2004 ANNUAL REPORT

Ingersoll-Rand

100 years ago, **Ingersoll**-Sergeant Drill Company and **Rand** Drill Company merged, creating an enterprise noted for its enduring **success** and legacy of **achievement**.

Beginning another 100 years of Progress

Today, **Ingersoll-Rand** embarks on its next century, driven by talented **people** whose professional **collaboration** continues to result in customer-focused **innovation**, **operational excellence**, and **global growth**.

Building on a century of **performance**, we are well positioned for the future.

Ingersoll-Rand

Our Vision

We are dedicated to driving shareholder value by achieving:

Dramatic Growth, by focusing on innovative solutions for our customers.

Operational Excellence, by pursuing continuous improvement in all of our operations.

Dual Citizenship, by bringing together the talents, energy, and enthusiasm of all Ingersoll-Rand people.

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Chairman's Message

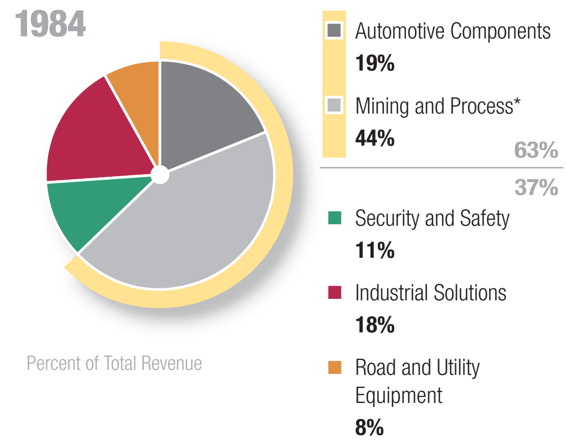
A Company Transformed

In 2005 we reach a milestone as we celebrate the 100th anniversary of the 1905 merger between Ingersoll-Sergeant Drill Company and Rand Drill Company. Our 100th anniversary is more than a testimony to endurance; it is the byproduct of continuously transforming, adapting and anticipating the needs of customers and delivering solutions that provide meaningful benefits for their operations.

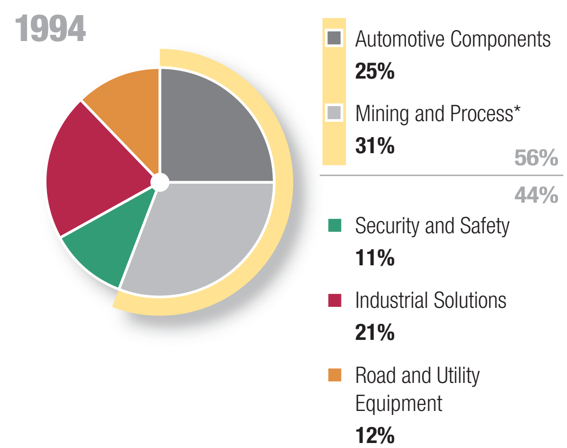
I am proud to say that our company has ably demonstrated its talent to transform, grow, and prosper over the years by meeting its commitment to customers around the globe. Certainly, our success in 2004 was a fitting culmination of our first century. In 2004 we improved in every critical measure of financial performance compared to 2003:

- Revenues increased by 14% (11% after currency adjustments), and exceeded our target of 8-10% total annual revenue growth.
- Earnings from continuing operations increased by 56%, which significantly exceeded our long-term goal of 12-15% annual improvement.
- Operating margins of 11.9% improved by 2.4 percentage points as we continue to make progress toward a target of 15%.

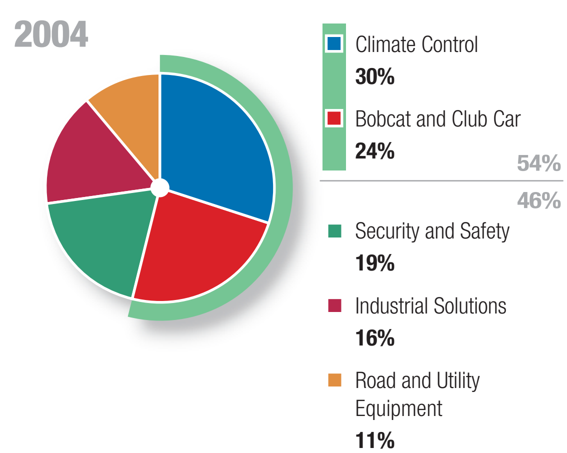
Two decades ago, more than 60% of Ingersoll-Rand's revenues were derived from the deeply cyclical automotive, mining, and process industries, highlighted in yellow.



As recently as 1994 more than half of our revenues continued to be derived from economically sensitive markets.



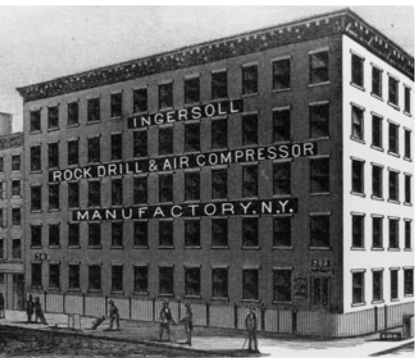
In recent years, we have transformed our company by divesting cyclical businesses and acquiring businesses that participate in less cyclical, global growth markets, highlighted in light green.



This transformation, which comprised a conversion of more than half of the company's revenue stream, has oriented our business profile to serve commercial and industrial markets that offer better opportunities to generate consistently strong revenue and earnings growth throughout the economic cycle.

*Primarily Pumps, Dresser-Rand, Drills and Underground Mining Equipment

Two pioneering firms join forces



Top: Ingersoll Rock Drill Company manufacturing facility, New York City, 1881. Bottom: Rand Drill Company manufacturing facility, New York City, 1880s.

Ingersoll-Rand traces its origins to 1871. At that time, Simon Ingersoll and three Rand brothers—Addison, Albert and Jasper—separately set in motion events that would lead to the formation of Ingersoll-Rand.

Simon Ingersoll was a New England farmer whose passion for mechanical tinkering yielded 27 patents over his lifetime. His steam-powered rock drill, patented in 1871, immediately proved superior to other drills of the era and became the cornerstone of the Ingersoll Rock Drill Company, which was formed in 1874. The firm later became the Ingersoll-Sergeant Drill Company.

Addison and Jasper Rand organized the Rand Drill Company in 1871 as a means to sell more blasting powder, which their brother Albert sold through a separate company. Better drills would increase productivity, which would increase demand for blasting powder.

Separately, Ingersoll-Sergeant Drill and Rand Drill companies grew with competing drill and air compressor lines. The complementary nature of the companies' product lines and served markets created an appealing vision of a combined enterprise. On June 1, 1905, representatives of the two companies signed merger papers in the offices of a London law firm, thus establishing Ingersoll-Rand and launching one of the world's more successful and influential industrial firms.

- Available cash flow[1] reached $804 million, surpassing our annual goal of at least $700 million. For the seven years ending in 2004, the company has generated $4.7 billion in available cash flow before restructuring investments.
- Our operating working-capital-to-sales ratio[2] of 8.1% remained below our 10% target range.
- Return on invested capital was 13.0%, an increase of 3.2 percentage points and moving close to our target of 15%.
- We significantly strengthened our balance sheet by reducing total debt to $1.9 billion at the end of the year, which is $435 million less than total debt at year-end 2003.
- Our year-end debt-to-capital ratio was 24.3%, which is below our target range of 30-35%, and net debt[3] at the end of the year was approximately $175 million.

Our Transformation is Substantially Complete

These financial accomplishments validate the purposeful transformation of Ingersoll-Rand from a cyclical machinery company to a global diversified industrial enterprise. With the divestitures of Drilling Solutions and Dresser-Rand in 2004 we substantially completed the process of aligning and strengthening our business portfolio to capitalize on growth opportunities in global markets.

Over the past four years, we divested $3.3 billion in cyclical, low-growth, asset-intensive businesses while concurrently improving efficiencies, capabilities, and product and services development across our high-potential businesses.

As a result of these efforts, our company today is a diversified company with strong growth prospects,

[1] Available cash flow consists of cash flows from operating activities (excluding voluntary pension contributions) and discontinued operations minus capital expenditures. [2] Operating working capital represents accounts receivable plus FIFO inventory minus accounts payable and accruals. [3] Net debt consists of total debt minus cash and cash equivalents.

Clockwise from top left: Our climate control technologies include Hussmann refrigerated displays, which extend the shelf life of foods and beverages in stylish designs that meet the demands of retail convenience and grocery stores. Our new Ingersoll-Rand cordless impact wrench delivers powerful torque that once was only available from pneumatic tools. A new mini track loader from Bobcat continues to expand the range of projects that our line of versatile compact equipment can tackle.

bearing little resemblance to the capital-intensive machinery company of its past. Two decades ago, more than 60% of Ingersoll-Rand's businesses were deeply cyclical and characterized by wide swings in financial performance based on prevailing economic conditions. As recently as 1994 more than half of our revenues were tied to the economically sensitive automotive, process and mining markets. By contrast, our company's current business profile is better balanced and capable of generating consistently strong revenue and earnings growth throughout the economic cycle.

Our Long-term Plan

We continue to find that many people hold out-of-date perceptions of our company, which were created directly because of our company's success over the course of 100 years. So, while we celebrate our anniversary, we also regard this milestone as the formal launch of the future Ingersoll-Rand — the company we are building today to thrive and excel throughout the next 100 years, and longer.

To that end, we have been executing a 10-point strategic plan, focused on growth and operational excellence, to drive enduring financial success. Based on the previous four years of improved performance, we know that this plan is working. We expect to achieve even stronger results as we continue executing this strategy.

1. Develop innovations that deliver sustained competitive advantage.

Our legacy of engineering excellence and technological advancements provides the driving force for delivering market-transforming innovations that enhance

Clockwise from left: With its automatic, on-demand 4-wheel drive system, our new rough-terrain vehicle from Club Car offers best-in-class versatility and comfort for recreational and utility applications. The new Accents line of handlesets, deadbolts, levers and knobs from Schlage offers distinctive style and quality for the home. Our Thermo King unit enhanced its transport climate control technologies with a new trailer unit that provides increased reliability, uptime, and system efficiency.

customer productivity and profitability. In 2004 we generated $300 million of net revenue from new products, which was $100 million more than 2003. We expect that our continuing enterprise commitment to innovation will accelerate new product introductions over the next several years.

2. Build and sustain a recurring-revenue stream.

Recurring revenues create a firm foundation for consistent financial performance throughout the economic cycle. In 2004 our recurring revenues increased by 9% compared to 2003 and comprised 20% of our overall revenues, a level we expect to grow. We have more than doubled our recurring revenues since 2000 by providing innovative services and solutions that complement our product offerings and enhance overall value for our customers.

3. Pursue bolt-on acquisitions.

Since 2000 we have acquired more than 30 businesses that have expanded our geographic reach, product and services portfolio, manufacturing footprint, and technological capabilities. Each of our business sectors has benefited from this strategic effort, and we expect to accelerate the pace of bolt-on acquisitions to support our growth imperative. With strong operating cash flow and a healthy balance sheet, we are well positioned to acquire complementary businesses that meet our strict criteria for financial returns.

4. Expand our global business.

More than 65% of our total revenue is derived from North America. While North America remains a strong geographic market, to accelerate Ingersoll-Rand's overall growth and to achieve better geographical balance a higher portion of our revenues must be derived from global markets. Our acquisition strategy is keenly focused on expanding our global business profile, and concurrently we are leveraging our existing product and services portfolio to develop innovative solutions for local requirements.

5. Harness collaboration across the enterprise.

By creating an environment that encourages collaboration, we enhance our ability to achieve innovation and progress, and we increase our competitive advantage in all of our markets. This type of collaboration is driving the success of our enterprise growth initiatives, which in 2004 contributed $285 million in incremental revenues, an increase of $150 million compared to 2003. These are revenues produced without additional costs because we are leveraging existing enterprise resources. We have set a target to achieve $750 million in incremental revenues from enterprise growth initiatives by 2008.

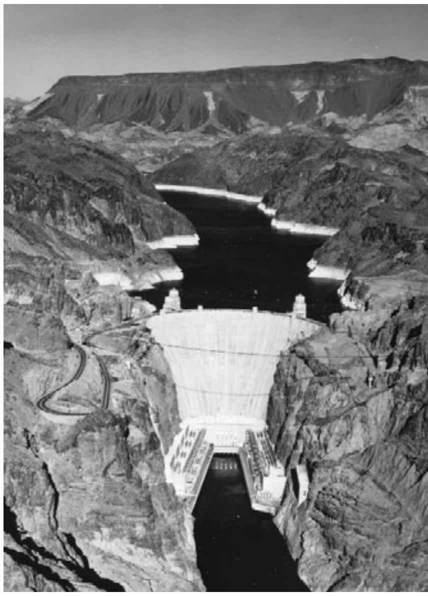
6. Leverage our powerful brands.

We have a strong advantage in our markets with highly regarded commercial and industrial brands that have earned the confidence and loyalty of customers around the world. Most of these brands are number one or two in each of our served markets. We will continue to make investments that sustain and enhance the value of these brand assets to fuel market-share growth, and we will expand their reach through channel development, licensing, co-marketing and other brand extensions to broaden our revenue opportunities.

7. Drive continuing progress in manufacturing efficiency.

Our global growth imperative will require a continuous investment in advanced manufacturing techniques and implementation of world-class processes in order to drive further efficiency gains across our worldwide manufacturing operations. We have seen dramatic

A century of contributing to global progress



Top: Hoover Dam.
Bottom: Panama Canal.

Ingersoll-Rand's contributions to global economic and industrial progress continue as the company moves into its next century. The company that today helps foods and perishables stay fresh longer, provides road-building equipment to enable the flow of commerce, delivers peace of mind through security technologies, and powers industrial efficiency and productivity was founded on decades of transforming global needs into global progress.

Our company's heritage includes people and products that helped build the Panama Canal, the Hoover Dam, and the English Channel Tunnel. Our family tree includes innovators who advanced industrial and commercial progress by inventing or developing: the push-button lock; exit devices that improved fire safety for buildings; food-preserving display cases; transport refrigeration; dozens of novel tools and compressed-air technologies; the category of compact equipment; and aluminum-frame golf cars.

As we begin our next century, we remain committed to building upon this legacy of progress through a continuing emphasis on delivering solutions that address our customers' needs. Our customers have been, and always will be, our partners in progress. Similarly, our people have been, and always will be, the engine of progress.

Photo Credit: Hoover Dam – Bureau of Reclamation.

Financial performance from year one

Ingersoll-Rand has demonstrated financial success throughout its 100 years, and resilience even through the bleakest days of the Great Depression. In the company's first annual report after the 1905 merger, Ingersoll-Rand reported net earnings of $658,278 and listed total assets of nearly $11 million on its balance sheet.

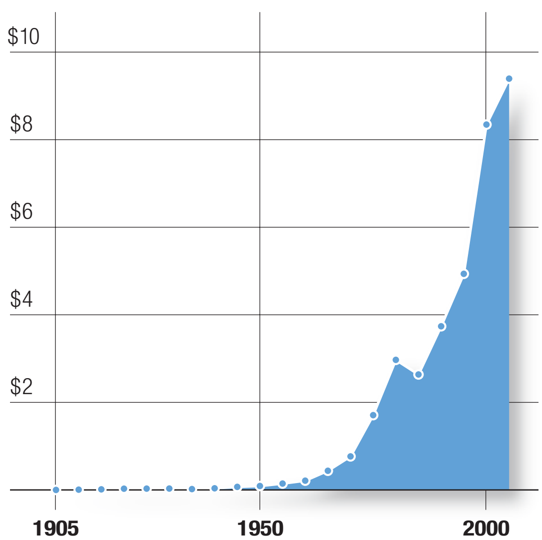
In 1906, the company reported sales of $6.7 million and became listed on the New York Stock Exchange. Befitting its influential role over the past 100 years, Ingersoll-Rand is among the top ten longest continuously listed companies on the New York Stock Exchange.

The company's revenues have increased tenfold roughly every 30 years (see chart below). Ingersoll-Rand topped $10 million in revenues for the first time in 1915; $100 million in 1943; and $1 billion in 1973. Based on the company's 2005 forecast as of the time of this report, Ingersoll-Rand may reach $10 billion in revenues during this 100th anniversary year.

Emblematic of the company's success over the years, Ingersoll-Rand has paid consecutive quarterly cash dividends on its common shares since 1919 and annual dividends since 1910.

100 Years of Revenue Growth

In billions



improvement over the past four years in this area as reflected by a 78% increase in revenues per square foot of manufacturing space since 2001.

8. Remain focused on supply-chain management.

Our ability to implement an aggressive supply-chain management program has enabled our company to improve operating results despite materials-price increases over the past year, and will position us to withstand potential increases in the future. Our program includes value engineering, which involves designing products to eliminate or consolidate components to achieve savings; low-cost country sourcing, which supports our global manufacturing operations with high-quality, regionally sourced parts and materials; and reverse auctions and negotiations that leverage the enterprise's global purchasing power.

9. Minimize operating working-capital and capital-expenditure requirements.

For the past five years we have maintained our operating working-capital-to-sales ratio below 10% through a commitment to inventory and accounts receivable management. In addition, the transformation of our business portfolio has eliminated long-lead-time manufacturing and cyclical inventory build-up in favor of just-in-time manufacturing techniques. Also, over the same time frame, we have held capital expenditures at or below 2% of revenues through the implementation of lean Six Sigma processes. We will continue to exercise management discipline and drive best-in-class processes to help generate available cash flow to meet our target of at least $700 million per year.

10. Maintain a growth-enabling balance sheet.

We have made great progress in reducing our debt and debt-to-capital ratio over the past two years. Our 2004 year-end net debt was approximately $175 million, and our year-end debt-to-capital ratio was 24.3%,

Clockwise from top left: Ingersoll-Rand continues to create innovative equipment for road construction, including new compaction equipment that improves productivity and road quality. Our January 2005 acquisition of the remaining interest of Italy-based CISA extends our global security and safety offerings, including this Smart Card proximity technology used in hotels and commercial buildings. Our compressed-air innovations continued with the Unigy air compressor, which delivers maximum productivity and efficiency for smaller operations.

compared to the 2002 year-end ratio of 47.4%. At the current debt-to-capital level we are below our target range of 30-35%, which provides flexibility to invest in innovations, acquisitions and other growth initiatives, as well as enable strong return of cash to shareholders.

Ready for the Next 100 Years

The solid execution of our strategic plan by Ingersoll-Rand people around the world has generated substantially improved operational and financial results over the past four years. We believe that an unwavering commitment to this plan will continue to reward our customers, our shareholders, and our employees. We intend to reinvest our strong cash flow and take advantage of our solid balance sheet to enhance shareholder value by driving profitable global growth, enhancing dividends, and repurchasing shares.

Today's Ingersoll-Rand is the result of many thousands of people whose passion, ideas and hard work over the years have built one of the world's foremost diversified industrial companies. We are the product of an innovative heritage. We remain equal to the needs of continuing global progress. Through collaboration, we are greater than the sum of our individual parts. We have the essential elements, and the drive and determination, for continued long-term success. And we are proud to lead this great enterprise into its next 100 years.

Herbert L. Henkel

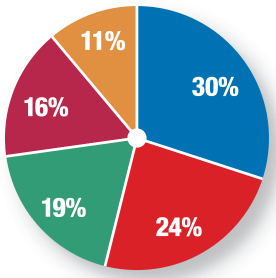
Chairman, President and
Chief Executive Officer

March 2005

Financial Highlights

Revenues

In millions



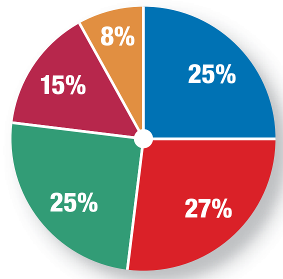
- Climate Control **$2,794**
- Bobcat and Club Car **$2,262**
- Security and Safety **$1,778**
- Industrial Solutions **$1,553**
- Road and Utility Equipment **$1,007**

Total Revenues **$9,394**

Revenues in 2004 increased by 14% (11% after currency adjustments) compared to 2003, and exceeded our target of 8-10% total annual revenue growth.

Operating Income by Business

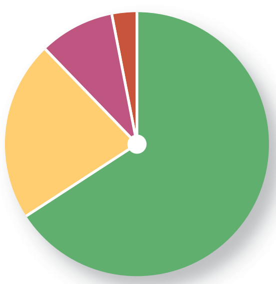
In millions



- Climate Control **$309**
- Bobcat and Club Car **$329**
- Security and Safety **$305**
- Industrial Solutions **$181**
- Road and Utility Equipment **$108**

Total operating income for 2004 increased by 42% compared to 2003.

Revenues by Region

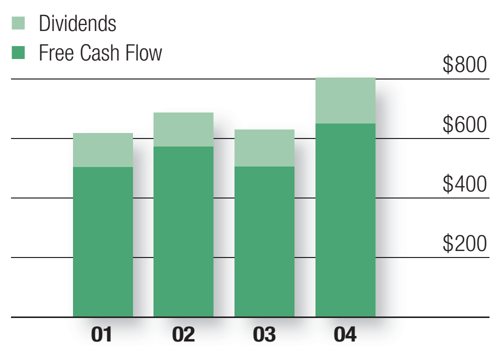


- North America **66%**
- Europe **22%**
- Asia Pacific **9%**
- Latin America **3%**

We are keenly focused on expanding our global business profile through organic growth and acquisitions, with an emphasis on emerging markets.

Available Cash Flow[1,3]

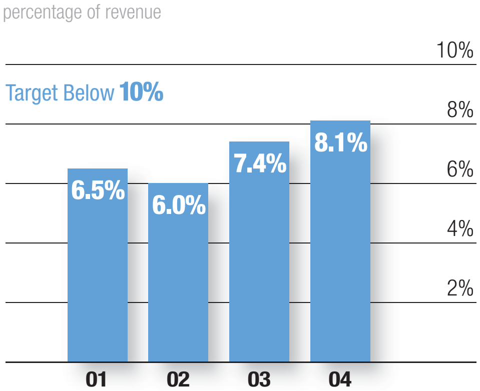
In millions



We have dramatically improved our ability to generate cash, which we will deploy to fund long-term growth and enhance shareholder value.

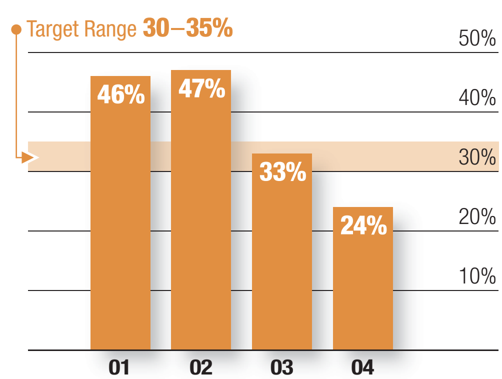
Operating Working Capital[2,3]

As a percentage of revenue



We continue to maintain our operating working-capital-to-sales ratio below 10% through a commitment to inventory and accounts receivable management.

Year-End Debt-to-Capital[3]



Our strong balance sheet provides flexibility to invest in innovations, acquisitions and other growth initiatives, and return cash to shareholders.

[1] Available cash flow consists of cash flows from operating activities (excluding voluntary pension contributions) and discontinued operations minus capital expenditures. [2] Operating working capital represents accounts receivable plus FIFO inventory minus accounts payable and accruals. [3] Amounts for 2001, 2002 and 2003 represent historical figures.

Selected Financial Data

In millions, except per share amounts

At and for the years ended December 31,	2004	2003	2002	2001	2000
Net revenues*	**$ 9,393.6**	$ 8,249.3	$ 7,583.0	$ 7,388.7	$ 7,218.6
Earnings from continuing operations*	**829.8**	532.8	322.4	149.9	398.7
Total assets	**11,414.6**	10,664.9	10,809.6	11,133.8	11,061.1
Long-term debt*	**1,267.6**	1,518.4	2,091.4	2,900.4	1,540.1
Shareholders' equity	**5,733.8**	4,493.3	3,478.2	3,916.6	3,481.2
Basic earnings per common share:*					
Continuing operations	**$4.79**	$3.12	$1.91	$0.91	$2.47
Discontinued operations	**2.24**	0.65	0.82	0.58	1.68
Diluted earnings per common share:*					
Continuing operations	**$4.73**	$3.09	$1.89	$0.90	$2.45
Discontinued operations	**2.22**	0.65	0.82	0.58	1.67
Dividends per common share	**$0.88**	$0.72	$0.68	$0.68	$0.68

*Amounts have been restated to reflect discontinued operations.

FINANCIAL REVIEW CONTENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary and Outlook

Ingersoll-Rand (IR or the Company) is a leading innovation and solutions provider with strong brands and leading positions within its markets. The Company's business segments are Climate Control, Industrial Solutions, Infrastructure, and Security and Safety. The Company's diverse product portfolio encompasses such leading industrial and commercial brands as Thermo King® transport temperature control equipment, Hussmann® commercial and retail refrigeration equipment, Ingersoll-Rand® industrial and construction equipment, Bobcat® compact construction equipment, Club Car® golf cars and utility vehicles, and Schlage®. In addition, IR offers products and services under many other premium brands for customers in industrial and commercial markets.

The Company seeks to drive shareholder value through three areas of emphasis: Dramatic Growth, by developing innovative solutions that improve our customers' operations; Operational Excellence, by fostering a culture of continuous improvement and cost consciousness; and Dual Citizenship, by encouraging our employees' active collaboration with colleagues across business units and geographic regions to achieve superior business outcomes. IR has substantially completed transforming its portfolio to become a more diversified company with strong growth prospects by divesting cyclical, low-growth, asset intensive businesses and improving efficiencies, capabilities and products and services for its high-potential businesses. The Company expects to pursue bolt-on acquisitions, stock buybacks and dividend enhancements with the cash flow generated from operations and divestitures.

The following significant events occurred during 2004:

- On August 25, 2004, the Company agreed to sell its Dresser-Rand business unit (Dresser-Rand) to a fund managed by First Reserve Corporation, a private-equity firm, for cash proceeds of approximately $1.2 billion. The sale was completed on October 29, 2004. Dresser-Rand is now included in "discontinued operations, net of tax," for all periods. The Company realized an after-tax gain of $282.5 million on the disposition, which is included in "discontinued operations, net of tax" for 2004. The gain is subject to working capital and final purchase price adjustments. The Company had previously sold the Compression Services business of Dresser-Rand in 2000 for $190.0 million.

- On February 19, 2004, the Company agreed to sell its Drilling Solutions business unit (Drilling Solutions) to Atlas Copco AB, for approximately $225 million. The sale of the U.S. and most international operations was completed on June 30, 2004. The sale of Drilling Solutions assets held by Ingersoll-Rand (India) Limited, which was subject to approval by the Indian company's shareholders, was completed in the third quarter of 2004. Drilling Solutions, which was previously included in the Company's Infrastructure Segment, is included in "discontinued operations, net of tax," for all periods. The Company realized an after-tax gain of $38.6 million on the disposition, which is included in "discontinued operations, net of tax" for 2004. The gain is subject to working capital and final purchase price adjustments.

- During 2004, the Company recorded approximately $29.5 million for claims filed under the Continued Dumping and Subsidy Offset Act of 2000 on behalf of a subsidiary included in the Engineered Solutions business (Engineered Solutions), which was sold in 2003. The antidumping duty is levied when the U.S. Department of Commerce determines that imported products are being sold in the United States at less than fair value causing material injury to a United States industry. These amounts are reflected in "discontinued operations, net of tax."

- During 2004, a subsidiary of the Company repurchased approximately 5.3 million Class A common shares at a cost of $355.9 million. On August 4, 2004, the board of directors authorized the repurchase of up to 10 million shares of the Company's Class A common shares. Approximately 2 million of the above mentioned 5.3 million shares were purchased under this program, while the remainder was repurchased under a plan approved in 1997. The repurchased shares are available for general corporate purposes. The board of directors also authorized on August 4, 2004, an increase of the quarterly dividend from 19 cents to 25 cents per Class A common share, effective for dividends paid beginning September 1, 2004.

- The Company made discretionary cash contributions of $140.0 million to its pension plans during the year ended December 31, 2004, as well as $30.1 million in required employer contributions. This includes $20.0 million of discretionary contributions to the Dresser-Rand pension plan.

Full-year 2004 net revenues were $9,393.6 million, a 14% increase compared with net revenues of $8,249.3 million in 2003. The Company attributes the improved revenue growth to its leadership position as a proven source of innovation in worldwide markets and gains in its recurring revenue stream. For full-year 2004, all business segments experienced growth in revenues compared to 2003, including over 10% growth in the Industrial Solutions, Infrastructure and Security and Safety segments. Improved markets, new product introductions and product mix drove this revenue growth, as well as improvements in pricing and productivity. The Company has been able to increase prices and add material surcharges to help offset the impact of cost inflation.

Total operating income improved significantly for 2004 compared to 2003. Higher volumes and product mix, improved pricing and increased productivity generated the majority of the increased operating income. Operating margins grew in all segments, except Security & Safety, which had increased costs related to Kryptonite cylindrical bicycle locks, a plant closing and the discontinuance of a product line, and various legal expenses.

The Company reported full-year earnings of $1,218.7 million, or diluted earnings per share of $6.95. Full-year earnings from continuing operations increased by 56% compared to 2003. The Company benefited from the operational improvements and productivity enhancements in our worldwide operations, reduced interest expense from the repayment of debt and interest rate declines, and the effects of our tax strategies, which resulted in an effective tax rate of 14.3%.

During the year, the Company increased its cash flow due to improved operating results, and reduced interest expense. Prior year cash flow was adversely affected by $240 million due to the termination of the Company's accounts receivable securitization program. These net cash flow improvements have allowed the Company to strengthen the balance sheet. Total debt at year-end was $1,880.4 million, a reduction of approximately $435 million compared to year-end 2003. The debt-to-capital ratio was 24.3% at the end of 2004, compared to 33.4% at the end of 2003.

Most of Ingersoll-Rand's major end markets continued to improve as the year 2004 came to an end. In 2005, IR expects to build on the momentum of 2004 to continue generating greater market share gains and operating performance improvements across our businesses. The Company sees continued strength in most of its worldwide markets as indicated by the recent order pattern. Additionally, the Company once again expects to produce substantial operating cash flow in 2005.

Critical Accounting Policies

The notes to the financial statements include a summary of significant accounting policies and methods used in the preparation of the consolidated financial statements and the following summarizes what the Company believes are the critical accounting policies and methods used by the Company:

- Employee benefit plans – The Company provides a range of benefits to employees and retired employees, including pensions, postretirement and postemployment and health-care benefits. Determining the cost associated with such benefits is dependent on various actuarial assumptions, including discount rates, expected return on plan assets, compensation increases, employee mortality and turnover rates, and health-care cost trend rates. Independent actuaries perform the required calculations to determine expense in accordance with U.S. generally accepted accounting principles. Actual results may differ from the actuarial assumptions and are generally accumulated and amortized over future periods. The Company reviews its actuarial assumptions at each measurement date and makes modifications to the assumptions based on current rates and trends, if appropriate. The discount rate, the rate of compensation increase and the expected long-term rates of return on plan assets are determined as of the measurement date. The discount rate reflects a rate at which pension benefits could be effectively settled. It is established and based primarily on the yields of high-quality fixed-income investments available and expected to be available during the life of the plans and a review of the current yields reported by Moody's on AA corporate bonds. The rate of compensation increase is dependent on expected future compensation levels. The expected long-term rates of return are projected to be the rates of return to be earned over the period until the benefits are paid, which should reflect the rates of return on present investments, and on reinvestments over the period. The expected long-term rate of return on plan assets is based on what is achievable given the plan's investment policy and the types of assets held. Historical assets return trends for the larger plans are reviewed over fifteen, ten and five-year periods. The actual rates of return for plan assets over the last ten and fifteen-year periods have exceeded the expected rates of return used. The Company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on input from its actuaries, outside investment advisors, and information as to assumptions used by plan sponsors.

  Changes in any of the assumptions can have an impact on the net periodic pension cost or postretirement cost. Estimated sensitivities to the net periodic pension cost of a 0.25% rate decrease

Management's Discussion and Analysis Continued

in the three basic assumptions are as follows: the discount rate would increase expense by approximately $5.8 million, the rate of compensation increase would decrease expense by approximately $3.8 million, and the estimated return on assets assumption would increase expense by approximately $6.4 million. A 0.25% rate decrease in the discount rate for postretirement benefits would increase net periodic postretirement benefit cost by $1.4 million and a 1.0% increase in the health care cost trend rate would increase the cost by approximately $4.1 million.

- Commitments and contingencies – The Company is involved in various litigations, claims and administrative proceedings, including environmental and asbestos matters, arising in the normal course of business. The Company has recorded reserves in the financial statements related to these matters, which are developed, depending on the nature of the reserve, with consultation of legal counsel and internal and external consultants and engineers. Subject to the uncertainties inherent in estimating future costs for these types of liabilities, the Company believes its estimated reserves are reasonable and does not believe the final determination of the liabilities with respect to these matters would have a material effect on the financial condition, results of operations, liquidity or cash flows of the Company for any year.
- Accrued liabilities – The Company has accrued liabilities for product liability claims, including asbestos claims, workers' compensation matters and product warranty reserves. The Company has recorded reserves in the financial statements related to these matters, which have been developed using input derived from actuarial estimates and historical and anticipated experience data depending on the nature of the reserve. The Company believes its estimated reserves are reasonable.
- Allowance for doubtful accounts and inventory reserves—The Company has provided an allowance for doubtful accounts receivable and inventory reserves based upon its knowledge of its end markets, customer base and products.
- Goodwill and other intangible assets – The Company has significant goodwill and other intangible assets on its balance sheet related to acquisitions. The valuation and classification of these assets and the assignment of amortization lives involves significant judgments and the use of estimates. The testing of these intangibles under established accounting guidelines for impairment also requires significant use of judgment and assumptions, particularly as it relates to the identification of reporting units and the determination of fair market value. The Company's goodwill and other intangible assets are tested and reviewed for impairment on an annual basis or when there is a significant change in circumstances. The Company believes that its use of estimates and assumptions are reasonable and comply with generally accepted accounting principles. Changes in business conditions could potentially require future adjustments to these valuations.
- Long-lived assets – Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment in the carrying value of an asset would be recognized whenever anticipated future undiscounted cash flows from an asset are less than its carrying value. The impairment is measured as the amount by which the carrying value exceeds the fair value of the asset as determined by an estimate of discounted cash flows.
- Income taxes – Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The Company recognizes future tax benefits, such as net operating losses and foreign tax credits, to the extent that realizing these benefits is considered in its judgment to be more likely than not. The Company regularly reviews the recoverability of its deferred tax assets considering its historic profitability, projected future taxable income, timing of the reversals of existing temporary differences and the feasibility of its tax planning strategies. Where appropriate, the Company records a valuation allowance with respect to a future tax benefit.

  The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income, and tax planning could change the effective tax rate and tax balances recorded by the Company. In addition, U.S. and non-U.S. tax authorities periodically review income tax returns filed by the Company and can raise issues regarding its filing positions, timing and amount of income or deductions, and the allocation of income among the jurisdictions in which the Company operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. The Company believes that it has adequately provided for any reasonably foreseeable resolution of these matters. The Company will adjust its estimate if significant events so dictate. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the provision for income taxes in the period that the matter is finally resolved.

The preparation of all financial statements includes the use of estimates and assumptions that affect a number of amounts included in the Company's financial statements. If actual amounts are ultimately different from previous estimates, the revisions are included in the Company's results for the period in which the actual amounts become known. Historically, the aggregate differences, if any, between the Company's estimates and actual amounts in any year have not had a significant impact on the consolidated financial statements.

Results of Operations

Net earnings from continuing operations for 2004 were $829.8 million, or diluted earnings per share of $4.73, as compared to $532.8 million or $3.09 diluted earnings per share in 2003 and $322.4 million or $1.89 diluted earnings per share in 2002.

Dollar amounts in millions	**2004**	2003	2002
Net revenues	**$9,393.6**	$8,249.3	$7,583.0
Cost of goods sold	**6,854.0**	6,109.0	5,718.1
Selling and administrative expenses	**1,419.3**	1,355.9	1,245.0
Restructuring (reversals) charges	**—**	(3.2)	41.9
Operating income	**$1,120.3**	$ 787.6	$ 578.0
Operating margin	**11.9%**	9.5%	7.6%

Revenues

2004 vs. 2003: Revenues for 2004 increased by approximately 14% compared to 2003. Improved end markets, new product introductions and product mix accounted for approximately 9% of the increase, while the effects of currency translation accounted for approximately 3%. Improved pricing in all segments also led to increased revenues. Volume increases were most significant in the Bobcat, Club Car and Road Development product lines in the Infrastructure segment. The worldwide truck and trailer market for Climate Control also continued to improve. The Industrial Solutions and Security and Safety segments also had higher sales volumes.

2003 vs. 2002: Revenues for 2003 increased by approximately 9% compared to 2002. Higher volumes and the effects of currency translation accounted for the majority of the increase. Volume increases were primarily attributable to an improvement in Climate Control's worldwide truck and trailer market, continued gains in recurring revenues in the Air and Productivity Solutions Segment, new product introductions in the Bobcat business, and U.S. market share gains in Security and Safety. The remaining increase was primarily attributable to pricing and the results of acquisitions. Revenues across all business segments were higher.

Cost of Goods Sold

2004 vs. 2003: Cost of goods sold in 2004 was 73.0% of sales compared to 74.1% in 2003. Contributions from higher volumes and increased productivity accounted for the majority of the improvement. These positive effects were partially offset by higher material and product costs.

2003 vs. 2002: Cost of goods sold in 2003 was 74.1% of sales compared to 75.4% in 2002. Contributions from higher volumes and increased productivity accounted for the majority of the decrease. These positive effects were partially offset by higher material costs, unfavorable currency movements and higher pension and other employee benefit costs.

Selling and Administrative Expenses

2004 vs. 2003: Selling and administrative expenses were 15.1% of sales in 2004 as compared to 16.4% for 2003. The decrease in the ratio is mainly due to higher revenues in 2004, a reduction in expenses due to a gain on sale of corporate real estate of approximately $13 million and increased productivity. These positive effects were partially offset by the cost of operational improvement investments and increased litigation expenses.

2003 vs. 2002: Selling and administrative expenses were 16.4% of sales in 2003 and 2002. Higher revenues, benefits associated with the restructuring programs and increased productivity offset the additional costs for stock-based liability programs and other costs, such as employee benefits in 2003.

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Operating Income

2004 vs. 2003: Operating income for 2004 increased by approximately 42.2% compared to 2003, while operating income margins increased from 9.5% to 11.9%. The increases were mainly attributable to increased sales volumes, product pricing and productivity. The effect of currency also had a favorable impact on operating income. Higher material, product and litigation expenses offset some of the increases described above.

2003 vs. 2002: Operating income for 2003 increased by approximately 36.3% compared to 2002, while operating income margins also increased significantly. The increases were mainly attributable to the benefits associated with the restructuring programs and improved productivity, higher pricing, higher volumes, product mix, and the elimination of charges related to restructuring. These positive effects were partially offset by higher pension and other employee benefit costs and additional costs for stock-based liabilities.

Interest Expense

2004 vs. 2003: Interest expense for 2004 totaled $153.1 million, a decrease of $22.4 million from 2003. The decrease is attributable to lower year-over-year debt levels resulting from the net repayment of debt of $469.4 million and lower interest rates during 2004.

2003 vs. 2002: Interest expense for 2003 totaled $175.5 million, a decrease from the 2002 total by $52.4 million. The decrease is attributable to lower year-over-year debt levels resulting primarily from the repayment of $700 million of debt in the first quarter of 2003, approximately $240 million in other debt repayments during the year, as well as a decline in interest rates.

Other Income (Expense), Net

Other income (expense), net, includes certain foreign exchange gains and losses, equity in earnings of partially owned affiliates, and other miscellaneous income and expense items.

2004 vs. 2003: In 2004, other income (expense), net, aggregated to $17.0 million of income, as compared with $10.9 million of income in 2003. The change is primarily attributable to a $9.8 million increase in interest income due to the increase in cash from the sale of Dresser-Rand and $8.1 million of increased income from partially owned affiliates. These increases were partially offset by $3.2 million of higher foreign exchange losses in 2004 and income of $10.0 million in 2003 relating to the gain on sale of, and dividend income from, The Timken Company common stock.

2003 vs. 2002: In 2003, other income (expense), net, aggregated $10.9 million of income, as compared with $20.1 million of expense in 2002. The change is primarily attributable to the sale of approximately 9.4 million shares of The Timken Company common stock, which resulted in a gain of $7.6 million, due to share-price appreciation from the date of acquisition to the sale date. Additionally, the Company received $2.4 million in dividend income while holding these shares. The remaining change was due to lower foreign exchange losses in 2003 and several miscellaneous expense items included in 2002.

Minority Interests

2004 vs. 2003: Minority interests increased to $16.0 million in 2004, from $14.9 million in 2003 as a result of higher earnings from consolidated subsidiaries in which the Company has a majority ownership.

2003 vs. 2002: Minority interests decreased to $14.9 million in 2003, from $15.5 million in 2002 as a result of lower earnings from consolidated subsidiaries in which the Company has a majority ownership.

Provision for Income Taxes

The tax provision for the year ended December 31, 2004 was $138.4 million, resulting in an effective tax rate of 14.3%. This compares to a provision of $75.3 million, or effective rate of 12.4%, for the year ended December 31, 2003 and a benefit of $7.9 million, for the year ended December 31, 2002.

The increase in tax provision and effective rate for 2004, relates to an increase in earnings compared to 2003, especially in the United States. Higher earnings were the main factor in the increase in the provision and effective rate for 2003 compared to 2002.

Discontinued Operations

Discontinued operations for the year ended December 31, 2004, amounted to income of $388.9 million, net of tax provisions of $343.5 million. This total includes net after tax gains of $334.9 million, primarily comprised of gains from the sales of Dresser-Rand ($282.5 million) and Drilling Solutions ($38.6 million). After-tax net income from discontinued operations amounted to $54.0 million. This income mainly includes profit from Dresser-Rand ($45.0 million) and

Engineered Solutions ($20.9 million), which includes antidumping subsidy net of tax of $29.5 million. This income is partially offset by retained costs related to Ingersoll-Dresser Pump Company ("IDP") of $14.9 million, which mostly include product liability costs, primarily related to asbestos liability claims, and employee benefit costs.

Discontinued operations for the year ended December 31, 2003, amounted to income of $111.7 million, net of tax provisions of $58.6 million. This total includes net after tax gains of $68.8 million, comprised of gains from the sales of Engineered Solutions ($58.2 million) and Waterjet ($18.2 million), offset by a loss from the sale of Laidlaw ($7.6 million). After-tax net income from discontinued operations amounted to $42.9 million. This income principally includes profit from Dresser-Rand ($41.1 million) and Drilling Solutions ($19.6 million), partially offset by retained costs (mainly product liability costs, primarily related to asbestos liability claims, and employee benefit costs) related to IDP ($19.8 million).

Discontinued operations for the year ended December 31, 2002, amounted to income of $138.6 million, net of tax provisions of $90.5 million. This income primarily includes profit from Dresser-Rand ($29.8 million), Drilling Solutions ($13.4 million) and Engineered Solutions ($108.4 million). This profit was partially offset by retained costs (mainly product liability costs, primarily related to asbestos liability claims, and employee benefit costs) related to IDP ($14.8 million).

Restructuring Programs

During the third quarter of 2000 and the fourth quarter of 2001, the Company commenced two restructuring programs totaling $475 million, which included plant rationalizations, organizational realignments consistent with the Company's new market-based structure, the consolidation of back-office processes and other reductions in general and administrative expenses across the Company. These programs included certain costs that were identified as restructuring using the applicable accounting guidance during those periods, including employee termination costs such as severance, extended medical costs, pension liabilities, and outplacement costs, and facility exit costs such as lease exit costs and equipment write-offs. The programs also included costs that did not meet the criteria to be classified as restructuring. These nonrecurring costs were charged to "Cost of sales" and "Selling and administrative expenses," as incurred. Approximately 5,000 employee terminations were completed impacting both the salaried and hourly employee groups. The Company closed 20 manufacturing facilities in connection with the restructuring programs. The Company has realized lower costs and improved customer service in all segments as a result of these actions.

Review of Business Segments

Climate Control

Climate Control is engaged in the design, manufacture, sale and service of transport temperature control units, HVAC systems, refrigerated display merchandisers, beverage coolers, and walk-in storage coolers and freezers. It includes the Thermo King, Hussmann and Koxka brands.

Dollar amounts in millions	**2004**	2003	2002
Net revenues	**$2,793.7**	$2,648.9	$2,466.4
Operating income	**309.1**	219.1	137.0
Operating margin	**11.1%**	8.3%	5.6%

<u>2004 vs. 2003:</u> Climate Control revenues for 2004 increased by approximately 5% compared to 2003. The effects of currency translation accounted for approximately 3% of the increase, mainly due to the weakening of the U.S. dollar. The remaining increase was primarily due to higher volumes and product mix and pricing. Operating income and margins for the year ended 2004 increased significantly. Higher prices accounted for $48.6 million of increased operating income, while volumes and product mix added $30.9 million. Increased productivity from cost saving programs such as low cost country savings (approximately $22 million), improved labor and overhead efficiencies (approximately $18 million) and improved operating efficiencies in service and aftermarket businesses (approximately $13 million), more than offset higher material costs of $28.7 million.

Climate Control revenues and operating income benefited from strong worldwide market conditions for the truck & trailer product lines. North American operations were also helped by the bus business, while retail stationary refrigeration equipment and contracting sales were flat. Growth in the European and Asian display case markets also contributed to the improvement.

<u>2003 vs. 2002:</u> Climate Control revenues for 2003 increased by approximately 7% compared to 2002. The effects of currency translation accounted for approximately 4% of the increase, mainly due to the strengthening of the Euro against the U.S. dollar. The remaining increase was primarily due to higher volumes, pricing, and the full year inclusion of the results

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of acquisitions that occurred in 2002. Operating income and margins for the year ended 2003 increased significantly. The estimated benefits associated with the restructuring programs and improved productivity increased operating income by approximately $37 million, while pricing, and higher volumes and product mix increased operating income by $25.8 million and $8.7 million, respectively. These positive effects were partially offset by other expenses, such as higher pension and other employee benefit costs.

Industrial Solutions

Industrial Solutions is comprised of a diverse group of businesses focused on providing solutions to enhance customers' industrial efficiency mainly by engaging in the design, manufacture, sale and service of air compressors, microturbines and industrial tools. Industrial Solutions results have been restated for the sale of Dresser-Rand, now included in Discontinued Operations.

Dollar amounts in millions	**2004**	2003	2002
Net revenues	**$1,552.8**	$1,363.6	$1,279.0
Operating income	**180.5**	104.1	67.9
Operating margin	**11.6%**	7.6%	5.3%

2004 vs. 2003: Industrial Solutions' revenues for 2004 increased by approximately 14% compared to 2003. Higher volumes, new product introductions and product mix accounted for approximately 10% of the increase. The effects of currency translation accounted for approximately 2% of the increase, mainly due to the continued weakening of the U.S. dollar. Operating income and margins for the year ended 2004 increased significantly. Higher volumes and product mix increased operating income by $45.6 million. Pricing and improved productivity also increased operating income by $12.9 million and $14.6 million, respectively. The effect of currency also had a favorable effect on operating profit.

Industrial Solutions' revenues and operating income benefited from higher volumes and product mix, as recurring revenues for the segment experienced double digit growth. New products with higher margins and increased aftermarket business, along with high growth in the Asian markets also improved revenues and profitability for the segment.

2003 vs. 2002: Industrial Solutions' revenues for 2003 increased by approximately 7% compared to 2002. The effects of currency translation accounted for approximately 4% of the increase, mainly due to the strengthening of the euro. The remaining increase was primarily due to higher volumes and service revenue growth. Operating income and margins for the year ended 2003 increased significantly. Higher volumes and product mix, and the effects of currency translation increased operating income by $8.9 million and $8.7 million, respectively, while the estimated benefits associated with the restructuring programs and improved productivity increased operating income by approximately $37 million. These positive effects partially offset costs for implementing new efficiency initiatives, and other charges, such as higher employee benefit costs.

Infrastructure

Infrastructure is engaged in the design, manufacture, sale and service of skid-steer loaders, mini-excavators, golf and utility vehicles, portable compressors and light towers, and road construction and repair equipment. It is comprised of Bobcat, Club Car, Utility Equipment and Road Development. Infrastructure prior years' results have been restated for the sale of Drilling Solutions, now included in Discontinued Operations.

Dollar amounts in millions	**2004**	2003	2002
Net revenues	**$3,268.8**	$2,631.8	$2,367.5
Operating income	**437.2**	292.9	222.0
Operating margin	**13.4%**	11.1%	9.4%

2004 vs. 2003: Infrastructure revenues for 2004 increased by approximately 24% compared to 2003. Higher volumes and product mix accounted for approximately 18% of the increase, while the effects of currency translation and pricing accounted for the majority of the remaining increase. Operating income and margins for the year ended 2004 increased significantly. Higher volumes and product mix, and pricing increased operating income by $134.1 million and $74.2 million, respectively. Additionally, the effects of currency translation helped improve operating income. These positive effects were partially offset by higher material costs of $66.0 million and higher product costs and productivity investments.

Revenues and operating income for all businesses in the Infrastructure Segment increased in 2004. Bobcat's sales volumes and pricing improvements were led by increased market demand, new products and attachments introduced during the year and an increase in aftermarket parts sales. Club Car also had improvements in volume and pricing with an increase in parts sales and the successful introduction of the Precedent golf car and a new utility work vehicle. European demand was also strong for Club Car. Road Development had higher volumes during the year due to increased market demand and strong growth in the European market.

2003 vs. 2002: Infrastructure revenues for 2003 increased by approximately 11% compared to 2002. Higher volumes accounted for approximately 6% of the increase, while the effects of currency translation accounted for a majority of the remaining increase. Operating income and margins for the year ended 2003 increased significantly. The estimated benefits associated with the restructuring programs and improved productivity increased operating income by approximately $27 million, while higher volumes and product mix, and the effects of currency translation increased operating income by $34.7 million and $17.0 million, respectively. These positive effects were partially offset by costs for implementing new efficiency initiatives, facility consolidation costs, increased product liability costs, and other charges, such as higher pension and other employee benefit costs.

Security and Safety

Security and Safety is engaged in the design, manufacture, sale and service of locks, door closers, exit devices, door control hardware, doors and frames, decorative hardware, electronic and biometric access control systems, and time and attendance systems.

Dollar amounts in millions	**2004**	2003	2002
Net revenues	**$1,778.3**	$1,605.0	$1,470.1
Operating income	**304.8**	316.6	275.8
Operating margin	**17.1%**	19.7%	18.8%

2004 vs. 2003: Security and Safety revenues for 2004 increased by approximately 11% compared to 2003. Of the increase, higher volumes and product mix, and the effects of currency translation accounted for approximately 8% and 2%, respectively. Improved pricing also contributed to the increase in revenues. Operating income and margins declined during 2004. Operating income was negatively impacted by the cost of implementing growth initiatives of $24.8 million, costs of approximately $10.0 million related to a Kryptonite cylindrical bicycle lock issue, costs related to a plant closing and the discontinuance of a plumbing fixture product line of $7.9 million and by legal expenses of $11.0 million. These increased costs were partially offset by increases in operating income from pricing, and higher volumes and product mix of $32.6 million and $13.8 million, respectively.

Security and Safety achieved revenue growth through increased volumes in all regions as the traditional hardware business for residential and commercial industries improved. Productivity improvements, further investments in electronic access-control products and the launch of a maritime security market program continued to improve profit while positioning the segment for future growth and improved profitability.

2003 vs. 2002: Security and Safety revenues for 2003 increased by approximately 9% compared to 2002. Higher volumes and product mix, the results of acquisitions, and the effects of currency translation accounted for approximately 3%, 2%, and 2%, respectively, of the increase. The remaining increase was primarily due to pricing. Operating income and margins increased for the year ended 2003. The estimated benefits associated with the restructuring programs and improved productivity increased operating income by approximately $21 million, while pricing, and higher volumes and product mix increased operating income by $11.6 million and $9.3 million, respectively. These positive effects were partially offset by increased investments in new and core products to maintain current market share, as well as other charges, such as higher pension and other employee benefit costs.

Employee Benefit Plans

Pensions — Net periodic pension cost for 2004 totaled $26.5 million. The sale of Dresser-Rand and Drilling Solutions caused net pension curtailment and settlement losses of $41.1 million. Net periodic pension cost for the pension plans for 2004 was based on the weighted-average assumptions used at the end of 2003 to calculate the pension benefit obligation.

Net periodic pension cost for 2003 totaled $83.0 million. The sale of Engineered Solutions caused net pension curtailment and settlement gains of $10.1 million. In the first quarter of 2003, the Company remeasured its major U.S. pension plan due to the sale of Engineered Solutions. Prior to remeasurement, the assumptions used to calculate pension benefits were as follows: 6.75% discount rate; 4.00% rate of compensation increase and an 8.75% expected return on plan assets. Upon remeasurement, the discount rate was decreased to 6.50% to reflect the change in market conditions. The net periodic pension cost for non-U.S. plans for 2003 was based on the weighted-average assumptions disclosed at December 31, 2002

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In the fourth quarter of 2002, the Company approved certain amendments to its U.S. pension plans for non-bargaining employees, effective January 1, 2003. Prior to the plan amendments, the Company's U.S. salaried plans principally provided benefits based on a career-average earnings formula. Effective January 1, 2003, the Company's pension plans for U.S. non-collectively bargained employees provide benefits on a more modest final average pay formula.

The Company's investment objectives in managing its defined benefit plan assets are to ensure that present and future benefit obligations to all participants and beneficiaries are met as they become due; to provide a total return that, over the long term, minimize the present value of required Company contributions, at the appropriate levels of risk; and meet any statutory requirements, laws and local regulatory agencies requirements. Key investment decisions reviewed regularly are asset allocations, investment manager performance, investment advisors and trustees or custodians. An asset/liability modeling (ALM) study is used as the basis for global asset allocation decisions and updated approximately every five years or as required. The Company's current strategic global asset allocation for its pension plans is 60% in equity securities and 40% in debt securities and cash. The Company sets upper limits and lower limits of plus or minus 5%. The asset allocations are reviewed and any appropriate adjustment are reflected quarterly.

The Company made required and discretionary contributions of $30.1 million and $140.0 million, respectively, to its pension plans in 2004. This includes $20.0 million of discretionary contributions to the Dresser-Rand pension plan. The Company currently projects that it will be required to contribute approximately $22 million to its plans worldwide in 2005. Prior to 2004, the Company contributions averaged approximately $78.2 million a year for the previous five years. The Company's policy allows it to fund an amount, which could be in excess of the pension cost expensed, subject to the limitations imposed by current tax regulations. While the Company anticipates funding the plans in 2005 in accordance with contributions required by funding regulations or the laws of each jurisdiction, most of the non-U.S. plans require employer contributions based on the employees' earnings.

Pension benefit payments for 2005 are expected to be approximately $181.3 million. Pension expense for 2005 is projected to be approximately $28.8 million, utilizing the assumptions used to calculate the pension benefit obligations at 2004 year end.

Postretirement Benefits Other Than Pensions — Net periodic postretirement benefit cost other than pension cost for 2004 totaled $76.9 million. In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. The company adopted FASB Staff Position FAS 106-2 as of April 1, 2004. The Company and its actuarial advisors determined that most benefits provided by the plan were at least actuarially equivalent to Medicare Part D. The Company remeasured the accumulated benefit obligation effects of the Act as of April 1, 2004. The effect of the federal subsidy to which the Company is entitled has been accounted for as an actuarial gain of $86.3 million, which is amortized and reduces current and future benefit costs. The subsidy had the effect of reducing postretirement benefit expense for 2004 by $9.2 million. The components of the reduction in expense were a decrease in the amortization of the actuarial loss of $5.0 million, a reduction in service cost of $0.3 million and a reduction in the interest cost on the benefit obligation of $3.9 million. The assumptions used for 2004 expense include a discount rate of 6.00% and a health care cost trend rate of 11.00%, gradually reducing to 5.25%. The assumptions used to remeasure the plan as of April 1, 2004 remained the same as the prior measurement date due to the existence of similar economic conditions. The assumptions expected to be used in the 2005 net periodic postretirement benefit cost are the same as were used at the end of 2004 to calculate the postretirement benefit obligation.

Net periodic postretirement benefit cost other than pension cost for 2003 totaled $77.1 million. A curtailment gain of $6.9 million relating to the sale of Engineered Solutions was recorded in 2003. In February 2003, the Company remeasured its postretirement plan due to the sale of Engineered Solutions. Prior to remeasurement, the discount rate used to calculate postretirement benefits was 6.75%. Upon remeasurement, the discount rate was decreased to 6.50% to reflect the change in market conditions. No change was made to the health care cost trend rate at that time. The weighted-average assumptions used to calculate the postretirement benefit obligation at the end of 2003 were a discount rate of 6.00% and increases in per capita cost of covered health care benefits of 11.00%, gradually reducing to 5.25%.

In the fourth quarter of 2002, certain plan amendments were approved and were effective January 1, 2003. The amendments include the elimination of subsidized life insurance for all future retirees and the elimination of subsidized postretirement health care benefits for all new hires, as well as all active employees who do not meet certain eligibility requirements as of January 1, 2003. In addition, the amendments limit the amount the Company will subsidize for postretirement health care benefits to a flat dollar cap with cost escalation equally shared between the Company and the retiree. When the cap is reached, the retiree becomes responsible for all additional cost escalation. These amendments were considered significant events with respect to the plan and therefore remeasurement of the plan obligation was required as of the approval date.

The Company funds postretirement benefit costs principally on a pay-as-you-go basis. Benefit payments for postretirement benefits, which reflect future service and are net of the expected Medicare Part D subsidy, as appropriate, are expected to be paid as follows: $76.1 million in 2005, $73.2 million in 2006, $75.2 million in 2007, $75.3 million in 2008, $76.3 million in 2009 and $379.4 million for the years 2010 to 2014. Postretirement benefit cost for 2005 is projected to be approximately $73.7 million, utilizing the assumptions used to calculate the postretirement benefit obligations at year end.

Liquidity and Capital Resources

The following table contains several key measures to gauge the Company's financial performance and condition.

Dollar amounts in millions	**2004**	2003	2002
Operating cash flow	**$ 753.2**	$138.4	$486.4
Working capital	**1,732.8**	878.0	707.1
Current ratio	**1.6**	1.3	1.2
Debt-to-total capital ratio	**24.3%**	33.4%	47.4%
Average working capital to net sales	**13.1%**	10.7%	8.4%
Average days outstanding in receivables	**55.6**	57.0	56.3
Inventory turnover	**5.8**	6.6	5.4

The Company had cash and cash equivalents of $1.7 billion at December 31, 2004. The Company has been able to increase its cash due to improved operating results, reduced interest expense and divestitures of cyclical, slow growth businesses.

The Company's primary source for liquidity has been operating cash flow. The increase in net cash provided by operating activities from $138.4 million in 2003 to $753.2 million in 2004 represents an increase in earnings as all segments had improved results. Cash flow in 2003 was adversely affected due to the Company's termination of its asset securitization program, which resulted in the repurchase of approximately $240 million of receivables.

Net cash provided by investing activities in 2004 was $1,328.9 million, compared to $820.9 million in 2003. The increase reflects the cash received for the dispositions of Dresser-Rand and Drilling Solutions during 2004. Net cash provided by investing activities in 2003 included proceeds from the sale of Engineered Solutions, Waterjet and Laidlaw as well as the sale of marketable securities.

Net cash used in financing activities in 2004 was $807.2 million compared to $851.7 million in 2003. The decrease reflects the higher debt repayments in 2003, partially offset by the 2004 repurchase of approximately 5.3 million shares of Class A common stock for $355.9 million.

On August 4, 2004, the board of directors authorized the repurchase of up to 10 million shares of the Company's Class A common shares. As of December 31, 2004, approximately 2.0 million shares were repurchased under this program. The board of directors also authorized on August 4, 2004, an increase of the quarterly dividend rate from 19 cents to 25 cents per Class A common share.

In addition to operating cash flow, the Company has the ability to supplement its liquidity with commercial paper. The Company's ability to borrow at a cost-effective rate under the commercial paper program is contingent upon maintaining an investment-grade credit rating. As of December 31, 2004 the Company's credit ratings were as follows:

	Short-term	Long-term
Moody's	P-2	A3
Standard and Poor's	A-2	BBB+

Should the need arise, the Company has other short-term borrowing alternatives. At December 31, 2004, the Company had $2.0 billion of committed revolving credit lines that consisted of two five-year lines of which $1.25 billion terminates in July 2006 and $750 million terminates in June 2009, both of which were unused. The Company's public debt has no financial covenants and its $2.0 billion revolving credit lines have a debt-to-total capital covenant of 65%, which is calculated excluding non-cash items. As of December 31, 2004, the Company's debt-to-total capital ratio was significantly beneath this limit. Additionally, $784.5 million of non-U.S. credit lines were available for working capital purposes, of which $630.0 million were unused at December 31, 2004. The Company did not have any commercial paper outstanding at December 31, 2004 or 2003.

In 2005, the Company has scheduled debt retirements of approximately $551 million, which includes approximately $499 million in bonds that may require repayment at the option of the holders. The Company does not expect the bond holders to exercise these options. The Company's cash generation, large unused capacity under its committed borrowing facilities, and the ability to refinance debt over longer maturities provide it sufficient capacity to cover all cash requirements

Management's Discussion and Analysis Continued

for capital expenditures, dividends, debt repayments, and operating lease and purchase obligations in 2005. Additionally, these capacities provide support for commercial paper and other financial instruments, such as letters of credit.

In 2004, foreign currency translation adjustments increased shareholders' equity by $168.7 million. This was due to the weakening of the U.S. dollar against other currencies in countries where the Company has significant operations. In 2003, foreign currency translation adjustments increased shareholders' equity by $302.9 million.

The following table summarizes the Company's contractual cash obligations by required payment periods, in millions:

Payments due by period	Long-term debt	Purchase obligations	Operating leases	Total contractual cash obligations
Less than 1 year	$ 551.0	$452.9	$ 64.9	$1,068.8
1 - 3 years	821.9	—	91.8	913.7
3 - 5 years	144.0	—	48.2	192.2
More than 5 years	301.7	—	24.1	325.8
Total	$1,818.6	$452.9	$229.0	$2,500.5

Future expected obligations under the Company's pension and postretirement benefit plans have not been included in the contractual cash obligations table above. The Company's pension plan policy allows it to fund an amount, which could be in excess of the pension cost expensed, subject to the limitations imposed by current tax regulations. While the Company anticipates funding the plans in 2005 in accordance with contributions required by funding regulations or laws of each jurisdiction, most of the non-U.S. plans require employer contributions based on the employees' earnings. The Company currently projects that it will be required to contribute approximately $22 million to its pension plans worldwide in 2005. Our postretirement benefit plans are not required to be funded in advance, but are principally on a pay-as-you-go basis. The Company currently projects that it will make payments, net of plan participants' contributions, of approximately $76 million in 2005 for its postretirement benefit plans.

The average short-term borrowings outstanding, excluding current maturities of long-term debt, were $88.0 million in 2004, compared to $302.6 million in 2003. The weighted-average interest rate was 10.3% and 4.8%, for short-term borrowings during 2004 and 2003, respectively, excluding current maturities of long-term debt. The average interest rate is higher in 2004 due to a significant decrease in U.S. debt borrowings and an increase in debt borrowings outside the U.S. The maximum amounts outstanding during 2004 and 2003 were $214.7 million and $913.8 million, respectively.

Capital expenditures were $108.6 million, $99.3 million and $106.6 million for 2004, 2003 and 2002, respectively. The Company continues investing to improve manufacturing productivity, reduce costs, and provide environmental enhancements and advanced technologies for existing facilities. The capital expenditure program for 2005 is estimated at approximately $175 million, including amounts approved in prior periods. Many of these projects are subject to review and cancellation at the option of the Company without incurring substantial charges. There are no planned projects, either individually or in the aggregate, that represent a material commitment for the Company.

At December 31, 2004, 2003 and 2002, employment was approximately 36,200, 36,500 and 38,000, respectively. The decrease during 2003 was primarily due to headcount reductions associated with the elimination of excess capacity and process improvements.

On January 21, 2005, the Company completed the acquisition of the remaining 70% interest in Italy-based CISA S.p.A. ("CISA") for approximately Euro 202 million in cash and the assumption of Euro 190 million of debt. CISA manufactures an array of security and safety products, including electronic locking systems, cylinders, door closers, and panic hardware, and also markets safes and padlocks.

Financial Market Risk

The Company is exposed to fluctuations in the price of major raw materials used in the manufacturing process, foreign currency fluctuations and interest rate changes. From time to time the Company enters into agreements to reduce its raw material, foreign currency and interest rate risks. To minimize the risk of counter party non-performance, such agreements are made only through major financial institutions with significant experience in such financial instruments.

The Company experiences foreign currency exposures in the normal course of business. To mitigate the risk from foreign currency exchange rate fluctuations, the Company will generally enter into forward currency exchange contracts or options for the purchase or sale of a currency to hedge this exposure.

The Company evaluates its exposure to changes in foreign currency exchange rates using a sensitivity analysis. The sensitivity analysis is a measurement of the potential loss in fair value based on a percentage increase or decrease in exchange rates against the U.S. dollar. Based on the firmly committed foreign currency derivative instruments in place at December 31, 2004, a hypothetical change in fair value of those financial instruments assuming a 10% increase in exchange rates against the U.S. dollar would result in unrealized loss of approximately $15.0 million, as compared to $20.9 million at

December 31, 2003. These amounts would be offset by changes in the fair value of underlying foreign currency transactions.

With regard to interest rate risk, the effect of a hypothetical 1% increase in interest rates, across all maturities, would have decreased the estimated fair value of the Company's long-term debt from $1,410.4 million to an estimated fair value of $1,338.1 million at December 31, 2004, and from $1,700.9 million to an estimated fair value of $1,598.1 million at December 31, 2003.

Environmental and Asbestos Matters

The Company continues to be dedicated to an environmental program to reduce the utilization and generation of hazardous materials during the manufacturing process and to remediate identified environmental concerns. As to the latter, the Company currently is engaged in site investigations and remedial activities to address environmental cleanup from past operations at current and former manufacturing facilities.

During 2004, the Company spent $4.4 million on capital projects for pollution abatement and control, and an additional $7.6 million for environmental remediation expenditures at sites presently or formerly owned or leased by the Company. It should be noted that these amounts are difficult to estimate because environmental projects are generally a part of the overall improvement program at a particular plant. The Company believes that these expenditure levels will continue and may increase over time. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

The Company is a party to environmental lawsuits and claims, and has received notices of potential violations of environmental laws and regulations from the Environmental Protection Agency and similar state authorities. It is identified as a potentially responsible party (PRP) for cleanup costs associated with off-site waste disposal at federal Superfund and state remediation sites. For all sites there are other PRPs and, in most instances, the Company's site involvement is minimal.

In estimating its liability, the Company has assumed it will not bear the entire cost of remediation of any site to the exclusion of other PRPs who may be jointly and severally liable. The ability of other PRPs to participate has been taken into account, based generally on the parties' financial condition and probable contributions on a per site basis. Additional lawsuits and claims involving environmental matters are likely to arise from time to time in the future.

Although uncertainties regarding environmental technology, U.S. federal and state laws and regulations and individual site information make estimating the liability difficult, management believes that the total liability for the cost of remediation and environmental lawsuits and claims will not have a material effect on the financial condition, results of operations, liquidity or cash flows of the Company for any year. It should be noted that when the Company estimates its liability for environmental matters, such estimates are based on current technologies, and the Company does not discount its liability or assume any insurance recoveries.

Ingersoll-Rand Company (IR-New Jersey), a Company subsidiary, is a defendant in numerous asbestos-related lawsuits in state and federal courts. In virtually all of the suits a large number of other companies have also been named as defendants. The claims against IR-New Jersey generally allege injury caused by exposure to asbestos contained in certain of IR-New Jersey's products. Although IR-New Jersey was neither a producer nor a manufacturer of asbestos, some of its formerly manufactured products utilized asbestos-containing components, such as gaskets purchased from third-party suppliers.

All claims resolved to date have been dismissed or settled, and IR-New Jersey's average settlement amount per claim has been nominal. For the year ended December 31, 2004, total costs for settlement and defense of asbestos claims after insurance recoveries and net of tax were approximately $16.5 million as compared to $16.6 million for the year ended December 31, 2003. With the assistance of independent advisors, the Company has performed a thorough analysis, updated periodically, of its actual and potential asbestos liabilities. Based upon such analysis, the Company believes that its reserves and insurance are adequate to cover its asbestos liabilities, and that these asbestos liabilities are not likely to have a material adverse effect on its financial position, results of operations, liquidity and cash flows. See also the discussion under Note 7, Commitments and Contingencies, to the Consolidated Financial Statements.

New Accounting Standards

In May 2004, the Financial Accounting Standards Board ("FASB") released FASB Staff Position No. 106-2, which supersedes FASB Staff Position 106-1, entitled, "Accounting and Disclosure Requirements Regarding the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The Act introduced a government-provided subsidy based on a percentage of a beneficiary's annual prescription drug benefits, within defined limits, and the opportunity for a retiree to obtain prescription drug benefits under Medicare. The current accounting rules require a company to consider current changes in applicable laws when measuring its postretirement benefit costs and accumulated postretirement benefit obligations. The Company adopted FASB Staff Position 106-2 as of April 1, 2004. The Company and its actuarial advisors

Management's Discussion and Analysis Continued

determined that most benefits provided by the plan were at least actuarially equivalent to Medicare Part D. The Company remeasured the accumulated benefit obligation effects of the Act as of April 1, 2004. The effect of the federal subsidy to which the Company is entitled has been accounted for as an actuarial gain of $86.3 million. The subsidy had the effect of reducing postretirement benefit expense for 2004 by approximately $9.2 million.

In November 2004, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Company is evaluating the impact that the adoption of SFAS No. 151 will have on its consolidated financial position, results of operations and cash flows.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share Based Payment." SFAS No. 123(R) is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," which supersedes APB No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123(R) requires companies to recognize compensation expense in the income statement for an amount equal to the fair value of the share-based payment issued. This applies to all transactions involving the issuance of equity by a company in exchange for goods and services, including employees. SFAS No. 123(R) is effective for the first interim or annual reporting period after June 15, 2005. The Company is evaluating the transition applications and the impact the adoption of SFAS No. 123(R) will have on its consolidated financial position, results of operations and cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 replaces the exception from fair value measurement in APB Opinion No. 29, with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. The Statement is to be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 153 to have a material impact on its consolidated financial position, results of operations and cash flows.

In December 2004, the FASB released FASB Staff Position ("FSB") 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act." The American Jobs Creation Act includes a tax deduction of up to 9 percent (when fully phased-in) of the lesser of (a) "qualified production activities income," as defined in the Act, or (b) taxable income (after the deduction for the utilization of any net operation loss carryforwards). The tax deduction is limited to 50 percent of W-2 wages paid by the taxpayer. The staff position of the deduction is that it should be accounted for as a special deduction in accordance with Statement 109 and should be considered by the company in (a) measuring deferred taxes and (b) assessing whether a valuation is necessary. The Company has not adjusted its deferred tax assets and liabilities as of December 31, 2004 to reflect the impact of this special deduction. Rather, the impact of this deduction will be reported in the period for which the deduction is claimed on the Company's U.S. federal income tax return.

In December 2004, the FASB released FSB 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." The American Jobs Creation Act provides for a special one-time tax deduction of 85 percent of certain foreign earnings that are repatriated in either an enterprise's last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment. FSB 109-2 allows for time for enterprises beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The evaluation of the effects of the repatriation provision will be completed within a reasonable period of time following the publication of the additional guidance. The Company is considering the impact of repatriation on a range of earnings of up to $525 million, and the corresponding income taxes may be as much as approximately $65 million. The resulting income tax, if any, will be provided in the Company's financial statements in the quarter in which the evaluation and approvals have been completed.

Forward-looking Statements

This annual report contains not only historical information, but also forward-looking statements regarding expectations for future Company performance. Forward-looking statements involve risk and uncertainty. See the Company's 2004 Annual Report on Form 10-K for a discussion of factors which could cause future results to differ from current expectations.

Consolidated Statement of Income

In millions, except per share amounts

For the years ended December 31,	**2004**	2003	2002
Net revenues	**$9,393.6**	$8,249.3	$7,583.0
Cost of goods sold	**6,854.0**	6,109.0	5,718.1
Selling and administrative expenses	**1,419.3**	1,355.9	1,245.0
Restructuring (reversals) charges	**—**	(3.2)	41.9
Operating income	**1,120.3**	787.6	578.0
Interest expense	**(153.1)**	(175.5)	(227.9)
Other income (expense), net	**17.0**	10.9	(20.1)
Minority interests	**(16.0)**	(14.9)	(15.5)
Earnings before income taxes	**968.2**	608.1	314.5
Provision (benefit) for income taxes	**138.4**	75.3	(7.9)
Earnings from continuing operations	**829.8**	532.8	322.4
Discontinued operations, net of tax	**388.9**	111.7	138.6
Earnings before cumulative effect of change in accounting principle	**1,218.7**	644.5	461.0
Cumulative effect of change in accounting principle, net of tax	**—**	—	(634.5)
Net earnings (loss)	**$1,218.7**	$ 644.5	$ (173.5)
Basic earnings (loss) per common share:			
Earnings from continuing operations	**$4.79**	$3.12	$ 1.91
Discontinued operations, net of tax	**2.24**	0.65	0.82
Earnings before cumulative effect of change in accounting principle	**7.03**	3.77	2.73
Cumulative effect of change in accounting principle, net of tax	**—**	—	(3.76)
Net earnings (loss)	**$7.03**	$3.77	$(1.03)
Diluted earnings (loss) per common share:			
Earnings from continuing operations	**$4.73**	$3.09	$ 1.89
Discontinued operations, net of tax	**2.22**	0.65	0.82
Earnings before cumulative effect of change in accounting principle	**6.95**	3.74	2.71
Cumulative effect of change in accounting principle, net of tax	**—**	—	(3.73)
Net earnings (loss)	**$6.95**	$3.74	$(1.02)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

In millions, except share amounts

December 31,	**2004**	2003
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,703.7**	$ 417.2
Accounts and notes receivable, less allowance of $70.1 in 2004 and $58.7 in 2003	**1,498.4**	1,403.0
Inventories	**1,058.8**	858.0
Prepaid expenses and deferred income taxes	**348.8**	286.8
Assets held for sale	**—**	1,051.6
Total current assets	**4,609.7**	4,016.6
Property, plant and equipment, net	**1,013.2**	1,066.0
Goodwill	**4,211.0**	4,162.6
Intangible assets, net	**618.2**	632.0
Other assets	**962.5**	787.7
Total assets	**$11,414.6**	$10,664.9
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	**$ 684.0**	$ 620.3
Accrued expenses and other current liabilities	**1,146.6**	914.3
Accrued compensation and benefits	**433.5**	368.1
Loans payable and current maturities of long-term debt	**612.8**	797.0
Liabilities held for sale	**—**	438.9
Total current liabilities	**2,876.9**	3,138.6
Long-term debt	**1,267.6**	1,518.4
Postemployment and other benefit liabilities	**1,018.1**	1,071.1
Other noncurrent liabilities	**518.2**	443.5
Total liabilities	**5,680.8**	6,171.6
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Class A common shares, $1 par value (178,377,012, 174,453,978 shares issued in 2004 and 2003, respectively, and net of 5,292,689 shares owned by subsidiary in 2004)	**173.1**	174.5
Capital in excess of par value	**469.6**	610.6
Retained earnings	**5,028.3**	3,978.7
Accumulated other comprehensive income (loss)	**62.8**	(270.5)
Total shareholders' equity	**5,733.8**	4,493.3
Total liabilities and shareholders' equity	**$11,414.6**	$10,664.9

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

In millions	Total shareholders' equity	Common stock Amount	Common stock Shares	Capital in excess of par value	Retained earnings	Accumulated other comprehensive (loss) income	Comprehensive (loss) income
Balance at December 31, 2001	$3,916.6	$168.0	168.0	$324.2	$3,745.8	$(321.4)	
Net loss	(173.5)				(173.5)		$ (173.5)
Foreign currency translation	124.3					124.3	124.3
Change in fair value of derivatives qualifying							
as cash flow hedges, net of tax of $0.2	1.2					1.2	1.2
Minimum pension liability adjustment, net of tax of $175.3	(317.2)					(317.2)	(317.2)
Total comprehensive loss							$ (365.2)
Shares issued under incentive stock plans	41.7	1.2	1.2	40.5			
Cash dividends	(114.9)				(114.9)		
Balance at December 31, 2002	3,478.2	169.2	169.2	364.7	3,457.4	(513.1)	
Net earnings	644.5				644.5		$ 644.5
Foreign currency translation	302.9					302.9	302.9
Change in fair value of derivatives qualifying							
as cash flow hedges, net of tax of $3.2	(18.1)					(18.1)	(18.1)
Minimum pension liability adjustment, net of tax of $24.4	(42.2)					(42.2)	(42.2)
Total comprehensive income							$ 887.1
Shares issued under incentive stock plans	251.2	5.3	5.3	245.9			
Cash dividends	(123.2)				(123.2)		
Balance at December 31, 2003	4,493.3	174.5	174.5	610.6	3,978.7	(270.5)	
Net earnings	1,218.7				1,218.7		$1,218.7
Foreign currency translation	168.7					168.7	168.7
Change in fair value of derivatives qualifying							
as cash flow hedges, net of tax of $0.4	3.1					3.1	3.1
Minimum pension liability adjustment, net of tax of $103.7	161.5					161.5	161.5
Total comprehensive income							$1,552.0
Shares issued under incentive stock plans	213.5	3.9	3.9	209.6			
Repurchase of common shares by subsidary	(355.9)	(5.3)	(5.3)	(350.6)			
Change in fiscal year end of subsidiary, net of tax of $7.3	(16.5)				(16.5)		
Cash dividends	(152.6)				(152.6)		
Balance at December 31, 2004	$5,733.8	$173.1	173.1	$469.6	$5,028.3	$ 62.8	

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In millions

For the years ended December 31,	**2004**	2003	2002
Cash flows from operating activities:			
Earnings from continuing operations before cumulative effect of change in accounting principle	**$ 829.8**	$ 532.8	$ 322.4
Adjustments to arrive at net cash provided by operating activities:			
Restructure of operations	**—**	(3.2)	41.9
Depreciation and amortization	**174.4**	171.6	166.7
Gain on sale of property, plant and equipment	**(8.9)**	(5.7)	(0.5)
Minority interests, net of dividends	**6.3**	4.6	6.2
Equity earnings, net of dividends	**(8.6)**	(0.1)	(0.7)
Deferred income taxes	**(59.2)**	(26.9)	65.4
Other items	**(16.6)**	(46.2)	0.8
Changes in other assets and liabilities			
(Increase) decrease in:			
Accounts and notes receivable	**(70.1)**	(277.3)	40.1
Inventories	**(174.8)**	13.4	42.1
Other current and noncurrent assets	**(156.2)**	(49.1)	(92.5)
Increase (decrease) in:			
Accounts payable and accruals	**91.5**	5.2	(47.9)
Other current and noncurrent liabilities	**145.6**	(180.7)	(57.6)
Net cash provided by operating activities	**753.2**	138.4	486.4
Cash flows from investing activities:			
Capital expenditures	**(108.6)**	(99.3)	(106.6)
Proceeds from sale of property, plant and equipment	**50.4**	43.1	40.8
Acquisitions, net of cash	**(33.7)**	(21.3)	(112.7)
Proceeds from business dispositions	**1,413.2**	751.4	—
Proceeds from sales and maturities of marketable securities	**—**	147.6	—
Cash (invested in) provided by or advances (to) from equity companies	**7.6**	(0.6)	(2.3)
Net cash provided by (used in) investing activities	**1,328.9**	820.9	(180.8)
Cash flows from financing activities:			
Decrease in short-term borrowings	**(16.3)**	(146.7)	(158.0)
Proceeds from long-term debt	**—**	—	26.5
Payments of long-term debt	**(453.1)**	(792.9)	(89.7)
Net change in debt	**(469.4)**	(939.6)	(221.2)
Proceeds from exercise of stock options	**170.7**	211.1	36.7
Dividends paid	**(152.6)**	(123.2)	(114.8)
Purchase of treasury shares	**(355.9)**	—	—
Net cash used in financing activities	**(807.2)**	(851.7)	(299.3)
Net cash provided by discontinued operations	**18.9**	21.8	190.2
Effect of change in fiscal year end of businesses	**(23.8)**	—	—
Effect of exchange rate changes on cash and cash equivalents	**16.5**	2.6	2.8
Net increase in cash and cash equivalents	**1,286.5**	132.0	199.3
Cash and cash equivalents - beginning of period	**417.2**	285.2	85.9
Cash and cash equivalents - end of period	**$1,703.7**	$ 417.2	$ 285.2
Cash paid during the year for:			
Interest, net of amounts capitalized	**$ 124.2**	$ 190.2	$ 230.5
Income taxes, net of refunds	**170.8**	73.5	(12.6)

See accompanying Notes to Consolidated Financial Statements.

Notes To Consolidated Financial Statements

Note 1– Summary Of Significant Accounting Policies

A summary of significant accounting policies used in the preparation of the accompanying financial statements follows:

Basis of Presentation:

The consolidated financial statements of Ingersoll-Rand Company Limited, a Bermuda company (IR-Limited or the Company), have been prepared in accordance with generally accepted accounting principles in the United States. IR-Limited is the successor to Ingersoll-Rand Company, a New Jersey corporation (IR-New Jersey), following a corporate reorganization (the reorganization) that became effective on December 31, 2001. The reorganization was accomplished through a merger of a newly-formed merger subsidiary of IR-Limited. IR-Limited and its subsidiaries continue to conduct the businesses previously conducted by IR-New Jersey and its subsidiaries. The reorganization has been accounted for as a reorganization of entities under common control and accordingly it did not result in any changes to the consolidated amounts of assets, liabilities and shareholders' equity.

The accompanying condensed consolidated financial statements include the results of Hussmann International, Inc. (Hussmann) and its majority-owned subsidiaries. Since the 2000 acquisition, all Hussmann operations were included in the consolidated financial statements on a 15-day lag basis for U.S. operations and a one-month lag basis for all non-U.S. operations. Due to process improvements, the 15-day and one-month lags were eliminated as of the beginning of fiscal year 2004 for Hussmann and its majority-owned subsidiaries. The resulting net loss of $16.5 million was recorded directly to retained earnings during the first quarter of 2004.

Use of Estimates:

In conformity with generally accepted accounting principles, management has used estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Significant estimates include accounting for doubtful accounts, depreciation and amortization, inventory reserves, valuation of assets including goodwill and other intangible assets, products warranties, sales allowances, taxes, environmental, asbestos, product liability and other contingencies. Actual results could differ from those estimates.

Principles of Consolidation:

The consolidated financial statements include all wholly owned and majority owned subsidiaries. Intercompany transactions and balances have been eliminated. Partially owned equity affiliates are accounted for under the equity method.

Reclassifications:

Reclassifications were made to prior-year amounts to conform with the 2004 presentation. The accompanying consolidated financial statements restate the previously presented amounts to report the Company's Drilling Solutions and Dresser-Rand business units as discontinued operations (See Note 2).

Cash Equivalents:

The Company considers all highly liquid investments, consisting primarily of time deposits and commercial paper with maturities of three months or less when purchased, to be cash equivalents. Cash equivalents were $1,517.6 million and $247.9 million at December 31, 2004 and 2003, respectively.

Inventories:

Inventories are stated at cost, which is not in excess of market. Most U.S. manufactured inventories, excluding the Climate Control segment, are valued using the last-in, first-out (LIFO) method. All other inventories are valued using the first-in, first-out (FIFO) method.

Allowance for Doubtful Accounts and Inventory Reserves:

The Company has provided an allowance for doubtful accounts receivable and inventory reserves based upon its knowledge of its end markets, customer base and products.

Property, Plant and Equipment:

Property, plant and equipment are stated at cost, less accumulated depreciation. The Company principally uses accelerated depreciation methods for assets placed in service prior to December 31, 1994. Assets acquired subsequent to that date are depreciated using the straight-line method over their estimated useful lives. Useful lives range from 10 to 50 years for buildings and improvements and from 3 to 12 years for machinery and equipment. At December 31, 2004 and 2003, gross land and buildings totaled $570.4 million and $560.2 million, respectively, while gross machinery and equipment totaled $1,288.1 million and $1,318.3 million, respectively. Accumulated depreciation at December 31, 2004 and 2003 was $845.3 million and $812.5 million, respectively. Depreciation expense was $134.1 million, $133.0 million and $131.5 million in 2004, 2003 and 2002, respectively.

Notes To Consolidated Financial Statements Continued

Intangible Assets:

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under the provisions of this standard, goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization, but rather are tested for impairment at least annually. The carrying value of goodwill and other intangibles is also reviewed if the facts and circumstances, such as a significant decline in sales, earnings or cash flows or material adverse changes in the business climate, suggest that it may be impaired. If this review indicates that goodwill will not be recoverable as determined based on the estimated discounted cash flows of the reporting unit, impairment is measured by comparing the carrying value of goodwill to fair value. Fair value is determined based on quoted market values, discounted cash flows or appraisals. The Company amortizes other intangible assets on a straight-line basis over their estimated useful lives.

Long-lived Assets:

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment in the carrying value of an asset would be recognized whenever anticipated future undiscounted cash flows from an asset are less than its carrying value. The impairment is measured as the amount by which the carrying value exceeds the fair value of the asset as determined by an estimate of discounted cash flows.

Income Taxes:

Deferred taxes are provided on temporary differences between assets and liabilities for financial reporting and tax purposes as measured by enacted tax rates expected to apply when temporary differences are settled or realized. A valuation allowance is established for deferred tax assets for which realization is not likely.

Product Warranties:

Warranty accruals are recorded at the time of sale and are estimated based upon product warranty terms and historical experience. Warranty accruals are adjusted for known or anticipated warranty claims as new information becomes available.

Environmental Costs:

Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to existing conditions caused by past operations, which do not contribute to current or future revenues, are expensed. Costs to prepare environmental site evaluations and feasibility studies are accrued when the Company commits to perform them. Liabilities for remediation costs are recorded when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or the Company's commitment to a plan of action. The assessment of this liability, which is calculated based on existing technology, does not reflect any offset for possible recoveries from insurance companies, and is not discounted.

Revenue Recognition:

Revenue is generally recognized and earned when all of the following criteria are satisfied: (a) persuasive evidence of a sales arrangement exists; (b) price is fixed or determinable; and (c) collectibility is reasonably assured and delivery has occurred or service has been rendered. Post-shipment deliverables (such as customer acceptance, training or installation) are recognized in revenue only when the buyer becomes obligated to pay.

Research and Development Costs:

Research and development expenditures, including qualifying engineering costs, are expensed when incurred and amounted to $149.2 million in 2004, $164.5 million in 2003 and $151.5 million in 2002. The Company also incurs engineering costs which are not considered research and development expenditures.

Comprehensive Income:

Comprehensive income (loss) includes net income (loss), foreign currency translation adjustments, amounts relating to cash flow hedges, additional minimum pension liability adjustments, and unrealized holding gains and losses on marketable securities. The balances at December 31, 2004 and 2003, for the components of accumulated other comprehensive income were foreign currency translation adjustment of $272.9 million and $104.2 million, minimum pension liability adjustment of $(197.9) million and $(359.4) million, and unrealized losses on cash flow hedges of $(12.2) million and $(15.3) million, respectively.

Foreign Currency:

Assets and liabilities of non-U.S. entities, where the local currency is the functional currency, have been translated at year-end exchange rates, and income and expenses have been translated using average-for-the-year exchange rates. Adjustments resulting from translation have been recorded in accumulated other comprehensive income and are included in net earnings only upon sale or liquidation of the underlying foreign investment.

For non-U.S. entities where the U.S. dollar is the functional currency, inventory and property balances and related income statement accounts have been translated using historical exchange rates, and resulting gains and losses have been credited or charged to net earnings.

Net foreign currency transaction losses recorded in “Other income (expense), net” were, $9.6 million, $6.3 million and $10.5 million in 2004, 2003 and 2002, respectively.

Earnings Per Share:

Basic earnings per share is based on the weighted-average number of Class A common shares outstanding. Diluted earnings per share is based on the weighted-average number of Class A common shares outstanding as well as potentially dilutive common shares, which in the Company’s case include shares issuable under stock benefit plans. The weighted-average number of Class A common shares outstanding for basic earnings per share calculations were 173.3 million, 171.1 million and 168.9 million for 2004, 2003 and 2002, respectively. For diluted earnings per share purposes, these balances increased by 2.1 million, 1.3 million and 1.3 million shares for 2004, 2003 and 2002, respectively. At December 31, 2004, 2003 and 2002, 3.0 million, 1.9 million and 5.7 million shares, respectively, were excluded because the effect would be anti-dilutive.

Stock-based Compensation:

Under the Company’s Incentive Stock Plans, approved in 1990, 1995, and 1998, key employees have been granted options to purchase Class A common shares. The Company continues to account for these plans under the recognition and measurement principles of APB No. 25, “Accounting for Stock Issued to Employees.” Accordingly, no compensation expense is recognized for employee stock options since options granted are at prices not less than fair market value at the date of grant. The plans also authorize stock appreciation rights (SARs) and stock awards, which result in compensation expense. Additionally, the Company maintains a shareholder-approved Management Incentive Unit Award Plan, which results in compensation expense. All plans are described more fully in Note 9.

The following table is presented in accordance with SFAS No. 148, “Accounting for Stock-Based Compensation–Transition and Disclosure” and illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” to stock-based employee compensation.

For the years ended December 31,

In millions, except per share amounts	**2004**	2003	2002
Net earnings (loss), as reported	**$1,218.7**	$644.5	$(173.5)
Add: Stock-based employee compensation expense included in reported net income, net of tax	**34.0**	34.4	4.8
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	**62.8**	60.5	32.7
Pro forma net earnings (loss)	**$1,189.9**	$618.4	$(201.4)
Basic earnings (loss) per share:			
As reported	**$7.03**	$3.77	$(1.03)
Pro forma	**6.87**	3.61	(1.19)
Diluted earnings (loss) per share:			
As reported	**$6.95**	$3.74	$(1.02)
Pro forma	**6.79**	3.58	(1.19)

Notes To Consolidated Financial Statements Continued

New Accounting Standards:

In May 2004, the Financial Accounting Standards Board ("FASB") released FASB Staff Position No. 106-2, which supersedes FASB Staff Position 106-1, entitled "Accounting and Disclosure Requirements Regarding the Medicare Prescription Drug, Improvement and Modernization Act of 2003." The Act introduced a government provided subsidy based on a percentage of a beneficiary's annual prescription drug benefits, within defined limits, and the opportunity for a retiree to obtain prescription drug benefits under Medicare. The current accounting rules require a company to consider current changes in applicable laws when measuring its postretirement benefit costs and accumulated postretirement benefit obligations. The Company adopted FASB Staff Position 106-2 as of April 1, 2004. The Company and its actuarial advisors determined that most benefits provided by the plan were at least actuarially equivalent to Medicare Part D. The Company remeasured the accumulated benefit obligation effects of the Act as of April 1, 2004. The effect of the federal subsidy to which the Company is entitled has been accounted for as an actuarial gain of $86.3 million, which is amortized and reduces current and future benefit costs. The subsidy had the effect of reducing postretirement benefit expense for 2004 by approximately $9.2 million.

In November 2004, the FASB issued Statement of Financial Accounting Standard ("SFAS") No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005. The Company is evaluating the impact that the adoption of SFAS No. 151 will have on its consolidated financial position, results of operations and cash flows.

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share Based Payment." SFAS No. 123(R) is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," which supersedes APB No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123(R) requires companies to recognize compensation expense in the income statement for an amount equal to the fair value of the share-based payment issued. This applies to all transactions involving the issuance of equity by a company in exchange for goods and services, including employees. SFAS No. 123(R) is effective for the first interim or annual reporting period after June 15, 2005. The Company is evaluating the transition applications and the impact the adoption of SFAS No. 123(R) will have on its consolidated financial position, results of operations and cash flows.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29." SFAS No. 153 replaces the exception from fair value measurement in APB Opinion No. 29, with a general exception from fair value measurement for exchanges of nonmonetary assets that do not have commercial substance. The Statement is to be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 153 to have a material impact on its consolidated financial position, results of operations and cash flows.

In December 2004, the FASB released FASB Staff Position ("FSB") 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act." The American Jobs Creation Act includes a tax deduction of up to 9 percent (when fully phased-in) of the lesser of (a) "qualified production activities income," as defined in the Act, or (b) taxable income (after the deduction for the utilization of any net operation loss carryforwards). The tax deduction is limited to 50 percent of W-2 wages paid by the taxpayer. The staff position of the deduction is that it should be accounted for as a special deduction in accordance with Statement 109 and should be considered by the company in (a) measuring deferred taxes and (b) assessing whether a valuation is necessary. The Company has not adjusted its deferred tax assets and liabilities as of December 31, 2004 to reflect the impact of this special deduction. Rather, the impact of this deduction will be reported in the period for which the deduction is claimed on the Company's U.S. federal income tax return.

In December 2004, the FASB released FSB 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." The American Jobs Creation Act provides for a special one-time tax deduction of 85 percent of certain foreign earnings that are repatriated in either an enterprise's last tax year that began before the enactment date, or the first tax year that begins during the one-year period beginning on the date of enactment. FSB 109-2 allows for time for enterprises beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The evaluation of the effects of the repatriation provision will be completed within a reasonable period of time following the publication of the additional guidance. The Company is considering the impact of repatriation on a range of earnings of up to $525 million, and the corresponding income taxes may be as much as approximately $65 million. The resulting income tax, if any, will be provided in the Company's financial statements in the quarter in which the evaluation and approvals have been completed.

Note 2 – Discontinued Operations

During 2004, the Company continued its business portfolio realignment by selling two businesses. On August 25, 2004, the Company agreed to sell Dresser-Rand to a fund managed by First Reserve Corporation, a private-equity firm, for cash of approximately $1.2 billion. The sale was completed on October 29, 2004. Dresser-Rand is now included in discontinued operations, net of tax, for all periods. The Company realized an after-tax gain of $282.5 million on the disposition, which is included in "discontinued operations, net of tax" for 2004. The gain is subject to working capital and final purchase price adjustments. Dresser-Rand is engaged in the design, manufacture, sale, and service of gas compressors, gas and steam turbines, and generators. Dresser-Rand had 2003 revenues of approximately $1.3 billion and employed approximately 4,500 people and has manufacturing and service facilities worldwide.

On February 19, 2004, the Company agreed to sell Drilling Solutions, to Atlas Copco AB, for approximately $225 million. The sale of the U.S. and most international operations was completed on June 30, 2004. The sale of Drilling Solutions assets held by Ingersoll-Rand (India) Limited, was subject to approval by the Indian company's shareholders, and was completed in the third quarter of 2004. Drilling Solutions, which was previously included in the Company's Infrastructure Segment, is shown as discontinued operations, net of tax, for all periods. The Company realized an after-tax gain of $38.6 million on the disposition, which is included in "discontinued operations, net of tax" for 2004. The gain is subject to working capital and final purchase price adjustments. Drilling Solutions manufactures drilling equipment and accessories for the worldwide construction, mining, quarrying, and water-well drilling industries. Drilling Solutions had 2003 revenues of approximately $300 million and employed approximately 950 people.

During 2003, the Company sold three businesses. Effective February 16, 2003, the Company sold its Engineered Solutions Business (Engineered Solutions) to The Timken Company (Timken). For the year ended December 31, 2003, the Company recognized an after-tax gain of $58.2 million on the disposition, which was included in "discontinued operations, net of tax." The gain was subject to working capital and final purchase price adjustments that were resolved during the third quarter of 2004, which resulted in recording an additional gain of $19.2 million, net of tax, in the third quarter of 2004. During 2004, the Company recorded, net of tax, approximately $29.5 million for claims filed under the Continued Dumping and Subsidy Offset Act of 2000 on behalf of a subsidiary included in Engineered Solutions. These amounts have been included in "discontinued operations, net of tax." The antidumping duty is levied when the U.S. Department of Commerce determines that imported products are being sold in the United States at less than fair value causing material injury to a United States industry.

Also during 2003, the Company sold its Laidlaw business unit (Laidlaw), previously included as part of the Company's Security and Safety Segment. The Company recorded an after-tax loss of $7.6 million on the disposition, which is included in "discontinued operations, net of tax." Also in 2003, the Company sold its Waterjet business unit (Waterjet) for approximately $46.5 million. The Company recognized an after-tax gain of $18.2 million (subject to a working capital adjustment) on the disposition, which was included in "discontinued operations, net of tax" for the year ended December 31, 2003. During the first quarter of 2004, the working capital adjustment was finalized, which resulted in an additional $0.4 million of after-tax gain being recorded.

Discontinued operations also includes costs related to Ingersoll-Dresser Pump Company (IDP), which was sold in 2000. These retained costs mainly include product liability costs primarily related to asbestos liability claims, and employee benefit costs.

Net revenues and pretax earnings for discontinued operations are as follows:

In millions	**2004**	2003	2002
Net revenues	**$882.0**	$1,822.2	$2,574.4
Pretax earnings	**64.0**	30.2	229.1

Discontinued operations (including gains and losses on sale) for 2004, 2003, and 2002, were $388.9 million (net of $343.5 million of tax expense), $111.7 million (net of $58.6 million of tax expense), and $138.6 million (net of $90.5 million of tax expense), respectively.

Notes To Consolidated Financial Statements Continued

The assets and liabilities of discontinued operations included in "Assets held for sale" and "Liabilities held for sale" represent the assets and liabilities of Dresser-Rand and Drilling Solutions as of December 31, 2003, and are as follows:

In millions	
Assets	
Current assets	$ 573.5
Property, plant and equipment, net	147.1
Goodwill and other intangible assets, net	276.3
Other assets and deferred income taxes	54.7
Assets held for sale	$1,051.6
Liabilities	
Current liabilities	$ 353.3
Other liabilities	85.6
Liabilities held for sale	$ 438.9

Note 3 – Inventories

At December 31, inventories were as follows:

In millions	**2004**	2003
Raw materials and supplies	**$ 359.4**	$224.3
Work-in-process	**190.1**	148.2
Finished goods	**612.3**	554.9
	1,161.8	927.4
Less - LIFO reserve	**103.0**	69.4
Total	**$1,058.8**	$858.0

At December 31, 2004 and 2003, LIFO inventories were approximately 38% and 34%, respectively, of inventories. There were no material liquidations of LIFO layers during 2004 or 2002. During 2003, inventory quantities were reduced, which resulted in a liquidation of LIFO inventory layers carried at lower costs than in prior years. The effect of the liquidation was to decrease cost of goods sold by $7.2 million and to increase net earnings by $4.4 million.

Note 4 – Goodwill And Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Under the provisions of this standard, goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization, but rather are tested for impairment at least annually. All other intangible assets are to be amortized over their estimated useful lives.

Step one of the impairment testing required under SFAS No. 142 was completed by June 30, 2002. Under step one of the impairment test, all reporting units were identified in accordance with the guidance of SFAS No. 142 and SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." The January 1, 2002 carrying value of the reporting units was compared to the fair value of the reporting units. Fair value was computed by utilizing a discounted cash flow model. Upon completion of the comparison of the values of the reporting units, it was determined that the carrying value of the Thermo King reporting unit of the Climate Control Segment was in excess of its fair value.

Step two of the impairment test, which compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill, was then completed. The implied fair value of goodwill was determined by allocating the fair value of the reporting unit to all the assets and liabilities (including unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. This resulted in a goodwill impairment charge of $864.4 million being recorded. As required by SFAS No. 142, this charge, $634.5 million, net of tax, was recognized as a cumulative effect of a change in accounting principle retroactive to January 1, 2002.

The changes in the carrying amount of goodwill for 2004 are as follows:

In millions	Climate Control	Industrial Solutions	Infrastructure	Security and Safety	Total
Balance at December 31, 2003	$2,577.6	$112.2	$901.6	$571.2	$4,162.6
Acquisitions	0.2	3.5	—	1.6	5.3
Dispositions	(0.6)	—	(3.3)	(1.4)	(5.3)
Translation and adjustments*	41.5	3.7	4.4	(1.2)	48.4
Balance at December 31, 2004	$2,618.7	$119.4	$902.7	$570.2	$4,211.0

*Includes current year adjustments related to income taxes and final purchase price allocations.

The following table sets forth the gross amount and accumulated amortization of the Company's intangible assets at December 31:

	2004		2003	
In millions	**Gross amount**	**Accumulated amortization**	Gross amount	Accumulated amortization
Customer relationships	**$384.9**	**$ 44.5**	$ 384.9	$ 34.4
Software	**141.6**	**61.3**	121.1	35.1
Trademarks	**12.1**	**6.5**	12.1	6.2
Other	**71.6**	**35.1**	66.7	32.5
Total amortizable intangible assets	**610.2**	**147.4**	584.8	108.2
Total indefinite-lived intangible assets–trademarks	**155.4**	**—**	155.4	—
Total	**$765.6**	**$147.4**	$740.2	$108.2

Software amortization expense was $25.0 million, $21.6 million and $12.9 million for 2004, 2003 and 2002, respectively. Other intangible asset amortization expense for 2004, 2003, and 2002 was $14.4 million, $14.2 million, and $15.0 million, respectively.

Estimated intangible asset amortization expense for each of the next five fiscal years is expected to be $36.1 million in 2005, $36.1 million in 2006, $21.9 million in 2007, $16.5 million in 2008, and $13.0 million in 2009.

Note 5 – Financial Instruments

The Company, as a large multinational company, maintains significant operations in countries other than the United States. As a result of these global activities, the Company is exposed to changes in foreign currency exchange rates, which affect the results of operations and financial condition. The Company manages exposure to changes in foreign currency exchange rates through its normal operating and financing activities, as well as through the use of financial instruments. Generally, the only financial instruments the Company utilizes are forward exchange contracts and options.

The purpose of the Company's currency hedging activities is to mitigate the impact of changes in foreign currency exchange rates. The Company attempts to hedge transaction exposures through natural offsets. To the extent that this is not practicable, major exposure areas considered for hedging include foreign currency denominated receivables and payables, intercompany loans, firm committed transactions, and forecasted sales and purchases. The estimated fair value of foreign currency forward contracts outstanding was a projected loss of $16.6 million and $19.6 million at December 31, 2004 and 2003, respectively.

The Company purchases, on a limited basis, commodity derivatives to hedge the variable portion in supplier contracts of the costs of metals used in its products. Gains and losses on the derivatives are included in cost of sales in the same period as the hedged transaction. During 2004, fixed-priced supplier agreements replaced maturing commodity forward contracts, which decreased the number of outstanding contracts at December 31, 2004. The fair value of outstanding commodity contracts at December 31, 2004 was minimal.

Included in accumulated other comprehensive income at December 31, 2004, is $12.9 million related to the fair value of derivatives qualifying as cash flow hedges, which is expected to be reclassified to earnings over the twelve-month period ending December 31, 2005. Additionally, $0.7 million, related to an interest rate swap used as a cash flow hedge of the forecasted issuance of debt, will be reclassified to earnings between January 1, 2005 and May 15, 2006. The actual amounts that will be reclassified to earnings over the next twelve months may vary from this amount as a result of changes in market conditions. No amounts were reclassified to earnings during 2004 in connection with forecasted transactions that were no longer considered probable of occurring. Fair values of forward contracts are based on dealer quotes at the respective reporting dates. At December 31, 2004, the maximum term of derivative instruments that hedge forecasted transactions was 12 months.

Notes To Consolidated Financial Statements Continued

The counterparties to the Company's forward contracts consist of a number of major international financial institutions. The Company could be exposed to loss in the event of nonperformance by the counterparties. However, credit ratings and concentration of risk of these financial institutions are monitored on a continuous basis and present no significant credit risk to the Company.

The carrying value of cash and cash equivalents, marketable securities, accounts receivable, short-term borrowings and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments.

Note 6 – Debt And Credit Facilities

At December 31, loans payable consisted of the following:

In millions	**2004**	2003
Current portion of long-term debt	**$551.0**	$722.7
Other short-term borrowings	**61.8**	74.3
Total	**$612.8**	$797.0

Excluding current maturities of long-term debt, the weighted-average interest rate for short-term debt at December 31, 2004 and 2003 was 11.2% and 14.3%, respectively.

At December 31, long-term debt consisted of:

In millions	**2004**	2003
6.25% Notes Due 2006	**$ 529.8**	$ 574.6
9% Debentures Due 2021	**125.0**	125.0
7.20% Debentures Due 2006-2025	**150.0**	150.0
6.48% Debentures Due 2025	**—**	150.0
6.443% Debentures Due 2027	**200.0**	200.0
6.57% Medium-term Note Due 2007	**40.0**	87.0
6.75% Senior Notes Due 2008	**124.7**	124.6
Medium-term Notes Due 2023, at an average rate of 8.22%	**50.3**	50.2
Other loans and notes, at end-of-year average interest rates of 2.70% in 2004 and 2.41% in 2003, maturing in various amounts to 2015	**47.8**	57.0
Total	**$1,267.6**	$1,518.4

The fair value of long-term debt at December 31, 2004 and 2003 was $1,410.4 million and $1,700.9 million, respectively. Fair value of long-term debt was determined by reference to the December 31, 2004 and 2003, market values of comparably rated debt instruments.

Long-term debt retirements for the next five years are as follows: $551.0 million in 2005, $541.5 million in 2006, $280.4 million in 2007, $134.6 million in 2008 and $9.4 million in 2009. Long-term debt retirements for 2005 and 2007 include $499.1 million and $200.0 million, respectively, that may require repayment at the option of the holders. If these options are not exercised, the final maturity dates of these instruments would be 2025 and 2028.

At December 31, 2004, the Company's committed revolving credit lines consisted of two five-year lines totaling $2.0 billion, of which $1.25 billion terminates in July 2006 and $750 million terminates in June 2009. These lines were unused and provide support for commercial paper and indirectly provide support for other financing instruments, such as letters of credit. The Company compensates banks for these lines with fees equal to 0.09% per annum. Available foreign lines of credit were $784.5 million, of which $630.0 million were unused at December 31, 2004. During 2004 the Company repurchased approximately $45.0 million of long-term debt prior to its scheduled maturity.

Capitalized interest on construction and other capital projects amounted to $2.2 million, $3.1 million and $2.8 million in 2004, 2003 and 2002, respectively. Interest income, included in other income (expense), net, was $12.3 million, $2.5 million and $4.6 million in 2004, 2003 and 2002, respectively.

Note 7 – Commitments And Contingencies

The Company is involved in various litigations, claims and administrative proceedings, including environmental and product liability matters. Amounts recorded for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additional information when it becomes available. Subject to the uncertainties inherent in estimating future costs for contingent liabilities, management believes that the liability which may result from these legal matters would not have a material adverse effect on the financial condition, results of operations, liquidity or cash flows of the Company.

Environmental remediation costs are determined on a site-by-site basis and accruals are made when it is probable a liability exists and the cost can be estimated reasonably. The Company estimates the amount of recurring and nonrecurring costs at each site using internal and external experts. In arriving at cost estimates the following factors are considered: the type of contaminant, the stage of the clean-up, applicable law and existing technology. These estimates, and the resultant accruals, are reviewed and updated quarterly to reflect changes in facts and law. The Company does not discount its liability or assume any insurance recoveries when environmental liabilities are recorded.

Ingersoll-Rand Company (IR-New Jersey), a Company subsidiary, is a defendant in numerous asbestos-related lawsuits in state and federal courts. In virtually all of the suits a large number of other companies have also been named as defendants. The claims against IR-New Jersey generally allege injury caused by exposure to asbestos contained in certain of IR-New Jersey's products. Although IR-New Jersey was neither a producer nor a manufacturer of asbestos, some of its formerly manufactured products utilized asbestos-containing components such as gaskets purchased from third-party suppliers.

In assessing its potential asbestos liability, the Company bases its estimates on current laws, an assessment of the nature of current claims, the jurisdictions in which claims are filed, its claims settlement experience and insurance coverage. All claims resolved to date have been dismissed or settled, and IR-New Jersey's average settlement amount per claim has been nominal. For the year ended December 31, 2004, total costs for settlement and defense of asbestos claims after insurance recoveries and net of tax were approximately $16.5 million as compared to $16.6 million for the year ended December 31, 2003. With the assistance of independent advisors, the Company has performed a thorough analysis, updated periodically, of its actual and potential asbestos liabilities. Based upon such analysis, the Company believes that its reserves and insurance are adequate to cover its asbestos liabilities, and that these asbestos liabilities are not likely to have a material adverse effect on its financial position, results of operations, liquidity or cash flows.

The Company sells products on a continuous basis under various arrangements through institutions that provide leasing and product financing alternatives to retail and wholesale customers. Under these arrangements, the Company is contingently liable for loan guarantees and residual values of equipment of approximately $6.2 million, including consideration of ultimate net loss provisions. The risk of loss to the Company is minimal, and historically, only immaterial losses have been incurred relating to these arrangements since the fair value of the underlying equipment that serves as collateral is generally in excess of the contingent liability. Management believes these guarantees will not adversely affect the consolidated financial statements.

The Company has remained contingently liable for approximately $27.6 million relating to performance bonds associated with prior sale of products of IDP, which the Company divested in 2000. The acquirer of IDP is the primary obligor under these performance bonds, however, should the acquirer default under these arrangements the Company would be required to satisfy these financial obligations. The Company estimates that $13.8 million of the obligation will expire during 2005. The remainder extends through 2008.

The Company is contingently liable for customs duties in certain non-U.S. countries which totaled $4.6 million at December 31, 2004. These amounts are not accrued as the Company intends on exporting the product to another country for final sale.

In connection with the disposition of certain businesses and facilities, the Company has indemnified the purchasers for the expected cost of remediation of environmental contamination, if any, existing on the date of disposition. Such expected costs are accrued when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated.

The following table represents the changes in the product warranty liability for 2004:

In millions

Balance at December 31, 2003	$160.3
Reductions for payments	(74.2)
Changes for accruals issued during the current period	94.7
Changes for accruals related to preexisting warranties	1.5
Translation	8.2
Balance at December 31, 2004	$190.5

Certain office and warehouse facilities, transportation vehicles and data processing equipment are leased. Total rental expense was $62.7 million in 2004, $64.3 million in 2003 and $66.3 million in 2002. Minimum lease payments required under noncancellable operating leases with terms in excess of one year for the next five years and thereafter, are as follows: $64.9 million in 2005, $50.7 million in 2006, $41.1 million in 2007, $27.9 million in 2008, $20.3 million in 2009 and $24.1 million thereafter.

Prior to October 2003, the Company had agreements under which several of its operating subsidiaries sold a defined pool of trade accounts receivable to two wholly owned special-purpose subsidiaries of the Company. The subsidiaries were

Notes To Consolidated Financial Statements Continued

separate legal entities that held these receivables and sold undivided interests in such accounts receivable to financiers who, in turn, purchased and received ownership in those receivables. As collections reduced accounts receivable included in the pool, the operating subsidiaries sold new receivables to the special purpose subsidiaries. Any sales of receivables from the special purpose subsidiaries to the third-party financiers were without recourse and were treated as sales of receivables and not included in the Company's Consolidated Balance Sheet. In October 2003, the Company discontinued the sale of receivables program and repurchased $240 million in receivables, which decreased cash flows from operating activities in the Consolidated Statement of Cash Flows for 2003.

Note 8 – Common Shares

Effective December 31, 2001, IR-Limited became the successor to IR-New Jersey, following a corporate reorganization. The reorganization was accomplished through a merger of a newly formed merger subsidiary into IR-New Jersey. Upon consummation of the merger the shares of IR-New Jersey common stock automatically became IR-Limited Class A common shares. As part of the reorganization, IR-New Jersey and certain of its subsidiaries, immediately prior to the merger transferred shares of certain IR-New Jersey subsidiaries and issued certain debt in exchange for which IR-Limited issued 135,250,003 Class B common shares. The Class B common shares are non-voting and pay comparable dividends to the Class A common shares. The authorized share capital of IR-Limited is $1,175,010,000, consisting of (1) 1,175,000,000 common shares, par value $1.00 per share, which common shares consist of (a) 600,000,000 Class A common shares and (b) 575,000,000 Class B common shares, and (2) 10,000,000 preference shares, par value $0.001 per share, which preference shares consist of 600,000 Series A preference shares and such other series of preference shares as may be designated from time to time with the respective rights and restrictions determined by the board of directors. Class A common shares (and associated preference share purchase rights) were issued to holders of IR-New Jersey common stock in the merger. No preference shares were outstanding at December 31, 2004 or 2003.

Shares owned by a subsidiary are treated as treasury shares and are recorded at cost. During 2004, a subsidiary of the Company repurchased approximately 5.3 million Class A common shares at a cost of $355.9 million. On August 4, 2004, the board of directors authorized the repurchase of up to 10 million shares of the company's Class A common shares. Approximately 2 million of the above-mentioned 5.3 million shares were purchased under this program, while the remainder was repurchased under a plan approved in 1997. The repurchased shares are available for general corporate purposes.

The Company has adopted a shareholder rights plan to protect shareholders from attempts to acquire control of the Company at an inadequate price. The plan will expire on December 22, 2008, unless earlier redeemed or exchanged by the Company, as provided in the rights plan.

Annual dividends per common share were $0.88, $0.72, and $0.68, for 2004, 2003, and 2002, respectively.

Note 9 – Incentive Stock Plans

Under the Company's Incentive Stock Plans, key employees have been granted options to purchase Class A common shares at prices not less than the fair market value at the date of the grant. Options issued before December 31, 1998, became exercisable one year after the date of the grant and expire at the end of 10 years. Options issued after January 1, 1999, generally become exercisable ratably over a three-year period from their date of grant and expire at the end of 10 years. The plans, approved by shareholders in 1990, 1995 and 1998, also authorize stock appreciation rights (SARs) and stock awards, which result in compensation expense. The total number of stock incentives authorized by the 1998 amended plan is 30,000,000.

The average fair values of the options granted during 2004, 2003 and 2002 were estimated at $22.77, $13.16, and $15.15, respectively, on the date of grant, using the Black-Scholes option-pricing model, which included the following assumptions:

	2004	2003	2002
Dividend yield	**1.19%**	1.75%	1.61%
Volatility	**39.31%**	39.83%	38.85%
Risk-free interest rate	**3.29%**	3.12%	4.69%
Expected life	**5 years**	5 years	5 years

Changes in options outstanding under the plans were as follows:

	Shares subject to option	Option price range per share	Weighted-average exercise price
December 31, 2001	13,070,976	$20.67 – $69.75	$42.77
Granted	2,045,685	36.84 – 50.35	42.28
Exercised	(1,111,264)	20.67 – 53.03	33.03
Cancelled	(582,346)	20.67 – 65.41	45.53
December 31, 2002	13,423,051	$21.63 – $69.75	$43.39
Granted	3,103,321	39.05 – 63.12	39.21
Exercised	(5,165,839)	21.63 – 53.03	40.56
Cancelled	(712,036)	39.05 – 65.41	43.65
December 31, 2003	10,648,497	$24.08 – $69.75	$43.54
Granted	3,277,840	64.36 – 75.92	64.48
Exercised	(3,923,828)	24.08 – 65.41	43.70
Cancelled	(575,772)	36.85 – 64.37	50.76
December 31, 2004	9,426,737	$26.21 – $75.92	$50.38

At December 31, 2004, there were 804,899 SARs outstanding with no stock options attached. The Company has reserved 13,154,152 shares for future incentive stock awards at December 31, 2004.

The following table summarizes information concerning currently outstanding and exercisable options:

	Options outstanding			Options exercisable	
Range of exercise price	Number outstanding at 12/31/04	Weighted-average remaining life	Weighted-average exercise price	Number exercisable at 12/31/04	Weighted-average exercise price
$25.01 – $35.00	31,000	2.2	$33.13	31,000	$33.13
35.01 – 45.00	4,469,505	6.3	40.35	2,470,432	40.86
45.01 – 55.00	1,800,417	4.4	51.06	1,763,665	51.09
55.01 – 65.00	2,932,715	8.5	64.34	136,905	63.90
65.01 – 75.00	188,100	6.9	66.86	82,100	66.36
$75.01 – $85.00	5,000	9.9	75.92	–	–
	9,426,737	6.6	$50.38	4,484,102	$46.00

The number of shares exercisable and the weighted-average exercise prices were 5,484,440 shares at a price of $46.22 for December 31, 2003, and 8,307,597 shares at a price of $43.28 for December 31, 2002.

The Company also maintains a shareholder-approved Management Incentive Unit Award Plan. Under the plan, participating executives are awarded incentive units. When dividends are paid on Class A common shares, dividends are awarded to unit holders, one-half of which is paid in cash, the remaining half of which is credited to the participant's account in the form of so-called Class A common share equivalents. The fair value of accumulated common share equivalents is paid in cash upon the participant's retirement. The number of common share equivalents credited to participants' accounts at December 31, 2004 and 2003, are 198,031 and 243,917, respectively.

Note 10 – Income Taxes

Earnings before income taxes for the years ended December 31, were taxed within the following jurisdictions:

In millions	2004	2003	2002
United States	$199.9	$ (33.3)	$(185.4)
Non-U.S.	768.3	641.4	499.9
Total	$968.2	$608.1	$314.5

Notes To Consolidated Financial Statements Continued

The provision for income taxes was as follows:

In millions	**2004**	2003	2002
Current tax expense (benefit):			
United States	**$132.6**	$ 53.9	$(100.3)
Non-U.S.	**65.0**	48.3	27.0
Total current	**197.6**	102.2	(73.3)
Deferred tax (benefit) expense:			
United States	**(78.9)**	(25.0)	62.0
Non-U.S.	**19.7**	(1.9)	3.4
Total deferred	**(59.2)**	(26.9)	65.4
Total provision (benefit) for income taxes	**$138.4**	$ 75.3	$ (7.9)

The provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S. statutory income tax rate to pretax income, as a result of the following differences:

Percent of pretax income	**2004**	2003	2002
Statutory U.S. rate	**35.0%**	35.0%	35.0%
Increase (decrease) in rates resulting from:			
Non-U.S. operations	**(19.0)**	(22.9)	(27.9)
Extraterritorial income / foreign sales corporation	**(2.4)**	(2.4)	(4.4)
State and local income taxes, net of U.S. tax	**0.7**	0.1	(0.2)
Puerto Rico - Sec 936 Credit	**(1.2)**	(1.9)	(4.0)
Other	**1.2**	4.5	(1.0)
Effective tax rate	**14.3%**	12.4%	(2.5)%

As of December 31, 2004, the Company performed a detailed review of all income tax accounts for prior years. As a result of this review, the Company revised the balance sheet classification of deferred taxes in the current year by increasing noncurrent deferred tax assets by $84 million and adjusting current deferred tax assets, liabilities and current income taxes payable. The 2004 amounts in the table below include the effect of these revisions. No change has been made to prior-year amounts. At December 31, a summary of the deferred tax accounts follows:

In millions	**2004**	2003
Current deferred assets and (liabilities)		
Difference between book and tax bases of inventories and receivables	**$ 12.8**	$ 23.5
Difference between book and tax expense for other employee related benefits and allowances	**64.2**	104.2
Other reserves and valuation allowances in excess of tax deductions	**199.4**	123.2
Other differences between tax and financial statement values	**(70.5)**	(45.9)
Gross current deferred net tax assets	**205.9**	205.0
Noncurrent deferred assets and (liabilities)		
Postretirement and postemployment benefits other than pensions in excess of tax deductions	**300.8**	276.2
Tax benefit of operating losses and credit carry forwards	**338.0**	304.4
Other reserves in excess of tax expense	**(9.5)**	46.9
Tax depreciation / amortization in excess of book depreciation / amortization	**(327.6)**	(332.0)
Pension contributions in excess of book expense	**(23.4)**	122.2
Taxes provided on undistributed accumulated subsidiary earnings	**(2.4)**	(5.8)
Gross noncurrent deferred net tax assets and (liabilities)	**275.9**	411.9
Less: deferred tax valuation allowances	**(68.5)**	(56.7)
Total net deferred tax assets	**$ 413.3**	$ 560.2

Included in “Accrued expenses and other current liabilities” on the Consolidated Balance Sheet are $352.9 million and $197.7 million of current income taxes payable at December 31, 2004 and 2003, respectively. Included in “prepaid expenses and deferred income taxes” on the Consolidated Balance Sheet are $249.2 million and $205.0 million of current deferred tax assets at December 31, 2004 and 2003, respectively.

At December 31, 2004 net operating loss carryforwards of approximately $950.9 million are available to offset taxable income in future years. A portion of these carryforwards will begin to expire in 2022, while the remainder generally have unlimited carryforward periods. The net operating loss carryforwards were incurred in various jurisdictions, predominantly the United States, the United Kingdom, Germany and Switzerland. A valuation allowance of $68.5 million has been recorded for certain non-U.S. carryforwards, which will likely not be realized. The change in the valuation allowance is predominantly attributable to a new valuation allowance, strengthening of European currencies against the U.S. dollar, and an offset by the release of a valuation allowance. Approximately $12.1 million of the valuation allowance was acquired in business combinations transactions and any tax benefit, when realized, will reduce goodwill rather than the income tax provision.

At December 31, 2004, a total of $2.4 million and $47.3 million of non-current deferred taxes and current income taxes payable, respectively has been provided for a portion of the undistributed earnings of the Company’s subsidiaries, while at December 31, 2003 these amounts were $5.8 million of non-current deferred taxes and $7.5 million of current deferred taxes. Deferred taxes have not been provided on the remainder of the undistributed earnings of $4,082.7 million since these earnings have been, and under current plans will continue to be, permanently reinvested in these subsidiaries and it is not practicable to estimate the amount of additional taxes which may be payable upon distribution. On October 22, 2004, the American Jobs Creation Act (the AJCA) was signed into law. The AJCA includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. An evaluation of the effects of the repatriation provision has begun; however, whether the provision will ultimately be utilized depends on a number of factors including reviewing future guidance from Congress or the Treasury Department on key elements of the provision. The evaluation of the effects of the repatriation provision will be completed within a reasonable period of time following the publication of additional guidance. The Company is considering the impact of repatriation on a range of earnings of up to $525 million, and the corresponding income taxes may be as much as approximately $65 million. The resulting income tax, if any, will be provided in the Company’s financial statements in the quarter in which the evaluation and approvals have been completed.

As part of the audit of the tax years 2000-2002, the Company is actively engaged in discussion with the Internal Revenue Service regarding issues related to its reincorporation in Bermuda in 2001. The Company has provided for reasonably foreseeable resolution of all tax disputes, but will adjust its estimate if significant events so dictate. In the event that the ultimate resolution of an issue differs materially from the original or adjusted estimate of the Company, the effect will be recorded in the provision for income taxes in the period that the matter is finally resolved.

Note 11 – Postretirement Benefits Other Than Pensions

The Company sponsors several postretirement plans that cover certain eligible employees. These plans provide for health care benefits, and in some instances, life insurance benefits. Postretirement health plans generally are contributory and contributions are adjusted annually. Life insurance plans for retirees are primarily noncontributory. The Company funds the postretirement benefit costs principally on a pay-as-you-go basis.

Notes To Consolidated Financial Statements Continued

Summary information on the Company's plans at December 31, was as follows:

In millions	**2004**	2003
Change in benefit obligations:		
Benefit obligation at beginning of year	**$1,019.7**	$ 977.8
Service cost	**10.2**	10.1
Interest cost	**57.3**	60.4
Plan participants' contributions	**10.1**	7.7
Amendments	**—**	(9.3)
Actuarial (gains) losses	**(49.8)**	123.1
Benefits paid	**(84.4)**	(78.0)
Curtailment and special termination benefits	**—**	(74.5)
Other	**1.5**	2.4
Benefit obligation at end of year	**$ 964.6**	$ 1,019.7
Funded status:		
Plan assets less than benefit obligations	**$ (964.6)**	$(1,019.7)
Unrecognized:		
Prior service gains	**(51.4)**	(58.6)
Plan net losses	**277.6**	344.1
Accrued costs in the balance sheet	**$ (738.4)**	$ (734.2)

Approximately $27 million of accrued costs in the balance sheet for 2003 are included in "Liabilities held for sale."

The components of net periodic postretirement benefits cost for the years ended December 31, were as follows:

In millions	**2004**	2003	2002
Service cost	**$10.2**	$10.1	$ 9.9
Interest cost	**57.3**	60.4	62.8
Net amortization and deferral losses (gains)	**9.4**	6.6	(0.3)
Net periodic postretirement benefit costs	**76.9**	77.1	72.4
Curtailment gains	**—**	(6.9)	(3.0)
Net postretirement benefit cost	**$76.9**	$70.2	$69.4

The Company uses an annual measurement date of November 30 for substantially all of its postretirement benefit plans for all years presented. The sale of Engineered Solutions in February 2003 was deemed to be a significant event and required a remeasurement of the postretirement benefit plan. The weighted-average assumptions used in the February 2003 remeasurement due to the sale were a discount rate of 6.50% and increases in per capita cost of covered health care benefits of 11.00%, gradually reducing to 5.25% by 2009. In the fourth quarter of 2002, the Company amended its postretirement benefit plans for U.S. non-bargaining employees and retirees, effective January 1, 2003. The amendments eliminated subsidized life insurance for all future retirees. The amendments also eliminated subsidized postretirement health care benefits for all new hires, as well as all active employees who did not meet certain eligibility requirements as of January 1, 2003. When eligible employees retire from the Company between ages 55 and 65, they receive, at a cost to the retiree, certain health care benefits similar to those available to active employees. After attaining age 65, an eligible retiree's health care benefit coverage becomes coordinated with Medicare. The Company also amended the amount it will subsidize for postretirement health care benefits to a flat dollar cap with cost escalation equally shared between the Company and the retiree. When the cap is reached, the retiree becomes responsible for all additional cost escalation. The weighted-average assumptions used in the fourth quarter of 2002 remeasurement due to plan amendments were a discount rate of 6.75% and increases in per capita cost of covered health care benefits of 11.00%, gradually reducing to 5.25% by 2009.

Assumptions:	**2004**	2003	2002
Weighted-average discount rate assumption used to determine:			
Benefit obligations at December 31	**5.75%**	6.00%	6.75%
Net periodic benefit cost for the periods ended February 15, 2003* and October 2002*		6.75%	7.25%
Net periodic benefit cost for the remaining period ended December 31	**6.00%**	6.50%	6.75%
Assumed health care cost trend rates at December 31:			
Current year medical inflation	**11.00%**	11.00%	11.00%
Ultimate inflation rate	**5.25%**	5.25%	5.25%
Year that the rate reaches the ultimate trend rate	**2011**	2010	2009

*Interim measurement dates

A 1% change in the medical trend rate assumed for postretirement benefits would have the following effects at December 31, 2004:

In millions	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 4.1	$ 3.1
Effect on postretirement benefit obligation	60.1	50.7

Benefit payments for postretirement benefits, which reflect future service and are net of expected Medicare Part D subsidy, as appropriate, are expected to be paid as follows: $76.1 million in 2005, $73.2 million in 2006, $75.2 million in 2007, $75.3 million in 2008, $76.3 million in 2009 and $379.4 million for the years 2010 to 2014.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (‘the Act”) was enacted. The Act introduced a government-provided subsidy based on the percentage of a beneficiary’s annual prescription drug benefits, within defined limits, and the opportunity for a retiree to obtain prescription drug benefits under Medicare. The Company adopted FASB Staff Position 106-2 as of April 1, 2004. The Company and its actuarial advisors determined that most benefits provided by the plan were at least actuarially equivalent to Medicare Part D. The Company remeasured the accumulated postretirement benefit obligation effects of the Act as of April 1, 2004. The effect of the federal subsidy to which the Company is entitled has been accounted for as an actuarial gain of $86.3 million, which is amortized and reduces current and future benefit costs. The subsidy had the effect of reducing postretirement benefit expense for 2004 by $9.2 million. The components of the reduction in expense were a decrease in the amortization of the actuarial loss of $5.0 million, a reduction in service cost of $0.3 million and a reduction in the interest cost on the benefit obligation of $3.9 million.

The assumptions used for 2004 expense are a discount rate of 6.00% and health care cost trend rate of 11.00%, gradually reducing to 5.25%. The assumptions used for the first quarter of 2004 were determined to be appropriate as of April 1, 2004 when the postretirement plan was remeasured to reflect the federal subsidy. In 2003, the postretirement plan was remeasured as of the date of sale of Engineered Solutions and the discount rate used was decreased from 6.75% to 6.50%, while the health care cost trend rate remained at 11.00%, gradually reducing to 5.25%.

Note 12 – Pension Plans

The Company has noncontributory pension plans covering substantially all U.S. employees. In addition, certain non-U.S. employees in other countries are covered by pension plans. In the fourth quarter of 2002, the Company amended its U.S. pension plans for all non-collectively bargained employees effective January 1, 2003. Prior to January 1, 2003, the Company’s U.S. salaried plans principally provided benefits based on a career-average earnings formula and the Company’s hourly pension plans provided benefits under flat benefit formulas. Effective January 1, 2003, the Company’s pension plans for U.S. non-collectively bargained employees provided benefits on a more modest final average pay formula. The Company’s U.S. collectively bargained pension plans will continue to principally provide benefits based on a flat benefit formula. Non-U.S. plans provide benefits based on earnings and years of service. In addition, the Company maintains other supplemental benefit plans for officers and other key employees.

Notes To Consolidated Financial Statements Continued

Information regarding the Company's pension plans at December 31, was as follows:

In millions	2004	2003
Change in benefit obligations:		
Benefit obligation at beginning of year	**$3,080.1**	$2,766.8
Service cost	**46.7**	45.4
Interest cost	**173.0**	174.8
Employee contributions	**3.2**	3.7
Amendments	**7.6**	19.1
Expenses paid	**(4.9)**	(1.6)
Actuarial losses	**72.9**	229.4
Benefits paid	**(214.2)**	(189.1)
Foreign exchange impact	**57.7**	78.0
Curtailments and other	**(279.7)**	(46.4)
Benefit obligation at end of year	**$2,942.4**	$3,080.1
Change in plan assets:		
Fair value at beginning of year	**$2,637.9**	$2,229.7
Actual return on assets	**277.3**	309.3
Company contributions	**170.1**	232.8
Employee contributions	**3.2**	3.6
Expenses paid	**(4.9)**	(1.6)
Benefits paid	**(209.7)**	(186.0)
Foreign exchange impact	**45.2**	56.6
Curtailments / settlements and other	**(271.6)**	(6.5)
Fair value of assets end of year	**$2,647.5**	$2,637.9

In millions	2004	2003
Funded status:		
Plan assets in excess of benefit obligations	**$ (294.9)**	$(442.2)
Unrecognized:		
Net transition asset	**3.9**	4.9
Prior service costs	**64.7**	71.1
Plan net losses	**619.7**	686.6
Net amount recognized	**$ 393.4**	$ 320.4
Costs included in the balance sheet:		
Prepaid expenses	**$ 305.4**	$ 6.1
Accrued current and non-current liabilities	**(222.0)**	(234.8)
Pension intangible included in other assets	**16.1**	51.7
Accumulated other comprehensive income	**293.9**	559.1
Assets held for sale	**—**	0.4
Liabilities held for sale	**—**	(62.1)
Net amount recognized	**$ 393.4**	$ 320.4

Weighted-average assumptions used:

Benefit obligations at December 31	2004	2003
Discount rate:		
U.S. plans	**5.75%**	6.00%
Non-U.S. plans	**5.25%**	5.75%
Rate of compensation increase:		
U.S. plans	**4.00%**	4.00%
Non-U.S. plans	**4.00%**	3.75%

The accumulated benefit obligation for all defined benefit pension plans was $2,799.7 million and $2,936.8 million at December 31, 2004 and 2003, respectively.

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations more than plan assets were $1,316.7 million, $1,227.1 million and $1,008.4 million, respectively, as of December 31, 2004, and $2,995.6 million, $2,867.6 million and $2,562.9 million, respectively, as of December 31, 2003.

The components of the Company's pension related costs for the years ended December 31, include the following:

In millions	**2004**	2003	2002
Service cost	**$ 46.7**	$ 45.4	$ 49.1
Interest cost	**173.0**	174.8	172.8
Expected return on plan assets	**(221.1)**	(179.0)	(209.5)
Net amortization of unrecognized:			
Prior service costs	**8.8**	8.9	6.8
Transition amount	**0.9**	0.9	0.4
Plan net losses	**18.2**	32.0	7.8
Net pension cost	**26.5**	83.0	27.4
Curtailment/settlement losses (gains)	**41.1**	(10.1)	9.3
Net pension cost after curtailments/settlements	**$ 67.6**	$ 72.9	$ 36.7

The curtailment and settlement losses in 2004 are associated primarily with the sale of Dresser-Rand and Drilling Solutions. The curtailment and settlement gains in 2003 are associated primarily with the sale of Engineered Solutions. The curtailment and settlement losses in 2002 related to plant closures or reductions in the workforce associated with the Company's restructuring program.

The Company uses an annual measurement date of November 30 for substantially all of its pension plans for the years presented. The sale of Engineered Solutions in February 2003 was a significant event. The Engineered Solutions employees participated in the largest U.S. pension plan and a remeasurement of that pension plan was required as of the date of sale. In the fourth quarter of 2002, the Company amended its U.S. pension plans for all non-collectively bargained employees, which also caused a remeasurement of certain significant pension plans.

Weighted-average assumption used:

Net periodic pension cost for the year ended December 31,	**2004**	2003	2002
Discount rate:			
U.S. plans*	**6.00%**	6.50%	7.25%
Non-U.S. plans	**5.75%**	5.75%	6.00%
Rate of compensation increase:			
U.S. plans	**4.00%**	4.00%	5.00%
Non-U.S. plans	**3.75%**	3.00%	3.50%
Expected return on plan assets:			
U.S. plans	**8.75%**	8.75%	9.00%
Non-U.S. plans	**7.50%**	7.50%	7.75%

*Prior to the remeasurement date of February 15, 2003, the discount rate used for 2003 was 6.75%. The rate for the smaller U.S. plans not requiring remeasurement during the year was 6.75% for all of 2003. There was no change to the rate of compensation increase and the expected return on plan assets upon remeasurement. In addition, a remeasurement due to U.S. pension plan amendments during the fourth quarter of 2002 used updated assumptions of a 6.75% discount rate, and a 4.00% rate of compensation increase.

The expected long-term rates of return on plan assets are determined as of the measurement date. The expected long-term rates of return are projected to be the rates of return to be earned over the period until the benefits are paid. Accordingly, the long-term rates of return should reflect the rates of return on present investments, expected contributions to be received during the current year and on reinvestments over the period. The rates of return utilized reflect the expected rates of return during the periods for which the payment of benefits is deferred. The expected long-term rate of return on plan assets is based on what is achievable given the plan's investment policy and the types of assets held. Historical assets return trends for the larger plans are reviewed over fifteen, ten and five-year periods. The actual rate of return for plan assets over the last ten-and fifteen-year periods have exceeded the expected rate of return used. The Company reviews each plan and its historical returns and asset allocations to determine the appropriate expected long-term rate of return on plan assets to be used. At the end of 2002, the Company believed that it needed to revise its long-term expectations based upon the market performance experienced in 2001 and 2002.

Notes To Consolidated Financial Statements Continued

The Company's pension plans weighted-average asset allocations at December 31, 2004 and 2003, by asset category are as follows:

Asset category	**2004**	2003
Equity securities	**61.2%**	61.6%
Debt securities	**30.4%**	27.3%
Real estate	**0.4%**	0.3%
Other (including cash)	**8.0%**	10.8%
Total	**100.0%**	100.0%

The Company's investment objectives in managing its defined benefit plan assets are to ensure that present and future benefit obligations to all participants and beneficiaries are met as they become due; to provide a total return that, over the long term, minimizes the present value of required company contributions, at the appropriate levels of risk; and meet any statutory requirements, laws and local regulatory agencies requirements. Key investment decisions reviewed regularly are asset allocations, investment manager performance, investment advisors and trustees or custodians. An asset/liability modeling (ALM) study is used as the basis for global asset allocation decisions and updated approximately every five years or as required. The Company's current strategic global asset allocation for its pension plans is 60% in equity securities and 40% in debt securities and cash. The Company sets upper limits and lower limits of plus or minus 5%. The asset allocations are reviewed and any appropriate adjustments are reflected quarterly.

The Company made required and discretionary contributions of $30.1 million and $140.0 million, respectively, to its pension plans in 2004. This includes $20.0 million of discretionary contributions to the Dresser-Rand pension plan. The Company currently projects that it will be required to contribute approximately $22 million to its plans worldwide in 2005. The Company's policy allows it to fund an amount, which could be in excess of the pension cost expensed, subject to the limitations imposed by current tax regulations. While the Company anticipates funding the plans in 2005 in accordance with contributions required by funding regulations or the laws of each jurisdiction, most of the non-U.S. plans require employer contributions based on the employees' earnings.

Pension benefit payments, which reflect future service, as appropriate, are expected to be paid as follows: $181.3 million in 2005, $171.9 million in 2006, $175.4 million in 2007, $185.4 million in 2008, $189.8 million in 2009 and $1,026.1 million for the years 2010 to 2014.

Most of the Company's U.S. employees are covered by savings and other defined contribution plans. Employer contributions are determined based on criteria specific to the individual plans and amounted to approximately $52.6 million, $51.8 million and $47.7 million in 2004, 2003 and 2002, respectively. The Company's contributions relating to non-U.S. defined contribution plans, insured plans and other non-U.S. benefit plans were $11.1 million, $9.3 million and $5.3 million in 2004, 2003 and 2002, respectively.

Note 13 – Business Segment Information

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the operating segments' results are prepared on a management basis that is consistent with the manner in which the Company disaggregates financial information for internal review and decision making. The Company evaluates performance based on operating income and operating margins. Intercompany sales between segments are considered immaterial.

The Company has divested various businesses over the past few years as it moves to being a leading global diversified industrial enterprise. During fiscal year 2003, the Company sold its Engineered Solutions business and Waterjet business (both previously reported in the Industrial Solutions segment) and Laidlaw (previously reported in the Security and Safety segment). During fiscal year 2004, the Company sold its Drilling Solutions business (previously reported in the Infrastructure segment) and Dresser-Rand business (previously its own reportable segment). The results of these divested businesses have been excluded from their previous segments for segment reporting and have been shown separately in the Discontinued Operations section.

Each reportable segment is based primarily on the types of products it generates. The operating segments have been aggregated based on the aggregation criteria and quantitative thresholds as required by SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." A description of the Company's reportable segments is as follows:

Climate Control is engaged in the design, manufacture, sale and service of transport temperature control units, HVAC systems, refrigerated display merchandisers, beverage coolers, and walk-in storage coolers and freezers. The Segment includes the Thermo King and Hussmann brands.

Industrial Solutions is engaged in the design, manufacture, sale and service of air compressors, fluid products, microturbines, and industrial tools. It is comprised of Air Solutions, Productivity Solutions and Energy Systems.

Infrastructure is engaged in the design, manufacture, sale and service of skid-steer loaders, mini-excavators, electric and gasoline powered golf and utility vehicles, portable compressors and light towers, road construction and repair equipment. It is comprised of Bobcat, Club Car, Utility Equipment and Road Development.

Security and Safety is engaged in the design, manufacture, sale and service of locks, door closers, exit devices, door control hardware, doors and frames, decorative hardware, and electronic and biometric access control systems.

A summary of operations by reportable segments for the years ended December 31, were as follows:

Dollar amounts in millions	**2004**	2003	2002
Climate Control			
Revenues	**$2,793.7**	$2,648.9	$2,466.4
Operating income	**309.1**	219.1	137.0
Operating income as a percentage of sales	**11.1%**	8.3%	5.6%
Depreciation and amortization	**59.2**	57.0	60.9
Capital expenditures	**13.5**	18.1	19.0
Industrial Solutions			
Revenues	**1,552.8**	1,363.6	1,279.0
Operating income	**180.5**	104.1	67.9
Operating income as a percentage of sales	**11.6%**	7.6%	5.3%
Depreciation and amortization	**23.2**	23.4	22.3
Capital expenditures	**12.2**	19.0	23.1
Infrastructure			
Revenues	**3,268.8**	2,631.8	2,367.5
Operating income	**437.2**	292.9	222.0
Operating income as a percentage of sales	**13.4%**	11.1%	9.4%
Depreciation and amortization	**43.6**	43.6	41.2
Capital expenditures	**39.6**	35.3	35.1
Security and Safety			
Revenues	**1,778.3**	1,605.0	1,470.1
Operating income	**304.8**	316.6	275.8
Operating income as a percentage of sales	**17.1%**	19.7%	18.8%
Depreciation and amortization	**21.9**	22.9	22.4
Capital expenditures	**12.2**	14.0	15.8
Total revenues	**$9,393.6**	$8,249.3	$7,583.0
Operating income from reportable segments	**1,231.6**	932.7	702.7
Unallocated corporate expense	**(111.3)**	(145.1)	(124.7)
Total operating income	**$1,120.3**	$ 787.6	$ 578.0
Total operating income as a percentage of sales	**11.9%**	9.5%	7.6%
Depreciation and amortization from reportable segments	**147.9**	146.9	146.8
Unallocated depreciation and amortization	**26.5**	24.7	19.9
Total depreciation and amortization	**$ 174.4**	$ 171.6	$ 166.7
Capital expenditures from reportable segments	**77.5**	86.4	93.0
Corporate capital expenditures	**31.1**	12.9	13.6
Total capital expenditures	**$ 108.6**	$ 99.3	$ 106.6

Notes To Consolidated Financial Statements Continued

Revenues by destination and long-lived assets by geographic area for the years ended December 31 were as follows:

In millions	**2004**	2003	2002
Revenues			
United States	**$5,775.1**	$5,047.0	$4,814.9
Non-U.S.	**3,618.5**	3,202.3	2,768.1
Total	**$9,393.6**	$8,249.3	$7,583.0

In millions	**2004**	2003
Long-lived assets		
United States	**$1,239.6**	$1,033.5
Non-U.S.	**408.8**	383.3
Total	**$1,648.4**	$1,416.8

Note 14 – IR New Jersey

As part of the reorganization IR-Limited guaranteed all of the issued public debt securities of IR-New Jersey. The subsidiary issuer, IR-New Jersey, is 100% owned by the parent, IR-Limited, the guarantees are full and unconditional, and no other subsidiary of the Company guarantees the securities. The following condensed consolidated financial information for IR-Limited, IR-New Jersey, and all their other subsidiaries is included so that separate financial statements of IR-New Jersey are not required to be filed with the U.S. Securities and Exchange Commission.

As part of the reorganization of December 31, 2001, IR-Limited issued Class B common shares to IR-New Jersey in exchange for a $3.6 billion note and shares of certain IR-New Jersey subsidiaries. The note, which is due in 2011, has a fixed rate of interest of 11% per annum payable semi-annually and imposes certain restrictive covenants upon IR-New Jersey. The Class B common shares are non-voting and pay dividends comparable to the Class A common shares. In 2002, IR-Limited contributed the note to a wholly owned subsidiary, which subsequently transferred portions of the note to several other subsidiaries all of which are included in the "Other Subsidiaries" below. Accordingly, the subsidiaries of IR-Limited remain creditors of IR-New Jersey.

The condensed consolidating financial statements present IR-Limited and IR-New Jersey investments in their subsidiaries using the equity method of accounting. Intercompany investments in the non-voting Class B common shares are accounted for on the cost method and are reduced by intercompany dividends. In accordance with generally accepted accounting principles the amounts related to the issuance of the Class B shares have been presented as contra accounts in Shareholders' Equity since the Class B issuance on December 31, 2001. The notes payable continue to be reflected as a liability on the balance sheet of IR-New Jersey and are enforceable in accordance with their terms.

Condensed Consolidating Income Statement

For the year ended December 31, 2004

In millions	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	IR-Limited Consolidated
Net revenues	$ —	$1,390.2	$8,003.4	$ —	$9,393.6
Cost of goods sold	—	1,071.5	5,782.5	—	6,854.0
Selling and administrative expenses	0.1	354.5	1,064.7	—	1,419.3
Operating (loss) income	(0.1)	(35.8)	1,156.2	—	1,120.3
Equity earnings in affiliates (net of tax)	1,231.6	956.3	576.2	(2,764.1)	—
Interest expense	(0.2)	(122.2)	(30.7)	—	(153.1)
Intercompany interest and fees	(7.5)	(538.4)	545.9	—	—
Other income (expense), net	(5.1)	87.3	(81.2)	—	1.0
Earnings (loss) before income taxes	1,218.7	347.2	2,166.4	(2,764.1)	968.2
(Benefit) provision for income taxes	—	(219.5)	357.9	—	138.4
Earnings (loss) from continuing operations	1,218.7	566.7	1,808.5	(2,764.1)	829.8
Discontinued operations, net of tax	—	9.5	379.4	—	388.9
Net earnings (loss)	$1,218.7	$ 576.2	$2,187.9	$(2,764.1)	$1,218.7

Condensed Consolidating Income Statement

For the year ended December 31, 2003

In millions	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	IR-Limited Consolidated
Net revenues	$ —	$1,137.4	$7,111.9	$ —	$8,249.3
Cost of goods sold	—	908.5	5,200.5	—	6,109.0
Selling and administrative expenses	—	282.9	1,073.0	—	1,355.9
Restructuring charges	—	—	(3.2)	—	(3.2)
Operating income	—	(54.0)	841.6	—	787.6
Equity earnings in affiliates (net of tax)	653.1	1,058.3	(122.3)	(1,589.1)	—
Interest expense	—	(141.6)	(33.9)	—	(175.5)
Intercompany interest and fees	(5.9)	(442.1)	448.0	—	—
Other income (expense), net	(2.7)	(759.8)	758.5	—	(4.0)
Earnings (loss) before income taxes	644.5	(339.2)	1,891.9	(1,589.1)	608.1
(Benefit) provision for income taxes	—	(224.5)	299.8	—	75.3
Earnings (loss) from continuing operations	644.5	(114.7)	1,592.1	(1,589.1)	532.8
Discontinued operations, net of tax	—	(7.5)	119.2	—	111.7
Net earnings (loss)	$644.5	$ (122.2)	$1,711.3	$(1,589.1)	$ 644.5

Condensed Consolidating Income Statement

For the year ended December 31, 2002

In millions	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	IR-Limited Consolidated
Net revenues	$ —	$1,109.1	$6,473.9	$ —	$7,583.0
Cost of goods sold	(0.3)	858.6	4,859.8	—	5,718.1
Selling and administrative expenses	—	254.4	990.6	—	1,245.0
Restructuring charges	—	16.9	25.0	—	41.9
Operating income (loss)	0.3	(20.8)	598.5	—	578.0
Equity earnings in affiliates (net of tax) before the cumulative effect of change in accounting principle	363.2	347.7	(39.2)	(671.7)	—
Interest expense	—	(186.6)	(41.3)	—	(227.9)
Intercompany interest and fees	97.3	(365.6)	268.3	—	—
Other income (expense), net	0.2	(38.2)	2.4	—	(35.6)
Earnings (loss) before income taxes	461.0	(263.5)	788.7	(671.7)	314.5
(Benefit) provision for income taxes	—	(229.2)	221.3	—	(7.9)
Earnings (loss) from continuing operations	461.0	(34.3)	567.4	(671.7)	322.4
Discontinued operations, net of tax	—	(4.9)	143.5	—	138.6
Earnings (loss) before cumulative effect of change in accounting principle	461.0	(39.2)	710.9	(671.7)	461.0
Cumulative effect of change in accounting principle, net of tax	(634.5)	(634.5)	(634.5)	1,269.0	(634.5)
Net (loss) earnings	$(173.5)	$ (673.7)	$ 76.4	$ 597.3	$ (173.5)

Condensed Consolidating Balance Sheet

December 31, 2004

In millions	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	IR-Limited Consolidated
Current assets:					
Cash and cash equivalents	$ 236.8	$ 844.1	$ 622.8	$ —	$ 1,703.7
Accounts and notes receivable, net	1.1	265.3	1,232.0	—	1,498.4
Inventories, net	—	152.7	906.1	—	1,058.8
Prepaid expenses and deferred income taxes	0.2	88.9	259.7	—	348.8
Accounts and notes receivable affiliates	51.0	—	17,573.9	(17,624.9)	—
Total current assets	289.1	1,351.0	20,594.5	(17,624.9)	4,609.7
Investment in affiliates	6,760.3	12,553.6	13,744.6	(33,058.5)	—
Property, plant and equipment, net	—	239.4	773.8	—	1,013.2
Intangible assets, net	—	151.4	4,677.8	—	4,829.2
Other assets	—	649.5	313.0	—	962.5
Total assets	$ 7,049.4	$14,944.9	$40,103.7	$(50,683.4)	$11,414.6
Current liabilities:					
Accounts payable and accruals	$ 5.0	$ 481.1	$ 1,778.0	$ —	$ 2,264.1
Loans payable	—	546.3	66.5	—	612.8
Accounts and note payable affiliates	1,310.6	2,276.2	14,038.1	(17,624.9)	—
Total current liabilities	1,315.6	3,303.6	15,882.6	(17,624.9)	2,876.9
Long-term debt	—	1,048.3	219.3	—	1,267.6
Note payable affiliate	—	3,647.4	—	(3,647.4)	—
Other noncurrent liabilities	—	434.5	1,101.8	—	1,536.3
Total liabilities	1,315.6	8,433.8	17,203.7	(21,272.3)	5,680.8
Shareholders' equity:					
Class A common shares	178.4	—	(5.3)	—	173.1
Class B common shares	135.3	—	—	(135.3)	—
Common shares	—	—	2,362.8	(2,362.8)	—
Other shareholders' equity	10,006.3	7,158.2	24,867.0	(36,533.6)	5,497.9
Accumulated other comprehensive income (loss)	384.2	(186.5)	185.5	(320.4)	62.8
	10,704.2	6,971.7	27,410.0	(39,352.1)	5,733.8
Less: Contra account	(4,970.4)	(460.6)	(4,510.0)	9,941.0	—
Total shareholders' equity	5,733.8	6,511.1	22,900.0	(29,411.1)	5,733.8
Total liabilities and equity	$ 7,049.4	$14,944.9	$40,103.7	$(50,683.4)	$11,414.6

Condensed Consolidating Balance Sheet

December 31, 2003

In millions	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	IR-Limited Consolidated
Current assets:					
Cash and cash equivalents	$ 160.5	$ 104.1	$ 152.6	$ —	$ 417.2
Accounts and notes receivable, net	3.4	221.4	1,178.2	—	1,403.0
Inventories, net	—	106.6	751.4	—	858.0
Prepaid expenses and deferred income taxes	0.2	132.1	154.5	—	286.8
Assets held for sale	—	69.5	982.1	—	1,051.6
Accounts and notes receivable affiliates	(0.4)	—	9,062.5	(9,062.1)	—
Total current assets	163.7	633.7	12,281.3	(9,062.1)	4,016.6
Investment in affiliates	4,777.2	9,917.3	15,651.2	(30,345.7)	—
Property, plant and equipment, net	—	229.3	836.7	—	1,066.0
Intangible assets, net	—	160.6	4,634.0	—	4,794.6
Other assets	—	105.2	682.5	—	787.7
Total assets	$ 4,940.9	$11,046.1	$34,085.7	$(39,407.8)	$10,664.9
Current liabilities:					
Accounts payable and accruals	$ 4.3	$ (22.4)	$ 1,920.8	$ —	$ 1,902.7
Loans payable	—	713.2	83.8	—	797.0
Liabilities held for sale	—	11.3	427.6	—	438.9
Accounts and note payable affiliates	443.3	774.7	7,844.1	(9,062.1)	—
Total current liabilities	447.6	1,476.8	10,276.3	(9,062.1)	3,138.6
Long-term debt	—	1,290.3	228.1	—	1,518.4
Note payable affiliate	—	3,647.4	—	(3,647.4)	—
Other noncurrent liabilities	—	207.9	1,306.7	—	1,514.6
Total liabilities	447.6	6,622.4	11,811.1	(12,709.5)	6,171.6
Shareholders' equity:					
Class A common shares	174.5	—	—	—	174.5
Class B common shares	135.3	—	—	(135.3)	—
Common shares	—	—	2,362.8	(2,362.8)	—
Other shareholders' equity	9,221.8	5,304.9	24,454.6	(34,392.0)	4,589.3
Accumulated other comprehensive income (loss)	50.9	(410.2)	75.4	13.4	(270.5)
	9,582.5	4,894.7	26,892.8	(36,876.7)	4,493.3
Less: Contra account	(5,089.2)	(471.0)	(4,618.2)	10,178.4	—
Total shareholders' equity	4,493.3	4,423.7	22,274.6	(26,698.3)	4,493.3
Total liabilities and equity	$ 4,940.9	$11,046.1	$34,085.7	$(39,407.8)	$10,664.9

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2004

In millions	IR-Limited	IR-New Jersey	Other Subsidiaries	IR-Limited Consolidated
Net cash provided by (used in) operating activities	$ 176.9	$ 984.3	$ (408.0)	$ 753.2
Cash flows from investing activities:				
Capital expenditures	—	(38.2)	(70.4)	(108.6)
Proceeds from sale of property, plant and equipment	—	17.7	32.7	50.4
Investments and acquisitions, net of cash	—	—	(33.7)	(33.7)
Proceeds from business dispositions	—	189.0	1,224.2	1,413.2
Cash provided by or advances from equity companies	—	—	7.6	7.6
Net cash provided by investing activities	—	168.5	1,160.4	1,328.9
Cash flows from financing activities:				
Net change in debt	—	(409.5)	(59.9)	(469.4)
Proceeds from the exercise of stock options	170.7	—	—	170.7
Dividends (paid) received	(271.3)	10.2	108.5	(152.6)
Purchase of treasury shares	—	—	(355.9)	(355.9)
Net cash used in financing activities	(100.6)	(399.3)	(307.3)	(807.2)
Net cash (used in) provided by discontinued operations	—	(13.5)	32.4	18.9
Effect of change in fiscal year end of business	—	—	(23.8)	(23.8)
Effect of exchange rate changes on cash and cash equivalents	—	—	16.5	16.5
Net increase in cash and cash equivalents	76.3	740.0	470.2	1,286.5
Cash and cash equivalents - beginning of period	160.5	104.1	152.6	417.2
Cash and cash equivalents - end of period	$ 236.8	$ 844.1	$ 622.8	$1,703.7

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2003

In millions	IR-Limited	IR-New Jersey	Other Subsidiaries	IR-Limited Consolidated
Net cash provided by (used in) operating activities	$ 146.4	$ 285.6	$(293.6)	$ 138.4
Cash flows from investing activities:				
Capital expenditures	—	(20.5)	(78.8)	(99.3)
Proceeds from sale of property, plant and equipment	—	11.6	31.5	43.1
Investments and acquisitions, net of cash	(19.6)	(1.5)	(0.2)	(21.3)
Proceeds from business disposition	43.0	395.5	312.9	751.4
Proceeds from sales and maturities of marketable securities	—	147.6	—	147.6
Cash (invested in) provided by or advances (to) from equity companies	—	—	(0.6)	(0.6)
Net cash used in investing activities	23.4	532.7	264.8	820.9
Cash flows from financing activities:				
Net change in debt	—	(924.2)	(15.4)	(939.6)
Proceeds from the exercise of stock options	211.1	—	—	211.1
Dividends (paid) received	(220.4)	8.0	89.2	(123.2)
Net cash (used in) provided by financing activities	(9.3)	(916.2)	73.8	(851.7)
Net cash (used in) provided by discontinued operations	—	(7.0)	28.8	21.8
Effect of exchange rate changes on cash and cash equivalents	—	—	2.6	2.6
Net increase in cash and cash equivalents	160.5	(104.9)	76.4	132.0
Cash and cash equivalents - beginning of period	—	209.0	76.2	285.2
Cash and cash equivalents - end of period	$ 160.5	$ 104.1	$152.6	$ 417.2

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2002

In millions	IR-Limited	IR-New Jersey	Other Subsidiaries	IR-Limited Consolidated
Net cash provided by operating activities	$ 170.1	$ 412.9	$ (96.6)	$ 486.4
Cash flows from investing activities:				
Capital expenditures	—	(19.7)	(86.9)	(106.6)
Proceeds from sale of property, plant and equipment	—	6.8	34.0	40.8
Investments and acquisitions, net of cash	—	(2.8)	(109.9)	(112.7)
Cash invested in or advances to equity companies	—	—	(2.3)	(2.3)
Net cash provided by (used in) investing activities	—	(15.7)	(165.1)	(180.8)
Cash flows from financing activities:				
Net change in debt	—	(172.5)	(48.7)	(221.2)
Proceeds from the exercise of stock options	36.7	—	—	36.7
Dividends paid	(206.8)	7.6	84.4	(114.8)
Net cash used in financing activities	(170.1)	(164.9)	35.7	(299.3)
Net cash (used in) provided by discontinued operations	—	(46.7)	236.9	190.2
Effect of exchange rate changes on cash and cash equivalents	—	—	2.8	2.8
Net increase (decrease) in cash and cash equivalents	—	185.6	13.7	199.3
Cash and cash equivalents - beginning of period	—	23.4	62.5	85.9
Cash and cash equivalents - end of period	$ —	$ 209.0	$ 76.2	$ 285.2

Note 15 – Subsequent Event

On January 21, 2005, the Company completed the acquisition of the remaining 70% interest in Italy-based CISA S.p.A. ("CISA") for approximately Euro 202 million in cash and the assumption of Euro 190 million of debt. The acquisition was not deemed a material business combination as defined under SFAS No. 141, "Business Combinations." CISA manufactures an array of security and safety products, including electronic locking systems, cylinders, door closers, and panic hardware, and also markets safes and padlocks.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. 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. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of internal control over financial reporting as of December 31, 2004. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in Internal *Control - Integrated Framework*. Management concluded that based on its assessment, the Company's internal control over financial reporting was effective as of December 31, 2004. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report.

Herbert L. Henkel
Chairman, President and
Chief Executive Officer

Timothy R. McLevish
Senior Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

PRICEWATERHOUSECOOPERS

To the Board of Directors and Shareholders of Ingersoll-Rand Company Limited:

We have completed an integrated audit of Ingersoll-Rand Company Limited's (successor company to Ingersoll-Rand Company) 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Ingersoll-Rand Company Limited and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 to the consolidated financial statements, on January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets."

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Managements' Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring

Report of Independent Registered Public Accounting Continued

Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company'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 company'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 company; (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 company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company'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.

PricewaterhouseCoopers LLP
Florham Park, New Jersey
March 14, 2005

Quarterly Financial Data

Summarized unaudited quarterly financial data for 2004 and 2003 follows:

In millions, except per share amounts

2004	Net sales*	Cost of goods sold*	Operating income*	Net earnings	Basic earnings per common share	Diluted earnings per common share
First quarter	$2,122.2	$1,554.5	$ 225.5	$ 179.5	$1.03	$1.02
Second quarter	2,444.4	1,783.0	318.7	286.2	1.65	1.63
Third quarter	2,368.0	1,738.8	278.2	237.8	1.37	1.36
Fourth quarter	2,459.0	1,777.7	297.9	515.2	2.99	2.95
Year 2004	$9,393.6	$6,854.0	$1,120.3	$1,218.7	$7.03	$6.95
2003						
First quarter	$1,841.5	$1,396.3	$ 153.0	$ 153.2	$0.91	$0.90
Second quarter	2,096.8	1,554.9	195.2	139.3	0.82	0.81
Third quarter	2,064.0	1,523.6	212.8	154.6	0.90	0.88
Fourth quarter	2,247.0	1,634.2	226.6	197.4	1.14	1.12
Year 2003	$8,249.3	$6,109.0	$ 787.6	$ 644.5	$3.77	$3.74

*Amounts have been restated to exclude discontinued operations (see Note 2.)

Share Prices and Dividends

Quarterly share prices and dividends for the common shares are shown in the following tabulation. The common shares are listed on the New York Stock Exchange.

	Common shares		
2004	High	Low	Dividend
First quarter	**$72.65**	**$62.54**	**$0.19**
Second quarter	**73.56**	**59.04**	**0.19**
Third quarter	**69.89**	**62.05**	**0.25**
Fourth quarter	**82.90**	**64.74**	**0.25**
2003			
First quarter	$45.62	$34.52	$0.17
Second quarter	49.25	38.12	0.17
Third quarter	60.00	46.00	0.19
Fourth quarter	68.19	53.22	0.19

Certifications

New York Stock Exchange Annual Chief Executive Officer Certification

The Company's Chief Executive Officer submitted to the New York Stock Exchange ("NYSE") the Annual CEO Certification as to the Company's compliance with the NYSE's corporate governance listing standards required by Section 303A.12 of the NYSE's listing standards.

Sarbanes-Oxley Act Section 302 Certification

The certifications of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to the Company's annual report on Form 10-K for the year ended December 31, 2004.

Information for Shareholders

Directors

Ann C. Berzin
Private Investor and Former Chairman and Chief Executive Officer, Financial Guaranty Insurance Company.

George W. Buckley
Chairman and Chief Executive Officer, Brunswick Corporation.

Peter C. Godsoe
Retired Chairman,
The Bank of Nova Scotia.

Herbert L. Henkel
Chairman, President and Chief Executive Officer of the Company.

Constance J. Horner
Guest Scholar,
The Brookings Institution.

H. William Lichtenberger
Retired Chairman and Chief Executive Officer, Praxair, Inc.

Theodore E. Martin
Retired President and Chief Executive Officer, Barnes Group Inc.

Patricia Nachtigal
Senior Vice President and General Counsel of the Company.

Orin R. Smith
Retired Chairman and Chief Executive Officer, Engelhard Corporation.

Richard J. Swift
Chairman of the Financial Accounting Standards Advisory Council.

Tony L. White
Chairman, President and Chief Executive Officer, Applera Corporation.

Committees of the Board

Audit
R. J. Swift, Chair; A. C. Berzin, G. W. Buckley, H. W. Lichtenberger.

Compensation
O. R. Smith, Chair; P. C. Godsoe, C. J. Horner, T. E. Martin, T. L. White.

Finance
H. W. Lichtenberger, Chair; A. C. Berzin, G. W. Buckley, R. J. Swift.

Corporate Governance and Nominating
C. J. Horner, Chair; P. C. Godsoe, T. E. Martin, O. R. Smith, T. L. White.

Officers

Herbert L. Henkel
Chairman, President and Chief Executive Officer

Sharon Elliott
Senior Vice President

Michael W. Lamach
Senior Vice President

Timothy R. McLevish
Senior Vice President and Chief Financial Officer

Patricia Nachtigal
Senior Vice President and General Counsel

Randy P. Smith
Senior Vice President

Christopher P. Vasiloff
Senior Vice President

Barbara L. Brasier
Vice President and Treasurer

Edward L. Doheny II
Vice President

Barry Libenson
Vice President

Richard W. Randall
Vice President and Controller

Barbara A. Santoro
Vice President, Corporate Governance and Secretary

Timothy E. Scofield
Vice President

Steven R. Shawley
Vice President

Jeff Zhenning Song
Vice President

Gerald E. Swimmer
Vice President

Corporate Data

Shareholder Information Services

The company's 2004 annual report on Form 10-K as filed with the Securities and Exchange Commission is available by calling IR Shareholder Information Services at 800.955.9845 (international: 402.573.9931), or through IR's web site, www.irco.com. Individuals also can contact IR Shareholder Information Services for quarterly earnings reports and significant company news. Through this service, shareholders can listen to recorded information or request information to be sent by facsimile or mail.

Other company information can be found at Ingersoll-Rand's web site: www.irco.com. Securities analysts, portfolio managers and representatives of institutional investors seeking information about the company should contact:

Joseph P. Fimbianti
Director, Investor Relations
Ingersoll-Rand

201.573.3113
201.573.3172 Fax

Dividend Reinvestment Plan

Shareholders may wish to take advantage of our automatic dividend reinvestment and cash payment plan. The plan allows for full or partial dividend reinvestment, and additional monthly cash investments up to $3,000 per quarter, in Ingersoll-Rand Class A common shares without brokerage commissions or service charges on stock purchases. If you are interested in joining the plan and need an authorization form or more background information, write to the Secretary in care of Ingersoll-Rand Company Limited, P.O. Box 0445, 155 Chestnut Ridge Road, Montvale, NJ, 07645-0445, or call The Bank of New York at 800.524.4458.

Annual General Meeting

June 1, 2005, 11:00 am
Hilton Woodcliff Lake
200 Tice Blvd
Woodcliff Lake, NJ 07677

Stock Exchange

New York

Transfer Agent, Registrar and Dividend Reinvestment Agent

The Bank of New York
Telephone inquiries: 800.524.4458
Web site: http://stock.bankofny.com

Address shareholder inquiries to:

Shareholder Relations Department – 11E
P.O. Box 11258
Church Street Station
New York, NY 10286

Send certificates for transfers and address changes to:

Receive and Deliver Department – 11W
P.O. Box 11002
Church Street Station
New York, NY 10286

IR
LISTED
NYSE.

Our Well-Known Names

Ingersoll-Rand is composed of a diverse array of businesses and market-leading brands serving customers in global commercial and industrial markets. Our roster of brands includes well-known names, such as those listed here, and dozens of less widely known, but highly regarded brands serving a variety of market segments.

A comprehensive list of our brands and businesses is available on the company's website, www.irco.com.

Bobcat

- Skid-steer loaders, mini-excavators, compact track loaders, telescopic material handlers, mini-tractor loader backhoes, compact work machines, and attachments

Club Car

- Electric- and gasoline-powered golf cars, and utility and recreational vehicles

HUSSMANN

- Refrigerated display merchandisers, refrigeration systems and controls, beverage coolers, walk-in storage coolers, and freezers

IR Ingersoll-Rand

Road and Utility Equipment

- Road construction and repair equipment, including asphalt and soil compactors and asphalt pavers
- Light construction and concrete equipment
- Rough-terrain material handling equipment
- Portable air compressors, light towers, and generators

Industrial

- Tools, air motors, and material handling equipment
- Microturbines, generators, and fuel-conditioning systems
- Air and gas compressors, and compressed-air systems, products, and services

SCHLAGE

- Locks and locksets, deadbolts, and proprietary keyway systems; door levers, handlesets, and knobs

THERMO KING

- Transport temperature control units for trucks, trailers, small trucks, and seagoing containers
- Heating, ventilation, and air conditioning systems for buses and passenger railcars

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