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	CONTENTS
1	Five Year Summary
2	Management's Discussion and Analysis
9	Management's Responsibility for Financial Statements
9	Report of Independent Accountants
10	Consolidated Statement of Operations
11	Consolidated Balance Sheet
12	Consolidated Statement of Cash Flows
13	Consolidated Statement of Changes in Shareowners' Equity
14	Notes to Consolidated Financial Statements
26	Directors
27	Leadership
28	Shareowner Information

Five Year Summary

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS

	2000	1999	1998	1997	1996
For the year					
Revenues	\$ 26,583	\$ 24,127	\$ 22,809	\$ 21,288	\$ 19,872
Research and development	1,302	1,292	1,168	1,069	1,014
Income from continuing operations	1,808	841	1,157	962	788
Net income	1,808	1,531	1,255	1,072	906
Earnings per share:					
Basic:					
Continuing operations	3.78	1.74	2.47	1.98	1.57
Net earnings	3.78	3.22	2.68	2.22	1.81
Diluted:					
Continuing operations	3.55	1.65	2.33	1.89	1.51
Net earnings	3.55	3.01	2.53	2.10	1.74
Cash dividends per common share	.825	.76	.695	.62	.55
Average number of shares of Common Stock outstanding:					
Basic	470.1	465.6	455.5	468.9	482.9
Diluted	508.0	506.7	494.8	507.1	517.2
Return on average common shareowners' equity, after tax	24.4%	24.6%	28.6%	24.5%	21.1%
Operating cash flows	2,503	2,310	2,314	1,903	1,886
Acquisitions, including debt assumed	1,340	6,268	1,237	605	335
Share repurchase	800	822	650	849	459
At year end					
Working capital, continuing operations	\$ 1,318	\$ 1,412	\$ 1,359	\$ 1,712	\$ 2,168
Total assets	25,364	24,366	17,768	15,697	15,566
Long-term debt, including current portion	3,772	3,419	1,669	1,389	1,506
Total debt	4,811	4,321	2,173	1,567	1,709
Debt to total capitalization	39%	38%	33%	28%	28%
ESOP Preferred Stock, net	432	449	456	450	434
Shareowners' equity	7,662	7,117	4,378	4,073	4,306
Number of employees – continuing operations	153,800	148,300	134,400	130,400	123,800

Management's Discussion and Analysis

> Management's Discussion and Analysis of Results of Operations and Financial Position

The Corporation's operations are classified into four principal operating segments: Otis, Carrier, Pratt & Whitney and Flight Systems. Otis and Carrier serve customers in the commercial and residential property industries. Carrier also serves commercial and transport refrigeration customers. Pratt & Whitney and the Flight Systems segment, which includes Sikorsky Aircraft ("Sikorsky") and Hamilton Sundstrand, primarily 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 the Notes to Consolidated Financial Statements.

> Business Environment

As worldwide businesses, the Corporation's operations are affected by regional and industry economic factors. However, the Corporation's geographic and industry diversity 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	2000	1999	1998	2000	1999	1998
Europe	\$ 4,413	\$ 4,433	\$ 4,252	17%	18%	18%
Asia Pacific	3,319	2,615	2,487	12%	11%	11%
Other foreign	2,820	2,472	2,517	11%	10%	11%
U.S. Exports	4,134	3,642	4,097	15%	15%	17%
International Segment Revenues	\$14,686	\$13,162	\$13,353	55%	54%	57%

The economic recovery in the Asia Pacific region continued during 2000, however, the recovery has varied by industry. In particular, growth in the construction and related industries proceeded at a slower pace than overall growth in the region. Vacancy rates generally remain high and it may take several years for the market to absorb the excess space. Although substantial projects have recently been initiated, overall construction spending in the region remains below the levels experienced immediately before the 1997 economic downturn. Management believes that the long-term economic growth prospects of the region remain intact and, consequently, the Corporation's Asia Pacific investment strategy continues to focus on the long-term infrastructure requirements of the region.

As part of its globalization strategy, the Corporation has invested in businesses in other countries, including the People's Republic of China, Russia, Brazil and South Korea, which carry higher levels of currency, political and economic risk. At December 31, 2000, the Corporation's net investment in any one of these countries was less than 5% of consolidated equity.

During 2000, the decline in the euro had a negative impact on the translation of euro-denominated operating results into U.S. dollars.

OTIS is the world's largest elevator and escalator manufacturing and service company. It serves an international customer base, principally in commercial real estate. In 2000, 77% of its revenues were generated outside the U.S. Otis' results can be impacted by

various economic factors, including fluctuations in commercial construction (which can affect new equipment installations), labor costs (which can impact service and maintenance margins on installed elevators and escalators), interest rates and foreign currency exchange rates.

During 2000, U.S. office building construction starts continued to gradually decline from their 1998 peak, but remained at high levels. In response to tight market conditions and the resulting demand for space, construction order activity remained strong but showed some signs of slowing. National office vacancy rates remained low, but increased slightly as market conditions eased.

CARRIER is the world's largest manufacturer of commercial and residential heating, ventilating and air conditioning ("HVAC") systems and equipment. Carrier is also a leading producer of commercial and transport refrigeration equipment and provides aftermarket service and components for both the HVAC and refrigeration industries. During 2000, 48% of Carrier's revenues were generated outside the U.S. and by U.S. exports. Carrier's results can be impacted by a number of external factors, including commercial and residential construction activity, production and utilization of transport equipment, weather conditions, fuel prices, interest rates and foreign currency exchange rates.

During 2000, a cooler summer selling season in many regions of the U.S. adversely impacted North American residential operations during a portion of the year. U.S. residential housing and commercial construction starts decreased slightly in 2000 compared to 1999. Higher fuel prices and interest rates contributed to a weakness in the North American truck/trailer transport refrigeration market during 2000 that is expected to continue into 2001.

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

During 2000, traffic growth and load factors increased. Airlines discussed potential consolidation as worldwide airline profits decreased, in part due to rising fuel costs and labor issues. Aircraft manufacturers and airlines continued to reduce supplier bases and seek lower cost packages. Backlog in the general aviation and corporate sectors continued to grow. Future growth in those sectors is expected to slow.

The defense portion of the Corporation's aerospace businesses continues to respond to a changing global political environment. The U.S. and European defense industries continue to reduce costs and consolidate in response to continued pressure on U.S. and global defense spending. Customers have ongoing efforts to review and reprioritize research and procurement initiatives and foreign

military programs have been delayed. During 2000, the Corporation's total sales to the U.S. Government were \$2,875 million or 11% of total sales, compared with \$3,342 million or 14% of total sales in 1999 and \$3,264 million or 14% of total sales in 1998.

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 aftermarket and fleet management services. Pratt & Whitney is responding to market pressures by diversifying its product base for large commercial engines from the wide-bodied aircraft market to include engines designed specifically for the narrow-bodied aircraft market. In addition, the aftermarket business is being impacted by technological improvements to newer generation engines that increase reliability and by increased competition. In response, Pratt & Whitney continues to enhance its aftermarket business through acquisitions and repositioning actions aimed at improving efficiency.

Pratt & Whitney continues to provide engines and aftermarket products and services to both U.S. and foreign governments. Pratt & Whitney's engines have been selected to power the Air Force's F22 fighter aircraft and demonstration aircraft of the Joint Strike Fighter program. The Joint Strike Fighter program is intended to lead to the development of a single aircraft, with configurations for conventional and short take off and landing, for the U.S. Navy, Air Force and Marine Corps and the United Kingdom Royal Navy.

FLIGHT SYSTEMS SEGMENT provides global products and service through Hamilton Sundstrand and Sikorsky. Hamilton Sundstrand provides aerospace and industrial products and aftermarket services for diversified industries. Aerospace products include aircraft power generation management and distribution systems, and environmental, flight and fuel control systems. Hamilton Sundstrand has been responding to industry pressures by focusing on the development of new product and service offerings, acquisitions and actions aimed at improving efficiency.

Sikorsky manufactures commercial and military helicopters, and provides aftermarket products and services. It has responded to continued overcapacity among helicopter manufacturers by improving its cost structure, expanding the capabilities of its existing products and developing new product and service offerings. Sikorsky is leading an international team in developing the S-92, a large cabin derivative of the Black Hawk. In its government business, Sikorsky will continue to supply Black Hawk helicopters and derivatives thereof to the U.S. and foreign governments extending into 2004. A Sikorsky-Boeing joint venture is also under contract with the U.S. Army to develop the RAH-66 Comanche, thirteen of which are contracted for delivery in 2004-2005 under the current phase of the program.

> Results of Continuing Operations

IN MILLIONS OF DOLLARS	2000	1999	1998
Sales	\$26,206	\$23,844	\$22,787
Financing revenues and other income, net	377	283	22
Revenues	\$26,583	\$24,127	\$22,809

Consolidated revenues increased 10% in 2000 and 6% in 1999. Excluding the unfavorable impact of foreign currency translation, consolidated revenues increased by 13% in 2000 and 7% in 1999. Revenue growth in 2000 reflects the impact of acquisitions as well as growth at Otis and Carrier. The 1999 increase was primarily due to revenue increases at Carrier and Otis and the acquisition of Sundstrand Corporation ("Sundstrand") in the Flight Systems segment. The increases in both years more than offset decreases at Pratt & Whitney.

Financing revenues and other income, net, increased \$94 million and \$261 million in 2000 and 1999. Included in 2000 is interest income on prior period income tax credits resulting from an industry related court decision. Included in 1998 were costs associated with 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	2000	1999	1998
Cost of sales	\$18,970	\$18,185	\$16,897
Gross margin percent	27.6%	23.7%	25.8%

Gross margin as a percentage of sales increased 3.9 percentage points in 2000 and decreased 2.1 percentage points in 1999 due primarily to restructuring and other charges of \$865 million recorded in cost of sales in 1999. Modest benefits in 2000 resulted from restructuring savings that were offset by costs not originally accruable.

IN MILLIONS OF DOLLARS	2000	1999	1998
Research and development	\$1,302	\$1,292	\$1,168
Percent of sales	5.0%	5.4%	5.1%

Research and development spending increased \$10 million (1%) in 2000 and \$124 million (11%) in 1999 primarily due to the inclusion of the operations of Sundstrand in the Flight Systems segment beginning in the second quarter of 1999. The 1999 increase also included costs related to product development and aircraft systems integration at Pratt & Whitney. Both years include the Corporation's continued funding of research and development at its fuel cell unit, with increased funding in 2000. Total research and development expenses are expected to remain at approximately 5% of sales in 2001.

IN MILLIONS OF DOLLARS	2000	1999	1998
Selling, general and administrative	\$3,171	\$3,133	\$2,737
Percent of sales	12.1%	13.1%	12.0%

Selling, general and administrative expenses as a percentage of sales decreased 1 percentage point in 2000 and increased 1.1 percentage points in 1999 primarily due to 1999 restructuring and other charges of \$151 million. The decrease in 2000 also reflects cost reductions resulting from restructuring actions, partially offset by the impact of acquisitions.

IN MILLIONS OF DOLLARS	2000	1999	1998
Interest expense	\$382	\$260	\$197

Interest expense increased 47% in 2000 and 32% in 1999 primarily related to the impact of the issuance of \$500 million of 7.125% notes in November 2000, \$325 million of 6.625% notes in November 1999, \$1 billion of 6.4% notes in September 1999 and \$400 million of 6.5% notes in May 1999 and an increased level of foreign borrowing, partially offset by debt repayments of \$435 million in 2000 and \$557 million in 1999. Interest expense is expected to increase in 2001 as a result of the full year impact of the 2000 debt issuances.

	2000	1999	1998
Average interest rate:			
Short-term borrowings	9.9%	8.7%	10.4%
Total debt	8.1%	7.7%	8.3%

The average interest rate for the year on short-term borrowings exceeded that 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, 2000 was 7.6% for short-term borrowings and 7.5% for total debt.

	2000	1999	1998
Effective income tax rate	30.9%	25.9%	31.4%

The 2000 effective tax rate includes the impact of two discrete items: the revaluation of the Corporation's state deferred tax asset resulting from the enactment of Connecticut tax law changes and the benefits of income tax credits for prior periods associated with an industry related court decision. The Internal Revenue Service is reviewing all of the Corporation's claims for prior periods' benefits as part of the routine examination of the Corporation's income tax returns and any additional impact on the Corporation's liability for income taxes cannot presently be determined.

Excluding the discrete tax items in 2000 discussed above and the 1999 restructuring actions, the effective tax rate for 2000 decreased to 30.5% from 30.9% for 1999. The Corporation has continued to lower its effective tax rate by implementing tax reduction strategies.

The future tax benefit arising from net deductible temporary differences and tax carryforwards is \$2,504 million. The net deductible temporary differences relate 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 the related 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 2001. For those jurisdictions where the expiration date or the projected operating results indicate that realization is not likely, a valuation allowance has been provided.

For additional discussion of income taxes, see Note 9 of the Notes to Consolidated Financial Statements.

> Business Acquisitions

During 2000, the Corporation invested \$1,340 million, including debt assumed, in the acquisition of more than 30 businesses. The largest acquisition was Carrier's purchase of Specialty Equipment Companies, a North American based company that designs, manufactures and markets a broad array of refrigeration and food service products globally, for \$708 million.

During 1999, the Corporation invested \$6,268 million, including debt assumed, in business acquisitions. That amount includes the acquisition of Sundstrand for approximately \$4.3 billion.

For additional discussion of 2000 acquisitions, see Liquidity and Financing Commitments and Note 2 of the Notes to Consolidated Financial Statements.

> Dispositions of Businesses

In May 1999, the Corporation sold its UT Automotive unit to Lear Corporation for \$2.3 billion, which resulted in an after-tax gain of \$650 million. UT Automotive results, through the date of disposition, appear as income from operations of the discontinued UT Automotive unit in the Consolidated Statement of Operations.

> Restructuring and Other Costs

As described in Note 11 of the Notes to Consolidated Financial Statements, the Corporation's operating segments initiated a variety of actions in 1999 aimed at further strengthening their future profitability and competitive position. The 1999 actions totaled \$1,120 million, before income taxes and minority interests, and included accrued restructuring charges of \$842 million, related charges of \$141 million that were not accruable when initiated, and charges associated with product development and aircraft systems integration and non-product purchasing. Those amounts were recorded at each of the Corporation's operating segments as follows:

IN MILLIONS OF DOLLARS

Otis	\$ 186
Carrier	196
Pratt & Whitney	534
Flight Systems	161
Other	43
	<u>\$1,120</u>

In February 2000, a Federal District Court issued an injunction relative to certain restructuring actions planned by Pratt & Whitney that would move work from Connecticut to Arkansas, Texas and Oklahoma. After a subsequent ruling by the Second Circuit Court of Appeals, the injunction remains in place until the end of the Collective Bargaining Agreement in December 2001. The Corporation does not believe that this resolution of the litigation will materially impact the Corporation's restructuring program.

During 2000, the Corporation incurred and recognized \$317 million of additional costs that were not accruable or contemplated when the 1999 actions were initiated. Those additional costs have been more than offset by savings relating to this program and adjustments to the 1999 restructuring liability, resulting in a modest benefit at the end of 2000. Net restructuring savings are expected to increase in 2001. Recurring savings, associated primarily with a net reduction in workforce and facility closures, are expected to increase over the next two years to approximately \$750 million pre-tax annually, primarily benefitting cost of sales.

The Corporation had pre-tax cash outflows related to these programs of \$537 million, including \$302 million of additional costs that were not accruable or contemplated when the actions were initiated. The Corporation expects to incur as much as \$100 million in non-accruable costs in the next year associated with finalization of the 1999 restructuring and other actions.

For additional discussion of restructuring, see Note 11 of the Notes to Consolidated Financial Statements.

> Segment Review

IN MILLIONS OF DOLLARS	Revenues			Operating Profits			Operating Profit Margin		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Otis	\$ 6,153	\$ 5,654	\$ 5,572	\$ 798	\$ 493	\$ 533	13.0%	8.7%	9.6%
Carrier	8,430	7,353	6,922	795	459	495	9.4%	6.2%	7.2%
Pratt & Whitney	7,366	7,674	7,876	1,200	634	1,024	16.3%	8.3%	13.0%
Flight Systems	4,992	3,810	2,891	614	247	287	12.3%	6.5%	9.9%

Operating segment and geographic data of the Corporation's principal operating segments 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 overcome the presumption of consolidation. In the Corporation's consolidated results, these subsidiaries are accounted for using the equity method of accounting.

> 2000 Compared to 1999

OTIS revenues increased \$499 million (9%) in 2000. Excluding the unfavorable impact of foreign currency translation, 2000 revenues increased 14%, reflecting the impact of the acquisition of LG Industrial Systems' Building Facilities Group in the fourth quarter of 1999 and increased sales in all regions, led by North America where construction activity remained strong.

Otis operating profits increased \$305 million (62%) in 2000 largely due to restructuring charges of \$186 million recorded during 1999. Excluding restructuring charges and the unfavorable impact of foreign currency translation, operating profits increased 27%, reflecting profit improvements in all regions resulting from cost reduction actions as well as the impact of the acquisition of LG Industrial Systems' Building Facilities Group.

CARRIER revenues increased \$1,077 million (15%) in 2000. Excluding the unfavorable impact of foreign currency translation, 2000 revenues increased 17%, reflecting the impact of the acquisitions of International Comfort Products ("ICP") during the third quarter of 1999 and the commercial refrigeration business of Electrolux AB early in 2000 as well as growth in the North American commercial businesses. A decline in the North American truck/trailer transport refrigeration operation associated with higher fuel prices and interest rates partially offset the increase.

Carrier operating profits increased \$336 million (73%) compared to 1999 in part due to 1999 restructuring charges of \$196 million. Excluding restructuring charges and the unfavorable impact of foreign currency translation, operating profits increased 24%. That increase is primarily due to the impact of the acquisition of ICP and improved operating performance in the North American commercial and residential HVAC businesses. The increase was partially offset by a decrease in the North American truck/trailer transport refrigeration operation associated with higher fuel prices and interest rates and by the transaction impact of a weaker euro.

PRATT & WHITNEY revenues decreased \$308 million (4%) in 2000. The decrease was due primarily to fewer commercial and large military engine shipments and lower revenues in government funded development programs, partially offset by higher sales in the small engine business at Pratt & Whitney Canada.

Pratt & Whitney operating profits increased \$566 million (89%) in 2000, primarily due to 1999 restructuring and other charges of

\$534 million. Excluding restructuring and other charges, operating profit increased 3%, reflecting improved performance and lower costs in the commercial engine business, favorable volume at Pratt & Whitney Canada and a slight increase in the aftermarket businesses, due primarily to military spares. Those increases were partially offset by lower military engine volume.

FLIGHT SYSTEMS revenues increased \$1,182 million (31%) and operating profits increased \$367 million in 2000. Both increases are largely the result of including the full year results of Sundstrand, acquired in the second quarter of 1999. Revenues also include growth at Sikorsky associated with increased helicopter shipments. Operating profit also increased due to 1999 restructuring and other charges of \$161 million.

> 1999 Compared to 1998

OTIS revenues increased \$82 million (1%) in 1999. Excluding the unfavorable impact of foreign currency translation, 1999 revenues increased 3%, reflecting increases in North American and European operations, partially offset by a decrease in Asia Pacific operations.

Otis operating profits decreased \$40 million (8%) in 1999. Excluding the unfavorable impact of foreign currency translation, 1999 operating profits decreased 6%, due primarily to 1999 restructuring and other charges of \$186 million that were in excess of 1998 restructuring charges. Restructuring charges were associated with facility consolidations and workforce reductions. The 1999 charges were partially offset by improved operating performance, particularly in North American operations, which benefited from increased orders and an increase in construction activity, and in Asia Pacific and European operations. Operating profits suffered in Latin American operations, which continued to face pressure from the devaluation of the Real in Brazil. Excluding restructuring in 1999 and 1998, operating profits increased.

CARRIER revenues increased \$431 million (6%) in 1999. Excluding the unfavorable impact of foreign currency translation, 1999 revenues increased 8%. The 1999 increase reflects the positive impact of acquisitions, as well as increases in the North American, European and Refrigeration operations, partially offset by declines in Asia Pacific and Latin American operations.

Carrier operating profits decreased \$36 million (7%) in 1999. Excluding the unfavorable impact of foreign currency translation, 1999 operating profits decreased 1% due to 1999 restructuring and other charges of \$196 million, which surpassed those in 1998. The 1999 charges were partially offset by the impact of acquisitions and increased operating performance in most segments, with particularly strong performance in the North American, European and Refrigeration operations. Restructuring charges related to worldwide facility closures and workforce reductions. Excluding restructuring in 1999 and 1998, operating profits increased.

PRATT & WHITNEY revenues decreased \$202 million (3%) in 1999. The decrease reflects fewer military and commercial engine shipments and lower commercial spare parts volumes, partially offset by increases in the commercial overhaul and repair business, military aftermarket and Pratt & Whitney Canada. In addition, the 1998 revenues included a 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 decreased \$390 million (38%), primarily reflecting 1999 restructuring and other charges of \$534 million that exceeded those in 1998. Lower military and commercial engine and commercial spare parts volumes and the absence of a nonrecurring 1998 gain were partially offset by higher overhaul and repair and military aftermarket volume, improved operating profits at Pratt & Whitney Canada and the absence of 1998 costs to repurchase interests from participants in commercial engine programs. The 1999 restructuring and other charges were associated with workforce reductions, consolidation of facilities and costs associated with product development and aircraft systems integration. The 1998 restructuring charges related to workforce reductions in the U.S. and Canada.

FLIGHT SYSTEMS revenues increased \$919 million (32%) in 1999, reflecting the inclusion of Sundstrand's operations for the second half of 1999, partially offset by the effects of fewer helicopter deliveries at Sikorsky.

Flight Systems operating profits decreased \$40 million (14%) in 1999, due primarily to 1999 restructuring and other charges of \$161 million, which were in excess of charges recorded in 1998, and fewer helicopter deliveries at Sikorsky. Those items were partially offset by the inclusion of Sundstrand results for the second half of 1999. The 1999 restructuring charges related to closing facilities, consolidating functions, reducing workforce and rationalizing customer support.

> Liquidity and Financing Commitments

IN MILLIONS OF DOLLARS	2000	1999
Cash and cash equivalents	\$ 748	\$ 957
Total debt	4,811	4,321
Net debt (total debt less cash)	4,063	3,364
Shareowners' equity	7,662	7,117
Debt to total capitalization	39%	38%
Net debt to total capitalization	35%	32%

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, acquisitions, dividends, Common Stock repurchases, adequate bank lines of credit and the ability to attract long-term capital with satisfactory terms.

Net cash provided by operating activities in 2000 was \$2,503 million compared to \$2,310 million in 1999. The increase resulted primarily from improved operating performance, in part due to lower restructuring charges in 2000. Pre-tax cash outflows associated with the 1999 restructuring and other actions, including costs not accruable or contemplated when the actions were initiated, were \$537 million in 2000 and \$366 million in 1999.

Cash used in investing activities was \$2,101 million in 2000 compared to \$4,411 million in 1999. The most significant component of investing cash flows related to business acquisitions. In 2000, the Corporation invested \$1,340 million in the acquisition of businesses, consisting of \$1,168 million of cash and \$172 million of assumed debt. The most significant acquisition was Carrier's acquisition of Specialty Equipment Companies for \$601 million of cash and \$107 million of debt assumed. The Corporation invested \$6.3 billion in the acquisition of businesses in 1999, consisting of approximately \$3.5 billion of cash, \$900 million of assumed debt and \$1.9 billion of common stock issued from Treasury. That amount includes the acquisition of Sundstrand for approximately \$4.3 billion. Capital expenditures increased \$175 million to \$937 million in 2000. The Corporation expects 2001 capital spending to remain comparable to 2000. Customer financing activities used cash of \$40 million in 2000, compared to \$188 million in 1999, and reflect decreased demands for customer financing. While the Corporation expects that customer financing will be a use of cash in 2001, actual funding is subject to usage under existing customer financing requirements. At December 31, 2000, the Corporation had financing and rental commitments of \$1,218 million related to commercial aircraft, of which as much as \$268 million may be required to be disbursed in 2001. The Corporation may also arrange for third-party investors to assume a portion of its commitments. Refer to Note 4 of the Notes to Consolidated Financial Statements for additional discussion of the Corporation's commercial airline industry assets and commitments.

Financing cash outflows include the Corporation's repurchase of \$800 million and \$822 million of Common Stock during 2000 and 1999, representing 13.6 million and 13.2 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. At December 31, 2000, 11.3 million shares remained available for repurchase under the announced program.

As described in Note 2 of the Notes to Consolidated Financial Statements, on May 4, 1999, the Corporation sold its UT Automotive unit to Lear Corporation. The discontinued UT Automotive operation and its subsequent sale provided \$2,159 million of cash in 1999.

At December 31, 2000, the Corporation had credit commitments from banks totaling \$1.5 billion under a Revolving Credit Agreement, which serves as a back-up facility for issuance of commercial paper. At December 31, 2000, there were no borrowings under the Revolving Credit Agreement. In addition, at December 31, 2000, approximately \$1.2 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 the Notes to Consolidated Financial Statements, the Corporation issued \$500 million of notes in 2000 and \$1,725 million in 1999. The proceeds of those issuances were used to finance acquisitions, including Specialty Equipment Companies in 2000 and Sundstrand in 1999, and for general corporate purposes, including repurchases of the Corporation's Common Stock. At December 31, 2000, up to \$1 billion of additional medium-term and long-term debt could be issued under a shelf registration statement on file with the Securities and Exchange Commission.

The Corporation's shareowners' equity is impacted by a variety of factors, including those items that are not reported in earnings but are reported directly in equity, such as foreign currency translation, minimum pension liability adjustments and unrealized holding

gains and losses on available-for-sale securities. See the Consolidated Statement of Changes in Shareowners' Equity for information on such non-shareowners' changes.

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

> Market Risk and Risk Management

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

The Corporation has evaluated its exposure to changes in foreign currency exchange, interest rates and commodity prices in its market risk sensitive instruments, which are primarily cash, debt and derivative instruments, using a value at risk analysis. Based on a 95% confidence level and a one-day holding period, at December 31, 2000, 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 the Notes to Consolidated Financial Statements for additional discussion of foreign exchange and financial instruments.

FOREIGN CURRENCY EXPOSURES. The Corporation has a large volume of foreign currency exposures that result from its international sales, purchases, investments, borrowings and other international transactions. International segment revenues from continuing operations, including U.S. export sales, averaged approximately \$14 billion over the last three years. The Corporation actively manages foreign currency exposures that are associated with committed foreign currency purchases and sales and other assets and liabilities created in the normal course of business at the operating unit level. Exposures that cannot be naturally offset within an operating unit to an insignificant amount are hedged with foreign currency derivatives. The Corporation also has a significant amount of foreign currency net asset exposures. Currently, the Corporation does not hold any derivative contracts that hedge its foreign currency net asset exposures but may consider such strategies in the future.

The Corporation's cash position includes amounts denominated in foreign currencies. The Corporation manages its worldwide cash requirements considering available funds among its many subsidiaries and the cost effectiveness with which these funds can be accessed. The repatriation of cash balances from certain of the Corporation's subsidiaries could have adverse tax consequences.

However, those balances are generally available without legal restrictions to fund ordinary business operations. The Corporation has and will continue to transfer cash from those subsidiaries to the parent and to other international subsidiaries when it is cost effective to do so.

INTEREST RATE EXPOSURES. The Corporation's long-term debt portfolio consists mostly of fixed-rate instruments in order to minimize earnings volatility related to interest expense. From time to time the Corporation issues commercial paper, which exposes the Corporation to changes in interest rates. The Corporation currently does not hold interest rate derivative contracts.

COMMODITY PRICE EXPOSURES. The Corporation is exposed to volatility in the prices of raw materials used in some of its products and uses forward contracts in limited circumstances to manage some of those exposures.

> 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 competitive position, financial position, results of operations or cash flows.

The Corporation has identified approximately 450 locations, mostly in the United States, at which it may have some liability for remediating contamination. The Corporation does not believe that any individual location's exposure will have a material effect on the results of operations of the Corporation. Sites in the investigation or remediation stage represent approximately 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 100 sites. The number of Superfund sites, in and of itself, does not represent a relevant measure of liability because the nature and extent of environmental concerns vary from site to site and the Corporation's share of responsibility varies from sole responsibility to very little responsibility. In estimating its liability for remediation, the Corporation considers its likely proportionate share of the anticipated remediation expense and the ability of other potentially responsible parties to fulfill their obligations.

At December 31, 2000, the Corporation had \$459 million reserved for environmental remediation. Cash outflows for environmental remediation were \$54 million in 2000, \$36 million in 1999 and \$36 million in 1998. The Corporation estimates that ongoing environmental remediation expenditures in each of the next two years will not exceed \$65 million.

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

> New Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is currently effective January 1, 2001 for the Corporation. The standard requires that all derivative instruments be recorded on the balance sheet at fair value. Gains and losses on derivatives used to hedge foreign-currency-denominated balance sheet items will be reported directly in earnings along with the offsetting transaction gains and losses on the item being hedged. Derivatives used to hedge forecasted cash flows associated with committed foreign currency transactions or forecasted commodity purchases will be accounted for as cash flow hedges. Gains and losses on derivatives designated as cash flow hedges will be recorded in other comprehensive income. Those gains and losses will be reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. The ineffective portion of all hedges will be recognized currently in earnings.

Management believes adoption of this standard and related transition adjustments will not have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

> Euro Conversion

On January 1, 1999, the European Economic and Monetary Union entered a three-year transition phase during which the euro was introduced as a common currency in participating countries. The euro is currently used for wholesale financial transactions and will replace the legacy currencies that will be withdrawn between January 1, 2002 and July 1, 2002. The Corporation began preparing for the euro in December 1996 and plans to complete its transition to the euro by the end of 2001.

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 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. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These forward-looking statements are intended to provide management's current expectations or plans for the future operating and financial performance of the Corporation, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as: "believe," "expect," "plans," "strategy," "prospects," "estimate," "project," "anticipate" and other words of similar meaning in connection with a discussion of future operating or financial performance. These include, among others, statements relating to:

- Future earnings and other measurements of financial performance
- Future cash flow and uses of cash
- The effect of economic downturns or growth in particular regions
- The effect of changes in the level of activity in particular industries or markets
- The scope, nature or impact of acquisition activity
- Product developments and new business opportunities
- Restructuring costs and savings
- The outcome of contingencies
- The transition to the use of the euro as a currency.

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 2000 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, 2000. 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 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



Karl Krapek
President and Chief Operating Officer



David J. FitzPatrick
Senior Vice President,
Chief Financial Officer and Treasurer

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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers LLP
Hartford, Connecticut
January 18, 2001

Consolidated Statement of Operations

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS

	2000	1999	1998
Revenues			
Product sales	\$20,174	\$18,021	\$17,348
Service sales	6,032	5,823	5,439
Financing revenues and other income, net	377	283	22
	<u>26,583</u>	<u>24,127</u>	<u>22,809</u>
Costs and Expenses			
Cost of products sold	15,227	14,500	13,436
Cost of services sold	3,743	3,685	3,461
Research and development	1,302	1,292	1,168
Selling, general and administrative	3,171	3,133	2,737
Interest	382	260	197
	<u>23,825</u>	<u>22,870</u>	<u>20,999</u>
Income from continuing operations before income taxes and minority interests	2,758	1,257	1,810
Income taxes	853	325	568
Minority interests in subsidiaries' earnings	97	91	85
Income from continuing operations	<u>1,808</u>	<u>841</u>	<u>1,157</u>
Discontinued operation:			
Income from operations of discontinued UT Automotive unit (net of applicable income tax provisions of \$28 and \$55 in 1999 and 1998)	-	40	98
Gain on sale of UT Automotive unit (net of applicable income tax provision of \$112)	-	650	-
Net Income	<u>\$ 1,808</u>	<u>\$ 1,531</u>	<u>\$ 1,255</u>
Earnings per Share of Common Stock			
Basic:			
Continuing operations	\$ 3.78	\$ 1.74	\$ 2.47
Discontinued operation	-	.08	.21
Gain on sale of discontinued operation	-	1.40	-
Net Earnings	<u>\$ 3.78</u>	<u>\$ 3.22</u>	<u>\$ 2.68</u>
Diluted:			
Continuing operations	\$ 3.55	\$ 1.65	\$ 2.33
Discontinued operation	-	.08	.20
Gain on sale of discontinued operation	-	1.28	-
Net Earnings	<u>\$ 3.55</u>	<u>\$ 3.01</u>	<u>\$ 2.53</u>

See accompanying Notes to Consolidated Financial Statements

Consolidated Balance Sheet

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE (shares in thousands)

	2000	1999
Assets		
Cash and cash equivalents	\$ 748	\$ 957
Accounts receivable (net of allowance for doubtful accounts of \$412 and \$406)	4,445	4,337
Inventories and contracts in progress	3,756	3,504
Future income tax benefits	1,439	1,563
Other current assets	274	266
Total Current Assets	10,662	10,627
Customer financing assets	550	553
Future income tax benefits	1,065	873
Fixed assets	4,487	4,460
Goodwill (net of accumulated amortization of \$681 and \$507)	6,771	5,641
Other assets	1,829	2,212
Total Assets	\$25,364	\$24,366
Liabilities and Shareowners' Equity		
Short-term borrowings	\$ 1,039	\$ 902
Accounts payable	2,261	1,957
Accrued liabilities	5,748	6,023
Long-term debt currently due	296	333
Total Current Liabilities	9,344	9,215
Long-term debt	3,476	3,086
Future pension and postretirement benefit obligations	1,636	1,601
Future income taxes payable	112	126
Other long-term liabilities	2,205	2,245
Commitments and contingent liabilities (Notes 4 and 14)		
Minority interests in subsidiary companies	497	527
Series A ESOP Convertible Preferred Stock, \$1 par value		
Authorized-20,000 shares		
Outstanding-11,642 and 12,237 shares	767	808
ESOP deferred compensation	(335)	(359)
Total Liabilities	432	449
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 597,213 and 588,737 shares	4,665	4,227
Treasury Stock-126,907 and 114,191 common shares at cost	(3,955)	(3,182)
Retained earnings	7,743	6,463
Accumulated other non-shareowners' changes in equity:		
Foreign currency translation	(747)	(563)
Minimum pension liability	(44)	(41)
Unrealized holding gain on marketable equity securities	-	213
Total Shareowners' Equity	7,662	7,117
Total Liabilities and Shareowners' Equity	\$25,364	\$24,366

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

IN MILLIONS OF DOLLARS

	2000	1999	1998
Operating Activities			
Income from continuing operations	\$ 1,808	\$ 841	\$ 1,157
Adjustments to reconcile income from continuing operations to net cash flows provided by operating activities:			
Depreciation and amortization	859	819	730
Deferred income tax provision (benefit)	108	4	(264)
Minority interests in subsidiaries' earnings	97	91	85
Change in:			
Accounts receivable	(69)	(256)	44
Inventories and contracts in progress	(184)	331	(113)
Other current assets	19	(66)	213
Accounts payable and accrued liabilities	(184)	595	135
Other, net	49	(49)	327
Net Cash Provided by Operating Activities	2,503	2,310	2,314
Investing Activities			
Capital expenditures	(937)	(762)	(673)
Increase in customer financing assets	(339)	(383)	(356)
Decrease in customer financing assets	299	195	143
Business acquisitions	(1,168)	(3,547)	(1,228)
Dispositions of businesses	–	43	–
Other, net	44	43	43
Net Cash Used in Investing Activities	(2,101)	(4,411)	(2,071)
Financing Activities			
Issuance of long-term debt	712	1,727	402
Repayment of long-term debt	(435)	(557)	(146)
Increase in short-term borrowings	83	185	293
Common Stock issued under employee stock plans	438	354	220
Dividends paid on Common Stock	(387)	(353)	(316)
Repurchase of Common Stock	(800)	(822)	(650)
Dividends to minority interests and other	(193)	(159)	(138)
Net Cash (Used in) Provided by Financing Activities	(582)	375	(335)
Net Cash Provided by (Used in) Discontinued Operation	–	2,159	(9)
Effect of foreign exchange rate changes on Cash and cash equivalents	(29)	(26)	(4)
Net (decrease) increase in Cash and cash equivalents	(209)	407	(105)
Cash and cash equivalents, beginning of year	957	550	655
Cash and cash equivalents, end of year	\$ 748	\$ 957	\$ 550
Supplemental Disclosure of Cash Flow Information:			
Interest paid, net of amounts capitalized	\$ 432	\$ 217	\$ 170
Income taxes paid, net of refunds	496	368	888
Non-cash investing activities:			
The Corporation issued \$1.9 billion of Treasury Stock in connection with the acquisition of Sundstrand Corporation in 1999			

See accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Changes in Shareowners' Equity

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS

December 31, 1997

Common Stock issued under employee plans (6.6 million shares)
 Common Stock repurchased (14.8 million shares)
 Dividends on Common Stock (\$.695 per share)
 Dividends on ESOP Stock (\$4.80 per share)

Non-Shareowners' Changes in Equity:

Net income
 Foreign currency translation:
 Foreign currency translation adjustments
 Income taxes
 Minimum pension liability:
 Pension adjustment
 Income tax benefits

December 31, 1998

Common Stock issued under employee plans (7.2 million shares)
 Common Stock issued in conjunction with
 a business combination (30.4 million shares)
 Common Stock repurchased (13.2 million shares)
 Dividends on Common Stock (\$.76 per share)
 Dividends on ESOP Stock (\$4.80 per share)

Non-Shareowners' Changes in Equity:

Net income
 Foreign currency translation:
 Foreign currency translation adjustments
 Income tax benefits
 Minimum pension liability:
 Pension adjustment
 Income taxes
 Unrealized holding gain on marketable equity securities:
 Unrealized holding gain
 Income taxes

December 31, 1999

Common Stock issued under employee plans (9.4 million shares)
 Common Stock repurchased (13.6 million shares)
 Dividends on Common Stock (\$.825 per share)
 Dividends on ESOP Stock (\$4.80 per share)

Non-Shareowners' Changes in Equity:

Net income
 Foreign currency translation:
 Foreign currency translation adjustments
 Income tax benefits
 Minimum pension liability:
 Pension adjustment
 Income tax benefits
 Unrealized holding loss on marketable equity securities:
 Unrealized holding loss
 Income tax benefits

December 31, 2000

	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Non-Shareowners' Changes in Equity	Non-Shareowners' Changes in Equity for the Period
December 31, 1997	\$2,488	\$(2,472)	\$4,558	\$(501)	
Common Stock issued under employee plans (6.6 million shares)	220	5	(53)		
Common Stock repurchased (14.8 million shares)		(650)			
Dividends on Common Stock (\$.695 per share)			(316)		
Dividends on ESOP Stock (\$4.80 per share)			(33)		
Non-Shareowners' 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
Common Stock issued under employee plans (7.2 million shares)	354	16	(93)		
Common Stock issued in conjunction with a business combination (30.4 million shares)	1,165	741			
Common Stock repurchased (13.2 million shares)		(822)			
Dividends on Common Stock (\$.76 per share)			(353)		
Dividends on ESOP Stock (\$4.80 per share)			(33)		
Non-Shareowners' Changes in Equity:					
Net income			1,531		\$1,531
Foreign currency translation:					
Foreign currency translation adjustments				(92)	(92)
Income tax benefits				16	16
Minimum pension liability:					
Pension adjustment				150	150
Income taxes				(54)	(54)
Unrealized holding gain on marketable equity securities:					
Unrealized holding gain				328	328
Income taxes				(115)	(115)
December 31, 1999	4,227	(3,182)	6,463	(391)	\$1,764
Common Stock issued under employee plans (9.4 million shares)	438	27	(109)		
Common Stock repurchased (13.6 million shares)		(800)			
Dividends on Common Stock (\$.825 per share)			(387)		
Dividends on ESOP Stock (\$4.80 per share)			(32)		
Non-Shareowners' Changes in Equity:					
Net income			1,808		\$1,808
Foreign currency translation:					
Foreign currency translation adjustments				(202)	(202)
Income tax benefits				18	18
Minimum pension liability:					
Pension adjustment				(8)	(8)
Income tax benefits				5	5
Unrealized holding loss on marketable equity securities:					
Unrealized holding loss				(328)	(328)
Income tax benefits				115	115
December 31, 2000	\$4,665	\$(3,955)	\$7,743	\$(791)	\$1,408

See accompanying Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note 1 Summary of Accounting Principles

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

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

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

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

ACCOUNTS RECEIVABLE. Current and long-term accounts receivable include retainage and unbilled costs of approximately \$169 million and \$149 million at December 31, 2000 and 1999. Retainage represents amounts which, pursuant to the contract, are not due until 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 in the Consolidated Balance Sheet.

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

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 current or anticipated orders 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 the straight-line method, except for aerospace assets acquired prior to January 1, 1999, which are depreciated using accelerated methods. The change to straight-line depreciation for aerospace assets did not have a

material impact on the Corporation's financial position, results of operations or cash flows.

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 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 of 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 aftermarket 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 and commodity price 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 fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

Gains and losses from instruments that are effective hedges of foreign currency firm commitments or anticipated commodity transactions 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 hedge foreign-currency-denominated assets or liabilities are reported in earnings and offset the effects of foreign exchange transaction gains and losses from the associated hedged assets or liabilities. Cash flows from derivative instruments designated as hedges are classified consistent with the items being hedged. Gains and losses on derivatives no longer effective as a hedge are recognized in earnings.

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

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, is currently effective January 1, 2001 for the Corporation. The standard requires that all derivative instruments be recorded on the balance sheet at fair value. Gains and losses on derivatives used to hedge foreign-currency-denominated assets or liabilities will be reported directly in earnings along with the offsetting transaction gains and losses on the item being hedged. Derivatives used to hedge forecasted cash flows associated with foreign currency commitments or forecasted commodity purchases will be accounted for as cash flow hedges. Gains and losses on derivatives designated as cash flow hedges will be recorded in other comprehensive income and will be reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. The ineffective portion of all hedges will be recognized currently in earnings.

Management believes adoption of this standard and related transition adjustments will not have a material impact on the Corporation's consolidated 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. Accrued environmental liabilities are not reduced by potential insurance reimbursements.

Note 2 Business Acquisitions and Dispositions

ACQUISITIONS. The Corporation completed acquisitions in 2000, 1999, and 1998 for \$1,340 million, \$6,268 million, and \$1,237 million, including debt assumed of \$172 million, \$900 million, and \$9 million. The 2000 amount includes the acquisition of Specialty Equipment Companies for \$708 million, including debt assumed. The 1999 amounts include the acquisition of Sundstrand Corporation for approximately \$4.3 billion, including debt assumed.

In connection with the acquisition of Sundstrand, the Corporation has undertaken actions to combine the operations of Sundstrand and Hamilton Standard, including consolidating headquarters, closing facilities, relocating salary and hourly employees and reducing workforce. Costs relating to those actions that directly impact Sundstrand facilities and employees amounted to approximately \$53 million, including \$28 million recorded in 2000, and were accounted for as a purchase price adjustment.

The Corporation's unaudited consolidated results of operations on a pro forma basis for the Sundstrand transaction, assuming it had occurred at the beginning of 1999 and 1998, respectively, are: revenues of \$24,996 million and \$24,799 million, net income of \$1,558 million and \$1,363 million, net income per basic common share of \$3.18 and \$2.74 and net income per diluted common share of \$2.99 and \$2.58. The pro forma results are for information purposes only and are not necessarily indicative of the operating results that would have occurred had the Sundstrand acquisition been consummated at the beginning of the year or of future operating results. The 2000, 1999 and 1998 pro forma results for acquisitions other than Sundstrand, assuming those acquisitions had been made at the beginning of the year, would not be materially different from reported results.

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 was recorded as an increase in goodwill of \$1,412 million in 2000, \$4,396 million in 1999, and \$855 million in 1998, and is being amortized over estimated useful lives that range from 10 to 40 years. The results of operations of acquired businesses have been included in the Consolidated Statement of Operations beginning on the effective date of acquisition.

The cost of 2000 acquisitions and allocations of cost may require adjustment based upon information that may come to the attention of the Corporation which is not currently available.

DISPOSITIONS. In May 1999, the Corporation sold its UT Automotive unit to Lear Corporation for \$2.3 billion, resulting in a \$2.2 billion source of cash and a \$650 million after tax gain. Related results, through the date of disposition, appear as income from operations of the discontinued UT Automotive unit in the Consolidated Statement of Operations for 1999 and 1998. UT Automotive revenues prior to the disposition were \$1,115 million and \$2,962 million in 1999 and 1998.

Note 3 Earnings Per Share

	Income (MILLIONS)	Average Shares (THOUSANDS)	Per Share Amount
December 31, 2000			
Income from continuing operations and net income	\$ 1,808		
Less: ESOP Stock dividends	(32)		
Basic earnings from continuing operations and net earnings	1,776	470.1	\$ 3.78
Stock awards	–	11.3	
ESOP Stock adjustment	28	26.6	
Diluted earnings from continuing operations and net earnings	\$ 1,804	508.0	\$ 3.55
December 31, 1999			
Income from continuing operations	\$ 841		
Less: ESOP Stock dividends	(33)		
Basic earnings from continuing operations	808	465.6	\$ 1.74
Stock awards	–	13.8	
ESOP Stock adjustment	28	27.3	
Diluted earnings from continuing operations	\$ 836	506.7	\$ 1.65
Net income	\$ 1,531		
Less: ESOP Stock dividends	(33)		
Basic earnings	1,498	465.6	\$ 3.22
Stock awards	–	13.8	
ESOP Stock adjustment	28	27.3	
Diluted earnings	\$ 1,526	506.7	\$ 3.01
December 31, 1998			
Income from continuing operations	\$ 1,157		
Less: ESOP Stock dividends	(33)		
Basic earnings from continuing operations	1,124	455.5	\$ 2.47
Stock awards	–	12.0	
ESOP Stock adjustment	28	27.3	
Diluted earnings from continuing operations	\$ 1,152	494.8	\$ 2.33
Net income	\$ 1,255		
Less: ESOP Stock dividends	(33)		
Basic earnings	1,222	455.5	\$ 2.68
Stock awards	–	12.0	
ESOP Stock adjustment	28	27.3	
Diluted earnings	\$ 1,250	494.8	\$ 2.53

Note 4 Commercial Airline Industry Assets and Commitments

The Corporation has receivables and other financing assets with commercial airline industry customers totaling \$1,614 million and \$1,598 million at December 31, 2000 and 1999, net of allowances of \$226 million and \$243 million.

Customer financing assets consist of products under lease of \$333 million and notes and leases receivable of \$385 million. The notes and leases receivable are scheduled to mature as follows: \$168 million in 2001, \$45 million in 2002, \$52 million in 2003, \$37 million in 2004, \$28 million in 2005 and \$55 million 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 Corporation's financing and rental commitments as of December 31, 2000 were \$804 million and are exercisable as follows: \$229 million in 2001, \$42 million in 2002, \$97 million in 2003, \$93 million in 2004, \$75 million in 2005 and \$268 million thereafter. The Corporation's financing obligations with customers are contingent upon maintenance of certain levels of financial condition by the customers.

In addition, the Corporation had net residual value and other guarantees of \$133 million as of December 31, 2000.

The Corporation has a 33% interest in International Aero Engines AG ("IAE"), an international consortium of four shareholders organized to support the V2500 commercial aircraft engine program. IAE may offer customer financing in the form of guarantees, secured debt or lease financing in connection with V2500 engine sales. At December 31, 2000, IAE had financing commitments of \$1,205 million. The Corporation's share of IAE's financing commitments was approximately \$414 million at December 31, 2000. In addition, IAE had lease obligations under long-term noncancelable leases of approximately \$352 million through 2021 related to aircraft which are subleased to customers under long-term leases. These aircraft have fair market values which approximate 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.

Note 5 Inventories and Contracts in Progress

IN MILLIONS OF DOLLARS	2000	1999
Inventories consist of the following:		
Raw material	\$ 738	\$ 702
Work-in-process	1,179	1,158
Finished goods	2,099	1,871
Contracts in progress	1,849	1,561
	<u>5,865</u>	<u>5,292</u>
Less:		
Progress payments, secured by lien, on U.S. Government contracts	(137)	(87)
Billings on contracts in progress	(1,972)	(1,701)
	<u>\$ 3,756</u>	<u>\$ 3,504</u>

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 54% and 51% of total inventories and contracts in progress have been acquired or manufactured under such long-term contracts at December 31, 2000 and 1999, a portion of which is not 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 \$106 million and \$111 million at December 31, 2000 and 1999.

Note 6 Fixed Assets

IN MILLIONS OF DOLLARS	Estimated Useful Lives	2000	1999
Land	—	\$ 193	\$ 218
Buildings and improvements	20-40 years	3,403	3,225
Machinery, tools and equipment	3-12 years	6,292	6,645
Other, including under construction	—	467	367
		<u>10,355</u>	<u>10,455</u>
Accumulated depreciation		(5,868)	(5,995)
		<u>\$ 4,487</u>	<u>\$ 4,460</u>

Depreciation expense was \$608 million in 2000, \$633 million in 1999 and \$613 million in 1998.

Note 7 Accrued Liabilities

IN MILLIONS OF DOLLARS	2000	1999
Accrued salaries, wages and employee benefits	\$ 923	\$ 861
Accrued restructuring costs	145	525
Service and warranty accruals	453	480
Advances on sales contracts	959	964
Income taxes payable	659	602
Other	2,609	2,591
	<u>\$5,748</u>	<u>\$6,023</u>

Note 8 Borrowings and Lines of Credit

Short-term borrowings consist of the following:

IN MILLIONS OF DOLLARS	2000	1999
Domestic borrowings	\$ 65	\$ —
Foreign bank borrowings	361	629
Commercial paper	613	273
	<u>\$1,039</u>	<u>\$902</u>

The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 2000 and 1999 were 7.6% and 7.5%. At December 31, 2000, approximately \$1.2 billion was available under short-term lines of credit with local banks at the Corporation's various international subsidiaries.

At December 31, 2000, the Corporation had credit commitments from banks totaling \$1.5 billion under a Revolving Credit Agreement, which serves as a back-up facility for issuance of commercial paper. There were no borrowings under the Revolving Credit Agreement at December 31, 2000.

Long-term debt consists of the following:

IN MILLIONS OF DOLLARS	Weighted-Average Interest Rate	Maturity	2000	1999
Notes and other debt denominated in:				
U.S. dollars	7.3%	2001-2029	\$ 3,195	\$ 2,844
Foreign currency	10.6%	2001-2018	212	15
Capital lease obligations	7.1%	2001-2015	64	223
ESOP debt	7.7%	2001-2009	301	337
			<u>3,772</u>	<u>3,419</u>
Less: Long-term debt currently due			296	333
			<u>\$3,476</u>	<u>\$3,086</u>

Principal payments required on long-term debt for the next five years are: \$296 million in 2001, \$141 million in 2002, \$140 million in 2003, \$364 million in 2004, and \$35 million in 2005.

The Corporation issued a total of \$500 million and \$1,725 million of notes under shelf registration statements previously filed with the Securities and Exchange Commission in 2000 and 1999. The 2000 notes carry an interest rate of 7.125%. The weighted-average interest rate on the 1999 notes is 6.9%. Proceeds from the debt issuances were used for general corporate purposes, including financing a portion of the 2000 acquisition of Specialty Equipment Companies and the 1999 acquisition of Sundstrand, funding other acquisitions and repurchasing the Corporation's Common Stock.

At December 31, 2000, up to \$1 billion of additional medium-term and long-term debt could be issued under a shelf registration statement on file with the Securities and Exchange Commission.

The percentage of total debt at floating interest rates was 22% and 24% at December 31, 2000 and 1999.

Note 9 Taxes on Income

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

IN MILLIONS OF DOLLARS	2000	1999	1998
Current:			
United States:			
Federal	\$ 55	\$ 32	\$ 347
State	37	26	23
Foreign	387	323	337
	<u>479</u>	<u>381</u>	<u>707</u>
Future:			
United States:			
Federal	8	67	(214)
State	73	(61)	(25)
Foreign	27	(2)	(25)
	<u>108</u>	<u>4</u>	<u>(264)</u>
	<u>587</u>	<u>385</u>	<u>443</u>
Attributable to items credited (charged) to equity	<u>266</u>	<u>(60)</u>	<u>125</u>
	<u>\$853</u>	<u>\$325</u>	<u>\$568</u>

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, 2000 and 1999 are as follows:

IN MILLIONS OF DOLLARS	2000	1999
Future income tax benefits:		
Insurance and employee benefits	\$ 685	\$ 669
Other asset basis differences	313	263
Other liability basis differences	1,332	1,413
Tax loss carryforwards	165	169
Tax credit carryforwards	217	155
Valuation allowance	(208)	(233)
	<u>\$2,504</u>	<u>\$2,436</u>
Future income taxes payable:		
Fixed assets	\$ 67	\$ 94
Other items, net	81	55
	<u>\$ 148</u>	<u>\$ 149</u>

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 from continuing operations before income taxes and minority interests are:

IN MILLIONS OF DOLLARS	2000	1999	1998
United States	\$ 1,511	\$ 352	\$ 924
Foreign	1,247	905	886
	<u>\$2,758</u>	<u>\$1,257</u>	<u>\$1,810</u>

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:

	2000	1999	1998
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Varying tax rates of consolidated subsidiaries (including Foreign Sales Corporation)	(6.0)	(7.5)	(4.9)
Goodwill	1.7	2.5	.4
Enacted tax law changes	1.9	(.3)	.1
Other	(1.7)	(3.8)	.8
Effective income tax rate	<u>30.9%</u>	<u>25.9%</u>	<u>31.4%</u>

The 2000 effective tax rate includes the impact of two discrete items: the revaluation of the Corporation's state deferred tax asset resulting from the enactment of the Connecticut tax law changes and the benefits of income tax credits for prior periods associated with an industry related court decision. Excluding the discrete items, the 2000 effective tax rate was 30.5%.

The 1999 effective tax rate includes the impact of the Corporation's 1999 restructuring actions. Excluding restructuring, the 1999 effective tax rate was 30.9%.

Tax credit carryforwards at December 31, 2000 were \$217 million of which \$24 million expires as follows: \$16 million from 2001-2005 and \$8 million in 2015.

Tax loss carryforwards, principally state and foreign, at December 31, 2000 were \$818 million of which \$548 million expire as follows: \$206 million from 2001-2005, \$175 million from 2006-2010, \$167 million from 2011-2020.

Note 10 Employee Benefit Plans

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

EMPLOYEE SAVINGS PLANS. The Corporation and certain subsidiaries sponsor various employee savings plans. Total contribution expenses were \$90 million, \$87 million and \$81 million for 2000, 1999 and 1998.

The Corporation's nonunion domestic employee savings plan uses an Employee Stock Ownership Plan ("ESOP") for employer contributions. External borrowings, guaranteed by the Corporation and reported as debt in the Consolidated Balance Sheet, were used by the ESOP to fund a portion of its purchase of ESOP Stock from the Corporation. Each share of ESOP Stock is convertible into four shares of Common Stock, has a guaranteed value of \$65, a \$4.80 annual dividend and is redeemable at any time for \$65 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, 2000, 6.5 million shares had been committed to employees, leaving 5.1 million shares in the ESOP Trust, with an approximate fair value of \$1,602 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.

PENSION AND POSTRETIREMENT PLANS. The Corporation and its subsidiaries sponsor many domestic and foreign defined benefit pension and other postretirement plans with balances as follows:

IN MILLIONS OF DOLLARS	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
Change in Benefit Obligation:				
Beginning balance	\$ 11,830	\$11,075	\$ 1,118	\$ 771
Service cost	238	264	13	13
Interest cost	839	727	82	56
Actuarial loss (gain)	133	(495)	8	(75)
Total benefits paid	(830)	(687)	(100)	(73)
Net settlement and curtailment (gain) loss	(6)	73	—	106
Acquisitions	84	800	39	312
Other	(56)	73	15	8
Ending balance	\$ 12,232	\$11,830	\$ 1,175	\$ 1,118
Change in Plan Assets:				
Beginning balance	\$ 12,196	\$ 9,945	\$ 78	\$ 81
Actual return on plan assets	1,669	1,989	4	5
Employer contributions	47	46	1	1
Benefits paid from plan assets	(798)	(657)	(11)	(11)
Acquisitions	52	965	—	—
Other	(47)	(92)	4	2
Ending balance	\$ 13,119	\$12,196	\$ 76	\$ 78
Funded status	\$ 887	\$ 366	\$ (1,099)	\$ (1,040)
Unrecognized net actuarial (gain)	(1,035)	(529)	(9)	(19)
Unrecognized prior service cost	284	292	(111)	(127)
Unrecognized net liability (asset) at transition	6	(12)	—	—
Net amount recognized	\$ 142	\$ 117	\$ (1,219)	\$ (1,186)
Amounts Recognized in the Consolidated Balance Sheet Consist of:				
Prepaid benefit cost	\$ 482	\$ 422	\$ —	\$ —
Accrued benefit liability	(449)	(398)	(1,219)	(1,186)
Intangible asset	37	29	—	—
Accumulated other non-shareowners' changes in equity	72	64	—	—
Net amount recognized	\$ 142	\$ 117	\$ (1,219)	\$ (1,186)

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:

	2000	1999	1998
Pension Benefits:			
Discount rate	7.4%	7.3%	6.6%
Expected return on plan assets	9.7%	9.6%	9.6%
Salary scale	4.9%	4.8%	4.8%
Other Postretirement Benefits:			
Discount rate	7.5%	7.5%	6.7%
Expected return on plan assets	9.6%	9.6%	9.6%

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate is assumed to remain at that level thereafter.

IN MILLIONS OF DOLLARS	2000	1999	1998
Components of Net Periodic Benefit Cost:			
Pension Benefits:			
Service cost	\$ 238	\$ 264	\$ 222
Interest cost	839	727	695
Expected return on plan assets	(1,060)	(926)	(856)
Amortization of prior service cost	34	33	26
Amortization of unrecognized net transition asset	(20)	(23)	(23)
Recognized actuarial net loss	11	16	8
Net settlement and curtailment (gain) loss	(2)	82	73
Discontinued operation benefit (cost)	—	16	(4)
Net periodic pension benefit cost – continuing operations	\$ 40	\$ 189	\$ 141
Net periodic pension benefit cost of multiemployer plans	\$ 30	\$ 33	\$ 25
Other Postretirement Benefits:			
Service cost	\$ 13	\$ 13	\$ 10
Interest cost	82	56	51
Expected return on plan assets	(7)	(7)	(6)
Amortization of prior service cost	(16)	(18)	(18)
Net settlement and curtailment (gain) loss	—	(13)	10
Discontinued operation benefit (cost)	—	5	(2)
Net periodic other postretirement benefit cost – continuing operations	\$ 72	\$ 36	\$ 45

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 \$810 million, \$653 million and \$236 million, as of December 31, 2000 and \$699 million, \$556 million and \$173 million, as of December 31, 1999.

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, 2000 by approximately 6%. The effects of this change on the service expense and the interest expense components of the net postretirement benefit expense for 2000 would be 8%.

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. In addition, up to 3 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.

A summary of the transactions under all plans for the three years ended December 31, 2000 follows:

SHARES AND UNITS IN THOUSANDS	Stock Options		Other Incentive Shares/Units
	Shares	Average Price	
Outstanding at:			
December 31, 1997	40,054	\$21.68	2,526
Granted	8,648	38.93	52
Exercised/earned	(6,708)	14.94	(550)
Canceled	(772)	32.34	(8)
December 31, 1998	41,222	26.20	2,020
Granted	12,259	52.49	139
Exercised/earned	(7,385)	21.59	(880)
Canceled	(1,428)	47.51	(29)
December 31, 1999	44,668	33.49	1,250
Granted	8,167	64.55	86
Exercised/earned	(9,412)	24.99	(840)
Canceled	(1,031)	51.55	(13)
December 31, 2000	42,392	\$40.93	483

Granted options in the above table include options issued in connection with business combinations. The 1999 grant amount includes the issuance of 2.6 million options associated with the purchase of Sundstrand in exchange for vested Sundstrand options.

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 \$10 million, \$26 million and \$31 million for 2000, 1999 and 1998.

The following table summarizes information about stock options outstanding (in thousands) at December 31, 2000:

Exercise Price	Options Outstanding			Options Exercisable	
	Shares	Average Price	Remaining Term	Shares	Average Price
\$10.01-\$25.00	11,677	\$18.50	3.81	11,675	\$18.50
\$25.01-\$40.00	12,146	35.31	6.40	7,486	34.51
\$40.01-\$55.00	8,284	51.58	7.78	1,396	48.58
\$55.01-\$70.00	7,057	61.51	8.73	309	60.15
\$70.01-\$85.00	3,228	70.92	9.55	—	—

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 as follows:

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS	2000	1999	1998
Net income:			
As reported	\$1,808	\$1,531	\$1,255
Pro forma	1,734	1,470	1,208
Basic earnings per share:			
As reported	\$ 3.78	\$ 3.22	\$ 2.68
Pro forma	3.62	3.09	2.58
Diluted earnings per share:			
As reported	\$ 3.55	\$ 3.01	\$ 2.53
Pro forma	3.41	2.89	2.44

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:

	2000	1999	1998
Risk-free interest rate	6.1%	4.8%	5.4%
Expected life	5 years	6 years	6 years
Expected volatility	30%	25%	23%
Expected dividend yield	1.0%	1.2%	1.5%

The weighted-average grant date fair values of options granted during 2000, 1999 and 1998 were \$21.33, \$17.20 and \$11.33.

Note 11 Restructuring

1999 ACTIONS. During 1999, the Corporation's operating segments initiated a variety of actions aimed at further strengthening their future profitability and competitive position. Those actions focused principally on rationalizing manufacturing processes and improving the overall level of organizational efficiency, including the removal of management layers. Restructuring charges accrued in 1999 were \$842 million before income taxes and minority interests and were planned to result in net reductions of approximately 15,000 salary and hourly employees and approximately 8 million square feet of facilities. Significant 1999 actions by operating segment included:

- Otis: Worldwide facility consolidations and workforce reductions
- Carrier: Worldwide facility closures and workforce reductions
- Pratt & Whitney: Workforce reductions; consolidation of military engine operations, manufacturing operations and the component repair business
- Flight Systems: Facility closures and consolidation of functions in Connecticut; workforce reductions; rationalization of customer support.

The 1999 accrued costs were recorded at each of the Corporation's operating segments as follows:

IN MILLIONS OF DOLLARS

Otis	\$ 178
Carrier	182
Pratt & Whitney	345
Flight Systems	131
Other	6
	<u>\$ 842</u>

The following table summarizes the accrued costs associated with the 1999 restructuring actions by type and related activity through December 31, 2000:

IN MILLIONS OF DOLLARS	Accrued Severance and Related Costs	Asset Write-downs	Accrued Exit & Lease Termination Costs	Accrued Site Restoration & Other Costs	Total
1999 Charges:					
Staff reductions	\$ 433	\$ -	\$ -	\$ -	\$ 433
Facility closures	149	160	44	56	409
Total accrued charges	582	160	44	56	842
Adjustments	(49)	-	(10)	1	(58)
Utilized to date:					
Cash	(348)	-	(15)	(23)	(386)
Non-cash	(111)	(160)	(8)	-	(279)
Balance at December 31, 2000	\$ 74	\$ -	\$ 11	\$ 34	\$ 119

The 1999 accrued costs were recorded in cost of sales (87%) and selling, general and administrative expenses (13%) and related to:

- Workforce reductions of approximately 15,000 employees, primarily at Pratt & Whitney (5,200 employees), Otis (4,000 employees) and Carrier (3,200 employees)
- Plant closings that were planned to result in the reduction of approximately 8 million square feet of facilities, primarily at Pratt & Whitney (3 million square feet) and Carrier (2.9 million square feet) and charges associated with the write-down of property, plant and equipment to fair value, where fair value is based on appraised value, primarily at Pratt & Whitney (\$70 million) and Carrier (\$41 million).

The adjustments to the 1999 restructuring liability result from completion of actions for amounts lower than originally estimated and revision of several of the original programs. These adjustments were more than offset by additional restructuring charges in 2000 associated with the 1999 actions that were not accruable or contemplated when the actions were initiated.

As of December 31, 2000, workforce reductions of approximately 12,200 employees were completed and approximately 4.4 million square feet were eliminated. The remaining actions are expected to be substantially complete in early 2001.

In total the Corporation incurred and recognized costs of \$317 million and \$141 million in 2000 and 1999 associated with the restructuring actions that were not accruable or contemplated when the actions were initiated.

1998 ACTIONS. During 1998, the Corporation accrued pre-tax charges totaling \$320 million related to ongoing efforts to reduce the costs of its continuing operations in response to an increasingly competitive business environment. Charges were recorded in each of the Corporation's operating segments with the majority relating to the Pratt & Whitney, Otis and Carrier operations. The amounts were primarily recorded in cost of sales and related to workforce reductions of approximately 7,500 employees, plant closings and charges associated with asset impairments. As of December 31, 2000 these actions have been completed, substantially as planned.

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 shareholders' equity. The Corporation had foreign currency net assets in more than forty currencies, aggregating \$2.5 billion and \$2.1 billion at December 31, 2000 and 1999. The Corporation's net assets in the Asia Pacific region were \$1 billion at December 31, 2000 and 1999.

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

IN MILLIONS OF DOLLARS	2000	1999
Notional amount	\$ 2,709	\$ 2,569
Gains and losses explicitly deferred as a result of hedging firm commitments:		
Gains deferred	\$ 32	\$ 15
Losses deferred	(55)	(26)
	<u>\$ (23)</u>	<u>\$ (11)</u>

Note 13 Financial Instruments

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

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

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

IN MILLIONS OF DOLLARS	DECEMBER 31, 2000		DECEMBER 31, 1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Marketable equity securities	\$ 48	\$ 48	\$ 355	\$ 355
Long-term receivables	58	54	54	53
Customer financing notes	343	340	270	267
Financial liabilities:				
Short-term borrowings	(1,039)	(1,039)	(902)	(902)
Long-term debt	(3,708)	(3,879)	(3,196)	(3,163)
Foreign exchange contracts:				
Receivables	40	40	38	45
Payables	(77)	(70)	(38)	(32)
Commodity forward contracts:				
Receivables	2	2	8	11
Payables	(3)	(3)	-	-

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

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

The Corporation had outstanding financing and rental commitments totaling \$1,218 million at December 31, 2000. Risks associated with changes in interest rates on these commitments 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 of \$690 million at December 31, 2000 under long-term noncancelable operating leases are as follows: \$169 million in 2001, \$133 million in 2002, \$101 million in 2003, \$76 million in 2004, \$56 million in 2005 and \$155 million thereafter.

Rent expense was \$193 million in 2000, \$193 million in 1999 and \$230 million in 1998.

ENVIRONMENTAL. The Corporation's operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over its foreign operations. As described in Note 1, the Corporation has accrued for the costs of environmental remediation activities and periodically reassesses these amounts. Management believes that 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. Accrued environmental liabilities are not reduced by potential insurance reimbursements.

U.S. GOVERNMENT. The Corporation is now, and believes that in light of the current government contracting environment it will be, the subject of one or more government investigations. If the Corporation or one of its business units were charged with wrongdoing as a result of any of these investigations, they 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's operations are classified in four principal operating segments. Those segments were generally determined based on the management of the businesses and on the basis of separate groups of operating companies, each with general operating autonomy over diversified products and services.

OTIS products include elevators, escalators, service, automated people movers and spare parts sold to a diversified international customer base in commercial real estate development.

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

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.

FLIGHT SYSTEMS SEGMENT provides global aerospace and industrial products and services through Hamilton Sundstrand and Sikorsky Aircraft. Hamilton Sundstrand provides aerospace and industrial products for diversified industries. Aerospace products include aircraft power generation management and distribution systems, and environmental, flight and fuel control systems.

Sikorsky Aircraft products include commercial and military helicopters, aftermarket products and service.

Operating segment and geographic data include the results of all majority-owned businesses, consistent with the management reporting of these businesses. For certain of these subsidiaries, minority shareholders have rights which, under the provisions of EITF 96-16, overcome the presumption of control. 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

IN MILLIONS OF DOLLARS	Total Revenues			Operating Profits		
	2000	1999	1998	2000	1999	1998
Otis	\$ 6,153	\$ 5,654	\$ 5,572	\$ 798	\$ 493	\$ 533
Carrier	8,430	7,353	6,922	795	459	495
Pratt & Whitney	7,366	7,674	7,876	1,200	634	1,024
Flight Systems	4,992	3,810	2,891	614	247	287
Total segment	\$26,941	\$24,491	\$23,261	\$3,407	\$1,833	\$2,339
Eliminations and other	(358)	(364)	(452)	(39)	(85)	(89)
General corporate expenses	—	—	—	(228)	(231)	(243)
Consolidated	\$26,583	\$24,127	\$22,809	\$3,140	\$1,517	\$2,007
Interest expense				(382)	(260)	(197)
Income from continuing operations before income taxes and minority interests				\$2,758	\$1,257	\$1,810

IN MILLIONS OF DOLLARS	Total Assets			Capital Expenditures			Depreciation & Amortization		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
Otis	\$ 3,753	\$ 4,036	\$ 3,049	\$108	\$ 84	\$ 93	\$165	\$145	\$139
Carrier	6,907	5,592	4,556	231	237	190	206	195	184
Pratt & Whitney	5,951	5,660	5,863	369	243	254	217	250	278
Flight Systems	7,750	7,677	2,154	195	166	105	261	216	118
Total segment	\$24,361	\$22,965	\$15,622	\$903	\$730	\$642	\$849	\$806	\$719
Eliminations and other	1,003	1,401	2,146	34	32	31	10	13	11
Consolidated	\$25,364	\$24,366	\$17,768	\$937	\$762	\$673	\$859	\$819	\$730

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

IN MILLIONS OF DOLLARS	External Revenues			Operating Profits			Long-Lived Assets		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
United States operations	\$16,231	\$14,814	\$13,852	\$1,950	\$ 757	\$1,340	\$ 8,535	\$ 7,465	\$3,026
International operations:									
Europe	4,413	4,433	4,252	606	473	516	1,030	1,028	842
Asia Pacific	3,319	2,615	2,487	368	206	130	1,418	1,464	812
Other	2,820	2,472	2,517	483	396	353	534	514	501
Eliminations and other	(200)	(207)	(299)	(267)	(315)	(332)	71	28	—
Consolidated	\$26,583	\$24,127	\$22,809	\$3,140	\$1,517	\$2,007	\$11,588	\$10,499	\$5,181

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	2000	1999	1998
Europe	\$1,606	\$1,303	\$ 967
Asia Pacific	1,632	1,389	1,910
Other	896	950	1,220
	\$4,134	\$3,642	\$4,097

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

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

IN MILLIONS OF DOLLARS	2000	1999	1998
Pratt & Whitney	\$1,616	\$2,116	\$1,941
Flight Systems	1,207	1,174	1,273

> **Selected Quarterly Financial Data (Unaudited)**

IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS	2000 Quarters				1999 Quarters			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Sales	\$6,307	\$6,871	\$6,339	\$6,689	\$5,382	\$5,984	\$6,068	\$6,410
Gross margin	1,679	1,884	1,814	1,859	1,405	1,637	1,211	1,406
Income from continuing operations	377	509	496	426	278	417	90	56
Net income	377	509	496	426	308	1,077	90	56
Earnings per share of Common Stock:								
Basic:								
Continuing operations	\$.78	\$ 1.07	\$ 1.04	\$.89	\$.60	\$.89	\$.17	\$.10
Net earnings	\$.78	\$ 1.07	\$ 1.04	\$.89	\$.67	\$ 2.33	\$.17	\$.10
Diluted:								
Continuing operations	\$.74	\$ 1.00	\$.98	\$.84	\$.57	\$.83	\$.16	\$.10
Net earnings	\$.74	\$ 1.00	\$.98	\$.84	\$.63	\$ 2.15	\$.16	\$.10

> **Comparative Stock Data**

	2000			1999		
	High	Low	Dividend	High	Low	Dividend
Common Stock						
First quarter	65 1/4	48 1/16	\$.20	67 13/16	54	\$.18
Second quarter	66 3/16	54 1/2	\$.20	74 11/16	61 3/4	\$.18
Third quarter	71 1/2	56 11/16	\$.20	71 3/16	56	\$.20
Fourth quarter	79 3/4	63 1/2	\$.225	65	52 5/16	\$.20

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 24,000 common shareowners of record at December 31, 2000.

Corporate

Information

Directors

BOARD OF DIRECTORS

Antonia Handler Chayes
Senior Advisor and Vice Chair,
Conflict Management Group
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Alternative Dispute Resolution)

George David
Chairman and
Chief Executive Officer

Jean-Pierre Garnier
Chief Executive Officer,
GlaxoSmithKline Beecham plc
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Vice Chair,
Fannie Mae
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Karl J. Krapek
President and
Chief Operating Officer

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

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President,
International Chamber of
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Chief Executive Officer,
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(Chemicals and Chemical Products)

André Villeneuve
Chairman,
Instinet Corporation
(Electronic Agency Stockbroker)

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

Sanford I. Weill
Chairman and
Chief Executive Officer,
Citigroup Inc.
(Financial Services)

PERMANENT COMMITTEES

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Frank P. Popoff, Chairman
Antonia Handler Chayes
Jamie S. Gorelick
Richard D. McCormick
André Villeneuve
H. A. Wagner

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Jean-Pierre Garnier
Charles R. Lee
Richard D. McCormick
Frank P. Popoff

Executive Committee
George David, Chairman
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Karl J. Krapek
Frank P. Popoff
H. A. Wagner

Finance Committee
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Karl J. Krapek
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Public Issues Review Committee
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Jean-Pierre Garnier
Jamie S. Gorelick
André Villeneuve
Sanford I. Weill

Leadership

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

Tesfaye Aklilu
Vice President, Quality

Ted F. Amyuni
President, European & Transcontinental Operations, Carrier

Jonathan W. Ayers
President, Carrier Corporation

Todd Bluedorn
President, Industrial, Hamilton Sundstrand

Dean C. Borgman
President, Sikorsky Aircraft

Ari Bousbib
Executive Vice President and Chief Operating Officer, Otis

Kent L. Brittan
Vice President, Supply Management

William R. Brown
Executive Vice President, Toshiba-Carrier

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

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
President, Pratt & Whitney

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

Geraud Darnis
President, Asia Pacific Operations, Carrier

George David
Chairman and Chief Executive Officer

G. Sandy Diehl
Senior Vice President, Product Strategy, Otis

John Doucette
Vice President, e-Business & Chief Information Officer

John E. Evard, Jr.
Vice President, Taxes

Stephen N. Finger
President, Military Engines, Pratt & Whitney

David J. FitzPatrick
Senior Vice President, Chief Financial Officer and Treasurer

Lawrence J. Gavrich
Vice President, Communications

James L. Gingrich
Vice President, Flight & Undersea Systems, Hamilton Sundstrand

Patrick J. Gnazzo
Vice President, Business Practices

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

Anthony J. Guzzi
President Commercial Systems and Services, Carrier

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

Robert S. Harris
Vice President, Chief Learning Officer

Frank W. Hartman
President, International Comfort Products, Carrier

David P. Hess
Vice President & General Manager, Air Management & Power Systems, Hamilton Sundstrand

Tadayuki Inoue
Vice President & Senior Area Executive, Japan, Otis

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President, Space & Russian Programs, Pratt & Whitney

Karl J. Krapek
President and Chief Operating Officer

John P. Leary
Vice President, Employee Relations

Robert Leduc
Executive Vice President & Chief Operating Officer, Pratt & Whitney

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

David J. Linton
Vice President and General Manager, Electric Systems, Hamilton Sundstrand

John F. Malloy
President, Residential and Light Commercial Systems, Carrier

Ronald F. McKenna
President, Hamilton Sundstrand

Angelo J. Messina
Vice President, Corporate Strategy & Development

William T. Miller
President, International Fuel Cells

Raymond J. Moncini
Vice President and Senior Area Executive, North America, Otis

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

Robert R. Moore
Vice President, Operations, Hamilton Sundstrand

David G. Nord
Vice President, Controller

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

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

Nicholas T. Pinchuk
President, Refrigeration Operations, Carrier

Robert E. Ponchak
Senior Vice President, Module Centers and Operations, Pratt & Whitney

Carlos Renck
President, Latin American Operations, Carrier

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

Olivier J. Robert
Senior Vice President, Operations, Otis

James A. Robinson
President, Aftermarket Services, Pratt & Whitney

Ellen S. Smith
President, Power Systems, Pratt & Whitney

Larry M. Sweet
President, Components, Carrier

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

Shareowner Information

CORPORATE OFFICE

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

This annual report is made available to shareowners in advance of the proxy statement for the annual meeting to be held at 11:00 a.m., April 27, 2001, in Syracuse, New York. The proxy statement will be made available to shareowners on or about March 23, 2001, at which time proxies for the meeting will be requested.

Information about UTC, including financial information, can be found at our Internet site: <http://www.utc.com>.

Stock Listing

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

Ticker Symbol: UTX

Transfer Agent and Registrar

First Chicago Trust Company, a division of EquiServe, is the transfer agent, registrar and dividend disbursing agent for UTC's Common Stock. Questions and communications regarding transfer of stock, replacement of lost certificates, dividends and address changes should be directed to:
First Chicago Trust Company, a division of EquiServe
P.O. Box 2500
Jersey City, New Jersey
07303-2500
Telephone: 1-800-519-3111
Internet: <http://www.equiserve.com>

> 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, a division of EquiServe
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.

Electronic Access

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

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

Your enrollment is revocable until each year's mailing dates for annual meeting materials. Beneficial shareowners may be able to request electronic access by contacting your broker or bank, or ADP at www.utc.com/beneficial.

Shareowner Dividend Reinvestment and Stock Purchase Plan

The Corporation has adopted a Shareowner Dividend Reinvestment and Stock Purchase Plan that provides eligible holders 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, a division of EquiServe, at 1-800-519-3111.

Additional Information

Shareowners may obtain a copy of the United Technologies Report on Form 10-K for 2000 filed with the Securities and Exchange Commission by writing to:
Corporate Secretary
United Technologies Corporation
One Financial Plaza
Hartford, Connecticut 06103

For additional information about the Corporation please contact Investor Relations at the above Corporate Office address, or visit our website at <http://www.utc.com>.

Shareowner Information Services

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

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

Direct Registration System

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

Environmentally Friendly Report

This annual report is printed on recycled and recyclable paper ♻️

INTERNET

www.utc.com
www.pratt-whitney.com
www.otis.com
www.carrier.com
www.hamiltonsundstrandcorp.com
www.sikorsky.com
www.internationalfuelcells.com

