PEARSON PLC
Form 6-K
July 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the month of July 2011

PEARSON plc
(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

80 Strand
London, England WC2R 0RL
44-20-7010-2000
(Address of principal executive office)

Indicate by check mark whether the Registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F X Form 40-F

Indicate by check mark whether the Registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934

Yes No X

This Report includes the following documents:
1. A press release from Pearson plc announcing Interim Results

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29 July 2011

PEARSON 2011 INTERIM RESULTS (unaudited)

Pearson sales up 6% to £2.4bn and profits up 20% to £208m*

- Education sales up 9% and profits up 31%:
  - o Good sales growth in International (up 26%) and Professional (up 35%).
  - o In North America, sales 3% lower with tough first-half comparables; full-year growth expected with easing H2 comparables and further market share gains.
- FT Group sales up 7% and profits up 10%, enhanced by digital subscriptions.
- Penguin sales 4% lower (underlying sales level); profits sustained with rapid digital growth.

Strong growth in digital, developing markets and newly-acquired businesses

- Education digital platform and service registrations up 15%; FT.com subscriptions up more than 30%; Penguin ebook revenues up almost 130%.
- Sales up approximately 40% in developing markets (headline growth).
- Strong growth from recent acquisitions including Wall Street Institute, SEB (Brazil), TutorVista, CTI (South Africa) and Melorio (now known as Pearson in Practice).

Full year outlook upgraded

- Pearson expects sales and margin growth for the full year, based on good trading momentum - especially in digital businesses and developing markets - and easing comparatives.
- Pearson expects to achieve adjusted EPS of approximately 80p for the full year (2010: 77.5p). This guidance is struck at current exchange rates (£1: $1.63).

Interim dividend raised by 8% to 14.0p.

Marjorie Scardino, chief executive, said: "Though market conditions are anything but easy, we are sufficiently encouraged by our start to the year to raise both our guidance and our dividend. Structural changes in our industries are gathering pace, but we are confident that we have the strategy, the competitive positions, the investment capacity and the culture to sustain our strong record of performance."

£ millions	Half year 2011	Half year 2010	Headline growth	CER growth	Underlying growth	Full year 2010
Business performance						
Sales	2,416	2,342	3%	6%	0%	5,663
Adjusted operating profit	208	178	17%	20%	3%	857
Adjusted earnings per share	16.8p	16.6p	1%			77.5p
Free cash flow	(172)	(165)	(4)%			904
Net debt	1,275	1,746	27%			430
Statutory results						

Sales	2,416	2,342	3%	5,663
Operating profit	132	128	3%	743
Profit before tax	82	94	(13)%	670
Basic earnings per share	7.5p	11.5p	(35)%	161.9p
Cash generated from operations	(43)	(32)	(34)%	1,169
Dividend per share	14.0p	13.0p	8%	38.7p

*Throughout this announcement:
a) Growth rates are stated on a constant exchange rate (CER) basis unless otherwise stated. Where quoted, underlying growth rates exclude both currency movements and portfolio changes. Sales and operating profit are stated on a continuing basis.
b) The 'business performance' measures are non-GAAP measures and reconciliations to the equivalent statutory heading under IFRS are included in notes to the attached condensed consolidated financial statements 2, 3, 4, 5, 7 and 15.

OUTLOOK

Pearson began 2011 expecting weak market conditions in some developed economies, but confident about our strong competitive positions and clear strategic direction. The trends we have seen in the early part of the year are consistent with our previous guidance:

1. Strong and durable competitive performances, even in tough markets, with rapid growth in digital and services businesses, and in developing economies;

2. Weak market conditions, particularly for businesses that rely on government spending and traditional print publishing business models;

3. Tough comparatives in the first half (which ease as the year goes on).

We believe that the structural changes in our industries are accelerating and that the divergence of growth prospects between our pure print products and our newer digital/ services businesses is increasing. Given Pearson's sustained investment in transforming the business, we are well positioned to lead and benefit from these structural industry changes.

At this stage in the year (we generate most of our sales and profits in the second half), we expect to achieve continued sales, margin and adjusted EPS growth for the full year. We expect some of our markets to remain tough in the second half but even so, we now expect to achieve adjusted EPS of approximately 80p for the full year. This guidance is struck at current exchange rates (£1:$1.63) and includes further integration costs on acquisitions made in 2010 and 2011 (which are always expensed).

Our divisional guidance for the year is:

In Education, we expect continued growth in 2011. While we face tougher comparatives in International and Professional in the second half of the year, we expect our North American Education business to report full-year growth based on business won in the year to date and less challenging comparables in the second half. Our education business faces continued pressure from state budget weakness and slower enrolment rates in North America, and a generally weak public spending environment in many developed parts of the world. We are confident that rapid growth in our digital and services businesses - which help boost student performance and institutional efficiency - and in emerging economies can continue.

At the FT Group, the changes we have made to the business model and mix mean we are well placed to grow even in tough markets for print circulation and advertising. We expect digital subscriptions, now the engine of the FT Group's growth, to continue to build steadily.

Penguin is working through a period of significant industry change characterised by a rapid shift towards digital sales channels and digital books and intense pressure on physical book retailers, demonstrated most recently by the bankruptcy of Borders in the US. Penguin has performed well through these industry changes and, after a particularly strong competitive performance and financial results in 2010, we expect it to perform in line with the overall consumer publishing industry this year.

Interest and tax. In 2011, our lower net debt level and a pension finance credit will result in a lower interest charge to adjusted earnings than in 2010. We expect our P&L tax charge against adjusted earnings to be in the 24-26% range and our cash tax rate to be in the 15-20% range.

Exchange rates. Pearson generates approximately 60% of its sales in the US. A 5 cent move in the average £:$ exchange rate for the full year (which in 2010 was £1:$1.54) has an impact of approximately 1.3p on adjusted earnings per share. The average rate during the first half of 2011 was £1:$1.61 (£1:$1.52 in H1 2010) and the closing rate at the end of June was £1:$1.61 (£1:$1.50 at the end of June 2010).

For more information:
Luke Swanson / Simon Mays-Smith / Charles Goldsmith + 44 (0) 20 7010 2310

Pearson's results presentation for investors and analysts will be audiocast live today from 0900 (BST) and available for replay from 1200 (BST) via www.pearson.com. High resolution photographs for the media are available from our website www.pearson.com.

OVERVIEW

In the first half of 2011, Pearson's sales increased by 3% in headline terms to £2.4bn and adjusted operating profit by 17% to £208m.

The headline growth rates include a negative impact from currency movements and a benefit from acquisitions:

- Currency movements - primarily the weakening of the US dollar against sterling - reduced sales by £70m and operating profit by £6m. At constant exchange rates (ie stripping out the impact of those currency movements), our sales and operating profit grew 6% and 20% respectively.
- Acquisitions, primarily in our education company, contributed £148m to sales and £31m to operating profit. This includes integration costs and investments related to our newly-acquired companies, which are expensed. In underlying terms (ie stripping out the impact of both portfolio changes and currency movements), sales were level and operating profit up 3%.

Our statutory results show an increase in operating profit to £132m (£128m in 2010). Statutory profit before tax was £82m (£94m in 2010). Statutory earnings for the period show a £32m reduction in profit to £60m (£92m in 2010) due to the disposal of Interactive Data, higher intangible amortisation costs related to acquisitions and currency fluctuations on US dollar- denominated cash and debt.

Our net debt, which reaches a seasonal peak around the half-year and is mainly dollar-denominated, was £1,275m (£1,746m in 2010) at 30 June. The year-on-year decrease reflects improved cash flow and proceeds from the disposal of Interactive Data.

The board has declared an interim dividend of 14p per share, an 8% increase on 2010.

DIVISIONAL ANALYSIS*

£ millions	Half year 2011	Half year 2010	Headline growth	CER growth	Underlying growth	Full year 2010
Sales						
North American Education	940	1,017	(8)%	(3)%	(4)%	2,640
International Education	639	504	27%	26%	6%	1,234
Professional	177	136	30%	35%	1%	333
Education	1,756	1,657	6%	9%	(1)%	4,207
FT Group	203	192	6%	7%	6%	403
Penguin	457	493	(7)%	(4)%	0%	1,053
Total continuing	2,416	2,342	3%	6%	0%	5,663
Adjusted operating profit						
North American Education	46	51	(10)%	(4)%	(19)%	469
International Education	63	36	75%	68%	23%	171
Professional	26	17	53%	59%	0%	51
Education	135	104	30%	31%	(1)%	691
FT Group	31	30	3%	10%	3%	60
Penguin	42	44	(5)%	0%	13%	106
Total continuing	208	178	17%	20%	3%	857

* During the course of 2010, a number of minor changes to management responsibilities in certain countries were made which have affected reported segmental numbers in Penguin, North American Education and International Education. (see segmental analysis in the financial review for more details).

NORTH AMERICAN EDUCATION

£ millions	Half year 2011	Half year 2010	Headline growth	CER growth	Underlying growth	Full year 2010
Sales	940	1,017	(8)%	(3)%	(4)%	2,640
Adjusted operating profit	46	51	(10)%	(4)%	(19)%	469

North American Education is Pearson's largest business, with 2010 sales of £2.6bn and operating profit of £469m. Sales and profits declined by 3% and 4% respectively in the first half of 2011, the result of the expected slower year for the US education publishing industry and tough comparables against an exceptionally strong first half of 2010 (when sales increased by 10% over the previous year). Key highlights in the first half of 2011 include:

Higher Education

- After a very strong performance in the first half of 2010, the US Higher Education publishing market declined 12% in the first half of the year, according to the Association of American Publishers. The industry has been affected by tough comparables and weaker enrolment, especially in for-profit colleges, as well as the impact of the stocking patterns of textbook rental schemes.

- Our higher education business grew, performing well ahead of the rest of the industry with significant market share gains in publishing and strong growth from digital products and services.

- Pearson's pioneering 'MyLab' digital learning, homework and assessment programmes again grew strongly with student registrations up 25% to 3.9 million in North America. Evaluation studies show that the use of the MyLab programmes can significantly improve student test scores and institutional productivity (http://bit.ly/fWPic0).

- We collaborated with the State of Kentucky to create a digital learning repository aligned to the Common Core State Standards to allow educators to browse, search, upload, download, update, rate and reuse more than 85,000 standards-based digital items.

- eCollege increased fully online enrolments by 32% to more than three million. Renewal rates remain high at 87% by value and usage grew strongly.

Assessment and Information

- We achieved good growth in assessment and information services, in spite of the difficult funding environment and uncertainty relating to the transition to the Common Core State Standards, now adopted by almost all US states.

- We continued to produce strong growth in secure online testing, an important market for the future. In the year-to-date we have delivered more than nine million secure online tests.

- Pearson was awarded a new contract with Kentucky, to build and implement testing programmes for English Language Arts and Math in grades 3-8; and a two-year extension on the California Standardized Testing and Reporting contract.

- We continued to achieve strong growth with AIMSWEB, our progress monitoring service which enables early intervention and remediation for struggling students.

- Pearson has partnered with Stanford University to provide scoring services to support Stanford's Teacher Performance Assessment. This is a new system adopted by a consortium of more than 20 states to link instruction in teachers' colleges more closely with practice in K-12 schools.

- On 31 May we completed the acquisition of SchoolNet, a profitable, fast-growing and innovative education technology company that aligns assessment, curriculum and other services to help individualize instruction and improve teacher effectiveness.

School Curriculum

- After a very strong performance in the first half of 2010, the US School publishing market declined 22% in the first half of the year, according to the Association of American Publishers. Tough comparisons with significant shipments to Texas and Florida in June 2010 combined with state budget pressure and a smaller new adoption opportunity to produce a weak school publishing market.

- Our school curriculum revenues declined in the first half but we gained share in these tough markets boosted by a very strong adoption performance, which benefited from the strength of our blended print-and-digital programmes including Writing Coach, Prentice Hall Math and enVisionMATH. We took an estimated 37% of new adoptions competed for (or 29% of the total new adoption market). Easier comparables and the benefits of our strong adoption performance will boost our second half revenue growth.

- We initiated investments to update our major Literacy and Mathematics programmes to ensure alignment with the Common Core State Standards. Our curriculum resources, coupled with our school services of other kinds, offer our customers a full suite of support to implement the Common Core.

- The Pearson Foundation partnered with the Bill & Melinda Gates Foundation to create a series of digital instructional resources in math and reading/English language arts which will give teachers and students access to the latest and most effective digital learning technologies as they prepare to meet the goals of the Common Core Standards.

INTERNATIONAL EDUCATION

£ millions	Half year 2011	Half year 2010	Headline growth	CER growth	Underlying growth	Full year 2010
Sales	639	504	27%	26%	6%	1,234
Adjusted operating profit	63	36	75%	68%	23%	171

Our International Education business is active in more than 70 countries. It is a major focus of our strategy, and sales and profits have doubled since 2006. In the first half of 2011 sales increased by a further 26% and profits by 68%, as good underlying growth combined with the contribution of newly-acquired companies. Key highlights include:

Global

- 'MyLab' digital learning, homework and assessment programmes were used outside the US by more than 390,000 students, up more than 30% on 2010, and are now sold worldwide.

- Wall Street English, Pearson's worldwide chain of English language centres for professionals, increased student numbers by 9% to almost 190,000. We opened 23 new centres around the world, bringing the total number close to 450.

Developing markets

- In China, student enrolments at our Wall Street English centres increased 25%, boosted by strong underlying demand and the launch of seven new centres. Our publishing business there also achieved strong growth as we expanded the range of Pearson products. In Hong Kong, we performed strongly in new school adoptions, helped by the strength of our English Language Teaching products.

- In Africa, we completed the acquisition of a 75% stake in CTI, one of South Africa's leading private higher education institutions which serves more than 9,000 students on 12 campuses. Since the acquisition, we have attained accreditation for a CTI Masters degree programme. We have also delivered half a million secondary textbooks for Physics, Biology and History to all Government secondary schools in Uganda, and one million Junior African Writer readers to the Ministry of Education in Sierra Leone.

• In India, we increased our stake in TutorVista to 76%. TutorVista provides online tutoring worldwide and K12 school solutions and education services in India. Since the acquisition, we have integrated its tutoring services with Pearson learning platforms across the US, UK, Australia and Canada. Inside India we launched the Pearson brand in schools and are now fully managing 22 schools, up from 11 in January 2011.

• In Latin America, we completed the acquisition of SEB's sistema, or school learning systems business, and started its integration with Pearson while investing in new products and services. Since the acquisition, we have launched a digital content pilot for approximately 1,000 secondary students and provided English Language Teaching materials to an estimated 30,000 sistema students.

• In the Middle East, we deployed a customised Arabic language Student Information System, eSIS, to 59 private schools in Abu Dhabi.

United Kingdom

• We launched a new UK school improvement service which will pilot its whole-school approach with five UK secondary schools. In higher education we created a groundbreaking partnership with Royal Holloway University of London, which will validate Pearson degrees from September 2012.

  • We marked more than 5.1 million GCSE, A/AS Level and other examinations using onscreen technology. We marked more than 3.8 million test scripts for over half a million pupils taking National Curriculum Tests at Key Stage Two in 2011 and have been selected to mark tests in 2012, subject to contract.

• Registrations for our BTEC qualification continued to grow to 1.4 million, up 17% versus 2010. BTEC Apprenticeships received 40,000 registrations, 95% through employers and training providers.

• We acquired EDI plc, a leading provider of education and training qualifications and assessment services, with a strong reputation for the use of information technology to administer learning programmes and deliver on-screen assessments.

Rest of World

• In Australia, we formed a strategic partnership with the University of New England to expand distance learning capacity and access to higher education, and to improve the online learning experience. Our platform delivers improved monitoring and analysis of academic trends to boost student performance and improve student retention and satisfaction.

• The Australian Department of Immigration & Citizenship (DIAC) placed the Pearson Test of Academic English (PTE) on its approved list of English language proficiency tests for Australian visas. We saw strong increases in demand for PTE across the globe.

• We launched the Australian edition of our pioneering US digital maths curriculum, enVisionMATH (http://www.pearsonplaces.com.au/envision.aspx) and have more local versions in development to bring high quality digital curriculum to new markets across the globe.

• In Italy, our new digital curriculum using our US eText platform to deliver ebooks and Interactive White Board content helped us gain significant share in lower secondary adoptions.

- In Japan, we faced major disruption following the March tsunami. Our people responded magnificently, maintaining operations and achieving notable successes, particularly with the Versant Test of Communicative English aimed at helping Japanese companies to sustain a globally competitive workforce.

PROFESSIONAL

£ millions	Half year 2011	Half year 2010	Headline growth	CER growth	Underlying growth	Full year 2010
Sales	177	136	30%	35%	1%	333
Adjusted operating profit	26	17	53%	59%	0%	51

Our Professional education business is focused on publishing, training, testing and certification for professionals. This business grew operating profit from £17m in 2006 to £51m in 2010 and has increased it further in the first half of 2011 as we integrated the Melorio business. Key highlights include:

Professional testing

- We continued to see good revenue and profit growth at Pearson VUE, which administered more than four million tests in the first half of the year, benefiting from sales of additional services to customers and contractual fee increases.

- We formed a joint venture with the American Council on Education to develop an online General Educational Development (GED) test aligned with new Common Core standards. The GED test measures an adults' high school level knowledge and skills in math, reading, writing, science and social science.

- We launched a new touch-screen theory driving test for the Roads and Transport Authority for Dubai. The test is delivered in Arabic, English and Urdu, and is expected to assess more than 500,000 candidates in the first year. The new test follows the opening last year of a new Pearson VUE office in Dubai to meet the Middle East's demand for computer-based testing.

Professional publishing

- Our resilient performance in the US benefited from the breadth of our publishing and range of revenue streams, from online retail through digital subscriptions. As a result, digital products and services now account for approximately 30% of our professional publishing revenues in the US. In some International markets such as Japan, professional publishers continued to face very challenging trading conditions.

Professional training

- At Pearson in Practice (formerly known as Melorio), we successfully graduated our largest IT cohort and launched or enhanced several new apprenticeship programmes in logistics, construction, management and customer service, business and health.

FINANCIAL TIMES GROUP

£ millions	Half year	Half year		CER	Underlying	Full year

	2011	2010	Headline growth	growth	growth	2010
Sales	203	192	6%	7%	6%	403
Adjusted operating profit	31	30	3%	10%	3%	60

In recent years, the FT Group has made significant changes to its business model and business mix. In the first half of 2011, digital and services accounted for 46% of FT Group revenues and content revenues accounted for 57%. The FT Group achieved good sales and profit growth in turbulent markets in the first half of 2011 and invested in a significant number of new product launches, with key highlights including:

Financial Times

- The FT's digital readership continues to grow strongly. Digital subscriptions increased by 34% to almost 230,000 and registered users by 49% to 3.7 million. Mobile devices now account for 22% of FT.com traffic and more than 15% of our new subscriptions. The FT now has more than 1,500 direct corporate licenses. Across print and online, the FT's total paid circulation was more than 585,000, up 4% on 2010, reaching an average daily audience of 2.1 million.

- We saw modest overall advertising growth, with a strong performance in luxury and online, but demand remains volatile and visibility poor.

- We continued to invest in new products and innovation including the launch of a new web app (attracting more than 230,000 users in June), the FT Non Executive Certificate (in partnership with Pearson Learning Studio and Edexcel), Brazil Confidential (premium news and analysis on Brazil), MandateWire Analysis (market insights for fund managers) and a growing suite of data analytics tools.

Mergermarket

- Mergermarket continued to benefit from an improvement in market conditions, supporting strong renewal rates and growth in new business revenues. An increase in global merger and acquisition activity benefited mergermarket and dealReporter; continued volatility in debt markets helped sustain the strong performance of DebtWire. MergerID continued to benefit from a broadening network of users and strong growth in transaction matches.

- We launched a large number of new products, extending our reach into new geographies (US Wealth Monitor, Xtract Asia, ABS Europe), new strategies (multi-strategy products) and new coverage areas (municipal bonds, dividend arbitrage).

Joint ventures and associates

- The Economist, in which Pearson owns a 50% stake, increased global weekly circulation by 3.7% to 1.47 million (for the July-December 2010 ABC period); total annual online visits were 140 million for the 12 months to 30 June 2011, a year-on-year-increase of 33%.

- FTSE, our 50% owned joint-venture with the London Stock Exchange, saw headline revenue growth of 38% driven by new sales of benchmark data, licensed sales to asset management companies and the acquisition of the remaining 50% of FXI, FTSE's JV with Xinhua Finance in China.

PENGUIN

£ millions	Half year 2011	Half year 2010	Headline growth	CER growth	Underlying growth	Full year 2010
Sales	457	493	(7)%	(4)%	0%	1,053
Adjusted operating profit	42	44	(5)%	0%	13%	106

Over the past five years Penguin profits have increased at an annual average rate of 8%, even as we have reshaped the business against the backdrop of a fast-changing consumer publishing industry. Penguin made a strong and competitive start to 2011 in spite of significant retail disruption in its major markets. Sales were level in underlying terms - against a strong first half of 2010 - while profits show an underlying increase of 13% to £42m, the result of an increased emphasis on product and channel profitability, the widespread adoption of digital technologies and the continuing benefit of a restructuring programme undertaken in 2009. During the course of 2010, we made a number of minor changes to management responsibilities in certain countries which have affected the reported segmental numbers and reduced Penguin's revenue growth rate at CER by approximately 4% percentage points.

First half highlights include:

Global

- The US business continued to perform strongly and to lead Penguin in its adaptation to dramatic industry shifts. It extended its successful eBook programme, developed new digital platforms and pursued new sources of revenue to mitigate challenges faced by physical retailing and, in particular, the disruption caused by the bankruptcy of Borders, the second largest book chain in the US.

- In the UK and Australia we saw good market share gains in markets that were generally weak, compounded in Australia by the collapse of the REDgroup, the country's largest book retailer, in February.

- DK had an excellent first half, posting good sales growth on top of a successful 2010. The LEGO® publishing programme continued to drive sales with core reference and pre-school titles also performing well. The travel market remains challenging.

- India had an excellent first half driven by a creative publishing programme, a strong direct sales business (selling approximately 600,000 copies in the first six months of the year) and helped by an underlying improvement in the economy. It also launched its first app in March.

- The global roll-out of Penguin-branded merchandise in the first half was designed to offer retailers book-related product and to raise awareness of the Penguin brand around the world.

Digital

- eBook sales grew 128% and now represent 14% of Penguin revenues worldwide.

- Penguin announced a number of direct-to-consumer initiatives in the first half including Book Country, a community of writers helping writers, and Bookish and aNobii, new digital platforms for readers in the US and UK respectively.

- Penguin continued to invest in digital innovation, launching a second BabyTouch app, an amplified edition of Jack Kerouac's On the Road and DK's Miriam Stoppard's Pregnancy app.

- The Penguin eSpecials programme comprising short works in digital form tripled in size in the first half of the year. Tyler Cowen's The Great Stagnation was a stand-out success hitting the New York Times bestseller list in March and prompting a hardcover publication in June.

Publishing performance

- Penguin US had a strong start to the year, publishing a record 157 bestsellers, including some of the biggest selling books by authors such as Charlaine Harris and Nora Roberts, both of whom have now sold more than a million eBooks, as has Kathryn Stockett's The Help. Ron Chernow's Washington: A Life won the Pulitzer Prize and Peter Bognanni's House of Tomorrow won the Los Angeles Times First Fiction Award.

- In the UK, Penguin published 46 bestsellers including paperback titles from its Christmas bestsellers such as Stephen Fry, Dawn French and Michael McIntyre, as well as Jamie Oliver's 30 Minute Meals and Marian Keyes' The Brightest Star in the Sky, the top and third bestselling titles across the industry in the first half. The children's division, crowned Publisher of the Year earlier in the year, continued its remarkable growth driven by the continued success of the Wimpy Kid series as well as Moshi Monsters titles.

- In Australia, Penguin had two of the top five industry bestsellers with Jamie Oliver's 30 Minute Meals taking the top spot and Jeff Kinney's The Ugly Truth at number five.

- DK's bestseller success continued in the first half with LEGO®Harry Potter: Building the Magical World hitting number one on the New York Times bestseller list and LEGO®Star Wars: The Visual Dictionary staying on the list for 76 weeks.

- A strong second half publishing list is led by major new books in the US, including titles by Patricia Cornwell, Sue Grafton, Eric Carle, Niall Ferguson and Bill Maher. Penguin UK's list includes new titles by Jeremy Paxman, Jamie Oliver, Michael Lewis, Claire Tomalin, Rob Brydon, Lee Evans, Jeremy Clarkson, Jeff Kinney and Charlie Higson. DK will launch LEGO® Ideas Book, Masterchef Kitchen Bible, Alien Robot Kit and the app of The Human Body.

FINANCIAL REVIEW

Operating result

On a headline basis, sales from continuing operations for the six months to 30 June 2011 increased by £74m or 3% from £2,342m for the first six months of 2010 to £2,416m for the equivalent period in 2011. Adjusted operating profit from continuing operations increased by £30m or 17% from £178m in the first six months of 2010 to £208m in 2011.

On an underlying basis, sales were flat in 2011 compared to 2010 and adjusted operating profit from continuing operations grew by 3%. Our underlying measures exclude the effects of exchange and portfolio changes. In 2011, currency movements decreased sales by £70m (3%) and adjusted operating profit by £6m (3%) while portfolio changes increased sales by £148m (6%) and adjusted operating profit by £31m (17%).

Adjusted operating profit excludes amortisation of acquired intangibles, acquisition costs and gains and losses on business disposals. Statutory operating profit (from continuing operations) increased by £4m or 3% from £128m in 2010 to £132m in 2011. Statutory operating profit includes intangible amortisation, acquisition costs and other gains and losses arising from acquisitions and disposals and does not include the contribution from discontinued operations.

Discontinued operations

On 29 July 2010, Pearson's 61% share in Interactive Data Corporation was sold to Silver Lake and Warburg Pincus for $2bn. The results of Interactive Data for 2010 have been included as discontinued operations in these financial statements. Interactive Data's adjusted operating profit for the six months to 30 June 2010 was £70m. The gain on sale of Interactive Data of £1,037m and the attributable tax charge of £306m was recorded in the second half of 2010. The total profit from discontinued operations after taking account of the above items, intangible amortisation, interest and related tax was £35m in the first half of 2010. There were no discontinued operations in 2011.

Segmental analysis

During the second half of 2010, a number of minor changes to management responsibilities in certain countries were made which affected reported full year 2010 and half year 2011 segmental numbers in Penguin, North American Education and International Education. The amounts concerned have no impact on the group as a whole and have been treated as portfolio changes for the purposes of calculating growth rates. The 2010 half year figures have not been restated as the amounts are not considered to be significant. If these changes had been made in the 2010 half year numbers the effect would have been to reduce the sales and profits at Penguin by £20m and £5m respectively, to increase sales and profits at International Education by £22m and £2m respectively and to reduce sales by £2m and increase profits by £3m in the North American Education segment.

Net finance costs

Net finance costs reported in our adjusted earnings comprise net interest payable and net finance costs relating to retirement benefits. Net interest payable to 30 June 2011 was £32m, down from £39m in 2010. This fall is mainly due to lower average levels of net debt following the receipt of proceeds from the sale of Interactive Data. Finance income relating to retirement benefits was £2m in the first half of 2011 compared to a charge of £6m in the prior period.

Also included in the statutory definition of net finance costs are finance costs on put options associated with acquisitions, foreign exchange and other gains and losses. Finance costs for put options are excluded from adjusted earnings as they relate to future potential acquisitions and don't reflect cash expended. Foreign exchange and other gains and losses are excluded from adjusted earnings as they represent short-term fluctuations in market value and are subject to significant volatility. These other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity. In the period to 30 June 2011, the total of these items excluded from adjusted earnings was a loss of £20m compared to a profit of £11m in the period to 30 June 2010. The majority of the loss in 2011 relates to foreign exchange differences on a proportion of the unhedged US dollar proceeds from the Interactive Data sale. In 2010 the gain arose largely from foreign exchange on US dollar denominated debt.

Taxation

Taxes on income in the period are accrued using the tax rates that would be applicable to expected annual earnings. The reported tax charge on statutory earnings for the six months to 30 June 2011 was £23m (28.0%) compared to a charge of £25m (26.6%) in the period to 30 June 2010. The charge reflects the overall mix of profits projected for the full year and the tax rates expected to apply to those statutory profits.

The effective tax rate on adjusted earnings for the six months to 30 June 2011 is 25.0%. This rate is lower than the statutory rate as it includes the benefit of tax deductions attributable to amortisation of goodwill and other intangibles. The benefit more accurately aligns the adjusted tax charge with the expected medium-term rate of cash tax payment.

Other comprehensive income

Included in other comprehensive income are the net exchange differences on translation of foreign operations. The loss on translation of £53m at 30 June 2011 compares to a gain at 30 June 2010 of £270m and is principally due to movements in the US dollar. A significant proportion of the group's operations are based in the US and the US dollar strengthened in 2010 from an opening rate of £1:$1.61 to a closing rate at the end of June 2010 of £1:$1.50. At the end of June 2011 the US dollar had weakened slightly in comparison to the opening rate moving from £1:$1.57 to £1:$1.61.

Also included in other comprehensive income in 2011 is an actuarial loss of £19m in relation to post retirement plans. This loss largely arises from lower asset returns than expected for the UK group pension plan and compares to an actuarial loss at 30 June 2010 of £122m. The 2010 loss arose as the assumptions relating to inflation and the discount rate used in the actuarial valuation contributed to an increase in the value of liabilities whilst investment returns in the first six months of 2010 were less than expected.

Non-controlling interest

The non-controlling interest in the income statement in 2010 comprises mainly the publicly-held share of Interactive Data for the period to disposal in July 2010. There are also non-controlling interests in the group's businesses in South Africa, China and India although none of these are material to the group numbers.

Pensions

Pearson operates a variety of pension plans. Our UK group plan has by far the largest defined benefit section. We have some smaller defined benefit sections in the US and Canada but, outside the UK, most of our companies operate defined contribution plans.

The charge to profit in respect of worldwide pensions and retirement benefits amounted to £46m in the period to 30 June 2011 (30 June 2010: £53m) of which a charge of £48m (30 June 2010: £47m) was reported in operating profit and the net finance income of £2m (30 June 2010: cost £(6)m) was reported against net finance costs.

The overall deficit on the UK group plan of £5m at the end of 2010 has become a surplus of £7m at 30 June 2011. The surplus has arisen principally due to an increased level of contributions in the year together with a favourable movement in the discount rate used to value the liabilities. In total, our worldwide deficit in respect of pensions and other post retirement benefits fell slightly from a deficit of £148m at the end of 2010 to a net deficit of £141m at the end of June 2011.

Dividends

The dividend accounted for in the six months to 30 June 2011 is the final dividend in respect of 2010 of 25.7p. An interim dividend for 2011 of 14.0p was approved by the Board in July 2011 and will be accounted for in the second half of 2011.

Principal risks and uncertainties

We conduct regular reviews to identify risk factors which may affect our business or financial performance. Our internal audit function facilitates risk reviews with each business, shared service operations and corporate functions, identifying measures to mitigate these risks. The principal risks and uncertainties have not changed from those detailed in the 2010 Annual Report and are summarised below:

Our education, business information and book publishing businesses will be impacted by the rate of and state of technological change, including the digital evolution and other disruptive technologies.

Investment returns outside our traditional core US and UK markets may be lower than anticipated.

Our US educational solutions and assessment businesses may be adversely affected by changes in state and local educational funding resulting from either general economic conditions, changes in government educational funding, programmes, policy decisions, legislation at both the federal and state level and/or changes in the state procurement processes.

A control breakdown or service failure in our school assessment businesses could result in financial loss and reputational damage.

Our reported earnings and cash flows may be adversely affected by changes in our pension costs and funding requirements.

Our intellectual property and proprietary rights may not be adequately protected under current laws in some jurisdictions and that may adversely affect our results and our ability to grow.

A major data privacy breach may cause reputational damage to our brands and financial loss.

Operational disruption to our business caused by our third party providers, a major disaster and/or external threats could restrict our ability to supply products and services to our customers.

ENDS

Except for the historical information contained herein, the matters discussed in this press release include forward-looking statements that involve risk and uncertainties that could cause actual results to differ materially from those predicted by such forward-looking statements. These risks and uncertainties include international, national and local conditions, as well as competition. They also include other risks detailed from time to time in the company's publicly-filed documents, including the company's Annual Report. The company undertakes no obligation to update publicly any forward looking statement, whether as a result of new information, future events or otherwise.

CONDENSED CONSOLIDATED INCOME STATEMENT
for the period ended 30 June 2011

all figures in £ millions	note	2011 half year	2010 half year	2010 full year
Continuing operations				
Sales	2	2,416	2,342	5,663
Cost of goods sold		(1,109)	(1,112)	(2,588)
Gross profit		1,307	1,230	3,075

Operating expenses		(1,188)	(1,117)	(2,373)
Share of results of joint ventures and associates		13	15	41
Operating profit	2	132	128	743
Finance costs	3	(75)	(54)	(109)
Finance income	3	25	20	36
Profit before tax	4	82	94	670
Income tax	5	(23)	(25)	(146)
Profit for the period from continuing operations		59	69	524
Discontinued operations				
Profit for the period from discontinued operations	8	-	35	776
Profit for the period		59	104	1,300
Attributable to:				
Equity holders of the company		60	92	1,297
Non-controlling interest		(1)	12	3
Earnings per share from continuing and discontinued operations (in pence per share)				
Basic	6	7.5p	11.5p	161.9p
Diluted	6	7.5p	11.4p	161.5p
Earnings per share from continuing operations (in pence per share)				
Basic	6	7.5p	9.0p	66.0p
Diluted	6	7.5p	9.0p	65.9p

The accompanying notes to the condensed consolidated financial statements form an integral part of the financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2011

all figures in £ millions	2011 half year	2010 half year	2010 full year
Profit for the period	59	104	1,300
Net exchange differences on translation of foreign operations	(53)	270	173
Currency translation adjustment disposed	-	-	13
Actuarial (losses) / gains on retirement benefit obligations	(19)	(122)	71
Taxation on items recognised in other comprehensive income	2	38	(41)

Other comprehensive (expense) / income for the period	(70)	186	216
Total comprehensive (expense) / income for the period	(11)	290	1,516
Attributable to:			
Equity holders of the company	(7)	258	1,502
Non-controlling interest	(4)	32	14

CONDENSED CONSOLIDATED BALANCE SHEET
as at 30 June 2011

all figures in £ millions	note	2011 half year	2010 half year	2010 full year
Property, plant and equipment		353	353	366
Intangible assets	11	5,760	5,242	5,467
Investments in joint ventures and associates		58	34	71
Deferred income tax assets		266	474	276
Financial assets - Derivative financial instruments		149	156	134
Retirement benefit assets		7	-	-
Other financial assets		62	65	58
Trade and other receivables		131	133	129
Non-current assets		6,786	6,457	6,501
Intangible assets - Pre-publication		654	701	647
Inventories		488	532	429
Trade and other receivables		1,247	1,240	1,337
Financial assets - Derivative financial instruments		-	13	6
Financial assets - Marketable securities		8	5	12
Cash and cash equivalents (excluding overdrafts)		541	468	1,736
Current assets		2,938	2,959	4,167
Assets classified as held for sale		-	678	-
Total assets		9,724	10,094	10,668
Financial liabilities - Borrowings		(1,902)	(2,004)	(1,908)
Financial liabilities - Derivative financial instruments		(4)	(2)	(6)
Deferred income tax liabilities		(442)	(461)	(471)
Retirement benefit obligations		(148)	(449)	(148)
Provisions for other liabilities and charges		(18)	(40)	(42)
Other liabilities	12	(284)	(121)	(246)
Non-current liabilities		(2,798)	(3,077)	(2,821)
Trade and other liabilities	12	(1,375)	(1,309)	(1,605)
Financial liabilities - Borrowings		(67)	(612)	(404)

Financial liabilities - Derivative financial instruments	-	(2)	-
Current income tax liabilities	(203)	(159)	(215)
Provisions for other liabilities and charges	(56)	(38)	(18)
Current liabilities	(1,701)	(2,120)	(2,242)
Liabilities directly associated with assets held for sale	-	(181)	-
Total liabilities	(4,499)	(5,378)	(5,063)
Net assets	5,225	4,716	5,605
Share capital	203	203	203
Share premium	2,529	2,517	2,524
Treasury shares	(130)	(123)	(137)
Reserves	2,590	1,795	2,948
Total equity attributable to equity holders of the company	5,192	4,392	5,538
Non-controlling interest	33	324	67
Total equity	5,225	4,716	5,605

The condensed consolidated financial statements were approved by the Board on 28 July 2011.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the period ended 30 June 2011

	Equity attributable to the equity holders of the company						Non-controlling interest	Total equity
all figures in £ millions	Share capital	Share premium	Treasury shares	Translation reserve	Retained earnings	Total		
				2011 half year				
At 1 January 2011	203	2,524	(137)	402	2,546	5,538	67	5,605
Total comprehensive income	-	-	-	(51)	44	(7)	(4)	(11)
Equity-settled transactions	-	-	-	-	18	18	-	18
Tax on equity-settled transactions	-	-	-	-	-	-	-	-
Issue of ordinary shares under share option schemes	-	5	-	-	-	5	-	5
Purchase of treasury shares	-	-	(12)	-	-	(12)	-	(12)
Release of treasury shares	-	-	19	-	(19)	-	-	-

Put options over non-controlling interest	-	-	-	-	(72)	(72)	-	(72)
Changes in non-controlling interest	-	-	-	-	(72)	(72)	(30)	(102)
Dividends	-	-	-	-	(206)	(206)	-	(206)
At 30 June 2011	203	2,529	(130)	351	2,239	5,192	33	5,225
				2010 half year				
At 1 January 2010	203	2,512	(226)	227	1,629	4,345	291	4,636
Total comprehensive income	-	-	-	250	8	258	32	290
Equity-settled transactions	-	-	-	-	20	20	-	20
Tax on equity-settled transactions	-	-	-	-	-	-	-	-
Issue of ordinary shares under share option schemes	-	5	-	-	-	5	-	5
Purchase of treasury shares	-	-	(49)	-	-	(49)	-	(49)
Release / cancellation of treasury shares	-	-	152	-	(152)	-	-	-
Changes in non-controlling interest	-	-	-	-	-	-	8	8
Dividends	-	-	-	-	(187)	(187)	(7)	(194)
At 30 June 2010	203	2,517	(123)	477	1,318	4,392	324	4,716

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued
for the period ended 30 June 2011

	Equity attributable to the equity holders of the company						Non-controlling interest	Total equity
all figures in £ millions	Share capital	Share premium	Treasury shares	Translation reserve	Retained earnings	Total		
				2010 full year				
At 1 January 2010	203	2,512	(226)	227	1,629	4,345	291	4,636
Total comprehensive income	-	-	-	175	1,327	1,502	14	1,516

Equity-settled transactions	-	-	-	-	50	50	-	50
Tax on equity-settled transactions	-	-	-	-	4	4	-	4
Issue of ordinary shares under share option schemes	-	12	-	-	-	12	-	12
Purchase of treasury shares	-	-	(77)	-	-	(77)	-	(77)
Release / cancellation of treasury shares	-	-	166	-	(166)	-	-	-
Changes in non-controlling interest	-	-	-	-	(6)	(6)	(231)	(237)
Dividends	-	-	-	-	(292)	(292)	(7)	(299)
At 31 December 2010	203	2,524	(137)	402	2,546	5,538	67	5,605

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the period ended 30 June 2011

all figures in £ millions	note	2011 half year	2010 half year	2010 full year
Cash flows from operating activities				
Net cash (used in) / generated from operations	15	(43)	(32)	1,169
Interest paid		(27)	(30)	(78)
Tax paid		(52)	(46)	(85)
Net cash (used in) / generated from operating activities		(122)	(108)	1,006
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		(347)	(149)	(535)
Acquisition of joint ventures and associates		(2)	(4)	(22)
Purchase of investments		(5)	(3)	(7)
Purchase of property, plant and equipment		(30)	(52)	(76)
Proceeds from sale of property, plant and equipment		8	-	-
Purchase of intangible assets		(32)	(16)	(56)
Disposal of subsidiaries, net of cash disposed		(7)	-	984
Tax paid on disposal of subsidiaries		-	-	(250)
Interest received		5	3	10
Dividends received from joint ventures and associates		3	11	23
Net cash (used in) /generated from investing activities		(407)	(210)	71
Cash flows from financing activities				
Proceeds from issue of ordinary shares		5	5	12

Purchase of treasury shares	(12)	(39)	(77)
Proceeds from borrowings	15	414	241
Liquid resources disposed	4	62	53
Repayment of borrowings	(310)	-	(13)
Finance lease principal payments	(4)	(3)	(3)
Dividends paid to company's shareholders	(206)	(187)	(292)
Dividends paid to non-controlling interests	-	(7)	(6)
Transactions with non-controlling interests	(108)	16	(7)
Net cash (used in) / generated from financing activities	(616)	261	(92)
Effects of exchange rate changes on cash and cash equivalents	(24)	(3)	(1)
Net (decrease) / increase in cash and cash equivalents	(1,169)	(60)	984
Cash and cash equivalents at beginning of period	1,664	680	680
Cash and cash equivalents at end of period	495	620	1,664

For the purposes of the cash flow statement, cash and cash equivalents are presented net of overdrafts repayable on demand. These overdrafts are excluded from cash and cash equivalents disclosed on the balance sheet. Included in the figures above are net cash generated from / (used in) discontinued operations as follows: operating activities £nil (2010 half year: £67m, 2010 full year: £85m); investing activities excluding net cash on disposal £nil (2010 half year: £(18)m, 2010 full year: £(35)m); financing activities £nil (2010 half year: £51m, 2010 full year: £49m).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the period ended 30 June 2011

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union (EU). The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2010 which have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union (EU). In respect of accounting standards applicable to the group there is no difference between EU-adopted IFRS and International Accounting Standards Board (IASB)-adopted IFRS.

The condensed consolidated financial statements have also been prepared in accordance with the accounting policies set out in the 2010 Annual Report and have been prepared under the historical cost convention as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value. The 2010 Annual Report refers to other new standards effective from 1 January 2011. None of these standards have had a material impact in these financial statements.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, seasonal working capital requirements and potential acquisition activity, show that the group should be able to operate within the level of its current committed borrowing facilities. The directors have confirmed that they have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The condensed consolidated financial statements have therefore been prepared on a going concern basis.

The preparation of condensed consolidated financial statements requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated financial statements have been set out in the 2010 Annual Report.

The financial information for the year ended 31 December 2010 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The Auditors' report on the full financial statements for the year ended 31 December 2010 was unqualified and did not contain an emphasis of matter paragraph or any statement under section 498 of the Companies Act 2006.

The condensed consolidated financial statements for the six months to 30 June 2011 have been reviewed by the auditors and their review opinion is included at the end of these statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued
for the period ended 30 June 2011

2. Segment information

The group is organised into five segments: North American Education; International Education; Professional; Financial Times Group (FT Group); and Penguin. The results of the Interactive Data segment have been shown as discontinued.

all figures in £ millions	2011 half year	2010 half year	2010 full year
Sales			
North American Education	940	1,017	2,640
International Education	639	504	1,234
Professional	177	136	333
Pearson Education	1,756	1,657	4,207
FT Group	203	192	403
Penguin	457	493	1,053
Sales - continuing operations	2,416	2,342	5,663
Sales - discontinued operations	-	256	296
Total sales	2,416	2,598	5,959
Adjusted operating profit			
North American Education	46	51	469
International Education	63	36	171
Professional	26	17	51
Pearson Education	135	104	691
FT Group	31	30	60
Penguin	42	44	106
Adjusted operating profit - continuing operations	208	178	857
Adjusted operating profit - discontinued operations	-	70	81
Total adjusted operating profit	208	248	938

In addition to the external sales above, Penguin made inter-segment sales to the Education businesses of £1m (2010 half year: £13m, 2010 full year: £3m) and the Professional business made inter-segment sales to the other education businesses of £3m (2010 half year: £3m, 2010 full year: £5m). Penguin's inter-segment sales were restated at the end of 2010 following the change in segmental analysis referred to in the financial review.

Adjusted operating profit is one of Pearson's key business performance measures; it includes the operating profit from the total business including the results of discontinued operations. Other net gains and losses that represent profits and losses on the sale of subsidiaries, joint ventures, associates and other financial assets are excluded from adjusted operating profit as they distort the performance of the group. In 2011 we have excluded a net loss of £5m comprising a loss on disposal and a gain on the stepped acquisition of subsidiaries in the International Education business. In the second half of 2010 we have excluded a profit of £1,037m relating to Interactive Data, which is disclosed in discontinued operations (note 8), a profit of £12m relating to a gain in fair values on a stepped acquisition by an associate and a loss of £10m relating to the part disposal of an interest in a subsidiary. In the first half of 2010 other gains and losses relate to disposal costs incurred in advance of the disposal of Interactive Data.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued
for the period ended 30 June 2011

2. Segment information continued

Amortisation of acquired intangibles, acquisition costs and movements in contingent acquisition consideration are also excluded from adjusted operating profit as these items are not considered to be fully reflective of the underlying performance of the group.

The following table reconciles adjusted operating profit from continuing operations to operating profit for each segment.

all figures in £ millions	North American Education	International Education	Professional	FT Group	Penguin	Total
		2011 half year				
Adjusted operating profit - continuing	46	63	26	31	42	208
Other net gains and losses	-	(5)	-	-	-	(5)
n Acquisition costs	-	(6)	-	-	-	(6)
Amortisation of acquired intangibles	(28)	(28)	(5)	(4)	-	(65)
Operating profit	18	24	21	27	42	132
		2010 half year				
Adjusted operating profit - continuing	51	36	17	30	44	178
Acquisition costs	-	-	(2)	(1)	-	(3)

Amortisation of acquired intangibles	(27)	(15)	(1)	(4)	-	(47)
Operating profit	24	21	14	25	44	128

2010 full year

Adjusted operating profit - continuing	469	171	51	60	106	857
Other net gains and losses	-	(10)	-	12	-	2
Acquisition costs	(1)	(7)	(2)	(1)	-	(11)
Amortisation of acquired intangibles	(53)	(35)	(7)	(9)	(1)	(105)
Operating profit	415	119	42	62	105	743

Corporate costs are allocated to business segments on an appropriate basis depending on the nature of the cost and therefore the total segment result is equal to the group operating profit.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued
for the period ended 30 June 2011

3. Net finance costs

all figures in £ millions	2011 half year	2010 half year	2010 full year
Net interest payable	(32)	(39)	(73)
Finance income / (costs) in respect of retirement benefits	2	(6)	(12)
Finance cost of put options associated with acquisitions	(4)	-	-
Net foreign exchange (losses) / gains	(13)	7	9
Other gains / (losses) on financial instruments in a hedging relationship:			
- fair value hedges	-	(1)	-
Other gains / (losses) on financial instruments not in a hedging relationship:			
- amortisation of transitional adjustment on bonds	1	1	2
- derivatives	(4)	4	1
Net finance costs	(50)	(34)	(73)
Analysed as:			
Finance costs	(75)	(54)	(109)
Finance income	25	20	36
Net finance costs	(50)	(34)	(73)
Analysed as:			
Net interest payable	(32)	(39)	(73)
Finance income / (costs) in respect of retirement benefits	2	(6)	(12)
Net finance costs reflected in adjusted earnings	(30)	(45)	(85)

Other net finance (costs) / income	(20)	11	12
Net finance costs	(50)	(34)	(73)

For the purposes of calculating adjusted earnings, we have excluded the finance costs of put options as they relate to future potential acquisitions and don't reflect cash expended.

Foreign exchange and other gains and losses are excluded from adjusted earnings as they represent short-term fluctuations in market value and are subject to significant volatility. These other gains and losses may not be realised in due course as it is normally the intention to hold the related instruments to maturity.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS continued
for the period ended 30 June 2011

4. Profit before tax

all figures in £ millions	note	2011 half year	2010 half year	2010 full year
Profit before tax - continuing operations		82	94	670
Add back: amortisation of acquired intangibles	2	65	47	105
Add back: acquisition costs	2	6	3	11
Add back: other gains and losses	2	5	-	(2)
Add back: other net finance costs / (income)	3	20	(11)	(12)
Adjusted profit before tax - continuing operations		178	133	772
Adjusted profit before tax - discontinued operations		-	70	81

	54,500[10]		$ 75.21	1/1/2018	13,100[10]	$909,271	
		55,500[11]	$ 62.81	1/2/2017	15,000[11]		$ 1,041,150
	50,000		$ 57.84	3/7/2016			
	46,500		$ 56.53	1/2/2016			
	76,000		$ 51.50	1/2/2015			
	21,400		$ 46.76	1/8/2014			
A. Bousbib		180,000[7]	$ 54.95	1/1/2019	41,300[7]		$ 2,866,633

	115,000[9]	$ 74.57	5/11/2018		
	120,000[8]	$ 70.81	4/8/2018		
	95,000[10]	$ 75.21	1/1/2018	22,800[10]	$ 1,582,548
	102,000[11]	$ 62.81	1/2/2017	27,600[11]	$ 1,915,716
200,000		$ 57.84	3/7/2016		
101,500		$ 56.53	1/2/2016		
151,000		$ 51.50	1/2/2015		
140,000		$ 46.76	1/8/2014		
160,000		$ 31.71	1/1/2013		
140,000		$ 32.17	1/1/2012		
150,000		$ 38.50	4/25/2011		
108,000		$ 37.63	1/1/2011		

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Outstanding Equity Awards at Fiscal Year-End (continued).

	Option Awards(1)					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)(2)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(3)	Market Value of Shares or Units of Stock That Have Not Vested ($)(4)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(5)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(6)
G. Darnis		142,500(7)		$54.95	1/1/2019			32,800(7)	$2,276,648
		120,000(8)		$70.81	4/8/2018				
		95,000(10)		$75.21	1/1/2018			22,800(10)	$1,582,548
		102,000(11)		$62.81	1/2/2017			27,600(11)	$1,915,716
	200,000			$57.84	3/7/2016				
	101,500			$56.53	1/2/2016				
	151,000			$51.50	1/2/2015				
	140,000			$46.76	1/8/2014				
	120,000			$31.71	1/1/2013				
	140,000			$32.17	1/1/2012				
	300,000			$38.50	4/25/2011				
W. Brown		105,500(7)		$54.95	1/1/2019			24,200(7)	$1,679,722
		120,000(8)		$70.81	4/8/2018				
		60,000(10)		$75.21	1/1/2018			14,400(10)	$999,504
		46,500(11)		$62.81	1/2/2017			12,600(11)	$874,566
						14,528(13)	$1,008,388		
	50,000			$57.84	3/7/2016				
	25,000			$56.53	1/2/2016				
	36,900			$51.50	1/2/2015				
	37,000			$46.76	1/8/2014				
	44,000			$31.71	1/1/2013				
	33,400			$32.17	1/1/2012				
	100,000			$38.50	4/25/2011				
	22,200			$37.63	1/1/2011				

(1) Under the current Long Term Incentive Plan, approved by shareowners in 2005 and amended in 2008, SARs were granted for 2006 and subsequent years instead of nonqualified stock options. Stock options were utilized prior to 2006. Accordingly, awards under the heading Option Awards with an expiration date before 2016 are stock options and awards with an expiration date in 2016 or thereafter are SARs.

(2) The exercise price of each stock option and SAR is the grant date NYSE closing price of a share of UTC Common Stock.

(3) Reflects number of Restricted Stock Units (RSU) outstanding including dividends reinvested. Executives who joined the ELG after December 2005 receive a RSU career retention grant with a value as of the date of the grant equal to two times base salary.

(4) Amounts in this column equal the value of unvested RSUs in the adjacent column multiplied by the December 31, 2009 closing price of UTC Common Stock on the NYSE of $69.41.

(5) Reflects the target payout level for 2009 and 2008 PSUs and the actual payout level for the 2007 PSUs. Payouts for 2009 and 2008 PSUs will be based on actual performance. PSUs are described in the CD&A and footnote (2) to the Grants of Plan-Based Awards table. PSUs vest following a three-year performance period to the extent targets are achieved. PSUs are discussed in the CD&A under *Performance Share Units*, at page 26.

(6) Amounts in this column reflect the number of PSUs in the adjacent column multiplied by the December 31, 2009 closing price of UTC Common Stock on the NYSE of $69.41.

(7) SARs are scheduled to vest on January 2, 2012. Service-based vesting for PSUs is scheduled for January 2, 2012; performance-based vesting of PSUs is subject to Compensation Committee approval in early 2012.

(8) 50% of SARs scheduled to vest on April 9, 2011 and 50% on April 9, 2012.

(9) 50% of SARs scheduled to vest on May 12, 2011 and 50% on May 12, 2012.

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(10) SARS are scheduled to vest on January 2, 2011. Service-based vesting for PSUs is scheduled for January 2, 2011; performance-based vesting of PSUs is subject to Compensation Committee approval in early 2011.

(11) SARs vested on January 3, 2010. The service vesting condition for PSUs lapsed on January 3, 2010. Following Compensation Committee approval of achievement of performance levels, PSUs vested effective February 9, 2010.

(12) Mr. David retired as an employee effective November 30, 2009. Consequently all non-vested SARs previously awarded to him that were outstanding for more than one year became vested as of that date.

(13) Represents an ELG RSU Retention Award that will vest only following continuous service until age 62, with a minimum of three years of ELG service.

Option Exercises and Stock Vested

	Option Awards[1]		Stock Awards[1]	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)[2]**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)[3]**
L. Chênevert	450,000	$10,639,500	61,464	$3,049,844
G. David	1,850,000	$42,341,780	236,400	$11,730,168
G. Hayes	17,100	$512,267	28,171	$1,397,845
A. Bousbib	250,000	$6,436,615	61,464	$3,049,844
G. Darnis	100,000	$2,585,000	61,464	$3,049,844
W. Brown	20,600	$578,464	14,972	$742,911

(1) Information relates to stock option exercises and vesting of UTC Common Stock during 2009.

(2) Calculated by multiplying the number of shares exercised by the difference between the exercise price and the market price of UTC Common Stock on the date of exercise.

(3) Calculated by multiplying the number of shares vested by the market price of UTC Common Stock on the vesting date.

Pension Benefits

Name	**Plan Name**	**Number of Years Credited Service (#)**	**Present Value of Accumulated Benefit ($)[1]**	**Payments During 2009 ($)**
L. Chênevert	UTC Employee Retirement Plan	13	$367,424	
	UTC Pension Preservation Plan[2]	17	$6,778,678	
	Total		**$7,146,102**	
G. David	UTC Employee Retirement Plan	35	$1,019,128	$8,427
	UTC Pension Preservation Plan[3]	33	$15,155,779	$24,433,736
	Total		**$16,174,907**	**$24,442,163**
G. Hayes	UTC Employee Retirement Plan	20	$343,857	
	UTC Pension Preservation Plan	20	$1,218,031	
	Total		**$1,561,888**	
A. Bousbib	UTC Employee Retirement Plan	13	$220,779	
	UTC Pension Preservation Plan	13	$1,849,844	
	Total		**$2,070,623**	
G. Darnis	UTC Employee Retirement Plan	26	$442,239	
	UTC Pension Preservation Plan	26	$2,705,724	

	Total		**$3,147,963**
W. Brown	UTC Employee Retirement Plan	13	$197,347
	UTC Pension Preservation Plan	13	$748,402
	Total		**$945,749**

(1) Calculation of present value reflects Compensation-Retirement Benefits Topic of the FASB ASC pension expense assumptions described in Note 11, Employee Benefit Plans, to the Consolidated Financial Statements in Exhibit 13 to UTC s 2009 Annual Report on Form 10-K.

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(2) For Mr. Chênevert, this plan provides a pension benefit under the formula applicable to U.S. salaried employees, based on his UTC service from date of hire, offset by benefits payable separately under the Pratt & Whitney Canada pension plan.

(3) Mr. David s Pension Preservation Plan benefit was frozen as of April 9, 2008 and this amount is credited with interest at the rate equal to the rate set annually in the UTC Deferred Compensation Plan (4.78% for 2009). Code section 409A requires a six month delay in the distribution of certain pension benefits accrued after 2004 ($15,155,779).

Retirement benefits are provided through the UTC Employee Retirement Plan and the UTC Pension Preservation Plan, each of which is a defined benefit retirement plan. In combination, the plans provide an annual benefit payment equal to 2% of earnings for each year of service up to a maximum of 20 years, plus 1% of earnings for each year thereafter, minus 1.5% of Social Security benefits for each year of service up to a maximum of 50%. Earnings recognized under this formula consist of the highest average combined annual base salary and bonus calculated over any five consecutive-year period of the executive s employment. The formula does not include long term incentive compensation in earnings. Normal retirement age is 65; unreduced retirement benefits are available at age 62 for retirements with at least ten years of service. None of the NEO s (other than Mr. David who retired on November 30, 2009) qualify for unreduced retirement benefits as of fiscal year end. Early retirement benefits are available at age 55 with at least ten years of service, reduced by 0.2% for each month early retirement date precedes age 62. Vesting requires three years of service. Benefits for Messrs. David, Darnis and Hayes include amounts accrued under different formulas of Otis, Carrier and Sundstrand predecessor plans respectively that have since been merged into UTC retirement plans. Prospective changes to UTC s pension program are discussed in the CD&A.

The UTC Employee Retirement Plan is a tax-qualified plan subject to Internal Revenue Code provisions that, as of the 2009 fiscal year end, limit recognized annual compensation to $245,000 and the annual retirement benefit to $195,000. This Plan does not offer a lump sum distribution option. The UTC Pension Preservation Plan (the PPP) is an unfunded, non-tax qualified retirement plan utilizing the same benefit formula, compensation recognition, retirement eligibility and vesting provisions as the tax-qualified UTC Employee Retirement Plan. The PPP restores the benefits not provided under the qualified plan due to the Internal Revenue Code limitations on annual compensation recognition and the annual retirement benefit. Because amounts payable under the PPP are unfunded and unsecured, a lump sum distribution option is available. Unlike distributions from qualified plans, a PPP lump sum distribution is immediately fully taxable as ordinary income. To approximate actuarial equivalence to a pension annuity in light of the disparate tax treatment, the lump sum calculation uses a discount rate equal to the Barclay s Capital Municipal Bond Index averaged over five years (currently 3.9%).

Nonqualified Deferred Compensation

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)(1)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)(2)
L. Chênevert	$0	$0	$209,858	$0	$1,131,392
G. David	$0	$0	$385,037	$0	$3,446,532
G. Hayes	$0	$0	$127,747	$0	$755,903
A. Bousbib	$0	$0	$335,593	$309,689	$2,844,427
G. Darnis	$0	$0	$0	$0	$0
W. Brown	$0	$0	$0	$0	$0

(1) Amounts credited or debited reflect hypothetical returns on UTC Common Stock, the S&P 500 or a fixed interest account as elected by the participant. Amounts credited do not constitute above market earnings except for $8,294 credited to Mr. Hayes under a frozen Sundstrand Corporation program.

(2) Amounts in this column include deferrals in prior years less withdrawals. Total amounts deferred in prior years equal $431,680, $200,000, $479,582 and $2,699,795 for Messrs. Chênevert, David, Hayes and Bousbib, respectively.

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The UTC Deferred Compensation Plan offers a participant the opportunity to defer up to 70% of annual base salary and up to 100% of annual bonus. The minimum deferral period is five years. Distribution options are a lump sum payment or annual installment payments over (2 to 15 years). If a participant terminates prior to retirement eligibility, all balances are paid as a lump sum in April following termination or retirement. Amounts deferred can be allocated to accounts that may be credited with one of the following hypothetical investment returns: (i) a fixed rate of interest equal to the average yield on a ten-year Treasury bond during the first ten months of the preceding calendar year, plus 1% (4.78% for 2009); (ii) the return on the S&P 500 Index (26% for 2009); or (iii) the return on UTC Common Stock with dividend reinvestment (33% for 2009). The executive may re-allocate balances among investment accounts once per calendar year.

Potential Payments on Termination or Change-in-Control

The following table provides information concerning the value of payments and benefits following termination of employment as of December 31, 2009 under various circumstances. Benefit eligibility and values vary under UTC s programs, based on the reason for termination and retirement eligibility as of the termination date.

Payment Type	**L. Chênevert**	**G. David**(1)	**G. Hayes**	**A. Bousbib**	**G. Darnis**	**W. Brown**
Termination - Involuntary (For Cause)						
Cash Payment(2)	$0	$0	$0	$0	$0	$0
Pension Benefit(3)	$9,893,197	$0	$1,247,488	$2,092,986	$3,061,728	$846,751
Option/SAR Value(4)	$0	$0	$0	$0	$0	$0
PSU Value(5)	$0	$0	$0	$0	$0	$0
Dividend Equivalents(6)	$0	$0	$0	$0	$0	$0
Total	**$9,893,197**	**$0**	**$1,247,488**	**$2,092,986**	**$3,061,728**	**$846,751**
Voluntary						
Cash Payment(2)	$0	$17,278,392(12)	$0	$0	$0	$0
Pension Benefit(3)	$9,893,197	$15,155,779	$1,247,488	$2,092,986	$3,061,728	$846,751
Option/SAR Value(4)	$33,369,550	$100,236,750	$3,023,290	$28,811,070	$28,507,330	$9,098,560
PSU Value(5)	$6,892,410	$13,187,900	$0	$0	$0	$0
Dividend Equivalents(6)	$0	$0	$0	$0	$0	$0
Total	**$50,155,157**	**$145,858,821**	**$4,270,778**	**$30,904,056**	**$31,569,058**	**$9,945,311**
Termination - Involuntary (Not For Cause)						
Cash Payment(2)	$3,850,000	$0	$1,437,500	$2,375,000	$2,100,000	$1,425,000
Pension Benefit(3)	$9,893,197	$0	$1,247,488	$2,092,986	$3,061,728	$846,751
Option/SAR Value(4)	$33,369,550	$0	$3,023,290	$28,811,070	$28,507,330	$9,098,560
PSU Value(5)	$6,892,410	$0	$0	$0	$0	$0
Dividend Equivalents(6)	$0	$0	$0	$0	$0	$0
Total	**$54,005,157**	**$0**	**$5,708,278**	**$33,279,056**	**$33,669,058**	**$11,370,311**
Termination - Change-in-Control(7)						
Cash Payment	$13,620,000	$0	$3,363,750	$6,450,000	$4,200,000	$3,573,050
Pension Benefit(8)	$25,498,197	$0	$1,247,488	$9,339,786	$11,179,728	$846,751
Benefits	$565,820(11)	$0	$0	$374,080(11)	$343,090(11)	$0
Option/SAR Value(9)	$39,703,030	$0	$5,421,220	$32,087,070	$31,241,080	$10,930,990
PSU Value(9)	$13,902,820	$0	$4,192,360	$6,364,900	$5,774,910	$3,553,790
Dividend Equivalents(6)	$4,533,630	$13,554,190	$1,240,490	$4,111,110	$3,267,800	$815,930
Tax Gross-Up(10)	$21,204,770	$0	$4,167,420	$10,355,540	$9,112,270	$3,860,960
Total	**$119,028,267**	**$13,554,190**	**$19,632,728**	**$69,082,486**	**$65,118,878**	**$23,581,471**

(1) Mr. David retired as an employee effective November 30, 2009. Values shown are based on the December 31, 2009 closing price of UTC Common Stock on the NYSE of $69.41, where applicable.

(2)

Estimated amounts to be paid under the ELG separation arrangement, assuming termination occurred on December 31, 2009. The ELG separation benefit equals 2.5 times base salary and is provided in the event of a mutually agreeable

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separation. A mutually agreeable separation occurs when (i) the ELG participant s position with UTC has been eliminated or diminished by a divestiture, restructuring, shift in priorities or similar event or (ii) the executive retires at age 62 or older. Mr. Brown is not eligible for this payment after age 62 but will instead vest in his career retention RSU grant as discussed in footnote (3) to the Outstanding Equity Awards at Fiscal Year-End table. Voluntary terminations or terminations related to misconduct do not qualify as mutually agreeable. No payments are made for voluntary or for cause terminations.

Receipt of the ELG separation benefit is contingent upon execution of an agreement with UTC containing the following covenants made by the executive for the protection of UTC: (i) three-year non-compete; (ii) three-year employee non-solicitation; (iii) non-disparagement; (iv) protection of confidential, sensitive and proprietary information; and (v) post-termination cooperation obligations. This severance benefit is not treated as compensation for purposes of any of UTC s pension or benefit programs. This benefit is payable as a lump sum. Distributions are subject to certain restrictions imposed by Internal Revenue Code Section 409A. Benefit plan participation and fringe benefits are not continued following termination under the ELG separation arrangement.

(3) Pension benefits under the standard retirement benefit formula that exceed Internal Revenue Code limits for tax-qualified plans may be paid as a lump sum. Amounts in this column reflect the estimated lump sum payment of the nonqualified portion of the retirement benefit, assuming retirement or termination on December 31, 2009, payable as of such date or attainment of age 55, if later. Mr. David received $24.4 million of pension benefits in December 2009.

(4) Stock options and SAR awards do not accelerate upon termination before retirement age (i.e., 55 plus 10 years of service) or satisfying the rule of 65 (i.e., age 50 plus 15 years of service). Voluntary or involuntary not for cause terminations after attaining retirement age or satisfying the rule of 65 result in accelerated vesting of awards that have been outstanding for at least one year. Awards held for less than one year are forfeited. Termination for cause, as defined in the LTIP, results in forfeiture of awards. All values are based on the December 31, 2009 closing price of UTC Common Stock on the NYSE of $69.41.

(5) Vesting of PSUs does not accelerate except in the event of change-in-control or death. Forfeiture occurs upon termination (i) before retirement age or satisfying the rule of 65 or (ii) for cause. In the event of voluntary or involuntary not for cause termination following attainment of retirement age or satisfying the rule of 65, PSUs held for at least one year remain eligible to vest following completion of the performance measurement period if and to the extent of target achievement. Values shown reflect the December 31, 2009 year end UTC Common Stock closing price on the NYSE of $69.41 and vesting at target for the 2009 and 2008 PSU grants and actual level of payout for the 2007 PSU grant as described in the CD&A under *Named Executive Officer Compensation Long Term Incentive Awards* , page 30.

(6) Dividend equivalents (DEs) were earned under the terms of UTC s performance-based long term incentive plan in effect prior to 2006. Each DE, until it expires, entitles the holder to a cash payment equal to the dividend paid on one share of UTC Common Stock paid at the time of regular quarterly dividend payment. All outstanding DEs are fully vested, however, DEs are subject to forfeiture upon involuntary termination for cause. DE payments do not accelerate upon voluntary or involuntary not for cause termination. Future DEs are accelerated into a single lump sum payment following a change-in-control. Amounts shown in Termination Change-in-Control equal the current dividend rate multiplied by the number of quarterly dividend payments between the assumed change-in-control date (December 31, 2009) and the DE award expiration date, discounted using 120% of the Applicable Federal Rate as of December 31, 2009.

(7) This table includes estimated amounts payable as a result of a termination of employment following a change-in-control, assuming termination on December 31, 2009. Change-in-control benefits are provided in accordance with the Senior Executive Severance Plan (the SESP), effective July 1, 1981, as amended. Acquisition of 20% of UTC s voting securities by a person or a group, or a change in the majority of the Board of Directors, constitutes a change-in-control. Executives who became covered by the SESP prior to June, 2008 (including each of the NEOs) are eligible for SESP benefits in the event of a voluntary or involuntary termination of employment for any reason within two years following a change-in-control. Executives who become covered by the SESP after that date are eligible for SESP benefits only in the event of involuntary termination or termination for good reason. Receipt of SESP benefits is subject to an ongoing obligation to protect confidential company information. An executive may receive the greater of SESP or ELG separation benefits (as described in footnote (2) above), but not both. SESP benefits are reduced by 1/36th for each month that termination occurs after age 62 and completely phased out at age 65.

SESP benefits for executives who were covered by the SESP prior to December 2003 (including Messrs. Chênevert, Bousbib and Darnis) consist of: (i) a cash payment equal to three times base salary and bonus, utilizing the highest base salary and bonus within the preceding three years (reduced by 1/36th for each month that termination occurs after age 62); (ii) a supplemental retirement benefit (see footnote (8) below) determined as if the executive had participated in the UTC Employee Retirement Plan, the UTC Pension Preservation Plan and the UTC Employee Savings Plan for three additional years (reduced by 1/36th for each month that termination occurs after age 62); (iii) continued coverage under other employee benefit plans and fringe benefit programs for three years (reduced by 1/36th for each month that termination occurs after age 62); (iv) accelerated vesting of all outstanding long term incentive awards; and (v) a tax gross-up payment to the extent any change-in-control benefits are subject to the excise tax under Internal Revenue Code Section 280G. Executives covered by the SESP after December 2003 (including Messrs. Hayes and Brown) receive the same benefits,

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except that (i) the cash payment is equal to 2.99 times then current base salary and bonus (reduced by 1/36th for each month that termination occurs after age 62) and (ii) they do not receive supplemental pension service credit or post termination benefit continuation.

(8) Consists of a supplemental pension benefit in addition to the pension benefit shown in the preceding tables, provided under the SESP, as more fully described in footnote (7) above. Present value calculations utilize the same assumptions discussed in footnote (6) to the Summary Compensation Table. Messrs. Hayes and Brown became covered by the SESP after December, 2003 and receive no enhanced pension benefit.

(9) Reflects the value of all SARs and PSUs outstanding, calculated based on the difference between the exercise price and the December 31, 2009 year-end UTC Common Stock closing price on the NYSE of $69.41. PSUs value assumes target level achievement for the 2008 and 2009 grants and actual results for the 2007 grant.

(10) Compensation and benefits in excess of three times compensation may subject the recipient to a 20% excise tax under Internal Revenue Code 280G, with variable impact on SESP participants. To assure that the actual economic value of SESP benefits is equivalent for all participants, the program provides for a gross-up of this tax. Amounts in this column estimate the amount of the tax gross-up payment to the executive assuming a change-in-control related termination date of December 31, 2009 at a stock price of $69.41 per share.

(11) Consists of three years of medical and life insurance coverage and ELG perquisite allowance. The SESP does not provide this benefit for executives (including Messrs. Hayes and Brown) who became covered by the SESP after December, 2003.

(12) The amount shown for Mr. David consists of: (i) an ELG separation benefit of $5.3 million and (ii) the present value (calculated using a discount rate of 6.0%) of 14 remaining annual payments required to fully fund a permanent life insurance policy under the Executive Estate Preservation Program of $12 million (first payment of $1.29 million made in December 2009). Mr. David s ELG separation benefit and the Executive Estate Preservation Program are discussed in footnote (7)(d) to the Summary Compensation Table on page 33.

Director Compensation

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Louis R. Chênevert	$0	$0	$0	$0	$0	$0	$0
George David	$0	$0	$0	$0	$0	$0	$0
John V. Faraci	$0	$260,000	$0	$0	$0	$674(4)	$260,674
Jean-Pierre Garnier	$0	$230,000	$0	$0	$0	$0	$230,000
Jamie S. Gorelick	$0	$220,000	$0	$0	$0	$11,830(5)	$231,830
Carlos M. Gutierrez(6)	$88,000	$232,000(6)	$0	$0	$0	$2,250(4)	$322,250
Edward A. Kangas	$0	$250,000	$0	$0	$0	$2,727(4)	$252,727
Charles R. Lee	$92,000	$138,000	$0	$0	$0	$0	$230,000
Richard D. McCormick	$0	$260,000	$0	$0	$0	$24,505(5)	$284,505
Harold McGraw III	$0	$220,000	$0	$0	$0	$0	$220,000
Richard B. Myers	$100,000	$150,000	$0	$0	$0	$1,085(4)	$251,085
H. Patrick Swygert	$100,000	$150,000	$0	$0	$0	$16,533(5)	$266,533
André Villeneuve	$0	$250,000	$0	$0	$0	$11,830(5)	$261,830
Christine T. Whitman	$92,000	$138,000	$0	$0	$0	$0	$230,000

(1) Amounts in this column reflect retainer fees paid in cash in 2009.

(2)

Amounts in this column (except as otherwise noted in footnote (6) below) reflect the grant date fair value calculated in accordance with Compensation Stock Compensation Topic of the FASB ASC of deferred stock units received by the director in 2009 as the result of the director s election to defer the receipt of his or her annual retainer fee. The assumptions made in the valuation of these awards are set forth in Note 11, Employee Benefit Plans, to the Consolidated Financial Statements in Exhibit 13 to UTC s 2009 Annual Report on Form 10-K (available at www.edocumentview.com/UTX). All deferred retainer fees result in deferred stock units based on the NYSE closing price of UTC Common Stock on April 8, 2009. Deferred stock units are credited with dividend equivalents and are payable in cash following retirement. As of

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December 31, 2009, Directors held the following numbers of unvested restricted stock units: Mr. Faraci, 350; Secty. Gutierrez 1,948; Mr. Kangas, 1,666; and Gen. Myers, 626.

(3) As of December 31, 2009, Directors held the following numbers of outstanding stock options awarded in prior years: Dr. Garnier, 36,700; Ms. Gorelick, 48,620; Mr. Lee, 29,800; Mr. McCormick, 31,000; Mr. McGraw, 13,000; Mr. Swygert, 26,000; Mr. Villeneuve, 26,000; and Gov. Whitman, 13,000.

(4) Dividend equivalents credited on unvested restricted stock units.

(5) Amounts consist of life insurance premium payments on life insurance policies that are used to fund the Directors Charitable Gift Program as more fully described in the following paragraph. Persons who became directors after 2003 are not eligible to participate in this program. Because of their years of service as directors, the policies for Messrs. David, Garnier and Lee are paid-up and no premium payments were made during the fiscal year.

(6) Includes a one-time restricted stock unit award as more fully described in the following paragraph.

For 2009, non-employee directors were paid an annual retainer of $220,000 ($230,000 for committee chairs, $250,000 for Audit Committee members and $260,000 for the Audit Committee chair and the Lead Director), which they may elect to receive in either of the following forms: (a) 60% in deferred stock units issued under the Directors Deferred Stock Unit Plan and 40% in cash; or (b) 100% in deferred stock units. Each deferred stock unit has a value equal to one share of UTC Common Stock. Following termination of a director s service, the value of the accumulated deferred stock units is paid in cash, at the election of the director, as either a lump sum or in installments over a ten or fifteen-year period. Whenever UTC pays a dividend on Common Stock, each director s deferred stock unit balance is credited with additional deferred stock units having a value equal to the dividend paid on the corresponding number of shares of UTC Common Stock. Non-employee directors do not receive any additional compensation for attending regularly scheduled Board and committee meetings, but receive a fee of $5,000 for each special meeting they attend. In addition, directors receive a one-time $100,000 restricted stock unit award upon their election to the board. This award vests ratably over five years and is distributed to the director in cash upon retirement, termination or death. Restricted stock units receive dividend equivalents in the form of additional restricted stock units. UTC maintains a charitable gift program for directors elected prior to 2003, funded by life insurance on the lives of the participating directors. Under this program, UTC will make charitable contributions totaling up to $1 million following the death of a director, allocated among up to four charities recommended by the director. Beneficiaries must be tax-exempt organizations under Section 501 (c)(3) of the Internal Revenue Code. Donations are expected to be deductible by UTC from taxable income for federal and other income tax purposes. Directors derive no financial benefit from the program since all insurance proceeds and tax deductions accrue solely to UTC.

Report of the Audit Committee.

The Audit Committee reviews and makes recommendations to the Board of Directors concerning the reliability and integrity of UTC s financial statements and the adequacy of its system of internal controls and processes to assure compliance with UTC s policies and procedures, Code of Ethics and applicable laws and regulations. The Committee annually nominates UTC s Independent Auditor for appointment by the shareowners, and evaluates the independence, qualifications and performance of UTC s internal and independent auditors. The Committee also discusses with management UTC s policies and procedures regarding risk assessment and risk management, the Company s major financial risk exposures and the steps management has taken to monitor and manage such exposures to be within the Company s risk tolerance. The Committee establishes procedures for and oversees receipt, retention, and treatment of complaints received by UTC regarding accounting, internal control or auditing matters; and the confidential, anonymous submission by UTC employees of concerns regarding questionable accounting or auditing matters.

The Committee has reviewed and discussed with management and UTC s Independent Auditor UTC s audited financial statements as of and for the year ended December 31, 2009, as well as the representations of management and the Independent Auditor s opinion thereon regarding UTC s internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act. The

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Committee discussed with UTC s internal and Independent Auditors the overall scope and plans for their respective audits. The Committee met with the internal and Independent Auditors, with and without management present, to discuss the results of their examinations, the evaluation of UTC s internal controls, management s representations regarding internal control over financial reporting, and the overall quality of UTC s financial reporting. The Committee has discussed with UTC s Independent Auditor the matters required by Statement on Auditing Standards, No. 61 *Communications with Audit Committees,* as amended (AICPA, *Professional Standards*, Vol. 1. AU Section 380) as adopted by the Public Company Accounting Oversight Board in Rule 3200T. It has also discussed with UTC s Independent Auditor their independence from UTC and its management, including the written disclosures and letter from UTC s Independent Auditor required by the Public Company Accounting Oversight Board s Rule 3526, *Communication with Audit Committee s Concerning Independence*, as approved by the SEC.

UTC s Independent Auditor represented to the Committee that UTC s audited financial statements were prepared in accordance with generally accepted accounting principles in the United States of America.

Based on the reviews and discussions referred to above, the Committee has recommended to the Board of Directors that the audited financial statements referred to above be included in UTC s Annual Report on Form 10-K for the year ended December 31, 2009 for filing with the SEC. The Committee nominates the firm of PricewaterhouseCoopers LLP for appointment by the shareowners as UTC s Independent Auditor for 2010.

Audit Committee

John V. Faraci, Chair	Richard B. Myers
Edward A. Kangas	H. Patrick Swygert
Richard D. McCormick	André Villeneuve

PROPOSAL 2: APPOINTMENT OF A FIRM OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS TO SERVE AS INDEPENDENT AUDITOR FOR 2010.

PricewaterhouseCoopers LLP served as UTC s independent registered public accounting firm in 2009. The Audit Committee has nominated the firm of PricewaterhouseCoopers LLP to serve as Independent Auditor for UTC until the next Annual Meeting in 2011. Representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting, will have an opportunity to make any statements they desire, and will also be available to respond to appropriate questions from shareowners. UTC paid the following fees to PricewaterhouseCoopers LLP for 2009 and 2008:

(In thousands)	2009	2008
Audit Fees	29,930	27,684
Audit-Related Fees	7,168	7,700
Tax Fees	9,671	9,796
All Other Fees	90	30
Total	46,859	45,210

Audit Fees in both years consisted of fees for the audit of UTC s consolidated annual financial statements and its internal control over financial reporting, the review of interim financial statements in UTC s quarterly reports on Form 10-Q and the performance of audits in accordance with statutory requirements.

Audit-Related Fees in both years consisted of fees for due diligence assistance related to mergers and acquisition activity, employee benefit plan audits, advice regarding the application of generally accepted accounting principles to proposed transactions and special reports pursuant to agreed-upon procedures.

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Tax Fees in 2009 consisted of approximately $3,127,000 for U.S. and non-U.S. tax compliance and related planning and assistance with tax refund claims, and approximately $6,544,000 for tax consulting and advisory services. In 2008, tax fees consisted of approximately $4,329,000 for U.S. and non-U.S. tax compliance and related planning and assistance with tax refund claims, and approximately $5,467,000 for tax consulting and advisory services.

All Other Fees represent fees in both years for accounting research software and other services.

The Audit Committee has adopted procedures requiring Committee review and approval in advance of all particular engagements for services provided by UTC s Independent Auditors. Consistent with applicable laws, the procedures permit limited amounts of services, other than audit, review or attest services, to be approved by one or more members of the Committee pursuant to authority delegated by the Committee, provided the Committee is informed of each particular service. All of the engagements and fees for 2009 and 2008 were approved by the Committee. The Committee reviews with PricewaterhouseCoopers LLP whether the non-audit services to be provided are compatible with maintaining the auditors independence. The Board has also adopted the policy that fees paid to the Independent Auditors for non-audit services in any year shall not exceed the fees paid for audit and audit-related services during the year. Non-audit services are limited to fees for tax services, accounting assistance, audits in connection with acquisitions, and other services specifically related to accounting or audit matters such as audits of employee benefit plans.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREOWNERS VOTE FOR APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP.

PROPOSAL 3: SHAREOWNER PROPOSAL CONCERNING ADVISORY VOTE ON EXECUTIVE COMPENSATION.

Representatives of the AFL-CIO Reserve Fund, 815 Sixteenth Street, N.W., Washington, D.C. 20006, have advised that the Fund is the beneficial owner of 713 shares of UTC Common Stock and that the Fund intends to introduce a proposal for the consideration of shareowners at the Annual Meeting, the text of which reads as follows:

Advisory Vote on Executive Compensation

RESOLVED: The stockholders of United Technologies Corporation (the Company) recommend that the Board of Directors (Board) adopt a policy requiring that the proxy statement include a proposal, submitted and supported by Management, seeking an advisory vote of shareholders to ratify and approve the report of the Committee on Compensation and Executive Development, and the executive compensation policies and practices described in the Compensation Discussion and Analysis.

Supporting Statement

Investors are increasingly concerned about runaway executive compensation and its disconnect with performance. In 2009, stockholders filed nearly 100 Say on Pay resolutions. The proposals received, on average, 46% of the votes and passed at more than 20 companies demonstrating strong shareholder support for this reform.

A 2009 report by an executive compensation task force of the Conference Board recommends that companies restore investors trust in the ability of boards to oversee executive compensation plans by ensuring that the programs are transparent, understandable and effectively communicated to shareholders.

If shareholders need a vote on one issue, it is executive remuneration, states a September 2009 report on Lessons from Say on Pay in the UK by Railpen Investments and PIRC Limited. Public

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companies in the United Kingdom have let shareholders cast a vote on the directors remuneration report, which discloses executive compensation, since 2002. Such a vote is not binding but gives shareholders a clear voice that could help shape executive compensation.

Say on pay promotes dialogue between investors and boards and encourages investors to engage with boards on a readily understandable issue, where interests may conflict, Sir Adrian Cadbury, author of the 1992 Cadbury Report on UK Corporate Governance, observed. It is also a litmus test of how far boards are in touch with the expectations of their investors.

An advisory vote establishes an annual referendum process for shareholders on executive compensation of the Named Executive Officers (NEOs). We believe this vote would give our Company useful information about investors views on NEO compensation. More than 25 companies, including Apple, Hewlett-Packard, Intel, Occidental Petroleum, Verizon and Microsoft, have already agreed to such a vote.

RiskMetrics Group, the influential proxy voting service, backs these proposals. RiskMetrics encourages companies to allow shareholders to express their opinions of executive compensation practices by establishing an annual referendum process. An advisory vote on executive compensation is another step forward in enhancing board accountability.

Congress is expected to soon pass legislation requiring an annual advisory vote on pay. However, we believe companies should demonstrate leadership and proactively adopt this practice.

We urge you to vote FOR this proposal.

The Board of Directors Statement in Opposition.

UTC s Board acknowledges and shares the strong interest of shareowners in establishing effective executive compensation programs that are tightly linked with long-term performance and consistent with sound corporate governance practices. The Board has carefully considered an annual non-binding advisory vote on executive compensation and for the reasons set forth below, does not believe that the AFL-CIO Reserve Fund s Proposal will further meaningful communication between shareowners and management, enhance the Company s governance posture, or serve the best interests of UTC and its shareowners generally. For the following reasons, the Board recommends that shareowners vote against this Proposal.

1. **The Board believes that Say-on-Pay governance changes should be applied uniformly rather than selectively.** The AFL-CIO Reserve Fund proposal references Say-on-Pay practices in the U.K., where advisory votes on executive compensation are mandated by law and apply uniformly and equally to all public companies. Legislation in the United States, while widely anticipated, has not yet been adopted for public companies in general. The Board believes that UTC consistently demonstrates its commitment to transparency in reporting executive compensation matters and UTC is prepared to comply fully with legislated changes that apply uniformly and equally to all companies similarly situated. However, given the importance of executive compensation practices to a company s ability to attract, motivate and retain executive talent, the Board does not believe that selective implementation of this Proposal would be in the best interest of UTC s shareowners and, in fact, believes that premature implementation could have a negative impact on UTC s competitive position, particularly given that the majority of UTC s Compensation Peer Group companies have not announced plans to adopt Say-on-Pay votes[1]. Moreover, as the AFL-CIO Reserve Fund

[1] See page 20 of this Proxy Statement for a list of UTC s Compensation Peer Group companies. Information concerning companies having announced plans to adopt such votes is based on survey data published by Cleary Gottlieb Stein & Hamilton as of the approximate date printing of this Proxy Statement began (February 18, 2010) and available on their web site at http://www.cgsh.com/cgsh/Shareholder_Input_on_Executive_Pay_Summary_of_Approaches_Appendix_A.pdf.

Proposal itself indicates, Congress is expected to adopt in the near future additional legislation concerning executive compensation practices of public companies. The Board believes that implementation of measures requested by the Proposal in advance of pending legislation likely would result in unnecessary expenditures and duplication of effort in the event it becomes necessary to modify processes further when legislation is enacted.

2. **The Board believes that compensation related governance matters involve complexities that do not lend themselves to a simple yes/no advisory vote.** UTC s Board Committee on Compensation and Executive Development is comprised solely of independent directors who must discharge their responsibilities in accordance with fiduciary standards under applicable law. To be fully informed in carrying out their oversight duties, the directors review the suitability of performance metrics to motivate sustainable long-term performance, consider complex competitive factors affecting UTC s recruitment and retention strategies and benchmark UTC s compensation programs with relevant peer practices. The information considered includes sensitive competitive information that could be damaging to the interests of UTC and its shareowners if released to the public generally. Without access to proprietary and confidential information and relevant competitive considerations, the Board believes shareowners would be asked to vote on compensation practices with incomplete information, calling into question the results of such a vote.

3. **The Board believes that UTC s executive compensation program has successfully motivated superior corporate performance and shareowner returns.** The Proposal speaks generally of disconnects between executive compensation and performance, without identifying any deficiencies specific to UTC. The Board believes that UTC s compensation programs, including metrics directly related to shareowner interests such as earnings growth, cash flow and relative shareowner returns, have been fundamental in driving the shareowner value agenda and are a key factor in generating the exceptional returns and long-term performance that UTC shareowners have enjoyed. As noted in the Compensation Discussion and Analysis on pages 18 to 32 of this Proxy Statement, only about 10% of total compensation is fixed for the CEO, while 90% is tied to performance with approximately 80% of the latter amount allocated to long-term performance. A recent ***Wall Street Journal*** article reports that UTC was one of only two of the current 30 Dow Jones Industrial Average companies that doubled its stock price over the past decade *(See WSJ, page C1, 12/21/2009).* An online article published by ***Reuters*** lists UTC as the number one performing Dow Industrial Winner for the period January 1999 through December 18, 2009, with a share appreciation of 155.49%, compared to a decrease of 2.84% for S&P 500 companies (December 1999 December 18, 2009), not including the impact of dividends *(see Reuters FactBox, 12/23/2009, article by Ellis Mnyandu).* The Board believes UTC s returns to shareowners are even more impressive when the impact of dividends is included. Notably, despite a very challenging economic environment, UTC increased its quarterly dividend by 20.3% and 10.4% in 2008 and 2010, respectively. The Board believes that UTC s executive compensation programs have played a vital role in achieving the exceptional shareowner returns for the past decade reported by the major news services noted above.

4. **The Board believes that UTC already maintains open communication channels with its shareowners which have proven effective.** The Proposal suggests that an annual non-binding advisory vote would enhance communication between shareowners and Company management and its Board. UTC has long provided shareowners with a variety of opportunities to communicate with management and the Board on a range of topics, including executive compensation. As noted on page 49 of this Proxy Statement, shareowners and other interested persons may send communications to the Board, the Chairman, the Lead Director or one or more non-management directors by using the contact information provided on UTC s website. Concerns are reported to the appropriate Committee(s) of the Board. In this regard, UTC has made a number of changes to its executive compensation programs

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over the years in response to dialogue with shareowners and review of benchmark data. These publicly disclosed changes include a reduction of change-in-control benefits for new program participants effective January 1, 2004, implementation of performance-based stock awards, elimination of change-in-control related termination benefits for new executive leadership group members named after June 2009, elimination of related excise tax gross-ups and implementation of a double trigger for change-in-control benefits for new executive leadership group members. The Board believes that communication opportunities currently in place at UTC, augmented by UTC s discussions with investors, provide the Board and UTC management with feedback that is more useful than anonymous votes from a non-binding advisory vote on executive compensation. The results of a generalized yes or no vote will not identify the specific cause for concern and therefore, are not likely to provide the Board with useful input from shareowners.

FOR THE REASONS STATED ABOVE, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREOWNERS VOTE AGAINST THE AFL-CIO RESERVE FUND S PROPOSAL.

ADDITIONAL MEETING INFORMATION.

How many shares can vote? As of the record date, 936,413,635 shares of UTC Common Stock were issued and outstanding. Each share of UTC Common Stock outstanding on the record date is entitled to one vote. A quorum requires the presence at the Annual Meeting, in person or by proxy, of the holders of shares representing a majority of the outstanding shares.

How many votes are needed for the election of directors at the meeting? Under Section 2.2 of UTC s Bylaws, in order for a director to be elected a majority of the votes cast with respect to the director s election must be cast for the director, except that if the number of nominees exceeds the number of directors to be elected, the nominees receiving the greatest number of votes shall be elected as directors. Because Delaware law provides that an incumbent director continues in office until his or her successor has been elected and qualified (or until the director s earlier removal or resignation) even though a majority of the votes cast were not voted for his or her re-election, UTC has adopted a Corporate Governance Guideline requiring that any nominee who is an incumbent director and who receives in an uncontested election fewer votes for than withheld from his or her election must promptly tender his or her resignation to the Chair of the Committee on Nominations and Governance. The Committee on Nominations and Governance shall then consider the matter and, taking into consideration all factors it deems relevant, shall recommend to the Board whether the resignation should be accepted and, if the Board accepts the resignation, whether the vacancy so created should be filled or the size of the Board should be reduced. The Board will act on the Committee s recommendation within 90 days after the certification of the election results. The Board s decision will be disclosed in a Current Report on Form 8-K filed with the SEC.

How many votes are needed for the adoption of other matters at the meeting? Any matter other than the election of directors will be approved if it receives the affirmative vote of a majority of the shares constituting the quorum for the meeting. If a shareowner submits a proxy card or voting instructions indicating an abstention from voting on a particular matter, the shareowner s shares will not be counted as a vote for that matter, but the shares will be included as part of the shares making up the quorum, and accordingly the abstention will have the same practical effect as a vote against the matter. Shares that are the subject of broker non-votes (as described in response to the question *How will the proxy holders vote my shares?* on page 3) with respect to a particular matter will not be counted as a vote for or against the matter, but also will be included as part of the shares making up the quorum, and accordingly will likewise have the same practical effect as a vote against the matter.

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Is cumulative voting for directors permitted? Yes. When voting for the election of directors, each owner of UTC Common Stock is entitled to a number of votes equal to the number of shares of UTC Common Stock owned multiplied by the number of directors to be elected. This number of votes may be cast for a single nominee or distributed as votes for any two or more nominees, in the discretion of the shareowner. Because the telephone and Internet voting facilities do not accommodate cumulative voting, cumulative voting rights can be exercised only by submission of a written proxy card or voting instructions by mail. The proxy holders will not exercise cumulative voting unless expressly instructed by a shareowner.

Who will count the vote? Will votes be confidential? Representatives of Computershare will receive and tabulate proxies, act as independent Inspectors of Election, supervise the voting, decide the validity of proxies and certify their count of all votes and ballots. Computershare has been instructed that the vote of each shareowner must be kept confidential and may not be disclosed (except in the event of legal proceedings or, in the event of a contested proxy solicitation, to permit the solicitation of the votes of undecided shareowners).

Can a proxy be revoked? Yes. You may revoke your proxy before it is voted by sending written notice to the Corporate Secretary identifying the proxy being revoked; by following the prompts provided through the telephone and Internet voting facilities for revoking a proxy previously submitted by telephone or via the Internet; by submitting a new proxy card with a later date; or by voting in person at the meeting.

How will the proxy holders vote on any other business conducted at the Annual Meeting? Although we do not know of any business to be conducted at the Annual Meeting other than the matters described in this Proxy Statement, duly signed proxy cards and voting instructions submitted by telephone or via the Internet will confer on the proxy holders discretionary authority to vote your shares (other than shares held in the UTC Employee Savings Plan) in accordance with their judgment on any other such matters that may be submitted to a vote of shareowners at the Annual Meeting.

When are shareowner proposals for inclusion in UTC s Proxy Statement for the 2011 Annual Meeting due? A shareowner who wishes to have a proposal included in UTC s Proxy Statement for the 2011 Annual Meeting must, in accordance with SEC rules governing shareowner proposals, submit the proposal in writing to the Corporate Secretary for receipt by October 29, 2010, in order to be considered for inclusion.

What is the advance notice deadline for a proposal that a shareowner plans to introduce for submission to a vote of shareowners at the 2011 Annual Meeting? Under Section 1.10 of UTC s Bylaws, a shareowner who wishes to introduce a proposal to be voted on at UTC s 2011 Annual Meeting (other than matters properly brought under SEC Rule 14a-8) must send advance written notice to the Corporate Secretary for receipt no earlier than December 15, 2010 and no later than January 14, 2011. Such notice must include the information specified by the Bylaws, a copy of which is posted at http://www.utc.com/Governance.

What is the advance notice deadline if a shareowner plans to nominate a person for election as a director at the 2011 Annual Meeting? Under Section 1.10 of UTC s Bylaws, a shareowner who wishes to nominate a person for election as a director at the 2011 Annual Meeting must send advance written notice to the Corporate Secretary for receipt no earlier than December 15, 2010 and no later than January 14, 2011. Such notice must include the information specified by the Bylaws, a copy of which is posted at http://www.utc.com/Governance.

How are proxies solicited and how much is this solicitation expected to cost? In addition to the distribution of this Proxy Statement, proxies may be solicited on behalf of the Board of Directors by employees of UTC by mail, email, in person and by telephone. These employees will not receive any

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additional compensation for these activities. UTC will bear the cost of soliciting proxies and reimburse banks, brokers and other intermediaries for their reasonable out-of-pocket expenses for forwarding proxy materials to beneficial shareowners. Georgeson Inc. has been retained by UTC to assist in the distribution of proxy materials and the solicitation of proxies for a fee of $16,000, plus out-of-pocket expenses.

How can shareowners obtain electronic access to the proxy materials, instead of receiving mailed copies? Holders of shares registered in their name on the records of Computershare may contact Computershare at www.computershare.com/us/ecomms to sign up to receive electronic access to the materials rather than receiving mailed copies. Shareowners electing electronic access will receive email notification when the Annual Report and Proxy Statement are available, with electronic links to access the documents (in PDF and HTML formats) on a designated website and instructions on how to vote shares via the Internet. Enrollment for electronic access will be effective for a future annual meeting if submitted at least two weeks prior to the record date for that meeting, and will remain in effect for subsequent years, unless cancelled no later than two weeks prior to the record date for any subsequent annual meeting. Beneficial shareowners also may be able to obtain electronic access to proxy materials by contacting the broker, bank or other intermediary, or by contacting Broadridge Financial Solutions at http://enroll.icsdelivery.com/utc.

How can shareowners reduce the number of copies of proxy materials sent to a household? Eligible beneficial shareowners who share a single address may receive a notification that only one copy of the Annual Report, Proxy Statement or Notice of Internet Availability of Proxy Materials will be sent to that address unless the bank, broker or other intermediary that provided the notification receives contrary instructions from any beneficial shareowner at that address. This practice, known as householding , is designed to reduce printing and mailing costs. However, if a beneficial shareowner at such an address wishes to receive a separate Annual Report, Proxy Statement or Notice of Internet Availability of Proxy Materials this year or in the future, the shareowner may contact the entity that provided the notification. Eligible registered shareowners receiving multiple copies of the Annual Report, Proxy Statement or Notice of Internet Availability of Proxy Materials can request householding by contacting UTC s stock registrar and transfer agent, Computershare Trust Company, at 800-488-9281. Persons holding shares through a broker, bank or other intermediary can request householding by contacting that entity.

OTHER MATTERS.

Corporate Governance Information and Code of Ethics.

UTC s Corporate Governance Guidelines and charters for each Board Committee are available on UTC s website: http://www.utc.com/Governance/Board+of+Directors and UTC s Code of Ethics is available on UTC s website: http://www.utc.com/Governance. Printed copies will be provided to any shareowner upon request addressed to the Corporate Secretary. The Code of Ethics applies to all directors and employees, including the principal executive, financial and accounting officers. Shareowners and other interested persons may send communications to the Board, the Chairman, the Lead Director or one or more non-management directors by using the contact information provided on UTC s website under the headings Governance , Board of Directors , Contact UTC s Board. Shareowners and interested persons also may send communications by letter addressed to the Corporate Secretary at UTC, One Financial Plaza, Hartford, CT 06101 or by contacting the Business Practices Office at 860-728-6485. These communications will be received and reviewed by UTC s Business Practices Office. The receipt of concerns about UTC s accounting, internal controls, auditing matters or business practices will be reported to the Audit Committee. The receipt of other concerns will be reported to the appropriate Committee(s) of the Board. UTC employees also can raise questions or concerns confidentially or anonymously using UTC s Ombudsman/DIALOG program.

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Section 16(a) Beneficial Ownership Reporting Compliance.

Based upon a review of Forms 3 and 4 and any amendments thereto, filed with the SEC during 2009, Form 5 and any amendments thereto, filed with the SEC with respect to 2008, and written confirmation provided by its officers and directors, UTC is not aware of any failure by any officers who are subject to Section 16(a) for the Securities Exchange Act of 1934 or its directors to file on a timely basis the reports required thereby during and with respect to 2009. UTC is not aware of any 10% beneficial owner.

Transactions with Related Persons.

UTC has adopted a written policy for the review of transactions with related persons. The policy requires review, approval or ratification of transactions exceeding $120,000 in which UTC is a participant and in which a UTC director, executive officer, a significant shareowner or an immediate family member of any of the foregoing persons has a direct or indirect material interest. These transactions must be reported for review by the Corporate Secretary and the Vice President, Business Practices, who will determine whether the transaction may be a related person transaction. Following review by these officers, the Board s Committee on Nominations and Governance must determine whether a related person transaction can be approved or not, based on whether the transaction is determined to be in, or not inconsistent with, the best interests of UTC and its shareowners. In making this determination, the Committee must take into consideration whether the transaction is on terms no less favorable to UTC than those available with other parties and the related person s interest in the transaction. UTC s policy permits employment of related persons possessing qualifications consistent with UTC s requirements for non-related persons in similar circumstances, provided the employment is approved by the Senior Vice President, Human Resources and Organization and the Vice President, Business Practices.

Kathleen M. Hopko
Vice President, Secretary

and Associate General Counsel

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Annual Meeting of Shareowners of United Technologies Corporation

Wednesday, April 14, 2010, 2:00 p.m.

Notice of Annual Meeting of Shareowners

The Annual Meeting of Shareowners of United Technologies Corporation (UTC) will be held at the Conrad Indianapolis Hotel located at 50 West Washington Street, Indianapolis, Indiana on Wednesday, April 14, 2010 at 2:00 p.m. Eastern Daylight Time. The purpose of the meeting is to consider the following matters:

1. Election of thirteen Directors from among the nominees in the Proxy Statement,

2. Appointment of Independent Auditor,

3. Shareowner Proposal Concerning an Advisory Vote on Executive Compensation, and

4. Other business if properly raised.

The Board of Directors has set February 16, 2010 as the record date for the meeting. This means that owners of record of shares of Common Stock of UTC at the close of business on that date are entitled to attend and vote at the meeting. A list of registered shareowners entitled to vote will be available at UTC s offices, One Financial Plaza, Hartford, CT, for 10 days prior to the meeting and at the meeting location during the meeting.

TICKET REQUESTS: Since seating at the meeting is limited, we ask that shareowners request a ticket in advance to attend. Please email your request to corpsec@corphq.utc.com or write to the Corporate Secretary at the UTC address below.

q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

Proxy UNITED TECHNOLOGIES CORPORATION

This Proxy is Solicited on Behalf of the Board of Directors of United Technologies Corporation.

The undersigned hereby appoints John V. Faraci, Charles R. Lee and Richard D. McCormick, and each of them with power of substitution to each, proxies for the undersigned to act and vote at the Annual Meeting of the Shareowners of UTC to be held April 14, 2010, and at any adjournment thereof, as directed on this Proxy Card, upon the matters set forth on the reverse side hereof, all as described in the Proxy Statement, and, in their discretion, upon any other business which may properly come before said meeting.

This Proxy Card also constitutes voting instructions to the Trustee under each of the UTC employee savings plans to vote, in person or by proxy, the proportionate interest of the undersigned in the shares of Common Stock of UTC held by the Trustee under any such plan(s) as described in the Proxy Statement. If the undersigned has a beneficial interest in shares held by the Trustee under any such plan(s), voting instructions with respect to such plan shares must be provided by 11:00 a.m. Eastern Daylight Time on April 12, 2010 in the manner described in the Proxy Statement. If voting instructions are not received by that time, such plan shares will be voted by the plan trustee as described in the Proxy Statement. The undersigned hereby revokes all proxies previously given by the undersigned to vote at the Annual Meeting of Shareowners or any adjournment or postponement thereof.

You are encouraged to specify your choices by marking the appropriate boxes, SEE REVERSE SIDE, but you need not mark any boxes if you wish to vote in accordance with the Board of Directors recommendations. The proxy holders cannot vote your shares unless you sign and return this Proxy Card.

SEE REVERSE

SIDE

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MR A SAMPLE

DESIGNATION (IF ANY)

ADD 1

ADD 2

ADD 3

ADD 4

ADD 5

ADD 6

Using a **black** ink pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

X

Electronic Voting Instructions

You can vote by Internet or telephone!

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the following

two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by Internet or telephone must be received

by 10:00 a.m., Eastern Daylight Time, on April 14, 2010.

Vote by Internet

Log on to the Internet and go to **www.envisionreports.com/UTX**

Follow the steps outlined on the secure website**.**

Vote by telephone

Call toll free 1-800-652-VOTE (8683) from within the USA, US territories and Canada any time on a touch-tone telephone. There is **NO CHARGE** to you for the call.

From outside these areas, call 1-781-575-2300 on a touch-tone telephone (standard toll rates will apply).

Follow the instructions provided by the recorded message**.**

Annual Meeting Proxy Card 1234 5678 9012 345

q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE , FOLD ALONG THE PERFORATION, DETACH AND RETURN BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

A. Proposals THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF DIRECTORS.

1. Election of Directors

01 Louis R. Chênevert	06 Edward A. Kangas	11 H. Patrick Swygert
02 John V. Faraci	07 Charles R. Lee	12 André Villeneuve
03 Jean-Pierre Garnier	08 Richard D. McCormick	13 Christine Todd Whitman

04 Jamie S. Gorelick
05 Carlos M. Gutierrez

09 Harold McGraw III
10 Richard B. Myers

¨ **Mark here to vote FOR all nominees**.

¨ **Mark here to WITHHOLD vote from all nominees**.

01¨ 02¨ 03¨ 04¨ 05¨ 06¨

¨ **For All EXCEPT** To withhold a vote for a specific nominee, mark this box with an X and the appropriately numbered box on the right.

07¨ 08¨ 09¨ 10¨ 11¨ 12¨ 13¨

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL 2.

	For	Against	Abstain
2. Appointment of the firm of PricewaterhouseCoopers LLP as Independent Auditor			

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST PROPOSAL 3.

	For	Against	Abstain
3. Shareowner Proposal: Advisory Vote on Executive Compensation			

B. Non-Voting Items

Change of Address Please print new address below.

C. Authorized Signature(s) This section must be completed for your vote to be counted Date and Sign Below. Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

Date (mm/dd/yyyy) Please print date below.
/ /

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

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C XXXXXXXXXX

MR ANDREW SAMPLE

1234 AMERICA DRIVE

ANYWHERE, IL 60661

IMPORTANT ANNUAL SHAREOWNERS MEETING

INFORMATION YOUR VOTE COUNTS!

Shareowner Meeting Notice **123456 C0123456789 12345**

Important Notice Regarding the Availability of Proxy Materials for the United

Technologies Corporation Shareowner Meeting to be Held on Wednesday, April 14, 2010

Under new Securities and Exchange Commission rules, you are receiving this notice that the proxy materials for the annual shareowners meeting are available on the Internet. Follow the instructions below to view the materials and vote online or request a copy. The items to be voted on and location of the annual meeting are on the reverse side. Your vote is important!

This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting. The proxy statement and annual report to shareowners are available at:

www.envisionreports.com/UTX

Easy Online Access A Convenient Way to View Proxy Materials and Vote.

When you go online to view materials, you can also vote your shares.

Step 1: Go to **www.envisionreports.com/UTX** to view the materials.

Step 2: Click on **Cast Your Vote or Request Materials.**

Step 3: Follow the instructions on the screen to log in.

Step 4: Make your selection as instructed on each screen to select delivery preferences and vote. You can also vote by telephone by following the instructions provided at **www.envisionreports.com/UTX**.

When you go online, you can also help the environment by consenting to receive electronic delivery of future materials.

Obtaining a Copy of the Proxy Materials If you want to receive a paper or e-mail copy of these documents, you must request one. There is no charge to you for requesting a copy. Please make your request for a copy as instructed on the reverse side on or before March 31, 2010 to facilitate timely delivery.

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Shareowner Meeting Notice

United Technologies Corporation s Annual Meeting of Shareowners will be held on Wednesday, April 14, 2010 at the Conrad Indianapolis Hotel located at 50 West Washington Street, Indianapolis, Indiana at 2:00 p.m. Eastern Daylight Time.

Proposals to be voted on at the meeting are listed below along with the Board of Directors recommendations.

The purpose of the meeting is to consider the following matters:

1. Election of thirteen directors from among the following nominees,

01 Louis R. Chênevert	06 Edward A. Kangas	11 H. Patrick Swygert
02 John V. Faraci	07 Charles R. Lee	12 André Villeneuve
03 Jean-Pierre Garnier	08 Richard D. McCormick	13 Christine Todd Whitman
04 Jamie S. Gorelick	09 Harold McGraw III	
05 Carlos M. Gutierrez	10 Richard B. Myers	

2. Appointment of the Firm of PricewaterhouseCoopers LLP as Independent Auditor,

3. Shareowner Proposal Concerning Advisory Vote on Executive Compensation, and

4. Other business if properly raised.

The Board recommends that you vote:

FOR each of the Board s nominees for election as directors,

FOR the appointment of the firm of PricewaterhouseCoopers LLP as Independent Auditor for 2010, and

AGAINST the shareowner proposal.

PLEASE NOTE YOU CANNOT VOTE BY RETURNING THIS NOTICE. To vote your shares you must vote online or request a paper copy of the proxy materials to receive a proxy card. If you wish to attend and vote at the meeting, please bring this notice with you.

TICKET REQUESTS: Since seating at the meeting is limited, we ask that shareowners request a ticket in advance to attend. Please email your request to corpsec@corphq.utc.com or write to the Corporate Secretary, UTC, One Financial Plaza, Hartford, CT 06101.

Here s how to order a copy of the proxy materials and select a future delivery preference:

Paper copies: Current and future paper delivery requests can be submitted via the telephone, Internet or email options below.

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g **Internet** Go to **www.envisionreports.com/UTX.** Click on Cast Your Vote or Request Materials. Follow the instructions to log in and order a paper or email copy of the current meeting materials and submit your preference for email or paper delivery of future meeting materials.

g **Telephone** Call us free of charge at 1-866-641-4276 using a touch-tone phone and follow the instructions to log in and order a paper copy of the materials by mail for the current meeting. You can also submit a preference to receive a paper copy for future meetings.

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To facilitate timely delivery, all requests for a paper copy of the proxy materials must be received by March 31, 2010.