revenues (18%), offset by lower Comanche profits (9%) and higher restructuring charges (4%).

Liquidity and Financing Commitments

(in millions of dollars)	2005	2004
Cash and cash equivalents	**$ 2,247**	$ 2,265
Total debt	**8,240**	5,591
Net debt (total debt less cash and cash equivalents)	**5,993**	3,326
Shareowners' equity	**16,991**	14,266
Total capitalization (debt plus equity)	**25,231**	19,857
Net capitalization (debt plus equity less cash and cash equivalents)	**22,984**	17,592
Debt to total capitalization	**33%**	28%
Net debt to net capitalization	**26%**	19%

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Significant factors affecting the management of liquidity include: cash flows generated from operating activities, capital expenditures, customer financing requirements, investments in businesses, dividends, Common Stock repurchases, pension funding, adequacy of available bank lines of credit, and the ability to attract long-term capital at satisfactory terms.

OPERATING CASH FLOWS. Net cash provided by operating activities in 2005 was $4,334 million compared to $3,596 million in 2004. Net income growth of $396 million and $243 million of benefit from lower 2005 voluntary pension contributions were partially offset by a growth in working capital components of $350 million. The utilization of various restructuring reserves and higher receivable balances at UTC Fire & Security and Pratt & Whitney drove the unfavorable working capital changes. Pretax cash outflows associated with restructuring and other actions were $242 million in 2005 and $230 million in 2004. In addition, we expect pre-tax cash outflows associated with restructuring and other actions, including restructuring actions initiated in connection with acquisitions, to be in excess of $250 million in 2006.

The funded status of our pension plans is dependent upon many factors, including returns on invested assets, level of market interest rates and levels of voluntary contributions to the plans. Declines in long-term interest rates have had a negative impact on the funding obligation. However, better than projected investment returns and additional voluntary pension contributions have improved the funded status of all plans, helping to minimize future funding requirements. As such, we plan to make up to $500 million in voluntary cash contributions to these defined benefit pension plans in 2006, versus the voluntary cash contributions of $663 million and $906 million, in 2005 and 2004, respectively. We also contributed an additional $157 million in UTC stock to these plans during 2005. These contributions are reported as an increase in other assets in the Consolidated Balance Sheet. As of December 31, 2005, the total investment by the defined benefit pension plans in our securities is approximately 4% of total plan assets.

INVESTING CASH FLOWS. Cash used in investing activities was $4,649 million in 2005, compared with $1,762 million in 2004. The 2005 activity primarily reflects a net investment in businesses of $3.8 billion and capital expenditures of $929 million. The $3.8 billion in acquisition spending largely relates to the acquisitions of Kidde, Rocketdyne, Lenel and the buyout of the remaining minority interest in Otis LG Elevator Company, net of the proceeds from the dispositions of businesses (principally Falk) of $308 million. We purchased our initial interest in Kidde of slightly less than 20% in late 2004 for approximately $450 million. The remaining balance of the approximately $2.6 billion cash purchase price was paid in the second quarter of 2005. The acquisitions of Rocketdyne, Lenel and Otis LG Elevator Company for approximately $700 million, $440 million and $315 million, respectively, comprise the majority of the remaining acquisition spending. We expect total investments in businesses in 2006 to approximate $2 billion, however, actual acquisition spending may vary depending upon the timing and availability of appropriate acquisition opportunities.

Capital expenditures increased $134 million in 2005 to $929 million largely reflecting investments by Carrier in production modifications for its new 13 SEER product line and by Pratt & Whitney Canada in their PW600 line. Capital expenditure levels are expected to approximate depreciation expense in 2006.

Customer financing activities used net cash of $70 million in 2005, compared to $51 million in 2004. While we expect that customer financing will be a net use of cash in 2006 of approximately $250 million, actual funding is subject to usage under existing customer financing arrangements. At December 31, 2005, we had financing and rental commitments of $880 million related to commercial aircraft, of which as much as $355 million may be required to be disbursed in 2006. We may also arrange for third-party investors to assume a portion of our commitments. Refer to Note 4 to the Consolidated Financial Statements for additional discussion of our commercial aerospace industry assets and commitments.

FINANCING CASH FLOWS. Net cash flow provided by financing activities was $335 million in 2005 compared to a use of $1,299 million in 2004. Cash provided by financing activities during 2005 was driven by our issuance of long-term debt and additional commercial paper in 2005. In April 2005, we issued $2.4 billion of long-term debt, the proceeds of which were used to fund the Kidde and Lenel acquisitions, and for general corporate purposes. In the third quarter of 2005, we issued an additional $700 million of commercial paper primarily to fund the acquisition of Rocketdyne.

Financing cash outflows for 2005 and 2004 include the repurchase of 22.6 million and 21.8 million shares of our Common Stock for $1,181 million and $992 million, respectively. Share repurchase continues to be a significant use of our cash flow. In addition to management’s view that the repurchase of our Common Stock is a beneficial investment, we also repurchase to offset the dilutive effect of the issuance of stock and options under the stock-based employee benefit programs. In March 2005, we announced that the Board of Directors authorized the renewal of our 60 million common share repurchase program. Amounts that were available for repurchase under the previous program lapsed and are no longer available. At December 31, 2005, approximately 38.7 million shares remain available for repurchase under the program authorized in 2005. We expect total share repurchases in 2006 to approximate $1.5 billion; however, total repurchases may vary depending upon the level of other investing activities.

At December 31, 2005, we had credit commitments from banks totaling $1.5 billion under a revolving credit agreement, which serves as a backup facility for the issuance of commercial paper. There were no borrowings under this revolving credit agreement at December 31, 2005. An additional $2.5 billion revolving credit agreement established in 2004 was voluntarily terminated in 2005. In addition, at December 31, 2005, approximately $1.6 billion was available under short-term lines of credit with local banks at our various domestic and international subsidiaries.

At December 31, 2005, up to approximately $2 billion of additional debt and equity securities could be issued under a shelf registration statement on file with the Securities and Exchange Commission.

On April 13, 2005, the Board of Directors approved a 2-for-1 split of our common stock in the form of a stock dividend. The stock dividend was issued June 10, 2005 to shareowners of record at the close of business on May 20, 2005. In the first quarter of 2005, the Board of Directors approved a 26% increase in the quarterly dividends payable to $.22 per share. During 2005, $832 million of cash dividends were paid to shareholders.

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

We manage our worldwide cash requirements considering available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences; however, those balances are generally available without legal restrictions to fund ordinary business operations. We have 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.

We believe that existing sources of liquidity are adequate to meet anticipated borrowing needs at comparable risk-based interest rates for the foreseeable future. The extent and timing of acquisition spending can cause variations in our debt to capital levels. The issuance of $2.4 billion in long-term debt to finance acquisitions increased the level of debt to total capitalization to 33% from 28%; however, we believe that our existing cash position and other sources of liquidity are sufficient to satisfy our cash flow requirements, including further acquisition spending, continued common stock repurchases and pension funding, as needed.

Critical Accounting Estimates

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

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

Losses, if any, on long-term contracts are provided for when anticipated. We recognize loss provisions on original equipment contracts to the extent that estimated inventoriable manufacturing, engineering, estimated product warranty and product performance guarantee costs exceed the projected revenue from the products contemplated under the contractual arrangement. Products contemplated under the contractual arrangement include products purchased under the contract and, in the aerospace businesses, required replacement parts that are purchased separately and subsequently for incorporation into the original equipment. Revenue projections used in determining contract loss provisions are based upon estimates of the quantity,

pricing and timing of future product deliveries. We recognize losses on shipment to the extent that inventoriable manufacturing costs, estimated warranty costs and product performance guarantee costs exceed revenue realized. We measure the extent of progress toward completion on our long-term commercial aerospace equipment and helicopter contracts using units of delivery. In addition, we use the cost-to-cost method for development contracts in the aerospace businesses and for elevator and escalator sales, installation and modernization contracts in the commercial businesses. For long-term aftermarket contracts, we recognize revenue over the contract period in proportion to the costs expected to be incurred in performing services under the contract. Contract accounting also requires estimates of future costs over the performance period of the contract as well as an estimate of award fees and other sources of revenue.

Contract costs are incurred over a period of time, which can be several years, and the estimation of these costs requires management's judgment. The long-term nature of these contracts, the complexity of the products, and the strict safety and performance standards under which they are regulated can affect our ability to estimate costs precisely. As a result, we review and update our cost estimates on significant contracts on a quarterly basis, and no less than annually for all others, or when circumstances change and warrant a modification to a previous estimate. We record adjustments to contract loss provisions in earnings when identified.

INCOME TAXES. The future tax benefit arising from net deductible temporary differences and tax carryforwards is $2.1 billion at December 31, 2005 and $2.8 billion at December 31, 2004. Management believes that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided.

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

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

GOODWILL AND INTANGIBLE ASSETS. Our net investments in businesses in 2005 totaled $4.6 billion, including approximately $523 million of debt assumed. The assets and liabilities of acquired businesses are recorded under the purchase method of accounting at their estimated fair values at the dates of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. We have recorded goodwill of $13.0 billion at December 31, 2005 and $10.1 billion at December 31, 2004.

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

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

CONTRACTING WITH THE U.S. GOVERNMENT. Our contracts with the U.S. government are subject to government oversight and audit. Like many defense contractors, we have received audit reports, which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports have involved substantial amounts. We have made voluntary refunds in those cases we believe appropriate. In addition, we accrue for liabilities associated with those government contracting matters that are probable and can be reasonably estimated. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with

respect to their resolution. See Note 15 to the Consolidated Financial Statements for further discussion. We recorded sales to the U.S. government of $5.8 billion in 2005 and $5.5 billion in 2004.

EMPLOYEE BENEFIT PLANS. We and our 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.

The weighted-average discount rate used to measure pension liabilities and costs is set by reference to published high-quality bond indices. However, these indices give only an indication of the appropriate discount rate because the cash flows of the bonds comprising the indices do not match the projected benefit payment stream of the plan precisely. For this reason, we also consider the individual characteristics of the plan, such as projected cash flow patterns and payment durations, when setting the discount rate. Market interest rates declined in both 2005 and 2004 and, as a result, the weighted-average discount rate used to measure pension liabilities and costs declined to 5.5% and 5.9%, respectively. Pension expense in 2006 is expected to be negatively affected by this change and the amortization of prior investment losses. See Note 10 to the Consolidated Financial Statements for further discussion.

Off-Balance Sheet Arrangements and Contractual Obligations

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

A summary of our consolidated contractual obligations and commitments as of December 31, 2005 is as follows:

		Payments Due by Period			
(in millions of dollars)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt *	$ 6,628	$ 693	$ 79	$1,540	$ 4,316
Operating leases	1,208	341	439	222	206
Purchase obligations	8,052	4,331	1,818	759	1,144
Other long-term liabilities	3,591	749	835	683	1,324
Total contractual obligations	$19,479	$6,114	$3,171	$3,204	$ 6,990

* Principal only; excludes associated interest payments

Purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, delivery and termination liability. Approximately 21% of the purchase obligations disclosed above represent purchase orders for products to be delivered under firm contracts with the U.S. government for which we have full recourse under normal contract termination clauses. In addition, as disclosed in Note 10 to the Consolidated Financial Statements, we expect to make up to $500 million of voluntary contributions to our pension plans in 2006, which have been excluded from the table above.

Other long-term liabilities primarily include those amounts on our December 31, 2005 balance sheet representing obligations under product service and warranty policies, performance and operating cost guarantees, estimated environmental remediation costs and payments under employee benefit programs. The timing of cash flows associated with these obligations is based upon management's estimates over the terms of these agreements and is largely based upon historical experience.

Commercial Commitments

(in millions of dollars)	Committed	Amount of Commitment Expiration per Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Commercial aerospace financing and rental commitments	$ 880	$ 355	$ 422	$ 8	$ 95
IAE financing arrangements	1,186	474	343	56	313
Unconsolidated subsidiary debt guarantees	148	89	—	59	—
Commercial aerospace financing arrangements	175	36	6	2	131
Commercial customer financing arrangements	85	85	—	—	—
Performance guarantees	100	41	59	—	—
Total commercial commitments	$ 2,574	$ 1,080	$ 830	$ 125	$ 539

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

Market Risk and Risk Management

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

We have evaluated our exposure to changes in foreign currency exchange rates, interest rates and commodity prices in our market risk sensitive instruments, which are primarily cash, debt and derivative instruments, using a value at risk analysis. Based on a 95% confidence level and a one-day holding period, at December 31, 2005, the potential loss in fair value on our market risk sensitive instruments was not material in relation to our financial position, results of operations or cash flows. Our calculated value at risk exposure represents an estimate of reasonably possible net losses based on volatilities and correlations and is not necessarily indicative of actual results. Refer to Notes 1, 8, 12 and 13 to the Consolidated Financial Statements for additional discussion of foreign currency exchange, interest rates and financial instruments.

FOREIGN CURRENCY EXPOSURES. We have a large volume of foreign currency exposures that result from our international sales, purchases, investments, borrowings and other international transactions. International segment revenues, including U.S. export sales, averaged approximately $22 billion over the last three years. We actively manage foreign currency exposures that are associated with committed foreign currency purchases and sales and other assets and liabilities created in the normal course of business at the operating unit level. Exposures that cannot be naturally offset within an operating unit to an insignificant amount are hedged with foreign currency derivatives. We also have a significant amount of foreign currency net asset exposures. Currently, we do not hold any derivative contracts that hedge our foreign currency net asset exposures but may consider such strategies in the future.

Our cash position includes amounts denominated in foreign currencies. We manage our worldwide cash requirements considering available funds among our many subsidiaries and the cost effectiveness with which these funds can be accessed. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences. However, those balances are generally available without legal restrictions to fund ordinary business operations. We have 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. Our 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 we issue commercial paper, which exposes us to changes in interest rates.

COMMODITY PRICE EXPOSURES. We are exposed to volatility in the prices of raw materials used in some of our products and use 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 affects earnings.

Environmental Matters

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

We have identified approximately 543 locations, mostly in the United States, at which we may have some liability for remediating contamination. We do not believe that any individual location's exposure will have a material effect on the results of our operations. Sites in the investigation or remediation stage represent approximately 93% of our accrued environmental liability.

We have been identified as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA or Superfund) at approximately 106 sites. The number of Superfund sites, in and of itself, does not represent a relevant measure of liability because the nature and extent of environmental concerns vary from site to site and our share of responsibility varies from sole responsibility to very little responsibility. In estimating our liability for remediation, we consider our likely proportionate share of the anticipated remediation expense and the ability of other potentially responsible parties to fulfill their obligations.

At December 31, 2005, we had $546 million reserved for environmental remediation. Cash outflows for environmental remediation were $43 million in 2005, $49 million in 2004 and $32 million in 2003. We estimate that ongoing environmental remediation expenditures in each of the next two years will not exceed $65 million.

Government Matters

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

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

In addition, and as previously disclosed, the U.S. Department of Justice (DoJ) sued us in 1999 under the civil False Claims Act and other theories related to the "Fighter Engine Competition" between Pratt & Whitney's F100 engine and GE's F110 engine. The DoJ alleges that the government overpaid for engines because Pratt & Whitney inflated certain costs and withheld data. The government claims damages of $624 million. We believe this estimate is substantially overstated, deny any liability and are vigorously defending the matter. Trial of this matter was completed in December 2004, and a decision is expected in 2006. This matter is described in Note 15 to the Consolidated Financial Statements.

Should the U.S. government ultimately prevail with respect to either of the foregoing government contracting matters, the outcome could result in a material effect on our results of operations in the period in which a liability would be recognized or cash flows for the period in which damages would be paid. However, we believe that the resolution of these matters will not have a material adverse effect on our results of operations, competitive position, cash flows or financial condition.

As previously reported, the European Commission's Directorate (the "EU Commission") conducted inspections in early 2004 at offices of our Otis subsidiary in Berlin, Brussels, Luxembourg and Paris relating to an investigation of possible unlawful collusive arrangements involving the European elevator and escalator industry. Based on the result of our own internal investigation, we believe that some of Otis' employees engaged in activities at a local level in Belgium, Luxembourg, The Netherlands and Germany in violation of Otis and UTC policies and European competition law. On October 13, 2005, we received a Statement of Objections from the EU Commission relating to this investigation. The Statement of Objections, an administrative complaint, alleges infringements of EU competition rules by certain elevator companies, including Otis, in Belgium, Luxembourg, The Netherlands and Germany. We are carefully reviewing the Statement of Objections and will respond timely to the EU Commission. As we have from the start, we continue to cooperate fully with the EU Commission. As previously disclosed, we believe it is still too early in the EU Commission's investigation for us to reasonably estimate the range of civil fines to which we or Otis would likely be subject. The aggregate amount of such fines, if ultimately imposed, could be material to our operating results for the period in which the liability would be recognized or cash flows for the period in which the fines would be paid. We do not believe that any such fines would have a material adverse effect on our financial condition, or that the resolution of this matter would have a material adverse effect on Otis' competitive position.

Additional discussion of our environmental, U.S. Government contract matters, product performance and other contingent liabilities is included in “Critical Accounting Estimates” and Notes 1, 14 and 15 to the Consolidated Financial Statements. For additional discussion of our legal proceedings, see Item 3, “Legal Proceedings,” in our 2005 Form 10-K.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (SFAS 123(R)). We elected to adopt the standard as of January 1, 2005 as permitted by the early adoption provisions in the standard. We utilized the modified retrospective transition alternative in 2005 and restated our financial statements for all periods presented.

Financial Accounting Standards Board (FASB) Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)” was issued in March 2005. This Interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This Interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. We have determined that conditional legal obligations exist for certain of our worldwide owned and leased facilities related primarily to building materials. We adopted the provision of this Interpretation on December 31, 2005 and recorded a non-cash transition impact of $95 million, net of taxes, which is reported as a Cumulative Effect of a Change in Accounting Principle, Net of Tax in the Statement of Operations, and a liability for conditional asset retirement obligations of approximately $160 million. The adoption of this Interpretation will not have a material impact on our future cash flows or operating results. See Note 1 to the Consolidated Financial Statements for additional discussion of the effects of adopting this 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 our future operating and financial performance, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as "believe," "expect," "plans," "strategy," "prospects," "estimate," "project," "target," "anticipate" and other words of similar meaning in connection with a discussion of future operating or financial performance. These include, among others, statements relating to:

- Future earnings and other measurements of financial performance
- Future cash flow and uses of cash
- The effect of economic downturns or growth in particular regions
- The effect of changes in the level of activity in particular industries or markets
- The availability and cost of materials, components, services and supplies
- The scope, nature or impact of acquisition activity and integration into our businesses
- Product developments and new business opportunities
- Restructuring costs and savings
- The effective negotiation of collective bargaining agreements
- 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 our reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission from time to time. Our Annual Report on Form 10-K for 2005 includes important information as to these factors in the "Business" section under the headings "General", "Description of Business by Segment" and "Other Matters Relating to our Business as a Whole" and in the "Risk Factors" and "Legal Proceedings" sections.

Management's Report on Internal Control Over Financial Reporting

The management of UTC is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of UTC's internal control over financial reporting as of December 31, 2005. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *Internal Control – Integrated Framework.* Management concluded that based on its assessment, UTC's internal control over financial reporting was effective as of December 31, 2005. UTC management's assessment of the effectiveness of UTC's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on page 19.

/s/ George David

George David
Chairman and Chief Executive Officer

/s/ James E. Geisler

James E. Geisler
Vice President, Finance

/s/ Gregory J. Hayes

Gregory J. Hayes
Vice President, Accounting & Control

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of United Technologies Corporation's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions on United Technologies Corporation's 2005, 2004 and 2003 consolidated financial statements and on its internal control over financial reporting as of December 31, 2005, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of changes in shareowners' equity present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 of the consolidated financial statements, as of December 31, 2005, the Corporation has recognized conditional asset retirement obligations to conform with the provisions of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Corporation maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control — Integrated Framework* issued by the COSO. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Corporation's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PRICEWATERHOUSECOOPERS LLP
Hartford, Connecticut
February 9, 2006

CONSOLIDATED STATEMENT OF OPERATIONS

(in millions of dollars, except per share amounts)	2005	2004	2003
Revenues			
Product sales	**$30,641**	$26,209	$22,363
Service sales	**11,637**	10,491	8,360
Financing revenues and other income, net	**447**	745	311
	42,725	37,445	31,034
Costs and Expenses			
Cost of products sold	**23,320**	20,404	17,105
Cost of services sold	**7,615**	6,838	5,426
Research and development	**1,367**	1,267	1,040
Selling, general and administrative	**5,241**	4,635	3,816
Operating Profit	**5,182**	4,301	3,647
Interest	**498**	363	375
Income before income taxes and minority interests	**4,684**	3,938	3,272
Income taxes	**1,253**	1,031	868
Minority interests in subsidiaries' earnings	**267**	234	168
Income before cumulative effect of a change in accounting principle	**3,164**	2,673	2,236
Cumulative effect of a change in accounting principle, net of tax (Note 1)	**95**	—	—
Net Income	**$ 3,069**	$ 2,673	$ 2,236
Earnings per Share of Common Stock			
Basic:			
Income before cumulative effect of a change in accounting principle	**$ 3.19**	$ 2.69	$ 2.33
Cumulative effect of a change in accounting principle	**$ 0.09**	$ —	$ —
Net income	**$ 3.10**	$ 2.69	$ 2.33
Diluted:			
Income before cumulative effect of a change in accounting principle	**$ 3.12**	$ 2.64	$ 2.22
Cumulative effect of a change in accounting principle	**$ 0.09**	$ —	$ —
Net income	**$ 3.03**	$ 2.64	$ 2.22

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

(in millions of dollars, except per share amounts— shares in thousands)	2005	2004
Assets		
Cash and cash equivalents	**$ 2,247**	$ 2,265
Accounts receivable (net of allowance for doubtful accounts of $318 and $368)	**7,240**	6,315
Inventories and contracts in progress	**5,659**	5,078
Future income tax benefits	**1,427**	1,441
Other current assets	**633**	571
Total Current Assets	**17,206**	15,670
Customer financing assets	**1,152**	1,090
Future income tax benefits	**719**	1,382
Fixed assets	**5,623**	5,231
Goodwill	**13,007**	10,111
Intangible assets	**3,059**	2,016
Other assets	**5,159**	4,941
Total Assets	**$45,925**	$40,441
Liabilities and Shareowners' Equity		
Short-term borrowings	**$ 1,612**	$ 1,320
Accounts payable	**3,820**	3,490
Accrued liabilities	**9,220**	8,245
Long-term debt currently due	**693**	40
Total Current Liabilities	**15,345**	13,095
Long-term debt	**5,935**	4,231
Future pension and postretirement benefit obligations	**2,813**	4,595
Other long-term liabilities	**4,063**	3,344
Total Liabilities	**28,156**	25,265
Commitments and Contingent Liabilities (Notes 4 and 15)		
Minority interests in subsidiary companies	**778**	910
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 1,339,444 and 1,328,840 shares	**8,793**	8,106
Treasury Stock 325,591 and 306,644 common shares at cost	**(7,418)**	(6,312)
Retained earnings	**16,051**	13,880
Unearned ESOP shares	**(241)**	(256)
Accumulated other non-shareowners' changes in equity:		
Foreign currency translation	**20**	210
Minimum pension liability	**(344)**	(1,549)
Other	**130**	187
Total Accumulated Other Non-Shareowners' Changes in Equity	**(194)**	(1,152)
Total Shareowners' Equity	**16,991**	14,266
Total Liabilities and Shareowners' Equity	**$45,925**	$40,441

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions of dollars)	2005	2004	2003
Operating Activities			
Net income	**$ 3,069**	$ 2,673	$ 2,236
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	**984**	978	799
Deferred income tax provision	**262**	196	212
Minority interests in subsidiaries' earnings	**267**	234	168
Stock compensation cost	**153**	169	198
Change in:			
Accounts receivable	**(830)**	(368)	(46)
Inventories and contracts in progress	**(430)**	(106)	193
Other current assets	**(39)**	15	(34)
Accounts payable and accrued liabilities	**862**	372	(57)
Voluntary contributions to global pension plans	**(663)**	(906)	(994)
Other, net	**699**	339	152
Net Cash Provided by Operating Activities	**4,334**	3,596	2,827
Investing Activities			
Capital expenditures	**(929)**	(795)	(530)
Increase in customer financing assets	**(285)**	(309)	(458)
Decrease in customer financing assets	**215**	258	225
Business acquisitions	**(4,063)**	(1,075)	(1,097)
Dispositions of businesses	**308**	27	15
Other, net	**105**	132	84
Net Cash Used in Investing Activities	**(4,649)**	(1,762)	(1,761)
Financing Activities			
Issuance of long-term debt	**2,373**	—	—
Repayment of long-term debt	**(504)**	(535)	(1,092)
Increase in short-term borrowings	**237**	577	286
Common Stock issued under employee stock plans	**282**	343	277
Dividends paid on Common Stock	**(832)**	(660)	(533)
Repurchase of Common Stock	**(1,181)**	(992)	(401)
Dividends to minority interests and other	**(40)**	(32)	(185)
Net Cash Provided by (Used in) Financing Activities	**335**	(1,299)	(1,648)
Effect of foreign exchange rate changes on Cash and cash equivalents	**(38)**	107	125
Net (decrease) increase in Cash and cash equivalents	**(18)**	642	(457)
Cash and cash equivalents, beginning of year	**2,265**	1,623	2,080
Cash and cash equivalents, end of year	**$ 2,247**	$ 2,265	$ 1,623
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	**$ 509**	$ 522	$ 372
Income taxes paid, net of refunds	**$ 932**	$ 758	$ 378
Non-cash investing and financing activities include:			
The 2003 conversion of the ESOP convertible preferred shares of $698 into Common Shares			
The 2005 Treasury Stock contribution of $157 to domestic defined benefit pension plans			

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, 2002	$ 6,098	$(4,951)	$10,387	$ —	$ (2,977)	$ 607
Common Stock issued under employee plans (15.8 million shares), including tax benefit of $111	611	17	(104)	1		
Common Stock — ESOP conversion (85.0 million shares)	698			(274)		
Common Stock repurchased (11.8 million shares)		(401)				
Dividends on Common Stock ($0.57 per share)			(533)			
Dividends on ESOP Preferred and Common Stock ($3.60 and $ 0.18 per share, respectively)			(33)			
Non-Shareowners' Changes in Equity:						
Net income			2,236			$ 2,236
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	$ 7,407	$(5,335)	$11,953	$ (273)	$ (1,799)	$ 3,414
Common Stock issued under employee plans (15.8 million shares), including tax benefit of $141	699	15	(51)	17		
Common Stock repurchased (21.8 million shares)		(992)				
Dividends on Common Stock ($0.70 per share)			(660)			
Dividends on ESOP Common Stock ($0.70 per share)			(35)			
Non-Shareowners' Changes in Equity:						
Net income			2,673			$ 2,673
Foreign currency translation adjustments					514	514
Minimum pension liability adjustments, net of income taxes of $46					32	32
Unrealized holding gain on marketable equity securities, net of income taxes of $57					91	91
Unrealized cash flow hedging gain, net of income taxes of $7					10	10
December 31, 2004	$ 8,106	$(6,312)	$13,880	$ (256)	$ (1,152)	$ 3,320
Common Stock issued under employee plans (11.2 million shares), including tax benefit of $59	592	13	(25)	15		
Common Stock contributed to defined benefit pension plans (3.0 million shares)	95	62				
Common Stock repurchased (22.6 million shares)		(1,181)				
Dividends on Common Stock ($0.88 per share)			(832)			
Dividends on ESOP Common Stock ($0.88 per share)			(41)			
Non-Shareowners' Changes in Equity:						
Net income			3,069			$ 3,069
Foreign currency translation adjustments					(190)	(190)
Minimum pension liability adjustments, net of income taxes of $711					1,205	1,205
Unrealized holding gain on marketable equity securities, including tax benefit of $32					(49)	(49)
Unrealized cash flow hedging gain, including tax benefit of $ 2					(8)	(8)
December 31, 2005	$ 8,793	$(7,418)	$16,051	$ (241)	$ (194)	$ 4,027

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

[note 1] Summary of Accounting Principles

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

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

CONSOLIDATION. The Consolidated Financial Statements include the accounts of UTC and our controlled subsidiaries. Intercompany transactions have been eliminated.

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

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

(in millions of dollars)	2005	2004
Retainage	**$117**	$ 67
Unbilled receivables	**$537**	$454

Retainage represents amounts that, 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 that we do not intend to trade are classified as available for sale and carried at fair value. Unrealized holding gains and losses are recorded as a separate component of shareowners' equity, net of deferred income taxes.

INVENTORIES AND CONTRACTS IN PROGRESS. Inventories and contracts in progress are stated at the lower of cost or estimated realizable value and are primarily based on first-in, first-out (FIFO) or average cost methods; however, certain subsidiaries use the last-in, first-out (LIFO) method. If inventories that were valued using the LIFO method had been valued under the FIFO method, they would have been higher by $137 million and $114 million at December 31, 2005 and 2004, respectively.

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

Manufacturing costs are allocated to current production and firm contracts.

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

GOODWILL AND OTHER INTANGIBLE ASSETS. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized. All other intangible assets are amortized over their estimated useful lives. Goodwill and indefinite-lived intangible assets are subject to annual impairment testing using the guidance and criteria described in Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets". This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value. During 2005, we were not required to record any impairment on goodwill or indefinite-lived intangibles.

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

INCOME TAXES. We have exposures related to tax filings in the ordinary course of business. We periodically assess our liabilities and contingencies for all tax years under audit based upon the latest information available. For those matters where it is probable that an adjustment will be asserted, we have recorded our best estimate of tax liability, including related interest charges, in our Consolidated Financial Statements.

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

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

Losses, if any, on contracts are provided for when anticipated. Loss provisions on original equipment contracts are recognized to the extent that estimated inventoriable manufacturing, engineering, estimated product warranty and product

performance guarantee costs exceed the projected revenue from the products contemplated under the contractual arrangement. Products contemplated under the contractual arrangement include products purchased under the contract and, in the aerospace business, required replacement parts that are purchased separately and subsequently for incorporation into the original equipment. Revenue projections used in determining contract loss provisions are based upon estimates of the quantity, pricing and timing of future product deliveries. Losses are recognized on shipment to the extent that inventoriable manufacturing costs, estimated warranty costs and product performance guarantee costs exceed revenue realized. Contract accounting requires estimates of future costs over the performance period of the contract as well as estimates of award fees and other sources of revenue. These estimates are subject to change and result in adjustments to margins on contracts in progress. The extent of progress toward completion on our long-term commercial aerospace equipment and helicopter contracts is measured using units of delivery. In addition, we use the cost-to-cost method for development contracts in the aerospace businesses and for elevator and escalator sales, 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. We review our cost estimates on significant contracts on a quarterly basis, and for others, no less frequently than annually, or when circumstances change and warrant a modification to a previous estimate. Adjustments to contract loss provisions are recorded in earnings upon identification.

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

Revenues from engine programs under collaboration agreements are recorded as earned and the collaborator share of revenue is recorded as a reduction of revenue at that time. The collaborator share of revenues under Pratt & Whitney’s engine programs was approximately $664 million, $583 million and $542 million for 2005, 2004 and 2003, respectively. Costs associated with engine programs under collaboration agreements are expensed as incurred. The collaborator share of program costs is recorded as a reduction of the related expense item at that time.

RESEARCH AND DEVELOPMENT. Research and development costs not specifically covered by contracts and those related to the company sponsored share of research and development activity in connection with cost-sharing arrangements are charged to expense as incurred. Government research and development support, not associated with specific contracts, is recorded as a reduction to research and development expense in the period earned. Repayment, if any, is in the form of future royalties and is conditioned upon the achievement of certain program targets.

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

HEDGING ACTIVITY. We use derivative instruments, including swaps, forward contracts and options, to manage certain foreign currency, interest rate and commodity price exposures. Derivative instruments are viewed as risk management tools by us and are not used for trading or speculative purposes. Derivatives used for hedging purposes 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, we consider our likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. Liabilities with fixed or reliably determinable future cash payments are discounted. Accrued environmental liabilities are not reduced by potential insurance reimbursements.

ASSET RETIREMENT OBLIGATIONS. Financial Accounting Standards Board (FASB) Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations (an interpretation of FASB Statement No. 143)” was issued in March 2005. This Interpretation provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. This Interpretation requires that the fair value of a liability for a conditional asset retirement obligation be recognized in the period in which it occurred if a reasonable estimate of fair value can be made. We have determined that conditional legal obligations exist for certain of our worldwide owned and leased facilities related primarily to building materials. We adopted this Interpretation on December 31, 2005 and recorded a non-cash transition impact of $95 million, net of taxes, which is reported as a Cumulative Effect of a Change in Accounting Principle, Net of Tax in the Statement of Operations, and a liability for conditional asset retirement obligations of approximately $160 million.

The following table illustrates the effect on net income and earnings per share as if this Interpretation had been applied during the periods presented:

(in millions of dollars, except per share amounts)	Year Ended December 31, 2005	2004	2003
Net income, as reported	**$3,164**	$2,673	$2,236
Less: Total depreciation and interest accretion costs, net of tax	**(7)**	(7)	(6)
Pro forma net income	**$3,157**	$2,666	$2,230
Earnings per share:			
Basic – as reported	**$ 3.19**	$ 2.69	$ 2.33
Basic – pro forma	**$ 3.19**	$ 2.69	$ 2.33
Diluted – as reported	**$ 3.12**	$ 2.64	$ 2.22
Diluted – pro forma	**$ 3.11**	$ 2.64	$ 2.22

[note 2] Business Acquisitions, Goodwill and Intangible Assets

BUSINESS ACQUISITIONS. Our investments in businesses in 2005, 2004 and 2003 totaled $4.6 billion, $1.3 billion and $2.3 billion, including debt assumed of $523 million, $220 million and $1.2 billion, respectively.

The 2005 investments in businesses include Kidde plc for $2.6 billion, Rocketdyne Power & Propulsion for $700 million, Lenel Systems International, Inc. for $440 million and acquisition of the remaining minority interest in Otis LG Elevator Company for $315 million.

On April 1, 2005, we completed the acquisition of Kidde, a global provider of fire and safety products and services, including aircraft fire protection systems to commercial, industrial, aerospace and retail customers. The purchase price of $3.1 billion included approximately $520 million of debt assumed net of approximately $150 million of cash acquired. In December 2004, we announced our offer to purchase 100% of the outstanding shares of Kidde. We purchased an initial interest of slightly less than 20% of the outstanding shares of Kidde in 2004 for approximately $450 million. Payment for the remaining outstanding shares of Kidde was completed in the second quarter of 2005, and we assumed control. The following table summarizes the estimated fair values of assets acquired and liabilities assumed from Kidde as of April 1, 2005, the effective date of the acquisition:

(in millions of dollars)	
Current assets	$ 942
Property, plant and equipment	201
Intangible assets	966
Goodwill	2,046
Other assets	56
Total assets acquired	$4,211
Accounts payable and accrued liabilities	$ 465
Long-term debt and short-term borrowings	523
Deferred taxes	389
Pension and postretirement obligations	100
Other liabilities	43
Total liabilities assumed	$1,520
Net assets acquired	$2,691

In connection with the acquisition of Kidde, we recorded $966 million of identifiable intangible assets. The Kidde trademark, valued at $132 million, was assigned an indefinite life. The amortized intangible assets and the weighted average amortization periods are as follows: trademarks - $73 million (15 years), customer relationships - $696 million (3-32 years) and completed technology - $65 million (10 years).

Beginning in the second quarter of 2005, Kidde's aircraft fire protection systems business was included in our Hamilton Sundstrand segment, while Kidde's industrial fire protection and residential and commercial fire safety businesses were consolidated with Chubb in the newly named UTC Fire & Security segment.

Rocketdyne was acquired on August 2, 2005 for a purchase price of $700 million in cash. Rocketdyne is a leader in sophisticated aerospace propulsion systems including the space shuttle main engine and engines used on the Delta rocket programs. We recorded approximately $439 million of goodwill and $87 million of intangible assets in connection with this acquisition. The addition of Rocketdyne

strengthens our core space propulsion, power and exploration business by increasing product breadth and leveraging complementary technologies. The Rocketdyne business is being integrated into our existing space propulsion, space power and energy businesses within the Pratt & Whitney and Hamilton Sundstrand segments.

In May 2005, we completed the acquisition of Lenel for approximately $440 million. Lenel provides software and integrated systems for the corporate and government security markets and will provide us with high-end technological access to these markets as part of UTC's Fire & Security segment. We recorded approximately $380 million of goodwill and $80 million of intangible assets in connection with this acquisition.

In October 2005, we acquired the remaining 19.9% minority interest in our joint venture, Otis LG Elevator Company for $315 million and renamed the company Otis Elevator Korea. As part of the acquisition, we recorded $168 million of goodwill and $27 million of other identifiable intangible assets.

The 2004 investments in businesses consisted of acquisitions at Carrier and the purchase of slightly less than 20% of Kidde shares for $450 million. Carrier's 2004 acquisitions include the acquisition of Linde AG's refrigeration division for $324 million, including assumed debt of $162 million. As part of the Linde acquisition, we recorded approximately $60 million of goodwill and $36 million of intangible assets. Linde is a commercial refrigeration business that has annual sales of approximately $1 billion. Its operations include manufacturing facilities in Europe, Asia and South America.

The 2003 investments in businesses includes the acquisition of Chubb plc for approximately $900 million of cash and approximately $1.1 billion of assumed debt.

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 $3.3 billion in 2005, $471 million in 2004, and $2.1 billion in 2003. The results of operations of acquired businesses have been included in the Consolidated Statement of Operations beginning as of the effective date of acquisition. The final purchase price allocation for acquisitions is subject to the finalization of the valuation of certain assets and liabilities, plans for consolidation of facilities and relocation of employees and other integration activities. As a result, preliminary amounts assigned to assets and liabilities will be subject to revision in future periods.

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

(in millions of dollars)	Balance as of January 1, 2005	Goodwill resulting from business combinations	Foreign currency translation and other	Balance as of December 31, 2005
Otis	$ 988	$ 171	$ 6	**$ 1,165**
Carrier	2,231	178	(25)	**2,384**
UTC Fire & Security	2,490	1,676	(246)	**3,920**
Pratt & Whitney	475	455	(2)	**928**
Hamilton Sundstrand	3,685	861	(185)	**4,361**
Sikorsky	154	7	—	**161**
Total Segments	10,023	3,348	(452)	**12,919**
Eliminations & Other	88	—	—	**88**
Total	$ 10,111	$ 3,348	$ (452)	**$ 13,007**

The increase in goodwill during 2005 was due primarily to the acquisition of Kidde by UTC Fire & Security and Hamilton Sundstrand, the acquisition of Rocketdyne by Pratt & Whitney and Hamilton Sundstrand, the acquisition of Lenel by UTC Fire & Security, the acquisition of the minority interest in Otis Elevator Korea and the finalization of the purchase accounting for the 2004 acquisition of Linde AG's refrigeration division by Carrier. Costs of $133 million for Linde restructuring actions were accounted for as purchase accounting adjustments. As of December 31, 2005, $122 million of severance and related costs and $5 million of facility exit and lease termination costs remain. In addition, we expect Kidde restructuring costs to be recorded through purchase accounting during 2006 as we finalize our plans for the consolidation of facilities and relocation of employees.

The foreign currency translation and other reduction in goodwill of $452 million during 2005 was due primarily to Hamilton Sundstrand's disposition of Falk ($121 million) during the second quarter, and to foreign currency translation ($310 million).

INTANGIBLE ASSETS. Identifiable intangible assets comprise the following:

(in millions of dollars)	2005 Gross Amount	2005 Accumulated Amortization	2004 Gross Amount	2004 Accumulated Amortization
Amortized:				
Purchased service contracts	**$1,126**	**$ (392)**	$ 997	$ (349)
Patents and trademarks	**315**	**(58)**	254	(44)
Other, principally customer relationships	**1,631**	**(248)**	682	(122)
	$3,072	**$ (698)**	$1,933	$ (515)
Unamortized:				
Trademarks	**$ 685**	**$ —**	$ 598	$ —

Amortization of intangible assets for the year ended December 31, 2005 was $214 million. Amortization of these intangible assets for 2006 through 2010 is expected to approximate $225 million per year.

[note 3] Earnings Per Share

(in millions of dollars, except per share amounts)	Income	Average Shares	Per Share Amount
December 31, 2005			
Income before cumulative effect of a change in accounting principle	**$3,164**	**991.2**	**$ 3.19**
Cumulative effect of a change in accounting principle, net	**(95)**	**991.2**	**(.09)**
Net income – basic	**3,069**	**991.2**	**3.10**
Income before cumulative effect of a change in accounting principle	**3,164**	**991.2**	**3.19**
Stock awards	**—**	**23.3**	
Diluted - Income before cumulative effect of a change in accounting principle	**3,164**	**1,014.5**	**3.12**
Cumulative effect of a change in accounting principle, net	**(95)**	**1,014.5**	**(.09)**
Net income – diluted	**$3,069**	**1,014.5**	**$ 3.03**
December 31, 2004			
Net income	$2,673		
Net income - basic	2,673	992.8	$ 2.69
Stock awards	—	18.0	
Net income - diluted	$2,673	1,010.8	$ 2.64
December 31, 2003			
Net income	$2,236		
Less: ESOP Stock dividends	(24)		
Net income - basic	2,212	947.6	$ 2.33
Stock awards	—	14.0	
ESOP Stock adjustment	23	44.2	
Net income – diluted	$2,235	1,005.8	$ 2.22

[note 4] Commercial Aerospace Industry Assets and Commitments

We have receivables and other financing assets with commercial aerospace industry customers totaling $2,697 million and $2,358 million at December 31, 2005 and 2004, respectively.

Customer financing assets related to commercial aerospace industry customers consist of products under lease of $602 million and notes and leases receivable of $529 million. The notes and leases receivable are scheduled to mature as follows: $75 million in 2006, $31 million in 2007, $26 million in 2008, $14 million in 2009, $13 million in 2010, and $370 million thereafter.

Financing commitments, in the form of secured debt, guarantees or lease financing, are provided to commercial aerospace customers. The extent to which the financing commitments will be utilized is not currently known, since customers may be able to obtain more favorable terms from other financing sources. We may also arrange for third-party investors to assume a portion of these commitments. If financing commitments are exercised, debt financing is generally secured by assets with fair market values equal to or exceeding the financed amounts with interest rates established at the time of funding. We 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 our lease obligation. Lastly, we have made residual value and other guarantees related to various commercial aerospace customer-financing arrangements. The estimated fair market values of the guaranteed assets equal or exceed the value of the related guarantees, net of existing reserves.

Our commercial aerospace financing and rental commitments as of December 31, 2005 were $880 million and are exercisable as follows: $355 million in 2006, $183 million in 2007, $239 million in 2008, $4 million in 2009, $4 million in 2010 and $95 million thereafter. Our financing obligations with customers are contingent upon maintenance of certain levels of financial condition by the customers.

In addition, we have residual value and other guarantees of $175 million as of December 31, 2005.

We have a 33% interest in International Aero Engines AG (IAE), an international consortium of four shareholders organized to support the V2500 commercial aircraft engine program. Our interest in IAE is accounted for under the equity method of accounting. IAE may offer customer financing in the form of guarantees, secured debt or lease financing in connection with V2500 engine sales. At December 31, 2005, IAE had financing commitments of $740 million and asset value guarantees of $73 million. Our share of IAE's financing commitments and asset value guarantees was approximately $265 million at December 31, 2005. In addition, IAE had lease obligations under long-term noncancelable leases of approximately $373 million, on an undiscounted basis, through 2020 related to aircraft, which are subleased to customers under long-term leases. These aircraft have fair market values, which approximate the financed amounts, net of reserves. The shareholders of IAE have guaranteed IAE's financing arrangements to the extent of their respective ownership interests. In the event of default by a shareholder on certain of these financing arrangements, the other shareholders would be proportionately responsible.

Total reserves related to receivables and financing assets, financing commitments and guarantees were $287 million and $284 million at December 31, 2005 and 2004, respectively.

[note 5] Inventories and Contracts in Progress

(in millions of dollars)	2005	2004
Inventories consist of the following:		
Raw material	**$ 1,000**	$ 844
Work-in-process	**1,752**	1,355
Finished goods	**2,640**	2,603
Contracts in progress	**2,971**	2,643
	8,363	7,445
Less:		
Progress payments, secured by lien, on U.S. Government contracts	**(133)**	(128)
Billings on contracts in progress	**(2,571)**	(2,239)
	$ 5,659	$ 5,078

Raw materials, work-in-process and finished goods are net of valuation reserves of $391 million and $675 million as of December 31, 2005 and 2004, respectively. The reduction in net valuation reserves is the result of a program undertaken to scrap excess and obsolete inventories.

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

Our sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months. At December 31, 2005 and 2004, approximately 57% and 53%, respectively, of total inventories and contracts in progress have been acquired or manufactured under such long-term contracts, a portion of which is not scheduled for delivery within the next twelve months.

[note 6] Fixed Assets

(in millions of dollars)	Estimated Useful Lives	2005	2004
Land		**$ 356**	$ 240
Buildings and improvements	20-40 years	**4,331**	4,143
Machinery, tools and equipment	3-20 years	**8,060**	7,959
Other, including under construction		**581**	394
		13,328	12,736
Accumulated depreciation		**(7,705)**	(7,505)
		$ 5,623	$ 5,231

Depreciation expense was $709 million in 2005, $793 million in 2004 and $677 million in 2003.

[note 7] Accrued Liabilities

(in millions of dollars)	2005	2004
Advances on sales contracts and service billings	**$2,642**	$2,208
Accrued salaries, wages and employee benefits	**1,623**	1,627
Litigation and contract matters	**862**	823
Service and warranty	**478**	465
Income taxes payable	**545**	351
Accrued restructuring costs	**269**	380
Other	**2,801**	2,391
	$9,220	$8,245

[note 8] Borrowings and Lines of Credit

Short-term borrowings consist of the following:

(in millions of dollars)	2005	2004
Domestic borrowings	**$ 5**	$ 14
Foreign bank borrowings	**548**	302
Commercial paper	**1,059**	1,004
	$1,612	$1,320

The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 2005 and 2004 were 5.2% and 3.3%, respectively. At December 31, 2005, approximately $1.6 billion was available under short-term lines of credit with local banks at our various domestic and international subsidiaries.

At December 31, 2005, we had credit commitments from banks totaling $1.5 billion under a revolving credit agreement, which serves as a back-up facility for the issuance of commercial paper. There were no borrowings under this revolving credit agreement at December 31, 2005. An additional $2.5 billion revolving credit agreement established in 2004 was voluntarily terminated during 2005.

In April 2005, we issued $2.4 billion of long-term debt, the proceeds of which were used primarily to support the funding of the Kidde acquisition. The long-term debt is comprised of three series of notes as follows:

(in millions of dollars)

Principal	Rate	Maturity
$ 600	4.375%	May 1, 2010
$ 1,200	4.875%	May 1, 2015
$ 600	5.400%	May 1, 2035

Total long-term debt consists of the following:

(in millions of dollars)	Weighted Average Interest Rate	Maturity	2005	2004
Notes and other debt denominated in:				
U.S. dollars	6.2%	2006-2035	**$6,455**	$4,063
Foreign currency	5.1%	2006-2019	**42**	44
ESOP debt	7.7%	2006-2009	**131**	164
			6,628	4,271
Less: Long-term debt currently due			**693**	40
			$5,935	$4,231

Principal payments required on long-term debt for the next five years are: $693 million in 2006, $41 million in 2007, $38 million in 2008, $437 million in 2009, and $1,103 million in 2010.

We entered into $200 million of interest rate contracts in 2004, 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. We did not enter into any additional contracts in 2005.

At December 31, 2005, up to approximately $2 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 26% and 34% at December 31, 2005 and 2004, respectively.

[note 9] Taxes on Income

(in millions of dollars)	2005	2004	2003
Current:			
United States:			
Federal	**$ 230**	$ 149	$ 97
State	**64**	48	44
Foreign	**697**	638	515
	991	835	656
Future:			
United States:			
Federal	**135**	283	251
State	**6**	(40)	(80)
Foreign	**121**	(47)	41
	262	196	212
Income tax expense	**$1,253**	$1,031	$ 868
Attributable to items (charged) credited to equity and goodwill	**$ (597)**	$ 109	$(270)

Future income taxes represent the tax effects of transactions, which are reported in different periods for tax and financial reporting purposes. These amounts consist of the tax effects of temporary differences between the tax and financial reporting balance sheets and tax carryforwards. Pursuant to SFAS 109, current and non-current future income tax benefits and payables within the same tax jurisdiction are generally offset for presentation in the Consolidated Balance Sheet.

The tax effects of net temporary differences and tax carryforwards which gave rise to future income tax benefits and payables at December 31, 2005 and 2004 are as follows:

(in millions of dollars)	2005	2004
Future income tax benefits:		
Insurance and employee benefits	**$ 576**	$1,029
Other asset basis differences	**420**	283
Other liability basis differences	**780**	1,203
Tax loss carryforwards	**444**	387
Tax credit carryforwards	**422**	388
Valuation allowance	**(496)**	(467)
	$2,146	$2,823
Future income taxes payable:		
Fixed assets	**$ 472**	$ 103
Other items, net	**678**	600
	$1,150	$ 703

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 $496 million, $264 million was established in purchase accounting, relating primarily to the purchase of Chubb. Subsequently recognized tax benefits associated with a valuation allowance recorded in a business combination will be recorded as an adjustment to goodwill.

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

(in millions of dollars)	2005	2004	2003
United States	**$1,936**	$1,808	$1,414
Foreign	**2,748**	2,130	1,858
	$4,684	$3,938	$3,272

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

The American Jobs Creation Act, signed into law in October of 2004, provided an opportunity in 2005 to repatriate up to $500 million of reinvested foreign earnings and to claim an 85% dividend received deduction against the repatriated amount. We evaluated the potential effects of the repatriation provision and determined not to repatriate earnings under this provision.

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

	2005	2004	2003
Statutory U.S. federal income tax rate	**35.0%**	35.0%	35.0%
Tax on international activities including exports	**(4.9)**	(7.9)	(4.1)
Benefit of prior period foreign tax credits	**(2.9)**	—	—
Impact of noncore business transactions	**(0.4)**	—	(4.1)
Tax audit settlements	**(1.4)**	(1.9)	—
Other	**1.4**	1.0	(0.3)
Effective income tax rate	**26.8%**	26.2%	26.5%

The effective tax rate for 2005, 2004 and 2003 reflects the tax benefit associated with the lower tax rate on international earnings, which we intend to permanently reinvest outside the United States. The 2005 effective rate reflects a benefit of approximately $135 million related to an amended return, filed in 2005, which claimed credits for 2003 foreign taxes previously recognized as deductions.

The 2005 effective tax rate reflects a tax benefit of $19 million associated with noncore business divestitures. We recognized a tax cost related to the tax gain from the sale of a Hamilton Sundstrand division and tax benefits related to tax losses from the sale of a Carrier refrigeration operation and from the liquidation and sale of a Pratt & Whitney subsidiary. The third-party sales did not result in significant pretax gains or losses for financial reporting purposes.

In 2005, the Internal Revenue Service (IRS) substantially completed its examination of tax years 1994 through 1999 and commenced its examination of tax years 2000 through 2003. The 2005 effective tax rate reflects an approximately $66 million reduction in tax expense primarily as a result of the reevaluation of our liabilities and contingencies in light of the completion and commencement of exam cycles. The 2004 effective tax rate reflects an approximately $80 million reduction in tax expense as a result of a settlement with the IRS and final review by the U.S. Congress Joint Commission on Taxation with respect to claims and other disputed items related to the 1986 to 1993 tax years.

The 2003 rate also benefited from a $448 million tax loss associated with a noncore business (4.1%) substantially offset by a reduced benefit (4.0%) from international activities attributable to recognition of foreign taxes as deductions and not credits for U.S. income tax purposes. The tax loss was attributable to a worthless stock deduction we were entitled to in 2003, relating primarily to a diminution in value of our subsidiary, International Comfort Products, USA (ICP, USA) and other events that fixed the loss in 2003, which included the transfer of certain of ICP, USA's assets to Carrier and the sale of ICP, USA to a third party. The third party sale of the ICP, USA assets did not result in a significant loss for financial accounting purposes.

Tax credit carryforwards, principally state and federal, at December 31, 2005 were $536 million, of which $228 million expire as follows: $18 million expire from 2006 – 2010, $121 million from 2011 – 2015, and $89 million from 2016 – 2025.

Tax loss carryforwards, principally state and foreign, at December 31, 2005 were $2,106 million, of which $1,070 million expire as follows: $261 million from 2006-2010, $59 million from 2011-2015, and $750 million from 2016-2025.

[note 10] Employee Benefit Plans

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

EMPLOYEE SAVINGS PLANS. We and certain of our subsidiaries sponsor various employee savings plans. Our contributions to employer sponsored defined contribution plans were $165 million, $145 million and $122 million for 2005, 2004 and 2003, respectively.

Our non-union domestic employee savings plan uses an Employee Stock Ownership Plan (ESOP) for employer contributions. External borrowings, guaranteed by us 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 us. On November 6, 2003, the Trustee and us effected the conversion of all 10.6 million outstanding shares of ESOP Preferred Stock into 85 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 us at any time for $65 per share. Because of its guaranteed value, the ESOP Preferred Stock was classified outside of Shareowners' Equity. In the December 31, 2003 balance sheet, Common Stock held by the ESOP and committed to employees is classified as permanent equity because it no longer has a guaranteed value. Common Stock held by the ESOP is included in the average number of Common Shares outstanding for both basic and diluted earnings per share.

Shares of Common Stock are allocated to employees' ESOP accounts at fair value on the date earned. Cash dividends on Common Stock held by the ESOP are used for debt service payments. Participants receive additional shares in lieu of cash dividends. As ESOP debt service payments are made, Common Stock is released from an unreleased shares account. ESOP debt may be prepaid or re-amortized to either increase or decrease the number of shares released so that the value of released shares equals the value of plan benefit. We may also, at our option, contribute additional Common Stock or cash to the ESOP. At December 31, 2005, 46.1 million common shares had been allocated to employees, leaving 29.5 million unallocated common shares in the ESOP Trust, with an approximate fair value of $1.6 billion.

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

We use a November 30 measurement date for a majority of our pension plans.

(in millions of dollars)	2005	2004
Change in Benefit Obligation:		
Beginning balance	**$18,811**	$17,226
Service cost	**389**	347
Interest cost	**1,101**	1,032
Actuarial loss	**1,238**	629
Total benefits paid	**(1,059)**	(1,009)
Net settlement and curtailment gain	**(44)**	(25)
Acquisitions	**746**	236
Other	**(245)**	375
Ending balance	**$20,937**	$18,811
Change in Plan Assets:		
Beginning balance	**$15,672**	$13,498
Actual return on plan assets	**2,090**	1,872
Employer contributions	**865**	1,016
Benefits paid from plan assets	**(992)**	(958)
Acquisitions	**665**	63
Other	**(169)**	181
Ending balance	**$18,131**	$15,672
Funded status	**$ (2,806)**	$ (3,139)
Unrecognized net actuarial loss	**5,036**	4,791
Unrecognized prior service cost	**242**	244
Unrecognized net transition obligation	**14**	17
Net amount recognized	**$ 2,486**	$ 1,913
Amounts Recognized in the Consolidated Balance Sheet Consist of:		
Prepaid benefit cost	**$ 3,152**	$ 2,756
Accrued benefit cost	**(1,275)**	(3,377)
Intangible assets	**65**	75
Accumulated other non-shareowners' changes in equity	**544**	2,459
Net amount recognized	**$ 2,486**	$ 1,913

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.

Qualified domestic pension plan benefits comprise approximately 73% of the projected benefit obligation. Benefits for union employees are generally based on a stated amount for each year of service. For nonunion employees, benefits are generally based on an employee's years of service and compensation near retirement. A cash balance formula was adopted in 2003 for newly hired nonunion employees and for other nonunion employees who made a one-time voluntary election to have future benefit accruals determined under this formula. Certain foreign plans, which comprise approximately 25% of the projected benefit obligation, are considered defined benefit plans for accounting purposes. Nonqualified domestic pension plans provide supplementary retirement benefits to certain employees and are not a material component of the projected benefit obligation.

During 2005 and 2004, we voluntarily contributed cash of $663 million and $906 million, respectively, to our defined benefit pension plans.

(in millions of dollars)	2005	2004
Decrease in minimum pension liability included in comprehensive income (net of tax)	**$(1,205)**	$(32)

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

(in millions of dollars)	2005	2004
Projected benefit obligation	**$5,664**	$15,455
Accumulated benefit obligation	**4,863**	13,942
Fair value of plan assets	**3,653**	12,151

During 2005, the additional voluntary contributions and better-than-projected investment returns on plan assets, resulted in the full funding of the nonrepresented domestic plan's accumulated benefit obligation. As a result, there was a substantial decrease in the accumulated other comprehensive income balance as noted in the above table. Additionally, with the fully funded status, the total obligation and fair value of assets has been removed from the summary of information on plans with accumulated benefit obligations in excess of plan assets resulting in the large decrease shown.

The accumulated benefit obligation for all defined benefit pension plans was $18.9 billion and $17.2 billion at December 31, 2005 and 2004, respectively.

The components of the Net Periodic Benefit Cost are as follows:

(in millions of dollars)	2005	2004	2003
Pension Benefits:			
Service cost	**$ 389**	$ 347	$ 293
Interest cost	**1,101**	1,032	948
Expected return on plan assets	**(1,349)**	(1,261)	(1,140)
Amortization of prior service cost	**31**	27	28
Amortization of unrecognized net transition obligation	**2**	3	2
Recognized actuarial net loss	**240**	145	49
Net settlement and curtailment loss	**3**	53	49
Net periodic pension benefit cost – employer	**$ 417**	$ 346	$ 229

Contributions to multiemployer plans were $126 million, $123 million and $76 million for 2005, 2004 and 2003, respectively.

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

	Benefit Obligation		Net Cost		
	2005	2004	2005	2004	2003
Discount rate	**5.5%**	5.9%	**5.9%**	6.1%	6.6%
Salary scale	**4.0%**	4.0%	**4.0%**	4.0%	4.4%
Expected return on plan assets	**—**	—	**8.4%**	8.3%	8.4%

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

	Target Allocation	Percentage of Plan Assets	
Asset Category	2006	2005	2004
Equity securities	67% - 75%	**71%**	72%
Debt securities	17% -25%	**21%**	20%
Real estate	1% - 9%	**4%**	4%
Other	1% - 8%	**4%**	4%
		100%	100%

Total plan assets include approximately 4% of our Common Stock at both December 31, 2005 and 2004. Assets are rebalanced to the target asset allocation at least once per calendar quarter.

Estimated Future Contributions and Benefit Payments

We expect to make voluntary contributions of up to $500 million in cash to our defined benefit pension plans in 2006. 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)

2006	2007	2008	2009	2010	2011-2015
$1,071	$1,081	$1,092	$1,103	$1,115	$ 5,757

POSTRETIREMENT BENEFIT PLANS. We and our subsidiaries also sponsor a number of postretirement benefit plans that provide health and life benefits to eligible

retirees. Such benefits are provided primarily from domestic plans, which comprise approximately 90% of the benefit obligation. The postretirement plans are primarily unfunded. The allocation of assets in funded plans is approximately 40% equity and 60% fixed income.

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

We use a November 30 measurement date for a majority of our postretirement benefit plans.

(in millions of dollars)	2005	2004
Change in Benefit Obligation:		
Beginning balance	**$ 1,001**	$ 1,065
Service cost	**7**	7
Interest cost	**59**	61
Actuarial loss (gain)	**17**	(35)
Total benefits paid	**(102)**	(98)
Net settlement and curtailment loss	**7**	6
Acquisitions	**91**	2
Other	**(1)**	(7)
Ending balance	**$ 1,079**	$ 1,001
Change in Plan Assets:		
Beginning balance	**$ 59**	$ 55
Actual return on plan assets	**4**	10
Employer contributions	**7**	2
Benefits paid from plan assets	**(9)**	(9)
Other	**(3)**	1
Ending balance	**$ 58**	$ 59
Funded status	**$(1,021)**	$ (942)
Unrecognized net actuarial gain	**(15)**	(39)
Unrecognized prior service cost	**(28)**	(65)
Net amount recognized	**$(1,064)**	$(1,046)
Amounts Recognized in the Consolidated Balance Sheet Consist of:		
Accrued benefit liability	**$(1,064)**	$(1,046)

(in millions of dollars)	2005	2004	2003
Components of Net Periodic Benefit Cost:			
Other Postretirement Benefits:			
Service cost	**$ 7**	$ 7	$ 8
Interest cost	**59**	61	64
Expected return on plan assets	**(4)**	(4)	(4)
Amortization of prior service cost	**(26)**	(23)	(21)
Net settlement and curtailment gain	**(8)**	(5)	(15)
Net periodic other postretirement benefit cost	**$ 28**	$ 36	$ 32

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		
	2005	2004	2005	2004	2003
Discount rate	**5.5%**	6.0%	**6.0%**	6.3%	6.7%
Expected return on plan assets	**—**	—	**7.4%**	7.5%	8.3%

Assumed health care cost trend rates are as follows:

	2005	2004
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	**2016**	2015

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:

	2005 One-Percentage-Point	
(in millions of dollars)	Increase	Decrease
Effect on total service and interest cost	**$ 3**	$ (3)
Effect on postretirement benefit obligation	**$ 41**	$ (38)

Estimated Future Benefit Payments

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

(in millions of dollars)

2006	2007	2008	2009	2010	2011-2015
$101	$102	$ 103	$104	$105	$ 537

STOCK-BASED COMPENSATION. We have long-term incentive plans authorizing various types of market and performance-based incentive awards that may be granted to officers and employees. Prior to April 13, 2005, our long-term incentive plan provided for the annual grant of awards in an amount not to exceed 2% of the aggregate number of shares of outstanding Common Stock, treasury shares and potential Common Stock (as determined by us in the calculation of earnings per share on a diluted basis) for the preceding year. Under the 2005 Long Term Incentive Plan (LTIP), which was approved by shareowners at our annual meeting of shareowners and became effective on April 13, 2005, a maximum of 38 million shares of common stock may be awarded and does not contain an annual award limit. We expect that the shares awarded on an annual basis will range from 1% to 1.5% of shares outstanding. The 2005 LTIP will expire after all shares have been awarded or April 30, 2010, whichever is sooner. Upon the approval of the 2005 LTIP on April 13, 2005, we may not grant any new awards under previously existing equity compensation plans. Under all long-term incentive plans, the exercise price of stock option awards is set on the grant date and may not be less than the fair market value per share on that date. Generally, awards have a term of ten years and a minimum three-year vesting schedule. In the event of retirement, awards held for more than one year shall immediately become vested and exercisable. Additionally, under the 2005 LTIP, awards with performance-based vesting will also generally be subject to a three-year performance measurement period. In the event of retirement before completion of the three-year performance measurement period, awards may remain eligible to vest. We have historically repurchased shares in an amount at least equal to the number of shares issued under our equity compensation arrangements and expect to continue this policy.

We adopted SFAS No. 123(R), “Share-Based Payment”, (SFAS No. 123(R)) as of January 1, 2005 using the modified retrospective method described in the standard. This standard requires the cost of all share-based payments, including stock options, to be measured at fair value on the grant date and recognized in the statement of operations. In accordance with the standard, all periods prior to January 1, 2005 were restated to reflect the impact of the standard as if it had been adopted on January 1, 1995, the original effective date of SFAS No. 123, “Accounting for Stock-Based

Compensation". Also in accordance with the standard, the amounts that are reported in the statement of operations for the restated periods are the pro forma amounts previously disclosed under SFAS No. 123.

For the years ended December 31, 2005, 2004 and 2003, $153 million, $169 million and $198 million, respectively, of compensation cost was recognized in operating results. The associated future income tax benefit recognized was $49 million, $54 million and $73 million for the years ended December 31, 2005, 2004 and 2003, respectively.

For the years ended December 31, 2005, 2004 and 2003, the amount of cash received from the exercise of stock options was $282 million, $343 million and $277 million, respectively, with an associated tax benefit realized of $90 million, $147 million and $79 million, respectively. Also, in accordance with SFAS No. 123(R), for the years ended December 31, 2005, 2004 and 2003, $61 million, $103 million and $48 million, respectively, of certain tax benefits have been reported as operating cash outflows with corresponding cash inflows from financing activities.

At December 31, 2005, there was $119 million of total unrecognized compensation cost related to non-vested awards granted under long-term incentive plans. This cost is expected to be recognized ratably over a weighted-average period of 1.4 years.

A summary of the transactions under all long-term incentive plans for the three years ended December 31, 2005 follows:

	Stock Options		
(shares and units in thousands)	**Shares**	**Average Price***	**Other Incentive Shares/Units**
Outstanding at:			
December 31, 2002	96,096	$26.60	1,140
Granted	13,224	31.38	94
Exercised/earned	(17,154)	18.29	(584)
Canceled	(1,986)	31.07	(6)
December 31, 2003	90,180	$28.78	644
Granted	16,148	46.68	774
Exercised/earned	(16,944)	22.05	(218)
Canceled	(1,906)	34.53	(498)
December 31, 2004	87,478	$33.26	702
Granted	11,464	51.30	128
Exercised/earned	(11,549)	26.75	(216)
Canceled	(1,607)	42.36	(28)
December 31, 2005	85,786	$36.37	586

* weighted-average exercise price

The weighted-average grant date fair value of options granted during 2005, 2004 and 2003 was $14.03, $15.44 and $10.41, respectively. The total fair value of options vested during the years ended December 31, 2005, 2004 and 2003 was $208 million, $185 million and $154 million, respectively. The total intrinsic value (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) of options exercised during the years ended December 31, 2005, 2004 and 2003 was $298 million, $397 million and $216 million, respectively.

The following table summarizes information about stock options outstanding that are expected to vest and stock options outstanding that are exercisable at December 31, 2005:

(Shares in thousands, aggregate intrinsic value in millions)

Options Outstanding Expected to Vest				Options Outstanding That Are Exercisable			
Shares	Average Price*	Aggregate Intrinsic Value	Remaining Term**	Shares	Average Price*	Aggregate Intrinsic Value	Remaining Term**
84,118	$36.13	$ 1,664	5.9	50,189	$30.95	$ 1,253	4.5

* weighted-average exercise price per share

** weighted-average contractual remaining term in years

As of January 1, 2005, the fair value of each option award is estimated on the date of grant using a binomial lattice model. Prior to January 1, 2005, the fair value of each option award was estimated on the grant date using a Black-Scholes valuation model. The following table indicates the assumptions used in estimating fair value for the years ended December 31, 2005, 2004 and 2003. Because lattice-based options models incorporate ranges of assumptions for inputs, those ranges are as follows:

	2005 (Binomial Lattice)	2004 (Black-Scholes)	2003 (Black-Scholes)
Expected volatility	**20% to 23%**	38%	39%
Weighted-average volatility	**22%**	n/a	n/a
Expected term (in years)	**7.4 to 8.5**	5	5
Expected dividends	**1.5%**	1.5%	1.8%
Risk-free rate	**2.0% to 4.3%**	3.1%	3.0%

Expected volatilities are based on the returns of our stock, including its historical volatility for the Black-Scholes valuation model and implied volatilities from traded options on our stock for the binomial lattice model. We use historical data to estimate option exercise and employee termination behavior within the valuation model. Separate employee groups and option characteristics are considered separately for valuation purposes. The expected term represents an estimate of the period of time options are expected to remain outstanding. The range provided in the above table represents expected behavior for certain groups of employees who have historically exhibited different behavior. The risk-free rate is based on the term structure of interest rates at the time of option grant.

[note 11] Restructuring

During 2005, we recorded net pretax restructuring and related charges totaling $267 million for new and ongoing restructuring actions. We recorded charges in the segments as follows: Otis $52 million, Carrier $80 million, UTC Fire & Security $21 million, Pratt & Whitney $39 million, Hamilton Sundstrand $66 million, Sikorsky $3 million and Eliminations & Other $6 million. The charges include $180 million in cost of sales, $73 million in selling, general and administrative expenses and $14 million in other income. As described below, these charges relate to actions initiated during 2005 and 2004. For a discussion of restructuring actions associated with business acquisitions, see Note 2.

2005 Actions During 2005, we initiated restructuring actions relating to cost reduction efforts, including global workforce reductions and the consolidation of manufacturing, sales and service facilities. The more significant actions relate to the consolidation of manufacturing operations at Hamilton Sundstrand, including the closure of a portion of Rockford manufacturing, and general overhead reduction efforts principally at Carrier and Otis. We recorded net pre-tax restructuring and related charges totaling $179 million, including $93 million in cost of sales, $72 million in selling, general and administrative expenses and $14 million in other income.

As of December 31, 2005, net workforce reductions of approximately 1,300 employees of an expected 3,000 employees have been completed, and 360,000 net square feet of facilities of an expected 1.7 million square feet have been exited. The remaining workforce and facility-related cost reductions are targeted for completion through 2006.

The following table summarizes the restructuring accrual balances and utilization by cost type for the 2005 programs:

(in millions of dollars)	Severance	Asset Write-downs	Facility Exit and Lease Termination Costs	Total
Net pretax charges	$ 134	$ 30	$ 15	$ 179
Utilization	(62)	(30)	(8)	(100)
Balance at December 31, 2005	**$ 72**	**$ —**	**$ 7**	**$ 79**

The following table summarizes expected, incurred and remaining costs for the 2005 programs by type:

(in millions of dollars)	Severance	Asset Write-downs	Facility Exit and Lease Termination Costs	Total
Expected costs	$ 146	$ 30	$ 85	$ 261
Costs incurred through December 31, 2005	(134)	(30)	(15)	(179)
Remaining costs at December 31, 2005	$ 12	$ —	$ 70	$ 82

The following table summarizes expected, incurred and remaining costs for the 2005 programs by segment:

(in millions of dollars)	Expected Costs	Costs Incurred through December 31, 2005	Remaining Costs at December 31, 2005
Otis	$ 57	$ (52)	$ 5
Carrier	66	(63)	3
UTC Fire & Security	21	(21)	—
Pratt & Whitney	43	(9)	34
Hamilton Sundstrand	64	(25)	39
Sikorsky	3	(3)	—
Eliminations & Other	7	(6)	1
Total	$ 261	$ (179)	$ 82

2004 Actions During 2005, we recorded net pretax restructuring and related charges in the business segments totaling $88 million for restructuring actions initiated in 2004, including $87 million in cost of sales and $1 million in selling, general and administrative expenses. The 2004 actions relate to ongoing cost reduction efforts, including global workforce reductions and the consolidation of manufacturing, sales and service facilities including Carrier's McMinnville, Tennessee, commercial air conditioning and ventilation product manufacturing facility, Otis' Stadthagen, Germany, escalator manufacturing facility and Pratt & Whitney's Space Propulsion facility located in San Jose, California.

As of December 31, 2005, net workforce reductions of approximately 5,200 employees of an expected 5,400 employees have been completed, and 3.4 million net square feet of facilities of an expected 5.7 million square feet have been exited. The remaining workforce and facility related cost reductions are targeted for completion during early 2006.

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

(in millions of dollars)	Severance	Asset Write-downs	Facility Exit and Lease Termination Costs	Total
Restructuring accruals at January 1, 2005	$ 206	$ —	$ 11	$ 217
Net pretax charges	(11)	4	95	88
Utilization	(143)	(4)	(95)	(242)
Remaining costs at December 31, 2005	$ 52	$ —	$ 11	$ 63

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

(in millions of dollars)	Severance	Asset Write-downs	Facility Exit and Lease Termination Costs	Total
Expected costs	$ 316	$ 83	$ 247	$ 646
Costs incurred through December 31, 2004	(324)	(79)	(139)	(542)
Costs incurred through December 31, 2005	11	(4)	(95)	(88)
Remaining costs at December 31, 2005	$ 3	$ —	$ 13	$ 16

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

(in millions of dollars)	Expected Costs	Costs Incurred through December 31, 2004	Costs Incurred through December 31, 2005	Remaining Costs at December 31, 2005
Otis	$ 120	$ (120)	$ —	$ —
Carrier	199	(179)	(17)	3
Pratt & Whitney	180	(149)	(30)	1
Hamilton Sundstrand	122	(70)	(41)	11
Sikorsky	10	(9)	—	1
Eliminations & Other	15	(15)	—	—
Total	$ 646	$ (542)	$ (88)	$ 16

[note 12] Foreign Exchange

We conduct business in many different currencies and, accordingly, are subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of our foreign subsidiaries are measured using the local currency as the functional currency. Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the respective balance sheet dates, and income and expense items are translated at the average exchange rates during the respective periods. The aggregate effects of translating the balance sheets of these subsidiaries are deferred as a separate component of Shareowners' Equity. At December 31, 2005, we had foreign currency net assets in more than 40 currencies, which amounted to approximately 80% of consolidated net assets.

The notional amount of foreign exchange contracts hedging foreign currency transactions was $8.4 billion and $5.7 billion at December 31, 2005 and 2004, respectively.

[note 13] Financial Instruments

We operate internationally and, in the normal course of business, are exposed to fluctuations in interest rates, foreign exchange rates and commodity prices. These fluctuations can increase the costs of financing, investing and operating the business. We manage our 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. We enter into derivative and other financial instruments with major investment grade financial institutions and have policies to monitor the credit risk of those counterparties. We limit counterparty exposure and concentration of risk by diversifying counterparties. We do not anticipate non-performance by any of these counterparties.

The non-shareowner changes in equity associated with hedging activity for the 12 months ended December 31, 2005 and 2004 were as follows:

(in millions of dollars)	2005	2004
Balance at January 1	**$ 65**	$ 55
Cash flow hedging gain, net	**42**	86
Net gain reclassified to sales or cost of products sold	**(50)**	(76)
Balance at December 31	**$ 57**	$ 65

Of the amount recorded in Shareowners' Equity, a $73 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 12 months. Gains and losses recognized in earnings related to the discontinuance or the ineffectiveness of cash flow and fair value hedges were immaterial for the years ended December 31, 2005 and 2004. At December 31, 2005, all derivative contracts accounted for as cash flow hedges mature by December 2009.

All derivative instruments are recorded on the balance sheet at fair value. At December 31, 2005 and 2004, the fair value of derivatives recorded as assets was $150 million and $165 million, respectively, and the fair value of derivatives recorded as liabilities was $56 million and $43 million, respectively. We use 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, we use derivatives, such as interest rate swaps, which are accounted for as fair value hedges.

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

(in millions of dollars)	2005 Carrying Amount	2005 Fair Value	2004 Carrying Amount	2004 Fair Value
Financial Assets and Liabilities				
Marketable equity securities	**$ 283**	**$ 283**	$ 746	$ 746
Long-term receivables	**178**	**174**	170	166
Customer financing note receivables	**502**	**478**	483	465
Short-term borrowings	**(1,612)**	**(1,612)**	(1,320)	(1,320)
Long-term debt	**(6,602)**	**(7,156)**	(4,243)	(4,941)

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 our investment in common stock that is classified as available for sale and is accounted for at fair value.

We have outstanding financing and rental commitments totaling $880 million at December 31, 2005. Risks associated with changes in interest rates on these commitments are mitigated by the fact that interest rates are variable during the commitment term and are set at the date of funding based on current market conditions, the fair value of the underlying collateral and the credit worthiness of the customers. As a result, the fair value of these financings is expected to equal the amounts funded.

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

[note 14] Guarantees

We extend a variety of financial guarantees to third parties. As of December 31, 2005 and 2004 the following financial guarantees were outstanding:

(in millions of dollars)	2005 Maximum Potential Payment	2005 Carrying Amount of Liability	2004 Maximum Potential Payment	2004 Carrying Amount of Liability
Credit facilities and debt obligations - unconsolidated subsidiaries (expire 2006 to 2010)	$ 148	$ 1	$ 160	$ 4
IAE's financing arrangements (See Note 4)	1,186	17	1,224	22
Commercial aerospace financing arrangements (See Note 4)	175	40	163	31
Commercial customer financing arrangements	85	1	61	1
Performance guarantees	100	—	111	—

We also have 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 $186 million and $156 million at December 31, 2005 and 2004, respectively. For additional information regarding the environmental indemnifications, see Note 15.

We accrue for costs associated with guarantees when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most

likely cost to be incurred is accrued based on an evaluation of currently available facts, and where no amount within a range of estimates is more likely, the minimum is accrued. In accordance with 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, we record a liability for the fair value of such guarantees in the balance sheet.

We provide service and warranty policies on our products and extend performance and operating cost guarantees beyond our normal service and warranty policies on some of our products, particularly commercial aircraft engines. In addition, we incur discretionary costs to service our products in connection with product performance issues. Liability for performance and operating cost guarantees is based upon future product performance and durability, and is estimated largely based upon historical experience. Adjustments are made to accruals as claim data and historical experience warrant. The changes in the carrying amount of service and product warranties and product performance guarantees for the years ended December 31, 2005 and 2004, are as follows:

(in millions of dollars)	2005	2004
Balance as of January 1	**$1,185**	$1,161
Warranties and guarantees issued	**463**	453
Settlements made	**(459)**	(433)
Adjustments to provision	**(6)**	4
Balance as of December 31	**$1,183**	$1,185

[note 15] Commitments and Contingent Liabilities

LEASES. We occupy space and use certain equipment under lease arrangements. Rental commitments of $1,208 million at December 31, 2005 under long-term noncancelable operating leases are payable as follows: $341 million in 2006, $257 million in 2007, $182 million in 2008, $132 million in 2009, $90 million in 2010 and $206 million thereafter. Rent expense was $299 million in 2005, $321 million in 2004 and $261 million in 2003.

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

ENVIRONMENTAL. Our operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. As described in Note 1, we have accrued for the costs of environmental remediation activities and periodically reassess these amounts. We believe that the likelihood of incurring losses materially in excess of amounts accrued is remote.

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

Our contracts with the U.S. government are also subject to audits. Like many defense contractors, we have received audit reports, which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports have involved substantial amounts. We have made voluntary refunds in those cases we believe appropriate and continue to litigate certain cases. In addition, we accrue for liabilities associated with those matters that are probable and can be reasonably estimated.

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

In addition, and as previously disclosed, the U.S. Department of Justice (DoJ) sued us in 1999 under the civil False Claims Act and other theories related to the “Fighter Engine Competition” between Pratt & Whitney’s F100 engine and GE’s F110 engine. The DoJ alleges that the Government overpaid for engines because Pratt & Whitney inflated certain costs and withheld data. The Government claims damages of $624 million. We believe this estimate is substantially overstated, deny any liability and are vigorously defending the matter. Trial of this matter was completed in December 2004 and a decision is expected in 2006.

Should the U.S. government ultimately prevail with respect to either of the foregoing government contracting matters, the outcome could result in a material effect on our results of operations in the period in which a liability would be recognized

or cash flows for the period in which damages would be paid. However, we believe that the resolution of these matters will not have a material adverse effect on our results of operations, competitive position, cash flows or financial condition.

As previously reported, the European Commission's Directorate (the "EU Commission") conducted inspections in early 2004 at offices of our Otis subsidiary in Berlin, Brussels, Luxembourg and Paris relating to an investigation of possible unlawful collusive arrangements involving the European elevator and escalator industry. Based on the result of our own internal investigation, we believe that some of Otis' employees engaged in activities at a local level in Belgium, Luxembourg, the Netherlands and Germany in violation of Otis and UTC policies and European competition law. On October 13, 2005, we received a Statement of Objections from the EU Commission relating to this investigation. The Statement of Objections, an administrative complaint, alleges infringements of EU competition rules by certain elevator companies, including Otis, in Belgium, Luxembourg, the Netherlands and Germany. We are carefully reviewing the Statement of Objections and will respond timely to the EU Commission. As we have from the start, we continue to cooperate fully with the EU Commission. As previously disclosed, we believe it is still too early in the EU Commission's investigation for us to reasonably estimate the range of civil fines to which we or Otis would likely be subject. The aggregate amount of such fines, if ultimately imposed, could be material to our operating results for the period in which the liability would be recognized or cash flows for the period in which the fines would be paid. We do not believe that any such fines would have a material adverse effect on our financial condition, or that the resolution of this matter would have a material adverse effect on Otis' competitive position.

OTHER. As described in Note 14, we extend performance and operating cost guarantees beyond our normal warranty and service policies for extended periods on some of our products. We have accrued our estimate of the liability that may result under these guarantees and for service costs, which are probable and can be reasonably estimated.

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

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

[note 16] Segment Financial Data

Our operations are classified in six principal segments. Our UTC Fire & Security segment was created in the second quarter of 2005 upon the acquisition of Kidde plc and includes our former Chubb segment and the acquired Kidde business, excluding the aircraft and fire protection systems business, which is included in the Hamilton Sundstrand segment. The segments are generally determined based on the management of the businesses and on the basis of separate groups of operating companies, each with general operating autonomy over diversified products and services.

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

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

UTC FIRE & SECURITY products and services include electronic security monitoring and rapid response systems and service, security personnel services, fire detection, protection and suppression systems and fire fighting equipment for a diversified international customer base principally in the industrial, commercial and residential property sectors.

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

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

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

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

(in millions of dollars)	Total Revenues 2005	Total Revenues 2004	Total Revenues 2003	Operating Profits 2005	Operating Profits 2004	Operating Profits 2003
Otis	**$ 9,575**	$ 8,937	$ 7,882	**$1,712**	$1,413	$1,301
Carrier	**12,512**	10,620	9,232	**1,104**	830	853
UTC Fire & Security	**4,250**	2,879	1,135	**235**	130	53
Pratt & Whitney	**9,295**	8,281	7,484	**1,449**	1,083	1,063
Hamilton Sundstrand	**4,382**	3,921	3,598	**675**	583	554
Sikorsky	**2,802**	2,506	2,184	**250**	200	190
Total segment	**42,816**	37,144	31,515	**5,425**	4,239	4,014
Eliminations & Other	**(91)**	301	(481)	**81**	368	(92)
General corporate expenses	**—**	—	—	**(324)**	(306)	(275)
Consolidated	**$42,725**	$37,445	$31,034	**$5,182**	$4,301	$3,647

(in millions of dollars)	Total Assets 2005	Total Assets 2004	Total Assets 2003	Capital Expenditures 2005	Capital Expenditures 2004	Capital Expenditures 2003	Depreciation & Amortization 2005	Depreciation & Amortization 2004	Depreciation & Amortization 2003
Otis	**$ 6,094**	$ 5,939	$ 5,572	**$ 79**	$ 79	$ 77	**$165**	$175	$154
Carrier	**9,433**	9,166	7,720	**243**	176	89	**169**	200	182
UTC Fire & Security	**7,595**	4,974	4,396	**79**	69	16	**150**	95	44
Pratt & Whitney	**9,515**	7,514	6,802	**303**	244	192	**255**	273	214
Hamilton Sundstrand	**8,986**	7,473	6,905	**137**	134	103	**149**	129	130
Sikorsky	**2,592**	1,965	1,573	**49**	46	35	**42**	42	37
Total segment	**44,215**	37,031	32,968	**890**	748	512	**930**	914	761
Eliminations & Other	**1,710**	3,410	2,706	**39**	47	18	**54**	64	38
Consolidated	**$45,925**	$40,441	$35,674	**$929**	$795	$530	**$984**	$978	$799

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

Geographic Areas

	External Revenues			Operating Profits			Long-Lived Assets		
(in millions of dollars)	2005	2004	2003	2005	2004	2003	2005	2004	2003
United States operations	**$20,505**	$18,512	$16,983	**$2,498**	$1,972	$2,031	**$2,882**	$2,540	$2,680
International operations									
Europe	**11,255**	9,389	7,143	**1,457**	1,167	949	**1,020**	1,036	888
Asia Pacific	**6,525**	5,717	4,499	**968**	781	705	**733**	758	742
Other	**4,137**	3,288	2,588	**502**	401	384	**646**	558	460
Eliminations & Other	**303**	539	(179)	**(243)**	(20)	(422)	**342**	339	310
Consolidated	**$42,725**	$37,445	$31,034	**$5,182**	$4,301	$3,647	**$5,623**	$5,231	$5,080

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)	2005	2004	2003
Europe	**$1,273**	$1,126	$1,171
Asia Pacific	**1,480**	1,309	1,145
Other	**1,371**	1,128	1,013
	$4,124	$3,563	$3,329

GEOGRAPHIC LONG-LIVED ASSETS. Long-lived assets are net fixed assets attributed to the specific geographic regions.

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

(in millions of dollars)	2005	2004	2003
Pratt & Whitney	**$3,278**	$2,990	$3,025
Hamilton Sundstrand	**868**	761	681
Sikorsky	**1,546**	1,692	1,515
Other	**60**	62	48
	$5,752	$5,505	$5,269

Selected Quarterly Financial Data (Unaudited)

(in millions of dollars, except per share amounts)	2005 Quarters				2004 Quarters			
	First	**Second**	**Third**	**Fourth**	**First**	**Second**	**Third**	**Fourth**
Sales	**$9,309**	**$10,974**	**$10,823**	**$11,172**	$8,357	$9,455	$9,248	$9,640
Gross margin	**2,494**	**2,984**	**2,932**	**2,933**	2,082	2,479	2,445	2,452
Income before cumulative effect of a change in accounting principle	**651**	**971**	**821**	**721**	551	817	693	612
Net income	**651**	**971**	**821**	**626**	551	817	693	612
Earnings per share of Common Stock:								
Basic – income before cumulative effect of a change in accounting principle	**$ .66**	**$ .98**	**$ .83**	**$ .73**	$ .55	$ .82	$ .70	$ .62
Basic – net income	**$ .66**	**$ .98**	**$ .83**	**$ .64**	$ .55	$ .82	$ .70	$ .62
Diluted – income before cumulative effect of a change in accounting principle	**$ .64**	**$ .95**	**$ .81**	**$ .71**	$ .54	$ .81	$ .68	$ .61
Diluted – net income	**$ .64**	**$ .95**	**$ .81**	**$ .62**	$ .54	$ .81	$ .68	$ .61

Comparative Stock Data

	2005			2004		
Common Stock	**High**	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First quarter	**$52.35**	**$49.03**	**$ .220**	$48.75	$42.02	$ .175
Second quarter	**$54.00**	**$48.43**	**$ .220**	$45.74	$40.75	$ .175
Third quarter	**$52.60**	**$49.20**	**$ .220**	$47.89	$44.15	$ .175
Fourth quarter	**$58.89**	**$49.29**	**$ .220**	$52.76	$44.95	$ .175

Our common stock is listed on the New York Stock Exchange. The high and low prices are based on the Composite Tape of the New York Stock Exchange. There were approximately 34,000 common shareowners of record at December 31, 2005.

BOARD OF DIRECTORS

George David
Chairman and
Chief Executive Officer
United Technologies Corporation
(Diversified Manufacturer)

John V. Faraci
Chairman and Chief Executive Officer
International Paper
(Paper, Packaging and Wood Products)

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

Jamie S. Gorelick
Partner
WilmerHale
(Law Firm)

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

Richard D. McCormick
Retired Chairman, President and
Chief Executive Officer
US West, Inc.
(Telecommunications)

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

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

H. Patrick Swygert
President
Howard University
(Educational Institution)

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

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

Christine Todd Whitman
President
The Whitman Strategy Group
(Management Consulting Firm)
Former EPA Administrator
Former Governor of New Jersey

PERMANENT COMMITTEES

Audit Committee
Frank P. Popoff, Chairman
John V. Faraci
Richard D. McCormick
H. Patrick Swygert
André Villeneuve
H. A. Wagner
Christine Todd Whitman

Compensation &
Executive Development
H. A. Wagner, Chairman
Jean-Pierre Garnier
Charles R. Lee
Richard D. McCormick
Harold McGraw III
Frank P. Popoff

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

Finance Committee
Charles R. Lee, Chairman
George David
Jamie S. Gorelick
Harold McGraw III
Frank P. Popoff
André Villeneuve

Committee on Nomination
and Governance
Richard D. McCormick, Chairman
John V. Faraci
Jean-Pierre Garnier
Charles R. Lee
H. Patrick Swygert
H. A. Wagner
Christine Todd Whitman

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

LEADERSHIP

Mario Abajo
President, South Europe
and Middle East, Otis

David Adler
Senior Vice President,
Worldwide Customer Service,
Sikorsky

Ted F. Amyuni
President,
Refrigeration, Carrier

Alain M. Bellemare
President,
Pratt & Whitney Canada

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

Todd Bluedorn
President, North and South
America, Otis

Ari Bousbib
President, Otis

Kent L. Brittan
Chairman, United Technologies
International Operations

William M. Brown
President, UTC Fire & Security

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

Tony Chamberlain
President, Fire & Security
Australasia, UTC Fire & Security

Louis R. Chênevert
President, Pratt & Whitney

Jean Colpin
Director, United Technologies
Research Center

Halsey M. Cook
President, Residential and Light
Commercial North America,
Carrier

Geraud Darnis
President, Carrier

George David
Chairman and
Chief Executive Officer

John Doucette
Vice President and
Chief Information Officer

Michael R. Dumais
Vice President and General
Manager, Customer Service,
Hamilton Sundstrand

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

Stephen N. Finger
President, Sikorsky

James E. Geisler
Vice President, Finance

Bruno Grob
President, North and East
Europe, Otis

Gregory J. Hayes
Vice President, Accounting
and Control

Stephen N. Heath
President, Commercial Engines,
Pratt & Whitney

David P. Hess
President, Hamilton Sundstrand

Darryl Hughes
President, Security Services
Europe, Middle East and Africa,
UTC Fire & Security

Robert Isaman
President, Fire Safety Americas,
UTC Fire & Security

Todd Kallman
Vice President, Corporate
Strategy & Development

Alison Kaufman
Senior Vice President,
Government & International Affairs

James E. Keenan
Senior Vice President and
General Manager, Global
Service Partners, Pratt & Whitney

John P. Leary
Vice President,
Employee Relations

Robert Leduc
President, Flight Systems,
Hamilton Sundstrand

Patrick L'Hostis
President, Residential and Light
Commercial International,
Carrier

Nancy Lintner
Vice President, Communications

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

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

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

Raymond J. Moncini
Senior Vice President,
Operations, Otis

Michael Monts
Vice President,
Business Practices

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

Timothy M. Morris
President, Aerospace Power
Systems, Hamilton Sundstrand

Stephen G. Oswald
President, Industrial,
Hamilton Sundstrand

Eric Patry
President, Fire Safety Europe,
Middle East and Africa,
UTC Fire & Security

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

Jothi Purushotaman
Vice President,
Operations

Thomas I. Rogan
Vice President, Treasurer

Kelly Romano
President, Building Systems and
Services, Carrier

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 Vo
President,
North Asia Pacific, Otis

Randal E. Wilcox
President,
South Asia Pacific, Otis

Byron Wood
President,
Pratt & Whitney Rocketdyne

Shareowner Information

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

This report is made available to shareowners in advance of the annual meeting of shareowners to be held at 2:00 p.m., April 12, 2006, in New York, New York. The proxy statement will be made available to shareowners on or about February 27, 2006, at which time proxies for the meeting will be requested.

Information about UTC, including financial information, can be found at our Web site:

www.utc.com

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

Ticker Symbol: UTX

Transfer Agent and Registrar

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

Computershare Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069
Telephone: 1.800.488.9281
Web site: www.computershare.com/equiserve

TDD: 1.800.952.9245
Telecommunications device for the hearing impaired.

Certifications

UTC has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2005 filed with the Securities and Exchange Commission certificates of its Chief Executive Officer and principal financial officers certifying, among other things, the information contained in the Form 10-K. UTC has also submitted to the New York Stock Exchange (NYSE) a certificate of UTC's Chief Executive Officer certifying that he was not aware of any violation by UTC of NYSE corporate governance listing standards as of the date of the certification.

Dividends

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

Electronic Access

Shareowners of record may sign up at the following Web site for electronic access to future annual reports and proxy materials, rather than receiving mailed copies:

http://www.econsent.com/utx.

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

www.utc.com/investors/econsent/ics.htm

Additional Information

Shareowners may obtain a copy of the United Technologies Report on Form 10-K for 2005 filed with the Securities and Exchange Commission by writing to:

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

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

Shareowner Information Services

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

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

Direct Registration System

If your shares are held in street name through a broker and you are interested in participating in the Direct Registration System, you may have your broker transfer the shares to Computershare Trust Company, N.A., electronically through the Direct Registration System. Interested investors can request a description of this book-entry form of registration by calling 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.HAMILTONSUNDSTRAND.COM
WWW.OTIS.COM
WWW.PRATT-WHITNEY.COM
WWW.SIKORSKY.COM
WWW.UTCFIREANDSECURITY.COM
WWW.UTCPOWER.COM

United Technologies Corporation
Subsidiary and Affiliate Analysis
December 31, 2005

Entity Name	State/Country of Incorporation
Albatre-Servicos de Consultadoria e Marketing, Sociedade Unipessoal Lda	Portugal
Anoxina-Servicos de Consultadoria, Sociedade Unipessoal Lda	Portugal
Australia Holdings Inc.	Delaware
CalPeak Power LLC	Delaware
Carrier Air Conditioning Pty. Limited	Australia
Carrier Commercial Refrigeration, Inc.	Delaware
Carrier Corporation	Delaware
Carrier Espana, SL	Spain
Carrier Europe, Middle East, & Africa S.A.S.	France
Carrier HVACR Investments B.V.	Netherlands
Carrier Ltd.	Korea, Republic of
Carrier Mexico S.A. de C.V.	Mexico
Carrier Sales and Distribution, LLC	Delaware
Carrier Singapore (PTE) Limited	Singapore
Carrier SpA	Italy
Carrier Transicold Europe S.C.S.	France
Carrier Transicold Pte. Ltd	Singapore
Ceesail Limited	England
Chubb Securite	France
Chubb Security Australia Pty Ltd	Australia
Claverham Group Limited	England
Counterforce USA L.P.	Texas
Derco Aerospace, Inc.	Wisconsin
Eagle Services Asia Private Limited	Singapore
Elevadores Otis Ltda.	Brazil
Empresas Carrier, S.A. De C.V.	Mexico
Fyrnetics (Hong Kong) Limited	Hong Kong
Hamilton Sundstrand Corporation	Delaware
Hamilton Sundstrand Holdings, Inc.	Delaware
Hamilton Sundstrand International Holdings Ltd.	Cayman Islands
Hamilton Sundstrand Power Systems, Inc.	Delaware
Helicopter Support, Inc.	Connecticut
Info Tech Enterprises, Ltd.	India
International Comfort Products, LLC	Delaware
Johns Perry Lifts Holdings LDC	Cayman Islands
Kaysail Limited	England
Kidde (WFEL) Limited	England
Kidde Finance Limited	England
Kidde Finance NOK	England
Kidde Graviner Limited	England
Kidde Holdings Limited	England
Kidde International Limited	England
Kidde Investments US 1 Limited	England
Kidde Investments US 1 LLC	Delaware
Kidde Investments US 2	England
Kidde Ireland Finance	Ireland
Kidde Luxembourg UK 2	England
Kidde Technologies Inc.	Delaware
Kidde UK Holdings Limited	England
KNA Inc.	Delaware
Linde Kältetechnik GmbH	Germany

Microtecnica Srl	**Italy**
Milton Roy Company	**Pennsylvania**
NAES Acquisition Corporation	**Delaware**
Nippon Otis Elevator Company	**Japan**
Otis Canada, Inc.	**Canada**
Otis Elevator (China) Investment Company Limited	**China**
Otis Elevator Company [NJ]	**New Jersey**
Otis Elevator Korea	**Korea, Republic of**
Otis Elevator Company Pty. Ltd.	**Australia**
Otis Far East Holdings Limited	**Hong Kong**
Otis GmbH & Co. OHG	**Germany**
Otis Holdings GmbH & Co. OHG	**Germany**
Otis International Holdings UK Limited	**England**
Otis Investments Plc	**England**
Otis Lifts Holding Company	**Cayman Islands**
Otis Limited	**England**
Otis Pacific Holdings B.V.	**Netherlands**
Otis S.C.S.	**France**
Otis S.p.A.	**Italy**
Otis Srl	**Italy**
Parkview Participations LLC	**Delaware**
Pratt & Whitney Canada Corp.	**Canada**
Pratt & Whitney Canada Holdings Corp.	**Nova Scotia**
Pratt & Whitney Engine Leasing, LLC	**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 Rocketdyne, Inc.	**Delaware**
Pratt & Whitney Services, Inc.	**Delaware**
Pratt Aero Limited Partnership	**Nova Scotia**
Ratier-Figeac, SAS	**France**
Sikorsky Aircraft Corporation	**Delaware**
Sikorsky Export Corporation	**Delaware**
Sirius Korea Limited	**England**
Springer Carrier Ltda.	**Brazil**
Sullair Corporation	**Indiana**
Sundyne Corporation	**Delaware**
Tianjin Otis Elevator Company Limited	**China**
Turbine Overhaul Services Pte Ltd	**Singapore**
United Technologies Australia Holdings Limited	**Australia**
United Technologies Canada, Limited	**Canada**
United Technologies Cortran, Inc.	**Delaware**
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 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-Asia Private Limited	**Singapore**
United Technologies International Operations, Inc.	**Delaware**
United Technologies International SAS	**France**
United Technologies Paris SNC	**France**
United Technologies Treasury Center, Inc.	**Delaware**
UT Finance Corporation	**Delaware**
UT Insurance (Vermont) Inc.	**Vermont**
UT Luxembourg Holding II S.a.r.l.	**Luxembourg**
UT Park View, Inc.	**Delaware**
UT Treasury Services L.P.	**Alberta**
UTC Canada Corporation	**Canada**
UTC Fuel Cells, LLC	**Delaware**
UTC Investments Australia Pty Limited	**Australia**
UTCL Holdings, Limited	**New Brunswick**
UTCL Investments B.V.	**Netherlands**
Walter Kidde Portable Equipment Inc.	**Delaware**
Wytwornia Sprzetu Komunikacyjnego “PZL-Rzeszow” S.A.	**Poland**
Xizi Otis Elevator Company Limited	**China**
Zardoya Otis, S.A.	**Spain**

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

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 DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ John V. Faraci

John V. Faraci

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ Jean-Pierre Garnier

Jean-Pierre Garnier

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the “Corporation”), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ Jamie S. Gorelick

Jamie S. Gorelick

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ Charles R. Lee

Charles R. Lee

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ Richard D. McCormick

Richard D. McCormick

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ Harold McGraw III

Harold McGraw III

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ Frank P. Popoff

Frank P. Popoff

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the “Corporation”), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ H. Patrick Swygert

H. Patrick Swygert

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ André Villeneuve

André Villeneuve

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the “Corporation”), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ H. A. Wagner

H. A. Wagner

UNITED TECHNOLOGIES CORPORATION

Power of Attorney

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the “Corporation”), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints DEBRA A. VALENTINE, JAMES E. GEISLER and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2005, 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 6th day of February, 2006.

/s/ Christine Todd Whitman

Christine Todd Whitman

Exhibit 31.1

CERTIFICATION

I, George David, certify that:

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

Date: February 9, 2006

/s/ George David

George David
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, James E. Geisler, certify that:

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

Date: February 9, 2006

/s/ James E. Geisler

James E. Geisler
Vice President, Finance

Exhibit 31.3

CERTIFICATION

I, Gregory J. Hayes, certify that:

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

Date: February 9, 2006

/s/ Gregory J. Hayes

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

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, 2005 (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 9, 2006

/s/ George David
George David
Chairman and Chief Executive Officer

/s/ James E. Geisler
James E. Geisler
Vice President, Finance

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