



On an upward path

UNITED TECHNOLOGIES CORPORATION
2005 CORPORATE RESPONSIBILITY REPORT

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Structure of This Report

Last year's Corporate Responsibility Report was UTC's first. It established a baseline for reporting on economic, environmental, and social issues. This year's report builds on that foundation with coverage organized into six sections: Governance, Our Products, Our Customers and Suppliers, The Environment, Our Communities, and Our People.

Reporting on corporate responsibility performance is entirely voluntary and relatively new. The Global Reporting Initiative (GRI) is leading the development of reporting standards. The GRI is an independent institution that brings together business, accounting, finance, environment, human rights, research, and labor to create reporting guidelines. We have taken into account the GRI sustainability reporting guidelines in writing this report. Find out more about the GRI at: www.globalreporting.org.

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UTC IN THE WORLD

Our products make cities safer and more livable, moderating harsh climates with heating and cooling, and supporting high-rise development with elevators where land is scarce. We transport people and goods around the globe, protect perishable food, provide a clean source of energy, and equip search-and-rescue operations, ensuring safety and security at home and at work.

Creativity fuels innovations that drive our business. We encourage it in our employees and support it in our communities. For 25 years we've been a global sponsor of the arts because we believe in the power of images to spark fresh thinking. We hope the images in this report help you to see UTC and its place in the world.



Revenues

\$43 billion in 2005

Employees

222,000 in 2005
(150,000 non-U.S.)

Products

In more than 180 countries
Approximately 300
manufacturing facilities in
40 countries

Employee Scholar Program

18,457 graduates since 1996
13,522 employees now enrolled

Research & Development

\$2.8 billion in 2005
Amount includes company and customer
funded research and development.

Charitable Contributions

\$17.6 million in 2005



Corporate responsibility is fundamental to UTC's culture and operations. Over the last 15 years, we have steadily improved our performance on economic, environmental, and social issues. This report describes our impacts, and how we manage them in areas ranging from corporate governance and the environment to supply chain management and the education of future scientists and engineers. As a global company, we have a global effect. We work diligently to make it as positive as possible.

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

OUR COMMITMENTS

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

PERFORMANCE

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

PIONEERING INNOVATION

We are a company of ideas that are nurtured by a commitment to research and development. The achievements of our founders—Willis Carrier, Charles and Jeremiah Chubb and Walter Kidde (who laid the foundation for UTC Fire & Security), Tom Hamilton, Elisha Otis, Fred Rentschler (who founded Pratt & Whitney), Igor Sikorsky, and David Sundstrand—inspire us to reach always for the next innovative and powerful and marketable idea. We seek and share ideas openly, and encourage diversity of experience and opinion.

PERSONAL DEVELOPMENT

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

SOCIAL RESPONSIBILITY

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

SHAREOWNER VALUE

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

MESSAGE FROM THE CHAIRMAN

Corporate responsibility combines financial performance with commitments to employees, the environment, and communities. We don't believe one substitutes for the others, and our record sustains this. UTC remains ranked in the Dow Jones Sustainability Indexes and was again recognized at the 2006 World Economic Forum in Davos as one of the "100 Most Sustainable Corporations in the World."

Total shareholder return (combining dividends with share price appreciation) is the traditional measure of financial performance, and UTC's record approaching 1,100 percent cumulatively since 1992 is more than three times the market indices. We aspire to comparable performance in all aspects of corporate responsibility.

Converting energy to useful work is common across our products, whether aircraft engines, elevators, air conditioners, fuel cells, or even rocket motors. Because our products generally have long lives, the accumulated energy demands can be significant.

Carrier led its industry in adopting the new U.S. federal SEER 13 energy standard for residential air conditioners, raising mandated electrical efficiencies by 30 percent. We then spent \$250 million to launch products which are 20 percent smaller, 30 percent lighter, and use 40 percent less refrigerant than prior comparably high efficiency models. UTC Power doubles energy efficiency for on-site power generation by capturing otherwise waste heat to power Carrier air conditioning and refrigeration equipment. Otis' Gen2 elevators in their regenerative configuration use 75 percent less electricity than comparable equipment only a decade ago.

In our own facilities worldwide, we're using 18 percent less kilowatts and Btu's than in 1997, on production volumes materially larger. Our water consumption worldwide is down comparably 44 percent. Since 1990, emissions to air and hazardous waste in the U.S. (both as reported to the EPA) are down 95 percent and 88 percent, respectively. Next are higher internal goals still and extending these efforts to UTC's supply chain.

Corporate responsibility includes unlimited education for our employees. UTC's recognized and applauded Employee Scholar Program marked its tenth year in 2005

with cumulative spending of over a half billion dollars and 18,500 college and university degrees earned. For more details on this extraordinary program, go to the Corporate Responsibility page at www.utc.com.

We donated \$17.6 million to nonprofit organizations regionally and globally last year and marked 25 years of supporting the arts with exhibitions in New York City and Hartford, Connecticut. Over these 25 years, UTC has sponsored 54 exhibitions in 13 countries at a cumulative cost of \$55 million.

Although we continued our remarkable record in 2005 of having reduced lost workday injuries by 14 times since 1990, we were challenged greatly by increased fatalities. Twelve employees lost their lives, five at Otis and seven at UTC Fire & Security. I review each fatality personally with the entire operating chain of command to determine root causes and change practices and equipment accordingly. No effort has had higher priority at UTC, yet we regard these results as unsatisfactory. Elevators are dangerous workplaces with vertical spaces, high voltage, and heavy moving objects. In our Fire & Security business, we provide armed response services in emerging markets with inadequate police forces. We are determined to do better and have, for example, upgraded body armor, expanded training, and improved procedures for this armed response service.

In response to the discovery in early 2004 of the first significant lapse in our ethics and compliance program since it was first launched worldwide in 1990, we are strengthening this otherwise successful program. Steps include an update and re-issue of our Code of Ethics, increases in Business Practices Officer (BPO) staffing and limitations on other responsibilities BPOs may have, and making mandatory an ethics and compliance element in annual performance discussions with salaried employees worldwide.

This report covers in more detail the six areas of our corporate responsibility commitments: governance, products, suppliers and customers, environment, communities, and employees.

Please go to www.utc.com to learn more about UTC and to provide feedback on this report.



A handwritten signature in black ink, appearing to read "George David". The signature is fluid and cursive, written over a white background.

George David
Chairman and Chief Executive Officer

ACHIEVEMENTS / CHALLENGES

2005

We have performed well by many measures, but our work is far from done.

ACHIEVEMENTS

ENVIRONMENTAL

Water use, energy use, and air emissions all decreased. UTC's environmental record continued to improve in 2005, as we reduced our water consumption by 14 percent, our energy consumption by 2 percent, and our air emissions by 1 percent.

OUR PEOPLE

Our people are better educated than ever. Our Employee Scholar Program continues to propel the personal and career development of employees, with 13,522 currently enrolled. Since 1996 there have been 18,457 graduates in 45 countries, and UTC has invested \$529 million in the program.

OUR COMMUNITIES

In 2005 we made \$17.6 million in contributions and celebrated 25 years of arts funding. A major anniversary was just one highlight of a year of giving by UTC and thousands of worldwide employees.

FINANCIAL PERFORMANCE

Total shareholder return (combining dividends with share price appreciation) approaching 1,100 percent cumulatively since 1992. UTC shareowners continued to reap the benefits of the company's stock price appreciation.

EXTERNAL RECOGNITION

2005 was the fifth straight year UTC placed No. 1 in the aerospace category on *Fortune's* list of "Most Admired Companies."



Dow Jones Sustainability World Indexes

UTC was again named to this annual listing of companies that are leaders in corporate sustainability. UTC has been chosen every year since the indexes began in 1999.



Global 100 Most Sustainable Corporations

UTC was one of 20 U.S.-based companies named to this new list at the World Economic Forum in Davos, Switzerland.

CHALLENGES

OUR PEOPLE

We deeply regret increased deaths of UTC employees while at work in 2005. These deaths occurred despite extensive training and physical safeguards against injuries and fatalities. Our efforts to manage safety risks are discussed on page 31.

In 2005 Pratt & Whitney paid fines and penalties totaling \$1.32 million for failures in connection with a 2003 explosion that resulted in the death of a subcontractor at a rocket fuel plant in San Jose, California.

COMPLIANCE

In October 2005, we received a Statement of Objections from the European Union's Competition Directorate, alleging that several elevator companies, including Otis, engaged in collusive behavior in the Benelux countries and Germany. Long before October, we had concluded a rigorous internal investigation and terminated the employees involved. We continue to cooperate fully with the Competition Directorate's investigation. UTC's compliance program worldwide is being renewed and broadened at the same time, and elements are included on pages 7-8.

THE ENVIRONMENT

Our efforts to eliminate materials of concern are proving difficult due to a number of factors, including finding viable alternatives and meeting customer requirements. We have achieved 50 percent of the goal, and will continue to work toward our 2006 goal to eliminate all materials of concern from new product designs.

OBJECTIVES

2006

We are committed to continuous improvement in accountability and performance.

obj. 01

Develop and test next-generation environment, health, and safety goals.

obj. 02

Reinvigorate compliance and ethics programs worldwide.

obj. 03

Launch integrated diversity and inclusion intranet site.

obj. 04

Create unified corporate-wide community affairs program and develop metrics to assess.

Governance

UTC's corporate governance policies and practices have earned high ratings from U.S. and international evaluators. Our approach combines clearly defined governance structures, formal compliance incentives, and a culture grounded in Our Commitments and a global Code of Ethics.

MANAGING CORPORATE RESPONSIBILITY

Overall responsibility for UTC's actions vests in senior management and the Board of Directors. The Board oversees the selection, evaluation, and compensation of senior management, our business objectives and major strategies, and corporate governance practices. The members of our Board of Directors, their professional affiliations, and their committee assignments are listed on page 9. A full description of our Corporate Governance Guidelines is available online at <http://investors.utc.com/governance.cfm>.

UTC is among the leaders in best corporate governance practices. We adopted Corporate Governance Guidelines in 1995, ahead of many companies. Eleven of our thirteen board members are independent; periodically, they meet alone. We recently adopted a majority voting standard for director elections.

The Board's Nominations and Governance, Audit, and Compensation committees are composed solely of independent directors. The vice president, business practices, regularly reports to the Audit Committee with respect to compliance and ethics issues. In addition, the Board's Public Issues Review Committee (PIRC) has a broad mandate to provide oversight with respect to significant public policy issues and responsibilities, including health, safety, and the environment, equal employment opportunities, the conduct of our public policy and government relations efforts, and contributions to charitable organizations.

Ratings by independent organizations reflect this commitment to governance excellence. As we go to

press, Institutional Shareholder Services rates United Technologies' Corporate Governance Quotient (CGQ®) better than 95 percent of Standard & Poor's 500 companies. Governance Metrics International rates UTC 10 on a scale of 10, both domestically and internationally.

BUSINESS PRACTICES

We are committed to the highest standards of ethical behavior at every level of the company. Our Code of Ethics, first published in 1990, binds everyone at UTC to broad principles of ethical conduct as well as specific standards governing relations with internal and external parties. Subjects covered by these standards include rigorous antitrust compliance, proper and improper uses of competitive information, conflicts of interest, improper payments, political contributions, and many others. The Code is available in 28 languages at www.utc.com/responsibility/economic/ethics/index.htm.

We require all employees to take compliance and ethics training. Some training is conducted online; some is delivered by an instructor. Our Business Practices organization, composed of approximately 250 part-time and 14 full-time business practice officers (BPOs) company-wide, oversees this training. The Business Practices organization also communicates standards, provides guidance, investigates possible violations, and assures that those who breach standards are held accountable. During 2005, 238 employees were terminated and 134 others were disciplined for compliance and ethics matters.

“Compliance and ethics programs are built on UTC's ethos of innovation, keeping commitments, and continuous improvement. Our programs have evolved from basic statements of policy in early years to a formal organizational structure and a principle-based Code of Ethics adopted in 1990. By learning from the past and looking forward, UTC aspires to ‘zero defects’.”

Mike Monts, Vice President, Business Practices

GOVERNANCE

After 15 years of broadly successful compliance, we are taking steps currently to strengthen UTC's program, beginning with an update and re-issue of our Code of Ethics, first published in 1990. Selected increases are being made in BPO staffing at both headquarters and country locations worldwide, and limitations have been imposed on other business responsibilities BPOs may have. We are adding a risk assessment methodology to our compliance audits, and adjusting frequencies and focus of these accordingly. Compliance measurements, summarized at the business unit level, are being made more visible and emphasized. Last, we are making an ethics and compliance element mandatory in annual performance discussions for salaried employees worldwide.

OMBUDS AND DIALOG PROGRAMS

These two confidential employee communications programs have proven their effectiveness through 20 years of service. Both allow employees the option to bypass conventional reporting channels to ask questions, make suggestions, register complaints, or report suspected wrongdoing without fear of exposure or retaliation. DIALOG and its online version, eDIALOG, provide a mechanism to make inquiries in writing, with capabilities in 31 languages, and supported by about 250 part-time administrators around the globe. For more complex issues, an ombuds can be contacted

on a toll-free telephone line. Both of these programs represent neutral communications channels that are independent of traditional management structures.

Ombuds and DIALOG have handled more than 75,000 inquiries since the program's inception. Of the 20,122 inquiries submitted since January 1, 1998, approximately 42 percent of all inquiries submitted have resulted in changes, ranging from corrective actions to process improvements.

CONTRIBUTING TO PUBLIC POLICY DEBATE

We believe it is in the best interests of our stakeholders for UTC to contribute actively to public policy debate on matters affecting its businesses. We present company positions through our Washington, D.C., government relations office, our corporate headquarters in Hartford, Connecticut, and our offices in Beijing, Brussels, Moscow, Singapore, and Seoul.

Participation in trade and industry associations and policy research organizations in major developed and developing marketplaces is another way in which we ensure that our voice is heard in policy debates. These organizations include:

- American Chambers of Commerce in many countries in which we do business.
- Center for Strategic and International Studies.
- Council on Foreign Relations.
- National Association of Manufacturers.

- U.S. Chamber of Commerce.
- U.S.-China, U.S.-ASEAN, U.S.-Russia, and U.S.-South Africa Business Councils.

Representative issues on which we work in the United States include:

- Promoting a strong national defense.
- Removing barriers to the free flow of goods across borders.
- Supporting space exploration.
- Advocating tax incentives for corporate research and development.
- Promoting fuel cell technology.

BOARD OF DIRECTORS

Louis R. Chênevert

President and Chief Operating Officer
United Technologies Corporation
(Diversified Manufacturer)

George David

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

John V. Faraci

Chairman and Chief Executive Officer
International Paper
(Paper, Packaging, and Wood Products)

Jean-Pierre Garnier

Chief Executive Officer
GlaxoSmithKline plc
(Pharmaceuticals)

Jamie S. Gorelick

Partner
WilmerHale
(Law Firm)

Charles R. Lee

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

Richard D. McCormick

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

Harold McGraw III

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

Frank P. Popoff

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

H. Patrick Swygert

President
Howard University
(Educational Institution)

André Villeneuve

Chairman
Euronext.LIFFE
(London Futures and
Derivatives Exchange)

H.A. Wagner

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

Christine Todd Whitman

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

PERMANENT COMMITTEES

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

Compensation & Executive Development

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

Executive Committee

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

Finance Committee

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

Committee on Nominations and Governance

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

Public Issues Review Committee

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

Innovation for growth is the mission of United Technologies Research Center (UTRC). Its nearly 500 researchers and support staff work on safe, clean, energy-efficient solutions for our aerospace, building systems, and power businesses. One example is ElectroCore, a unique technology for capturing particulates from power-plant boiler exhaust. UTRC developed this in collaboration with Pratt & Whitney Specialty Materials and Services. "ElectroCore has the potential to reduce emissions from coal-fired boilers by more than 90 percent," says UTRC P&W Program Leader Vince Nardone. "It's a perfect example of how we join forces and leverage new technologies to create solutions with real business impact."



Left to right : Joanne McDonough
: United Technologies
: Research Center



: Michael Sloan
: United Technologies
: Research Center



: Lewis Hinman
: Pratt & Whitney
: Specialty Materials and Services

Our Products

From elevators to air conditioners, jet engines to fuel cells, UTC products expand our choices about where to live and how to achieve our goals. They protect us from heat and cold, ensure the freshness of our food, and keep us secure at home and at work. We design and manufacture our products for years of safe, clean, quiet, efficient daily use.

OUR PRODUCTS

PRODUCT IMPACT

Millions of people depend on UTC products every day:

- Otis elevators and escalators are installed in more than 200 countries. Otis' installed base of 1.8 million elevators and 115,000 escalators moves the equivalent of the earth's entire population every nine days.
- Every second, an aircraft takes off under the power of Pratt & Whitney engines.
- Every six seconds, a Carrier residential air conditioning unit is manufactured in the United States.
- Hamilton Sundstrand's ram air turbine is an important safety feature that provides emergency electrical and hydraulic power to control an aircraft when normal power is lost. This wind-driven aircraft power device, which is stowed in the lower body or wing, has saved more than 1,400 lives.
- UTC Fire & Security has more than 10 million fire

extinguishers and fire systems under service contract and monitors more than one million security and fire systems in centers around the world.

- In 2005 Sikorsky helicopters were used in the rescues of more than 50,000 people from the tsunami in Indonesia, the earthquake in northern Pakistan, and Hurricanes Katrina and Rita.

We design, manufacture and service our products so the rest of the world can depend on them.

DESIGN FOR THE ENVIRONMENT

Design for the environment integrates environment, health, and safety concerns into business and product planning. Introducing these concerns early in the design process gives developers greater flexibility to propose environmentally and socially responsible solutions.

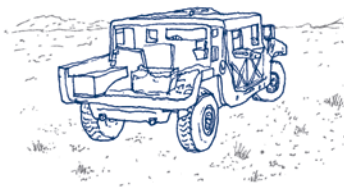
Safety is paramount among these considerations. Our approach to safety is to design it into every product concept, using materials, ergonomics, maintenance policies, and self-monitoring capabilities to ensure safe, reliable operation throughout a long service life.

Broader environmental goals have also driven technological breakthroughs across all of our businesses. For example:

- Carrier's latest line of residential air conditioning systems meets the new U.S. 13 SEER (Seasonal Energy Efficiency Ratio) standard with units 20 percent smaller, 30 percent lighter, and 40 percent more energy-efficient than previous standards required.
- The Otis Gen2 elevator, with its lubricant-free belts, is twice as energy-efficient as traditional elevators.
- UTC Power's zero-emission fuel-cell technology is working now in buses, and systems for mass-market

HAMILTON SUNDSTRAND

Tapping New Water Sources



Thirsty? Why not try the tailpipe of your Humvee?

Hamilton Sundstrand is developing space-age technology to capture water from the diesel exhaust of Humvee transport vehicles. This could help reduce the hazards of supplying water to troops in

the field. The same technology could be used to provide water for hospitals in remote places.

Two prototype vehicles with the water-recovery system were delivered to the U.S. Department of Defense in 2005. Nearly half a gallon of water is captured for every

gallon of fuel consumed. After filtering, the recovered water is purer than conventional drinking standards require.

Hamilton Sundstrand also is developing a high-powered dehumidifier that extracts water from air, even in the desert. A prototype the size of a small

refrigerator was demonstrated in 2005. The technology behind both systems has potential for a variety of applications, including field hospitals and cruise ships, as well as use in long space missions.

cars are under development in partnership with major automobile manufacturers.

- Integrated Building Energy and Control Systems, a joint project of the United Technologies Research Center (UTRC), Carrier, and UTC Power, uses concurrent engineering to accelerate the integration of combined cooling, heating, and power with broader potential to include access control and egress.

RESEARCH AND DEVELOPMENT

With almost \$3 billion in annual company and customer funding of research and development, UTC pursues advancements that involve a wide range of technologies, including ceramics, natural refrigerants, geothermal systems, and nanotechnologies. For over 75 years UTRC has been at the forefront of the development of clean-energy solutions that minimize

resource consumption and environmental impact. Today UTRC is engaged with UTC's businesses as they implement the concept of sustainable development. With a disciplined innovation process and concern for product impact and design for the environment, UTRC fosters the development of pioneering products and technologies across virtually all of UTC's markets.

AWARDS

Product Innovation for Consumer Safety Award
Kidde Model 1276E Smoke Alarm
Home Safety Council

UTC POWER : **Cooling with Waste Heat**



To keep its guests cool, The Ritz-Carlton, San Francisco, uses hot air.

UTC Power supplied the five-star hotel with its super-efficient PureComfort combined cooling, heating, and power system that recycles exhaust heat.

The PureComfort solution integrates micro-turbine technology fueled by natural gas with absorption chillers to deliver cooling, heating, and power.


Conventional power delivery is only about 33 percent efficient, while the PureComfort solution

achieves approximately 80 percent efficiency—considerable saving in energy usage that ultimately benefits the environment. Compared with the average U.S. grid power, the 240-kilowatt system reduces nitrous oxide emissions equivalent to removing 169

cars from the road every year. It reduces carbon levels equivalent to planting 96 acres of forest, and it saves enough electricity to light 300 homes.

Our Customers and Suppliers

United Technologies does business in more than 180 countries and has relationships with more than 24,000 suppliers, customers, and partners. The size and scope of our operations create responsibilities for ourselves and those who work with us. To produce superior products in a responsible manner, we need suppliers who will meet high standards for business and environmental practices as well as technical performance. We work closely with suppliers to help them meet increasingly stringent requirements and thereby enable UTC to deliver better solutions for customers.



Hamilton Sundstrand and Airbus are committed to continuously finding ways to increase sustainability efforts that will improve the environmental performance of aircraft. Team members from both companies are joining in a cooperative partnership to share experiences and resources that will help focus on the environmental goals for suppliers throughout the supply chain.

Left to right

- Bruno Costes
• Director of Environmental
• Affairs, National Companies
• Coordination
• Airbus S.A.S.
- Carine Huo-Pinault
• Head of Environmental
• Affairs
• Airbus S.A.S.

OUR CUSTOMERS AND SUPPLIERS

“There were hundreds of helicopters flying around, and about 90 percent of them were Sikorsky. Please remind your folks that their products saved many lives.”

Rich Jethon, Major, U.S. Marine Corps, reporting on the rescue missions that saved more than 34,000 lives in the wake of Hurricane Katrina in August 2005.

OUR CUSTOMERS

UTC customers range from governments to global leaders in aerospace and building systems. Some examples:

- Governments—Military and civilian departments in dozens of countries. In the U.S. these include all five military services, NASA, and the Department of Homeland Security.
- Aviation—Leading air frame manufacturers, hundreds of airlines, and airports from Paris to Hong Kong.
- Building systems—Many of the world’s most prestigious buildings, including Seven World Trade Center, Banco Santander Central Hispano, and Burj Dubai.

SUPPLIER QUALIFICATIONS

Operating efficiently and responsibly is a complex undertaking spanning 300 factories, more than 90,000 workers, and \$16 billion in annual procurement. Suppliers seeking to work with UTC must be able to meet the same strict standards that we set for our own factories with respect to technical performance, cost, delivery, lead time, and quality.

Quality increasingly includes high standards in health, safety, and environmental protection, because customers throughout the supply chain do not want to inherit poor labor and environmental practices from their suppliers. We factor into our sourcing conditions issues such as:

- Labor, employment, and human rights.
- Occupational health and safety.
- The environment.

To manage these requirements, we use software and business processes that anticipate potential problems and help suppliers improve their performance. We also offer several types of supplier development programs to educate the supply base on best practices and UTC requirements. Examples include quality and lean manufacturing seminars, process improvement training, value-stream mapping events, and mentoring programs.

SUPPLIER ENVIRONMENTAL REQUIREMENTS

The global scope of our operations and our value as a customer give us an opportunity to have a positive impact on the performance of thousands of businesses around the world. In 2005 we began the process of integrating environmental expectations for suppliers into UTC’s supplier programs. New policies for suppliers will be established and tested in 2006.

DIVERSITY

Our commitment to diversity extends through our supply chain. In 2005, we purchased more than \$250 million from minority businesses and over \$360 million from women-owned businesses. We work with external organizations including the National Minority Supplier Development Council and its regional councils to help align minority-owned businesses with contracting opportunities, and we encourage small and diverse businesses to participate in UTC supplier development programs as well. We also host an annual Minority Business Exchange (MBX) conference and matchmaker

in Connecticut to meet with competitive diverse suppliers to discuss near-term sourcing opportunities.

UT500

Originally launched as a cost management initiative, our UT500 procurement program has not only generated significant savings but also sparked fresh thinking about how UTC and its suppliers can work together to reduce resource consumption. One example is the Sikorsky chemical management program described below. Others include:

- Global bid for fleet vehicles—Creating incentives for suppliers to provide low-emission and alternative-fuel options for our 30,000 vehicles worldwide.

- Energy audits—Engaging suppliers in the task of helping us improve our energy efficiency. Audits completed through 2005 represent 29 percent of UTC’s North American energy spend for medium-sized facilities.

SUPPLIER EXCELLENCE ALLIANCE

Another promising program is the Supplier Excellence Alliance (SEA), established in 2003 through the collaborative efforts of UTC and other leading aerospace and defense contractors. SEA’s mission is to accelerate supply chain improvements by training suppliers in standardized processes that can help them meet the individual requirements of member companies.

By enabling suppliers to bid and execute jobs more efficiently, SEA will also help UTC to maintain the diversity of its supplier base, control manufacturing costs, and compete more effectively. UTC chairs SEA’s legislative committee, which meets regularly to develop legislative strategy.

AWARDS

Subcontracting Achievement Award

Pratt & Whitney Liquid Space Propulsion, Rocketdyne National Aeronautics and Space Administration

SIKORSKY : Cutting Waste, Improving Safety, Protecting the Environment



Why open a large container if you need only a small amount of alodine for an aluminum repair? Sikorsky Aircraft uses what look like large marker pens containing the right amount of the special chemical. They prevent unnecessary exposure for the technician, cut waste, and save the company money.

This attention to detail is a small part of Sikorsky’s advanced, just-in-time chemi-

cals program. This program, managed by an external contractor, could become the model for other companies.

Precision engineering and assembly of helicopters demands the safe use of a wide variety of specialty chemicals. These substances do a number of essential jobs, such as cleaning metal, painting, and producing high-performance composite materials.

The chemicals are potentially hazardous, and expensive as well: A typical factory supply would be worth more than \$1 million. The chemicals must be correctly used at all times, safely stored, never wasted or over-ordered, and constantly monitored for accurate reporting to the authorities.

The chemical management program keeps the materials safely stored off-site and delivers

only the right amount to the plant for a particular use. Better material management has cut waste from the industry average of 18 percent to only 5 percent, and Sikorsky is determined to get it even lower.

The just-in-time program reduces potential for unnecessary exposure and pollution while also ultimately reducing use of natural resources.

The Environment

Rising energy costs and global environmental concerns affect our business every day. Our response is to develop ever cleaner and more efficient solutions both for ourselves and for our customers. Conserving resources and minimizing external impact create competitive advantage in an environmentally conscious marketplace.

OUR IMPACT

UTC is the 20th largest manufacturing company in the United States, and the majority of our businesses manufacture and service products. Turning raw materials into finished products inevitably consumes natural resources. Our approach is always to try to do the most with the least—minimizing waste, emissions, and resource use. Even so, our manufacturing operations still consume 30 trillion Btu’s of energy a year, and the worldwide use of UTC products contributes 2 percent of the world’s annual greenhouse gas emissions.

Our environmental programs are making a difference. We set strict environmental policies and apply them to all our business units worldwide. Newly acquired companies must be in full compliance with those policies within two years. Our performance in reducing our impacts since the early 1990s is a testament to the

benefits of our clear vision, disciplined approach, aggressive goals, and relentless execution.

Since 1997 we have reduced our total annual energy consumption by 18 percent. We joined the Environmental Protection Agency (EPA) Climate Leaders program in 2003, voluntarily committing to reduce greenhouse gas emissions by 16 percent per dollar of revenue from 2001 to 2006. In fact, we have already achieved this goal.

ENVIRONMENTAL REMEDIATION

UTC’s operations are subject to environmental regulation by federal, state, and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. As a result, the corporation has established, and continually updates, policies relating to environmental standards of performance for operations worldwide.

We have identified approximately 543 locations, mostly in the United States, where we may have some liability for remediating contamination. As of December 31, 2005, UTC has \$546 million reserved for environmental remediation. Cash outflows for environmental remediation were \$43 million in 2005.

WHAT WE ARE DOING ABOUT CLIMATE CHANGE

We believe that climate change is the most critical environmental concern facing the world. How society tackles the challenge will determine the quality of life for future generations.

Climate change is caused by the increased concentration of certain gases in the atmosphere. These act as a blanket and prevent excess heat from escaping into space. Scientific opinion is that human-made greenhouse gases (mainly carbon dioxide from

OTIS Environmental Leadership in China



Halve the energy consumption and seal in the machine lubricants. This is what Otis, the world’s largest manufacturer of elevators, escalators, and moving walkways, has done with its Gen2 elevator.

Customers benefit from the substantial energy savings

the Gen2 system affords and appreciate not having to store, clean, and dispose of polluting lubricants.

And nowhere are these benefits more welcome than in China, where the country’s booming economy is placing heavy demands on its power

supply and increasing pressure on its environment.

In fact, the China Environmental Protection Foundation recently recognized Otis for its pioneering work with the Gen2 system. The foundation, China’s first nongovernmental organization working for a

better environment, cited the system’s “excellent quality in energy efficiency and environmental protection.”

Otis, whose presence in China dates to 1901, is the first elevator company to receive the foundation’s Green Product Award.

In 2005 UTC was one of 17 recipients of the U.S. Environmental Protection Agency's Climate Protection Award. As a member of the EPA's Climate Leaders program since 2003, we have committed ourselves to supporting long-term comprehensive climate change strategies while submitting to external audits of our own performance in accordance with global reporting guidelines. "UTC has been an excellent partner," says Kathleen Hogan, director of the EPA's Climate Protection Partnerships Division. "It doesn't just talk about climate change—it pursues solutions wholeheartedly, both in its own operations and beyond."

1310
L STREET



..... Kathleen Hogan
..... Director, U.S. EPA Climate
..... Protection Partnerships
..... Division

A woman with short dark hair, wearing a grey sweater, a patterned scarf, and light-colored pants, stands in a garden. She is smiling and looking towards the camera. The garden features green grass, two white stone pedestals, and various trees and shrubs. In the background, a large, multi-story building with a red roof is visible through the trees.

Dr. Lu Zhi
Country Director
Conservation International-
China

As part of our commitment to protect the environment, we are funding Conservation International's work to restore the natural forests in the mountains of Southwest China. The pilot project will restore native forests that will provide climate, community, and biodiversity benefits to an area rich in biological diversity. "UTC's commitment to the Mountains of Southwest China Hotspot illustrates the practical steps companies can take to help offset greenhouse gas production," says Dr. Lu Zhi, country director, Conservation International-China. "Through its early involvement, UTC is sending a valuable message about the need for broad participation to combat climate change."

THE ENVIRONMENT

burning fossil fuels) are contributing to the increased concentrations.

There are many unknowns, but it is clear that the world must not only reduce the emission of greenhouse gases but also find ways to adapt to a changing climate. While this might place some restrictions on business, it offers many opportunities to develop climate-friendly technologies, processes, and products.

UTC has been working on several fronts to reduce greenhouse gas emissions:

- Internally, we have reduced the rate of energy consumption in our factories, and incorporated energy-saving innovations into products and services from every one of our businesses. Some of

these innovations are described under “Design for the Environment” on page 12.

- Externally, we have partnered with U.S. and international authorities in the public, nonprofit, and academic sectors to draw attention to climate change and advocate sustainable development approaches. UTC is a founding member of the Pew Center on Global Climate Change and the U.S. Green Building Council, and has been an EPA Climate Leader since 2003. The company joined the World Business Council for Sustainable Development in 2004, and is increasing its involvement with this group of industry leaders dedicated to sustainable development.

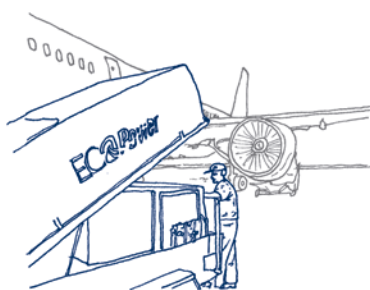
HOW WE MANAGE AND REDUCE IMPACTS

We have set environmental performance goals since 1992. In 1997, having met our initial improvement goals, we set new, more aggressive 10-year goals that looked beyond compliance to coordinated conservation and energy-saving technological innovation throughout our operations.

We have already met or surpassed most of these goals, as the charts on the following page show. In 2006, we will set new goals for 2010. These will extend our focus across the value chain to include our relationships with suppliers and customers. We will work with customers to further reduce environmental impacts associated with product use and maintenance. Our new

PRATT & WHITNEY

A Cleaner Engine Wash



Just as road vehicles get dirty from contaminants in the air, so do the insides of aircraft jet engines. Rather than merely looking scruffy, the dirt is costly because it makes the engines less fuel-efficient and more expensive to run. They have to be washed regularly.

Pratt & Whitney's new on-wing engine wash service, EcoPower, cleans quickly and efficiently without harming

the environment. This helps airlines keep their aircraft in service, saves on energy, and reduces their overall environmental impact.

EcoPower dispenses with traditional toxic chemicals as cleaning agents. Instead it uses pure, atomized water to remove the contaminants. The technology allows the process to be completed as much as six times faster than traditional

engine-washing systems.

Because EcoPower captures the wash effluent during cleaning in a closed-loop process, it means the engines can be washed safely and rapidly right at airport gates while the aircraft is prepared for the next flight.

Hawaiian Airlines, an early EcoPower adopter, estimates that the system will reduce its annual Boeing 767 fuel burn by 2.5 million pounds and cut

carbon dioxide emissions by nearly 8 million pounds.

EcoPower was introduced in 2005 and initial service centers have been set up in the United States at John F. Kennedy International Airport in New York, Los Angeles International Airport, and Victorville, California. Facilities in Europe and Asia are to follow in 2006, including Singapore Changi Airport.

goals will be described fully in next year's Corporate Responsibility Report.

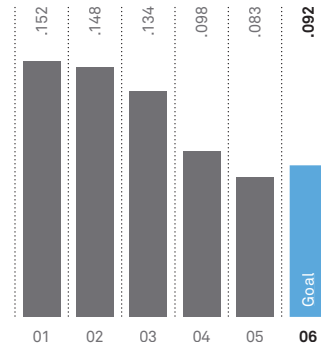
We are finding it difficult to eliminate materials of concern in our new products for a number of reasons. These include a lack of suitable alternatives for high-temperature applications, especially in the aerospace segment. For example:

- Although lead-free solder is being used in many consumer applications, it does not offer the reliability required for aerospace electronics applications. The U.S. Department of Defense recognizes these performance limitations and is requiring its suppliers to continue using lead solder until a suitable alternative can be developed and validated.
- There is currently no suitable alternative to replace lead in leaded bronze bushings for aerospace (as well as many non-aerospace industry) applications. The European Union Restriction of Hazardous Substances (RoHS) Directive has given a broad exemption for leaded bronze bushings because there is no viable alternative at this time.

AWARDS

Global Climate 100 Index
 United Technologies Corporation
 KLD Research & Analytics

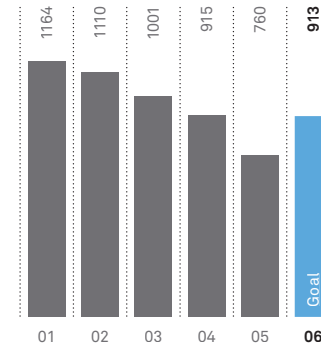
fig. 4.1



WORLDWIDE NORMALIZED AIR EMISSIONS*

*The majority of air emissions are volatile organic compounds.
 (Emissions lb/\$ Thousand)

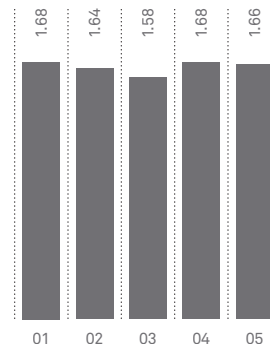
fig. 4.2



WORLDWIDE NORMALIZED ENERGY CONSUMPTION

(Btu/Dollar)

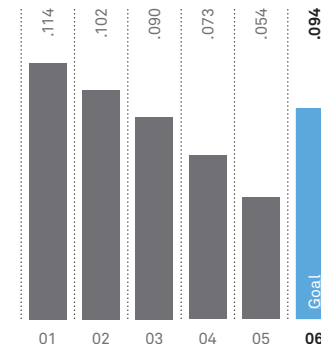
fig. 4.3



WORLDWIDE CARBON DIOXIDE EMISSIONS

(Metric Tons of CO₂ in Millions)

fig. 4.4



WORLDWIDE NORMALIZED WATER CONSUMPTION

(Gallons/Dollar)

UTC's Sustainable Cities program, established in 2004, unites green building principles with historic preservation in urban environments. One notable beneficiary is the historic Lincoln Cottage in Washington, D.C., which once served as a summer retreat for President Abraham Lincoln and his family. Today this National Monument is being restored by the National Trust for Historic Preservation with help from UTC. According to National Trust President Richard Moe, "The steps UTC has taken provide a model for what other companies can do. They're not only affecting how new buildings are built, but also how old ones can best be restored."



Left to right

Richard Moe
President, National Trust
for Historic Preservation

David Overholt
Director of Preservation
Lincoln Cottage

Erin Carlson
Curator of Exhibits
Lincoln Cottage

Frank Milligan
Director
Lincoln Cottage

Our Communities

We believe in investing in the well-being of our communities. It improves the lives of our employees and neighbors, and it helps meet societal needs for better education, a healthier environment, and the transformative power of the arts. Through corporate grant making, local community support from individual UTC businesses, and the efforts of thousands of employee volunteers, we help to improve the human condition.

OUR COMMUNITIES

STRATEGIC FOCUS

We are a company dedicated to improving the security and livability of our environments and the safety, comfort, and efficiency of air, ground, and water transportation. Through grants, matching gifts, volunteerism, and partnerships with nonprofit organizations, we support projects that address social needs while advancing our business goals.

We focus our corporate grants on three areas of need where we can effectively invest our resources:

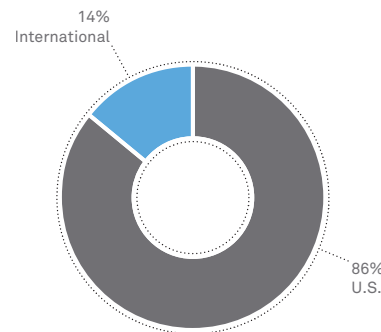
- Education—There is a global shortage of qualified engineers and scientists who will help us tackle the problems facing our world. To address this shortage, we support education through external grants, mentoring, and partnership programs in reading, math, and science.
- Arts and culture—We believe the arts expand our concept of what's possible and stimulate creativity and innovation. For 25 years UTC has been a major national and international sponsor of arts and culture programming. In the fall of 2005 we marked this anniversary with a series of events described on page 28.
- Environmental sustainability—Our Sustainable Cities grant program supports “green” thinking in affordable housing, historic preservation, and open space conservation.

SUPPORTING EMPLOYEE PRIORITIES

We believe our giving priorities should reflect employee choices about investing in our communities' well-being.

- Matching gifts—UTC's matching gift program allows employees to contribute to nonprofit organizations of their choice in the areas of education, the arts, and the environment. In 2005 UTC employees contributed over \$1 million through the program, which was matched 100 percent by UTC.

fig. 4-3



UTC CORPORATE GRANTS
(Total \$17.6 Million)

- Volunteer achievements—Every year UTC employees donate thousands of hours to community and nonprofit organizations, primarily in the United States. UTC employees serve on nonprofit boards, participate in civic life, and provide hands-on help in tasks ranging from constructing affordable housing to protecting natural resources.
- Volunteer grants—Our volunteer grant program provides \$250 to any qualified organization for which a UTC employee volunteers at least 60 hours per

year. In 2005 we gave more than \$135,000 to 366 organizations through this program.

SIGNATURE EVENTS

UTC has long-standing relationships with major nonprofit organizations and sponsors signature events in Connecticut, where more than 27,000 of our employees live and work.

- United Way of the Capital Area, Hartford, Connecticut: Our 2005 United Way campaign raised \$7.2 million dollars, 25 percent of the Capital Area total. The campaign continued UTC's proud tradition as the area's largest contributor to the United Way Community Campaign.
- FIRST (For Inspiration and Recognition of Science and Technology): We have sponsored FIRST robotics competitions since 1994, encouraging high school students to pursue careers in science and engineering.
- Special Olympics: Our 29-year partnership with Special Olympics began locally and has spread worldwide. In Connecticut, we sponsor the organization's Summer Games, providing 2,000 volunteers and more than \$75,000 annually in funding.
- Toys for Tots: We support the largest single-day toy drive for the U.S. Marine Corps Toys for Tots program through our annual United Technologies Symphony On Ice. In 2005 this benefit performance of ice skating, music, and dance generated donations of more than 16,000 toys for deserving children, bringing our 26-year total to more than 350,000 toys donated.

DISASTER RELIEF

We are fortunate to have resources to match the generous donations of our employees when natural disasters occur. In 2005 we assisted the survivors of the Asian tsunami, Hurricane Katrina, and the Pakistan earthquake with more than \$2 million in aid from employees and the company. We were saddened by the deaths of three employees from UTC Fire & Security in the tsunami, and we sympathize with the more than 400 employees who were affected by Hurricane Katrina. Employees volunteered their time and financial resources to help victims and families with assistance

ranging from packing supplies to piloting helicopters, bringing relief to hard-hit areas.

OBJECTIVES FOR 2006

Community affairs operations will evolve in 2006–2007 toward a unified company-wide program combining focused efforts with quantified effectiveness. Programs will continue to be implemented on a local level, but with measurement and guidelines standardized across all UTC businesses. For grant eligibility information and application procedures, please visit our Web site at www.utc.com/responsibility.

AWARDS

Guangming Daily Corporate Social Responsibility Award

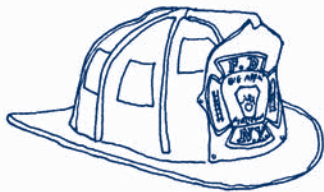
United Technologies Corporation
Guangming Daily, Beijing, China

BCA Ten Best Companies Supporting the Arts in America

United Technologies Corporation
Business Committee for the Arts and *Forbes* magazine

UTC FIRE & SECURITY

Smoke Alarms Save Lives



Use a smoke alarm, save a life. This has been proved in New York City, where fire fatalities are at their lowest levels since record-keeping began 85 years ago. The city’s fire commissioner, Nick Scoppetta, says part of this success is because of Operation Save A Life, a unique public service program sponsored by UTC Fire & Security’s Kidde business in partnership with ABC television.

The program began in 1993 in Philadelphia when local news station WPVI collaborated with fire officials to promote the use of smoke alarms and other fire safety measures. What started as a single broadcast quickly grew into a widespread, successful program.

Kidde joined five years ago as a main sponsor. Through this public service initiative, participating ABC stations broadcast fire safety messages

to people across the station’s viewing area, and Kidde donates large numbers of smoke alarms. Because the program is community-based, each local fire department decides where to distribute the donated smoke alarms.

January is now Operation Save A Life Month in a growing number of U.S. cities. In New York, Philadelphia, Chicago, and Raleigh, North Carolina, 300,000 Kidde smoke alarms have been distributed since

2001. Scranton, Pennsylvania, joined the program in 2005, as will Houston in 2006.

“Operation Save a Life has helped to significantly increase the public’s awareness of fires and fire safety,” New York’s Scoppetta says. “The commitment of corporate sponsors like UTC and Kidde, who has donated thousands of smoke detectors over the years, continues to be an integral part of our fire prevention efforts.”

25 YEARS OF ARTS SPONSORSHIP



Self-Portraits January–June 1887
Pen and ink, graphite on wove paper
31.1 x 24.4 cm (12-1/4 x 9-5/8 in.)
Van Gogh Museum, Amsterdam
(Vincent van Gogh Foundation)

CELEBRATING 25 YEARS OF ARTS SPONSORSHIP

UTC's commitment to the arts springs from our culture and extends around the world. As a company of scientists and innovators, we value artists for their originality and expressiveness, and because they challenge us to experience the world in new ways.

In 2005 UTC celebrated 25 years of arts sponsorship, which has included sponsoring 54 distinguished exhibitions in 13 countries on four continents. With partners such as The National Gallery in Washington, the Wadsworth Atheneum Museum of Art in Hartford, Connecticut, and The Metropolitan Museum of Art in New York, we have brought familiar masterworks and challenging perspectives to millions of visitors. UTC-sponsored exhibitions have included *The Impressionists at Argenteuil*, *Picasso and Things: The Still Lives of Picasso*, *A Spiritual Resonance: The Vernacular Dwellings of China* and *Marsden Hartley*.

To celebrate this anniversary, in the fall of 2005 we sponsored major art events in New York City and UTC's hometown of Hartford.

In October, the UTC-sponsored exhibition, *Vincent van Gogh: The Drawings*, opened at The Metropolitan Museum of Art to rave reviews. Organized in collaboration with the Van Gogh Museum in Amsterdam, the exhibition brought together more than 100 rarely seen works. It was the most-attended exhibition of drawings in the museum's history, with almost half a million visitors.

In addition, to celebrate the creativity of today's artists, UTC commissioned Alex Katz, Gary Hume,

and Lisa Sanditz to create original works that were displayed on gigantic billboards in New York City. In writing about the project, the *New York Times* praised UTC's courage in giving all three artists "free rein to paint whatever they wanted with no oversight or review." Photographer Robert Polidori then created a portfolio of the billboards in their urban environments, capping our celebration and setting an imposing precedent for the next 25 years of UTC arts sponsorship.

“More than just a supporter of the arts, United Technologies is a supporter of artists and the creative process. Their celebration of new art along with the once-in-a-lifetime Van Gogh exhibition are two ends of a common thread that run through its corporate history.”

Philippe de Montebello, Director, The Metropolitan Museum of Art



Alex Katz is no stranger to larger-than-life images. One of America's most celebrated realist painters, Katz caused a sensation in 1977 with a 247-foot painting high above New York City's Times Square. Still, UTC's 2005 commission—a 28-by-53-foot painting in the city's East Village—came as a shock because it had absolutely no strings attached in terms of creative content. "I thank UTC for this unique opportunity," says Katz. The painting was one of three UTC commissions for billboard-size works to commemorate its 25 years of support for the arts.



⋮ Alex Katz
⋮ Artist

Our People

UTC employs 222,000 people, 150,000 of them outside the United States. We provide employees with fair compensation, a safe workplace, and avenues for personal growth. We achieve this through honest, two-way communication, customized training, and the unlimited opportunities of our Employee Scholar Program.

OCCUPATIONAL SAFETY AND HEALTH

We are committed to providing a safe, healthful workplace for every UTC employee. This commitment extends through 50 million square feet of UTC manufacturing space at more than 300 sites in 40 countries. We set high standards for health and safety at every UTC facility, and we measure our performance rigorously. Figures 1 and 2 on this page profile our performance by two key measures. 2006 will be a transition year, as we complete a 10-year cycle of health and safety performance monitoring. Our new set of environment, health, and safety goals is discussed on page 22.

However, challenges remain. In 2005 Pratt & Whitney pled guilty to and was convicted of a misdemeanor offense under the California Labor Code, and paid a fine and civil penalty resulting from a 2003 explosion at a facility in San Jose, California, which resulted in the death of a subcontractor. The site is currently being decommissioned.

FATALITIES

No effort at UTC has received higher priority than safeguarding our employees in the workplace. Evidence is in part in the 14-fold reduction in our lost workday incidence since 1990. We have spent without limit on workplace safety improvements such as doubly redundant machine tool guarding systems and protective equipment such as body armor for employees in UTC Fire & Security's armed response activity. Procedures such as Otis' Job Hazard Analysis and Carrier's Safety

First have been designed and implemented worldwide. UTC's chairman and CEO reviews each fatality with the entire operating chain of command to determine root causes and adopt changes in equipment and practices to improve safety. These efforts did not, however, prevent increases in employee fatalities in 2005, five at Otis and seven at Fire & Security. Of the twelve fatalities, two resulted from motor vehicle accidents. Elevators are dangerous work locations, combining vertical spaces, high voltage, and heavy moving objects. UTC Fire & Security provides armed response services in emerging markets where police forces may be inadequate. Given these exposures, our efforts must never flag.

DANIELL AWARD

In 1995 we created the Robert F. Daniell Award, which honors a former CEO of UTC and celebrates outstanding environment, health, and safety performance within our company. In 2005 the award honored Toshiba Carrier Thailand's residential air conditioner factory for its Total Safety program and dramatic reductions in waste, air emissions, and energy and water use. In qualifying for the award, the plant passed 11 million hours without a lost-time incident.

EMPLOYEE RELATIONS

EDUCATION

UTC's success depends on the development of its human capital. We are committed to having the best-educated work force in the world, and to ensuring a strong supply

fig. 5.1

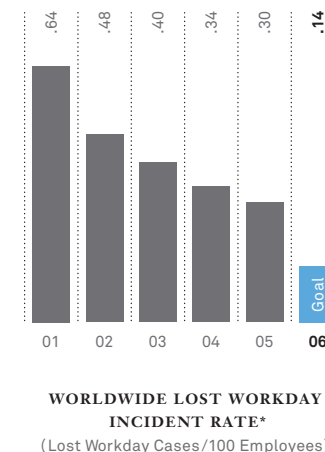
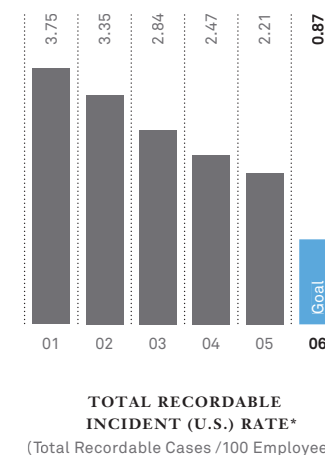


fig. 5.2



* UTC Fire & Security was not included in these calculations because it was not part of the UTC 10-year cycle of health & safety performance monitoring.

These UTC employees are also students at the President Stanislaw Wojciechowski Higher Vocational State School in Kalisz, Poland, thanks to our Employee Scholar Program (ESP), which provides tuition, books, academic fees, and paid time off to pursue degrees in the fields of their choice. Those who graduate receive UTC stock. Since 1996, the company has invested \$529 million in the program, including \$142 million in common stock awards. With 1,115 employees currently enrolled, Poland has more ESP participants than any other country outside the United States.



Left to right : Michał Kowalczyk
: Pratt & Whitney Kalisz

: Paweł Błaszczuk
: Pratt & Whitney Kalisz

: Rafał Gąsiorek
: Pratt & Whitney Kalisz

: Jan Kajdan
: Pratt & Whitney Kalisz



Left to right

: Piotr Machowczyk
: Pratt & Whitney Kalisz

: Łukasz Chęciński
: Pratt & Whitney Kalisz

: Marcin Tokarek
: Pratt & Whitney Kalisz

: Dominik Drewniak
: Pratt & Whitney Kalisz

OUR PEOPLE

of future scientific and engineering talent by improving educational opportunities in our communities.

Our Employee Scholar Program (ESP) provides a path to lifelong learning and greater economic security for our employees. The program pays full tuition, books, and academic fees for employees in virtually any area of study, then rewards graduates with UTC stock. We are proud of the 18,457 UTC employees who have received degrees through ESP since its inception in 1996.

We also provide extensive learning and development opportunities through our interactive Learning Portal

and executive development programs. U.S. employees have access to more than 370 online courses through our intranet. Executives and emerging leaders may also be selected to attend one- to two-week programs at the University of Virginia Darden School of Business for customized leadership, strategic thinking, and business training.

COMPENSATION AND BENEFITS

UTC's employee compensation and benefits are designed to be competitive in local markets. The value

of company-sponsored benefits varies by region, business, and organizational level. In the United States, this value can be 25 percent or more of an employee's pay, with most attributable to health and retirement benefits.

- International plans: UTC and its businesses offer defined-benefit and defined-contribution retirement plans to employees based outside the United States. We estimate that approximately 74,000 active employees and 24,000 retirees are served by foreign pension plans, though the

CARRIER

Speaking Up for Safety



“Stop the work!” This is not what you would expect to hear from an employee of Carrier, the UTC business unit whose air conditioning, refrigeration, and heating systems are installed in buildings worldwide, including the Sistine Chapel and the British Museum.

But Carrier is unbending in its commitment to safe working, so much so that it empowers its service technicians to halt work if they feel unsafe at a site.

Every Carrier technician carries a special Safety First

card to share with our customers. This card explains that work cannot start until the job has been fully inspected and made safe. It points out that the technicians may be severely disciplined if they violate the safety policy and provides contact information for customers to reach local Carrier offices if the customer has a concern about any work delay or stoppage while the safety issue is being resolved.

Jerry Bailey, Carrier's vice president of environment,

health, and safety, says, “Safety really does come first at Carrier. When there's danger, our people know they can simply hold up the card and stop the work. This can create challenges for our customers who need things fixed quickly. But the card buffers our technicians from a sometimes initially irate customer by giving them the full backing of Carrier. However, more frequently, we have earned the appreciation of our customers, including new business and awards, as they

recognize the business value of working with a company that places a premium on safety. In the end everyone understands the broad benefits of a safe work environment.”

The success of the policy shows clearly in Carrier's safety record. Since introducing the Safety First policy in 2005, Carrier's worldwide service safety performance has improved 20 percent. Longer term, Carrier's lost time injury rate has improved from 5 per 100 employees in 1991 to 0.2 in 2005.

UTC has a long-standing commitment to increasing diversity in its work force. To that end, INROADS and the National Society of Hispanic MBAs (NSHMBA) have partnered with us to prepare and develop underrepresented minority students for roles in corporate America. UTC welcomed its first INROADS intern in 1984; last summer, we employed 171 INROADS college interns. The success of our partnership with INROADS is reflected in the 131 INROADS alumni over more than 15 years who have accepted offers to work full-time for UTC upon college graduation. This number includes an INROADS alumnus and member of NSHMBA who serves as the general manager of one of our business unit subsidiaries. Many of our executives have been active in supporting the mission of NSHMBA; in fact, members of the Hispanic Leadership Forum, a UTC employee affinity group, assisted in the founding of the NSHMBA Connecticut chapter. Since 2002, UTC has also been represented on NSHMBA's national Corporate Advisory Board. Partnerships like these not only add value to our business, but provide opportunity to talented and deserving diverse individuals.

Left to right : C. Timothy Branner II
Managing Director
INROADS/Greater Hartford &
Springfield, Inc.
Michael Negron
Executive Director, National
Society of Hispanic MBAs

OUR PEOPLE

numbers are not directly comparable to those in the U.S. due to variations in pension laws and accounting practices.

- U.S. plans: UTC's defined-benefit Employee Retirement Program has a long and proud history of service to U.S.-based employees. Introduced in 1941, it now serves approximately 82,000 retirees, 58,000 current employees, and 60,000 former employees. In addition, we offer defined-contribution savings plans for retirement benefits.
- Stock ownership: A common stock fund is available to U.S. employees, and the company contribution for salaried employees is made to the Employee Stock Ownership Program (ESOP). UTC employees have consistently constituted the company's largest base of shareowners, with employees holding 7 percent of the stock as of December 2005.
- Shareholder return: The long-term price appreciation of UTC stock has significantly increased. From 1992 to the end of 2005, total shareholder return approached 1,100 percent cumulatively.

WORK FORCE RELATIONS

We are proud of our employee and union relationships and committed to agreements that benefit both our company and our workers.

- European works councils: Carrier, Hamilton Sundstrand, Otis, Pratt & Whitney, and UTC Fire & Security have each negotiated agreements for the establishment of European works councils to ensure that European employees are informed and have

an opportunity for dialogue on transnational issues that significantly affect their interests.

- U.S. union representation: Approximately 68 percent of UTC's U.S. production and service workers are represented by unions.
- 2005 agreements: In 2005 we successfully negotiated all of the 23 U.S. union contracts up for renewal.

EMPLOYEE COMMUNICATIONS

Clear and honest communications with employees are both a fundamental obligation and an important tool for running our business. We offer a variety of communications channels that encourage employees to share ideas and concerns that could help us improve our products and operations:

- Employee survey: Since 1999 our biennial Global Employee Survey has provided an opportunity for all employees to comment on a wide range of subjects including environment, ethics, health and safety, management practices, quality, and training. More than 200,000 employees were invited to participate in the 2004/2005 survey.
- Ombuds and DIALOG: These two confidential programs have been effective for 20 years. More information can be found on page 8.

WORK FORCE DIVERSITY

We seek a diverse work force to enrich our perspective and reflect the diversity of our customers and markets.

- U.S. recruiting and partnership initiatives: In the United States, we recruit regularly at five national

diversity conferences and a number of historically black colleges and universities. We also partner with organizations dedicated to increasing minority opportunities, such as:

- National Society of Black Engineers (NSBE).
- Society of Hispanic Professional Engineers (SHPE).
- National Black MBA Association (NMBMBA).
- Society of Women Engineers (SWE).
- INROADS.
- National Society of Hispanic MBAs (NSHMBA).

- Results: Since 2000, we've achieved double-digit increases in representation of minorities and women in all areas of our U.S.-based salaried work force, including executives, managers, and professionals.

AWARDS

Top 25 Companies for African-Americans, 2005

United Technologies Corporation
Black Professionals magazine

25 Noteworthy Companies for Diversity in 2005

United Technologies Corporation
DiversityInc magazine

Occupational Health Best Practices Award

Pratt & Whitney/Turbine Overhaul Service
Government of Singapore

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Your feedback is important to us. Please visit www.utc.com/responsibility/index.htm to tell us what you think of our corporate responsibility performance, and to download additional copies of the report.

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