United Technologies Corporation YEAR IN REVIEW

CONTENTS

Dear Shareowner: UTC made excellent progress in 1998. Earnings per share increased 20%, the fifth year in a row at this level of increase or higher. The result was notable given turmoil in Asian markets, which reduced UTC's sales there by $500 million, and because our earnings increase was reported after $330 million in restructuring charges. Cash flow reflected this earnings performance and is a hallmark of UTC business results.

We made acquisitions in 1998 totaling $1.25 billion and bought another $650 million of UTC common stock.

The forces behind these results are years of restructuring and process reengineering. Begun in 1991, and continued with increasing intensity since, they are remaking UTC. Everywhere we turn, we see improvements—in costs, in quality, in lead time reductions, and in environmental impacts and other measures of corporate citizenship. Productivity and performance gains are limitless, and companies like UTC demonstrate this every day.

The simplest measure of these improvements is UTC's segment operating income ratio to revenues, doubled since 1991 and up by another seven tenths of a percent in 1998, to 9.6%. Best of all, we have the ability to continue to improve this important measure for years into the future. Like aircraft with our big engines spooling up for flight, we have lots of runway in front of us. Even with the gains cited here, we are below the average of our peers on this measure. We believe we can be in the top quartile.

Wall Street recognized our accomplishments and outlook with a 49% increase in UTC's stock price in 1998.

Our restructuring and process reengineering efforts through 1997 concentrated on our own value added costs. In 1998, we began increasingly to emphasize efficiencies and cost and price reductions from our suppliers. We announced in late 1997 a year 2000 goal of $750 million in lowered supplier costs annually. We are right on track, with savings exceeding $250 million in 1998 and a further $300 million targeted for 1999.

We haven't stopped restructuring. Last year's $330 million in charges covers the reduction of 8,000 positions. We make it a practice of taking these charges "above the line," meeting our commitments even after including one time and unusual events.

We launched Ito University, formalizing our quality improvement programs of many years. Named for Yuzuru Ito, one of the world's foremost experts on quality and UTC's advisor since the late 1980s, the University and its coursework institutionalize improvement disciplines for us. We have already achieved great gains in quality and anticipate much more. Seven hundred of our executives, myself included, attended Ito University last year, and thousands more, and many of our suppliers, will from 1999 through 2001.

All 1998 acquisition activity was in UTC's core businesses. Notable was Carrier's agreement with Toshiba to combine their air conditioning businesses worldwide. Carrier will be the majority shareholder in the merged companies outside Japan, and Toshiba will be the majority shareholder in Japan. Carrier remains a wholly owned UTC company. This transaction, which we expect to close in the first half of 1999, combines two industry leaders each with great strength in its respective market areas.

Also in 1998, Pratt & Whitney took a majority interest in Singapore Airlines' engine shop, the largest such operation in south Asia. Pratt recently doubled its overhaul and repair sales goal, to $2 billion by 2003, and this transaction contributes significantly.

Commercial refrigeration acquisitions late in 1997 added $400 million in revenues to Carrier. This industry segment is an attractive consolidation opportunity, and our revenues here already total $1.7 billion annually. Other 1998 acquisitions included Hamilton Standard's purchase of Ratier-Figeac in France, with revenues of $125 million, and Otis' purchase of the last 10% of Otis Europe, its original Common Market holding company.

Our Employee Scholar Program is one of our most sought after benefits. Seventeen percent of our US workforce, three times the average for companies like us, is enrolled in college and advanced degree programs. We extended the program internationally in 1997.

We were recognized by our government in 1998, receiving the Department of Labor's prestigious Opportunity 2000 award for advancement of women and minorities in our workforce. UTC was the sole recipient among all Federal contractors. Carrier received the EPA's Ozone Protection Award for the third time in five years.

Our environmental record is enviable. When reporting is finalized for 1998, we will again have achieved meaningful reductions in the two principal measures tracked by our government. Cumulatively since 1988, our hazardous waste generation is 83% lower and chemical releases to the environment 90% lower. We became a founding member of the Pew Center on Global Climate Change and were recognized by the Clinton Administration for this and for our targeted 25% reductions in energy and water consumption.

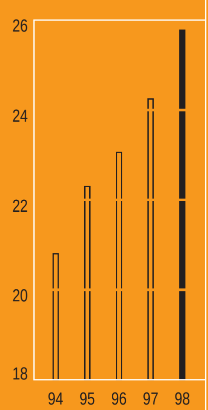
On behalf of shareowners, this is a good occasion to thank our 180,000 employees for first class work. UTC has lots of momentum, and lots of runway.

George David
Chairman and Chief Executive Officer
February 5, 1999

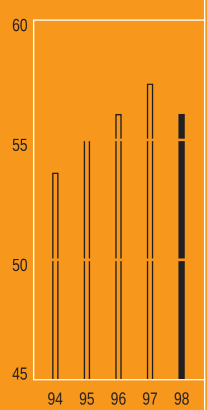
United Technologies provides high technology products to the aerospace, building systems and automotive industries throughout the world. UTC's companies are industry leaders and include Pratt & Whitney, Carrier, Otis, UT Automotive, Sikorsky, and Hamilton Standard. The latter two companies make up the Flight Systems segment. • UTC posted strong revenue and earnings performance in 1998 over 1997. Diluted earnings per share jumped 20% to $5.05; net income increased 17% to $1.26 billion; and revenues grew 6% to $25.7 billion. The commercial businesses—Carrier, Otis, and UT Automotive—generated 59% of total segment revenues, and international operations contributed 56% of total segment revenues. • Available cash flow of $1.4 billion, sustained by operating performance improvements, increased from $1.2 billion in 1997. UTC's debt to total capitalization ratio at the end of 1998 was 33%.

UNITED TECHNOLOGIES FINANCIAL PERFORMANCE

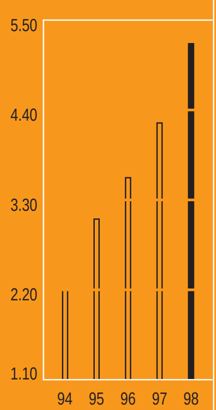
REVENUES
($ Billions)



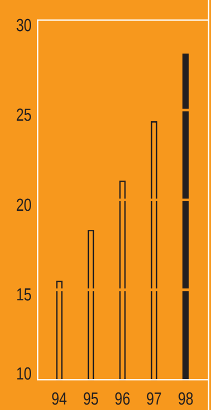
INTERNATIONAL
REVENUES
(% of Total Revenues)



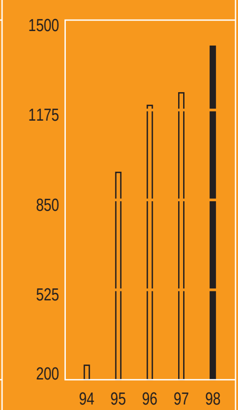
EARNINGS
PER COMMON SHARE
($ per share)



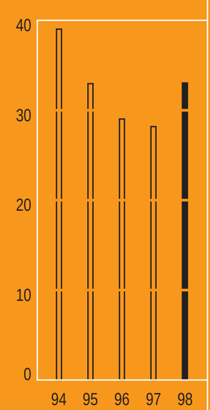
RETURN
ON EQUITY
(%)



AVAILABLE
CASH FLOW*
($ Millions)

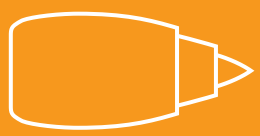


DEBT
TO TOTAL
CAPITALIZATION
(%)



*Available cash flow is the change in net debt plus common share repurchases, customer financing and acquisitions, including debt assumed, less after tax proceeds from divestitures.

PRATT & WHITNEY



PRODUCTS AND SERVICES: Large and small commercial and military turbofan and turboprop engines, spare parts and product support, specialized engine maintenance and overhaul and repair services for airlines, government, and private fleets; rocket engines and space propulsion systems; industrial gas turbines.

PRIMARY CUSTOMERS: Commercial airlines and aircraft leasing companies; commercial and corporate aircraft manufacturers; the United States government, including NASA and the military services; non-U.S. governments; regional and commuter airlines.

FINANCIAL RESULTS: 1998 revenues were $7.88 billion, up 6% from $7.40 billion in 1997; operating profit was $1.02 billion, up 25% from $816 million in 1997.

CARRIER

PRODUCTS AND SERVICES: Heating, ventilating and air conditioning (HVAC) equipment for commercial, industrial and residential buildings; HVAC replacement parts and services; building controls; commercial and transport refrigeration equipment.

PRIMARY CUSTOMERS: Mechanical and building contractors; homeowners, building owners, developers and retailers; architects and building consultants; transportation and refrigeration companies; shipping operations.

FINANCIAL RESULTS: 1998 revenues were $6.92 billion, up 14% from $6.06 billion in 1997; operating profit was $495 million, up 8% from $458 million in 1997.

OTIS

PRODUCTS AND SERVICES: Elevators, escalators, moving walks and shuttle systems and related installation, maintenance and repair services; modernization products and services for elevators and escalators.

PRIMARY CUSTOMERS: Mechanical and building contractors; building owners and developers; homeowners; architects and building consultants.

FINANCIAL RESULTS: 1998 revenues were $5.57 billion, up $24 million from $5.55 billion in 1997; operating profit was $533 million, up 15% from $465 million in 1997.

UT AUTOMOTIVE

PRODUCTS AND SERVICES: Automotive electrical distribution systems; DC electric motors and actuators; motor driven cooling fan modules; electro-mechanical and electronic controls, switches and components; insulation and acoustical materials and systems; automotive exterior trim.

PRIMARY CUSTOMERS: Original equipment manufacturers of automobiles, trucks and sport utility vehicles.

FINANCIAL RESULTS: 1998 revenues were $2.96 billion, down 1% from $2.99 billion in 1997; operating profit was $169 million, down 2% from $173 million in 1997.

FLIGHT SYSTEMS

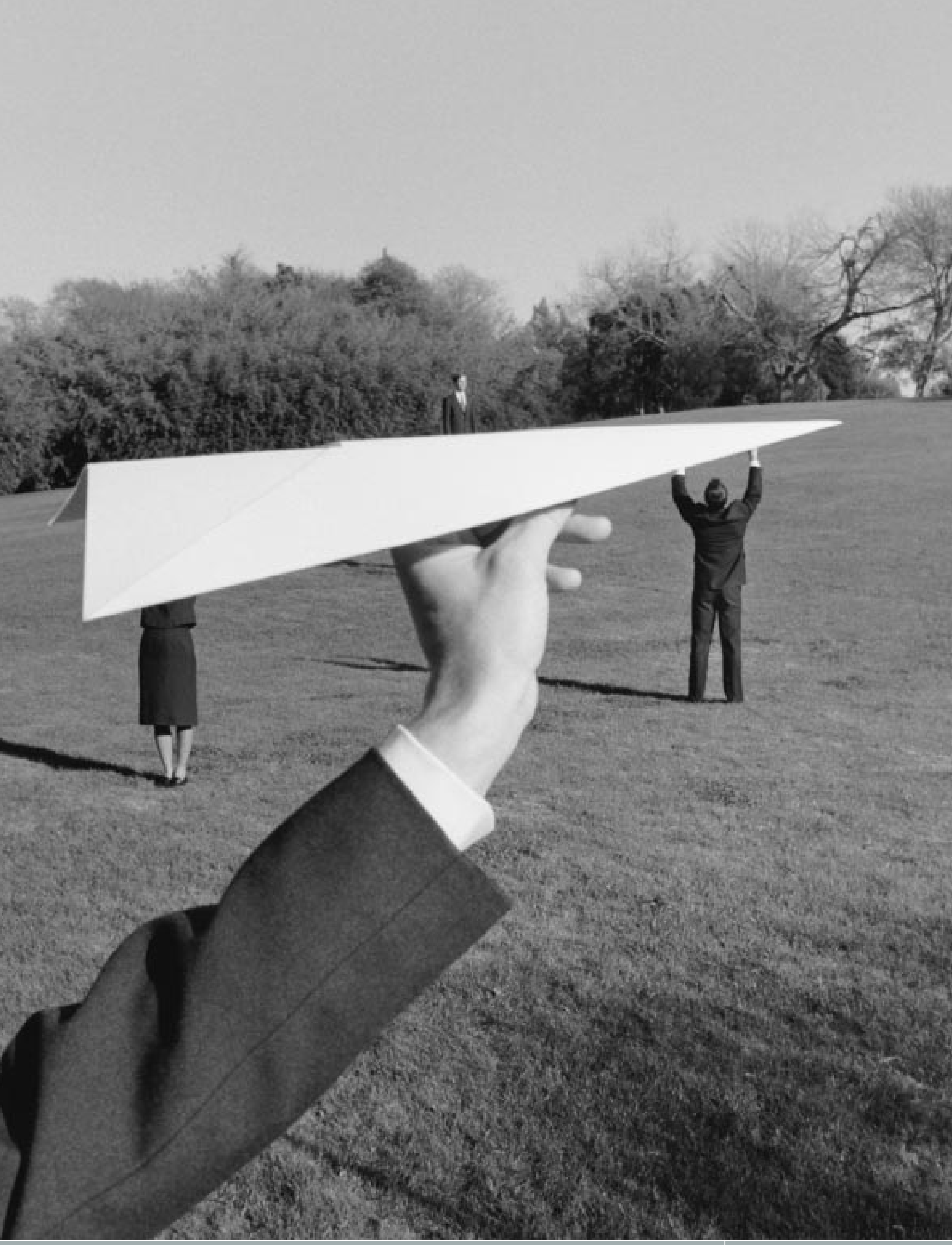
PRODUCTS AND SERVICES: Military and commercial helicopters and maintenance services; engine and flight controls; propellers; environmental controls for aircraft, spacecraft and submarines; space life support systems; microelectronics.

PRIMARY CUSTOMERS: The United States government, including NASA, FAA and the military services; non-U.S. governments; aerospace and defense prime contractors; commercial airlines; aircraft and jet engine manufacturers; hospitals; oil and gas exploration companies.

FINANCIAL RESULTS: 1998 revenues were $2.89 billion, up 3% from $2.80 billion in 1997; operating profit was $287 million, down 5% from $301 million in 1997.

"We have lots of runway in front of us"

GEORGE DAVID, CHAIRMAN AND CHIEF EXECUTIVE OFFICER



PRATT & WHITNEY—THE WAY WE WHIR BIG IDEAS START SMALL, ON A PIECE OF PAPER OR EVEN A PAPER NAPKIN. BUT IDEAS DON'T TAKE FLIGHT UNLESS THE MARKET SAYS SO. AT FIRST FLIGHT, THE NEW PW8000 ENGINE WILL BURN 9% LESS FUEL THAN ENGINES TODAY, REDUCING CUSTOMER COSTS BY UP TO $600,000 PER AIRCRAFT. AND WHILE IT WILL BE 60% QUIETER THAN TODAY'S ENGINES, COUNT ON THE PW8000 TO MAKE NOISE IN THE MARKET.

-9%

Pratt &Whitney

Pratt & Whitney's engines fly on more than half of the world's commercial fleet. Every few seconds—more than 20,000 times a day—a Pratt & Whitney powered airliner takes flight or lands somewhere in the world. Last year, Pratt's commercial engines alone logged more than 30 million flight hours.

Pratt & Whitney's large commercial engines provide thrust from 16,000 to 98,000 pounds for narrow- and wide-bodied aircraft. The company's newest engine series, the PW6000, will serve growing demand for flights in the 100-to-120-passenger range. The engine's advancements in emissions and noise reduction technologies ensure that it will be an excellent environmental neighbor.

The PW8000, the next leap in engine technology, is an extension of the smaller PW6000 family. The "green" PW8000 engine will reduce fuel burn 9 percent and cut noise levels 60% below the quietest of today's engines. Because the geared turbofan design is more efficient, the engine requires 40 percent fewer mechanical parts in the air-compression system and half the number of airfoils. An aircraft flying with two PW8000s will cost airlines about $600,000 a year less to operate and maintain than one powered by a conventional engine.

Engines in Pratt's flagship PW4000 family cover the range of 52,000 to 98,000 pounds of thrust, supplying power to wide-body commercial aircraft. The 100- and 112-inch-fan PW4000 powers more A-330 and Boeing 777 aircraft than any other engine supplier. Pratt & Whitney is also a partner with Rolls-Royce, Japanese Aero Engines and MTU in International Aero Engines (IAE), a consortium that produces the V2500 and earned the majority of 1998 orders on the Airbus A-320 family of aircraft. The V2500 has the lowest fuel burn in the 22,000-33,000 pound thrust class.

In the military engine business, more than 6,400 Pratt F100s in the air forces of the United States and 17 other nations have flown over 14 million hours at demanding low altitudes and high speeds since their

PRATT & WHITNEY—SEAHORSEPOWER AT MALDIVIAN AIR TAXI, THEY REFER TO THE PT6 POWERED TWIN OTTER AS THE WORKHORSE OF THE SEA. THEIR FLEET OF 16 PLANES LOG 10,500 HOURS A YEAR ISLAND HOPPING ABOUT THE INDIAN OCEAN. THE AIR TAXI SERVICE COUNTS ON ITS PLANES, AND EACH PLANE DEPENDS ON TWO PRATT & WHITNEY CANADA ENGINES, JUST TWO OF THE 46,000 PROVIDING CUSTOMERS DEPENDABLE WORKHORSE POWER WORLDWIDE.

46K

PRATT & WHITNEY—ONE AT A TIME TEN TIME ZONES. ALMOST HALF THE PLANET. ASIA IS A HUGE MARKET, WITH AIRLINES FLYING FROM THE FOOT OF THE HIMALAYAS TO THE EDGE OF THE PACIFIC OCEAN. FOR PRATT & WHITNEY'S EAGLE SERVICES ASIA, THE LARGEST OVERHAUL SHOP IN SOUTH ASIA, IT MEANS KEEPING ENGINES SAFE AND RELIABLE FOR 18 COMMERCIAL AND FREIGHT AIRLINES. HOW DO YOU SERVE 10 TIME ZONES? ONE ENGINE AT A TIME.

10X

introduction in 1974. In 1998 Pratt signed a five-year $450 million contract with the US Air Force to service F-15s and F-16s flying F100-229 engines.

The F100-PW-229 is the successor to the F100-PW-100, which powers the twin-engine Boeing F-15 and single-engine Lockheed Martin F-16 fighters. And Pratt & Whitney's most advanced military engine, the F119, powers the F-22 Raptor, the newest generation of air superiority fighters.

Pratt & Whitney Canada supplies more small gas turbines than any other manufacturer for regional, corporate, general aviation, military aircraft and helicopters. The Canada group has delivered over 46,000 engines, accumulating more than 319 million hours on 18,600 aircraft. These aircraft are operated in more than 170 countries.

To grow its after-market business, Pratt formed a joint venture with Singapore Airlines' service unit to overhaul PW4000, JT9D and CFM56 engines in the airlines' fleet.

As part of a broad reorganization, Pratt announced it would consolidate manufacturing and engineering resources into four "module centers," enabling engineers and production crews to work together more closely. This will help reduce cycle time and costs and support the company's quality improvement efforts. Such focus on quality has reduced the number of defects leaving Pratt & Whitney factories by nearly a third over the last two years.

As it has for more than 70 years, Pratt & Whitney continues to transform commercial and military aviation around the world.

Carrier

Willis Carrier was a visionary, but his practical side ruled. He knew many things were technically possible, but only a few would make money. Or to use his analogy: "I hunt and fish only for edible game."

He would have bagged his limit in 1998.

With a series of popular new products; acquisitions and internal growth in the commercial refrigeration business; negotiations with another industry leader for a unique worldwide alliance; reorganization of its commercial chiller business; and substantial savings from its global purchasing initiative, Carrier flourished in competitive, sometimes fickle markets.

Carrier emphasizes energy efficiency, quiet operation and environmental stewardship in its new residential and commercial products.

CARRIER—GIVING BANANAS APPEAL SOUNDS LIKE A HARD LIFE: PLUCKED FROM A TREE IN A COSTA RICA PLANTATION, THROWN ONTO A TRUCK, THEN A TRAIN, THEN A SHIP, THEN ANOTHER TRUCK FOR THE RIDE TO THE SUPERMARKET…IT'S ENOUGH TO SPOIL A PERFECT BANANA. BUT THIS BANANA TRAVELED IN STYLE, IN THE CONSTANT 57°(F) OF A CARRIER TRANSICOLD CONTAINER. IT REACHED A RIPE AGE, AND A SATISFIED CONSUMER.

57°


Dole


DOLE COSTA RICA

The new WeatherMaker® residential air conditioner using Puron®, a non-ozone-depleting refrigerant, provides the US market with low operating costs and sound levels about the same as a refrigerator's. The Puron® unit gives Carrier a healthy lead over competitors as chlorine-free refrigerants become the standard.

Carrier increased by 45% its sales of "global chillers" with patented screw compressor technology. The chillers were both improved and cost-reduced, by 25%. A new scroll-compressor model, the Aquasnap®, was introduced in Europe. All global chillers use non-ozone-depleting HFC refrigerants.

Carrier Refrigeration Operations strengthened its grip on the highly competitive "cold chain," which preserves frozen and perishable foodstuffs from the source to the supermarket to the kitchen. This $17-billion global market is highly fragmented, with scores of companies each having less than five percent market share. Carrier is addressing this globally competitive market with new, advanced products. One is Carrier Transicold's Genesis® multi-temp tractor-trailer refrigeration unit, which allows haulers to move ice cream at -20°F (-29°C) in the same trailer as bananas at their ideal 57°F (13.5°C).

In developing countries like India and China, spending on commercial refrigeration ranges from 12 to 25 cents per capita (in Japan $17, in the U.S. $11). Operations in 172 countries will help extend the reach of Carrier's commercial refrigeration products in markets like Mexico, Brazil, India, China, Korea and the Philippines.

Whereas Japan is the world's second largest commercial refrigeration market, after the US, it is the world's largest air conditioning market. In 1998, Carrier announced an historic alliance with Toshiba's air conditioning operations that is scheduled for completion in the first half of 1999. Carrier will be the majority shareholder in the merged air conditioning companies outside Japan, and Toshiba will be the majority shareholder in Japan.

Carrier is working with its most important suppliers to reduce the price it pays for materials, components and services. The company will generate additional savings by reorganizing its heavy commercial chiller business and producing at a newly built factory the popular Evergreen® line of centrifugal chillers that cool large buildings.

CARRIER—NO KIDDING DEPLETION OF THE EARTH'S STRATOSPHERIC OZONE IS SERIOUS BUSINESS FOR TODAY'S GENERATIONS, AND TOMORROW'S. THAT'S WHY CARRIER WAS FIRST TO OFFER NON-OZONE-DEPLETING REFRIGERANTS ACROSS ITS ENTIRE LINE OF AIR CONDITIONERS, AND WHY OTHER MANUFACTURERS ARE TAKING OUR CUE. WHEN IT COMES TO A HEALTHY PLANET, CARRIER DOESN'T PLAY AROUND…SO THAT TOMORROW'S CHILDREN CAN.

ZERO

OTIS—OUT OF THIS WORLD ELISHA GRAVES OTIS DIDN'T KNOW THE LENGTHS HE WAS GOING TO WHEN HE DEMONSTRATED THE FIRST SAFE ELEVATOR IN 1853. THE ROPE HE USED THAT DAY WAS JUST 15 FEET LONG. BY NOW, OTIS ELEVATOR COMPANY HAS INSTALLED AND RE-CABLED TWO MILLION ELEVATORS WITH 1.7 MILLION MILES OF CABLING, ENOUGH TO GO TO THE MOON AND BACK THREE TIMES.

17M

Dr. Willis Carrier, that practical dreamer and outdoorsman, was recognized this year by *Time* magazine as one of the 20 most influential "builders and titans" of the 20th Century. The company he founded continues to prosper by sticking to the basics and treating all new ideas as fair game.

Otis

Otis Elevator Company took advantage of healthy market conditions in Europe and the Americas in 1998, more than offsetting the consequences of Asia's economic problems.

Asia and the Russian federation were the twin epicenters of the global economic crisis in 1998. Asia alone is the world's largest market for new elevators and escalators.

Yet despite a 42% drop in new equipment sales in Asia (50% in China alone), Otis had an excellent year, including the capture of large contracts. Return on revenues, excluding cost reduction charges, rose to the highest level in more than a decade. Otis' new equipment order book outside of Asia grew by 10% during the year. Among the highlights:

Otis captured its largest North American contract ever, a $68 million agreement for 43 elevators, 48 escalators, 34 moving walkways and a people mover for the new Northwest Airlines terminal at Detroit Metro Airport. The contract includes a 10-year maintenance agreement.

Other notable contracts for the year were: An $8 million award to install a people mover in the Minneapolis-St. Paul International Airport; an $11 million contract for 45 elevators at the new Aladdin hotel and casino in Las Vegas, Nevada; a $6 million agreement for 19 new elevators in the 37-story Landmark Centre in Sydney, Australia; and, in Paris, a contract to modernize the elevators serving the upper landing of the Eiffel Tower. Otis installed the original lifts for the Tower in 1888.

Even within Asia, Otis Philippines bucked the regional trend, earning the largest contract in its 90-year history, a $4 million pact for the Pacific Plaza Tower in Manila.

With nearly $1 billion in acquisitions since 1990, Otis had already made plans for a more competitive global environment, reflected in 1998 alliances between Toshiba and Kone and between Thyssen and Dover. Last year, Otis shed more than 2,000 jobs, eliminated layers of management and reduced the number of its engineering centers worldwide. An additional


OTI
nnelly

OTIS—ON CALL A BIG BUILDING'S ELEVATOR STOPS, LIFE STOPS. BUSINESS GRINDS TO A HALT. SCHEDULES FALL APART. ACTIVITY COMES TO A STANDSTILL. EVERY HOUR OF THE DAY, OTIS SERVICE TECHNICIANS KEEP THINGS MOVING. ON FIVE CONTINENTS, IN OVER 1,700 CITIES AND TOWNS, FROM THE TOP OF PARIS' EIFFEL TOWER TO THE DEPTHS OF BULTFONTEIN MINE #2 IN KIMBERLEY, SOUTH AFRICA. IN A SENSE, OTIS TECHNICIANS ARE LIFE SAVERS.

1,700

program begun in 1998 will focus on Otis' manufacturing operations.

Otis is also reducing the number of its suppliers and expects annual incremental cost reductions of at least $35 million per year. One early success: A reduction in the number of elevator traveling cable suppliers from 30 to two, with first year savings of more than $1 million.

Investments in new products and technologies continue. The pioneer in remote elevator monitoring (REM), Otis is installing advanced electronic monitors on thousands of elevators it maintains. REM systems capture data on up to 325 separate elevator performance parameters. When linked by phone or wireless connections to Otis dispatch centers, REM systems detect minor equipment problems that can be fixed earlier, faster and at far less inconvenience to the customer.

By year's close, new product development was focused on innovative world class elevator systems that will maintain the company's industry leading status. In support of this, Otis opened the world's tallest elevator test tower, located at the Nippon Otis research center in Shibayama, Japan.

The best time to redesign a company is when things are going well. Otis is doing just that.

UT Automotive

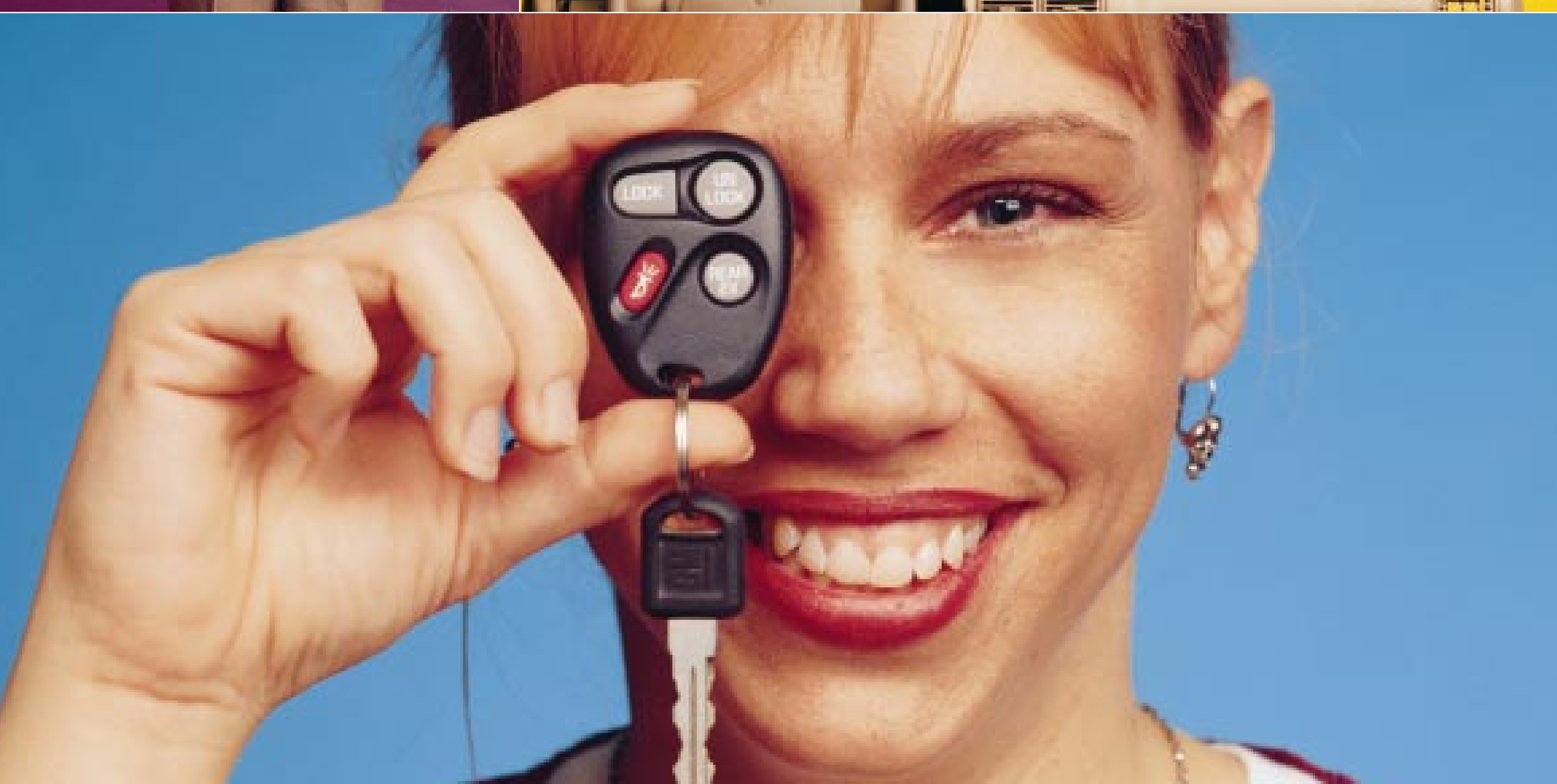
The list of UT Automotive (UTA) customers reads like a global auto industry directory: General Motors, Ford, Daimler/Chrysler, Jaguar, Saab, Honda, Renault, Volvo, BMW, Toyota, Nissan, Hyundai, Volkswagen and others. And as the auto industry has become more global—as Chrysler and Daimler merge, as Japanese and German automakers expand production in the United States, as Ford and General Motors introduce new "world car" models—UTA continues to forge new international partnerships.

In 1998, UTA expanded its already strong worldwide presence: opening its first facility on the African continent, a manufacturing facility in Tunisia; forming a joint venture with Shanghai Electric Machinery in China; unveiling new plants in Hungary and Poland; setting up a new engineering and technical center in the Philippines; and entering India's growing market with a minority interest in NTTF Industries Limited.

One of the company's most important global initiatives is its work with Ford Motor Company in launching the Ford Focus, the automaker's

UTA—HIDDEN VALUE A VEHICLE'S NAMEPLATE NEVER SAYS UT AUTOMOTIVE. INSIDE IS A DIFFERENT STORY. AUTO MAKERS THAT PRODUCE 80% OF THE WORLD'S VEHICLES USE UTA PARTS. FROM IGNITION TO BRAKING, FROM UNLOCKING THE CAR DOOR TO TURNING A READING LIGHT OFF, THE VALUE OF UTA PRODUCTS MAY BE HIDDEN. BUT THE BENEFITS ARE PERFECTLY CLEAR.

80%



UTA—LOOK MA, NO HANDS AN OFFICE AT SIXTY-FIVE MPH? YOU'D HAVE TO TAKE YOUR EYES OFF THE ROAD. NOT WITH UT AUTOMOTIVE'S ADVANCED VEHICLE OPERATING SYSTEM (AVOS). USING VOICE RECOGNITION AND WINDOWS CE® SOFTWARE FROM MICROSOFT, AVOS PROVIDES HANDS-FREE CONTROL OF AUDIO, NAVIGATION, COMFORT AND EVEN INTERNET SYSTEMS. ONE OF MANY THINGS ON THE ROAD AHEAD FOR UTA.

65MPH

new global small car program. The synergies between the two companies are natural: Ford requires suppliers who can support a car marketed to an international audience, and UTA has plants and personnel on five continents. By 2000, more than 4,500 UTA associates worldwide will manufacture key components, including junction boxes and wire harnesses, for the Focus. Ford projects it will sell one million Focus cars annually.

UTA continues to work with virtually every other major automaker to support an array of vehicles and production needs. In 1998, the company helped its partners build a broad range of vehicles, including the General Motors' Silverado and Sierra, Chrysler Neon, Ford Taurus/Sable and Explorer, Jeep Grand Cherokee, Honda Accord, Peugeot 206, Volvo 70 series, Renault Espace, Saab 9-3, and the BMW 3 series. The automakers that UTA supplies reflect the company's global business focus, with about 33% of UTA's sales in Europe and 66% in North and South America combined. The Asian market, responsible now for less than 1% of sales for UTA, has great potential.

In 1998, a UTA plant in Berne, Indiana, earned the Indiana Governor's Award for Pollution Prevention by developing a process that reduces hazardous air pollutants by 80 tons per year. The process also reduces paint use by 80% and clear coat use by 40%.

UTA's new PERC$ program challenges suppliers to reduce costs to UTA by at least 5%. If they do that and improve quality, delivery and innovation, they move up UTA's sourcing priority list. The company also expects to reduce its supplier base 75% by the end of 2002.

Technology and innovation are critical factors in the auto industry. To develop its new Advanced Vehicle Operating System (AVOS), UTA is using Windows CE® software from Microsoft. AVOS will integrate "neural networks" to allow a driver to operate easily and safely a vehicle's audio, navigation, comfort and even on-board internet systems, all by voice recognition.

UT Automotive has a good view of the future.

Hamilton Standard

In 1998, Hamilton Standard extended its reach, establishing new international operations and expanding its product line and range of services, especially in Europe. It also entered the most exciting phase of space exploration since the Apollo program.

U.S. and Russian rocket launches in 1998 marked the start of in-space assembly of the International Space Station, the largest and most complex international scientific project ever. Hamilton is providing more than 1,000 components and systems for the station's U.S., Japanese and European portions. It also supplies environmental control and life support systems for NASA's space shuttle fleet, which will make more than 30 flights to transport the station's hardware into orbit. And as it has done since the Columbia mission in 1981, the company is supplying the suits the astronauts will wear as they make approximately 110 space walks to assemble the station, more than in the history of space flight. (Russian suits will be used for the remaining space walks.)

Hamilton expanded to full ownership its minority stake in Ratier-Figeac, which makes a range of aviation equipment and components for the commercial, military and regional markets. The purchase of Ratier-Figeac quadrupled Hamilton Standard's average product content on each Airbus Industrie aircraft.

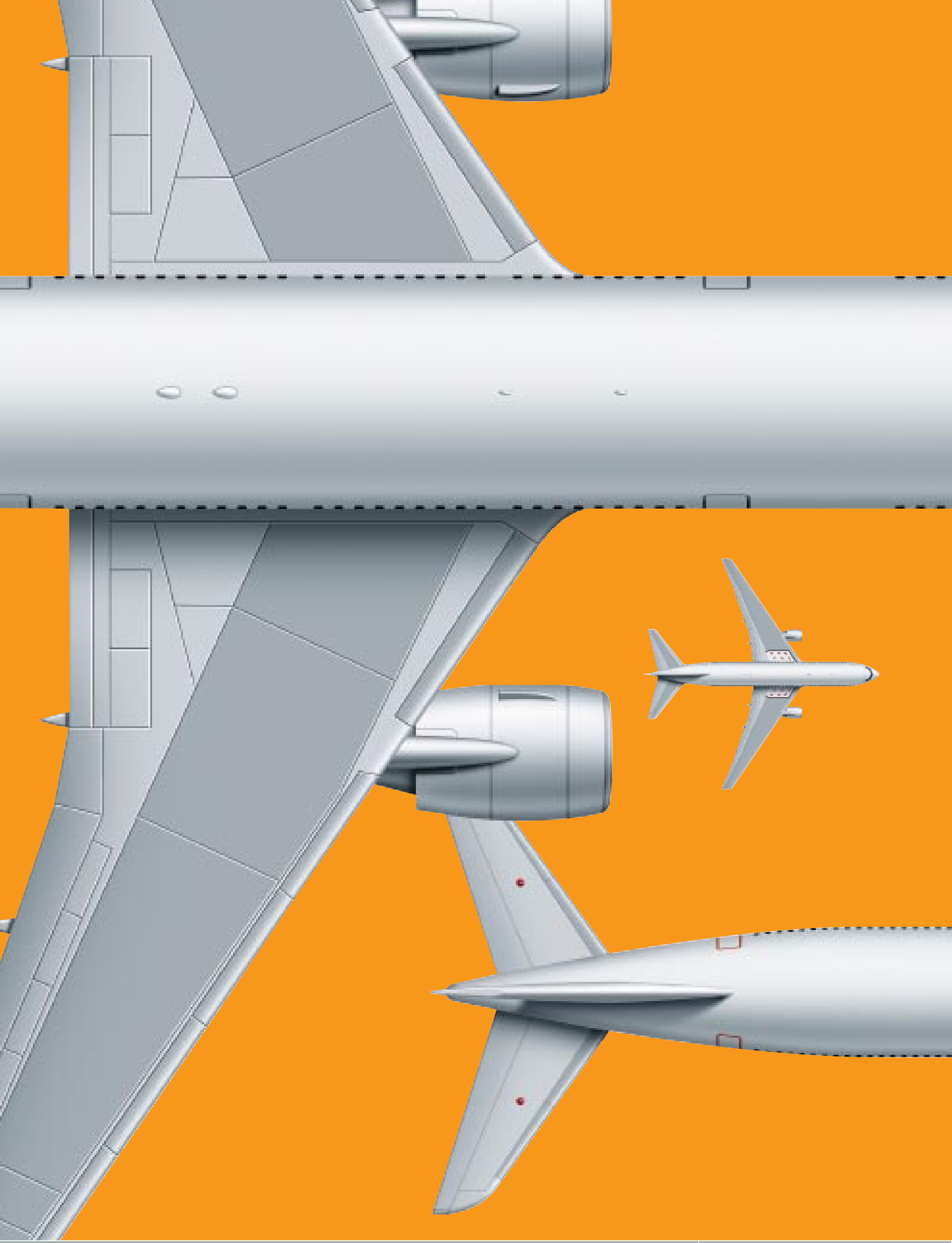
Hamilton Standard's International Fuel Cells unit was split into two units that focus on different aspects of the fuel cell market. They are now part of UTC's corporate group. International Fuel Cells, LLC, is developing fuel cell systems, including gasoline-to-hydrogen processors, for automotive and other transportation markets. It continues to supply the fuel cells for the space shuttle orbiter. The second company, ONSI Corporation, supports the stationary power business based on the world's only production fuel cell power plant.

Hamilton continued to move its product centers closer to customers, opening spare parts distribution centers in Singapore in late 1997 and Germany last year. It also plans to open a jet fuel control repair facility in Singapore in early 1999, in a joint venture with a subsidiary of Singapore Airlines.

An overhaul and repair facility in Kuala Lumpur, Malaysia, opened in 1996, has cut repair times for regional customers from 60 days to less than one month. With distribution centers now in Singapore and Germany, spare parts delivery to customers in Asia and Europe has been reduced from as many as 10 days down to fewer than two. Such increased customer focus was recognized last year when Delta Air Lines named Hamilton Standard its "Most Improved Supplier of the Year." The airline's new supplier rating system measures service level, lead time, price, operational impact and responsiveness.

HAMILTON STANDARD—CATCH THE WIND "TO LEAVE A LIVING NAME BEHIND...AND WEAVE BUT NETS TO CATCH THE WIND." 17TH CENTURY BRITISH POET JOHN WEBSTER WOULD HAVE MADE A GREAT COPYWRITER FOR HAMILTON STANDARD'S RATIER-FIGEAC UNIT. BRAIDING-MACHINE OPERATORS THERE WRAP CARBON FIBERS TO FORM A PROPELLER THAT WILL TURN UP TO 1,200 RPMS, CATCH THE WIND AND LIFT A PLANE SKYWARD. POETRY IN MOTION.

1,200



HAMILTON STANDARD—FREQUENT FLYER HAMILTON STANDARD IS IN A CLASS BY ITSELF. ITS PRODUCTS ARE AT WORK ON 98.5% OF THE WORLD'S LARGE COMMERCIAL AIRLINERS. WHETHER IT'S CONTROLS THAT MONITOR THE WORKINGS OF A JET ENGINE OR SYSTEMS THAT PROVIDE SHIRT-SLEEVE COMFORT AT ANY ALTITUDE, THE SKY'S NO LIMIT FOR HAMILTON STANDARD.

98.5%

SIKORSKY COMANCHE—NOT SEEN, NOT HEARD INTO THIN AIR. USUALLY IT'S A CLICHE. BUT FOR THE COMANCHE HELICOPTER, IT'S A MISSION. RUNNING SMOOTH, SILENT, AND 97% LESS VISIBLE TO RADAR THAN OTHER RECONNAISSANCE HELICOPTERS. FLYING 175 KNOTS FORWARD, 70 KNOTS BACKWARD, AND 75 KNOTS SIDEWAYS, IT IS MORE AGILE THAN ANY OTHER HELICOPTER EVER. INTO THIN AIR IN ANY DIRECTION.

97%

Hamilton Standard products are on the great majority of the world's fixed wing and rotary aircraft, including more than 98 percent of large commercial airliners. In 1998, Hamilton Standard won additional competitions, including: the air start and turbine-case cooling systems for Rolls Royce's Trent 500 engine; an upgraded, digital engine control for GE's F101 and F118 engines; and key controls components for Pratt & Whitney's new PW6000 and PW8000 engines.

Major opportunities for 1999 and beyond include the expanding regional aircraft market, where about 25% of the company's environmental control systems are sold today. Regionally and globally, the sky's no limit for Hamilton Standard.

Sikorsky

The Sikorsky name is rooted in the history of flight—founder of the helicopter industry, builder of the world's first four-engine airplane, designer of flying boats and leader in inaugurating airmail service and launching commercial air travel. Sikorsky's helicopters flew the first hoist rescues at sea, the first medical evacuation flights and the first combat rescue missions.

Building on that legacy, Sikorsky helicopters are flying in more than 40 countries. In 1998, the company signed contracts or made deliveries to Brunei, Taiwan, Malaysia, Chile, Turkey, Israel, Korea and Greece. But maintaining Sikorsky's U.S. government base, while expanding globally, is at the heart of the company's strategy. In 1999 Sikorsky plans to deliver to the U.S. Navy the first two CH-60S Fleet Combat Support aircraft, the latest multi-service variant of the BLACK HAWK helicopter. The Navy may require as many as 235 more of these aircraft in the next decade. Also, the Navy is planning a program to rebuild its entire fleet of more than 250 SEAHAWK helicopters. Sikorsky will be the prime contractor for the air frame portion of the program. And under the U.S. Navy's Helicopter Master Plan, all Navy helicopters eventually will be Sikorsky products.

Two new aircraft, the RAH-66 COMANCHE and the S-92 HELIBUS, strengthen the Sikorsky portfolio. The Sikorsky/Boeing RAH-66 COMANCHE has earned the label "world's most advanced helicopter." The first prototype met or exceeded all critical development milestones in 1998. This next generation of stealth aircraft, a highlight at

SIKORSKY S-92—ABOVE THE FRAY HELICOPTERS ARE FOR ARMIES AND NAVIES. HELICOPTERS ARE FOR RESCUES...FOR FIRE FIGHTING...FOR NEWS COVERAGE...FOR EVERYDAY BUSINESS TRAVEL. EVERY DAY? THE SIKORSKY S-92 HELIBUS CARRIES UP TO 19 PEOPLE ABOVE TRAFFIC CLOGGED CITY STREETS. AND WITH OPERATING COSTS ONE-THIRD LESS THAN OTHER HELICOPTERS IN ITS CLASS. DOING MORE, FOR LESS.

1/3

the 1998 Farnborough Air Show in England, cruises at up to 175 knots and flies backwards or sideways at up to 75 knots.

The S-92 HELIBUS had its first flight. It carries up to 22 people for business and commuting needs, as well as government applications. It handles cargo transit, aeromedical, search and rescue, and oil exploration activities. Being built on four continents by leading aerospace companies in China, Japan, Taiwan, Brazil and Spain, the S-92 is truly a "world" helicopter.

The world's foremost helicopter maker is also expanding its presence. The venerable BLACK HAWK, the 20-year pillar of the industry, is now in service in 24 countries for military, peacekeeping, drug interdiction and disaster relief service. And the S-76 civil helicopter is flying corporate, offshore oil, hospital, airline, and government missions in 37 nations.

The company has opened sales and customer service offices in Malaysia, Australia, Spain, Brazil, Canada, and Scandinavia. The Asian financial crisis did tamp down Sikorsky's business in the region, but the company's sales elsewhere helped offset lost opportunities in Asia. And to strengthen its after-market support business, Sikorsky acquired Helicopter Support, Inc., and announced its entrance into fixed-wing aircraft maintenance with a U.S. Navy contract.

Igor Sikorsky began the helicopter industry. His is still the first name in vertical flight.

BOARD OF DIRECTORS

Antonia Handler Chayes
Senior Advisor and
Board Member of
Conflict Management Group
(Legal Consultation and
Alternative Dispute Resolution)

George David
Chairman and
Chief Executive Officer

Charles W. Duncan, Jr.
(Private Investments)

Jean-Pierre Garnier
Chief Operating Officer,
SmithKline Beecham plc
(Pharmaceuticals)

Pehr G. Gyllenhammar
Chairman, CGU
(Insurance)

Karl J. Krapek
Executive Vice President and
President, Pratt & Whitney

Charles R. Lee
Chairman and
Chief Executive Officer,
GTE Corporation
(Telecommunication Products)

Robert H. Malott
Retired Chairman of the Board
and Chief Executive Officer,
FMC Corporation
(Machinery and Chemicals)

Richard D. McCormick
Chairman, U S WEST, Inc.
(Telecommunications)

William J. Perry
Michael and Barbara
Berberian Professor at Stanford
University; Fellow at the Hoover
Institute; and co-director of the
Stanford-Harvard Preventive
Defense Project.

Frank P. Popoff
Chairman,
The Dow Chemical Company
(Chemicals and Chemical
Products)

André Villeneuve
Executive Director of
Reuters Holdings PLC
(News, Information and
Services)

Harold A. Wagner
Chairman and Chief Executive
Officer,
Air Products and Chemicals, Inc.
(Industrial Gases and Chemicals)

Jacqueline G. Wexler
Retired President,
National Conference
of Christians and Jews

PERMANENT COMMITTEES

EXECUTIVE COMMITTEE
George David, Chairman
Antonia Handler Chayes
Robert H. Malott
Jacqueline G. Wexler

AUDIT REVIEW COMMITTEE
Frank P. Popoff, Chairman
Antonia Handler Chayes
Charles W. Duncan, Jr.
Robert H. Malott
Richard D. McCormick
William J. Perry
André Villeneuve
Jacqueline G. Wexler

COMMITTEE ON COMPENSATION AND EXECUTIVE DEVELOPMENT
Harold A. Wagner, Chairman
Charles W. Duncan, Jr.
Jean-Pierre Garnier
Frank P. Popoff
Jacqueline G. Wexler

FINANCE COMMITTEE
Charles W. Duncan, Jr., Chairman
George David
Pehr G. Gyllenhammar
Charles R. Lee
Robert H. Malott
William J. Perry
André Villeneuve

NOMINATING COMMITTEE
Robert H. Malott, Chairman
Charles W. Duncan, Jr.
Jean-Pierre Garnier
Pehr G. Gyllenhammar
Charles R. Lee
Richard D. McCormick
Harold A. Wagner

PUBLIC ISSUES REVIEW COMMITTEE
Jacqueline G. Wexler, Chairman
Antonia Handler Chayes
Jean-Pierre Garnier
Pehr G. Gyllenhammar
Richard D. McCormick
William J. Perry
André Villeneuve
Harold A. Wagner

Mario Abajo
Vice President and Senior Area Executive, South Europe, Middle East and West Asia, Otis

Tesfaye Aklilu
Vice President, Quality

Jonathan W. Ayers
President, Asia Pacific Operations, Carrier

Dean C. Borgman
President and Chief Operating Officer, Sikorsky Aircraft

Ari Bousbib
Vice President, Strategic Planning

Kent L. Brittan
Vice President, Supply Management

William R. Brown
President, Latin American Operations, Carrier

Eugene Buckley
Chairman and Chief Executive Officer, Sikorsky Aircraft

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

Edwin L. Buker
President, Electrical Systems Americas, UT Automotive

L. David Caplan
Chairman and Chief Executive Officer, Pratt & Whitney Canada

Leslie A. Carothers
Vice President, Environment, Health & Safety

John F. Cassidy, Jr.
Senior Vice President, Science and Technology and Vice President, United Technologies Research Center

Louis R. Chênevert
Executive Vice President, Pratt & Whitney

Kevin Conway
Vice President, Taxes

D. Edward Crow
Senior Vice President, Technical, Pratt & Whitney

Geraud Darnis
President, European & Transcontinental Operations, Carrier

George David
Chairman and Chief Executive Officer

Guy Fauconneau
President, North American Operations, Carrier

David J. FitzPatrick
Senior Vice President and Chief Financial Officer

Patrick J. Gnazzo
Vice President, Business Practices

C. Scott Greer
President, UT Automotive

Bruno Grob
Vice President and Senior Area Executive, North Europe, Otis

Jay L. Haberland
Vice President, Controller

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

Robert S. Harris
Vice President, Chief Learning Officer

Volker Heuzeroth
President, Europe, UT Automotive

Makoto Komoto
Vice President and Senior Area Executive, Japan, Otis

Karl J. Krapek
Executive Vice President and President, Pratt & Whitney

Raymond P. Kurlak
President, Hamilton Standard

Robert Leduc
Executive Vice President, Marketing, Sales, Programs and Strategic Planning, Pratt & Whitney

Patrick L'Hostis
Vice President and Senior Area Executive, Asia Pacific, Otis

John R. Lord
President, Carrier Corporation

Angelo J. Messina
Vice President, Financial Planning and Analysis

William T. Miller
Vice President and Senior Area Executive, United States and Canada, Otis

Ricardo M. Monte
Vice President and Senior Area Executive, Latin America, Otis

Robert R. Moore
Executive Vice President, Aircraft Systems, Hamilton Standard

Gilles P. Ouimet
President and Chief Operating Officer, Pratt & Whitney Canada

Stephen F. Page
Executive Vice President and President and Chief Executive Officer, Otis

James F. Perretta
Vice President, Industrial Relations

Nicholas T. Pinchuk
President, Refrigeration Operations, Carrier

Gilles A. H. Renaud
Vice President, Treasurer

Jürgen Reuning
Vice President and Senior Area Executive, Central and East Europe, Otis

Richard J. Sloan
President, Interior Systems International, UT Automotive

Hansel E. Tookes
President, Large Military Engines, Pratt & Whitney

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

L. Alan Winslow
President, Asia Pacific Operations, UT Automotive

Richard M. Whiston
Executive Vice President and General Counsel, Pratt & Whitney and President, Space and Russian Programs, Pratt & Whitney

Jon E. Wohler
Senior Vice President, Marketing and Sales, Pratt & Whitney

CORPORATE OFFICE

United Technologies Corporation
One Financial Plaza
Hartford, Connecticut 06101
Telephone (860) 728-7000

This annual report is sent to shareowners in advance of the proxy statement for the annual meeting to be held at 11:00 a.m., April 30, 1999, in Hartford, Connecticut. The proxy statement will be sent to shareowners on or about March 29, 1999, at which time proxies for the meeting will be requested.

STOCK LISTING

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

TICKER SYMBOL

Common: UTX

TRANSFER AGENT

For the Common Stock:
First Chicago Trust
Company of New York
P. O. Box 2500
Jersey City, New Jersey
07303-2500

REGISTRAR

For the Common Stock:
First Chicago Trust
Company of New York
P. O. Box 2500
Jersey City, New Jersey
07303-2500

DIVIDENDS

Dividends are usually declared the first month of each calendar quarter and are usually paid on the 10th day of March, June, September and December. The dividend disbursing agent for the Common Stock is:
First Chicago Trust
Company of New York
P. O. Box 2500
Jersey City, New Jersey
07303-2500
Dividend and Transfer inquiries: 1-800-519-3111
TDD: 1-201-222-4955
Telecommunications Device for the hearing impaired.

SHAREOWNER DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Corporation has adopted a Shareowner Dividend Reinvestment and Stock Purchase Plan. The Plan provides eligible holders of the Corporation's Common Stock with a simple and convenient method of investing cash dividends and voluntary cash payments in additional shares of Common Stock without payment of a brokerage commission or service charge. Shareowners should carefully review the Plan Prospectus before investing. For more information and a Plan Prospectus, contact First Chicago Trust Company of New York at 1-800-519-3111.

DIRECT REGISTRATION SYSTEM

In the next few weeks, the Corporation will be making available to Shareowners another way to register their shares without having a physical certificate issued. 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 First Chicago Trust Company of New York 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.

ADDITIONAL INFORMATION

Shareowners may obtain a copy of the 1998 United Technologies Annual Report on Form 10-K filed with the Securities and Exchange Commission by writing to:
William H. Trachsel
Secretary
United Technologies Corporation
One Financial Plaza
Hartford,
Connecticut 06101

For additional information about United Technologies, please contact the Investor Relations Department at the above Corporate Office address.

CONSOLIDATION OF ACCOUNTS

Shareowners who receive multiple copies of the annual report and other financial documents because they have more than one UTC Common Stock account listing can help reduce the cost of printing and mailing these materials by having their accounts consolidated. Please advise:
First Chicago Trust
Company of New York
P. O. Box 2500
Jersey City, New Jersey
07303-2500

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 Annual Report on Form 10-K.

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

Additional information about UTC, including financial information, can be found at our internet site: http://www.utc.com.

Environmentally Friendly Report

This annual report is printed on recycled and recyclable paper.

United Technologies Corporation ANNUAL REPORT

CONTENTS

“UTC made excellent progress in 1998”

GEORGE DAVID, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

IN MILLIONS OF DOLLARS (EXCEPT PER SHARE AMOUNTS)	1998	1997	1996	1995	1994
FOR THE YEAR					
Revenues	$ 25,715	$ 24,222	$ 23,051	$ 22,428	$ 20,934
Research and development	1,315	1,187	1,122	963	978
Segment operating profit margin	9.6%	8.9%	8.6%	7.8%	7.3%
Net income	1,255	1,072	906	750	585
Earnings per share:					
Basic	5.36	4.44	3.63	2.94	2.24
Diluted	5.05	4.21	3.48	2.87	2.20
Cash dividends per common share	1.39	1.24	1.10	1.025	.95
Average number of shares of Common Stock outstanding (thousands):					
Basic	227,767	234,443	241,454	245,642	251,077
Diluted	247,380	253,555	258,606	259,506	262,992
Return on average common shareowners' equity, after tax	28.6%	24.5%	21.1%	18.6%	15.4%
AT YEAR END					
Working capital	$ 1,620	$ 1,905	$ 2,287	$ 2,282	$ 1,701
Total assets	18,375	16,440	16,412	15,596	15,403
Long-term debt, including current portion	1,675	1,398	1,534	1,747	2,041
Total debt	2,187	1,587	1,750	2,012	2,439
Debt to total capitalization	33%	28%	29%	33%	39%
Net debt (total debt less cash)	1,637	932	752	1,273	2,167
Net debt to total capitalization	27%	19%	15%	24%	37%
ESOP Preferred Stock, net	456	450	434	398	339
Shareowners' equity	4,378	4,073	4,306	4,021	3,752
Equity per common share	19.45	17.78	18.08	16.47	15.24
Number of employees	178,800	168,900	163,000	160,600	161,500

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

The Corporation's operations are classified into five principal operating segments. Otis, Carrier and UT Automotive serve customers in the commercial property, residential housing and automotive industries. Pratt & Whitney and the Flight Systems segment, which includes Sikorsky Aircraft and Hamilton Standard, serve commercial and government customers in the aerospace industry. The Corporation's segment operating results are discussed in the Segment Review and Note 15 of Notes to Consolidated Financial Statements.

BUSINESS ENVIRONMENT

As worldwide businesses, the Corporation's operations are affected by global and regional economic factors. However, the diversity of the Corporation's businesses and global market presence has helped limit the impact of any one industry or the economy of any single country on the consolidated results. Revenues from outside the U.S., including U.S. export sales, in dollars and as a percentage of total segment revenues, are as follows:

IN MILLIONS OF DOLLARS	1998	1997	1996	1998	1997	1996
Europe	$ 5,240	$ 4,788	$ 4,800	20%	19%	20%
Asia Pacific	2,508	2,952	3,042	10%	12%	13%
Other	2,559	2,380	2,238	10%	10%	10%
U.S. Exports	4,310	4,022	3,124	16%	16%	13%
International Revenues	$14,617	$14,142	$13,204	56%	57%	56%

As part of its globalization strategy, the Corporation has invested in businesses in emerging markets, including the People's Republic of China (PRC), the former Soviet Union and other emerging nations, which carry higher levels of currency, political and economic risks than investments in developed markets. At December 31, 1998, the Corporation's net investment in any one of these countries was less than 3% of consolidated equity.

The Asian economic crisis has significantly slowed growth in the region since the latter part of 1997. Tightening of credit in Asia has restricted available financing for new construction and slowed the completion of projects currently underway, resulting in less activity compared to recent years. While recognizing that the Asian economic downturn will continue beyond 1998, management believes the long-term economic growth prospects of the region remain intact. Therefore, the Corporation's Asian investment strategy continues to focus on the long-term infrastructure requirements of the region.

OTIS is the world's largest elevator and escalator manufacturing and service company. The elevator and escalator service market is an important aspect of Otis' business. Otis is impacted by global and regional economic factors, particularly fluctuations in commercial construction which affect new equipment installations, and labor costs which can impact service and maintenance margins on installed elevators and escalators. In 1998, 81% of Otis' revenues were generated outside the U.S. Accordingly, changes in foreign currency exchange rates can significantly affect the translation of Otis' operating results into U.S. dollars for financial reporting purposes.

During 1998, U.S. office building construction starts were higher than the prior year and commercial vacancy rates continued to improve. In Europe, Otis' new equipment activity increased along with a growing base of service business. Otis maintains a significant presence in the Asia Pacific region where economies remained weak.

CARRIER is the world's largest manufacturer of commercial and residential heating, ventilating and air conditioning (HVAC) systems and equipment. Carrier also produces transport and commercial refrigeration equipment, and provides aftermarket service and component sales. In late 1997, Carrier formed the Refrigeration Operations group from the former Carrier Transicold business and the newly acquired Commercial Refrigeration Operations. During 1998, 52% of Carrier's revenues were generated by international operations and U.S. exports. Accordingly, Carrier's results are impacted by a number of external factors including commercial and residential construction activity worldwide, regional economic and weather conditions and changes in foreign currency exchange rates.

U.S. residential housing and commercial construction starts increased in 1998, compared to 1997. Asian economies remained weak in 1998 while European economies strengthened.

UT AUTOMOTIVE (UTA) develops and manufactures a wide variety of electrical and interior trim systems and components for original equipment manufacturers (OEMs) in the automotive industry. Sales to Ford Motor Company, UTA's largest customer, were 33% of UTA's revenues in 1998. UTA also has important relationships with DaimlerChrysler and General Motors as well as European manufacturers PSA, Renault, Volvo, Austin Rover/BMW, SAAB and Fiat and the U.S. manufacturing divisions of Japanese automotive OEMs.

North American car and light truck production was lower while European car sales were higher in 1998, compared to 1997. UTA was unfavorably impacted by a strike at General Motors, during 1998, while benefiting from higher volumes in Europe. The automotive OEMs require significant cost reduction and performance improvements from suppliers and require suppliers to bear an increasing portion of engineering, design, development, tooling and warranty expenditures.

During 1998, 43% of UTA's revenues were generated by international operations and U.S. exports. Accordingly, UTA's results can be impacted by changes in foreign currency exchange rates.

20% Earnings per share has grown 20% or more for the past five years

Declining effective tax rate contributes to improved bottom line

In response to the rapid consolidation of OEM suppliers, the Corporation has engaged an investment banking firm to explore various strategic alternatives for UT Automotive, including possible divestiture of all or part of the business.

COMMERCIAL AEROSPACE

The financial performance of the Corporation's Pratt & Whitney and Flight Systems segments is directly tied to the aviation industry. Pratt & Whitney is a major supplier of commercial, general aviation and military aircraft engines, along with spare parts, product support and a full range of overhaul, repair and fleet management services. The Flight Systems segment provides environmental, flight and fuel control systems and propellers for commercial and military aircraft through Hamilton Standard, and commercial and military helicopters, along with after-market products and services, through Sikorsky Aircraft.

Worldwide airline profits, traffic growth and load factors have been reliable indicators for new aircraft and after-market orders. During 1998, U.S. and European airlines experienced continued profitability driven primarily by low fuel prices and the effect of cost reduction programs. Airlines in the Asia Pacific region have suffered declines in operating results reflecting weaker local economies. This erosion in earnings has resulted in a decrease in new orders for aerospace products and cancelations or deferrals of existing orders throughout the industry. The impact of the Asian economic downturn or a slowdown in the aviation industry, as a whole, will result in lower manufacturing volumes in the near term.

Over the past several years, Pratt & Whitney's mix of large commercial engine shipments has shifted to newer, higher thrust engines for wide-bodied aircraft in a market which is very price and product competitive. In order to update and further diversify its product base, Pratt & Whitney began development of the PW6000, a 16,000 to 23,000 pound-thrust engine designed specifically for the short-to-medium haul, 100 to 120 passenger, narrow-bodied aircraft market. The PW6000 is expected to enter service in 2002, with delivery to the first of two major customers.

The follow-on spare parts sales for Pratt & Whitney engines in service have traditionally been an important source of profit for the Corporation. The large investment required for new aircraft, coupled with performance improvements and hush-kit upgrades to older aircraft and engines, have resulted in lengthened lives of older aircraft in operation, including those with Pratt & Whitney engines.

Technological improvements to newer generation engines that increase reliability, as well as vertical integration of engine manufacturers in the overhaul and maintenance business, may change the market environment in the after-market business.

GOVERNMENT BUSINESS

During 1998, the Corporation's sales to the U.S. Government were $3,264 million or 13% of total sales, compared with $3,311 million or 14% of total sales in 1997 and $3,382 million or 15% of total sales in 1996.

The defense portion of the Corporation's aerospace businesses continues to respond to a changing global political environment. The U.S. defense industry continues to downsize and consolidate in response to continued pressure on U.S. defense spending.

Sikorsky will continue to supply Black Hawk helicopters and derivatives thereof to the U.S. and foreign governments under contracts extending into 2002 at lower volumes than in the past. The U.S. Army Comanche helicopter contract, awarded to a Sikorsky/Boeing joint venture, supports completion of prototype development, flight testing and aircraft for initial field tests.

The significant decrease in the U.S. defense procurement of helicopters in recent years and the resulting overcapacity has led to some consolidation of U.S. helicopter manufacturers. Sikorsky is responding to these continued consolidation pressures by improving its products and concentrating on increasing its after-market and foreign government sales. In addition, an international team led by Sikorsky is developing the S-92, a large cabin derivative of the Black Hawk family, for commercial and military markets. This aircraft made its first flight in December 1998.

Pratt & Whitney continues to deliver F100 engines and military spare parts to both U.S. and foreign governments. Pratt & Whitney engines have been selected to power two of the primary U.S. Air Force programs of the future: the C-17 airlifter which is currently in production and the F-22 fighter (F119 engine) which is currently being developed. Derivatives of Pratt & Whitney's F119 engine were chosen to provide power for the Joint Strike Fighter demonstration aircraft. The Joint Strike Fighter program is intended to lead to the development of a single aircraft, with two configurations, to satisfy future requirements of the U.S. Navy, Air Force and Marine Corps and the United Kingdom Royal Navy.

RESULTS OF OPERATIONS

IN MILLIONS OF DOLLARS	1998	1997	1996
Sales	$25,687	$23,989	$22,788
Financing revenues and other income, net	28	233	263
Revenues	$25,715	$24,222	$23,051

Consolidated revenues increased 6% in 1998 and 5% in 1997. Excluding the unfavorable impact of foreign currency translation, consolidated revenues increased by 8% in both years. The Corporation estimates that increases in selling prices to customers averaged approximately 1% each year.

Financing revenues and other income, net, decreased $205 million in 1998 and $30 million in 1997. The 1998 decrease is primarily due to the costs of Pratt & Whitney's repurchases of participant interests in commercial engine programs, partially offset by the favorable settlement of a contract dispute with the U.S. Government.

IN MILLIONS OF DOLLARS	1998	1997	1996
Cost of sales	$19,276	$18,288	$17,415
Gross margin %	25.0%	23.8%	23.6%

Gross margin as a percentage of sales increased 1.2 percentage points in 1998 and two-tenths of a percentage point in 1997. The 1998 increase is primarily due to improved margin percentages at Pratt & Whitney. Gross margin in both years benefited from the Corporation's continuing cost reduction efforts.

IN MILLIONS OF DOLLARS	1998	1997	1996
Research and development	$1,315	$1,187	$1,122
Percent of sales	5.1%	4.9%	4.9%

Research and development spending increased $128 million (11%) and $65 million (6%) in 1998 and 1997. The increases were primarily due to increases at Pratt & Whitney and UT Automotive. Research and development expenses in 1999 are expected to remain at approximately 5% of sales.

IN MILLIONS OF DOLLARS	1998	1997	1996
Selling, general and administrative	$ 2,957	$ 2,820	$ 2,796
Percent of sales	11.5%	11.8%	12.3%

Selling, general and administrative expenses, as a percentage of sales, decreased three-tenths of a percentage point in 1998 and five-tenths of a percentage point in 1997. The 1998 decrease was primarily due to Otis, while the 1997 decrease was due to Pratt & Whitney and Flight Systems.

IN MILLIONS OF DOLLARS	1998	1997	1996
Interest expense	$ 204	$ 191	$ 217

Interest expense increased 7% in 1998, due to increased short-term borrowing needs and the issuance of $400 million of 6.7% notes in August. Interest expense decreased 12% in 1997 due to reduced average borrowing levels.

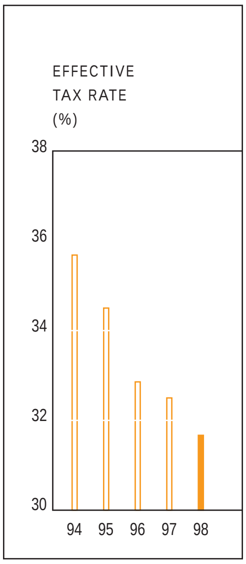
YEARS ENDED DECEMBER 31	1998	1997	1996
Average interest rate for the year:			
Short-term borrowings	10.3%	11.7%	11.8%
Total debt	8.3%	8.3%	8.7%

The average interest rate, for the year, on short-term borrowings exceed those of total debt due to higher short-term borrowing rates in certain foreign operations.

The weighted-average interest rate applicable to debt outstanding at December 31, 1998 was 6.7% for short-term borrowings and 7.3% for total debt. Weighted-average short-term borrowing rates are lower than those of total debt at December 31, 1998, due to the addition of commercial paper borrowings in the latter part of the year.

	1998	1997	1996
Effective income tax rate	31.7%	32.5%	32.9%

The Corporation has reduced its effective income tax rate by implementing tax reduction strategies.



The future tax benefit arising from net deductible temporary differences is $2,352 million and relates to expenses recognized for financial reporting purposes which will result in tax deductions over varying future periods. Management believes that the Corporation's earnings during the periods when the temporary differences become deductible will be sufficient to realize those future income tax benefits.

While some tax credit and loss carryforwards have no expiration date, certain foreign and state tax loss carryforwards arise in a number of different tax jurisdictions with expiration dates beginning in 1999. For those jurisdictions where the expiration date or the projected operating results indicate that realization is not likely, a valuation allowance has been provided.

The Corporation believes, based upon a review of prior period income tax returns, it is entitled to income tax refunds for prior periods. The Internal Revenue Service reviews these potential refunds as part of the examination of the Corporation's income tax returns and the impact on the Corporation's liability for income taxes for these years cannot presently be determined.

Minority interest expense decreased $14 million (14%) in 1998 and $2 million (2%) in 1997. The 1998 decrease is due to the level of the Corporation's earnings in less than wholly-owned subsidiaries, principally in Asia, and recent purchases of minority-shareholder interests.

Net income:
Increased 17% or $183 million from 1997 to 1998.
Increased 18% or $166 million from 1996 to 1997.

SEGMENT REVIEW

Operating segment and geographic data include the results of all majority-owned subsidiaries, consistent with the management of these businesses. For certain of these subsidiaries, minority shareholders have rights which, under the provisions of Emerging Issues Task Force Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights" (EITF 96-16), overcome the presumption of consolidation. In the Corporation's consolidated results, these subsidiaries are accounted for using the equity method of accounting.

	Revenues			Operating Profits			Operating Profit Margin		
IN MILLIONS OF DOLLARS	1998	1997	1996	1998	1997	1996	1998	1997	1996
Otis	$5,572	$5,548	$5,595	$ 533	$465	$524	9.6%	8.4%	9.4%
Carrier	6,922	6,056	5,958	495	458	422	7.2%	7.6%	7.1%
UT Automotive	2,962	2,987	3,233	169	173	196	5.7%	5.8%	6.1%
Pratt & Whitney	7,876	7,402	6,201	1,024	816	637	13.0%	11.0%	10.3%
Flight Systems	2,891	2,804	2,596	287	301	244	9.9%	10.7%	9.4%

Operating cash flows remained strong

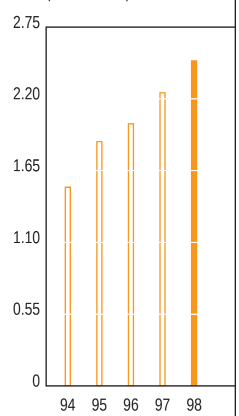
Segment operating profit continued to improve despite the Asian economic crisis and cost reduction charges

1998 COMPARED TO 1997

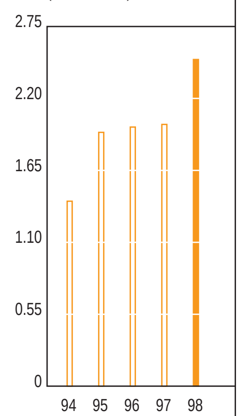
OTIS revenues increased $24 million in 1998. Excluding the unfavorable impact of foreign currency translation, 1998 revenues increased 3% with increases in Europe, North America and Latin America, partially offset by declines in Asia.

Otis operating profits increased $68 million (15%) in 1998. Excluding the unfavorable impact of foreign currency translation, 1998 operating profits increased 17%. European, North American and Latin American operations improved in 1998, partially offset by declines in Asian operations and higher charges related to workforce reductions and the consolidation of manufacturing and engineering facilities.

SEGMENT OPERATING PROFIT ($ Billions)



OPERATING CASH FLOWS ($ Billions)



CARRIER revenues increased $866 million (14%) in 1998. Excluding the unfavorable impact of foreign currency translation, 1998 revenues increased 17% due to the impact of acquisitions, as well as, increases in the Refrigeration Operations, North America, Europe and Latin America, partially offset by declines in Asia.

Carrier operating profits increased $37 million (8%) in 1998. Excluding the unfavorable impact of foreign currency translation, 1998 operating profits increased 11%. The 1998 increase reflects improvements in the Refrigeration Operations, North America, Latin America and Europe and the impact of acquisitions which more than offset declines in Asia. The 1998 results include charges related to workforce reductions and plant closures.

UT AUTOMOTIVE revenues decreased $25 million (1%) in 1998, reflecting declines in the electrical and interiors businesses, which were primarily due to lower selling prices and a strike at General Motors. These declines were partially offset by increases in Europe.

UT Automotive operating profits decreased $4 million (2%) in 1998 due to higher research and development spending in connection with new programs, higher selling, general and administrative expenses, lower selling prices and a strike at General Motors. The 1997 results include charges related to administrative workforce reductions and a provision for a plant closure.

PRATT & WHITNEY revenues increased $474 million (6%) in 1998, reflecting higher after-market revenues, resulting primarily from acquisitions, as well as, increased commercial engine shipments and U.S. military development revenues. The 1998 results also reflect the favorable settlement of a contract dispute with the U.S. Government and costs to repurchase interests from participants in commercial engine programs.

Pratt & Whitney operating profits increased $208 million (25%), reflecting higher engine margins, increased U.S. military development volumes, higher after-market volumes and productivity improvements. These items were partially offset by costs to repurchase interests from participants in commercial engine programs, charges related to workforce reduction efforts in the U.S. and Canada, higher research and development spending and selling, general and administrative expenses. The 1998 results also reflect the favorable settlement of a contract dispute with the U.S. Government and favorable resolution of customer contract issues.

FLIGHT SYSTEMS revenues increased $87 million (3%) in 1998 primarily due to increased revenues at Hamilton Standard, which were favorably impacted by the first quarter 1998 acquisition of a French aerospace components manufacturer, partly offset by lower volumes at Sikorsky.

Flight Systems operating profits decreased $14 million (5%) in 1998 due to lower volumes at Sikorsky and cost reduction charges taken at both units. The 1998 decline was partly offset by improvements at Hamilton Standard, mostly due to the first quarter acquisition of a French aerospace components manufacturer.

1997 COMPARED TO 1996

OTIS revenues decreased $47 million (1%) in 1997. Excluding the unfavorable impact of foreign currency translation, 1997 revenues increased 7% with all regions showing growth.

Otis operating profits decreased $59 million (11%) in 1997. Excluding the unfavorable impact of foreign currency translation, 1997 operating profits decreased 2%. The 1997 results include the impact of salaried workforce reductions designed to lower costs and streamline the organization. North American, Latin American and European operations improved in 1997, while Asian operations declined.

CARRIER revenues increased $98 million (2%) in 1997. Excluding the unfavorable impact of foreign currency translation, 1997 revenues increased 5%, primarily due to the impact of European acquisitions and increases at Carrier Transicold. Revenue increases were partially offset by declines due to sluggish economic conditions in Europe, unseasonably cool summer selling seasons in Europe and North America and an economic downturn in the Asia Pacific region, particularly Southeast Asia.

Carrier operating profits increased $36 million (9%) in 1997. Excluding the unfavorable impact of foreign currency translation, 1997 operating profits increased 12%. The 1997 increase reflects improvements at Carrier Transicold and the impact of acquisitions which more than offset declines in the Asian and European operations and the weather related weakness noted above.

UT AUTOMOTIVE revenues decreased $246 million (8%) in 1997. Foreign currency translation reduced 1997 revenues by 3%. The comparative decrease in 1997 revenues is also the result of the sale of the steering wheels business in the fourth quarter of 1996 and lower volumes at most businesses.

UT Automotive operating profits decreased $23 million (12%) in 1997. Foreign currency translation reduced 1997 operating profits by 7%. The comparative results were also impacted by lower volumes, domestic administrative workforce reductions, a provision for a European plant closure in 1997 and the fourth quarter 1996 sale of the steering wheels business, which more than offset improvements at the interiors business and in Europe.

PRATT & WHITNEY revenues increased $1,201 million (19%) in 1997, reflecting higher volumes in both the after-market and new engine businesses.

Pratt & Whitney operating profits increased $179 million (28%), reflecting strong after-market results partially offset by higher research and development spending. Operating results in 1997 also benefited from continued cost reduction efforts which more than offset raw material price increases and costs associated with staff reductions.

FLIGHT SYSTEMS revenues increased $208 million (8%) in 1997 due to increases at both Hamilton Standard and Sikorsky.

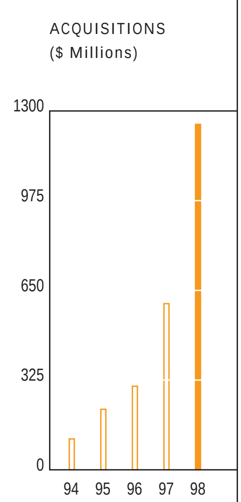
Flight Systems operating profits increased $57 million (23%) in 1997 as a result of continuing operating performance improvement at both Hamilton Standard and Sikorsky, partially offset by higher research and development spending.

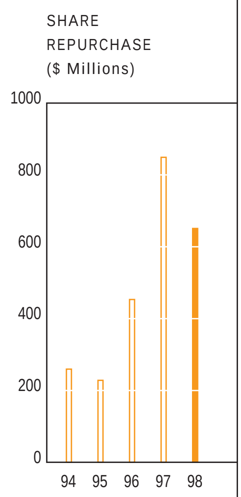
LIQUIDITY AND FINANCING COMMITMENTS

Management assesses the Corporation's liquidity in terms of its overall ability to generate cash to fund its operating and investing activities. Significant factors affecting the management of liquidity are cash flows generated from operating activities, capital expenditures, customer financing requirements, adequate bank lines of credit and the ability to attract long-term capital with satisfactory terms.

IN MILLIONS OF DOLLARS	1998	1997	1996
Net cash flows provided by operating activities	$ 2,509	$ 2,090	$ 2,079
Capital expenditures	(866)	(819)	(770)
(Increase) decrease in customer financing assets, net	(213)	39	48
Acquisition funding	(1,241)	(584)	(317)
Common Stock repurchase	(650)	(849)	(459)
Change in total debt	600	(163)	(262)
Change in net debt	705	180	(521)

Cash flows provided by operating activities were $2,509 million during 1998 compared to $2,090 million in 1997. The increase resulted from improved operating and working capital performance. Cash flows used in investing activities were $2,269 million during 1998 compared to $1,167 million in 1997. Capital expenditures in 1998 were $866 million, a $47 million increase over 1997. The Corporation expects 1999 capital spending to approximate that of 1998. Customer financing activity was a net use of cash of $213 million in 1998 compared to a net source of cash of $39 million in 1997, primarily as a result of first quarter 1998 funding for an airline customer. While the Corporation expects that customer financing activity will be a net use of cash in 1999, actual funding is subject to usage under existing customer financing commitments. In 1998, the Corporation invested $1,241 million in the acquisition of businesses including Pratt & Whitney's investment in an overhaul and repair joint venture in Singapore, Hamilton Standard's acquisition of a French aerospace components manufacturer, Carrier's investment in a United States based distributor of HVAC equipment and Otis' purchase of the outstanding minority shares of a European subsidiary. The Corporation repurchased $650 million and $849 million of Common Stock during 1998 and 1997, representing 7.4 million and 11.2 million shares, under previously announced share repurchase programs. Share repurchase continues to be a significant use of the Corporation's strong cash flows and has more than offset the dilutive effect resulting from the issuance of stock under stock-based employee benefit programs. In October 1998, the Corporation's Board of Directors authorized the acquisition of an additional 15 million shares under the Corporation's share repurchase program.





IN MILLIONS OF DOLLARS	1998	1997
Cash and cash equivalents	$ 550	$ 655
Total debt	2,187	1,587
Net debt (total debt less cash)	1,637	932
Shareowners' equity	4,378	4,073
Debt to total capitalization	33%	28%
Net debt to total capitalization	27%	19%

At December 31, 1998, the Corporation had credit commitments from banks totaling $1.5 billion under a Revolving Credit Agreement, which serves as back-up for a commercial paper facility. At December 31, 1998, there were no borrowings under the Revolving Credit Agreement. In addition, at December 31, 1998, approximately $1.1 billion was available under short-term lines of credit with local banks at the Corporation's various international subsidiaries.

As described in Note 8 of Notes to Consolidated Financial Statements, the Corporation issued $400 million of unsubordinated, unsecured, nonconvertible notes in August 1998. The proceeds were used for general corporate purposes, including acquisitions and repurchases of the Corporation's Common Stock. At December 31, 1998, up to $471 million of additional medium-term and long-term debt could be issued under a registration statement on file with the Securities and Exchange Commission.

At December 31, 1998, the Corporation had commitments of $1,420 million to finance or arrange financing related to commercial aircraft, of which as much as $600 million may be required to be disbursed in 1999. The Corporation cannot currently predict the extent to which these commitments will be utilized, since certain customers may be able to obtain more favorable terms from other financing sources. The Corporation may also arrange for third-

$1.2 Acquisitions exceeded $1.2 billion for the year party investors to assume a portion of its commitments. Refer to Note 4 of Notes to Consolidated Financial Statements for additional discussion of the Corporation's commercial airline industry assets and commitments.

The Corporation believes that existing sources of liquidity are adequate to meet anticipated borrowing needs at comparable risk-based interest rates for the foreseeable future. Management anticipates the level of debt to capital will increase moderately in order to satisfy its various cash flow requirements, including acquisition spending and continued share repurchases.

DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

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

International revenues, including U.S. export sales, averaged approximately $14 billion over the last three years, resulting in a large volume of foreign currency commitment and transaction exposures and significant foreign currency net asset exposures. Foreign currency commitment and transaction exposures are managed at the operating unit level as an integral part of the business and residual exposures that cannot be offset to an insignificant amount are hedged. These hedges are initiated by the operating units, with execution coordinated on a corporate-wide basis, and are scheduled to mature coincident with the timing of the underlying foreign currency commitments and transactions. Currently, the Corporation does not hold any derivative contracts that hedge its foreign currency net asset exposures.

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

The Corporation's long-term debt portfolio consists mostly of fixed-rate instruments in order to minimize earnings volatility related to interest expense. The Corporation currently does not hold interest rate derivative contracts.

The Corporation has evaluated its exposure to changes in foreign currency exchange and interest rates in its market risk sensitive instruments, 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, 1998 and 1997, the potential loss in fair value of the Corporation's market risk sensitive instruments was not material in relation to the Corporation's financial position, results of operations or cash flows. The Corporation's calculated value at risk exposure represents an estimate of reasonably possible net losses based on historical market rates, volatilities and correlations and is not necessarily indicative of actual results.

Refer to Notes 1, 12 and 13 of Notes to Consolidated Financial Statements for additional discussion of the Corporation's foreign exchange and financial instruments.

ENVIRONMENTAL MATTERS

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

The Corporation has identified approximately 380 locations, mostly in the United States, at which it may have some liability for remediating contamination. The Corporation does not believe that any individual location's exposure is material to the Corporation. Sites in the investigation or remediation stage represent approximately 98% of the Corporation's recorded liability. The remaining 2% of the recorded liability consists of sites where the Corporation may have some liability but investigation is in the initial stages or has not begun.

The Corporation has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or Superfund) at approximately 90 sites. The number of Superfund sites, in and of itself, does not represent a relevant measure of liability because the nature and extent of environmental concerns vary from site to site and the Corporation's share of responsibility varies from sole responsibility to very little responsibility. In estimating its liability for remediation, the Corporation considers its likely proportionate share of the anticipated remediation expense and the ability of other potentially responsible parties to fulfill their obligations.

Environmental remediation expenditures were $37 million in 1998, $35 million in 1997 and $30 million in 1996. The Corporation estimates that environmental remediation expenditures in each of the next two years will not exceed $50 million in the aggregate.

Additional discussion of the Corporation's environmental matters is included in Notes 1 and 14 of Notes to Consolidated Financial Statements.

U.S. GOVERNMENT

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

FUTURE ACCOUNTING CHANGES

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" which is effective January 1, 2000. Also in

June 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use", which the Corporation will adopt in 1999. Management believes adoption of these requirements will not have a material impact on the Corporation's financial position, results of operations or cash flows.

YEAR 2000

The Corporation has developed a project plan to address the impact of the Year 2000 on its internal systems, products and facilities, as well as, its key suppliers and customers. The project has strong executive sponsorship and has been reviewed by an independent third party. The project consists of the following phases: awareness, assessment, remediation, testing and contingency planning.

The Corporation has substantially completed the awareness and assessment phases, with respect to its internal systems, products and facilities. The Corporation is in the process of carrying out the remediation and testing phases, which are expected to be substantially completed by September 1999.

The Corporation has been assessing its Year 2000 risks related to significant relationships with third parties via ongoing communication with its critical suppliers and customers. As part of the process, the Corporation has requested written assurances from these suppliers and customers that they have Year 2000 readiness programs in place, as well as an affirmation that they will be compliant when necessary. Responses to these inquiries are currently being gathered and reviewed. Further analysis, including site visits, will be conducted as necessary. Activities related to third parties are scheduled to be completed by September 1999. Despite these efforts, the Corporation can provide no assurance that supplier and customer Year 2000 compliance plans will be successfully completed in a timely manner.

The Corporation is taking steps to prevent major interruptions in the business due to Year 2000 problems using both internal and external resources to identify and correct problems and to test for readiness. The estimated external costs of the project, including equipment costs and consultant and software licensing fees, are expected to be approximately $140 million. Internal costs, which are primarily payroll related, are expected to be approximately $55 million. These costs are being funded through operating cash flows with amounts that would normally be budgeted for the Corporation's information systems and production and facilities equipment. As of December 31, 1998, total costs of external and internal resources incurred amounted to approximately $75 million and relate primarily to internal systems, products and facilities. Although the Corporation has been working on its Year 2000 readiness efforts for several years, costs incurred prior to 1997 have not been separately tracked and are generally not included in the estimate of total costs.

The schedule for completion and the estimated associated costs are based on management's estimates, which include assumptions of future events. There can be no assurance that the Corporation, its suppliers and customers will be fully Year 2000 compliant by January 1, 2000. The Corporation, therefore, could be adversely impacted by such things as loss of revenue, production delays, product failures, lack of third party readiness and other business interruptions. Accordingly, the Corporation has begun developing contingency plans to address potential issues which include, among other actions, development of backup procedures and identification of alternate suppliers. Contingency planning is expected to be substantially completed by September 1999. The ultimate effects on the Corporation or its suppliers or customers of not being fully Year 2000 compliant are not reasonably estimable. However, the Corporation believes its Year 2000 remediation efforts, together with the diverse nature of its businesses, help reduce the potential impact of non-compliance to levels which will not have a material adverse impact on its financial position, results of operations or cash flows.

EURO CONVERSION

On January 1, 1999, the European Economic and Monetary Union (EMU) entered a three-year transition phase during which a common currency, the "euro", was introduced in participating countries. Initially, the euro is being used for wholesale financial transactions and it will replace the legacy currencies that will be withdrawn between January 1, 2002 and July 1, 2002. The Corporation has been preparing for the euro since December of 1996 and has identified issues and developed implementation plans associated with the conversion, including technical adaptation of information technology and other systems, continuity of long-term contracts, foreign currency considerations, long-term competitive implications of the conversions and the effect on the market risk inherent in financial instruments. These implementation plans are expected to be completed within a timetable that is consistent with the transition phases of the euro.

Based on its evaluation to date, management believes that the introduction of the euro, including the total costs for the conversion, will not have a material adverse impact on the Corporation's financial position, results of operations or cash flows. However, uncertainty exists as to the effects the euro will have on the marketplace and there is no guarantee that all issues will be foreseen and corrected or that other third parties will address the conversion successfully.

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. These forward-looking statements are intended to provide management's current expectations or plans for the future operating and financial performance of the Corporation, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as "believe", "expect", "plans", "strategy", "prospects", "estimate", "project", "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:

- 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 anticipated uses of cash
- the scope or nature of acquisition activity
- prospective product developments
- cost reduction efforts
- the outcome of contingencies
- the impact of Year 2000 conversion efforts and
- the transition to the use of the euro as a currency.

From time to time, oral or written forward-looking statements may also be included in other materials released to the public.

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. For additional information identifying factors that may cause actual results to vary materially from those stated in the forward-looking statements, see the Corporation's reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission from time to time. The Corporation's Annual Report on Form 10-K for 1998 includes important information as to risk factors in the "Business" section under the headings "Description of Business by Operating Segment" and " Other Matters Relating to the Corporation's Business as a Whole".

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of United Technologies Corporation and its subsidiaries are the responsibility of the Corporation's management and have been prepared in accordance with generally accepted accounting principles.

Management is responsible for the integrity and objectivity of the financial statements, including estimates and judgments reflected in them and fulfills this responsibility primarily by establishing and maintaining accounting systems and practices adequately supported by internal accounting controls. These controls are designed to provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are executed in accordance with management's authorizations and that the financial records are reliable for the purpose of preparing financial statements. Self-monitoring mechanisms are also a part of the control environment whereby, as deficiencies are identified, corrective actions are taken. Even an effective internal control system, no matter how well designed, has inherent limitations — including the possibility of the circumvention or overriding of controls — and, therefore, can provide only reasonable assurance with respect to financial statement preparation and such safeguarding of assets. Further, because of changes in conditions, internal control system effectiveness may vary over time.

The Corporation assessed its internal control system as of December 31, 1998. Based on this assessment, management believes the internal accounting controls in use provide reasonable assurance that the Corporation's assets are safeguarded, that transactions are executed in accordance with management's authorizations, and that the financial records are reliable for the purpose of preparing financial statements.

Independent accountants are appointed annually by the Corporation's shareowners to audit the financial statements in accordance with generally accepted auditing standards. Their report appears below. Their audits, as well as those of the Corporation's internal audit department, include a review of internal accounting controls and selective tests of transactions.

The Audit Review Committee of the Board of Directors, consisting of directors who are not officers or employees of the Corporation, meets regularly with management, the independent accountants and the internal auditors, to review matters relating to financial reporting, internal accounting controls and auditing.

George David
Chairman and Chief Executive Officer

David J. FitzPatrick
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareowners of
United Technologies Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in shareowners' equity and of cash flows present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

One Financial Plaza
Hartford, Connecticut
January 21, 1999

CONSOLIDATED STATEMENT OF OPERATIONS

IN MILLIONS OF DOLLARS (EXCEPT PER SHARE AMOUNTS)	1998	1997	1996
		YEARS ENDED DECEMBER 31	
REVENUES			
Product sales	$20,248	$18,873	$17,799
Service sales	5,439	5,116	4,989
Financing revenues and other income, net	28	233	263
	25,715	24,222	23,051
COSTS AND EXPENSES			
Cost of products sold	15,815	15,080	14,327
Cost of services sold	3,461	3,208	3,088
Research and development	1,315	1,187	1,122
Selling, general and administrative	2,957	2,820	2,796
Interest	204	191	217
	23,752	22,486	21,550
Income before income taxes and minority interests	1,963	1,736	1,501
Income taxes	623	565	494
Minority interests in subsidiaries' earnings	85	99	101
NET INCOME	$ 1,255	$ 1,072	$ 906
EARNINGS PER SHARE OF COMMON STOCK:			
Basic	$ 5.36	$ 4.44	$ 3.63
Diluted	5.05	4.21	3.48

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

IN MILLIONS OF DOLLARS, SHARES IN THOUSANDS	DECEMBER 31 1998	1997
ASSETS		
Cash and cash equivalents	$ 550	$ 655
Accounts receivable (net of allowance for doubtful accounts of $321 and $304)	3,993	3,742
Inventories and contracts in progress	3,362	3,113
Future income tax benefits	1,276	1,098
Other current assets	174	410
Total Current Assets	9,355	9,018
Customer financing assets	498	216
Future income tax benefits	1,076	963
Fixed assets	4,265	4,127
Goodwill (net of accumulated amortization of $503 and $398)	1,750	982
Other assets	1,431	1,134
TOTAL ASSETS	$18,375	$16,440
LIABILITIES AND SHAREOWNERS' EQUITY		
Short-term borrowings	$ 512	$ 189
Accounts payable	2,237	1,889
Accrued liabilities	4,886	4,912
Long-term debt currently due	100	123
Total Current Liabilities	7,735	7,113
Long-term debt	1,575	1,275
Future pension and postretirement benefit obligations	1,685	1,266
Future income taxes payable	162	133
Other long-term liabilities	1,961	1,779
Commitments and contingent liabilities (Notes 4 and 14)		
Minority interests in subsidiary companies	423	351
Series A ESOP Convertible Preferred Stock, $1 par value (Authorized–20,000 shares)		
Outstanding–12,629 and 13,042 shares	836	865
ESOP deferred compensation	(380)	(415)
	456	450
Shareowners' Equity:		
Capital Stock:		
Preferred Stock, $1 par value (Authorized–230,000 shares; none issued or outstanding)	—	—
Common Stock, $1 par value (Authorized–1,000,000 shares) Issued—291,080 and 287,837 shares	2,708	2,488
Treasury Stock (66,028 and 58,766 common shares at cost)	(3,117)	(2,472)
Retained earnings	5,411	4,558
Accumulated other non-shareowner changes in equity:		
Foreign currency translation adjustments	(487)	(484)
Minimum pension liability	(137)	(17)
	(624)	(501)
TOTAL SHAREOWNERS' EQUITY	4,378	4,073
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$18,375	$16,440

See accompanying Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS OF DOLLARS	YEARS ENDED DECEMBER 31 1998	1997	1996
OPERATING ACTIVITIES			
Net income	$ 1,255	$ 1,072	$ 906
Adjustments to reconcile net income			
to net cash flows provided by operating activities:			
Depreciation and amortization	854	834	841
Deferred income tax benefit	(252)	(521)	(11)
Minority interests in subsidiaries' earnings	85	99	101
Change in:			
Accounts receivable	14	(217)	(46)
Inventories and contracts in progress	(99)	121	(341)
Other current assets	208	(17)	(21)
Accounts payable and accrued liabilities	162	297	584
Other, net	282	422	66
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	2,509	2,090	2,079
INVESTING ACTIVITIES			
Capital expenditures	(866)	(819)	(770)
Increase in customer financing assets	(356)	(132)	(137)
Decrease in customer financing assets	143	171	185
Acquisitions of businesses	(1,241)	(584)	(317)
Dispositions of businesses	—	37	177
Other, net	51	160	83
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(2,269)	(1,167)	(779)
FINANCING ACTIVITIES			
Issuance of long-term debt	402	12	30
Repayment of long-term debt	(149)	(148)	(273)
Increase (decrease) in short-term borrowings	289	11	(98)
Common Stock issued under employee stock plans	220	143	96
Dividends paid on Common Stock	(316)	(291)	(265)
Common Stock repurchase	(650)	(849)	(459)
Dividends to minority interests and other	(137)	(95)	(61)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(341)	(1,217)	(1,030)
Effect of foreign exchange rate changes on			
Cash and cash equivalents	(4)	(49)	(11)
Net (decrease) increase in cash and cash equivalents	(105)	(343)	259
Cash and cash equivalents, beginning of year	655	998	739
Cash and cash equivalents, end of year	$ 550	$ 655	$ 998
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	$ 177	$ 166	$ 184
Income taxes paid, net of refunds	959	910	453

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	Accumulated Other Non-Shareowner Changes in Equity	Non-Shareowner Changes in Equity for the Period
DECEMBER 31, 1995	$2,249	$(1,168)	$3,252	$(312)	
Common Stock issued under employee plans (1.8 million shares)	96	1	(14)		
Common Stock repurchased (8.0 million shares)		(459)			
Dividends on Common Stock ($1.10 per share)			(265)		
Dividends on ESOP Stock ($4.80 per share)			(30)		
NON-SHAREOWNER CHANGES IN EQUITY:					
Net income			906		$ 906
Foreign currency translation:					
Foreign currency translation adjustments				2	2
Income taxes				(9)	(9)
Minimum pension liability:					
Pension adjustment				94	94
Income taxes				(37)	(37)
DECEMBER 31, 1996	2,345	(1,626)	3,849	(262)	$ 956
Common Stock issued under employee plans (2.2 million shares)	143	3	(26)		
Common Stock repurchased (11.2 million shares)		(849)			
Dividends on Common Stock ($1.24 per share)			(291)		
Dividends on ESOP Stock ($4.80 per share)			(32)		
NON-SHAREOWNER CHANGES IN EQUITY:					
Net income			1,072		$1,072
Foreign currency translation:					
Foreign currency translation adjustments				(225)	(225)
Income taxes				(6)	(6)
Minimum pension liability:					
Pension adjustment				(12)	(12)
Income tax benefits				4	4
Other			(14)		(14)
DECEMBER 31, 1997	2,488	(2,472)	4,558	(501)	$ 819
Common Stock issued under employee plans (3.3 million shares)	220	5	(53)		
Common Stock repurchased (7.4 million shares)		(650)			
Dividends on Common Stock ($1.39 per share)			(316)		
Dividends on ESOP Stock ($4.80 per share)			(33)		
NON-SHAREOWNER CHANGES IN EQUITY:					
Net income			1,255		$1,255
Foreign currency translation:					
Foreign currency translation adjustments				4	4
Income taxes				(7)	(7)
Minimum pension liability:					
Pension adjustment				(187)	(187)
Income tax benefits				67	67
DECEMBER 31, 1998	$2,708	$(3,117)	$5,411	$(624)	$1,132

See accompanying Notes to Consolidated Financial Statements

Note 1

SUMMARY OF ACCOUNTING PRINCIPLES

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

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

CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its controlled subsidiaries. Intercompany transactions have been eliminated. In the fourth quarter of 1998, the Corporation adopted the provisions of EITF 96-16. Accordingly, majority-owned subsidiaries in which the minority shareowners have rights that overcome the presumption for consolidation are accounted for on the equity method. Adoption of EITF 96-16 resulted in the restatement of certain prior period amounts.

Beginning January 1, 1997, international operating subsidiaries, which had generally been included in the consolidated financial statements based on fiscal years ending November 30, are included in the consolidated financial statements based on fiscal years ending December 31. December 1996 results from these international subsidiaries, which were not significant, are included in retained earnings.

CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

Current and long-term accounts receivable include retainage and unbilled costs of approximately $103 million and $142 million at December 31, 1998 and 1997. Retainage represents amounts which, pursuant to the contract, are due upon project completion and acceptance by the customer. Unbilled costs 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 on the Consolidated Balance Sheet.

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. Costs accumulated against specific contracts or orders are at actual cost. Materials in excess of requirements for contracts and orders currently in effect or anticipated have been reserved and written-off when appropriate.

Manufacturing tooling costs are charged to inventories or to fixed assets depending upon their nature, general applicability and useful lives. Tooling costs included in inventory are charged to cost of sales based on usage, generally within two years after they enter productive use.

Manufacturing costs are allocated to current production and firm contracts. General and administrative expenses are charged to expense as incurred.

FIXED ASSETS

Fixed assets are stated at cost. Depreciation is computed over the assets' useful lives generally using accelerated methods for aerospace operations and the straight-line method for other operations.

GOODWILL AND OTHER LONG-LIVED ASSETS

Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired companies and is generally being amortized using the straight-line method over periods ranging from 10 to 40 years.

The Corporation evaluates potential impairment of goodwill on an ongoing basis and other long-lived assets when appropriate. If the carrying amount of an asset exceeds the sum of its undiscounted expected future cash flows, the asset's carrying value is written down to fair value.

REVENUE RECOGNITION

Sales under government and commercial fixed-price contracts and government fixed-price-incentive contracts are recorded at the time deliveries are made or, in some cases, on a percentage-of-completion basis. Sales under cost-reimbursement contracts are recorded as work is performed and billed. Sales of commercial aircraft engines sometimes require participation by the Corporation in aircraft financing arrangements; when appropriate, such sales are accounted for as operating leases. Sales under elevator and escalator installation and modernization contracts are accounted for under the percentage-of-completion method.

Losses, if any, on contracts are provided for when anticipated. Loss provisions are based upon excess inventoriable manufacturing, engineering, estimated warranty and product guarantee costs over the net revenue from the products contemplated by the specific order. Contract accounting requires estimates of future costs over the performance period of the contract. These estimates are subject to change and result in adjustments to margins on contracts in progress.

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

RESEARCH AND DEVELOPMENT

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

HEDGING ACTIVITY

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

Gains and losses from instruments that are effective hedges of firm commitments are deferred and recognized as part of the economic basis of the transactions underlying the commitments when the associated hedged transaction occurs. Gains and losses from instruments that are effective hedges of foreign-currency-denominated transactions are reported in earnings and offset the effects of foreign exchange gains and losses from the associated hedged transactions. Gains and losses on the excess of foreign currency hedge amounts over the related hedged commitment or transaction would be recognized in earnings. Cash flows from derivative instruments designated as hedges are classified consistent with the items being hedged.

Derivative instruments designated but no longer effective as a hedge would be reported at market value and the related gains and losses would be recognized in earnings.

Gains and losses on terminations of foreign exchange contracts are deferred and amortized over the remaining period of the original contract to the extent the underlying hedged commitment or transaction is still likely to occur. Gains and losses on terminations of foreign exchange contracts are recognized in earnings when terminated in conjunction with the cancelation of the related commitment or transaction.

Carrying amounts of foreign exchange contracts are included in accounts receivable, other assets and accrued liabilities.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" which is effective January 1, 2000. Management believes adoption of this standard will not have a material impact on the Corporation's financial position, results of operations or cash flows.

ENVIRONMENTAL

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

Note 2

ACQUISITIONS AND DISPOSITIONS

The Corporation completed acquisitions in 1998, 1997 and 1996 for cash consideration of $1,241 million, $584 million and $317 million. The assets and liabilities of the acquired businesses accounted for under the purchase method are 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, of $856 million in 1998, $372 million in 1997 and $141 million in 1996, has been recorded as goodwill and is being amortized over its estimated useful life.

The results of operations of acquired businesses have been included in the Consolidated Statement of Operations beginning on the effective date of acquisition. The pro forma results for 1998, 1997 and 1996, assuming these acquisitions had been made at the beginning of the year, would not be materially different from reported results.

During the fourth quarter of 1996, the Corporation sold UT Automotive's steering wheels business for proceeds of approximately $140 million. The Corporation recorded a pretax gain of approximately $78 million which is included in Financing revenues and other income, net.

Note 3

EARNINGS PER SHARE

	Income (MILLIONS)	Average Shares (THOUSANDS)	Per Share Amount
DECEMBER 31, 1998			
Net Income	$1,255		
Less: ESOP Stock dividends	(33)		
BASIC EARNINGS PER SHARE	$1,222	227,767	$ 5.36
Stock awards		5,972	
ESOP Stock adjustment	28	13,641	
DILUTED EARNINGS PER SHARE	$1,250	247,380	$ 5.05
DECEMBER 31, 1997			
Net Income	$1,072		
Less: ESOP Stock dividends	(32)		
BASIC EARNINGS PER SHARE	$1,040	234,443	$ 4.44
Stock awards		5,878	
ESOP Stock adjustment	27	13,234	
DILUTED EARNINGS PER SHARE	$1,067	253,555	$ 4.21
DECEMBER 31, 1996			
Net Income	$ 906		
Less: ESOP Stock dividends	(30)		
BASIC EARNINGS PER SHARE	$ 876	241,454	$ 3.63
Stock awards		4,877	
ESOP Stock adjustment	24	12,275	
DILUTED EARNINGS PER SHARE	$ 900	258,606	$ 3.48

Note 4

COMMERCIAL AIRLINE INDUSTRY ASSETS AND COMMITMENTS

The Corporation has receivables and other financing assets with commercial airline industry customers totaling $1,361 million and $1,235 million at December 31, 1998 and 1997, net of allowances of $237 million and $257 million, respectively.

Customer financing assets consist of the following:

IN MILLIONS OF DOLLARS	1998	1997
Notes and leases receivable	$ 337	$ 139
Products under lease	248	129
	585	268
Less: receivables due within one year	87	52
	$ 498	$ 216

Scheduled maturities of notes and leases receivable due after one year are as follows: $110 million in 2000, $85 million in 2001, $5 million in 2002, $3 million in 2003 and $47 million in 2004 and thereafter.

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

The following table summarizes the airline industry commitments and related maturities of the Corporation's financing and rental commitments as of December 31, 1998 should all commitments be exercised as scheduled:

	Maturities	
IN MILLIONS OF DOLLARS	Financing	Rental
1999	$ 545	$ 9
2000	50	9
2001	36	9
2002	3	9
2003	90	9
Thereafter	236	50
Total commitments	$ 960	$ 95

In addition, the Corporation has residual value and other guarantees of $159 million as of December 31, 1998.

The Corporation has a 33% interest in International Aero Engines (IAE), an international consortium of four shareholders organized to support the V2500 commercial aircraft engine program. IAE may offer customer financing in the form of guarantees, secured debt or lease financing in connection with V2500 engine sales. At December 31, 1998, IAE has financing commitments of $1,390 million. In addition, IAE has lease obligations under long-term noncancelable leases of approximately $360 million through 2021 related to aircraft which are subleased to customers under long-term leases. These aircraft have fair market values which exceed the financed amounts. The shareholders of IAE have guaranteed IAE's financing arrangements to the extent of their respective ownership interests. In the event any shareholder was to default on certain of these financing arrangements, the other shareholders would be proportionately responsible. The Corporation's share of IAE's financing commitments was approximately $460 million at December 31, 1998.

Note 5

INVENTORIES AND CONTRACTS IN PROGRESS

IN MILLIONS OF DOLLARS	1998	1997
Inventories	$ 3,624	$ 3,399
Contracts in progress	1,411	1,275
	5,035	4,674
Less:		
Progress payments, secured by lien, on U.S. Government contracts	(124)	(144)
Billings on contracts in progress	(1,549)	(1,417)
	$ 3,362	$ 3,113

The methods of accounting followed by the Corporation do not permit classification of inventories by category. Contracts in progress principally relate to elevator and escalator contracts and include costs of manufactured components, accumulated installation costs and estimated earnings on incomplete contracts.

The Corporation's sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months. Approximately 57% of total inventories and contracts in progress have been acquired or manufactured under such long-term contracts at December 31, 1998 and 1997. It is impracticable for the Corporation to determine the amounts of inventory scheduled for delivery under long-term contracts within the next twelve months.

If inventories which were valued using the LIFO method had been valued under the FIFO method, they would have been higher by $133 million at December 31, 1998 ($132 million at December 31, 1997).

Note 6

FIXED ASSETS

IN MILLIONS OF DOLLARS	Estimated Useful Lives	1998	1997
Land	—	$ 166	$ 157
Buildings and improvements	20-40 years	3,202	3,039
Machinery, tools and equipment	3-12 years	7,215	7,009
Other, including under construction	—	317	267
		10,900	10,472
Accumulated depreciation		(6,635)	(6,345)
		$ 4,265	$ 4,127

Depreciation expense was $724 million in 1998, $740 million in 1997 and $774 million in 1996.

Note 7

ACCRUED LIABILITIES

IN MILLIONS OF DOLLARS	1998	1997
Accrued salaries, wages and employee benefits	$ 913	$ 900
Service and warranty accruals	463	429
Advances on sales contracts	638	699
Income taxes payable	421	644
Other	2,451	2,240
	$ 4,886	$ 4,912

Note 8

BORROWINGS AND LINES OF CREDIT

Short-term borrowings consist of the following:

IN MILLIONS OF DOLLARS	1998	1997
Foreign bank borrowings	$ 191	$ 189
Commercial paper	321	—
	$ 512	$ 189

The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 1998 and 1997 were 6.7% and 9.6%, reflecting the addition of commercial paper borrowings in the latter part of 1998. At December 31, 1998, approximately $1.1 billion was available under short-term lines of credit with local banks at the Corporation's various international subsidiaries.

At December 31, 1998, the Corporation had credit commitments from banks totaling $1.5 billion under a Revolving Credit Agreement, which serves as back-up for a commercial paper facility. There were no borrowings under the Revolving Credit Agreement.

Long-term debt consists of the following:

	1998 Debt			
IN MILLIONS OF DOLLARS	Weighted Average Interest Rate	Maturity	1998	1997
Notes and other debt denominated in:				
U.S. dollars	7.7%	1999-2028	$ 1,013	$ 641
Foreign currency	6.9%	1999-2012	39	37
Capital lease obligations	6.6%	1999-2017	250	311
ESOP debt	7.7%	1999-2009	373	409
			$ 1,675	$ 1,398
Less: Long-term debt currently due			100	123
			$ 1,575	$ 1,275

Principal payments required on long-term debt for the next five years are $100 million in 1999, $193 million in 2000, $98 million in 2001, $42 million in 2002 and $43 million in 2003.

In August 1998, the Corporation issued $400 million of 6.7% unsubordinated, unsecured, nonconvertible notes (the "Notes") under a shelf registration statement previously filed with the Securities and Exchange Commission. The Notes are due August 1, 2028, with interest payable semiannually commencing February 1, 1999. The Notes are not redeemable at the option of the Corporation or repayable at the option of the holder prior to maturity, and do not provide for any sinking fund payments. At December 31, 1998, up to $471 million of additional medium-term and long-term debt could be issued under this registration statement.

Prior to 1997, the Corporation executed in-substance defeasances by depositing U.S. Government Securities into irrevocable trusts to cover the interest and principal payments on $296 million of its debt. For financial reporting purposes, the debt has been considered extinguished. As of December 31, 1998, the amount outstanding on these debt instruments was $68 million, which matures in 1999.

The percentage of total debt at floating interest rates was 26% and 15% at December 31, 1998 and 1997, respectively.

Note 9

TAXES ON INCOME

Significant components of income taxes (benefits) for each year are as follows:

IN MILLIONS OF DOLLARS	1998	1997	1996
Current:			
United States:			
Federal	$ 357	$ 598	$ 171
State	24	41	19
Foreign	369	412	336
	750	1,051	526
Future:			
United States:			
Federal	(211)	(406)	(12)
State	(25)	(82)	5
Foreign	(16)	(33)	(4)
	(252)	(521)	(11)
	498	530	515
Attributable to items credited (charged) to equity	125	35	(21)
	$ 623	$ 565	$ 494

Future income taxes represent the tax effects of transactions which are reported in different periods for tax and financial reporting purposes. These amounts consist of the tax effects of temporary differences between the tax and financial reporting balance sheets and tax carryforwards. The tax effects of temporary differences and tax carryforwards which gave rise to future income tax benefits and payables at December 31, 1998 and 1997 are as follows:

IN MILLIONS OF DOLLARS	1998	1997
Future income tax benefits:		
Insurance and employee benefits	$ 706	$ 565
Other asset basis differences	634	558
Other liability basis differences	1,017	997
Tax loss carryforwards	113	117
Tax credit carryforwards	112	112
Valuation allowance	(230)	(288)
	$2,352	$2,061
Future income taxes payable:		
Fixed assets	$ 62	$ 95
Other items, net	122	50
	$ 184	$ 145

Current and non-current future income tax benefits and payables within the same tax jurisdiction are generally offset for presentation in the Consolidated Balance Sheet. Valuation allowances have been established primarily for tax credit and tax loss carryforwards to reduce the future income tax benefits to amounts expected to be realized.

The sources of income before income taxes and minority interests were:

IN MILLIONS OF DOLLARS	1998	1997	1996
United States	$ 965	$ 702	$ 483
Foreign	998	1,034	1,018
	$1,963	$1,736	$1,501

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

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

	1998	1997	1996
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Varying tax rates of consolidated subsidiaries (including Foreign Sales Corporation)	(4.5)	(4.4)	(6.2)
Other	1.2	1.9	4.1
Effective income tax rate	31.7%	32.5%	32.9%

Tax credit carryforwards at December 31, 1998 are $112 million of which $1 million expires annually in each of the next three years.

Tax loss carryforwards, principally state and foreign, at December 31, 1998 are $553 million of which $438 million expire as follows: $194 million from 1999-2003, $124 million from 2004-2008, $120 million from 2009-2018.

Note 10

EMPLOYEE BENEFIT PLANS

The Corporation and its subsidiaries sponsor many domestic and foreign defined benefit pension and other postretirement plans whose balances are as follows:

	Pension Benefits		Other Postretirement Benefits	
IN MILLIONS OF DOLLARS	1998	1997	1998	1997
CHANGE IN BENEFIT OBLIGATION:				
Beginning balance	$ 9,666	$ 9,195	$ 700	$ 703
Service cost	222	228	10	10
Interest cost	695	664	51	52
Actuarial loss (gain)	978	218	21	(23)
Total benefits paid	(601)	(570)	(57)	(65)
Other	115	(69)	46	23
Ending balance	$ 11,075	$ 9,666	$ 771	$ 700
CHANGE IN PLAN ASSETS:				
Beginning balance	$ 10,570	$ 8,956	$ 82	$ 83
Actual return on plan assets	(143)	2,073	5	6
Employer contributions	139	85	—	—
Benefits paid from plan assets	(572)	(549)	(10)	(11)
Other	(49)	5	4	4
Ending balance	$ 9,945	$10,570	$ 81	$ 82
Funded status	$ (1,130)	$ 904	$(690)	$(618)
Unrecognized net actuarial loss (gain)	999	(973)	(26)	(67)
Unrecognized prior service cost	235	196	(181)	(204)
Unrecognized net asset at transition	(35)	(57)	—	—
Net amount recognized	$ 69	$ 70	$(897)	$(889)
AMOUNTS RECOGNIZED IN THE CONSOLIDATED BALANCE SHEET CONSIST OF:				
Prepaid benefit cost	$ 360	$ 310	$ —	$ —
Accrued benefit liability	(712)	(295)	(897)	(889)
Intangible asset	207	28	—	—
Accumulated other non-shareowner changes in equity	214	27	—	—
Net amount recognized	$ 69	$ 70	$(897)	$(889)

The pension funds are valued at September 30 of the respective years in the preceding table. Major assumptions used in the accounting for the employee benefit plans are shown in the following table as weighted-averages:

	1998	1997	1996
Pension Benefits:			
Discount rate	6.6%	7.4%	7.5%
Expected return on plan assets	9.6%	9.7%	9.7%
Salary scale	4.8%	4.9%	5.0%
Other Postretirement Benefits:			
Discount rate	6.7%	7.5%	7.6%
Expected return on plan assets	9.6%	7.0%	7.0%
Salary scale	—	—	—

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease gradually to 6.75% for 2001 and remain at that level thereafter.

IN MILLIONS OF DOLLARS	1998	1997	1996
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Pension Benefits:			
Service cost	$ 222	$ 228	$ 213
Interest cost	695	664	648
Expected return on plan assets	(856)	(783)	(737)
Amortization of prior service cost	26	26	24
Amortization of unrecognized net transition asset	(23)	(23)	(23)
Recognized actuarial net loss	8	7	5
Net settlement and curtailment loss	73	6	10
Net periodic benefit cost	$ 145	$ 125	$ 140
Net periodic benefit cost of multiemployer plans	$ 25	$ 26	$ 24
Other Postretirement Benefits:			
Service cost	$ 10	$ 10	$ 10
Interest cost	51	52	52
Expected return on plan assets	(6)	(6)	(6)
Amortization of prior service cost	(18)	(18)	(19)
Recognized actuarial net gain	—	—	(1)
Net settlement and curtailment loss	10	—	1
Net periodic benefit cost	$ 47	$ 38	$ 37

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $2,826 million, $2,688 million and $2,194 million, respectively as of December 31, 1998, and $391 million, $278 million and $3 million, respectively as of December 31, 1997.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would change the accumulated postretirement benefit obligation as of December 31, 1998 by approximately 2%. The effects of this change on the service expense and the interest expense components of the net postretirement benefit expense for 1998 would be 3%.

EMPLOYEE SAVINGS PLANS

The Corporation and certain subsidiaries sponsor various employee savings plans. Total contribution expenses were $85 million, $80 million and $75 million for 1998, 1997 and 1996.

The Corporation's nonunion domestic employee savings plan uses an Employee Stock Ownership Plan ("ESOP") for employer contributions. External borrowings, guaranteed by the Corporation and reported as debt on the Consolidated Balance Sheet, were used by the ESOP to fund a portion of its purchase of ESOP Stock from the Corporation. Each share of ESOP Stock is convertible into two shares of Common Stock, has a guaranteed value of $65, a $4.80 annual dividend and is redeemable at any time for $65.48 per share. Upon notice of redemption by the Corporation, the Trustee has the right to convert the ESOP Stock into Common Stock. Because of its guaranteed value, the ESOP Stock is classified outside of permanent equity.

Shares of ESOP Stock are committed to employees at fair value on the date earned. The ESOP Stock's cash dividends are used for debt service payments. Participants receive shares in lieu of the cash dividends. As debt service payments are made, ESOP Stock is released from an unreleased shares account. If share releases do not meet share commitments, the Corporation will contribute additional ESOP Stock, Common Stock or cash. At December 31, 1998, 6.9 million shares had been committed to employees, leaving 5.7 million shares in the ESOP Trust, with an approximate fair value of $1,256 million based on equivalent common shares.

Upon withdrawal, shares of the ESOP Stock must be converted into the Corporation's Common Stock or, if the value of the Common Stock is less than the guaranteed value of the ESOP Stock, the Corporation must repurchase the shares at their guaranteed value.

LONG-TERM INCENTIVE PLANS

The Corporation has long-term incentive plans authorizing various types of market and performance based incentive awards, which may be granted to officers and employees. The 1989 Long-Term Incentive Plan provides for the annual grant of awards in an amount not to exceed 2% of the aggregate shares of Common Stock, treasury shares and potentially dilutive common shares for the preceding year. The 1995 Special Retention and Stock Appreciation Program Plan permits up to 2 million award units to be granted in any calendar year. In addition, up to 1 million options on Common Stock may be granted annually under the Corporation's Employee Stock Option Plan. The exercise price of stock options, set at the time of the grant, is not less than the fair market value per share at the date of grant. Options have a term of ten years and generally vest after three years.

In February 1997, the Corporation granted a key group of senior executives 850,000 stock options under the 1989 Plan. The grant price of $75.875 represents the market value per share at the date of grant. The options become exercisable at the earlier of the closing stock price of the Corporation's Common Stock averaging $125 or higher for thirty consecutive trading days or nine years.

A summary of the transactions under all plans for the three years ended December 31, 1998 follows:

	Stock Options		Other Incentive
SHARES AND UNITS IN THOUSANDS	Shares	Average Price	Shares/Units
OUTSTANDING AT:			
DECEMBER 31, 1995	16,069	$ 28.65	2,010
Granted	4,392	51.10	13
Exercised/earned	(2,139)	24.09	(236)
Canceled	(242)	39.56	—
DECEMBER 31, 1996	18,080	34.49	1,787
Granted	4,723	71.38	87
Exercised/earned	(2,211)	26.70	(578)
Canceled	(565)	59.04	(33)
DECEMBER 31, 1997	20,027	43.36	1,263
Granted	4,324	77.85	26
Exercised/earned	(3,354)	29.88	(275)
Canceled	(386)	64.68	(4)
DECEMBER 31, 1998	20,611	$ 52.40	1,010

The Corporation applies APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its long-term incentive plans. Accordingly, no compensation cost has been recognized for its fixed stock options. The compensation cost that has been recorded for stock-based performance awards was $31 million, $22 million and $45 million for 1998, 1997 and 1996.

The following table summarizes information about stock options outstanding (in thousands) at December 31, 1998:

	Options Outstanding			Options Exercisable	
Exercise Price	Shares	Average Price	Remaining Term	Shares	Average Price
$20.01-$ 40.00	8,380	$ 30.50	4.85	8,380	$ 30.50
$40.01-$ 60.00	3,691	50.96	7.11	518	51.92
$60.01-$ 80.00	7,532	72.01	8.49	185	71.85
$80.01-$100.00	1,008	93.27	9.42	—	—

Had compensation cost for the Corporation's stock-based compensation plans been determined based on the fair value at the grant date for awards under those plans consistent with the requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the Corporation's net income and earnings per share would have been reduced to the following pro forma amounts:

IN MILLIONS OF DOLLARS (EXCEPT PER SHARE AMOUNTS)	1998	1997	1996
Net income:			
As reported	$ 1,255	$ 1,072	$ 906
Pro forma	1,208	1,042	894
Basic earnings per share:			
As reported	$ 5.36	$ 4.44	$ 3.63
Pro forma	5.16	4.31	3.58
Diluted earnings per share:			
As reported	$ 5.05	$ 4.21	$ 3.48
Pro forma	4.87	4.09	3.43

The fair value of each stock option grant has been estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1998	1997	1996
Risk-free interest rate	5.4%	6.3%	5.3%
Expected life	6 years	6 years	6 years
Expected volatility	23%	18%	17%
Expected dividend yield	1.5%	1.8%	2.1%

The weighted-average grant date fair values of options granted during 1998, 1997 and 1996 were $22.65, $18.56 and $11.91.

Note 11

1998 COST REDUCTION EFFORTS

During 1998, the Corporation recorded pre-tax charges totaling $330 million related to ongoing efforts to reduce costs in response to an increasingly competitive business environment. Charges were recorded in each of the Corporation's business segments, with the majority relating to the Pratt & Whitney, Otis and Carrier operations. The amounts were primarily recorded in cost of sales and relate to workforce reductions of approximately 8,000 employees, plant closings and charges associated with asset impairments. Approximately 3,900 employees were terminated by the end of 1998. The remaining terminations and plant closings are planned to be completed by December 31, 1999.

The following table summarizes the costs associated with these actions:

IN MILLIONS OF DOLLARS	Severance and Related Costs	Other Exit Costs	Asset Write-Downs	Total
1998 Charges	$ 271	$ 7	$ 52	$ 330
Utilized in 1998	146	1	52	199
Remaining	$ 125	$ 6	$ —	$ 131

In 1997 and 1996, the Corporation recorded charges which were similar in nature to those noted above. However, the amounts were not material and the related actions have been substantially completed.

Note 12

FOREIGN EXCHANGE

The Corporation conducts business in many different currencies and, accordingly, is subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of the Corporation's foreign subsidiaries are measured using the local currency as the functional currency. The aggregate effects of translating the balance sheets of these subsidiaries are deferred as a separate component of shareowners' equity. The Corporation had foreign currency net assets in more than forty currencies, aggregating $1.7 billion and $1.4 billion at December 31, 1998 and 1997, including Canadian dollar net assets of $259 million and $420 million, respectively. The Corporation's net assets in the Asia Pacific region were $499 million and $441 million at December 31, 1998 and 1997.

Foreign currency commitment and transaction exposures are managed at the operating unit level as an integral part of the business. Residual exposures that cannot be offset to an insignificant amount are hedged. These hedges are initiated by the operating units, with execution coordinated on a corporate-wide basis, and are scheduled to mature coincident with the timing of the underlying foreign currency commitments and transactions. Hedged items include foreign-currency-denominated receivables and payables on the balance sheet, and commitments for purchases and sales.

At December 31, the Corporation had the following amounts related to foreign exchange contracts hedging foreign currency transactions and firm commitments:

IN MILLIONS OF DOLLARS	1998	1997
Notional amount:		
Buy contracts	$1,694	$1,710
Sell contracts	1,042	1,062
Gains and losses explicitly deferred as a result of hedging firm commitments:		
Gains deferred	$ 6	$ 12
Losses deferred	(83)	(68)
	$ (77)	$ (56)

The deferred gains and losses are expected to be recognized in earnings over the next three years along with the offsetting gains and losses on the underlying commitments.

Note 13

FINANCIAL INSTRUMENTS

The Corporation operates internationally and, in the normal course of business, is exposed to fluctuations in interest rates and currency values. These fluctuations can increase the costs of financing, investing and operating the business. The Corporation manages its transaction risks to acceptable limits through the use of derivatives to create offsetting positions in foreign currency markets. The Corporation views derivative financial instruments as risk management tools and is not party to any leveraged derivatives.

The notional amounts of derivative contracts do not represent the amounts exchanged by the parties, and thus are not a measure of the exposure of the Corporation through its use of derivatives. The amounts exchanged by the parties are normally based on the notional amounts and other terms of the derivatives, which relate to exchange rates. The value of derivatives is derived from those underlying parameters and changes in the relevant rates.

By nature, all financial instruments involve market and credit risk. The Corporation enters into derivative financial instruments with major investment grade financial institutions. The Corporation has policies to monitor its credit risks of counterparties to derivative financial instruments. Pursuant to these policies, the Corporation periodically determines the fair value of its derivative instruments in order to identify its credit exposure. The Corporation diversifies the counterparties used as a means to limit counterparty exposure and concentration of risk. Credit risk is assessed prior to entering into transactions and periodically thereafter. The Corporation does not anticipate nonperformance by any of these counterparties.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Significant differences can arise between the fair value and carrying amount of financial instruments at historic cost.

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

	DECEMBER 31, 1998		DECEMBER 31, 1997	
IN MILLIONS OF DOLLARS	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Long-term receivables	$ 60	$ 59	$ 86	$ 84
Customer financing notes	311	304	117	117
Financial liabilities:				
Short-term borrowings	512	512	189	189
Long-term debt	1,425	1,676	1,087	1,260
Foreign exchange contracts:				
In a receivable position	16	21	18	17
In a payable position	105	96	96	68

The following methods and assumptions were used to estimate the fair value of financial instruments:

CASH, CASH EQUIVALENTS AND SHORT-TERM BORROWINGS

The carrying amount approximates fair value because of the short maturity of those instruments.

LONG-TERM RECEIVABLES AND CUSTOMER FINANCING NOTES

The fair values are based on quoted market prices for those or similar instruments. When quoted market prices are not available, an approximation of fair value is based upon projected cash flows discounted at an estimated current market rate of interest.

DEBT

The fair values are estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Corporation for debt of the same remaining maturities.

FOREIGN EXCHANGE CONTRACTS

The fair values are estimated based on the amount that the Corporation would receive or pay to terminate the agreements at the reporting date.

FINANCING COMMITMENTS

The Corporation had outstanding financing commitments totaling $1,420 million at December 31, 1998. Risks associated with changes in interest rates are negated 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

COMMITMENTS AND CONTINGENT LIABILITIES

LEASES

The Corporation occupies space and uses certain equipment under lease arrangements. Rental commitments at December 31, 1998 under long-term noncancelable operating leases are as follows:

IN MILLIONS OF DOLLARS	
1999	$ 179
2000	128
2001	92
2002	74
2003	62
Thereafter	195
	$ 730

Rent expense in 1998, 1997 and 1996 was $252 million, $260 million and $260 million.

See Note 4 for lease commitments associated with customer financing arrangements.

ENVIRONMENTAL

The Corporation's operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over its local operations. As described in Note 1, the Corporation has accrued for the costs of environmental remediation activities and periodically reassesses these amounts. Management believes that losses materially in excess of amounts accrued are not reasonably possible.

The Corporation has had insurance in force over its history with a number of insurance companies and has commenced litigation seeking indemnity and defense under these insurance policies in relation to its environmental liabilities. The litigation is expected to last several years. Environmental liabilities are not reduced by potential insurance reimbursements.

U.S. GOVERNMENT

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

The Corporation's contracts with the U.S. Government are also subject to audits. Like many defense contractors, the Corporation has received audit reports which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports involve substantial amounts. The Corporation has made voluntary refunds in those cases it believes appropriate.

OTHER

The Corporation extends performance and operating cost guarantees beyond its normal warranty and service policies for extended periods on some of its products, particularly commercial aircraft engines. Liability under such guarantees is contingent upon future product performance and durability. The Corporation has accrued its estimated liability that may result under these guarantees.

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

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

Note 15

SEGMENT FINANCIAL DATA

The Corporation and its subsidiaries design, develop, manufacture, sell and provide service on products, classified in five principal operating segments. The Corporation's operating segments were generally determined on the basis of separate operating companies, each with general operating autonomy over diversified products and services.

Otis products include elevators and escalators, service, maintenance and spare parts sold to a diversified international customer base in commercial real estate development.

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

UT Automotive products include electrical distribution systems, electromechanical and hydraulic devices, electric motors, car and truck interior trim components, steering wheels (through October 1996), instrument panels and other products for the automotive industry principally in North America and Europe.

Pratt & Whitney products include aircraft engines and spare parts sold to a diversified customer base including international and domestic commercial airlines and aircraft leasing companies, aircraft manufacturers, regional and commuter airlines, and U.S. and non-U.S. governments. Pratt & Whitney also provides product support and a full range of overhaul, repair and fleet management services and produces land based power generation equipment which is used for electrical power generation and other applications.

The Flight Systems segment includes Sikorsky Aircraft and Hamilton Standard. Sikorsky Aircraft products include helicopters and spare parts sold primarily to U.S. and non-U.S. governments. Hamilton Standard products include environmental, flight and fuel control systems and propellers sold primarily to U.S. and non-U.S. governments, aerospace and defense prime contractors, and airframe and jet engine manufacturers.

Operating segment and geographic data include the results of all majority-owned subsidiaries, consistent with the management reporting of these businesses. For certain of these subsidiaries, minority shareholders have rights which, under the provisions of EITF 96-16, overcome the presumption of consolidation. In the Corporation's consolidated results, these subsidiaries are accounted for using the equity method of accounting. Adjustments to reconcile segment reporting to consolidated results are included in "Eliminations and other", which also includes certain small subsidiaries.

Operating segment information for the years ended December 31 follows:

OPERATING SEGMENTS

	Total Revenues			Operating Profits		
IN MILLIONS OF DOLLARS	1998	1997	1996	1998	1997	1996
Otis	$ 5,572	$ 5,548	$ 5,595	$ 533	$ 465	$ 524
Carrier	6,922	6,056	5,958	495	458	422
UT Automotive	2,962	2,987	3,233	169	173	196
Pratt & Whitney	7,876	7,402	6,201	1,024	816	637
Flight Systems	2,891	2,804	2,596	287	301	244
Total segment	$ 26,223	$ 24,797	$ 23,583	$ 2,508	$ 2,213	$ 2,023
Eliminations and other	(508)	(575)	(532)	(98)	(64)	(117)
General corporate expenses	—	—	—	(243)	(222)	(188)
Consolidated	$ 25,715	$ 24,222	$ 23,051	$ 2,167	$ 1,927	$ 1,718
Interest expense				(204)	(191)	(217)
Consolidated income before income taxes and minority interests				$ 1,963	$ 1,736	$ 1,501

	Capital Expenditures			Depreciation and Amortization		
IN MILLIONS OF DOLLARS	1998	1997	1996	1998	1997	1996
Otis	$ 93	$ 143	$ 132	$ 139	$ 134	$ 116
Carrier	190	143	169	184	148	145
UT Automotive	195	163	138	126	128	128
Pratt & Whitney	254	285	248	278	286	296
Flight Systems	105	91	84	118	118	121
Total segment	$ 837	$ 825	$ 771	$ 845	$ 814	$ 806
Eliminations and other	29	(6)	(1)	9	20	35
Consolidated	$ 866	$ 819	$ 770	$ 854	$ 834	$ 841

SEGMENT REVENUES AND OPERATING PROFIT

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

GEOGRAPHIC AREAS

	External Revenues			Operating Profits			Long-Lived Assets		
IN MILLIONS OF DOLLARS	1998	1997	1996	1998	1997	1996	1998	1997	1996
United States operations	$ 15,763	$ 14,510	$ 13,360	$ 1,396	$ 1,192	$ 980	$ 3,688	$ 3,120	$ 2,911
International operations:									
Europe	5,240	4,788	4,800	607	453	461	993	913	950
Asia Pacific	2,508	2,952	3,042	150	225	272	778	511	573
Other	2,559	2,380	2,238	355	343	310	561	593	495
Eliminations and other	(355)	(408)	(389)	(341)	(286)	(305)	(5)	(27)	(3)
Consolidated	$ 25,715	$ 24,222	$ 23,051	$ 2,167	$ 1,927	$ 1,718	$ 6,015	$ 5,110	$ 4,926

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	1998	1997	1996
Europe	$ 1,030	$ 944	$ 854
Asia Pacific	1,916	1,862	1,478
Other	1,364	1,216	792
	$ 4,310	$ 4,022	$ 3,124

GEOGRAPHIC LONG-LIVED ASSETS

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

MAJOR CUSTOMERS

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

IN MILLIONS OF DOLLARS	1998	1997	1996
Pratt & Whitney	$ 1,941	$ 1,935	$ 1,857
Flight Systems	1,273	1,317	1,471

Sales to Ford Motor Company, UT Automotive's largest customer, comprised approximately 33%, 38% and 38% of UT Automotive's revenues in 1998, 1997 and 1996, respectively.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	QUARTER ENDED			
IN MILLIONS OF DOLLARS (EXCEPT PER SHARE AMOUNTS)	March 31	June 30	September 30	December 31
1998				
Sales	$ 5,936	$ 6,587	$ 6,341	$ 6,823
Gross margin	1,393	1,674	1,632	1,712
Net income	260	360	348	287
Earnings per share of Common Stock:				
Basic	$ 1.10	$ 1.54	$ 1.50	$ 1.23
Diluted	$ 1.04	$ 1.44	$ 1.41	$ 1.16
1997				
Sales	$ 5,768	$ 6,264	$ 5,825	$ 6,132
Gross margin	1,320	1,492	1,420	1,469
Net income	224	304	300	244
Earnings per share of Common Stock:				
Basic	$ .91	$ 1.26	$ 1.25	$ 1.02
Diluted	$ .87	$ 1.19	$ 1.18	$ .97

Restated to reflect application of EITF 96-16.

COMPARATIVE STOCK DATA

	1998			1997		
COMMON STOCK	High	Low	Dividend	High	Low	Dividend
First Quarter	93 15⁄16	67	$.31	79 1⁄2	65 1⁄8	$ .31
Second Quarter	100 1⁄8	84 1⁄16	$.36	87 3⁄4	70 1⁄4	$ .31
Third Quarter	99 1⁄8	71 3⁄4	$.36	88 15⁄16	76 3⁄4	$ .31
Fourth Quarter	112 1⁄2	72	$.36	81 13⁄16	66 3⁄4	$ .31

The Corporation's Common Stock is listed on the New York Stock Exchange. The high and low prices are based on the Composite Tape of the New York Stock Exchange. There were approximately 22,000 common shareowners of record at December 31, 1998.

BOARD OF DIRECTORS

Antonia Handler Chayes
Senior Advisor and
Board Member of
Conflict Management Group
(Legal Consultation and
Alternative Dispute Resolution)

George David
Chairman and
Chief Executive Officer

Charles W. Duncan, Jr.
(Private Investments)

Jean-Pierre Garnier
Chief Operating Officer,
SmithKline Beecham plc
(Pharmaceuticals)

Pehr G. Gyllenhammar
Chairman, CGU
(Insurance)

Karl J. Krapek
Executive Vice President and
President, Pratt & Whitney

Charles R. Lee
Chairman and
Chief Executive Officer,
GTE Corporation
(Telecommunication Products)

Robert H. Malott
Retired Chairman of the Board
and Chief Executive Officer,
FMC Corporation
(Machinery and Chemicals)

Richard D. McCormick
Chairman, U S WEST, Inc.
(Telecommunications)

William J. Perry
Michael and Barbara
Berberian Professor at Stanford
University; Fellow at the
Hoover Institute; and co-director of
the Stanford-Harvard Preventive
Defense Project.

Frank P. Popoff
Chairman,
The Dow Chemical Company
(Chemicals and Chemical
Products)

André Villeneuve
Executive Director of
Reuters Holdings PLC
(News, Information and
Services)

Harold A. Wagner
Chairman and Chief Executive Officer,
Air Products and Chemicals, Inc.
(Industrial Gases and Chemicals)

Jacqueline G. Wexler
Retired President,
National Conference
of Christians and Jews

PERMANENT COMMITTEES

EXECUTIVE COMMITTEE

George David, Chairman
Antonia Handler Chayes
Robert H. Malott
Jacqueline G. Wexler

AUDIT REVIEW COMMITTEE

Frank P. Popoff, Chairman
Antonia Handler Chayes
Charles W. Duncan, Jr.
Robert H. Malott
Richard D. McCormick
William J. Perry
André Villeneuve
Jacqueline G. Wexler

COMMITTEE ON COMPENSATION AND EXECUTIVE DEVELOPMENT

Harold A. Wagner, Chairman
Charles W. Duncan, Jr.
Jean-Pierre Garnier
Frank P. Popoff
Jacqueline G. Wexler

FINANCE COMMITTEE

Charles W. Duncan, Jr., Chairman
George David
Pehr G. Gyllenhammar
Charles R. Lee
Robert H. Malott
William J. Perry
André Villeneuve

NOMINATING COMMITTEE

Robert H. Malott, Chairman
Charles W. Duncan, Jr.
Jean-Pierre Garnier
Pehr G. Gyllenhammar
Charles R. Lee
Richard D. McCormick
Harold A. Wagner

PUBLIC ISSUES REVIEW COMMITTEE

Jacqueline G. Wexler, Chairman
Antonia Handler Chayes
Jean-Pierre Garnier
Pehr G. Gyllenhammar
Richard D. McCormick
William J. Perry
André Villeneuve
Harold A. Wagner

Mario Abajo
Vice President and Senior Area Executive, South Europe, Middle East and West Asia, Otis

Tesfaye Aklilu
Vice President, Quality

Jonathan W. Ayers
President, Asia Pacific Operations, Carrier

Dean C. Borgman
President and Chief Operating Officer, Sikorsky Aircraft

Ari Bousbib
Vice President, Strategic Planning

Kent L. Brittan
Vice President, Supply Management

William R. Brown
President, Latin American Operations, Carrier

Eugene Buckley
Chairman and Chief Executive Officer, Sikorsky Aircraft

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

Edwin L. Buker
President, Electrical Systems Americas, UT Automotive

L. David Caplan
Chairman and Chief Executive Officer, Pratt & Whitney Canada

Leslie A. Carothers
Vice President, Environment, Health & Safety

John F. Cassidy, Jr.
Senior Vice President, Science and Technology and Vice President, United Technologies Research Center

Louis R. Chênevert
Executive Vice President, Pratt & Whitney

Kevin Conway
Vice President, Taxes

D. Edward Crow
Senior Vice President, Technical, Pratt & Whitney

Geraud Darnis
President, European & Transcontinental Operations, Carrier

George David
Chairman and Chief Executive Officer

Guy Fauconneau
President, North American Operations, Carrier

David J. FitzPatrick
Senior Vice President and Chief Financial Officer

Patrick J. Gnazzo
Vice President, Business Practices

C. Scott Greer
President, UT Automotive

Bruno Grob
Vice President and Senior Area Executive, North Europe, Otis

Jay L. Haberland
Vice President, Controller

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

Robert S. Harris
Vice President, Chief Learning Officer

Volker Heuzeroth
President, Europe, UT Automotive

Makoto Komoto
Vice President and Senior Area Executive, Japan, Otis

Karl J. Krapek
Executive Vice President and President, Pratt & Whitney

Raymond P. Kurlak
President, Hamilton Standard

Robert Leduc
Executive Vice President, Marketing, Sales, Programs and Strategic Planning, Pratt & Whitney

Patrick L'Hostis
Vice President and Senior Area Executive, Asia Pacific, Otis

John R. Lord
President, Carrier Corporation

Angelo J. Messina
Vice President, Financial Planning and Analysis

William T. Miller
Vice President and Senior Area Executive, United States and Canada, Otis

Ricardo M. Monte
Vice President and Senior Area Executive, Latin America, Otis

Robert R. Moore
Executive Vice President, Aircraft Systems, Hamilton Standard

Gilles P. Ouimet
President and Chief Operating Officer, Pratt & Whitney Canada

Stephen F. Page
Executive Vice President and President and Chief Executive Officer, Otis

James F. Perretta
Vice President, Industrial Relations

Nicholas T. Pinchuk
President, Refrigeration Operations, Carrier

Gilles A. H. Renaud
Vice President, Treasurer

Jürgen Reuning
Vice President and Senior Area Executive, Central and East Europe, Otis

Richard J. Sloan
President, Interior Systems International, UT Automotive

Hansel E. Tookes
President, Large Military Engines, Pratt & Whitney

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

L. Alan Winslow
President, Asia Pacific Operations, UT Automotive

Richard M. Whiston
Executive Vice President and General Counsel, Pratt & Whitney and President, Space and Russian Programs, Pratt & Whitney

Jon E. Wohler
Senior Vice President, Marketing and Sales, Pratt & Whitney

CORPORATE OFFICE

United Technologies Corporation
One Financial Plaza
Hartford, Connecticut 06101
Telephone (860) 728-7000

This annual report is sent to shareowners in advance of the proxy statement for the annual meeting to be held at 11:00 a.m., April 30, 1999, in Hartford, Connecticut. The proxy statement will be sent to shareowners on or about March 29, 1999, at which time proxies for the meeting will be requested.

STOCK LISTING

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

TICKER SYMBOL

Common: UTX

TRANSFER AGENT

For the Common Stock:
First Chicago Trust Company
of New York
P. O. Box 2500
Jersey City, New Jersey 07303-2500

REGISTRAR

For the Common Stock:
First Chicago Trust Company
of New York
P. O. Box 2500
Jersey City, New Jersey 07303-2500

DIVIDENDS

Dividends are usually declared the first month of each calendar quarter and are usually paid on the 10th day of March, June, September and December. The dividend disbursing agent for the Common Stock is:
First Chicago Trust Company
of New York
P. O. Box 2500
Jersey City, New Jersey 07303-2500
Dividend and Transfer inquiries:
1-800-519-3111
TDD: 1-201-222-4955
Telecommunications
Device for the
hearing impaired.

SHAREOWNER DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Corporation has adopted a Shareowner Dividend Reinvestment and Stock Purchase Plan. The Plan provides eligible holders of the Corporation's Common Stock with a simple and convenient method of investing cash dividends and voluntary cash payments in additional shares of Common Stock without payment of a brokerage commission or service charge. Shareowners should carefully review the Plan Prospectus before investing. For more information and a Plan Prospectus, contact First Chicago Trust Company of New York at 1-800-519-3111.

DIRECT REGISTRATION SYSTEM

In the next few weeks, the Corporation will be making available to Shareowners another way to register their shares without having a physical certificate issued. 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 First Chicago Trust Company of New York 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.

ADDITIONAL INFORMATION

Shareowners may obtain a copy of the 1998 United Technologies Annual Report on Form 10-K filed with the Securities and Exchange Commission by writing to:
William H. Trachsel
Secretary
United Technologies Corporation
One Financial Plaza
Hartford, Connecticut 06101

For additional information about United Technologies, please contact the Investor Relations Department at the above Corporate Office address.

CONSOLIDATION OF ACCOUNTS

Shareowners who receive multiple copies of the annual report and other financial documents because they have more than one UTC Common Stock account listing can help reduce the cost of printing and mailing these materials by having their accounts consolidated. Please advise:
First Chicago Trust Company
of New York
P. O. Box 2500
Jersey City, New Jersey 07303-2500

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 Annual Report on Form 10-K.

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

Additional information about UTC, including financial information, can be found at our internet site: http://www.utc.com.

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