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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

Commission file number 1-812

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

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	**06-0570975** (I.R.S. Employer Identification No.)
One Financial Plaza, Hartford, Connecticut (Address of principal executive offices)	**06103** (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock ($1 par value) (CUSIP 913017 10 9)	**New York Stock Exchange**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☒

Report of Independent Registered Public Accounting Firm

TO THE BOARD OF DIRECTORS AND SHAREOWNERS OF UNITED TECHNOLOGIES CORPORATION:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income, of cash flows and of changes in equity present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Corporation's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut
February 7, 2013

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(DOLLARS IN MILLIONS)	2012 One-Percentage-Point Increase	2012 One-Percentage-Point Decrease
Effect on total service and interest cost	$ 2	$ (2)
Effect on postretirement benefit obligation	71	(60)

ESTIMATED FUTURE BENEFIT PAYMENTS
Benefit payments, including net amounts to be paid from corporate assets and reflecting expected future service, as appropriate, are expected to be paid as follows: $100 million in 2013, $98 million in 2014, $95 million in 2015, $89 million in 2016, $83 million in 2017, and $357 million from 2018 through 2022.

Multiemployer Benefit Plans. We contribute to various domestic and foreign multiemployer defined benefit pension plans. The risks of participating in these multiemployer plans are different from single-employer plans in that assets contributed are pooled and may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Lastly, if we choose to stop participating in some of our multiemployer plans, we may be required to pay those plans a withdrawal liability based on the underfunded status of the plan.

Our participation in these plans for the annual periods ended December 31 is outlined in the table below. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2012 and 2011 is for the plan's year-end at June 30, 2011, and June 30, 2010, respectively. The zone status is based on information that we received from the plan and is certified by the plan's actuary. Our significant plan is in the green zone which represents at least 80 percent funded and does not require a financial improvement plan (FIP) or a rehabilitation plan (RP).

(DOLLARS IN MILLIONS)		Pension Protection Act Zone Status		FIP/ RP Status	Contributions				
Pension Fund	EIN/Pension Plan Number	**2012**	2011	Pending/ Implemented	**2012**	2011	2010	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
National Elevator Industry Pension Plan	23-2694291	**Green**	Green	No	**$ 63**	$ 56	$ 55	No	July 8, 2017
Other funds					**36**	38	35		
					$ 99	$ 94	$ 90		

For the plan years ended June 30, 2011 and 2010, respectively, we were listed in the National Elevator Industry Pension Plan's Forms 5500 as providing more than 5% of the total contributions for the plan. At the date these financial statements were issued, Forms 5500 were not available for the plan year ending June 30, 2012.

In addition, we participate in several multiemployer arrangements that provide postretirement benefits other than pensions, with the National Elevator Industry Health Benefit Plan being the most significant. These arrangements generally provide medical and life benefits for eligible active employees and retirees and their dependents. Contributions to multiemployer plans that provide postretirement benefits other than pensions were $11 million, $10 million and $10 million for 2012, 2011 and 2010, respectively.

Stock-based Compensation. We have long-term incentive plans authorizing various types of market and performance based incentive awards that may be granted to officers and employees. Our Long Term Incentive Plan (LTIP) was initially approved on April 13, 2005 and amended in 2011 to increase the maximum number of shares available for award under the LTIP to 119 million shares. All equity-based compensation awards are made exclusively through the LTIP. As of December 31, 2012, approximately 44 million shares remain available for awards under the LTIP. The LTIP does not contain an aggregate annual award limit. We expect that the shares awarded on an annual basis will range from 1% to 1.5% of shares outstanding. The LTIP will expire after all shares have been awarded or April 30, 2017, whichever is sooner.

Under all long-term incentive plans, the exercise price of awards is set on the grant date and may not be less than the fair market value per share on that date. Generally, stock appreciation rights and stock options have a term of ten years and a minimum three-year vesting period. In the event of retirement, awards held for more than one year become vested and exercisable. LTIP awards with performance-based vesting generally have a minimum three-year vesting period and vest based on performance against pre-established metrics. In the event of retirement, vesting for awards held more than one year does not accelerate, but such awards remain eligible to vest as scheduled based on actual performance relative to target metrics. We have historically repurchased shares of our common stock in an amount at least equal to the number of shares issued under our equity compensation arrangements and will continue to evaluate this policy in conjunction with our overall share repurchase program.

We measure the cost of all share-based payments, including stock options, at fair value on the grant date and recognize this cost in the statement of operations. For the years ended December 31, 2012, 2011 and 2010, $210 million, $221 million and $148 million, respectively, of compensation cost was recognized in operating results. The associated future income tax benefit recognized was $76 million, $75 million and $47 million for the years ended December 31, 2012, 2011 and 2010, respectively.

For the years ended December 31, 2012, 2011 and 2010, the amount of cash received from the exercise of stock options was $381 million, $226 million and $386 million, respectively, with an associated tax benefit realized of $111 million, $101 million and $139 million, respectively. In addition, for the years ended December 31, 2012, 2011 and 2010, the associated tax benefit realized from the vesting of performance share units was $15 million, $19 million and $20 million, respectively. Also, in accordance with the *Compensation—Stock Compensation* Topic of the FASB ASC, for the years ended December 31, 2012, 2011 and 2010, $67 million, $81 million and $94 million, respectively, of certain tax benefits have been reported as operating cash outflows with corresponding cash inflows from financing activities.

At December 31, 2012, there was $185 million of total unrecognized compensation cost related to non-vested equity awards granted under long-term incentive plans. This cost is expected to be recognized ratably over a weighted-average period of 1.9 years.

A summary of the transactions under all long-term incentive plans for the year ended December 31, 2012 follows:

	Stock Options		Stock Appreciation Rights		Performance Share Units		Other
(SHARES AND UNITS IN THOUSANDS)	Shares	Average Price*	Shares	Average Price*	Units	Average Price**	Incentive Shares / Units
Outstanding at:							
December 31, 2011	21,029	$ 47.63	34,038	$ 66.70	2,962	$ 67.31	1,109
Granted	**428**	**75.47**	**7,909**	**74.88**	**1,159**	**74.71**	**467**
Exercised/earned	**(7,546)**	**40.36**	**(2,645)**	**60.70**	**(607)**	**55.82**	**(207)**
Cancelled	**(105)**	**50.93**	**(881)**	**70.88**	**(723)**	**60.03**	**(85)**
December 31, 2012	**13,806**	**$ 52.45**	**38,421**	**$ 68.70**	**2,791**	**$ 74.77**	**1,284**

* weighted-average exercise price

** weighted-average grant stock price

The weighted-average grant date fair value of stock options and stock appreciation rights granted during 2012, 2011 and 2010 was $19.32, $20.26 and $17.86, respectively. The weighted-average grant date fair value of performance share units, which vest upon achieving certain performance metrics, granted during 2012, 2011, and 2010 was $82.15, $87.65 and $78.73, respectively. The total fair value of awards vested during the years ended December 31, 2012, 2011 and 2010 was $187 million, $170 million and $172 million, respectively. The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of stock options and stock appreciation rights exercised during the years ended December 31, 2012, 2011 and 2010 was $370 million, $336 million and $446 million, respectively. The total intrinsic value (which is the stock price at vesting) of performance share units vested was $46 million, $59 million and $62 million during the years ended December 31, 2012, 2011 and 2010, respectively.

The following table summarizes information about equity awards outstanding that are vested and expected to vest and equity awards outstanding that are exercisable at December 31, 2012:

	Equity Awards Vested and Expected to Vest				Equity Awards That Are Exercisable			
(SHARES IN THOUSANDS, AGGREGATE INTRINSIC VALUE IN MILLIONS)	Awards	Average Price*	Aggregate Intrinsic Value	Remaining Term**	Awards	Average Price*	Aggregate Intrinsic Value	Remaining Term**
Stock Options/Stock Appreciation Rights	51,737	$ 63.90	$ 937	5.2	35,142	$ 58.44	$ 828	3.7
Performance Share Units/Restricted Stock	3,645	–	299	1.2				

* weighted-average exercise price per share

** weighted-average contractual remaining term in years

The fair value of each option award is estimated on the date of grant using a binomial lattice model. The following table indicates the assumptions used in estimating fair value for the years ended December 31, 2012, 2011 and 2010. Lattice-based option models incorporate ranges of assumptions for inputs, those ranges are as follows:

	2012	2011	2010
Expected volatility	**30% – 35%**	26% – 32%	24% – 28%
Weighted-average volatility	**30%**	26%	25%
Expected term (in years)	**7.4 – 7.7**	7.5 – 8.0	7.4 – 7.9
Expected dividends	**2.3%**	2.4%	2.7%
Risk-free rate	**0.0% – 2.0%**	0.1% – 3.5%	0.1% – 4.0%

Expected volatilities are based on the returns of our stock, including implied volatilities from traded options on our stock for the binomial lattice model. We use historical data to estimate equity award exercise and employee termination behavior within the valuation model. Separate employee groups and equity award characteristics are considered separately for valuation purposes. The expected term represents an estimate of the period of time equity awards are expected to remain outstanding. The risk-free rate is based on the term structure of interest rates at the time of equity award grant.

NOTE 13: RESTRUCTURING COSTS

During 2012, we recorded net pre-tax restructuring costs totaling $614 million for new and ongoing restructuring actions. We recorded charges in the segments as follows:

(DOLLARS IN MILLIONS)	
Otis	$ 164
UTC Climate, Controls & Security	143
Pratt & Whitney	96
UTC Aerospace Systems	115
Sikorsky	53
Eliminations and other	19
Restructuring costs recorded within continuing operations	590
Restructuring costs recorded within discontinued operations	24
Total	$ 614

The net costs consist of $340 million recorded in cost of sales, $249 million in selling, general and administrative expenses, $1 million in other income, net, and $24 million in discontinued operations. As described below, these charges primarily relate to actions initiated during 2012 and 2011.

2012 Actions. During 2012, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and consolidation of manufacturing operations. We recorded net pre-tax restructuring costs totaling $576 million for restructuring actions initiated in 2012, consisting of $313 million in cost of sales, $236 million in selling, general and administrative expenses, $1 million in other income, net, and $26 million in discontinued operations. Additionally, due to the Goodrich acquisition, we assumed restructuring accruals totaling $19 million.

We expect the actions that were initiated in 2012 to result in net workforce reductions of approximately 7,000 hourly and salaried employees, the exiting of approximately 2.6 million net square feet of facilities and the disposal of assets associated with exited facilities. As of December 31, 2012, we have completed, with respect to the actions initiated in 2012, net workforce reductions of approximately 4,000 employees and 750,000 net square feet of facilities have been exited. We are targeting to complete in 2013 the majority of the remaining workforce and all facility related cost reduction actions initiated in 2012. No specific plans for significant other actions have been finalized at this time.

The following table summarizes the accrual balances and utilization by cost type for the 2012 restructuring actions:

(DOLLARS IN MILLIONS)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total
Net pre-tax restructuring charges	$ 452	$ 14	$ 110	$ 576
Restructuring accruals assumed from Goodrich	19	–	–	19
Utilization and foreign exchange	(182)	(14)	(60)	(256)
Balance at December 31, 2012	**$ 289**	**$ –**	**$ 50**	**$ 339**

The following table summarizes expected, incurred and remaining costs for the 2012 restructuring actions by type:

(DOLLARS IN MILLIONS)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total
Expected costs	$ 475	$ 14	$ 192	$ 681
Costs incurred during 2012	(452)	(14)	(110)	(576)
Remaining costs at December 31, 2012	**$ 23**	**$ –**	**$ 82**	**$ 105**

The following table summarizes expected, incurred and remaining costs for the 2012 restructuring actions by segment:

(DOLLARS IN MILLIONS)	Expected Costs	**Costs Incurred During 2012**	**Remaining Costs at December 31, 2012**
Otis	$ 164	**$ (146)**	**$ 18**
UTC Climate, Controls & Security	164	**(123)**	**41**
Pratt & Whitney	103	**(94)**	**9**
UTC Aerospace Systems	155	**(121)**	**34**
Sikorsky	50	**(47)**	**3**
Eliminations and other	19	**(19)**	**–**
Discontinued operations	26	**(26)**	**–**
Total	$ 681	**$ (576)**	**$ 105**

2011 Actions. During 2012, we recorded net pre-tax restructuring costs totaling $53 million for restructuring actions initiated in 2011, consisting of $33 million in cost of sales, $19 million in selling, general and administrative expenses, and $1 million in discontinued operations. The 2011 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations.

Executive Compensation
Compensation Discussion and Analysis

In this section, we discuss our compensation philosophy and describe the compensation programs for our Chairman & Chief Executive Officer ("CEO") and our senior leadership team. We explain how the Committee on Compensation and Executive Development of our Board ("the Committee") determines compensation for our senior executives and its rationale for specific 2012 decisions. We also discuss recent changes that the Committee made to advance its fundamental objective: aligning our executive compensation program with the long-term interests of UTC shareowners.

EXECUTIVE SUMMARY

Our executive compensation program design incentivizes financial results and effective strategic leadership, the key elements in building sustainable value for shareowners. We believe our program's performance measures align the interests of our shareowners and senior executives by correlating the timing and amount of actual pay to our short-, medium- and long-term performance. Our program places great weight on ethical and responsible conduct in pursuit of these goals.

We actively seek and highly value feedback from shareowners and their advisors concerning our compensation program. Since our last Annual Meeting of shareowners, senior management has personally visited or held telephone conferences with institutional investors holding over 300 million shares of UTC Common Stock.

In addition, we have carefully benchmarked our compensation decisions against an appropriate group of peer companies, each one a potential competitor for the type of executive talent required to manage a complex, global, multi-industrial company like UTC.

In direct response to this year's enhanced shareowner outreach and benchmarking, we have made several significant changes that, in our view, further strengthen the already well-established alignment of executive compensation to the interests of UTC shareowners.

2012 PERFORMANCE

Despite a challenging economic environment, we delivered strong performance in 2012, as reflected in our earnings, cash flow, share price and key strategic accomplishments. Our 2012 compensation decisions reflect these performance factors.

We believe that executive compensation should reflect and reward current fiscal year performance. However, our program prudently accounts for, and indeed emphasizes, long-term financial performance and actions taken by our senior leadership to strategically position UTC for future growth. We focus on sustainable performance and, therefore, allocate a significantly greater portion of compensation to longer-term goals and performance.

Our solid operational and financial progress in 2012 reflects senior leadership's sharp focus on deploying our capital wisely, executing our business strategies effectively and achieving a balanced business mix. This focus enabled us to deliver value to our shareowners, notwithstanding weaker than expected end-market conditions globally, increased pension expense due to low discount interest rates and unfavorable currency exchange rates.

Compensation Discussion and Analysis (continued)

Key Strategic Achievements

- We completed the **$18.3 billion** acquisition of Goodrich Corporation—the largest aerospace acquisition ever. We believe that Goodrich, a global aerospace company with 2011 revenues of $8.1 billion, significantly enhances our reach in the aerospace market with expanded product offerings and increases our long-term growth potential. The increased scale and complementary products resulting from this transformational acquisition significantly advance UTC's aerospace leadership at a time when we believe the commercial aerospace market is poised for growth.
- We transformed the organization of our business units. UTC Propulsion & Aerospace Systems ("PAS"), under Alain Bellemare's leadership, now oversees UTC Aerospace Systems (legacy Hamilton Sundstrand and the newly acquired Goodrich), as well as Pratt & Whitney. This newly integrated organization offers synergy opportunities and the potential to deliver greater value to UTC's customers and shareowners.
- We decided to divest multiple non-core businesses, including the legacy Hamilton Sundstrand Industrial businesses, Pratt & Whitney Rocketdyne, Pratt & Whitney Power Systems, UTC Power and Clipper Windpower. Proceeds from these transactions significantly reduced the debt required to finance the Goodrich acquisition.
- We acquired controlling interest in the IAE International Aero Engines AG collaboration, enhancing Pratt & Whitney's ability to transition existing customers to its new technology Geared Turbofan engines, while securing a larger portion of the aftermarket service business for existing V2500 engines.
- Within our commercial business units, we increased efficiency by combining the Carrier and legacy UTC Fire & Security businesses into the new UTC Climate, Controls & Security ("CCS") organization led by Geraud Darnis. As with the newly created UTC Propulsion & Aerospace Systems business, the combined organization provides opportunities for new synergies.
- We invested more than $2 billion in company-funded research and development.
- We paid down, ahead of schedule, $2 billion in debt incurred in connection with the Goodrich acquisition.

ACQUISITIONS +
Goodrich Corporation
IAE International Aero Engines AG
DIVESTITURES -
Hamilton Sundstrand Industrials
Pratt & Whitney Rocketdyne*
Pratt & Whitney Power Systems*
UTC Power*
Clipper Windpower
Non-core UTC Climate, Controls & Security businesses

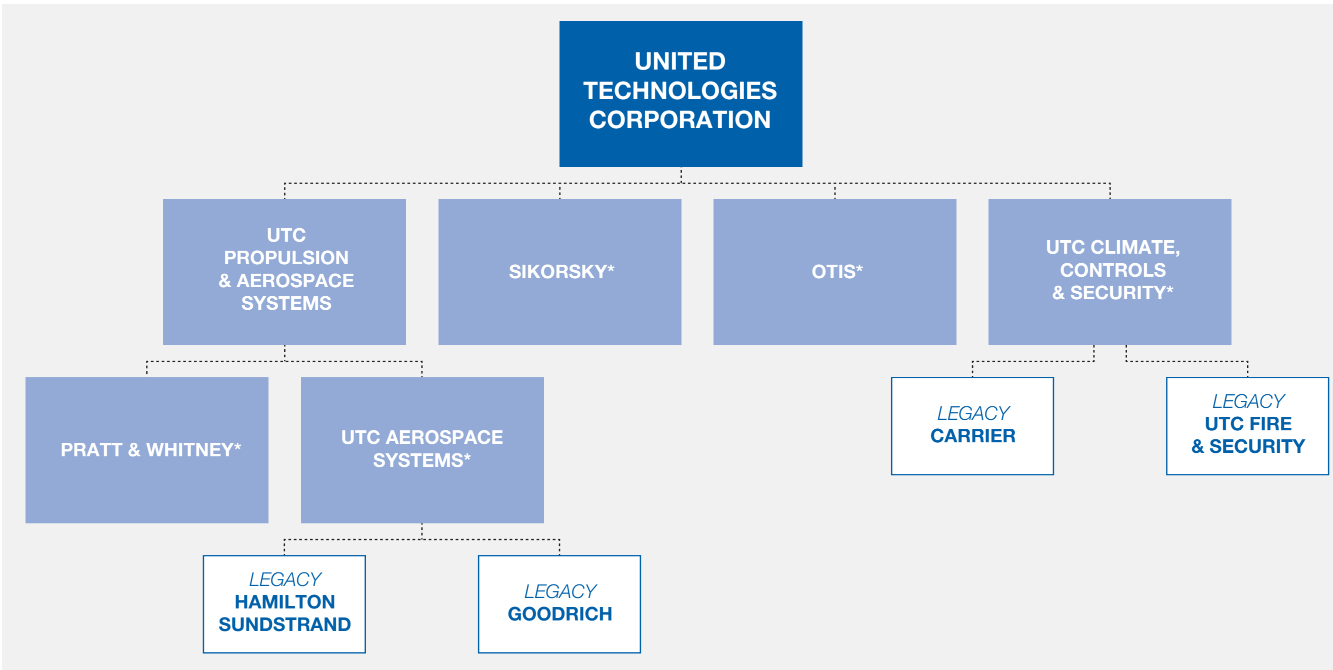
* *UTC has reached agreements to divest these businesses; however, as of 12/31/12, these transactions had not yet closed.*

These strategic transactions further enhance our ability to serve the growing aerospace market, which we expect will generate shareowner value well into the future. We believe that these actions reflect our demonstrated core competency in assessing, buying and integrating businesses. We continually monitor and adjust our business unit portfolio. The Goodrich acquisition resulted directly from this ongoing process. We believe Goodrich presents as compelling an opportunity as the Sundstrand acquisition and merger that led to the formation of Hamilton Sundstrand in 1999. Operating profits of the combined entities have doubled on substantially increased revenues.

Compensation Discussion and Analysis (continued)

TRANSFORMING THE ORGANIZATION: FOCUSING ON THE CORE

The realignment of our core business units over the past two years allows us to take advantage of synergies across our aerospace and commercial businesses. We believe this consolidated organization provides new opportunities to maximize value for our shareowners and our customers.

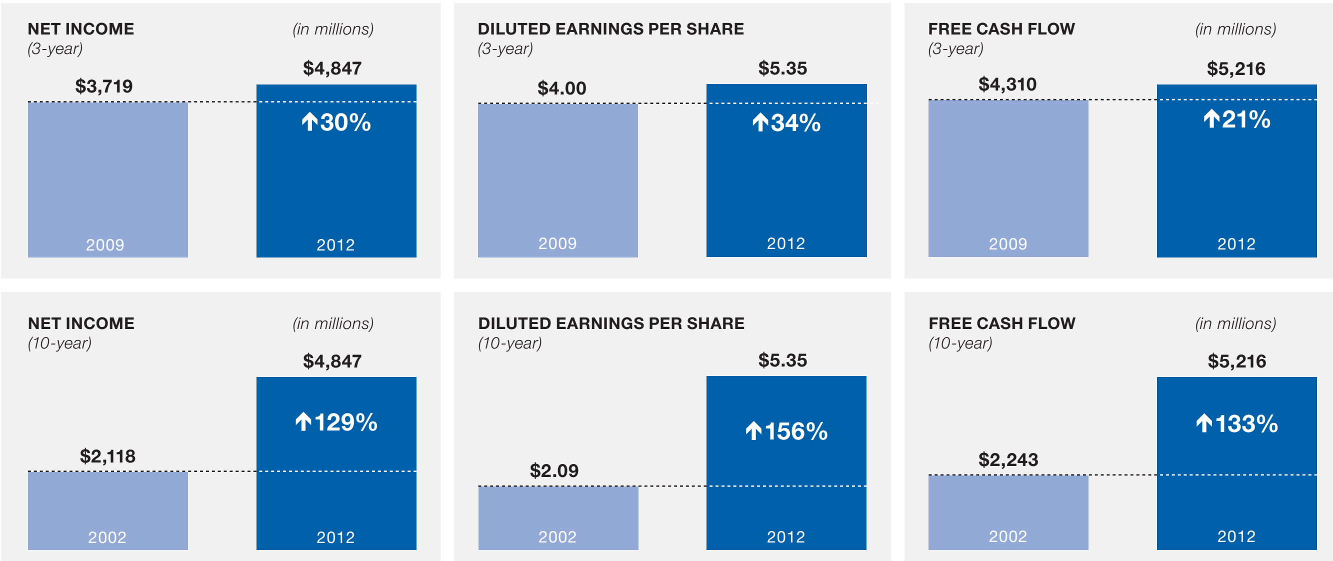


* *Represents principal reporting segments.*

Key Financial Results in 2012

- Sales from continuing operations increased by 4% to $57.7 billion
- Earnings per share equaled $5.35
- $5.2 billion in free cash flow, well in excess of net income
- Dividends paid on UTC Common Stock increased by 11.5%, marking the 76th consecutive year our shareowners have received dividends
- Contributed $430 million to company pension plans. Our 84% funded ratio for U.S. pension obligations exceeds the median for our peer group

FINANCIAL RESULTS (3 AND 10 YEARS)*



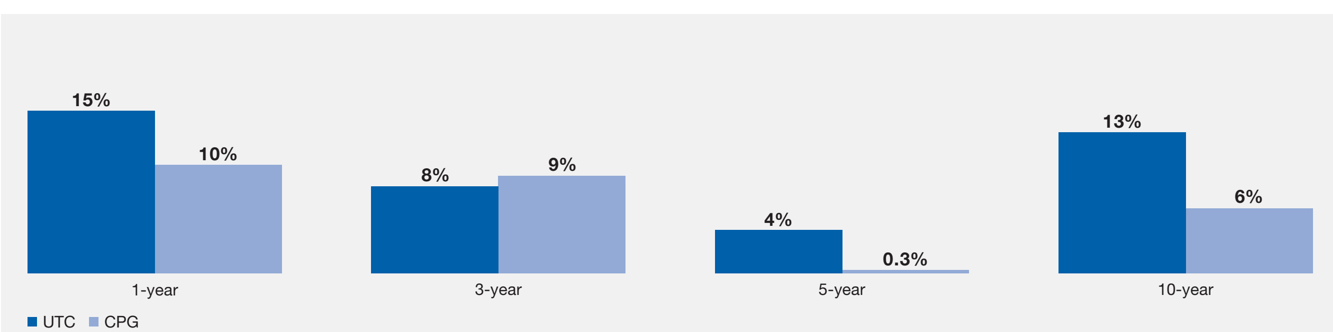
* *For 2012 and 2009, net income and diluted earnings per share metrics reflect continuing operations performance, as reported in the 2012 Annual Report on Form 10-K; 2002 net income and diluted earnings per share represent values reported in the 2002 Annual Report on Form 10-K and have not been adjusted for discontinued operations. For a definition of net income, earnings, free cash flow and other measures used for our incentive compensation plans and for reconciliation from cash flow to free cash flow, refer to page 46 of this Proxy Statement.*

Total Shareowner Return

The Committee considers both year-over-year share price change and increased potential for long-term shareowner value when making compensation decisions. Macroeconomic factors and external market trends can create short-term volatility in share price. However, longer-term total shareowner return ("TSR") is widely recognized by shareowners as an important measure of a company's financial performance and therefore drives a substantial portion of our long-term compensation. Short-term incentives should focus on performance factors within management's more immediate control that are also relevant for purposes of enhancing longer-term shareowner value. Near-term earnings growth and cash flow generation meet these criteria and are significant to shareowners. Accordingly, these performance measures underlie our annual bonus program.

For the ten-year period that ended on December 31, 2012, UTC's 13% annualized TSR significantly outpaced both the Dow Jones Industrials (7%) and the S&P 500 (7%). For 2012, our 15% TSR exceeded the Dow Jones Industrials (10%), while falling slightly below the S&P 500 (16%). The following chart illustrates UTC's TSR performance relative to our Compensation Peer Group (see page 32).

TOTAL SHAREOWNER RETURN: UTC VS. COMPENSATION PEER GROUP*



**TSR values are provided by Standard & Poor's Capital IQ and are calculated on an annualized basis. For the Compensation Peer Group composite values, returns are calculated individually for each company within the peer group, then subsequently a weighted average is applied based on company market capitalization at the beginning of the measurement period.*

RESPONSE TO 2012 SAY-ON-PAY VOTE

Following the 2012 Annual Meeting, we reviewed the results of the shareowner advisory vote on our 2011 executive compensation decisions. Approximately 61% of the total "for" and "against" votes cast supported our executive compensation decisions. This result was well below our 98% favorable vote in 2011. We were disappointed and immediately committed to responding with increased outreach efforts to identify the concerns underlying the reduced favorable vote. We were prepared to listen and respond.

Our Shareowner Outreach

We engaged with a broad cross-section of shareowners to solicit their feedback on UTC's executive compensation programs. We conversed by telephone and in person with institutional shareowners, third-party consultants and proxy advisory firms. Some of our shareowners suggested certain modifications to our compensation programs to further reinforce the link with financial performance.

Following this expanded outreach process, the Committee reviewed an analysis of the following:

- Results of the say-on-pay vote
- Feedback we received during the outreach process
- External market trends and practices
- Staff compensation recommendations responsive to the most recent say-on-pay vote

Changes Made in 2012

After completing our analysis, we took several actions intended to enhance the alignment of our program elements with best practices and investor expectations. We made the following changes:

- **Reduced the long-term incentive award target** for members of the Executive Leadership Group (including all NEOs) from the 65th to the 50th percentile of the CPG
- **Changed the primary financial metric** we use to determine awards under our annual incentive plan from earnings per share to net income, effective January 2013
- **Shifted the earnings per share growth metric** applicable to our performance share unit awards ("PSUs") to a three-year cumulative growth target for awards granted on or after January 1, 2013
- **Eliminated the perquisite allowance** (i.e., 5% of salary) provided to all members of the Executive Leadership Group, prospectively effective February 2013
- **Provided additional information in this Proxy Statement** about how the Committee sets financial targets for our annual and long-term incentive plans
- **Clarified** the relationship between the financial performance expectations announced to investors and the targets we set in our annual and long-term incentive plans

Compensation Discussion and Analysis (continued)

CEO PAY HIGHLIGHTS

Consistent with our core belief that pay for performance drives success, approximately 89% of Mr. Chênevert's 2012 compensation consisted of variable, performance-based annual and long-term incentives. For example, stock appreciation rights ("SARs") with a ten-year term make up a significant portion of Mr. Chênevert's long-term incentives and directly link his long-term financial interests with UTC's long-term TSR.

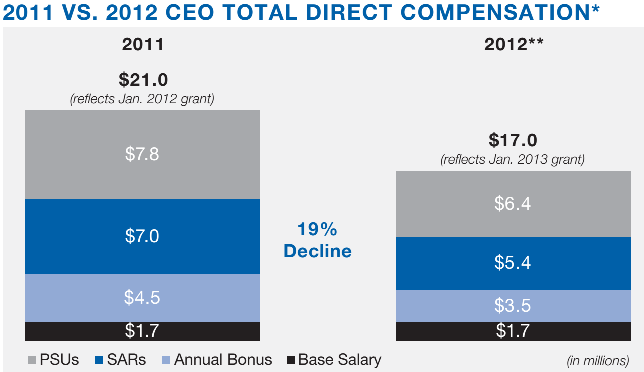
As explained on page 41 of this Proxy Statement, the Committee assessed Mr. Chênevert's 2012 performance favorably. However, based on investor feedback, we benchmarked Mr. Chênevert's 2013 long-term incentive award against the 50th percentile of the CPG rather than the previous 65th percentile target. As shown in the chart below, Mr. Chênevert's 2012 total direct compensation decreased from $21 to $17 million, a 19% reduction from the previous year.

This compensation decrease resulted from the following Committee actions:

- No 2012 base salary increase
- An annual bonus aligned with the Corporation's 2012 financial performance
- A reduction in the value of Mr. Chênevert's most recent long-term incentive grant (made on January 2, 2013), reflecting the Committee's decision to reduce the long-term incentive target for members of the ELG from the 65th to 50th percentile of the CPG

As a result of these actions, Mr. Chênevert's target total direct compensation is now approximately at the median of the market.

2011 VS. 2012 CEO TOTAL DIRECT COMPENSATION*



* *Total direct compensation is described in detail on page 37 of this Proxy Statement.*

** *Reflects the grant date fair value of Mr. Chênevert's 2013 long-term incentive award granted on January 2, 2013, calculated in accordance with FASB ASC Topic 718, but excluding the effects of estimated forfeitures. The grant consists of 284,000 SARs and 69,600 PSUs. The closing price of UTC Common Stock on the date of grant equaled $84.00 per share. SARs have a ten-year term from the date of grant. PSUs are subject to vesting contingent on the achievement of established performance criteria over a three-year performance period ending on December 31, 2015.*

OTHER RECENT CHANGES IN OUR COMPENSATION PRACTICES

We continually monitor evolving governance practices and feedback from our shareowners and make changes on an ongoing basis. In addition to changes made since the last Annual Meeting, we have implemented the following significant program modifications in recent years to keep our program in line with best practices:

Executive Compensation:

- Enhanced our ability to clawback executive compensation awards under our long-term and annual incentive plans in the event of misconduct by extending the time periods subject to clawback and broadening the elements of misconduct
- Adjusted the Compensation Peer Group to further enhance alignment with investor expectations
- Strengthened the link to shareowner value creation by adding performance share units with a relative TSR performance metric
- Increased stock ownership requirements to six times base salary for our CEO and three times base salary for other members of the ELG

Change-in-Control Arrangements:

- Closed the change-in-control severance program to new participants, effective in 2009
- Significantly reduced existing change-in-control benefits by making the following adjustments:
  - Instituted a “double trigger” that generally eliminates benefit eligibility in the event of unilateral resignation
  - Decreased cash severance payments to 2.99 times the sum of base salary and target bonus
  - Removed parachute payment excise tax reimbursements and gross-up payments
  - Eliminated the three-year pension supplement
  - Eliminated the three-year continuation of healthcare and other benefits

Directors’ Compensation:

- Increased the directors’ stock ownership requirements to five times their base annual cash retainer
- Changed directors’ stock-based compensation from stock options to deferred stock units payable only upon retirement

Retirement Programs:

- Eliminated defined benefit pensions for employees hired after January 1, 2010, while providing enhanced UTC Employee Savings Plan benefits
- Announced the sunset of the traditional final average earnings pension formula, effective December 31, 2014, to be replaced by a cash balance formula
- Consistent with the phase-out of traditional pension programs and the implementation of the new account balance approach to retirement design, UTC implemented the Savings Restoration Plan that provides benefits related to compensation above the Internal Revenue Code limit

OUR EXECUTIVE COMPENSATION PHILOSOPHY

Introduction

The Committee believes that executive compensation opportunities must align with and enhance long-term shareowner value. This core philosophy is embedded in all aspects of our executive compensation program and has allowed us to establish an important set of guiding principles. We believe these principles create a meaningful link between compensation outcomes and long-term, sustainable growth for our shareowners.

GUIDING PRINCIPLES

Pay for performance
A substantial portion of compensation should be variable, contingent and directly linked to individual, company and business unit performance.

Shareowner alignment
The financial interests of executives should be aligned with the long-term interests of our shareowners through stock-based compensation and performance metrics that correlate with long-term shareowner value.

Long-term focus
For our most senior executives, long-term stock-based compensation opportunities should significantly outweigh short-term cash-based opportunities. Annual objectives should complement sustainable long-term performance.

Competitiveness
Total compensation should be sufficiently competitive to attract, retain and motivate a leadership team capable of maximizing UTC's performance. Each element should be benchmarked relative to peers.

Balance
The portion of total compensation contingent on performance should increase with an executive's level of responsibility. Annual and long-term incentive compensation opportunities should reward the appropriate balance of short- and long-term financial and strategic business results.

Responsibility
Compensation should take into account each executive's responsibility to act in accordance with our ethical, environmental, health and safety objectives at all times. Financial and operating performance must not compromise these values. The need for complete commitment to ethical and corporate responsibility is a fundamental belief underlying all aspects of our compensation program, from setting targets to conducting annual performance assessments.

HOW WE MAKE COMPENSATION DECISIONS

ROLE OF THE COMMITTEE ON COMPENSATION AND EXECUTIVE DEVELOPMENT

The Committee, which consists of six independent directors, is responsible for overseeing the development and administration of our executive compensation program. The Committee reviews and approves all aspects of our executive compensation program.

In this role, the Committee makes all compensation decisions for our CEO and approves all compensation recommendations for the other members of our Executive Leadership Group ("ELG"). The ELG is made up of approximately 25 to 30 of our most senior executives and includes all the Named Executive Officers ("NEOs").

The Committee's responsibilities include:

- Reviewing and approving incentive plan targets and objectives
- Assessing each ELG member's performance relative to these targets and objectives
- Evaluating the competitiveness of each ELG member's total compensation package
- Approving changes to an ELG member's compensation elements, including base salary and annual and long-term incentive opportunities and awards
- Designing executive compensation plans and programs
- Engaging in an ongoing dialogue with UTC's shareowners regarding executive compensation decisions and policies

The Senior Vice President, Human Resources & Organization, and the Human Resources staff, assist the Committee with these tasks.

The Committee's charter, which sets out its objectives and responsibilities, can be found on our web site at: http://www.utc.com/StaticFiles/UTC/StaticFiles/compensation_charter.pdf

THE COMMITTEE'S PROCESS

The Committee maintains a structured process for the evaluation of Company, CEO and ELG members' performance. At its annual February meeting, the Committee establishes strategic and financial objectives for the CEO for the upcoming year and for a longer-term period. At this meeting, it also evaluates the performance of the CEO and other NEOs.

A combination of qualitative and quantitative factors provides a broad and balanced assessment of performance.

PROCESS FOR PERFORMANCE EVALUATION

INTERNAL PERFORMANCE	EXTERNAL PERFORMANCE
Achievement versus previously established strategic, financial and operational goals	Relative financial performance using key financial metrics and share price performance versus peers over varying time periods

The CEO does not play any role in the Committee's determination of his own compensation. However, he presents the Committee with recommendations for each element of compensation, including the level of base salary and annual and long-term incentive awards for the other members of the ELG, including the NEOs. Mr. Chênevert bases these recommendations upon his assessment of each individual's performance, the performance of his or her respective business unit and/or function, benchmark information and retention risk. The Committee reviews the CEO's recommendations, makes adjustments, as appropriate, and approves compensation changes at its sole discretion, subject to review by the other independent directors.

ROLE OF THE COMPENSATION CONSULTANT

During 2012, the Committee did not rely on an external compensation consultant to determine or recommend the amount or form of senior executive or outside director compensation. We did obtain market data from Towers Watson for benchmarking and other purposes. This benchmark data consists of widely available information that is generally accessible to other Towers Watson clients. Towers Watson did not make recommendations to the Committee or management on peer group composition or on the form, amount or design of executive compensation in 2012.

The Committee decided to retain Pearl Meyer & Partners ("Pearl Meyer") to serve as its executive compensation consultant for 2013. Pearl Meyer reports directly to the Committee, participates in meetings as requested, and communicates with the Committee Chair between meetings as necessary. However, while Pearl Meyer may make recommendations on the form and amount of compensation, the Committee continues to make all decisions regarding the compensation of our NEOs, subject to review by the other independent directors.

Pearl Meyer provides research and analytical services on a variety of subjects, including the compensation of executive officers, non-employee directors' compensation and executive compensation trends. Prior to the engagement, the Committee reviewed the consultant's qualifications, as well as its independence and any potential conflicts of interest. Pearl Meyer does not perform other services for or receive other fees from UTC.

The Committee has the sole authority to modify or approve Pearl Meyer's compensation, determine the nature and scope of their services, evaluate their performance, terminate the engagement and to hire a replacement or additional consultant at any time.

EXECUTIVE COMPENSATION PRACTICES

We strive to maintain sound compensation practices by continually monitoring the evolution of best practices. Here are some of the principal practices that we follow:

OUR COMPENSATION PRACTICES

- **Review of Pay versus Performance.** The Committee continually reviews the relationship of the CEO's compensation to the Company's performance.
- **Rigorous Share Ownership Guidelines.** Share ownership requirements for the CEO are six times base salary, three times base salary for the other NEOs and five times base annual cash retainer for non-employee directors.
- **Review of Compensation Peer Group.** The Committee periodically reviews the CPG and makes adjustments, when appropriate, to further enhance market competitiveness and alignment with investor expectations.
- **No Employment Contracts.** The Committee believes that fixed-term executive employment contracts with contractually guaranteed levels of compensation do not enhance shareowner value. Accordingly, our NEOs do not have employment contracts.
- **No Pledging of Shares.** Pledging of UTC shares as collateral for loans or any other purpose is prohibited.
- **No Hedging.** Directors and employees may not enter into short sales or purchase put or call options on UTC Common Stock.
- **No Repricing or Underwater Cash Buyouts.** SARs and stock option exercise prices are set at the grant date market price and may not be reduced (except to adjust for stock splits or similar transactions) without shareowner approval. In addition, our plans prohibit executives from selling their interest in any equity incentive awards.
- **No Perquisite Allowances.** The Committee has reduced the perquisite allowance by 60% over the years to 5% of base salary. The perquisite allowance has been eliminated prospectively, except for the continuation of the executive leased-vehicle program.
- **Clawback of Compensation.** We have broadened the definition of "misconduct" and extended the time period covered under our clawback policy.
- **Review and Amend Charter.** The Committee reviews its charter regularly to incorporate best in class governance practices.
- **Use of Double Triggers.** Effective 2009, all change-in-control severance arrangements for ELG members have double rather than single triggers. This means that a change-in-control will not automatically entitle an executive to severance. The executive must lose his or her job or suffer a significant adverse change to employment terms and conditions following a change-in-control to qualify for this benefit.
- **No New Change-in-Control Arrangements.** Effective 2009, change-in-control arrangements are no longer provided to new Executive Leadership Group members.
- **No Tax Gross-Ups.** UTC no longer provides excise tax reimbursements and gross-ups in the event of a change-in-control.
- **No Continuation of Retirement and Healthcare Benefits.** Effective 2009, UTC eliminated the three-year continuation of retirement and healthcare benefits that was previously a feature of our change-in-control arrangements.

Compensation Discussion and Analysis (continued)

COMPETITIVE POSITIONING

PEER GROUP BENCHMARKING

To evaluate market competitiveness, we compare our compensation program to compensation at the 24 companies that make up our Compensation Peer Group ("CPG"). These companies provide a relevant comparison based on their similarity to us in size and complexity, taking into account factors such as their revenues, market capitalization, global scope of operations and diversified product portfolios. Like UTC, 13 of these 24 companies are Dow Jones Industrial Average components. This year we determined that our increased revenues and expanded business operations, resulting from the Goodrich acquisition, warranted the substitution of two larger companies, FedEx Corp. and Siemens AG, in place of two smaller companies, International Paper Co. and Tyco International, Inc. Siemens AG's product portfolio, global reach and size all parallel UTC's. FedEx Corp., like UTC, is a Fortune 100 company with broad service offerings. For compensation benchmarking purposes, the Committee believes that a mix of both industry and non-industry peers provides a balanced and realistic perspective on competition for the pool of potential senior executive talent.

In addition to the CPG data, we look at other Fortune 100 companies and a broader sample of over 400 companies. This information provides useful insight on compensation trends and supplements CPG data, when appropriate.

We do not use the CPG as a benchmark for our financial performance targets because the evaluation of corporate financial performance involves different factors than compensation measurements relevant to competition for executive talent.

The Compensation Peer Group includes the following companies:

	COMPENSATION PEER GROUP		
	3M Co.*	FedEx Corp.	Johnson Controls, Inc.
	AT&T Inc.*	General Dynamics Corp.	Lockheed Martin Corp.
	Boeing Co.*	General Electric Co.*	Northrop Grumman Corp.
	Caterpillar Inc.*	Hewlett-Packard Co.*	Pfizer Inc.*
	Deere & Co.	Honeywell International Inc.	Procter & Gamble Co.*
	Dow Chemical Co.	Intel Corp.*	Siemens AG
	E. I. duPont de Nemours & Co.*	IBM Corp.*	Raytheon Co.
	Emerson Electric Co.	Johnson & Johnson*	Verizon Communications Inc.*
	Revenue** *(in millions)*	**Market Capitalization**** *(in millions)*	**Employees****
25th Percentile	$35,505	$29,609	91,069
50th Percentile	$55,064	$53,346	127,000
75th Percentile	$88,187	$138,780	198,003
UTC	$57,708	$75,356	218,300
UTC Rank	**54%**	**63%**	**77%**

* *Included in the Dow Jones Industrial Average as of 12/31/2012.*

** *Peer company data provided by Standard & Poor's Capital IQ based on the most recent publicly available information (as of February 19, 2013), with adjustments by Standard & Poor's in several cases related to non-operating income or expense, equity in earnings of unconsolidated subsidiaries, interest income, and non-recurring special items such as discontinued operations or gains on the sale of securities.*

CHANGES IN COMPENSATION BENCHMARKS

We believe that the value of each UTC compensation element should be targeted to align with market practice.

Historically, we have targeted our base salary and annual bonus at the median of the CPG, while maintaining a 65th percentile CPG target for long-term incentive awards. However, in response to investor feedback and to better align with competitive market practice, the Committee reduced the long-term incentive target from the 65th to the 50th percentile of the CPG, effective October 2012. Going forward, including for the January 2013 grants, the long-term incentive award target for ELG members will be the 50th percentile of the CPG.

	CPG TARGETS: 2012 VERSUS 2013	
	2012	2013
Base Salary	50th Percentile	50th Percentile
Annual Bonus	50th Percentile	50th Percentile
Long-Term Incentives	65th Percentile	50th Percentile

Individual awards will fall above or below these targets, based on factors such as company and individual performance, job scope, retention risk and other factors that the Committee, in its discretion, determines to be relevant and consistent with program objectives.

HOW WE STRUCTURE OUR COMPENSATION

The following elements make up our compensation program:

PRINCIPAL ELEMENTS OF COMPENSATION

Element	Form
Base Salary	Cash
Annual Incentives	Cash
Long-Term Incentives	Performance Share Units *(50% of total annual grant value)* Stock Appreciation Rights *(50% of total annual grant value)*
Retirement	Pension Supplemental Pension 401(k) Savings Plan Supplemental Savings Plan

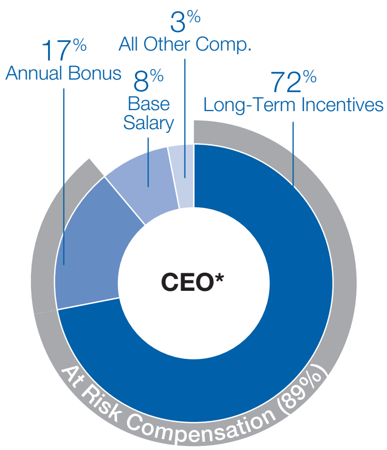
EMPHASIS ON CONTINGENT COMPENSATION

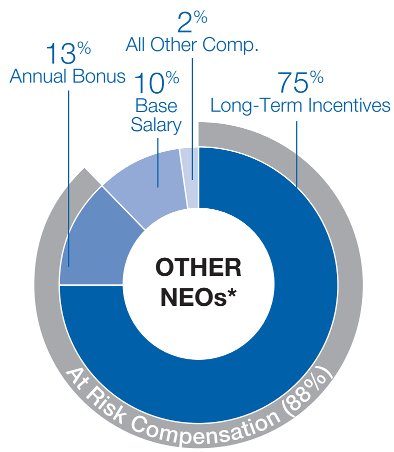
The total compensation of each NEO and other ELG members is substantially contingent on performance. The Committee selects individual and business performance metrics designed to link actual compensation amounts with factors that contribute to shareowner value.

Fixed compensation elements, such as base salary, pension and other benefits, are designed to be sufficiently competitive for recruitment and retention purposes. However, these fixed elements make up a relatively small portion of total executive compensation.

The following charts illustrate the basic pay mix for our CEO and our other NEOs:

PAY MIX



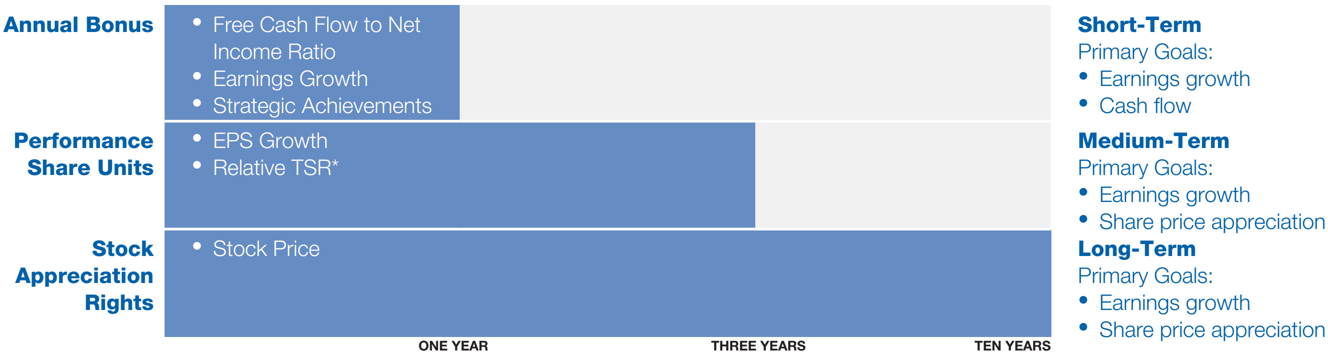


**For both pay mix charts, base salary, annual bonus, long-term incentives and all other compensation elements are disclosed in the Summary Compensation Table on page 52.*

LINKING PAY TO PERFORMANCE

The Committee uses a combination of metrics and time horizons to promote and reward superior financial performance.

PERFORMANCE METRICS AND TIME HORIZONS



**TSR, as calculated by Standard & Poor's, is based on the November/December average closing stock prices immediately prior to, and at the conclusion of, the three-year performance cycle.*

HOW WE SET OUR FINANCIAL TARGETS

Each year we establish financial and strategic objectives with quantitative targets that determine annual and long-term incentive award opportunities for ELG members. We strive to set financial targets that are both challenging and realistic.

Annual Incentive Plan

In 2012, our annual incentive plan incorporated two quantitative performance measures: (1) earnings versus a pre-established target; and (2) the ratio of free cash flow to net income. The Committee sets both these performance targets to align with the financial performance expectations we publicly communicate to investors each December with respect to the upcoming year. We typically set the target for earnings per share at the midpoint of the range communicated to investors. We believe this methodology represents a fair and reasonable target that aligns appropriately with our business plan for the year. Linking our bonus target to the performance range we publicly provide to our investors ensures a reasonable and challenging bonus opportunity.

Our earnings per share expectations provide investors with management's assessment of both the opportunity and the risks for the upcoming year. In addition, these expectations provide a credible and reliable basis for setting the annual bonus target. The quality of our investor relations function has been regularly recognized by *Institutional Investor* magazine. We believe our long track record of transparency should give investors added confidence in our process of establishing annual bonus financial targets to align with the expectations we communicate to our shareowners.

For 2013, the Committee changed the earnings metric from earnings per share to net income. The net income calculation differs from earnings per share in that it is not affected by the Company's share repurchases. The Committee believes that net income, while highly correlated with EPS, better measures the operating performance of the Company.

Long-Term Incentive Plan

In the Committee's view, both absolute and relative metrics are relevant for the Corporation's long-term incentive plan. For that reason, in determining PSU awards, we employ both an earnings growth metric based on the Company's absolute performance and a total shareowner return metric based on our performance relative to the S&P 500. Each metric receives a 50% weighting.

Beginning in 2013, the Committee elected to shift back to a cumulative three-year earnings growth performance target, based upon our three-year strategic business plan. Driven by the recession that began in 2008, unpredictable and volatile macroeconomic factors created difficulty in setting three-year cumulative earnings growth targets. As a result, for PSU grants made over the past three years, earnings growth targets had been set in one-year increments. The Committee now believes that a challenging, attainable and reliable cumulative three-year earnings target can once again be set. This change aligns with feedback we received from our investors.

With the transition to a three-year cumulative EPS growth measurement period, awards granted in January 2012 will be measured in two segments. One-third of the EPS portion of the award will vest contingent upon UTC's 9% 2012 EPS growth target. The remaining two-thirds of the EPS portion of the award will vest based upon UTC's 10% two-year cumulative EPS growth target for the period from January 1, 2013 to December 31, 2014.

For the total shareowner return metric, we believe that a median level of performance versus the S&P 500 should equate to a median level of long-term compensation. By design, below-median TSR relative to the S&P 500 results in below-median compensation and above-median TSR results in above-median compensation.

2012 FINANCIAL PERFORMANCE ASSESSMENT

Annual Incentive Plan

When the Committee set the 2012 bonus targets in December 2011, an agreement to acquire Goodrich had been announced, but regulatory approval was still pending. Because the acquisition would materially affect 2012 financial performance, two different targets were established, one to apply if the Goodrich acquisition closed, and the other if it did not close. The Committee approved an earnings per share target of $6.00 to apply if the Goodrich acquisition did not close. Alternatively, the Committee also approved an earnings per share target for the annual incentive plan of $5.50, to account for the $0.50 per share expected dilution associated with the targeted mid-year closing of the Goodrich acquisition. While the Committee traditionally sets targets to align with the midpoint of the range communicated to investors each December for the upcoming year, for 2012 the Committee selected earnings per share targets equal to the high end of the ranges communicated to investors.

During 2012 we approved plans for the divestiture of several non-core businesses to help fund the Goodrich acquisition and sharpen our focus on our core businesses. The aggregate size of these divestitures was significant. For that reason, certain of these businesses were then accounted for as "discontinued operations" during the divestiture process. In order to more accurately evaluate 2012 financial performance, the Committee determined that earnings per share from continuing operations was a more appropriate measure of performance for the annual incentive plan. Accordingly, the 2012 earnings per share target from continuing operations (adjusted for Goodrich) for the annual incentive plan equaled $5.28. 2012 actual earnings per share from continuing operations were $5.35, well in excess of target.

For the individual business units, the Committee approved earnings growth targets ranging between 1% and 12% based on the assessment of each business unit's end-market conditions and specific challenges.

Also at the December 2011 meeting, consistent with past practice, the Committee approved a target of 100% free cash flow to net income as a multiplier of the earnings growth metric. Similar to our earnings growth target, the 100% free cash flow to net income target aligns with the expectations we communicated to investors in December 2011 for the upcoming year. We believe cash flow performance correlates with the quality and sustainability of earnings performance. 2012 free cash flow to net income equaled 108%.

Long-Term Incentives

At the end of 2011, the earnings per share expectations for 2012 that we announced to investors were in the range of $5.80 – $6.00 (excluding the impact of the potential Goodrich acquisition) and $5.30 – $5.50 (including the impact of the potential Goodrich acquisition). The Committee selected the high end of this range as the basis for its 2012 earnings per share target. As discussed above, we subsequently adjusted this EPS target for the annual incentive plan to $5.28 to exclude the results of discontinued operations. This target was also approved for the 2012 performance measurement periods within our 2010, 2011 and 2012 PSU grants.

In 2012, performance share units granted in 2010 under our long-term incentive plan vested at 97% of target. We believe this below target award level accurately aligns the compensation our executives actually received with the financial performance of the Company over this three-year period. See page 47 for a detailed discussion of PSU vesting targets.

HOW WE LOOK AT ANNUAL COMPENSATION

The Committee considers multiple criteria in reviewing annual CEO and NEO compensation:

- Total compensation, as reported in the Summary Compensation Table (see page 52)
- Total direct compensation
- Realizable compensation

How Total Direct Compensation Differs from the Summary Compensation Table

Total direct compensation includes base salary, annual bonus and long-term incentive awards. It excludes changes in pension value, non-equity incentive payouts related to prior awards and performance periods, and fixed compensation arrangements, such as Company 401(k) matching contributions. These elements have little relevance to 2012 company or individual performance or any of the Committee's 2012 compensation decisions. Excluding these elements, therefore, renders a more accurate and current assessment of executive compensation at UTC.

CEO TOTAL DIRECT COMPENSATION VS. SUMMARY COMPENSATION TABLE (2012)

Compensation Element	2012 Summary Compensation Table *(in thousands)*	2012 Total Direct Compensation *(in thousands)*
Salary	$1,700	$1,700
Annual Bonus	$3,500	$3,500
Stock Awards	$7,804 *(1/3/12 grant date)*	$6,381 *(1/2/13 grant date)*
SAR Awards	$7,029 *(1/3/12 grant date)*	$5,387 *(1/2/13 grant date)*
Non-Equity Incentive Compensation	$1,186	N/A
Change in Pension Value	$5,772	
All Other Compensation	$571	
Total	**$27,562**	**$16,968**

As the table makes clear, total direct compensation differs materially from total compensation reported in the Summary Compensation Table for the following reasons:

Stock / SAR Awards. Under the total direct compensation approach, the long-term incentive award that Mr. Chênevert received on January 2, 2013 related directly to the Committee's evaluation of his 2012 performance. The Summary Compensation Table, while in compliance with SEC rules, reports awards in the year they are granted. In our case, this reflects the Committee's evaluation of 2011 performance. The Committee assessed Mr. Chênevert's performance in December 2012 based upon that year's known financial, operational and strategic results. This performance assessment, in conjunction with the Committee's recently adopted CPG median long-term incentive target, resulted in an $11.8 million award, which is approximately a 21% reduction from the prior year's award.

Non-Equity Incentive Compensation. The approximately $1.2 million disclosed in the Summary Compensation Table reflects cash payments under a performance plan that concluded in 2005. The performance measurement period for payments under that program ended in 2007. When setting 2012 performance-based compensation for the CEO, we do not consider cash payments from a legacy program that was retired many years ago to be relevant. All payments under this terminated program will cease on or before December 31, 2014. We also note that these payments are based upon UTC Common Stock dividends and are contingent on holding, rather than exercising, vested stock options.

Change in Pension Value. The Committee reviews the CEO's pension each year but does not consider annual changes in pension value when determining his annual total direct compensation for several reasons. First, the current low interest rate environment inflates the present value of Mr. Chênevert's pension, as reported in the Summary Compensation Table. Second, Mr. Chênevert participates in a broad-based pension plan with the same benefit formula applicable to all U.S. salaried employees. This pension plan is not related to our executive compensation program and does not measure individual or company performance. Furthermore, we are phasing out our current final average earnings pension formula and, effective December 31, 2014, replacing it with a cash balance formula. This will reduce the CEO's future pension opportunity by approximately $10 million. In addition, Mr. Chênevert's annual change in pension value will drop significantly beginning in 2013 and even more so in 2014 and 2015 following the replacement of the final average earnings pension formula. While Mr. Chênevert's 2012 change in pension value reported in the Summary Compensation Table approximates $5.8 million, for 2013 we estimate that this value will drop to $3.05 million and to less than $3 million in 2014. Our pension plan design and formulas put us at the median of pension arrangements among our peer group.

How Realizable Compensation Differs from the Summary Compensation Table

The values reported in our Summary Compensation Table and total direct compensation include the estimated value of long-term incentive awards at the time of grant. This estimated value often differs significantly from the values ultimately received by our senior executives. To assess our pay for performance alignment, we look at realizable compensation, which reflects the actual current value of outstanding long-term incentive awards from prior years.

Realizable compensation provides clarity on how compensation outcomes are influenced by company performance. This is particularly important at UTC because equity-based awards account for the most significant portion of the total compensation of our CEO and other executive officers. Because the Committee believes that long-term, equity-based compensation drives long-term growth, consideration of actual and potential values realizable from awards granted in prior years is a highly relevant factor in assessing the effectiveness of our compensation program's continued ability to align with our shareowners' long-term interests.

CEO REALIZABLE COMPENSATION (2010—2012)

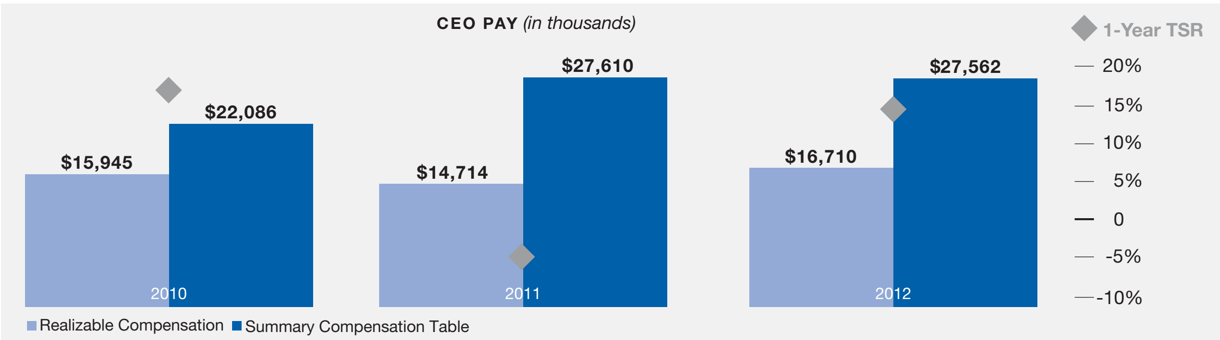
(in thousands)	2010	2011	2012
Salary	$1,448	$1,569	$1,657
Annual Bonus	$2,900	$3,400	$4,000
Long-Term Incentives			
Option / SAR Awards	$5,387	$2,795	$2,266
PSU Awards	$4,742	$5,516	$7,364
Total Long-Term Incentives	**$10,129**	**$8,311**	**$9,630**
Non-Equity Incentive Compensation	$1,299	$1,252	$1,220
Total Realizable Direct Compensation	**$15,776**	**$14,532**	**$16,507**
Other Compensation	$169	$182	$203
Total Realizable Compensation	**$15,945**	**$14,714**	**$16,710**

	Definitions
Salary	Average annual base salary for the year shown and the preceding two years.
Annual Bonus	Average annual bonus for the year shown and the preceding two years.
Option / SAR Awards	The average annual in-the-money value of options and SAR awards *(vested and unvested)* granted during the prior three fiscal years, calculated based on the stock price at the end of the third year.
PSU Awards	The average annual value of vested and unvested PSU awards granted in the prior three fiscal years, calculated based on the stock price at the end of the third year. For the completed three-year performance cycles, the calculation is based on the actual number of shares vested. For the two uncompleted three-year performance cycles, the calculation assumes that the target number of shares is earned. (See table below.)
Non-Equity Incentive Compensation	Average annual value of cash dividend equivalents, paid over the prior three fiscal years, on awards granted prior to 2006 under the legacy Continuous Improvement Incentive Plan. This legacy program will expire in 2014.
Other Compensation	Average annual value of other direct compensation for the year shown and the preceding two years. Excludes indirect compensation elements, such as life insurance premiums, company contributions to the UTC 401(k) and Savings Restoration Plan and changes in pension value.

Grant Date	Actual Shares Vested	Vesting *(as % of target)*
1/2/2008	44,806	86%
1/2/2009	51,510	51%
1/4/2010	84,390	97%
1/3/2011	Awards not yet vested;	
1/3/2012	target number of shares reflected	

CEO REALIZABLE COMPENSATION VS. SUMMARY COMPENSATION TABLE

The following chart compares the 2010, 2011 and 2012 CEO Summary Compensation Table values versus realizable compensation values. Over the past three years, the correlation between realizable compensation and TSR has been stronger than the correlation between Summary Compensation Table values and TSR.



PAY DECISIONS FOR NAMED EXECUTIVE OFFICERS (NEOs)

In this section, we review and explain specific NEO compensation decisions.

LOUIS CHÊNEVERT, CHAIRMAN & CHIEF EXECUTIVE OFFICER

Mr. Chênevert's total direct compensation for 2012 equaled $17 million, a 19% decrease from total direct compensation earned in 2011. Our 2012 performance was strong from multiple perspectives, including financial, operational and strategic. The decrease in total direct compensation is explained primarily by the Committee's decision to reduce the CEO's long-term incentive target from the 65th to the 50th percentile of the CPG. As discussed earlier, this decrease is not reflected in the Summary Compensation Table.

CEO TOTAL DIRECT COMPENSATION

Compensation Element	Year-End Decisions *(in millions)*	
	2011	**2012**
Base Salary • No increase in 2012	$1.7	$1.7
Annual Incentive Award • 2012 performance generated a bonus opportunity equal to 123% of target	$4.5	$3.5
Long-Term Incentive Awards • Stock Appreciation Rights • Performance Share Units • Year-over-year reduction driven by shift from 65th to 50th percentile benchmark	*Reflects 1/3/12 Grant* $7.0 SARs + $7.8 PSUs **$14.8 Total**	*Reflects 1/2/13 Grant* $5.4 SARs + $6.4 PSUs **$11.8 Total**
Total	**$21.0**	**$17.0**

Mr. Chênevert's performance assessment was conducted by the Lead Director of our Board and subsequently reviewed with the entire Board. The evaluation included a review of UTC's performance relative to the annual incentive plan's EPS growth and free cash flow to net income targets (see page 36), as well as individual performance and leadership.

With respect to performance metrics, UTC achieved EPS of $5.35 versus a target of $5.28. The ratio of free cash flow (see page 46 to see how we compute free cash flow) to net income equaled 108%. In combination, these performance factors generated a Corporate Office financial performance factor of 123%.

Significant strategic accomplishments led to a highly favorable assessment of Mr. Chênevert's individual performance in 2012. UTC successfully closed the Goodrich acquisition and has demonstrated exceptional execution in the integration process. Goodrich and Hamilton Sundstrand are organized under UTC Aerospace Systems ("UTAS"). This new structure has facilitated the integration of these businesses, with fourth quarter results already showing meaningful realization of synergies from this combination. Under Mr. Chênevert's leadership, the decision to divest multiple non-core businesses increased our focus on our most significant businesses. Proceeds from these sales accelerated the reduction of debt associated with the Goodrich acquisition and reduced the dilutive impact to our shareowners, thereby enhancing future earnings potential.

Strategic vision and achievements were not limited to the aerospace side. The newly formed UTC Climate, Controls & Security ("CCS") organization integrates Carrier and the UTC Fire & Security businesses under a single senior management team with significant efficiencies and a more coordinated approach to our markets. Realigning UTC's business units in a fundamental way, through UTAS and CCS, demonstrates long-term vision. In the Committee's view, this is the same type of long-term vision and leadership that led to the development and commercial acceptance of the Geared Turbofan engine ("GTF"). Portfolio transformation was the single most significant factor underlying the Committee's favorable assessment of CEO performance in 2012. In recognition of these achievements, and in combination with the EPS and free cash flow to net income performance discussed above, the Committee awarded Mr. Chênevert a $3.5 million bonus for 2012 which aligns substantially with the Corporate Office's financial performance factor of 123%.

OTHER NAMED EXECUTIVE OFFICERS

We base compensation decisions for all NEOs on their individual performance, as well as the overall performance of the Company and of their business units, if applicable. After reviewing these factors, the Committee determines each NEO's award under the annual and long-term incentive plans and also sets NEO salaries for the upcoming year.

2012 NEO TOTAL DIRECT COMPENSATION

The following table summarizes the Committee's decisions for the 2012 performance year. Unlike the Summary Compensation Table, which includes the long-term incentive awards granted in 2012, the total direct compensation shown in the table below includes the most recent long-term incentive awards granted in January 2013. These 2013 awards reflect the Committee's evaluation of 2012 performance:

Compensation Element *(in thousands)*	Hayes	Darnis	Bellemare	Hess
Base Salary	$840	$930	$725	$650
Annual Bonus Award	$1,200	$1,250	$1,150	$600
Stock Appreciation Rights	$2,030	$2,001	$1,906	$1,413
Performance Share Units	$2,402	$2,374	$2,264	$1,668
Total Direct Compensation	**$6,472**	**$6,555**	**$6,045**	**$4,331**

Gregory Hayes, Senior Vice President & Chief Financial Officer

Mr. Hayes received a $1.2 million annual incentive award. This award equaled 129% of his calculated 2012 annual bonus opportunity, slightly above the Corporate Office financial performance factor. The individual performance factors the Committee considered in determining this award were:

- His key role in the acquisition of the Goodrich Corporation and the sale of several non-core UTC businesses, with the proceeds used to reduce equity issuance associated with the Goodrich acquisition.
- His recognition by *Institutional Investor* magazine as the best Chief Financial Officer in the aerospace and defense sector.
- His leadership in the issuance of approximately $16 billion in debt and short-term borrowings to finance the Goodrich transaction.
- His key role in delivering EPS of $5.35 with free cash flow in excess of net income.
- His effective supervision of our internal financial and accounting functions and adoption of emerging accounting and financial reporting standards.

Mr. Hayes' annual bonus is based on his individual performance and the overall financial performance of United Technologies. UTC's performance yielded a financial performance factor of 123%.

In 2012, Mr. Hayes also received a salary increase from $800,000 to $840,000 to better align with competitive market practice.

Geraud Darnis, President & Chief Executive Officer, UTC Climate, Controls & Security

Mr. Darnis received a $1.25 million annual bonus award. This award equaled 113% of his calculated 2012 annual bonus opportunity. The individual performance factors the Committee considered in determining this amount were:

- His leadership in driving the business transformation of UTC Climate, Controls & Security ("CCS") in 2012.
- His efforts in the successful divestiture of several non-core businesses.
- His leadership in the successful launch of several new products.
- His progress in the area of talent management, including a significant rebalancing of the leadership team to further support CCS' growth in emerging markets.
- His continued role as a global leader in the areas of energy efficiency and green buildings.

Mr. Darnis' annual bonus is based on his individual performance, the financial performance of UTC Climate, Controls & Security and the overall financial performance of United Technologies. UTC's performance yielded a financial performance factor of 123% and CCS' financial performance yielded a factor of 115%. This performance, combined with his strong individual performance, yielded Mr. Darnis an above-target bonus.

Mr. Darnis also received a salary increase in 2012 from $900,000 to $930,000 to better approximate his salary with the peer group median.

Alain Bellemare, President & Chief Executive Officer, UTC Propulsion & Aerospace Systems

Mr. Bellemare received a $1.15 million annual incentive award. This award was equal to 140% of his calculated 2012 annual bonus opportunity. The individual performance factors the Committee considered in determining this award were:

- His leadership in the successful acquisition and subsequent integration of the Goodrich Corporation.
- His leadership in the acquisition of Rolls-Royce plc.'s share of IAE International Aero Engines AG.
- His instrumental role in the creation of UTC Propulsion & Aerospace Systems ("PAS"), which comprises Pratt & Whitney, legacy Hamilton Sundstrand and the newly acquired Goodrich.
- His progress in the area of talent management, including overseeing the successful integration of the legacy Hamilton Sundstrand and legacy Goodrich leadership teams.
- His leadership in the successful divestiture of the legacy Hamilton Sundstrand Industrial businesses for proceeds in excess of $3 billion.

Mr. Bellemare's annual bonus is based on his individual performance, the financial performance of UTC Propulsion & Aerospace Systems and the financial performance of United Technologies. UTC's performance yielded a financial performance factor of 123%, as discussed previously. PAS' performance yielded a financial performance factor of 103%. This performance, combined with his exceptional individual performance, yielded an above-target bonus.

Also in 2012, Mr. Bellemare received a salary increase from $675,000 to $725,000 to better align his salary with competitive market practice.

Mr. Bellemare's leadership will be key to the successful integration of Pratt & Whitney and UTAS under the newly formed PAS organization. The Committee awarded Mr. Bellemare a special grant of performance-based SARs, as set forth in the Summary Compensation Table and Grants of Plan-Based Awards table on pages 52 and 55. Vesting is contingent on performance metrics directly related to PAS' and UTAS' financial performance.

David Hess, President, Pratt & Whitney

Mr. Hess received a $600,000 annual bonus award. This award equaled 106% of his calculated 2012 annual bonus opportunity. The individual performance factors the Committee considered in determining this amount were:

- His leadership in growing orders for the Geared Turbofan engine, which has now received nearly 3,000 firm and option orders.
- His efforts in the pending divestitures of Pratt & Whitney Rocketdyne and Pratt & Whitney Power Systems.
- His role in the successful acquisition of the controlling interest in the IAE International Aero Engines AG collaboration.
- His leadership in driving Pratt & Whitney's 10% sales growth.
- His leadership in serving as the Chairman of the Aerospace Industries Association ("AIA").

Mr. Hess' annual bonus is based on his individual performance, the financial performance of Pratt & Whitney and the overall financial performance of United Technologies. UTC's performance yielded a financial performance factor of 123% and Pratt & Whitney's performance yielded a financial performance factor of 70%. This performance combined with his strong individual performance yielded an above-target bonus.

Mr. Hess also received a salary increase in 2012 from $625,000 to $650,000 to better approximate his salary with the peer group median.

As President of Pratt & Whitney, Mr. Hess will play a key role in the future success of the PAS organization. The Committee granted Mr. Hess a special award of performance-based SARs, as set forth in the Summary Compensation Table and the Grants of Plan-Based Awards table on page 52 and 55. Vesting is contingent on financial metrics directly related to Pratt & Whitney's financial performance.

OUR COMPENSATION PROGRAMS IN DETAIL

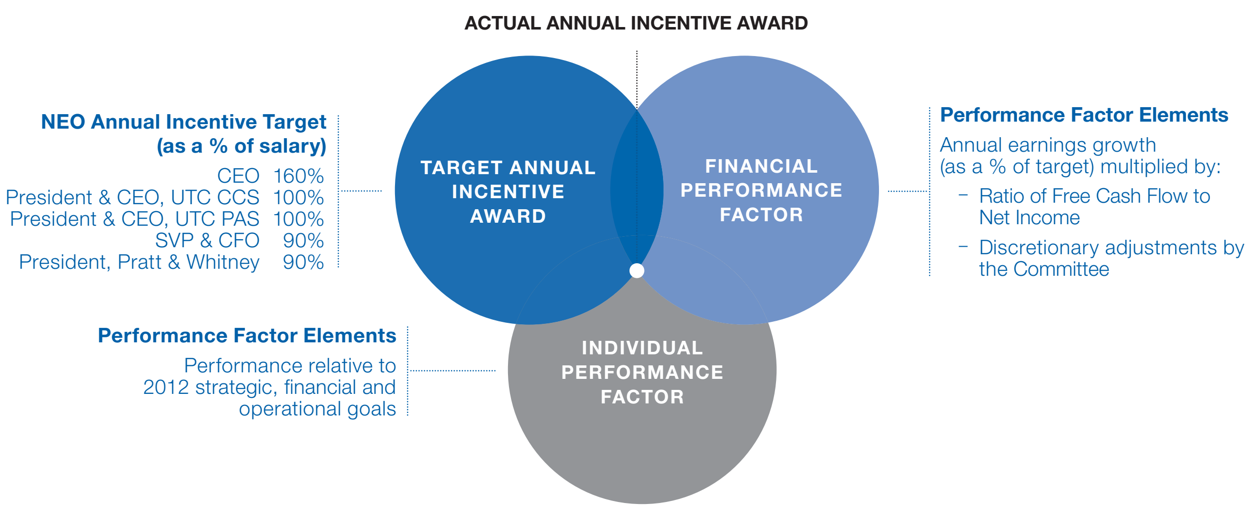
FIXED COMPENSATION

The principal elements of fixed compensation for our NEOs are base salary, pension and benefits (health, life and disability insurance). Our NEOs also received a perquisite allowance equal to 5% of base salary, which we have eliminated prospectively, except for the leased-vehicle benefit.

To ensure our ability to attract and retain executive talent at the level that we believe essential to the success of our business, we target the total value of fixed compensation at approximately the median of our CPG. Individual base salaries vary based on job scope, tenure, retention risk and performance. Individual NEO base salaries are discussed on page 42.

ANNUAL INCENTIVE AWARDS

We determine annual bonus awards based on Company and business unit financial performance (see page 36), as well as individual performance. The Committee establishes a target annual incentive award and individual performance objectives for each NEO. Business performance measures, as described below, determine the size of the bonus pool for the Corporate Office and each of our business units. The following graphic shows how we determine individual bonus awards for our CEO and our NEOs. Performance at the target levels generally results in awards at approximately the CPG median. Awards are generally not paid if performance is less than 95% of the targeted earnings amount and may not exceed 200% of target for above-target performance.



PERFORMANCE MEASURES*

<table>
<tr><th>Metric</th><th>Corporate Office</th><th>Business Units</th></tr>
<tr><td>Earnings Growth</td><td>Diluted earnings per share (as reported in the Annual Report on Form 10-K)</td><td>Earnings before interest and taxes less:
• Restructuring costs;
• Non-recurring items; and
• Impact of significant acquisitions / divestitures</td></tr>
<tr><td>Free Cash Flow</td><td>Consolidated net cash flow provided by operating activities, less capital expenditures (as reported in the Annual Report on Form 10-K). The reconciliation of cash flow to free cash flow is as follows:
<table><tr><th>(in millions)</th><th>2002**</th><th>2009</th><th>2012</th></tr><tr><td>Cash flow from operating activities</td><td>$2,829</td><td>$5,083</td><td>$6,605</td></tr><tr><td>Less: capital expenditures</td><td>$586</td><td>$773</td><td>$1,389</td></tr><tr><td>Free cash flow</td><td>$2,243</td><td>$4,310</td><td>$5,216</td></tr></table>**2002 amounts have not been restated for discontinued operations.</td><td>Internal measure based on:
• Net cash; less
• Capital expenditures; adjusted for:
• Net cash flow impact of restructuring and other costs and non-recurring items</td></tr>
<tr><td>Net Income</td><td>UTC net income attributable to common shareowners (as reported in the Annual Report on Form 10-K)</td><td>Internal measure consisting of each business unit's respective share of UTC net income attributable to common shareowners with adjustments for:
• Net income impact of restructuring and other costs and non-recurring items</td></tr>
</table>

**All performance measures are based on the performance of continuing operations, unless otherwise noted.*

The Committee sets annual individual bonus targets with the objective of offering above-median cash bonus opportunities for above-median performance. However, it retains authority to adjust award pool amounts and individual awards up or down if it determines that measured performance does not accurately reflect the quality of actual performance. The Committee has made such discretionary adjustments in the past. Examples of factors that could result in a positive or negative adjustment include:

- Material, unforeseen circumstances beyond management's control that have a positive or negative effect on performance relative to the established targets
- The individual's performance relative to corporate responsibility objectives
- The individual's adherence to our Code of Ethics, our Enterprise Risk Management program and other Company policies

LONG-TERM INCENTIVE AWARDS

Our NEOs receive two types of equity-based long-term incentive awards: Performance Share Units (“PSUs”) and Stock Appreciation Rights (“SARs”). As explained below, these awards are subject to three-year vesting periods and other terms and conditions.

Performance Share Units

Performance Share Units vest at the end of a three-year performance cycle to the extent that the Company has met the performance targets established by the Committee. At the end of the performance cycle, each vested PSU converts into one share of UTC Common Stock. PSUs do not earn dividends.

For PSUs awarded in 2012, the Committee established earnings per share growth and relative TSR targets. Each target applies to 50% of the PSUs awarded, as shown here:

TARGETS FOR 2012 PSU AWARDS

	Annual EPS Growth (50% of award)		TSR (50% of award)	
	Level of Performance Achieved*	Percent of EPS Portion Vesting	Level of Performance Achieved Relative to S&P 500	Percent of TSR Portion Vesting
Minimum	6%	0%	37.5th percentile	0%
Target	9%	100%	50th percentile	100%
Maximum	12%	200%	75th percentile	200%

**Excludes the expected financial impacts of the Goodrich acquisition and results from discontinued operations (see page 36).*

We believe that a cumulative three-year TSR metric relative to companies within the S&P 500 provides an appropriate external benchmark against which to measure the performance of a large-capitalization company such as UTC. We do not set targets relative to the performance of our CPG companies. The CPG serves the specific purpose of measuring the competitiveness of our compensation program. We believe the S&P 500 provides a more comprehensive and relevant comparison for our share price performance. Also, unlike the CPG, the S&P 500 is not a self-selected customized benchmark.

The Committee has made the following decisions with respect to performance share unit targets for 2013:

- Maintained our median TSR target relative to the S&P 500.
- Set a three-year cumulative earnings per share growth target of 10% for the 2013-2015 performance measurement period. The payment of the award is contingent on continued employment through the end of the three-year performance cycle (except in the event of retirement, disability or death).
- Set a two-year cumulative earnings per share growth target for the remaining two years of the 2012 PSU grant. This target was also set at 10%.

Stock Appreciation Rights

SARs entitle the holder to receive a value equal to the difference between the exercise price, which is the closing price of UTC Common Stock on the date of grant, and the market price of UTC Common Stock on the date the SAR is exercised. The value realized upon exercise is settled in shares of UTC Common Stock.

SARs have a ten-year term and become exercisable three years after the date of grant. The actual value of SARs directly links NEO compensation to long-term share price performance. Share price appreciation correlates directly with shareowner value.

We believe prior SAR and stock option awards have provided an important incentive for management's successful achievement of objectives that are aligned with shareowners' long-term interests, including productivity, innovation, growth and business balance. UTC's cumulative TSR over the ten-year period that ended on December 31, 2012 was 225%, significantly exceeding the performance of the Dow Jones Industrial Average at 103% and the S&P 500 at 99%.

OTHER COMPENSATION ELEMENTS

Pension

The overall value of retirement benefits is consistent with competitive market trends and approximates the CPG median, thus satisfying our objective of maintaining a competitive median level of fixed compensation.

The Pension Benefits table on page 58 details retirement benefits for our NEOs.

Beginning in 2015, the pension plan's final average earnings formula will no longer apply for all participating employees, including the NEOs. Benefits earned after that date will be calculated under a cash balance formula. Employees hired on or after January 1, 2010 are not eligible to participate in a pension plan, and instead participate in an enhanced Company 401(k) Plan.

Pension benefits under the newer cash balance formula will be approximately at the Compensation Peer Group median for companies who sponsor these types of programs. The prior final average earnings formula covers only those executives hired before 2003 (including the NEOs), and is also approximately at the median when compared with CPG companies that offer similar traditional fixed benefit pension plans.

The Pension Preservation Plan is an unfunded program with the same benefit formula that is used in our tax-qualified pension plan. It provides our senior executives with non-qualified pension benefits to the extent their qualified pension benefits are capped by Internal Revenue Code limits. The Savings Restoration Plan, also unfunded, permits employee and company matching contributions at the same rate as the 401(k) Plan, to the extent such contributions would exceed Internal Revenue Code limits.

Health and Welfare Benefits

ELG members receive life insurance coverage equal to three times their projected age 62 base salary. Following retirement, they receive coverage equal to two times their age 62 (projected or actual) base salary.

The ELG long-term disability plan provides 100% of base salary for one-year following disability, then decreases by 5% per year down to a benefit equal to 80% of base salary.

In addition to the coverage under the health benefit program we offer to our other employees, ELG members are eligible for a comprehensive annual executive physical.

Perquisites

ELG members previously received a perquisite allowance equal to 5% of their annual base salaries. This benefit was eliminated, however, for individuals who joined the Executive Leadership Group after June 2012. As noted previously, it has been eliminated prospectively for all Executive Leadership Group members February 2013. However, ELG members will still receive an executive leased-vehicle benefit. Footnotes (6)(a) and (b) to the Summary Compensation Table on page 53 provide information on each NEO's perquisite allowance and leased-vehicle benefit. In accordance with our security policy, Mr. Chênevert also has access to our company aircraft for personal travel.

Severance and Retention Arrangements

Executive Leadership Group members participate in certain severance and retention arrangements. Because most companies in the CPG provide similar programs, we believe that these arrangements help to maintain the competitiveness of our compensation program.

Severance Program Severance arrangements are intended to provide financial security during the transition from employment with UTC to the start of new employment, which can be a lengthy process for senior executives. These arrangements are designed to minimize any potential distractions that may be associated with the risk of employment termination.

Our severance program, which covers each of our NEOs, provides a cash severance payment up to 2.5 times base salary in the event of involuntary termination (other than for misconduct) for those serving as ELG members for at least three years. To receive payments, executives must agree to adhere to restrictive covenants designed to protect UTC's interests, including non-compete, non-solicitation and non-disclosure obligations.

For individuals appointed to the ELG after 2005, severance benefits are not available if termination of employment occurs after age 62. Upon appointment to the ELG, these individuals instead receive a retention award of restricted stock units ("RSUs"), equal in value to two times their base salary on the grant date. This RSU award vests only upon retirement at age 62 or later. These RSUs may not be sold, pledged or assigned, and will be forfeited if the executive retires or terminates employment for any reason before age 62. Each unit corresponds to one share of UTC Common Stock and accrues dividend equivalents. As with the severance arrangement, RSU awards impose restrictive covenants as a condition to vesting. We believe these RSUs have significant retention value and align with long-term shareowner interests because their award value links directly to share price.

Change-in-Control Benefits We have maintained a senior executive change-in-control severance protection program since 1981. The intended purpose of this program is to help ensure continuity of management in a potential change-in-control situation.

As a response to changing market practices, we closed this program to new participants, effective June 2009.

For existing participants, the Committee has modified the program from time to time in response to shifts in best practices and market norms. All changes have involved either reducing benefits or adopting terms and conditions that are less favorable to participants. The revised agreements provide a reasonable level of financial security and contain the following elements:

- A cash severance benefit of 2.99 times the sum of base salary and current target bonus for the year in which termination occurs
- Accelerated vesting of performance-based long-term incentive awards at target levels
- Benefits are provided only in the event of a change-in-control followed by involuntary termination or termination for "good reason" (often called a "double trigger"). "Good reason" generally includes material adverse changes in an executive's compensation responsibilities, authority, reporting relationship or work location

We have eliminated the following change-in-control benefits:

- Excise tax gross-ups
- Three-year continuation of healthcare and other benefits
- Crediting of three additional years of service under our qualified and supplemental pension plans
- Unilateral right to voluntarily resign with benefits

With these changes, the Committee believes that the benefits, covenants and other terms and conditions under its severance arrangements with ELG members are market-competitive relative to our peer group. Because severance and change-of-control benefits are contingent on future events, they operate as a form of insurance rather than as a principal component of compensation strategy. The Committee, therefore, does not take contingent severance benefits into account when setting other elements of compensation. The Potential Payments on Termination or Change-in-Control table on page 62 sets forth the estimated values and details of the termination benefits each NEO would receive under various hypothetical scenarios.

PROGRAM ADMINISTRATION

Dilution and Deductibility

Under the 2005 Long-Term Incentive Plan ("LTIP"), as amended, the total number of shares of UTC Common Stock prospectively issuable under PSU and SAR awards made in 2012 was approximately 1% of shares outstanding and within applicable LTIP limitations. The total number of shares potentially issuable under the LTIP and all predecessor plans as of the end of 2012, was approximately 10% of shares outstanding (calculated on a fully diluted basis) and at approximately the CPG median. Diluted earnings per share reflect all such shares.

In making compensation decisions, tax deductibility is one of many factors considered. After considering all the appropriate factors, the Committee endeavors to maximize UTC's tax deduction for the compensation paid to NEOs, to the extent that the Committee can do so consistent with other compensation objectives. Internal Revenue Code Section 162(m) limits UTC's deduction to $1 million for annual compensation paid to each of the CEO and the three other most highly compensated NEOs (excluding the CFO). However, this limitation does not apply to compensation that qualifies as "performance-based compensation" within the meaning of Section 162(m). UTC provides annual bonuses and long-term incentive awards pursuant to shareowner-approved plans with performance targets that are intended to qualify the bonuses and awards as performance-based compensation exempt from the $1 million deduction limit.