

*Ingersoll Rand*

# 2006 Annual Report 2007 Notice and Proxy Statement





*Ingersoll Rand is a leading diversified industrial company providing products, services and integrated solutions to industries ranging from transportation and manufacturing to food retailing, construction, and agriculture. With a 135-year-old heritage of technological innovation, we help companies worldwide to be more productive, efficient and innovative. In every line of our business, Ingersoll Rand enables companies and their customers to create progress.*

#### **Our Vision**

*We are dedicated to driving shareholder value by achieving:*

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

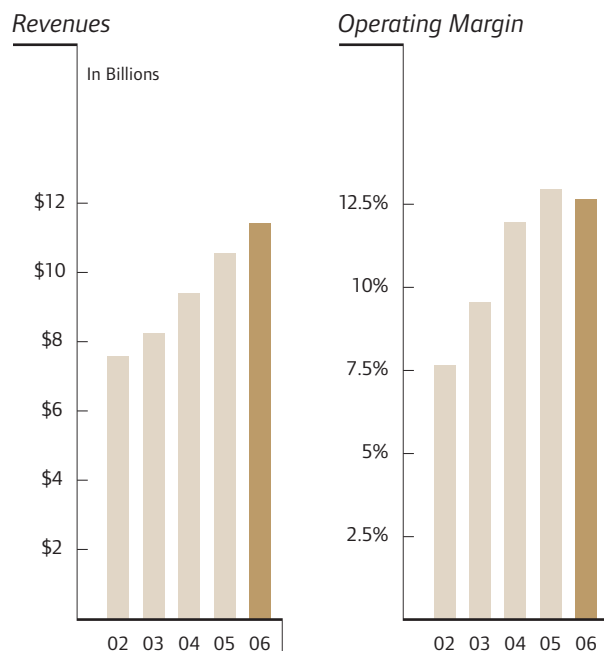
**Operational Excellence,**  
*by pursuing continuous improvement in all of our operations*

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

## Chairman's Message

In 2000 we began a journey to transform our company to become an upper echelon diversified industrial firm capable of delivering consistently improving financial performance across all phases of the economic cycle. That journey began with a vision to achieve greater shareholder value through an emphasis on Dramatic Growth, Operational Excellence and Dual Citizenship—the last being our term for exchanging knowledge, sharing best practices, and leveraging our collective enterprise resources.

Based on our performance in key financial and operational measures, our journey continues to be successful. Over the past five years our company has consistently generated annual growth in revenues and earnings, and achieved—or made strong progress toward—important financial and operational targets that distinguish Ingersoll Rand as a top quartile diversified industrial company. Perhaps most importantly, we continue to find opportunities to improve the way we work, to produce revenue and earnings growth, and to increase shareholder value.



### A Test of Our Strategy

Even as we began our company's transformation, we knew there would be a time when our strategy would face its first true test. That test arrived in 2006, and I am pleased to say our financial results proved that our company can effectively manage through uneven economic conditions and deliver solid performance. Despite a sharp decline in the North American residential construction market in the second half of 2006, which significantly affected our Bobcat business and a portion of our Security Technologies business, we achieved record revenues and earnings per share from continuing operations.

To put our 2006 results in context we have established five annual financial goals, which we aspire to regardless of prevailing economic or market conditions:

- Revenue growth of 8% to 12%, with half coming from organic growth and half from acquisitions

## Selected Financial Data

amounts

In millions, except per share

At and for the years ended December 31,	2006	2005	2004	2003	2002
Net revenues	<b>\$ 11,409.3</b>	\$ 10,546.9	\$ 9,393.6	\$ 8,249.3	\$ 7,583.0
Earnings from continuing operations	<b>1,068.3</b>	1,053.1	829.8	532.8	322.4
Total assets	<b>12,145.9</b>	11,756.4	11,414.6	10,664.9	10,809.6
Long-term debt	<b>905.2</b>	1,184.3	1,267.6	1,518.4	2,091.4
Shareholders' equity	<b>5,404.8</b>	5,762.0	5,733.8	4,493.3	3,478.2
Basic earnings per common share:*					
Continuing operations	<b>\$3.34</b>	\$3.12	\$2.40	\$1.56	\$0.96
Discontinued operations	<b>(0.11)</b>	—	1.12	0.32	0.41
Diluted earnings per common share:*					
Continuing operations	<b>\$3.31</b>	\$3.09	\$2.36	\$1.55	\$0.95
Discontinued operations	<b>(0.11)</b>	—	1.11	0.32	0.41
Dividends per common share*	<b>\$0.68</b>	\$0.57	\$0.44	\$0.36	\$0.34

\* These amounts have been restated to reflect a two-for-one stock split, effective September 1, 2005.

- Operating margin of 15%
- Earnings per share growth of 12% to 15%
- Return on invested capital of 15%
- Available cash flow of at least \$800 million

We have performed well against these goals from the outset; however, in 2006, our annual progress paused slightly in the face of severe business challenges. Still, our 2006 performance demonstrated that we have established a solid foundation to consistently advance toward our annual financial targets.

In 2006, we exceeded \$11 billion in revenues<sup>†</sup> for the first time in our company's history, bolstered by a 7% increase in organic revenues compared with 2005. This increase in organic revenues exceeded our annual target and testifies to the strength of our home-grown innovation and ability to provide creative solutions for our customers. Our earnings per share from continuing operations increased by 10%, excluding a \$27 million charge to increase tax reserves connected to an audit of the 1998 through 2000 tax years.

Our operating income improved by nearly 6%, but operating margins declined slightly as a result of dramatically higher material costs and a less profitable revenue mix. Still, our 2006 operating margin of 12.6% represented a full five percentage-point increase compared with our 2002 operating margin of 7.6%.

Our company continued to be a strong cash generator, with 2006 available cash flow<sup>††</sup> of \$760 million. Over the past nine years we have generated more than \$6 billion of available cash flow.

In 2006, our return on invested capital (ROIC) improved to 14.2%, a slight increase compared with 2005, and closer yet toward our annual target of 15%. Of note, our ROIC has improved by almost a full six percentage points since 2002.

Our debt balance at the end of 2006 was approximately \$2.0 billion, or approximately \$1.6 billion of net debt. Our debt to capital ratio was approximately 26.6%, a comfortable level from which to execute our growth strategies. In contrast, our debt to capital ratio in 2002 stood at 47%.

<sup>†</sup> Unless otherwise specified, all amounts are before the restatement of 2006 financials relating to the proposed sale of the Road Development business.

<sup>††</sup> Available cash flow consists of cash flows from operating activities (excluding voluntary pension contributions) and discontinued operations minus capital expenditures.

## Continuing Our Transformation

On February 27, 2007, we reached an agreement to sell our Road Development business unit to AB Volvo for cash proceeds of approximately \$1.3 billion. The sale of the Road Development business reflects our strategy to transition away from capital-intensive, heavy-machinery businesses and improves the company's efforts to consistently achieve aggressive financial objectives over the long term. Overall, the proposed sale will generate net cash proceeds of more than \$900 million for Ingersoll Rand.

When finalized, the sale will represent another important step in our transformation to become a diversified industrial company. In pursuing this goal, over the past seven years we have divested heavy-machinery, capital-intensive businesses, and completed approximately 65 bolt-on acquisitions of businesses whose markets and operational characteristics in the aggregate offer the prospect of more consistent financial performance over the long term.

The prospective sale of our Road Development business will result in the

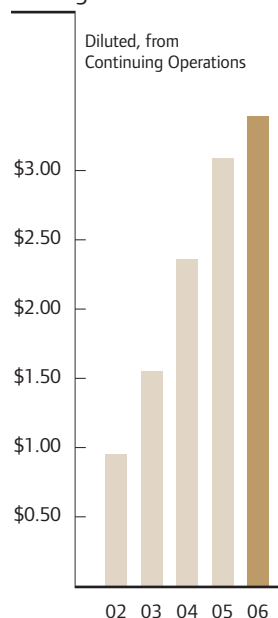
elimination of Construction Technologies as a separately reported financial segment. The financial results of our Utility Equipment and Attachments businesses will be reported within the Compact Equipment Technologies segment, which also includes our Bobcat and Club Car businesses.

## Generating Dramatic Growth

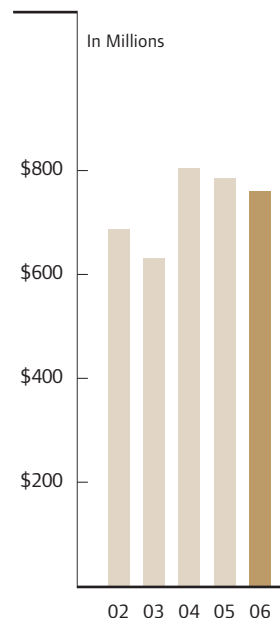
We are especially pleased with our ability to continue making progress against our imperative to achieve Dramatic Growth. Since 2001 our revenues have increased at a 9% compounded annual growth rate, which is within our annual target of 8% to 12% growth for total revenues. This revenue performance indicates that we have been successful in identifying and competing in the global markets that now form the core focus of our company, and that we are benefiting from a growth strategy predicated on innovation, recurring revenues and acquisitions.

We are delivering strong organic revenues through a strong focus on innovation. Every

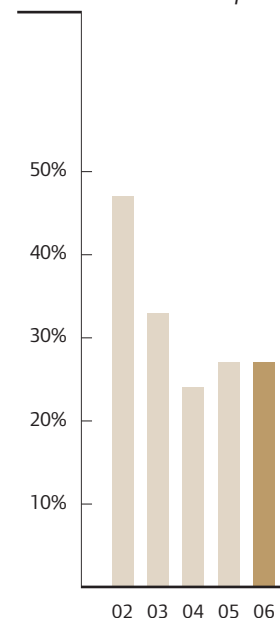
*Earnings Per Share<sup>1,2</sup>*



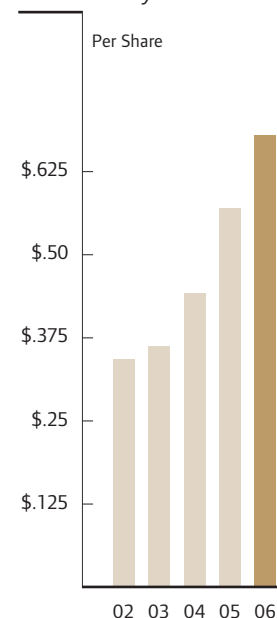
*Available Cash Flow<sup>3</sup>*



*Year-End Debt-to-Capital*



*Dividend Payments<sup>2</sup>*



1. 2006 excludes a third-quarter tax charge to increase tax reserves connected to an audit of 1998–2000 tax years.

2. Adjusted to reflect a two-for-one stock split, effective September 1, 2005.

3. Available cash flow consists of cash flows from operating activities (excluding voluntary pension contributions) and discontinued operations minus capital expenditures. Amounts for 2002, 2003 and 2004 represent historical figures.



## Celebrating 100 Years of Creating Shareholder Value

On November 1, 2006, we celebrated a milestone shared by only a handful of companies – 100 years of continuous listing on The New York Stock Exchange (NYSE) – by ringing the closing bell on the floor of the exchange.

Ingersoll Rand was first listed on the NYSE on Wednesday, October 10, 1906, and the company's shares first traded the following day. The company's performance over the years has benefited many investors through share price appreciation and dividends. In fact, our company has paid annual dividends since 1910, including consecutive quarterly cash dividends since 1919. Overall, one share of our common stock in 1906, which was then valued at \$41, today would be worth a gross value of nearly \$15 million, with dividends reinvested and excluding taxes.

Our longevity as a public company reflects Ingersoll Rand's ability to grow, adjust and succeed over the years despite several periods of economic and global adversity throughout the past century. Our recent transformation sets the stage for another 100 years of success and creating shareholder value.

one of our business sectors introduced new products during the year, and collectively we generated more than \$1.3 billion in 2006 revenues from products introduced over the past three years. We expect this type of performance to continue as during the year we invested \$175 million in development and engineering for new products across all of our businesses.

In 2006 our total recurring revenues, which include revenues from parts, service, rental, attachments, and used equipment, totaled approximately \$2.4 billion, or about 21% of total revenues for the year. This represented an increase of approximately 11% compared with 2005. All of our sectors reported excellent improvement in recurring revenues compared with 2005. Of note, recurring revenue has more than doubled since 2000 and today provides an important foundation for growth regardless of prevailing economic conditions.

We remain committed to supplementing our organic growth with acquisitions that extend our product technologies, expand our markets, and broaden our recurring revenue stream. In 2006, we reviewed many acquisition candidates, but the majority of these were priced at an unacceptable premium relative to our investment criteria. Still, the acquisitions we did complete complement our existing businesses and enhance our customer offerings.

- In January 2006, we completed the acquisition of an 80% share of Shenzhen Bocom Systems Engineering Co. Ltd. (Bocom). Bocom is the largest independent security systems integration company in China.
- In September 2006, we purchased the assets of ZEKS Compressed Air Solutions, a leading North American provider of compressed air treatment. ZEKS' product line includes air dryers, filters and systems controllers that maximize the productivity and reliability of compressed air systems.
- In October 2006, we acquired the global low-pressure air business of BOC Edwards,

a business of the Linde Group. This business develops, manufactures, sells and services a complete line of centrifugal blowers and industrial and mobile positive displacement blowers, complementing Ingersoll Rand's existing line of compressed air technologies and services.

- In October 2006, we acquired Geith International, a leading provider of a wide range of attachments for the construction, excavation, demolition and scrap handling industries.

These acquisitions are expected to add more than \$100 million to 2007 revenues.

### **Pursuing Operational Excellence**

Our focus on Operational Excellence drives us to achieve continuous improvement and reduced costs through best practices and efficient business processes across our global operations.

We are expanding our tools, strengthening our processes and building the capabilities of our people in order to deliver on our operational-excellence imperative. The centerpiece of this effort is Ingersoll Rand's Business Operating System, which, powered by Lean Six Sigma methodologies, is driving continuous improvement across all of our business activities and all of our global operations.

Formally stated, the Business Operating System is dedicated to advancing the Ingersoll Rand vision by creating standard, repeatable business processes that ensure continuous improvement and enhance customers' experiences as employees across the globe use common tools to build and share best practices every day.

The Business Operating System ensures that every Ingersoll Rand employee is equipped with the same structure, tools and methodology to sustain continuous improvement. As it becomes the way we get the job done every day, the Business Operating System will prove to be a powerful vehicle for improving the company's capabilities and competitiveness.

All Ingersoll Rand employees will be involved in some aspect of the Business Operating System, regardless of their locations or positions they hold. As a result, the Business Operating System will become the hallmark of our corporate culture, and it will become the way we do things to drive performance improvements in all areas of our company.

*We have the fundamental ingredients to deliver superior results. We have excellent people, great products, and well-regarded brands, along with a global presence in markets that remain vital to economic and industrial progress.*

### **Benefiting from Dual Citizenship**

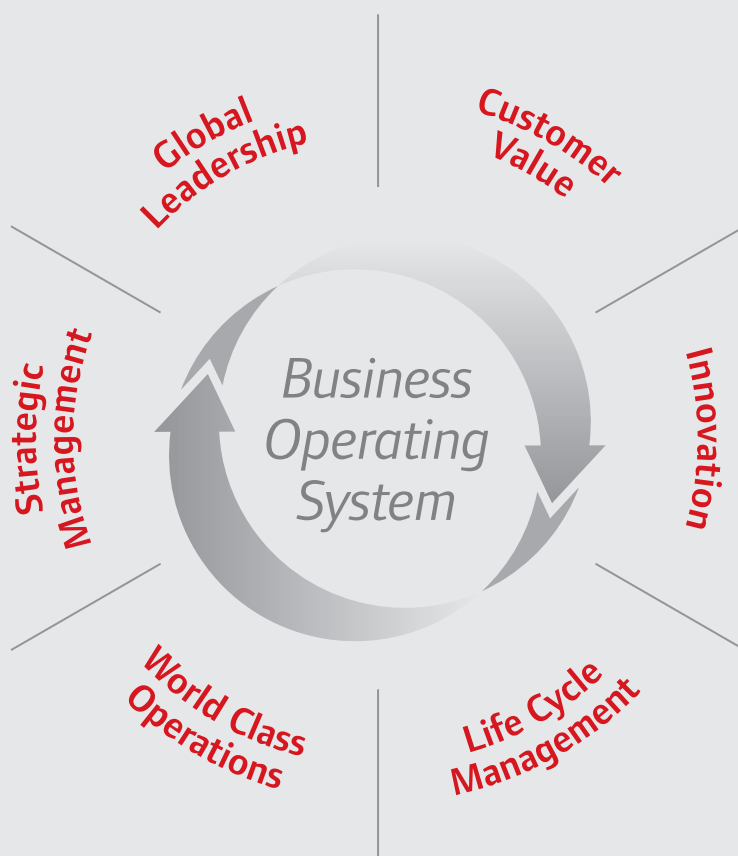
Our pursuit of Dual Citizenship reflects our intention to leverage Ingersoll Rand's global capabilities, including knowledge, best practices, assets, and resources, to benefit our customers, our employees and our company. With the launch of our Enterprise Focus Areas in mid 2006, we initiated what is perhaps the most expansive practice of Dual Citizenship since we established this part of our company's vision in 2000.

The work of the Enterprise Focus Areas comprises the major business activities we engage in, as described on page 6. Each Enterprise Focus Area consists of a team of employees from every major business and includes global representation. These teams are responsible for identifying and developing plans to standardize business processes that are critical to achieving our business goals,



## Enterprise Focus Areas

Ingersoll Rand's Business Operating System, which comprises the common structure, tools, and methodology to drive a culture of continuous improvement, includes an emphasis on six critical areas of our long-term strategy, outlined here. We call these our Enterprise Focus Areas (EFA). Members of our Enterprise Focus Area teams are responsible for identifying and developing standardized business processes in these areas, which then become part of our Business Operating System.



### Strategic Management

The Strategic Management EFA is focused on enabling Ingersoll Rand to efficiently manage people, processes and practices to drive the success of the company. An integrated business system, the Strategic Management System, is already in place under this EFA, connecting all existing strategic business processes and aligning the development and execution of vision and strategy across the company.

### Global Leadership

The Global Leadership EFA is working to inculcate leadership talent deep into the global organization, and to align employees with the company's strategic growth plans. In particular, this EFA is focused on providing managers with the tools and processes that will enable and support them in working jointly with their employees to provide the best training and development opportunities and to encourage employee engagement.

### Innovation

The Innovation EFA is working across the enterprise to define and align a consistent process and approach to innovation. The EFA is focusing on three business processes crucial to innovation: Idea Generation, or understanding all the different ways we can create value; Idea Assessment, developing a quick and efficient process to evaluate ideas; and Idea Implementation, or transforming ideas into profitable business opportunities.

### Customer Value

The Customer Value EFA is focused on expanding Ingersoll Rand's value proposition to its customers by enhancing channel performance, accelerating market entry and driving continuous improvement through action-oriented Voice of Market processes. In particular, this EFA is striving to optimize channel performance in mature markets and accelerating the company's ability to provide value in new markets.

### Life Cycle Management

The Life Cycle Management EFA seeks to extend relationships with our customers by providing value-added services in areas such as warranties, service contracts, remarketing and replacement parts. At the EFA's core are four customer-value drivers: Asset Intensity, or providing a solution rather than just a product; Reliability and Risk Reduction, which translates into less downtime for the customer; Efficiency, by saving energy and eliminating waste; and Convenience, by providing services for Ingersoll Rand and non-Ingersoll Rand equipment.

### World Class Operations

The World Class Operations EFA is focused on enhancing the company's working environment, increasing business opportunities by implementing common processes within a common culture, and reducing costs and inventory. This EFA provides the stewardship for the company's Lean Six Sigma deployment, providing employees with the required tools, methodologies and techniques to successfully reduce waste and variation across our operations and to execute future common processes.



and which eventually will become part of our Business Operating System. To offer an analogy, the Enterprise Focus Areas will provide the genetic code that constitutes Ingersoll Rand's Business Operating System and that, ultimately, characterizes our "One Company" culture.

For example, the Innovation Enterprise Focus Area is working on developing common methodologies for idea generation, idea assessment and idea implementation, which all Ingersoll Rand employees who are engaged in new product or service development will deploy. Similarly, all other Enterprise Focus Areas will define and create the processes that will ensure repeatable success across our business activities.

Another component helping to drive progress in our Enterprise Focus Areas are several dozen councils that have been formed across the company comprising major functional and operational disciplines. These councils, which also consist of multi-business membership, contribute valuable expertise and advice to advance the work of our Enterprise Focus Areas, and represent a powerful Dual Citizenship engine for our company's continuing progress.

### Well Positioned for Progress

Our solid revenue and earnings growth, our strong cash generation capability, and our solid balance sheet provide the flexibility to reinvest in our core businesses to fuel innovation, support growth initiatives, drive operational improvement, and take steps to enhance shareholder value.

In August 2006, our board of directors increased the quarterly dividend on Ingersoll Rand's Class A common shares by approximately 13%. The company's dividend has increased by approximately 90% over the past three years. In addition, we continued our share buyback program, which we believe is a sound investment to increase the long-term value of the company's outstanding shares. Of note, in the fourth quarter of 2006 we completed the \$2 billion



## Meeting Our Global Responsibility

We work hard to steward the world's resources and to ensure the health and safety of our people, our customers and our neighbors. Our commitment to sound environmental, safety and health operating practices is leading to decreased use of hazardous substances; reduced waste and emissions; improved energy and water conservation; greater reuse and recycling of materials; and prevention of accidents and injuries across our operations.

Our employees lead this effort within our facilities, and they extend their care and concern to the communities where we work by contributing donations and volunteering their time and services to provide assistance and relief to our neighbors who are in need of help.

Through our innovative products and services, we seek to create a positive impact on societies throughout the world. Our products help conserve energy, improve user safety, enhance economic growth, increase the yield of the global harvest, and provide a host of other benefits to society. We will continue looking for ways to improve the work we do, and the products we make, to meet our commitment to our customers, our colleagues and our communities.

share repurchase program that the board authorized in 2004, and in December 2006 the board authorized a new share repurchase program for an additional \$2 billion.

With these actions, our board of directors has demonstrated its confidence in our company's strategy and future performance. By now it is evident that our company no longer reflects the capital-intense, heavy-machinery profile of our past. Instead, today's Ingersoll Rand is a multi-brand commercial products manufacturer serving customers in diverse global markets. Ingersoll Rand is a different, and better, company today, and we are poised to generate greater progress and value for customers and shareholders.

*We are benefiting from a growth strategy predicated on innovation, recurring revenues and acquisitions.*

We have the fundamental ingredients to deliver superior results. We have excellent people, great products, and well-regarded brands, along with a global presence in markets that remain vital to economic and industrial progress. Across our businesses, customers prefer our solutions, and we continue to meet their needs through innovations that set the pace within our markets. Furthermore, our focus on building a "One Ingersoll Rand" culture is creating

new pathways for sharing knowledge, best practices and resources for the benefit of the global enterprise.

We are a stronger company by virtue of our diversified business portfolio, where softness in one market can be offset by the strength of other markets in which we participate. Ultimately, we are confident that each of our businesses will, over the long term, deliver strong growth and financial returns. This confidence encourages us to establish aggressive financial targets, and pursue the operational standards that characterize best-in-class diversified industrial firms.

We are continuing to execute our strategy, which has delivered solid results for the past seven years. We have become a truly global company, able to serve our global markets through a considerably improved and more geographically balanced manufacturing footprint. We have created a strong foundation for growth by expanding our stream of recurring revenues and through a commitment to innovation across all of our businesses. We are demonstrating operational excellence every day, and the benefits of our Business Operating System will dramatically improve our already strong results in this area.

I am confident that we have experienced only the beginning of the long-term benefits that will accrue from our company's transformation. We still have room for improvement, we still have many opportunities ahead of us, and we are well prepared to manage the challenges that may arise. I thank all of our customers, employees and shareholders for contributing to our company's past success and future progress.



Herbert L. Henkel  
Chairman, President and  
Chief Executive Officer

April 2007

## *2007 Notice and Proxy Statement*





**Ingersoll-Rand Company Limited**

Principal Executive Office:  
Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

US Mailing Address:  
155 Chestnut Ridge Road  
Montvale, NJ 07645  
(201) 573-0123

**NOTICE OF 2007 ANNUAL GENERAL MEETING OF SHAREHOLDERS**

The Annual General Meeting of Shareholders of Ingersoll-Rand Company Limited will be held on Wednesday, June 6, 2007, at 11:00 a.m., local time, at the Hilton Hotel located at 200 Tice Boulevard, Woodcliff Lake, New Jersey, 07677, for the following purposes:

1. To elect seven directors to hold office for one year.
2. To adopt the Incentive Stock Plan of 2007.
3. To approve the appointment of PricewaterhouseCoopers LLP as independent auditors of the Company for 2007 and authorize the Board of Directors to fix the auditors' remuneration.
4. To act on one shareholder proposal if presented at the meeting.
5. To conduct such other business properly brought before the meeting.

Only shareholders of record at the close of business on April 9, 2007, are entitled to notice of and to vote at the Annual General Meeting.

Directions to the meeting can be found in Appendix C of the attached proxy statement.

By Order of the Board of Directors

B. A. SANTORO  
*Vice President—Corporate Governance  
and Secretary*

Dated: April 23, 2007

**YOUR VOTE IS IMPORTANT**

**Whether or not you plan to attend the meeting, please provide your proxy by either using the Internet as directed in the accompanying proxy card or filling in, signing, dating, and promptly mailing the accompanying proxy card in the enclosed envelope.**

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## PROXY STATEMENT INFORMATION CONCERNING VOTING AND SOLICITATION

*In this proxy statement, “Ingersoll Rand,” the “Company,” “we,” “us” and “our” refer to Ingersoll-Rand Company Limited, a Bermuda company, or, for any information prior to January 1, 2002, to Ingersoll-Rand Company, a New Jersey corporation, which, as of that date, became an indirect, wholly-owned U.S. subsidiary of Ingersoll-Rand Company Limited.*

*Under our Bye-laws and Bermuda law, audited financial statements must be presented to shareholders at an annual general meeting of shareholders. To fulfill this requirement, we will present at the 2007 Annual General Meeting of Shareholders (the “Annual General Meeting”) our audited consolidated financial statements for the fiscal year 2006. Copies of these consolidated financial statements are contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, which is being mailed to shareholders together with this proxy statement.*

*This proxy statement and the enclosed proxy card are first being mailed to you on or about April 23, 2007.*

### How Do I Attend the Annual General Meeting?

All shareholders are invited to attend the Annual General Meeting. **Either an admission ticket or proof of ownership of Class A common shares, as well as a form of personal identification, must be presented in order to be admitted to the Annual General Meeting.** If you are a shareholder of record, your admission ticket is attached to the enclosed proxy card. If you plan to attend the Annual General Meeting, please vote your proxy, but keep the admission ticket and bring it to the Annual General Meeting together with a form of personal identification.

If your shares are held in the name of a bank, broker or other holder of record and you plan to attend the Annual General Meeting, you must present proof of your ownership of Class A common shares, such as a bank or brokerage account statement, together with a form of personal identification to be admitted to the Annual General Meeting. If you would rather have an admission ticket, you can obtain one in advance by mailing a written request, **along with proof of your ownership of Class A common shares, to:**

Secretary  
Ingersoll-Rand Company Limited  
155 Chestnut Ridge Road  
Montvale, New Jersey 07645

**No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted at the Annual General Meeting.**

### Why Did I Receive This Proxy Statement?

We sent you this proxy statement, together with the enclosed proxy card, because our Board of Directors is soliciting your proxy to vote at the Annual General Meeting of Shareholders to be held on June 6, 2007. This proxy statement summarizes the information you need to know to vote on an informed basis.

### Who Can Vote?

You are entitled to vote if you owned the Company’s Class A common shares on the record date, which is the close of business on April 9, 2007. Each share of the Company’s Class A common share that you own entitles you to one vote on all matters to be voted upon at the Annual General Meeting.



On the record date, there were 303,946,832 shares of the Company's Class A common shares outstanding and entitled to vote.

### **How Do I Vote?**

Shareholders of record can cast their votes by proxy by:

- using the internet and voting at the website as directed on the enclosed proxy card; or
- completing, signing and returning the enclosed proxy card.

To vote your shares directly, you may attend the Annual General Meeting and cast your vote in person. Shareholders who hold their shares through a broker must vote their shares in the manner prescribed by their broker.

The internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedures allow shareholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded. If you are a shareholder of record and you would like to vote by using the internet, please refer to the specific instructions contained on the enclosed proxy card. If you vote by using the internet, you do not need to return the enclosed proxy card. In order to be timely processed, an internet vote must be received by 5 p.m. on June 5, 2007.

### **How Can Employees Vote Under Our Employee Plans?**

If you participate in the Ingersoll-Rand Company Employee Savings Plan, the IR/Clark Leveraged Employee Stock Ownership Plan, the Ingersoll-Rand Company Employee Savings Plan for Bargained Employees, the Ingersoll-Rand/Thermo King de Puerto Rico Retirement Savings Plan or the Melroe Savings and Investment Plan, then you may be receiving these materials because of shares held for you in those plans. In that case, you may use the enclosed proxy card to instruct the plan trustees of those plans how to vote your shares, or give those instructions over the internet. They will vote these shares in accordance with your instructions and the terms of the plan.

If you do not provide voting instructions for shares held for you in any of these plans, the plan trustees will vote these shares in the same ratio as the shares for which voting instructions are provided.

### **May I Revoke My Proxy?**

You may revoke your proxy at any time before it is voted at the Annual General Meeting in any of the following ways:

- by notifying Ingersoll Rand's Secretary in writing;
- by submitting another properly signed proxy card with a later date or another internet proxy at a later date; or
- by voting in person at the Annual General Meeting.

You may not revoke a proxy merely by attending the Annual General Meeting. To revoke a proxy, you must take one of the actions described above.

### **How Will My Proxy Get Voted?**

If you properly complete, sign and date the enclosed proxy card and send it to us or properly deliver your proxy over the internet, your proxy holder (one of the individuals named on the enclosed proxy card) will vote your shares as you have directed. Under the rules of The New York Stock Exchange ("NYSE"), if your broker or

nominee is a member of the NYSE and holds your shares in its name, the broker or nominee may vote your shares on Items 1 and 3 (routine matters) if it does not receive instructions from you. However, your broker or nominee may not vote your shares on Items 2 and 4 (non-routine matters) if it does not receive instructions from you and, accordingly, such shares will not be counted as votes for or against the non-routine matters, but rather will not be counted at all for these matters.

**If you do not specify on the enclosed proxy card that is sent to the Company (or when giving your proxy over the internet) how you want to vote your shares, we will vote them “FOR” the election of all nominees for director as set forth under Item 1, “FOR” Items 2 and 3, and “AGAINST” Item 4.**

### **What Constitutes A Quorum?**

The presence of at least two persons present in person and representing in person or by proxy a majority of all outstanding Class A common shares is necessary to constitute a quorum for the conduct of business. Abstentions and broker non-votes (shares held by a broker or nominee that are represented at the Annual General Meeting, but with respect to which the broker or nominee is not empowered to vote on a proposal) are treated as “shares present” for the purposes of determining whether a quorum exists.

### **What Vote Is Required To Approve Each Proposal?**

The affirmative vote of a majority of the Class A common shares represented and voting at the Annual General Meeting is required to approve each proposal other than the adoption of the Ingersoll-Rand Company Limited Incentive Stock Plan of 2007.

Adoption of the Ingersoll-Rand Company Limited Incentive Stock Plan of 2007 requires the affirmative vote of a majority of the Class A Common shares represented and entitled to vote at the Annual General Meeting, provided that a majority of Class A common shares outstanding vote on the matter.

Although abstentions and broker non-votes are counted as “shares present” at the Annual General Meeting for the purpose of determining whether a quorum exists, they are not counted as votes cast and, accordingly, will not affect the outcome of the vote.

### **Who Will Count The Votes?**

The Bank of New York, the Company’s transfer agent, will act as inspector of election and will tabulate the votes.

### **Who Pays The Expenses Of This Proxy Statement?**

We have hired Georgeson Shareholder Communications Inc. to assist in the distribution of proxy materials and the solicitation of proxies for a fee estimated at \$15,000, plus out-of-pocket expenses. Proxies will be solicited on behalf of the Board of Directors by mail, in person and by telephone. We will bear the cost of soliciting proxies. We will also reimburse brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy materials to the persons for whom they hold shares.

### **How Will Voting On Any Other Matter Be Conducted?**

Although we do not know of any matters to be presented or acted upon at the Annual General Meeting other than the items described in this proxy statement, if any other matter is proposed and properly presented at the Annual General Meeting, the persons named in the proxy will vote on such matters in accordance with their best judgment.

## PROPOSALS REQUIRING YOUR VOTE

### Item 1. Election of Directors

Each director nominated for election this year (i.e., Gary D. Forsee, Peter C. Godsoe, Constance J. Horner, Theodore E. Martin, Patricia Nachtigal, Orin R. Smith and Richard J. Swift) is a nominee for a one-year term expiring at the 2008 annual general meeting or until their successors, if any, are elected and qualified. Other directors are not up for election this year and will continue in office for the remainder of their terms expiring in 2008, at which time they (or their respective successors) will stand for election for a term expiring at the 2009 annual general meeting or until their successors, if any, are elected and qualified.

If a nominee is unavailable for election, proxy holders will vote for another nominee proposed by the Board or, as an alternative, the Board may reduce the number of directors to be elected at the meeting.

The recommendation that the Corporate Governance and Nominating Committee consider Mr. Forsee as a director came from Mr. White, a non-employee director of the Company. Pursuant to the nomination process, the Corporate Governance and Nominating Committee interviewed him and requested the requisite background review. Mr. Forsee was also interviewed by other directors.

**The Board of Directors recommends a vote FOR this proposal.**

#### *Nominees for Election for a Term Expiring at the Next Annual General Meeting*

##### **Gary D. Forsee—age 57**

- Chairman of the Board (since December 2006) and Chief Executive Officer (since August 2005) of Sprint Nextel Corporation.
- Chairman of the Board and Chief Executive Officer of Sprint Corporation from 2003 to 2005.
- Vice Chairman—Domestic Operations of BellSouth Corporation from 2002 to 2003.
- Vice Chairman and President of BellSouth International from 2001 to 2002.
- Other Activities:
  - Chairman, National Security Telecommunications Advisory Committee
  - Trustee, Board of Trustees, University of Missouri at Rolla
  - Trustee, National Board of Trustees, Boy Scouts of America

##### **Peter C. Godsoe—age 68, director since 1998**

- Chairman of the Board and Chief Executive Officer of The Bank of Nova Scotia (a Canadian-based international bank) from 1995 until retirement in 2004.
- Director of:
  - Barrick Gold Corporation
  - Lonmin plc
  - Onex Corporation
  - Rogers Communications Inc.
  - Sobeys Inc.
  - Templeton Emerging Markets Investment Trust plc
- Other Activities:
  - Director, Atlantic Institute for Market Studies

- Director, Canadian Council of Christians and Jews
- Director, Mount Sinai Hospital

**Constance J. Horner**—age 65, director since 1994

- Guest Scholar at the Brookings Institution from 1993 to 2005.
- Commissioner of U.S. Commission on Civil Rights from 1993 to 1998.
- Assistant to the President and Director of Presidential Personnel from 1991 to 1993.
- Deputy Secretary, U.S. Department of Health and Human Services from 1989 to 1991.
- Director of:
  - Pfizer Inc.
  - Prudential Financial, Inc.
- Other Activities:
  - Trustee, Annie E. Casey Foundation
  - Trustee, The Prudential Foundation
  - Fellow, National Academy of Public Administration

**Theodore E. Martin**—age 67, director since 1996

- President and Chief Executive Officer of Barnes Group Inc. (manufacturer and distributor of precision springs and custom metal parts) from 1995 until retirement in 1998.
- Director of:
  - Applera Corporation
  - C. R. Bard, Inc.
  - Strong Tool Company
  - Unisys Corporation
- Other Activities:
  - Director, Edna McConnell Clark Foundation
  - Trustee (emeritus), Syracuse University

**Patricia Nachtigal**—age 60, director since 2002

- Senior Vice President and General Counsel of the Company since 2000.
- Vice President and General Counsel of the Company from 1992 to 2000.
- Other Activities:
  - Governor, Rutgers, The State University of New Jersey
  - Trustee, Rutgers, The State University of New Jersey
  - Advisory Trustee, National Multiple Sclerosis Society—Greater North Jersey Chapter

**Orin R. Smith**—age 71, director since 1995

- Chairman and Chief Executive Officer of Engelhard Corporation (provider of specialty chemical products, engineered materials and industrial commodities management services for various industries) from 1995 until retirement in 2000.

- President and Chief Executive Officer of Engelhard Corporation from 1984 to 1995.
- Director of:
  - Applera Corporation
  - Vulcan Materials Company
- Other Activities: Trustee, Duxbury Bay Maritime School

**Richard J. Swift**—age 62, director since 1995

- Chairman of Financial Accounting Standards Advisory Council from January 2002 until December 2006.
- Chairman, President and Chief Executive Officer of Foster Wheeler Ltd. (provider of design, engineering, construction, manufacturing, management and environmental services) from 1994 until 2001.
- Director of:
  - CVS Corporation
  - Hubbell Incorporated
  - Kaman Corporation
  - Public Service Enterprise Group

***Directors Continuing in Office until 2008***

**Ann C. Berzin**—age 55, director since 2001

- Private investor since 2001.
- Chairman and Chief Executive Officer of Financial Guaranty Insurance Company (insurer of municipal bonds and structured finance obligations), a subsidiary of General Electric Capital Corporation, from 1992 to 2001.
- Director of Kindred Healthcare, Inc.
- Other Activities: Director, ArtsConnection

**Herbert L. Henkel**—age 59, director since 1999

- Chairman of the Board (since May 2000) and President and Chief Executive Officer (since October 1999) of the Company.
- President and Chief Operating Officer of the Company from April 1999 to October 1999.
- Chief Operating Officer of Textron Inc. (a multi-industry company with operations in aircraft, automotive, industrial and finance) from 1998 to March 1999.
- Vice President of Textron Inc. responsible for Textron Industrial Products Segment from 1993 to 1998.
- Director of C. R. Bard, Inc.

**H. William Lichtenberger**—age 71, director since 1995

- Chairman and Chief Executive Officer of Praxair, Inc. (an industrial gases company) from 1992 until retirement in 2000.
- Director of:
  - AEA LLC

- Arch Chemicals, Inc.
- Huntsman Corporation
- Other Activities: Director and Vice Chairman, Treasure Coast Hospices

**Tony L. White**—age 60, director since 1997

- Chairman, President and Chief Executive Officer of Applera Corporation (a developer, manufacturer and marketer of life science systems and genomic information products) since 1995.
- Executive Vice President of Baxter International Inc. (provider of medical products and services) from 1993 to 1995.
- Director of C.R. Bard, Inc.

## **Item 2. Adoption of the Incentive Stock Plan of 2007**

The Board of Directors is submitting to the shareholders for their approval the Incentive Stock Plan of 2007 (the “2007 Plan”). With certain modifications, the 2007 Plan is intended to continue the incentive arrangements established by the Amended and Restated Incentive Stock Plan of 1998 (the “1998 Plan”), which expires on May 31, 2007. The amount of shares for which approval is sought is 14,000,000. Upon shareholder approval of the 2007 Plan, no further grants will be made under the Company’s 1998 Plan. As a result, approximately 13.9 million shares that were previously authorized but remain available for grant under the 1998 Plan will no longer be available for grant under the 1998 Plan.

The Company has had shareholder-approved incentive compensation programs since 1959 as a means of providing long-term incentives to key executives of the Company and its subsidiaries. The Board believes that these plans have proved to be an important means of attracting, retaining and motivating key employees and is necessary for the Company to achieve superior performance in the future. Therefore, the approval of the 2007 Plan is vitally important.

The closing price of the Class A common shares on the NYSE composite tape on April 9, 2007 was \$43.75.

### **Description of the 2007 Plan**

The 2007 Plan will continue major features of the 1998 Plan authorizing the grant of up to 14,000,000 of such stock incentives, which represents approximately 5% of the outstanding shares as of April 9, 2007. Of the total available stock incentives, no more than 25% shall be in the form of stock awards. Shares not issued because of the termination of individual stock incentives, or for other reasons, can be reused under the 2007 Plan.

The 2007 Plan permits the grant of stock incentives to key employees as determined by the Compensation Committee and to all non-employee directors. Approximately 820 employees (approximately 2% of all employees) are currently considered eligible for the grant of stock incentives. We cannot state the value or number of shares subject to any particular stock incentive to be granted to key employees, since these matters will be determined by the Compensation Committee in the future based on the guidelines described above under the heading “Compensation Discussion and Analysis”. We expect, therefore, that key employees will continue to be granted stock incentives on a basis generally comparable to prior grants. During fiscal year 2006, all current executive officers as a group were granted options to purchase a total of 668,040 Class A common shares at a weighted average exercise price of \$39.425 and all employees as a group were granted options (or stock appreciation rights) to purchase a total of 3,003,480 shares at a weighted average exercise price of \$39.4469. During fiscal year 2006, non-employee directors were not granted any options. Information concerning stock incentives granted to the executive officers named in the Summary Compensation Table is set forth in Compensation Discussion and Analysis section under the heading “Stock Options”.

The 2007 Plan generally updates certain terms and conditions from the 1998 Plan, particularly with regard to Section 409A of the Internal Revenue Code of 1986 (the “Code”). In addition, the provisions of the 2007 Plan have been designed to allow maximum deductibility of compensation under Section 162(m) of the Code. The 2007 Plan is intended to comply with the performance-based compensation rules under Section 162(m) of the Code.

The 2007 Plan is summarized below. This summary is qualified in its entirety by reference to the text of the 2007 Plan, a copy of which is annexed to this Proxy Statement as Appendix B.

### ***Stock Options and Stock Appreciation Rights***

Stock options and stock appreciation rights are forms of stock incentives. Neither options nor stock appreciation rights may be granted at less than the fair market value of our Class A common shares on the date of grant. The term of an option or a stock appreciation right cannot exceed ten years. The 2007 Plan prohibits amending, or canceling and regranting, an option or a stock appreciation right to lower the exercise price.

Stock appreciation rights entitle the holder to receive Class A common shares with a value equal to the difference between the opening price of the Class A common shares on the NYSE on the exercise date and the fair market value at the time the rights were granted. Payment is made in Class A common shares. Stock appreciation rights may be granted either independently or in conjunction with options.

Options and stock appreciation rights terminate within specified periods upon the holder’s termination of employment. A holder of options or rights may not exercise them under any circumstances once they have expired.

Shares purchased under an option may be paid for in cash (or its equivalent) in full at the time of the exercise or through the cashless exercise method subject to the Company withholding for the payment of taxes associated with the exercise of options.

### ***Stock Awards***

The 2007 Plan permits the payment of incentive awards in Class A common shares. A stock award may, but need not, be contingent in whole or in part upon the attainment of certain pre-established performance objectives, as described below. Shares subject to an award may be issued at the time the award is granted, or at any time thereafter, or in installments and may be subject to forfeiture as the Compensation Committee may decide.

### ***Performance-Based Awards***

The 2007 Plan sets forth the following performance criteria that the Compensation Committee may apply to determine the amount of performance-based awards: consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization), net income, operating income, earnings per share, book value per share, return on shareholders’ equity, expense management, return on invested capital, improvements in capital structure, profitability of an identifiable business unit or product, maintenance or improvement of profit margins or revenue, stock price, market share, revenues or sales, costs, available cash flow, working capital, return on assets, total shareholder return, productivity ratios and economic value added, in each case determined without regard to extraordinary items. The maximum amount of performance-based awards that may be awarded to a participant during any calendar year cannot exceed: (i) with respect to performance-based awards that are options or stock appreciation rights, 750,000 shares and (ii) with respect to performance-based awards that are not options or stock appreciation rights, \$10,000,000 on the date of the award. In addition, the Compensation Committee can reduce, but not increase, the amount of any performance-based award payable to a participant as it deems appropriate in its discretion.



### ***Limitation on Full Value Awards***

The 2007 Plan provides for equity-based awards that fall into two categories: (a) stock options and stock appreciation rights and other similar awards in which potential incentive compensation is based on appreciation in the value of shares (“Appreciation Awards”) and (b) all other stock-based awards in which the potential incentive compensation is based on the full value of shares (“Full Value Awards”). In recognition of the differences between these categories, the 2007 Plan limits the awards of Full Value Awards to 25% of the total number of shares authorized under the 2007 Plan.

### ***Certain Practices Prohibited***

The 2007 Plan prohibits repricing of options and stock appreciation rights or the cancellation of options and stock appreciation rights in exchange for such awards with lower exercise prices. Adjustments to outstanding awards based on standard anti-dilution provisions are permitted. The amount of performance-based awards actually paid to any participant under the 2007 Plan cannot be greater than the amount determined by the applicable performance goal formula.

### ***Adjustment and Change in Control Provisions***

The 2007 Plan provides that in the event of a recapitalization, split-up or consolidation of Class A common shares of, or other significant corporate transaction involving, the Company, shares subject to a stock incentive shall be equitably adjusted as to number, classification, exercise price or fair market value (in the case of stock appreciation rights) and date of exercise.

Upon a change in control, all outstanding stock options and stock appreciation rights shall become fully vested and exercisable, all performance periods and performance goals associated with performance-based awards shall be deemed to have been met at their target level and all other stock-based awards shall become vested and payable. In addition, the Compensation Committee has authority to take certain actions upon a change in control, including, without limitation, cancellation of awards for fair value.

### ***Term, Administration and Amendment***

The 2007 Plan has a term of ten years and is administered by the Compensation Committee which is composed of disinterested independent directors. In general, the Compensation Committee may exercise all of the authority of the Company under the 2007 Plan except amending the 2007 Plan. In addition, all determinations in respect of awards to any key employee or to non-employee directors are made, based upon the recommendations of such Committee, by a committee consisting of all “non-employee directors” under Rule 16b-3 under the Securities Exchange Act of 1934 and as “outside directors” under Section 162(m) of the Code and the regulations promulgated thereunder.

The 2007 Plan may be amended, altered or discontinued by the Board at any time without shareholder approval. No such amendment, alteration or discontinuation may, however, (1) increase the total number of shares that may be issued under the Plan or change the maximum number of shares for which awards may be granted to any participant or (2) diminish the rights of a participant under any award without their consent.

### ***U.S. Federal Income Tax Consequences***

The following is a brief description of the U.S. federal income tax consequences generally arising with respect to the grant, exercise and disposition of stock options and other stock-based incentives.

Under present law, the grant of a stock option will create no tax consequences for the participant or the Company. Upon exercise of a nonqualified option (which all options granted under the 1998 Plan have been), the recipient will generally recognize ordinary income equal to the excess of the share’s fair market value on the

exercise date over the option exercise price. The Company generally will be entitled to a tax deduction at the same time and in the same amount. Upon the exercise of an incentive stock option (as defined in the Code), no taxable income will be recognized by the participant and the Company will not be entitled to a tax deduction by reason of such exercise. However, if shares purchased pursuant to the exercise of an incentive stock option are sold within two years from the date of grant or within one year after the transfer of such shares to the participant, then the participant will recognize ordinary income in the year of disposition equal to the difference, with certain adjustments, between the fair market value of the shares at the date of exercise and the option exercise price and the Company will generally be entitled to a tax deduction at the same time and in the same amount. In the event of a sale of shares purchased upon exercise of either a nonqualified option or an incentive stock option, any appreciation above or depreciation below the fair market value at the date of exercise will generally qualify as capital gain or loss. If shares purchased upon the exercise of a nonqualified option are transferred to the participant subject to restrictions, then, depending upon the nature of the restrictions, the income realized by the participant and the Company's tax deduction may be deferred and measured by the excess of the fair market value of the shares over the option price at the time the restrictions lapse.

Stock appreciation rights, stock awards and dividend equivalents generally will not result in taxable income upon grant unless the award is paid at the time of grant. Generally, the above grants will be taxable to a participant as compensation in the year paid and such participant will recognize ordinary income in an amount equal to the sum of the cash and the fair market value of any shares received. The Company generally will be entitled to a deduction at the same time and in the same amount. Any appreciation or depreciation realized on the sale of shares after transfer to the participant will result in capital gain or loss, and the Company will have no tax consequences with respect thereto.

**The Board of Directors recommends a vote FOR this proposal.**

### **Item 3. Approval of Appointment of Independent Auditors**

Under Bermuda law, our shareholders have the authority to appoint the independent auditors of the Company and to authorize our Board of Directors to fix the auditors' remuneration. At the Annual General Meeting, shareholders will be asked to appoint PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2007, and to authorize the Board of Directors to fix the independent auditors' remuneration. PricewaterhouseCoopers LLP ("PwC") has been acting as our independent auditors for many years and, both by virtue of its long familiarity with the Company's affairs and its ability, is considered best qualified to perform this important function.

Representatives of PwC are expected to be present at the Annual General Meeting and to be available to respond to appropriate questions. They will have an opportunity to make a statement if they so desire.

**The Board of Directors recommends a vote FOR the proposal to appoint PricewaterhouseCoopers LLP as independent auditors of the Company and to authorize the Board of Directors to fix the auditors' remuneration.**

### ***Audit Committee Report***

While management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls, the Audit Committee reviews the Company's audited financial statements and financial reporting process on behalf of the Board of Directors. The independent auditors are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and to issue a report thereon. The Audit Committee monitors those processes. In this context, the Committee has met and held discussions with management and the independent auditors regarding the fair and complete presentation of the Company's results. The Committee has discussed significant accounting policies applied by the Company in its

financial statements, as well as alternative treatments. Management has represented to the Committee that the Company's consolidated financial statements were prepared in accordance with United States generally accepted accounting principles, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditors. The Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication With Audit Committees), as adopted by the Public Company Accounting Oversight Board (United States).

In early 2005, the Company's independent auditor, PwC, informed the Securities and Exchange Commission (the "SEC"), the Public Company Accounting Oversight Board and the Audit Committee that certain non-audit work that PwC had previously performed in China and Taiwan raised questions regarding its independence with respect to its performance of audit services for the Company.

During the fiscal years 2004, 2003, 2002 and 2001, certain PwC affiliates, in connection with the preparation of local tax returns of expatriate Company employees, made tax payments to local tax authorities on behalf of individual employees. As a result, PwC's foreign affiliates had temporary custody of small amounts of the Company's corporate funds.

The fees paid to PwC's foreign affiliates in China and Taiwan for the preparation of these tax returns, including the services mentioned above, were approximately \$433, \$14,765, \$24,849 and \$18,767 for the years 2004, 2003, 2002 and 2001, respectively. These services were discontinued in 2004.

The Audit Committee reviewed the facts surrounding these services provided by PwC. PwC informed the Audit Committee that it does not believe that the performance of the tax services described above has impaired PwC's independence. In light of the de minimis fees paid to PwC, the ministerial nature of the actions performed and the fact that the services have been discontinued, neither our Audit Committee nor PwC believes that PwC's independence was impaired by the performance of these services. In addition, our Audit Committee and PwC believe that PwC maintained its independence during fiscal years 2005 and 2006.

In addition, the Audit Committee has received and reviewed the written disclosures and the letter from PwC required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discussed with PwC the auditors' independence from the Company and its management in connection with the matters stated therein. The Committee also considered whether the independent auditors' provision of non-audit services to the Company is compatible with the auditors' independence. The Committee has concluded that the independent auditors are independent from the Company and its management.

The Audit Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets separately with the internal and independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, for filing with the SEC. The Audit Committee has selected PwC, subject to shareholder approval, as the Company's independent auditors for the fiscal year ending December 31, 2007.

#### AUDIT COMMITTEE

Richard J. Swift (Chair)  
Ann C. Berzin  
H. William Lichtenberger  
Theodore E. Martin

### *Fees of the Independent Auditors*

The following table shows the fees paid or accrued by the Company for audit and other services provided by PwC for the fiscal years ended December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Audit Fees(a) . . . . .	\$13,319,000	\$12,384,000
Audit-Related Fees(b) . . . . .	150,000	306,000
Tax Fees(c) . . . . .	1,068,000	1,365,000
All Other Fees(d) . . . . .	4,000	181,000
Total . . . . .	<u>\$14,541,000</u>	<u>\$14,236,000</u>

- (a) Audit Fees for the fiscal years ended December 31, 2006 and 2005, respectively, were for professional services rendered for the audits of the annual consolidated financial statements of the Company and include quarterly reviews, statutory audits, issuance of comfort letters and consents and assistance with, and review of, documents filed with the SEC. Audit fees for December 31, 2006, and December 31, 2005, also include fees related to the audit of internal controls. The Company reported Audit Fees for fiscal year 2005 of \$11,585,000 in its 2006 proxy statement. The difference of approximately \$800,000 is attributable to additional statutory audits performed in fiscal year 2005, but not identified until after the date of the 2006 proxy statement.
- (b) Audit-Related Fees consist of assurance and related services that are reasonably related to performing the audit and review of our financial statements. Audit-Related Fees for the years ended December 31, 2006 and 2005 include services related to audits of employee benefit plans and audits in connection with dispositions.
- (c) Tax Fees for the years ended December 31, 2006 and 2005, respectively, include consultation and compliance services and services related to the Company's foreign sales corporation and to research and development credits.
- (d) All Other Fees for the years ended December 31, 2006 and 2005, respectively, include license fees for global best practices database and technical accounting software, and review of a refund application for anti-dumping payments under the Continued Dumping Subsidy Offset Act.

The Audit Committee has adopted policies and procedures which require that the Audit Committee pre-approve all non-audit services that may be provided to the Company by its independent auditors. The policy: (i) provides for pre-approval of an annual budget for each type of service; (ii) requires Audit Committee approval of specific projects over \$100,000, even if included in the approved budget; and (iii) requires Audit Committee approval if the forecast of expenditures exceeds the approved budget on any type of service. The Audit Committee pre-approved all of the services described under "Audit-Related Fees," "Tax Fees" and "All Other Fees." The Audit Committee has determined that the provision of all such non-audit services is compatible with maintaining the independence of PwC.

### **Item 4. Shareholder Proposal Requiring a Shareholder Vote on an Advisory Resolution With Respect to Executive Compensation**

The American Federation of State, County and Municipal Employees, 1625 L Street, N.W., Washington, D.C. 20036, has advised the Company that it beneficially owns 2,126 shares of the Company's Class A common shares and that it intends to present the following proposal for consideration at the Annual General Meeting. The shareholder proposal is included in this proxy statement exactly as submitted by the shareholder proponent. The Board's recommendation on the proposal is presented on the page following the proposal.

#### *Shareholder Proposal*

RESOLVED, that stockholders of Ingersoll-Rand Company Limited ("IR") urge the board of directors to adopt a policy that IR stockholders be given the opportunity at each annual meeting of stockholders to vote on an

advisory resolution, to be proposed by Company's management, to ratify the compensation of the named executive officers ("NEOs") set forth in the proxy statement's Summary Compensation Table (the "SCT") and the accompanying narrative disclosure of material factors provided to understand the SCT (but not the Compensation Discussion and Analysis). The proposal submitted to shareholders should make clear that the vote is non-binding and would not affect any compensation paid or awarded to any NEO.

### ***Supporting Statement***

In our view, senior executive compensation at IR has not always been structured in ways that best serve stockholders' interests. For example, in 2005, Chairman and CEO Herb Henkel's pay package included an \$8,479,365 bonus and 450,000 stock options, and he also received \$117,519 for travel on company provided aircraft for personal purposes.

We believe that existing U.S. corporate governance arrangements, including SEC rules and stock exchange listing standards, do not provide stockholders with enough mechanisms for providing input to boards on senior executive compensation. In contrast to U.S. practices, in the United Kingdom, public companies allow stockholders to cast an advisory vote on the "directors' remuneration report," which discloses executive compensation. Such a vote isn't binding, but gives stockholders a clear voice that could help shape senior executive compensation.

Currently U.S. stock exchange listing standards do require stockholder approval of equity-based compensation plans; those plans, however, set general parameters and accord the compensation committee substantial discretion in making awards and establishing performance thresholds for a particular year. Stockholders do not have any mechanism for providing ongoing feedback on the application of those general standards to individual pay packages. (See Lucian Bebchuk & Jesse Fried, Pay Without Performance 49 (2004)).

Similarly, performance criteria submitted for stockholder approval to allow a company to deduct compensation in excess of \$1 million are broad and do not constrain compensation committees in setting performance targets for particular senior executives. Withholding votes from compensation committee members who are standing for reelection is a blunt and insufficient instrument for registering dissatisfaction with the way in which the committee has administered compensation plans and policies in the previous year.

Accordingly, we urge IR's board to allow stockholders to express their opinion about senior executive compensation at IR by establishing an annual referendum process. The results of such a vote would, we think, provide IR with useful information about whether stockholders view the company's senior executive compensation, as reported each year, to be in stockholders' best interests.

We urge stockholders to vote for this proposal.

### ***Board of Directors Statement in Opposition to the Shareholder Proposal***

The Company urges shareholders to vote against the shareholder proposal for several reasons. First, the annual referendum process requested by the shareholder proposal is impractical when much more effective and meaningful means for shareholders to communicate with the Board are available. As discussed under the heading "Shareholder Communications with Directors," shareholders and other interested parties may communicate with members of the Company's Board of Directors, the non-employee directors or any individual director (including the Lead Director) by writing to the Board through the mail or a dedicated email address. Depending on the nature of the communication and to whom it is directed, the Secretary of the Company will direct the communication to the appropriate director, the relevant department of the Company or handle it directly. In addition, the Corporate Governance and Nominating Committee is given quarterly updates on all communications sent to any member of the Board by shareholders.

While the Board believes that the Compensation Committee is in the best position to determine executive compensation levels, the Board appreciates that the shareholders' views must be heard and valued. We believe that direct communications between shareholders and the Board is a much more effective and accurate method of expressing support or criticism of the Company's executive compensation practices. Unlike the vote advocated by the proposal, communicating directly with the Board will allow you to voice any specific observations or objections to the Company's executive compensation practices directly to the decision makers, as opposed to voting on the SEC prescribed disclosure made in the Summary Compensation Table ("SCT") and accompanying narrative disclosure made by those decision makers. Moreover, communicating directly with the Board will eliminate the need for the Compensation Committee to speculate as to the meaning of shareholder approval or disapproval of the SCT.

Second, we believe that an advisory vote would not have any legal effect on any compensation arrangement. Most importantly, an advisory vote would not provide the Compensation Committee with any meaningful insight into any specific shareholder concerns regarding executive compensation that it could address when considering the Company's compensation programs. Similarly, the Compensation Committee would not be able to determine whether a vote "for" the SCT and accompanying narrative disclosure signifies that shareholders approve of the Company's executive compensation practices, or if the vote merely signifies that shareholders approve of the overall format and tone of the SCT and accompanying narrative disclosure. Conversely, the Compensation Committee would not be able to determine if an "against" vote indicates that shareholders do not like the format, presentation or style of the SCT, or if shareholders disapprove of the Company's underlying compensation practices. The lack of clarity as to the meaning of the vote requested by the proposal eliminates any benefits it offers.

Finally, the vote advocated by the proposal fails to recognize that the Compensation Committee, based on input from its consultants and a review of competitive benchmark data, believes that the current compensation structure is appropriately balanced to accomplish the important task of recruiting, retaining and motivating talented executives. The Compensation Committee, which is composed entirely of independent directors, oversees the Company's executive compensation program. The Company and the Compensation Committee continually monitor the executive compensation programs and adopt changes to reflect the ever-changing, global marketplace in which the Company competes for executives. The Company will continue to emphasize pay-for-performance and equity-based incentive programs that reward executives for results that are consistent with shareholder interests.

The Company does not believe the advisory vote called for by the shareholder proposal will improve the efficiency of the Company's compensation programs or its disclosures regarding the compensation programs, or otherwise is in the best interests of its shareholders. Instead of encouraging shareholders to take advantage of the Company's current policies and procedures for communicating with the Board, the proposal advocates substituting a less effective mechanism, which fails to express the intent of the vote. The Company urges shareholders to reject this approach.

**For the Reasons Stated Above, the Board of Directors Unanimously Recommends a Vote AGAINST this Shareholder Proposal.**



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of April 9, 2007, the beneficial ownership of our Class A common shares by (i) each director and nominee for director of the Company, (ii) each executive officer of the Company named in the Summary Compensation Table below, and (iii) all directors and executive officers of the Company as a group:

Name	Class A Common Shares(a)	ESP and LESOP Shares(b)	Options Exercisable Within 60 Days(c)	Deferred Share Units(d)
A.C. Berzin .....	4,000	—	9,000	25,062
G.D. Forsee .....	—	—	—	—
P.C. Godsoe .....	6,000	—	22,500	29,591
H.L. Henkel .....	10,000(e)	7,202	2,927,900	247,183
C.J. Horner .....	1,765	—	—	25,584
M.W. Lamach .....	—	665	217,580	41,407
H.W. Lichtenberger .....	7,000	—	27,000	49,905
T.E. Martin .....	1,524	—	31,500	44,098
T.R. McLevish .....	—	1,210	325,440	44,832
P. Nachtigal .....	64,042	672	447,626	71,617
O.R. Smith .....	3,000	—	27,000	54,026
R.J. Swift .....	1,500	—	18,000	46,907
C.P. Vasiloff .....	19,240	21,320	357,580	44,837
T.L. White .....	1,500	—	27,000	42,220
All directors and executive officers as a group (19 persons)(f) .....	140,047	39,927	5,021,019	877,427

- (a) Unless otherwise indicated, all shares are held directly. No director or executive officer of the Company owns as much as 1% of the outstanding Class A common shares.
- (b) Represents Class A common shares held by the trustee under the Ingersoll-Rand Company Employee Savings Plan (“ESP”) and the IR/Clark Leveraged Employee Stock Ownership Plan (“LESOP”) for the benefit of executive officers.
- (c) Represents Class A common shares as to which directors and executive officers had options exercisable within 60 days of April 9, 2007, under the Company’s Incentive Stock Plans.
- (d) In the case of non-employee directors, these amounts represent common share equivalents earned and vested under the IR Directors Deferred Compensation and Stock Award Plan (the “Director Deferral Plan I”) and the IR Directors Deferred Compensation and Stock Award Plan II (the “Director Deferral Plan II” and, together with the Director Deferral Plan I, referred to as the “Director Deferral Plans”) (both of which are referred to below under the heading “Compensation of Directors”). In the case of executive officers these amounts represent (i) Class A common share equivalents earned and vested under the IR Executive Deferred Compensation Plan (the “EDCP Plan I”) and the IR Executive Deferred Compensation Plan II (the “EDCP Plan II” and, together with the EDCP Plan I, the “EDCP Plans”) and (ii) Class A common share equivalents resulting from dividends on stock awards deferred at the election of the executives.
- (e) Includes 4,000 Class A common shares held in the names of Mr. Henkel’s daughters, as to which beneficial ownership is disclaimed.
- (f) The Class A common shares beneficially owned by all directors and executive officers as a group (including shares issuable under exercisable options) aggregated approximately 2% of the total outstanding Class A common shares. Common share equivalents accrued under the Director Deferral Plans, the EDCP Plans and the supplemental employee savings plan are not counted as outstanding shares in calculating these percentages.



The following table sets forth each shareholder which, as of April 9, 2007, is known by us to be the beneficial owner of more than 5% of the outstanding Class A common shares of the Company:

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Barclays Global Investors, NA. .... 45 Fremont Street San Francisco, CA 94105	25,740,879(a)	8.47%
(a) Information regarding Barclays Global Investors, NA. and its stockholdings was obtained from a Schedule 13G filed with the SEC on January 23, 2007. The filing indicated that, as of December 31, 2006, Barclays Global Investors, NA. had sole investment power as to all of such shares and sole voting power as to 23,606,246 of such shares.		

## **CORPORATE GOVERNANCE**

### **Corporate Governance Guidelines**

Our Corporate Governance Guidelines, together with the charters of the various Board committees, provide a framework for the corporate governance of the Company. The following is a summary of our Corporate Governance Guidelines. You can find a copy of our Corporate Governance Guidelines, which include our guidelines for determining the independence of directors, attached to this proxy statement as Appendix A. In addition, our Corporate Governance Guidelines, as well as the charters of each of our Board committees, are available on our website at [www.ingersollrand.com](http://www.ingersollrand.com) under the heading “Investor Relations—Corporate Governance.” Copies of these documents are also available, free of charge, in print to any shareholder who requests them.

#### ***Role of the Board of Directors***

The Company’s business is managed under the direction of the Board of Directors. The role of the Board is to oversee the management and governance of the Company and monitor senior management’s performance.

#### ***Board Responsibilities***

The Board’s core responsibilities include:

- selecting, monitoring, evaluating and compensating senior management;
- assuring that management succession planning is ongoing;
- reviewing the Company’s financial controls and reporting systems;
- reviewing the Company’s ethical standards and compliance procedures; and
- evaluating the performance of the Board, Board committees and individual directors.

#### ***Director Compensation and Stock Ownership***

It is the policy of the Board that directors’ fees be the sole compensation received from the Company by any non-employee director and that a significant portion of those fees be in the form of Ingersoll Rand Class A common shares or common share equivalents. Annually, \$95,000 of the director’s compensation is deferred into the Company’s Class A common share equivalents that cannot be sold or transferred until the director’s resignation or retirement.

#### ***Board Size and Composition***

The Board consists of a substantial majority of independent, non-employee directors. In addition, our Corporate Governance Guidelines require that all members of the committees of the Board must be independent directors. The Board has the following four standing committees: Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, and Finance Committee. The Board of Directors has determined that each member of each of these committees is “independent” as defined in the NYSE listing standards. Committee memberships and chairs are rotated periodically.

#### ***Board Advisors***

The Board and its committees may, under their respective charters, retain their own advisors to carry out their responsibilities.

### ***Executive Sessions***

The Company's independent directors meet privately in regularly scheduled executive sessions, without management present, to consider such matters as the independent directors deem appropriate. These executive sessions are required to be held no less than twice each year.

### ***Lead Director***

The Board appoints a Lead Director annually from among the independent directors who are not Board committee chairs. Our current Lead Director, whose term will expire at the end of the Annual General Meeting, is Peter Godsoe. Beginning after the Annual General Meeting, our Lead Director will be Theodore E. Martin. Our Lead Director (a) presides at all meetings of the directors at which the Chairman is not present, including executive sessions of the directors; (b) serves as a liaison between the Chairman and the independent directors; (c) approves the information sent to the directors; (d) with input from the other independent directors, approves Board meeting agendas and Board meeting schedules to assure that there is sufficient time for discussion of all agenda items; (e) has the authority to call meetings of the independent directors; and (f) is available for direct communication from major shareholders.

### ***Board Evaluation***

The Corporate Governance and Nominating Committee assists the Board in evaluating its performance and the performance of the Board committees. Each committee also conducts an annual self-evaluation. The effectiveness of individual directors is considered each time a director stands for renomination.

### ***Director Orientation and Education***

The Company has developed an orientation program for new directors and provides continuing education for all directors. In addition, the directors are given full access to management and corporate staff as a means of providing additional information.

### ***Director Nomination Process***

The Corporate Governance and Nominating Committee reviews the composition of the full Board to identify the qualifications and areas of expertise needed to further enhance the composition of the Board, makes recommendations to the Board concerning the appropriate size and needs of the Board and, on its own or with the assistance of management or others, identifies candidates with those qualifications. In considering candidates, the Corporate Governance and Nominating Committee will take into account all factors it considers appropriate, including breadth of experience, understanding of business and financial issues, ability to exercise sound judgment, diversity, leadership, and achievements and experience in matters affecting business and industry. The Corporate Governance and Nominating Committee considers the entirety of each candidate's credentials and believes that at a minimum each nominee should satisfy the following criteria: highest character and integrity, experience and understanding of strategy and policy-setting, sufficient time to devote to Board matters, and no conflict of interest that would interfere with performance as a director. Shareholders may recommend candidates for consideration for Board membership by sending the recommendation to the Corporate Governance and Nominating Committee, in care of the Secretary of the Company. Candidates recommended by shareholders are evaluated in the same manner as director candidates identified by any other means.

### ***Declassified Board***

At the 2005 annual general meeting of shareholders, the shareholders voted to amend the Company's Bye-laws to eliminate the classification of the Board, effective with the election of directors at the 2006 annual

general meeting. Directors elected at the 2005 annual general meeting will each serve out the remainder of their three-year terms before standing for re-election. Directors nominated for election at the 2006 and 2007 annual general meetings and thereafter will be elected for a one-year term. In addition, directors elected by the Board of Directors to fill vacancies caused by the resignation, retirement or death of a director or the creation of a new directorship stand for election at the next Annual General Meeting.

### **Director Independence**

The Board has determined that all of our directors (including Gary Forsee, a new nominee to the Board), except H. L. Henkel and P. Nachtigal, who are employees of the Company, are independent under the standards set forth in Exhibit I to our Corporate Governance Guidelines, which are consistent with the NYSE listing standards. A copy of Exhibit I to our Corporate Governance Guidelines is available at our website, [www.ingersollrand.com](http://www.ingersollrand.com), under the heading “Investor Relations—Corporate Governance.” In making its determination, the Board examined relationships between directors (including Gary Forsee) or their affiliates with the Company and its affiliates and determined that each such relationship did not impair the director’s independence. In particular, with respect to each of the most recent three completed fiscal years, the Board considered that the Company purchased products from Sprint Nextel Corporation, where Mr. Forsee serves as Chairman of the Board and Chief Executive Officer, and 3M Company, where Mr. Buckley serves as Chairman, President and Chief Executive Officer, in each case, in aggregate amounts substantially less than 1% of the revenues of each of the Company, Sprint Nextel Corporation and 3M Company in any such year.

In addition, the Board considered that during 2006 and continuing into 2007, Kenneth Martin, a son of Theodore E. Martin, a member of the Audit Committee and Finance Committee, was employed in a non-executive capacity by a subsidiary of the Company making up a part of the Road Development business unit. In 2006, he was paid salary and bonus aggregating approximately \$190,000. Consistent with the NYSE standards and the Company’s Corporate Governance Guidelines, the Board has determined that this relationship did not affect Mr. Martin’s status as an independent director. In February 2007, the Company announced it had entered into a contract to sell its Road Development business unit. As of the close of the transaction, which is expected to occur in the second quarter of 2007, Kenneth Martin will no longer be employed by the Company.

### **Shareholder Communications with Directors**

Shareholders and other interested parties wishing to communicate with the Board, the non-employee directors or any individual director (including our Lead Director) may do so either by sending a communication to the Board and/or a particular Board member, in care of the Secretary of the Company, or by e-mail at [irboard@irco.com](mailto:irboard@irco.com). Depending upon the nature of the communication and to whom it is directed, the Secretary will: (a) forward the communication to the appropriate director or directors; (b) forward the communication to the relevant department within the Company; or (c) attempt to handle the matter directly (for example, a communication dealing with a share ownership matter).

### **Code of Conduct**

The Company has adopted a worldwide Code of Conduct, applicable to all employees, directors and officers, including our Chief Executive Officer, our Chief Financial Officer and our Controller. The Code of Conduct meets the requirements of a “code of ethics” as defined by Item 406 of Regulation S-K as well as the requirements of a “code of business conduct and ethics” under the NYSE listing standards. The Code of Conduct covers topics including, but not limited to, conflicts of interest, confidentiality of information, and compliance with laws and regulations. A copy of the Code of Conduct is available at our website located at [www.ingersollrand.com](http://www.ingersollrand.com) under the heading “Investor Relations—Corporate Governance” and a copy is also available, free of charge, in print to any shareholder who requests it. Amendments to, or waivers of the

provisions of, the Code of Conduct, if any, made with respect to any of our directors and executive officers will be posted on our website.

## Committees of the Board

### *Audit Committee*

*Members:* Richard J. Swift (Chair)  
Ann C. Berzin  
H. William Lichtenberger  
Theodore E. Martin

#### *Key Functions:*

- Review annual audited and quarterly financial statements, as well as the Company's disclosures under "Management's Discussion and Analysis of Financial Conditions and Results of Operations," with management and the independent auditors.
- Obtain and review periodic reports, at least annually, from management assessing the effectiveness of the Company's internal controls and procedures for financial reporting.
- Recommend the public accounting firm to be proposed for appointment by the shareholders as our independent auditors and review the performance of the independent auditors.
- Review the scope of the audit and the findings and approve the fees of the independent auditors.
- Approve in advance permitted audit and non-audit services to be performed by the independent auditors.
- Satisfy itself as to the independence of the independent auditors and ensure receipt of their annual independence statement.

The Board of Directors has determined that each member of the Audit Committee is "independent" for purposes of the applicable rules and regulations of the SEC and as defined in the NYSE listing standards and has determined that each member of the Audit Committee meets the qualifications of an "audit committee financial expert," as that term is defined by rules of the SEC.

A copy of the charter of the Audit Committee is available at our website, [www.ingersollrand.com](http://www.ingersollrand.com), under the heading "Investor Relations—Corporate Governance."

### *Compensation Committee*

*Members:* Orin R. Smith (Chair)  
Peter C. Godsoe  
Constance J. Horner  
Tony L. White

#### *Key Functions:*

- Establish executive compensation policies.
- Review and approve the goals and objectives relevant to the compensation of the Chief Executive Officer, evaluate the Chief Executive Officer's performance against those goals and objectives and set the Chief Executive Officer's compensation level based on this evaluation.
- Approve compensation of officers and key employees.
- Administer the Company's equity compensation plans.
- Review and recommend changes in principal employee benefit programs.

For a discussion concerning the processes and procedures for determining executive and director compensation and the role of executive officers and compensation consultants in determining or recommending the amount or form of compensation, see “Compensation Discussion and Analysis” and “Compensation of Directors”, respectively.

The Board of Directors has determined that each member of the Compensation Committee is “independent” for purposes of the applicable rules and regulations of the SEC and as defined in the NYSE listing standards. In addition, the Board has determined that each member of the Compensation Committee qualifies as a “Non-Employee Director” within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 and an “outside director” within the meaning of Section 162(m) of the Code.

A copy of the charter of the Compensation Committee is available at our website, [www.ingersollrand.com](http://www.ingersollrand.com), under the heading “Investor Relations—Corporate Governance.”

### ***Corporate Governance and Nominating Committee***

**Members:** Constance J. Horner (Chair)  
Peter C. Godsoe  
Orin R. Smith  
Tony L. White

#### ***Key Functions:***

- Identify individuals qualified to become directors and recommend the candidates for all directorships.
- Recommend individuals for election as officers.
- Review the Company’s Corporate Governance Guidelines and make recommendations for changes.
- Consider questions of independence and possible conflicts of interest of directors and executive officers.
- Take a leadership role in shaping the corporate governance of the Company.

The Board of Directors has determined that each member of the Corporate Governance and Nominating Committee is “independent” for purposes of the applicable rules and regulations of the SEC and as defined in the NYSE listing standards.

A copy of the charter of the Corporate Governance and Nominating Committee is available at our website, [www.ingersollrand.com](http://www.ingersollrand.com), under the heading “Investor Relations—Corporate Governance.”

### ***Finance Committee***

**Members:** H. William Lichtenberger (Chair)  
Ann C. Berzin  
Theodore E. Martin  
Richard J. Swift

#### ***Key Functions:***

- Review proposed borrowings and issuances of securities.
- Recommend to the Board the dividends to be paid on our common shares.
- Review cash management policies.
- Review periodic reports of the investment performance of the Company’s employee benefit plans.

The Board of Directors has determined that each member of the Finance Committee is “independent” for purposes of the applicable rules and regulations of the SEC and as defined in the NYSE listing standards.

A copy of the charter of the Finance Committee is available at our website, [www.ingersollrand.com](http://www.ingersollrand.com), under the heading “Investor Relations—Corporate Governance.”

### ***Board, Committee and Annual Meeting Attendance***

The Board and its committees held the following number of meetings during the fiscal year ended December 31, 2006:

Board .....	6
Audit Committee .....	8
Compensation Committee .....	6
Corporate Governance and Nominating Committee .....	7
Finance Committee .....	6

Each incumbent director attended 90% or more of the total number of meetings of the Board and the committees on which he or she served during the year. The Company’s non-employee directors held 4 independent director meetings without management present during the fiscal year 2006.

The Company expects all Board members to attend the Annual General Meeting, but from time to time other commitments prevent all directors from attending the meeting. All of the directors attended the most recent annual general meeting of shareholders, which was held on June 7, 2006.

## **Compensation of Directors**

### ***2006 Director Compensation***

For fiscal year 2006, non-employee directors received an annual cash retainer of \$50,000 and \$1,500 for attendance at each board or committee meeting (\$2,000 in the case of Audit Committee meetings), except that committee chairs received \$3,000 per committee meeting. Each non-employee director also received \$1,500 for participating in quarterly pre-earnings release telephone calls, participating in committee meetings other than the committees of which the director is a member, and participating in other information or planning sessions at the request of management, except that Audit Committee members received \$2,000 for each pre-earnings release telephone call. The chair of the Audit Committee also received a \$20,000 annual cash retainer. The Lead Director received \$3,000 for each meeting of the independent directors as well as \$3,000 for each session held with the full Board to review the outcome of the independent directors’ meeting. In addition, each non-employee director was credited annually with common share equivalents representing \$60,000 in fair market value of Class A common shares. The Class A common share equivalents were credited to an account maintained for each non-employee director (a “Deferred Compensation Account”) in our Director Deferral Plan I (as described below) and, for all amounts credited after December 31, 2004, in our Director Deferral Plan II (as described below).

### ***2007 Director Compensation***

For fiscal year 2007 and future fiscal years, non-employee directors will receive an annual cash retainer of \$80,000. When board or committee meetings exceed the regularly scheduled meetings (6 meetings for the Board and each Committee other than Audit, and 8 meetings for the Audit Committee) or when unscheduled planning sessions are held at the request of management, each non-employee director will receive an additional \$2,500 for attending such meeting or session. The chair of the Audit Committee will receive a \$30,000 annual cash retainer



and the chairs of the Compensation Committee, Corporate Governance and Nominating Committee and Finance Committee will each receive a \$10,000 annual cash retainer. The Lead Director will receive a \$15,000 annual cash retainer and each Audit Committee member (other than the Audit Committee chair) will receive a \$5,000 annual cash retainer. In addition, each non-employee director will be credited annually with common share equivalents representing \$95,000 in fair market value of Class A common shares. The common share equivalents will be credited to the Deferred Compensation Account in our Director Deferral Plan II.

### ***Director Deferred Compensation***

The Director Deferral Plans are unfunded, non-qualified plans that enable non-employee directors to defer receipt of all or a part of their cash retainer and other fees. In light of the American Jobs Creation Act of 2004, a “mirror plan” for the Director Deferral Plan I was created (referred to in this proxy statement as the Director Deferral Plan II). The purpose of this mirror plan is not to provide additional benefits to directors, but merely to preserve the tax treatment of the original Director Deferral Plan I, which is a plan that was in place prior to December 31, 2004. Until August 2006, if a director deferred his or her fees and elected to have the deferred fees invested in Class A common share equivalents, an additional 20% of the retainer and meeting fees that were deferred was credited to the director’s Deferred Compensation Account. Effective August 2006, the 20% supplemental amount on deferrals was eliminated and amounts deferred into Class A common share equivalents thereafter will not be increased by 20%. Each director is fully vested in amounts credited to the director’s Deferred Compensation Account. Under the Director Deferral Plans, all distributions are made in cash, based on the value of the account at the time of distribution.

## 2006 Director Compensation

The compensation earned by our non-employee directors for the year ended December 31, 2006, is summarized in the table below:

Name	Fees earned or paid in cash \$(a)	All Other Compensation \$(b)	Total (\$)
A.C. Berzin .....	96,500	70,433	166,933
G.W. Buckley (c) .....	45,000	30,000	75,000
P.C. Godsoe .....	86,000	60,000	146,000
C.J. Horner .....	90,500	60,000	150,500
H.W. Lichtenberger .....	95,000	70,933	165,933
T.E. Martin .....	88,000	70,033	158,033
O.R. Smith .....	87,500	69,433	156,933
R.J. Swift .....	124,000	73,833	197,833
T.L. White .....	78,500	68,533	147,033

- (a) The amounts in this column represent the \$50,000 annual cash retainer, the Board, Committee and other meeting or session fees, the Lead Director fees and the Audit Committee Chair retainer as summarized in the table below:

	Cash Retainer (\$)	Audit Chair Retainer (\$)	Board, Committee and Other Meeting or Session Fees(\$)	Lead Director Fees(\$)
A.C. Berzin .....	50,000	—	43,500	3,000
G.W. Buckley .....	25,000	—	14,000	6,000
P.C. Godsoe .....	50,000	—	27,000	9,000
C.J. Horner .....	50,000	—	40,500	—
H.W. Lichtenberger .....	50,000	—	45,000	—
T.E. Martin .....	50,000	—	38,000	—
O.R. Smith .....	50,000	—	37,500	—
R.J. Swift .....	50,000	20,000	54,000	—
T.L. White .....	50,000	—	28,500	—

In addition to the \$60,000 of common share equivalents credited to the Deferred Compensation Account for each non-employee director in our Director Deferral Plan II, every non-employee director (other than Mr. Godsoe and Ms. Horner) deferred all of their cash retainers and meeting fees and, of the directors who chose to defer such retainers and fees, all directors (other than Mr. Buckley) elected to invest those deferred amounts in Class A common share equivalents in the Director Deferral Plan II.

- (b) The amounts in this column represent the \$60,000 Class A common share equivalent retainer provided to each non-employee director for fiscal year 2006 and the value of the 20% additional amount received by each non-employee director that elected to defer all or a portion of their cash retainer and meeting fees into Class A common share equivalents under the Director Deferral Plan II.
- (c) George W. Buckley declined to stand for re-election to the Board of Directors at the 2006 annual general meeting of shareholders due to time demands of his new position as Chairman, President and Chief Executive Officer of 3M Company. The compensation reflected for Mr. Buckley is through June 2006.

For each non-employee director at December 31, 2006, the following table reflects unexercised stock options, all of which are vested:

	<u>Stock Options(#)</u>
A.C. Berzin .....	9,000
G.W. Buckley .....	4,500
P.C. Godsoe .....	22,500
C.J. Horner .....	—
H.W. Lichtenberger .....	31,500
T.E. Martin .....	31,500
O.R. Smith .....	27,000
R.J. Swift .....	18,000
T.L. White .....	31,500

## COMPENSATION DISCUSSION AND ANALYSIS AND EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The role of the Compensation Committee, which is composed solely of independent directors, is to oversee the Company's compensation plans and policies, administer its equity-based plans (including the review and approval of stock option grants to executive officers) and review and approve all compensation relating to executive officers, including the five executive officers named in the Summary Compensation Table (the "NEOs"). Decisions regarding the compensation elements and amounts for the CEO are decided exclusively by the Compensation Committee, and the CEO is not privy to this information until decisions have been made. Decisions regarding compensation for the other executive officers are decided by the Compensation Committee based on recommendations made by management and the CEO. In addition, the Compensation Committee is responsible for reviewing employee benefit plans and making recommendations to the Board of Directors for significant amendments or termination of the Company's executive incentive compensation plans and equity-based plans as well as its principal pension and welfare plans. The full details of the Compensation Committee's duties are described in the Charter of the Compensation Committee, which is available on our website at [www.ingersollrand.com](http://www.ingersollrand.com).

On occasion, the Compensation Committee has used the services of an independent compensation consultant, Frederic W. Cook & Co., Inc., which the Company does not otherwise use.

#### *Compensation Philosophy—Beliefs and Principles*

The purpose of the Company's executive compensation programs is to enable it to attract, retain, deploy and focus the talents and energies of employees who are capable of meeting the current and future goals of the Company, most notably, the creation of shareholder value.

Five design principles govern the executive compensation programs:

1. General program competitiveness:

Total compensation opportunities within the Company must serve to attract and retain top performers. All of the Company's executive compensation programs are based on market data to ensure their competitiveness. We establish our program target award levels at or near the median (50<sup>th</sup> percentile) of the markets in which we operate.

2. Pay for performance:

A large percentage of an executive's total compensation opportunity is contingent on, and variable with, performance. Performance is measured on: 1) actual business unit and Company financial performance against pre-established business plans and 2) the executive's ability to achieve Company objectives, develop and carry out strategic initiatives, contribute to both the dramatic growth and operational excellence of the Company, and demonstrate collaboration in the pursuit of a one-company culture. Total compensation can exceed the market median if performance exceeds the target. Conversely, if performance falls short of the target, total compensation should fall below the currently prevailing market median.

3. Internal parity:

An employee's total compensation opportunity is proportionate with work contribution, which is a function of each individual's role. Thus, jobs of similar value are assigned similar compensation opportunity.

4. Alignment with various business strategies:

The executive compensation programs are structured to be flexible in recognizing that individuals within business units must focus on specific financial measures to meet the short and long term plans of the

business unit for which they are accountable. This principle, in conjunction with the Company-wide philosophy of general competitiveness, pay for performance and internal parity, determines the award opportunity for business unit leaders. Thus, it is not only possible but also desirable for certain sector or business unit leaders to earn substantial awards in years when their units outperform the Company as a whole. Conversely, if a sector or business unit fails to meet its annual plan, that sector or business unit's leader may earn a lesser award in that year than his or her peers in a business unit or sector that did meet or exceed its goals.

#### 5. Shareholder alignment:

The value of the variable compensation components, i.e. annual cash incentive payments plus equity-based awards, which make up a substantial portion of the executive's compensation, is directly linked to the financial performance of the Company and to the value of the Company's Class A common shares. Thus, the variable pay programs provide a strong incentive to create shareholder value, and establish clear alignment of the interests of our shareholders and of the executives.

### *Executive Compensation Programs*

#### *Peer Group Comparison*

The Compensation Committee periodically reviews and evaluates its executive officer compensation practices against the practices and pay levels of other similar companies with which we compete for executive talent and, in many cases, customers. These comparisons are conducted throughout the year through a variety of methods such as: direct analysis of the proxy statements of other diversified industrial companies (see peer group below) ranging in size from approximately \$5 billion to \$32 billion in revenues (roughly half to double the Company's size in terms of revenues, with one exception), a review of compilations of survey data of companies of similar size in a range of industries published by several independent consulting firms, and a review of customized compensation surveys performed by independent consulting firms. Some of the companies included in these compensation surveys are the same as those comprising the Standard & Poor's Industrial Machinery Index referred to in the Company's Annual Report on Form 10-K under the caption "Performance Graph."

Diversified Industrial Peer Group Members	Revenues From 2006 Annual Reports
Johnson Controls Inc.	\$32.2B
General Dynamics Corp	\$24.1B
Deere & Co	\$22.2B
Paccar Inc	\$16.5B
Illinois Tool Works Inc	\$14.1B
Eaton Corp	\$12.4B
Textron Inc	\$11.5B
<b>Ingersoll Rand Co Ltd</b>	<b>\$11.4B</b>
American Standard Companies Inc	\$11.2B
Danaher Corp/DE	\$9.6B
Parker Hannifin Corp	\$9.4B
Dana Corp	\$8.5B
ITT Industries Inc	\$7.8B
Black & Decker Corp	\$6.5B
Dover Corp	\$6.5B
Rockwell Automation Inc	\$5.6B

The Company is approximately in the middle of the peer group in terms of annual revenue. Eight of the peer group members are smaller than the Company, while seven are larger.

#### *Program Structure and Compensation Committee Judgment*

The Company has designed the executive compensation programs in particular to reward improvement in earnings, sales and other financial measures, as well as operational excellence and sustained individual performance. Because we operate in an ever-changing environment that is affected by economic, technology, regulatory and competitive factors beyond our control, the Compensation Committee may consider such factors in its process of setting specific performance targets for annual incentive awards and in actually determining such awards.

The Company makes decisions relating to program design and pay adjustments in the context of the guiding principles and overall compensation objectives described above as well as market practices. To accomplish these objectives, we must have compensation and benefits programs that provide competitive total rewards relative to the labor markets for our executives while controlling costs for the benefit of our shareholders. We intend total compensation opportunities to be targeted at or near the median of the markets in which we operate. The position of each particular executive in the targeted range may fluctuate in any given year based on salary increases, annual incentives and equity-based plan grants, all of which are driven by attainment of individual and corporate financial measures which are described below. In addition, the targeted range itself will vary from year to year depending upon changes in compensation for the peer group companies and employment market competitiveness in general. Therefore, while the Compensation Committee believes that it is important to base compensation decisions on the most recent data available, it retains the discretion to go above or below the targeted award ranges for any individual or for any specific element of compensation. Although the compensation programs provide the Compensation Committee with formulaic guidelines and a framework within which to exercise their collective judgment, ultimately, the Compensation Committee uses their collective judgment when determining precisely how much to pay the NEOs. Consequently, the actual amounts of compensation that we pay to our executives may be more or less than the targeted compensation opportunity in any given year.

#### *Total Direct Compensation*

An executive's total direct compensation opportunity is comprised of four key programs: base salary, the annual incentive matrix ("AIM") program, the performance share program (the "PSP") and the stock option program.

#### *Base Salaries*

We determine base salaries for the Company's executive officers, including the NEOs, by evaluating the responsibilities of the executive officers, their competence to perform their role and by reference to the competitive marketplace for executive talent, as described above. Base salaries are the basis for each AIM target award level, which is expressed as a percentage of base salary.

#### *The Annual Incentive Matrix (AIM) Program*

The AIM program is an annual cash incentive program that provides rewards for the achievement of pre-established annual performance objectives, which are based on the annual operating plan of the Company's business units, sectors, and enterprise as a whole. An annual target award level, expressed as a percentage of base salary, is established for each participant. The target award level is based on the relative importance of each participant's role within the Company as well as the compensation levels of similar jobs in other comparable companies. The program provides annual cash awards that are contingent on, and variable with, specific performance measures, associated with individual, business unit and enterprise performance. Awards can range from zero to 150% of target.

For fiscal year 2006, the pre-established performance targets for EPS, ACF and ROIC were \$3.35, \$850 million and 14.7%, respectively. The actual reported fiscal year 2006 results were \$3.20, \$760 million and 13.3%, respectively. The fiscal year 2006 results used to calculate the variable compensation awards were \$3.26, \$792 million and 13.7%, respectively. The difference between the reported results and those used to calculate the variable compensation awards is attributable to internal adjustments resulting from one-time events (such as unplanned acquisitions and an unanticipated tax charge) and the acceleration of the share repurchase program.

#### *The CEO's 2006 AIM Award*

The CEO's AIM opportunity for the fiscal year 2006 was based on a target award level of 175% of base salary, which for the 2006 performance period (paid in February 2007) was \$2,100,000 (175% of base salary of \$1,200,000). Actual awards under the program can vary according to performance from zero to 150% of the

target, in this case, up to \$3,150,000. Performance is measured by three financial measures as compared to a pre-established plan, weighted as follows:

Earnings Per Share (EPS) vs. Plan .....	60%
Available Cash Flow (ACF) vs. Plan .....	20%
Return on Invested Capital (ROIC) vs. Plan .....	20%

The Compensation Committee reviews the annual performance against the financial measures as described above, and then applies the Compensation Committee's collective judgment regarding the CEO's overall performance. The calculation is as follows:

2006 AIM Target		Company Financial Performance vs. Plan		Committee Judgment		CEO's AIM Award
175% of Base Salary	X	<u>Weight</u> • EPS 60% • ACF 20% • ROIC 20% 0 to 150%	X	Upward or Downward Adjustment of Award	=	0 to 150% of Target
2006 Actual	X	2006 Actual	X	2006 Actual	=	2006 Actual
\$2,100,000		92.7%		102.75%		\$2,000,000

For the fiscal year 2006 performance period, the actual results for EPS, ACF and ROIC were below the Company's 2006 annual operating plan and therefore resulted in a calculated award to the CEO that was below his target award. After a review of these results, the Compensation Committee awarded the CEO an AIM award of \$2,000,000, which is one-third less than the AIM award of \$3,000,000 granted last year.

#### *The AIM Award for Other Named Executive Officers (NEOs)*

The other NEOs are in two categories: sector presidents or functional staff leaders, such as the Chief Financial Officer and the General Counsel.

Sector presidents receive AIM awards that are based on a target award level expressed as a percentage of salary, and are a function of their individual performance, the financial performance of their sector (measured by sales, operating income (OI), available cash flow (ACF) and return on invested capital (ROIC)), and the financial performance of the enterprise as a whole. The calculation is as follows:

2006 AIM Target		Individual Performance		Sector Financial Performance		Enterprise Financial Performance		Committee Judgment		AIM Award
80 to 90% of Base Salary	X	Achievements of Pre-established Individual Objectives 0 to 110%	X	• Sales • OI • ACF • ROIC 0 to 130%	X	• EPS • ACF • ROIC 95 to 105%	X	Upward or Downward Adjustment of Award	=	0 to 150% of Target

The relative weight assigned to each performance category varies by sector depending on the particular business strategy and circumstances for each unit. For sector participants the emphasis is on individual and sector performance, but with some exposure to the performance of the enterprise as a whole, that is, + 5%. If the financial performance category is at or below 80% of plan, the program produces a zero award for that category, and that in turn results in a zero award in total.



Similarly, functional staff leaders receive AIM awards that are based on a target award level, expressed as a percentage of base salary, and are a function of their individual performance and the financial performance of the enterprise. The calculation is as follows:

2006 AIM Target		Individual Performance		Enterprise Financial Performance		Committee Judgment		AIM Award
60 to 90% of Base Salary	X	Achievements of Pre-established Individual Objectives	X	<ul style="list-style-type: none"> <li>• EPS 60%</li> <li>• ACF 20%</li> <li>• ROIC 20%</li> </ul>	X	Upward or Downward Adjustment of Award	=	0 to 150% of Target
		0 to 125%		0 to 120%				

For functional staff leaders, the emphasis is on individual performance and enterprise performance measured in terms of EPS, ACF and ROIC. Likewise, if the financial performance category is at or below 80% of plan, the program produces a zero award for that category, and that in turn results in a zero award in total.

#### Performance Share Program (PSP)

The PSP program provides annual awards for the achievement of pre-established annual financial performance of the Company for all participants, including the CEO, and long-term strategic initiatives for only the CEO. Annual target award levels, expressed as a number of Class A common share equivalents, are established for each participant. The maximum payout opportunity is 200% of the annual target award level. In February of each year, the CEO provides the Compensation Committee with a list of definitive, measurable objectives for the coming year for review and approval. These objectives are tied to the Company's stated philosophy of dramatic growth, operational excellence and improved organizational effectiveness. The following year, achievement toward these objectives is reviewed by the Compensation Committee, and is used, in conjunction with the financial measures, to determine the CEO's award under this program. As stated earlier, the financial measures determine the payment for all other participants. Payment of the PSP program award is made annually in cash unless deferred by the participant into the executive deferred compensation plan. The actual cash award is determined by multiplying the share award by the value of the Company's Class A common shares on the date of the determination of the award.

For fiscal year 2006, the calculation of the CEO's PSP payment is as follows:

2006 PSP Target		Long-Term Strategic Initiatives		Enterprise Financial Performance		Committee Judgment		PSP Award
100,000 common share equivalents	X	<ul style="list-style-type: none"> <li>• Growth</li> <li>• Operational Excellence</li> <li>• Organization Effectiveness</li> </ul>	X	<ul style="list-style-type: none"> <li>• EPS</li> <li>• ACF</li> <li>• ROIC</li> </ul>	vs. Plan	Upward or Downward Adjustment of Award	=	0 to 200% of Target
		0 to 140%		0 to 145%				
2006 Actual		2006 Actual		2006 Actual		2006 Actual		2006 Actual
100,000		100%		81.7%		100%		81,700

The share value on the day of the determination of the award was \$43.125, resulting in a PSP award of \$3,523,313. For the other NEOs, the PSP award is also based on pre-established target levels and financial performance against plan. The 2006 PSP calculation for the other NEOs is as follows:

2006 PSP Targets		Enterprise Financial Performance		Committee Judgment		PSP Award
From 7,000 shares to 18,000 shares	X	<ul style="list-style-type: none"> <li>• EPS</li> <li>• ACF</li> <li>• ROIC</li> </ul> vs. Plan 0-200%	X	Upward or Downward Adjustment of Award	=	0 to 200% of Target

The fiscal year 2006 results in these categories illustrate the pay-for-performance sensitivity of this program:

	Weight	Plan	2006 Results	Raw Performance Score	Compensation Factor	Weighted Score
EPS .....	60%	\$3.35	\$3.26	97.3%	86.5%	51.9%
ACF .....	20%	\$850mill	\$792mill	93.2%	83.0%	16.6%
ROIC .....	20%	14.7%	13.7%	93.2%	66.0%	13.2%
Total Score .....						81.7%

The raw performance score shown above does not directly determine the weighted score because there is a minimum percentage that must be achieved in the raw performance score in each particular element (EPS, ACF and ROIC) before that element would even be counted in the calculation. For example, an EPS raw performance score at or below 80% would result in a zero compensation factor, while an EPS raw performance score of 97.3%, as reported in the table above, resulted in a compensation factor of 86.5%. Similarly, other minimum percentages apply to the remaining financial measures (ACF and ROIC).

The resulting PSP award calculation for all of the NEOs is as follows:

	PSP Target Award Level	Long Term Strategic Initiatives	Financial Performance Factor	Committee Judgment	Resulting Award
H.L. Henkel .....	100,000 shares	100%	81.7%	No Adjustment	81,700 shares
T.R. McLevish .....	18,000 shares	N/A	81.7%	No Adjustment	13,212 shares
M.W. Lamach .....	12,000 shares	N/A	81.7%	No Adjustment	8,808 shares
P. Nachtigal .....	12,000 shares	N/A	81.7%	No Adjustment	8,808 shares
C.P. Vasiloff .....	12,000 shares	N/A	81.7%	No Adjustment	8,808 shares

As depicted above, as a result of 2006 performance below plan, the program produced awards below their target opportunity for all NEOS, including the CEO.

### Stock Options

The Company's stock option program supports the Company's belief in the principle of pay for performance. The Company's stock option program has both a short-term and a long-term dimension. It is short-term in that it is an annual plan with award size based on annual performance. It is long-term in that the stock options vest one-third a year over three years and the value created through the rising market value of our Class A common shares over the ten-year term of the options is a reflection of the effectiveness of our sustained long-term efforts.

Stock options under the Company's Incentive Stock Plan of 1998 have been granted annually at an exercise price equal to the fair market value of Class A common shares on the date of grant. Under the Incentive Stock Plan of 1998, options can never be issued at less than fair market value. Generally, options granted to all active program participants, including executive officers, become exercisable in three equal annual installments after the date of grant and expire on the tenth anniversary of the grant.

For fiscal year 2006, the pre-established target for EPS was \$3.35 while the fiscal year 2006 EPS used to calculate the stock option awards was \$3.26, that is, 97.3% of the enterprise business plan.

#### 2006 Stock Option Award for the CEO

2006 Stock Option Target		Individual Performance		Enterprise EPS Performance		Committee Judgment		Stock Option Award
225,000 option shares	X	<ul style="list-style-type: none"> <li>• Building Global Leadership Talent</li> <li>• Improving Shareholder Value</li> </ul>	X	EPS vs. Plan	X	Upward or Downward Adjustment of Award	=	0 to 150% of Target
		0-125%		0 to 120%				
2006 Actual		2006 Actual		2006 Actual		2006 Actual		2006 Actual
225,000	X	100%	X	97.3%	X	100%	=	218,925

Similar to the PSP program approach, the score for individual performance is multiplied by the score for EPS performance and then applied to the target option shares. Thus the maximum payout is limited to 150% of the target option shares (that is, 125% x 120% = 150%).

The same 2006 EPS performance measure applies to other program participants including the other NEOs, along with each participant's leadership competency-based objectives.

2006 Stock Option Target		Individual Performance		Enterprise EPS Performance		Committee Judgment		Stock Option Award
40,000 to 60,000 option shares	X	Achievements of Pre-established Individual Objectives	X	EPS vs. Plan	X	Upward or Downward Adjustment of Award	=	0 to 150% of Target
		0-125%		0 to 120%				

## The Mix of Total Direct Compensation

The chart below shows the relative proportion of each program by executive category (based on target award levels):

	# In Category	Base Salary Program	2006 Variable Pay Programs at Target				Total Direct Compensation at Target
			Compensation Components That Are Explicitly Contingent On And Variable With Performance				
			Annual Incentive Program	Stock Option Program	Performance Share Program	Total Variable Pay Opportunity at Target	
Chairman, President, CEO .....	1	12%	21%	24%	43%	88%	100%
Other Named Executive Officers .....	4	25%	21%	25%	29%	75%	100%
Other Officers & Senior Leaders ....	41	36%	23%	25%	16%	64%	100%
Total Group .....	46	29%	22%	25%	24%	71%	100%

### Observations Regarding Mix

- Total variable pay opportunity is comprised of the AIM program, stock option program and PSP program, and, together with the base salary, comprises the total direct compensation.
- 71% (total variable pay opportunity) of executive compensation opportunity was contingent on, and variable with, performance against pre-established business plans, while 49% (stock option and PSP programs) was contingent on, and variable with, stock price performance.
- Employees with higher level positions and responsibilities had a greater portion of their pay opportunity at risk, that is, dependent on individual, business unit, sector and Company performance.
- 88% of the CEO's total direct compensation opportunity is contingent on performance; 75% of total direct compensation for the other NEOs is contingent on performance.
- Both equity and non-equity awards are granted at the first meeting of the Compensation Committee each year, held the first Wednesday of February. The timing of this meeting allows management to review the prior year performance, and assemble all of the necessary information; this date usually follows the release of prior year earnings results. The date is not selected or changed to increase the value of stock option awards for executives.

### Senior Executive Performance Plan

The Senior Executive Performance Plan (the "SEPP") is a shareholder approved plan that funds the annual cash incentive awards (AIM and PSP) that may be granted to NEOs. The pool is established based on the profit after tax in excess of 6% Return on Equity ("ROE"). Thus, if the Company fails to generate profits in excess of 6% ROE, no pool is created to fund the previously described programs for the NEOs. In such case, any awards to the NEOs are at the discretion of the Compensation Committee. Since the inception of this shareholder approved plan over a decade ago, the Company has always generated more than sufficient profit to fund the plan, that is, well in excess of the 6% ROE threshold.

### Executive Deferred Compensation Plans (EDCP Plans)

The Executive Deferred Compensation Plan (the "EDCP Plan I") and the Executive Deferred Compensation Plan II (the "EDCP Plan II" and, together with the EDCP Plan I, the "EDCP Plans") enable and encourage

eligible employees to defer receipt of a part of their annual salary, AIM award and/or PSP award in exchange for investments in Class A common share equivalents or mutual fund investment equivalents. Effective August 2, 2006, the Compensation Committee discontinued the previous practice of providing a 20% supplemental amount for certain executives who deferred into Class A common share equivalents. Supplemental amounts that were already in the participant's accounts from prior years were vested (previously there was a five year vesting requirement for each year's supplemental amount), but a restriction was imposed so that the accelerated supplemental amounts must remain invested in Class A common share equivalents until scheduled distributions. Refer to the Nonqualified Deferred Compensation table for a more detailed description of the EDCP Plans.

### *Share-Ownership Guidelines*

A formal share-ownership program has been established by the Company, which requires that its senior-most executives achieve and maintain ownership of Class A common share equivalents at or above a prescribed level. The requirements are as follows:

	<b>Number of Participants</b>	<b>Individual Ownership Requirement (Shares and Equivalents)</b>
Chief Executive Officer .....	1	150,000 shares
Executive Vice Presidents & Chief Operating Officer .....	0	75,000 shares
Senior Vice Presidents .....	9	40,000 shares
Corporate Vice Presidents .....	7	15,000 shares
Other Participants .....	29	6,000 shares

The share-ownership program requires the accumulation of shares (or Class A common share equivalents) over a five-year period starting in February 2004 (or the date the person becomes subject to share-ownership requirements, if later) at the rate of 20% of the required level each year. Ownership credit is given for actual Class A common shares owned, deferred compensation that is invested in Class A common share equivalents within the EDCP Plans and Class A common share equivalents accumulated in the qualified and non-qualified employee savings plans. Neither stock options nor stock appreciation rights count towards meeting the share-ownership target. If executives fall behind their scheduled accumulation level over the five years, or they fail to maintain their required level of ownership after the five-year accumulation period, their right to exercise stock options will be limited to "buy and hold" transactions until the required ownership level is achieved. As of April 9, 2007, all of the officers subject to the share-ownership guidelines were in compliance with these requirements.

### *Executive Perquisites*

The Company's philosophy is to provide perquisites at levels consistent with prevailing practice. Company-leased cars are provided for business and personal use, with the estimated cost associated with personal use taxable to the executives. Also provided are medical examinations and appropriate, physician-recommended medical tests under the Executive Health Program. Financial counseling and tax preparation work, a portion of which is imputed to the executive's income, is also provided. In addition, for security and safety reasons and to maximize his availability for Company business, the Board of Directors requires the CEO to travel exclusively on Company-provided aircraft for both business and personal purposes. The cost associated with this personal travel is imputed to the CEO's income at the rate required by the IRS. Since the Company's policy mandates that the CEO utilize Company-provided aircraft, the Company pays a gross-up to reimburse federal, FICA and state taxes resulting from this imputation. The incremental cost to the Company for perquisites is reported in "Other Compensation" shown in the Summary Compensation Table. In addition, if any NEO participates in the Company's general relocation program, the benefits received as part of that relocation are also considered perquisites by the SEC and would be reported as "Other Compensation" in the Summary Compensation Table. These relocation benefits include a gross-up payment to reimburse all appropriate U.S. taxes resulting from relocation expenses that are imputed as income to the employee, including federal, state and FICA taxes.

### *Retirement Programs and Other Benefits*

The Company and its subsidiaries maintain a number of defined benefit pension plans for their officers and other employees. The purpose of the pension plans is to provide for fixed benefits upon retirement based on the individual's age and number of years of service. These plans include the qualified Ingersoll-Rand Pension Plan Number One (the "Pension Plan"), the Ingersoll-Rand Supplemental Pension Plan (the "Supplemental Pension Plan I") and the Elected Officers Supplemental Program (the "EOSP Plan I"). In light of the American Jobs Creation Act of 2004, "mirror plans" for the Supplemental Pension Plan I, the EOSP Plan I and the EDCP Plan I were created. These mirror plans are the Ingersoll-Rand Supplemental Pension Plan II (the "Supplemental Pension Plan II" and, together with the Supplemental Pension Plan I, the "Supplemental Pension Plans"), the Elected Officers Supplemental Program II (the "EOSP Plan II" and, together with the EOSP Plan I, the "EOSP Plans") and the EDCP Plan II. The purpose of these mirror plans is not to provide additional benefits to participants, but merely to preserve the tax treatment of the original programs, that is, plans that were in place prior to December 31, 2004. The NEOs are eligible to participate in the original and/or the mirror of each of these plans, depending on their age and years of service.

The Pension Plan is a funded, tax qualified, non-contributory defined benefit plan that covers the majority of the Company's salaried U.S. employees. The Pension Plan provides for normal retirement at age 65 and permits early retirement after five years of service. The formula to determine the lump sum benefit under the Pension Plan is: 5% of final average pay for each year of credited service. A choice for distribution between an annuity and a lump sum option is available.

The Supplemental Pension Plans are unfunded, non-qualified, non-contributory defined benefit plans that provide additional pension payments to each individual U.S. participant in the amounts which would have been payable under the Pension Plan had payments under the Pension Plan not been subject to IRS limits on annual compensation recognized to calculate the Pension Plan benefits. Benefits under the Supplemental Pension Plans are available only as a lump sum after termination unless the lump sum value is deferred under the EDCP Plans in accordance with plan provisions. Approximately 400 employees are covered under the Supplemental Pension Plans.

The EOSP Plans are unfunded, non-qualified, non-contributory defined benefit plans, designed to replace a percentage of a participant's final pay based on his or her age and years of service at the time of retirement. The EOSP Plans provide a benefit pursuant to a formula in which 1.9% of a participant's final average pay is multiplied by the participant's years of service (up to a maximum of 35 years) and then reduced by the value of other retirement benefits the participant will receive that are provided by the Company under certain qualified and non-qualified retirement plans as well as Social Security. If additional years of service were granted to an NEO as part of his or her employment agreement, those additional years of service are reflected on the Pension Benefits table in this proxy statement. Participation in the EOSP Plans is limited to elected officers of the Company, of which there are currently 17 participants. Unreduced benefits under the EOSP Plans are available at age 62 and benefits are only available as a lump sum after termination unless the lump sum value is deferred under the EDCP Plans in accordance with plan provisions.

The Company offers a qualified, defined contribution (401(k)) plan called the Ingersoll-Rand Company Employee Savings Plan (the "ESP") to its salaried and hourly U.S. workforce. The ESP is a plan that provides a dollar for dollar Company match on the first six percent of the employee's contributions to the ESP. The ESP has a number of investment options and is an important component of the Company's retirement program.

The Company also has a non-qualified, defined contribution plan. The Ingersoll-Rand Company Supplemental Employee Savings Plan (the "Supplemental ESP") is an unfunded plan that makes up matching contributions that cannot be made to the ESP due to IRS or plan limitations. The Supplemental ESP consists of notional Company contributions only. For investment purposes, these notional contributions are deemed to be invested in Class A common shares of the Company. There is no investment discretion in this plan. Approximately 400 employees are covered under this plan.



The Company established a 10-Year Annuity Program (the “10-Year Annuity Plan”) to provide additional post-employment payments to executive officers to make up for a reduction in the amount of life insurance the executive officers could purchase under the Company’s Group Term Life Insurance Plan. Pursuant to the 10-Year Annuity Plan, the Company has entered into arrangements with Mr. Henkel and Ms. Nachtigal under which the Company is obligated to pay Mr. Henkel \$125,000 and Ms. Nachtigal \$45,000 annually for a ten-year period commencing the later of age 62 (or 65 in the case of Ms. Nachtigal) or termination of employment with the Company, so long as their employment with the Company is not terminated for cause and as long as they meet certain noncompetition obligations. In Mr. Henkel’s case, he must work until age 62 in order to qualify for this benefit. In the event of death, the benefits payable to Mr. Henkel and Ms. Nachtigal would be paid to their respective estates to the extent not already paid. In the case of Mr. Henkel, the Company is a beneficiary of a life insurance policy on Mr. Henkel and, based on actuarial assumptions, the life insurance proceeds receivable by the Company will defray the costs associated with this program. Participation in the 10-Year Annuity Plan was frozen in 1999.

The Senior Executive Death Benefit program was established in 1988 to provide Company officers with pre and post retirement death benefits, which had previously been provided under the Company’s Group Term Life Insurance Plan. Under the Senior Executive Death Benefit program, the Company provides Mr. Henkel and Ms. Nachtigal with life insurance coverage of one times annual base salary and AIM program award (increased in certain instances to account for income tax obligations payable by the executive’s estate in respect of such supplemental coverage). Participation in this plan was frozen in 1999.

The Company established the Estate Enhancement Program in 1998 to provide a means for executive officers to accumulate estate assets through an insurance benefit. In accordance with the Estate Enhancement Program, in 1999 and 2000 Ms. Nachtigal waived her right to receive \$100,000 (\$200,000 in the aggregate) of distributions under the PSP program. In connection with these waivers, the Company entered into an arrangement under which it purchased life insurance policies on the life of Ms. Nachtigal, the proceeds of which are payable to designees of Ms. Nachtigal. The program is designed in such a way that the cost of the life insurance policies is unlikely to exceed the cost the Company would have incurred with respect to the distributions waived by Ms. Nachtigal. Participation in this plan was frozen in 2002.

The Management Incentive Unit Plan (the “MIU Plan”) was established to provide an incentive to attract and retain top performers and to focus the attention of the participants on shareholder value. The MIU Plan has since been replaced with other long-term incentive awards. Participation is frozen and no new MIU awards under this plan have been made since 1990. The MIU Plan is a non-qualified plan that provides quarterly cash payments of dividends and accruals of Class A common share equivalents to active participants based upon the number of MIU units previously awarded to a participant. When cash dividends are paid on the Company’s Class A common shares, a participant is paid a cash amount equal to one-half of the dividends the participant would have received had the participant owned one share of Class A common share for each MIU unit granted to the participant. The remaining one-half of each cash dividend is credited to an account for the participant and is converted into Class A common share equivalents which also are held in the participant’s MIU account. The one-half portion of the dividend that is credited as a Class A common share equivalent is included in the pension value of accumulated benefit column of the Pension Benefits table. Following retirement, distributions of the Class A common share equivalents (and not the underlying MIUs granted to the participant) are made in cash equal to the fair market value of one share of Class A common share for each Class A common share equivalent credited to the participant’s account. There are 38 active participants remaining in the MIU Plan, two of whom are Ms. Nachtigal and Mr. Vasiloff.

The Company provides an enhanced, executive long-term disability plan to officers and other senior leaders. The plan provides for a higher monthly maximum than the standard group plan, a more favorable definition of disability and has an underlying individual policy that is portable when the executive terminates.



### *2006 Chief Executive Officer Compensation*

For calendar year 2006, Mr. Henkel's annual salary was \$1,200,000.

Based upon Mr. Henkel's contribution to the Company's 2006 business results, the Compensation Committee approved incentive awards (as described above) to Mr. Henkel as follows:

AIM Program .....	\$2,000,000
PSP Program .....	\$3,523,313
Total Cash Incentive .....	<u>\$5,523,313</u>
Stock Option Program .....	218,925 options

### *2006 Compensation of Other Named Executive Officers*

During 2006, in accordance with the policies stated above, the executive officers named in the Summary Compensation Table, other than Mr. Henkel, were granted salary increases averaging 3.6%. Annual cash incentive awards to Messrs. McLevish, Vasiloff and Lamach and Ms. Nachtigal were granted based on the achievement of performance objectives of the type described above, the Company's financial performance and the contributions made by these executives. These executives were granted annual cash incentive program awards averaging approximately 77% of year-end salary. In addition, these executives were granted PSP program awards averaging approximately 96% of year-end salary. These awards are commensurate with the extent to which the NEOs performed relative to the programs' performance objectives.

The NEOs were also granted stock options in respect of the Company's Class A common shares, as indicated in the Grants of Plan-Based Awards table in the "All Other Awards: Number of Securities Underlying Options" column, in accordance with the practices referred to above.

### *Severance Arrangements*

In connection with external recruiting of executive officers, the Company generally enters into employment agreements that provide for severance payments upon certain terminations of those officers, other than in the event of a change in control. Messrs. Henkel, McLevish and Lamach have such arrangements.

### *Change In Control Provisions*

In early 2006 the Compensation Committee requested that its independent consultant, Frederic W. Cook & Co., Inc., review the officers' change in control agreements to ensure that they were consistent with standard market practice. Based on a combination of this review and management recommendation, the agreements were terminated, and new agreements became effective as of December 1, 2006. Major areas of change were: a) the entire covered population is now subject to a double trigger, meaning that payments would only be received if an employee is terminated within 2 years following a change in control (under the old format the CEO was eligible for payments upon a change in control); b) a tiered approach to severance was introduced (different levels of benefits were established for different tiers of officers); c) the benefits available under the EOSP Plans in the event of a termination after a change in control were reduced; and d) gross-up payments for the reimbursement of Section 280G "parachute" excise taxes were reduced. At the time that the new agreements were entered into, the revisions to the change in control agreements resulted in an estimated 35% reduction in value of the overall program.

## Compensation Committee Report

We have reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement.

Based on our review and discussion, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement as well as the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### COMPENSATION COMMITTEE

Orin R. Smith (Chair)  
Peter C. Godsoe  
Constance J. Horner  
Tony L. White

### Executive Compensation

The following table provides summary information concerning compensation paid or accrued by the Company to or on behalf of our Chief Executive Officer, Chief Financial Officer and each of our three other most highly compensated executive officers who served in such capacities at December 31, 2006 (collectively, the named executive officers, or the "NEOs") for services rendered during the last fiscal year.

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)(a)	Stock Awards\$(b)	Option Awards \$(c)	Non-Equity Incentive Plan Compensation \$(d)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(e)	All Other Compensation \$(f)	Total (\$)
H. L. Henkel ..... Chairman of the Board, President and Chief Executive Officer	2006	1,200,000	—	2,747,754	5,523,313	8,040,996	702,934	18,214,997
T. R. McLevish ..... Senior Vice President and Chief Financial Officer	2006	537,500	—	222,890	1,093,096	319,207	100,881	2,273,574
M. W. Lamach ..... Senior Vice President	2006	488,333	—	167,168	812,698	225,730	81,273	1,775,202
P. Nachtigal ..... Senior Vice President and General Counsel	2006	468,333	—	488,490	727,798	1,230,806	105,783	3,021,210
C. P. Vasiloff ..... Senior Vice President	2006	460,000	—	549,551	788,798	777,949	239,286	2,815,584

- (a) Pursuant to the EDCP Plans, a portion of a participant's fiscal year 2006 annual salary may be deferred into a number of investment options. A portion of the salary of each of Messrs. Henkel (20%) and McLevish (50%) was deferred into the EDCP Plans. None of these deferrals were invested in Class A common share equivalents. Amounts shown are not reduced to reflect the NEO's elections, if any, to defer receipt of salary into the EDCP Plans.
- (b) This column does not reflect a benefit to the Company in its financial statements of \$784,248 as a result of an accounting change to the reporting of Mr. Henkel's stock awards granted in 1999. On August 2, 2006, the Compensation Committee decided that previously granted stock awards would be settled in Class A common shares rather than cash, as was the practice in the past. Due to this change, the Company marked down to market the value of Mr. Henkel's stock awards due to the difference in the stock price between the beginning of fiscal year 2006 and August 2, 2006. This one-time benefit would have the effect of artificially reducing Mr. Henkel's total compensation.

- (c) The amounts in this column represent the compensation costs of stock options for financial reporting purposes for the year under FAS 123(R) and do not reflect an amount paid to or realized by the NEOs. For a discussion of the assumptions made in determining the FAS 123(R) values see Note 11, “Stock-Based Compensation” to the Company’s consolidated financial statements contained in its 2006 Annual Report. For retirement eligible participants, the entire amount of the stock option award is expensed in the year of grant. For participants who are not retirement eligible, the FAS 123(R) grant date fair value of the options is spread over the number of months of service required for the grant to become non-forfeitable, disregarding any adjustments for potential forfeitures.
- (d) This column reflects the combined amounts earned as annual awards under the AIM program and the PSP program. Unless deferred into the EDCP Plans, payments are made in cash and, in the case of the PSP program, are based on the value of the Class A common shares on the date of the determination of the final award. The amounts earned as annual awards under the AIM program and the PSP program for fiscal year 2006 performance (paid out in February 2007, unless deferred into the EDCP Plans) are as follows:

<u>Name</u>	<u>AIM Award (\$)</u>	<u>PSP Award (\$)</u>	<u>Total Cash Award (\$)</u>
H.L. Henkel .....	2,000,000	3,523,313	5,523,313
T.R. McLevish .....	458,900	634,196	1,093,096
M.W. Lamach .....	389,900	422,798	812,698
P. Nachtigal .....	305,000	422,798	727,798
C.P. Vasiloff .....	366,000	422,798	788,798

The amounts of the AIM and PSP awards included in the above annual awards that the NEOs deferred into the EDCP Plans are as follows:

<u>Name</u>	<u>Deferred AIM Award (\$)</u>	<u>Deferred PSP Award (\$)</u>	<u>Total Deferred Award (\$)</u>
H. L. Henkel .....	1,000,000	1,761,656	2,761,656
T. R. McLevish .....	445,133	615,170	1,060,303
M. W. Lamach .....	—	—	—
P. Nachtigal .....	—	—	—
C. P. Vasiloff .....	274,500	317,098	591,598

- (e) Amounts reported in this column reflect the aggregate increase in the actuarial present value of the benefits under the Pension Plan, Supplemental Pension Plans, EOSP Plans, the MIU Plan and the 10-Year Annuity Plan, as applicable. A portion of the change in pension benefits value is attributable to the additional year of service, the 2006 AIM awards and any annual salary increase, which accounted for \$4,036,363, \$275,322, \$225,730, \$342,781 and \$779,740 for Messrs. Henkel, McLevish, Lamach and Vasiloff and Ms. Nachtigal, respectively.

In 2006, the EOSP Plan II was amended to change the definition of final average compensation to mean the sum of (i) the individual’s current annualized salary, plus (ii) the average of the three highest AIM awards to that individual during the most recent six years. The previous definition of final average compensation was based on the individual’s current annualized salary, plus the average of the five highest AIM awards made to that individual during the most recent six years. The remaining change in pension benefits value is attributable to the amendment to the definition of final average pay in the EOSP II, which accounted for \$4,004,633, \$43,885, \$0, \$435,168 and \$451,066 for Messrs. Henkel, McLevish, Lamach and Vasiloff and Ms. Nachtigal, respectively. Amounts are higher for those NEOs who are older and closer to retirement than for those who are younger and further from retirement since the period over which the benefit is discounted to determine its present value is shorter and the impact of discounting is therefore reduced. In 2006, there were no above-market or preferential earnings on any non-qualified deferred compensation and therefore no such amounts are reflected in this column.

- (f) The amounts reflected in this column include:
- for Ms. Nachtigal and Mr. Vasiloff, the cash portion of the dividend paid pursuant to the Company’s MIU Plan;
  - Company contributions to the accounts of the NEOs under the ESP, as well as amounts credited to the accounts of such executive officers under the Supplemental ESP, which provide benefits which would have been provided under the applicable tax-qualified plan but for Internal Revenue Code and qualified plan restrictions on such benefits;
  - for Mr. Henkel and Ms. Nachtigal under the Senior Executive Death Benefit program, a portion of their respective life insurance policy premiums representing the difference between the cost of age graded insurance and premiums paid by such NEOs;

- for Ms. Nachtigal, income recognized during the term of the split-dollar life insurance policies purchased by the Company pursuant to the Estate Enhancement Program. The income amount is based on the face amount of the policy and the age of the insured under the policy;
- the aggregate incremental cost to the Company for providing certain perquisites to the NEOs. For security and safety reasons and to maximize his availability for Company business, the Board of Directors requires Mr. Henkel to travel exclusively on Company-provided aircraft for business and personal purposes. The incremental cost to the Company of personal use of the Company aircraft is calculated based on the hourly average variable operating costs to the Company. Variable operating costs include fuel, maintenance, on-board catering and landing fees. The hourly average variable cost is multiplied by the amount of time flown for personal use to derive the incremental cost. The methodology excludes fixed costs that do not change based on usage, such as pilots' and other employees' salaries, management fees and training, hanger and insurance expenses. The Company also provided relocation benefits to Mr. Henkel, including reimbursement of household moving expenses and reimbursement of home sale and purchase closing costs. See "Certain Relationships and Related Party Transactions." The Company provides its executive officers with Company-leased cars for business and personal use. The incremental cost of the Company-leased cars is calculated based on the lease, insurance, fuel and maintenance costs to the Company. In addition, the Company provides its executive officers with (i) financial counseling services, which may include tax preparation and estate planning services, (ii) medical services through an on-site physician under the Executive Health Program and (iii) wellness reimbursement for health club memberships;
- for Mr. Vasiloff, the 20% supplemental amount on AIM and PSP awards deferred into Class A common share equivalents under the EDCP Plan II through August 2, 2006. For all NEOs in prior years, the 20% supplemental amounts were included in the Restricted Stock Awards column of the Summary Compensation Table. As previously discussed in Compensation Discussion and Analysis, all prior 20% supplemental amounts that had not vested at that date were accelerated. The accelerated supplemental amounts consist of 20,513 share equivalents, 7,372 share equivalents, 5,130 share equivalents, 3,704 share equivalents and 7,513 share equivalents for Messrs. Henkel, McLevish, Vasiloff and Lamach and Ms. Nachtigal, respectively;
- for Messrs. Henkel and Vasiloff and Ms. Nachtigal, the estimated year over year increase in the value of the retiree medical plan. The increase was calculated based on the methods used for financial statement reporting purposes; and
- for Mr. Henkel, those payments that reimbursed him for the income taxes payable in respect of relocation benefits he received as well as personal usage of company provided aircraft.

The following table summarizes the components of this column for fiscal year 2006:

Name	MIU Plan (\$)	ESP (including Supplemental ESP) (\$)	Senior Executive Death Benefit Program (\$)	Estate Enhancement Program (\$)	Perquisites (\$) (a)	20% Company Contribution To EDCP Plans (\$)	Retiree Medical Plan (\$)	Aircraft Usage Tax Gross-up (\$)	Relocation Benefits Tax Gross-up (\$)	Total (\$)
H. L. Henkel . . . . .	—	250,980	6,009	—	422,304	—	3,300	11,577	8,764	702,934
T. R. McLevish . . . . .	—	63,756	—	—	37,125	—	—	—	—	100,881
M. W. Lamach . . . . .	—	55,976	—	—	25,297	—	—	—	—	81,273
P. Nachtigal . . . . .	11,220	49,310	4,543	2,174	35,836	—	2,700	—	—	105,783
C. P. Vasiloff . . . . .	7,140	33,612	—	—	30,966	162,968	4,600	—	—	239,286

(a) The following table summarizes the incremental value of each type of perquisite provided to the NEOs in fiscal year 2006:

Name	Aircraft Usage (\$)	Financial Consulting (\$)	Car Usage (\$)	Executive Health Program (\$)	Relocation Benefits (\$)	Wellness Reimbursement (\$)
H. L. Henkel . . . . .	156,416	8,000	29,663	1,765	226,460	—
T. R. McLevish . . . . .	—	8,000	26,561	2,064	—	500
M. W. Lamach . . . . .	—	8,000	16,644	653	—	—
P. Nachtigal . . . . .	—	8,000	25,741	1,645	—	450
C. P. Vasiloff . . . . .	—	8,000	21,384	1,582	—	—

## 2006 GRANTS OF PLAN-BASED AWARDS

The following table shows all plan-based awards granted to the NEOs during fiscal 2006. This table is supplemental to the Summary Compensation Table and is intended to complement the disclosure of stock option awards and grants made under non-equity incentive plans in the Summary Compensation Table.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			Actual Option Award (#)(d)	Exercise or Base Price of Option Awards (\$/Sh) (e)	Closing Price of Security Underlying Options on Grant Date (\$/Sh) (f)	Grant Date Fair Value of Stock and Option Awards \$(g)
		Number of Units (#) (a)	Threshold \$(b)	Target \$(b)	Maximum \$(b)	Threshold \$(c)	Target \$(c)	Maximum \$(c)			
H. L. Henkel											
AIM . . . . February 1, 2006			0	2,100,000	3,150,000						
PSP . . . . February 1, 2006		100,000	0	4,312,500	8,625,000						
Options . . February 1, 2006						0	225,000	337,500	263,700	39.425	2,747,754
T. R. McLevish											
AIM . . . . February 1, 2006			0	495,000	742,500						
PSP . . . . February 1, 2006		18,000	0	776,250	1,552,500						
Options . . February 1, 2006						0	60,000	90,000	70,320	39.425	732,734
M. W. Lamach											
AIM . . . . February 1, 2006			0	441,000	661,500						
PSP . . . . February 1, 2006		12,000	0	517,500	1,035,000						
Options . . February 1, 2006						0	45,000	67,500	52,740	39.425	549,551
P. Nachtigal											
AIM . . . . February 1, 2006			0	329,000	493,500						
PSP . . . . February 1, 2006		12,000	0	517,500	1,035,000						
Options . . February 1, 2006						0	40,000	60,000	46,880	39.425	488,490
C. P. Vasiloff											
AIM . . . . February 1, 2006			0	414,000	621,000						
PSP . . . . February 1, 2006		12,000	0	517,500	1,035,000						
Options . . February 1, 2006						0	45,000	67,500	52,740	39.425	549,551

- (a) The amounts in this column represent the PSP program target award levels established on February 1, 2006. For each participant in the PSP program, target award levels are established annually in February, expressed as a number of Class A common share equivalents and paid out in cash. Refer to Compensation Discussion and Analysis under the heading “Performance Share Program (PSP)” for a description of the Compensation Committee’s process for establishing PSP program target award levels.
- (b) The target award levels established for the AIM program are established annually in February and are expressed as a percentage of the NEO’s base salary. Refer to Compensation Discussion and Analysis under the heading “The Annual Incentive Matrix (AIM) Program” for a description of the Compensation Committee’s process for establishing AIM program target award levels. The amounts reflected in the “Estimated Future Payouts Under Non-Equity Incentive Plan Awards” columns represent the threshold, target and maximum amounts for awards under the AIM program and PSP program that were paid in February 2007, based on performance in 2006. Thus, the amounts shown in the “threshold, target and maximum” columns reflect the range of potential payouts when the award levels were established in February 2006. The actual amounts paid pursuant to those awards are reflected in the “Non-Equity Incentive Plan Compensation” column of the Summary Compensation Table.
- (c) The amounts reflected in the “Estimated Future Payouts Under Equity Incentive Plan Awards” columns represent the threshold, target and maximum amounts for stock option awards under the Company’s Incentive Stock Plan of 1998 that were granted in February 2006, based on performance in 2005. Thus, the amounts shown in the “threshold, target and maximum” columns reflect the range of potential stock option grants when the award levels were established in February 2005.
- (d) The amounts in this column reflect the stock option awards granted in February 2006 in connection with performance for 2005 as prescribed by the SEC rules and regulations. For a description of the performance measures used in calculating stock option awards, see Compensation Discussion and Analysis under the heading “Stock Options”.

- (e) Stock options are granted under the Company's Incentive Stock Plan of 1998, which requires options to be granted at an exercise price equal to the fair market value of the Class A common shares on the date of grant. The fair market value is defined in the Incentive Stock Plan of 1998 as the average of the high and low sales price of the Company's Class A common shares listed on the NYSE on the grant date.
- (f) The amounts in this column reflect the closing price on the NYSE of the Company's Class A common shares on the grant date.
- (g) The grant date fair value of the stock option awards granted in February 2006 (based on fiscal year 2005 performance) was calculated in accordance with FAS 123(R), based on the Black-Scholes option pricing model adapted for use in valuing executive stock options. The Company cautions that the actual amount ultimately realized by each NEO from the stock option awards will likely vary based on a number of factors, including stock price fluctuations, differences from the valuation assumptions used and timing of exercise or applicable vesting. The grant date fair values were determined based in part upon the following assumptions as set forth in the Company's consolidated financial statement contained in its 2006 Annual Report on Form 10-K:

	<u>February 1, 2006</u>
Expected volatility .....	0.2770
Risk-free rate of return .....	4.47%
Dividend yield .....	1.49%
Time of exercise (expected) .....	4.42 years

The Black-Scholes option pricing model, with the assumptions described above, indicated a stock option value of 26.4% (\$10.42 per share) of the stock value on the date of the award (\$39.425 per share). See Note 11, "Share-Based Compensation" to the Company's consolidated financial statements contained in its 2006 Annual Report on Form 10-K for further assumptions made in valuing stock options.

# OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2006

Name	Option Awards					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable (a)	Number of Securities Underlying Unexercised Options (#) Unexercisable (b)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (c)	Option Exercise Price (\$) (d)	Option Expiration Date (e)	Number of Shares or Units of Stock that have Not Vested (#) (f)	Market Value of Shares or Units of Stock that have Not Vested (\$) (g)
H.L. Henkel	600,000			\$25.5469	3/11/2009		
	100,000			\$26.8125	9/30/2009		
	250,000			\$26.5157	1/2/2010		
	50,000			\$23.3125	5/2/2010		
	300,000			\$20.2657	1/1/2011		
	300,000			\$20.9025	1/1/2012		
	370,000			\$19.5250	2/4/2013		
	420,000			\$32.1825	2/3/2014		
	450,000			\$38.6850	2/1/2015		
		263,700		\$39.4250	1/31/2016		
T.R.McLevish	100,000			\$24.4900	4/30/2012		
	50,000			\$19.5250	2/4/2013		
	120,000			\$32.1825	2/3/2014		
	132,000			\$38.6850	2/1/2015		
		70,320		\$39.4250	1/31/2016		
M.W.Lamach	100,000			\$33.9200	2/16/2014	8,000	313,040
	100,000			\$38.6850	2/1/2015		
		52,740		\$39.4250	1/31/2016		
P. Nachtigal	54,000			\$24.5469	2/2/2009		
	56,000			\$26.5157	1/2/2010		
	56,000			\$20.2657	1/1/ 2011		
	30,000			\$20.9025	1/1/2012		
	56,000			\$19.5250	2/4/2013		
	80,000			\$32.1825	2/3/2014		
	100,000			\$38.6850	2/1/2015		
		46,880		\$39.4250	1/31/2016		
C.P. Vasiloff	40,000			\$20.2657	1/1/2011		
	60,000			\$20.9025	1/1/2012		
	60,000			\$19.5250	2/4/2013		
	80,000			\$32.1825	2/3/2014		
	100,000			\$38.6850	2/1/2015		
		52,740		\$39.4250	1/31/2016		

- (a) Generally, options granted to all employees, including NEOs, become exercisable in three equal installments beginning one year after the date of grant. On December 7, 2005, the Compensation Committee approved the acceleration of the vesting of all outstanding and unvested stock options as a means to facilitate the implementation of a new accounting standard for expensing of stock options. Therefore, options issued on or prior to December 31, 2005, were fully vested as of that date. At this same time, the terms and conditions of the stock options were changed to prohibit transfers (including sales, gifts, pledges or other transfers of any kind) of any shares acquired through the exercise of the accelerated options until the earlier of (i) the original vesting date of the option or (ii) termination of employment, retirement, death or disability.



- (b) The options granted on February 1, 2006 vest in three equal installments on February 1, 2007, February 1, 2008 and February 1, 2009.
- (c) All of the options granted to the NEOs reflected in this table expire after ten years, thus, in each case, the actual date of grant is ten years earlier than the expiration date listed.
- (d) Mr. Lamach was granted 9,000 employment share units (reported as 18,000 as a result of the 2-for-1 stock split in September 2005) as part of his employment arrangement in February 2004. These employment share units vest as follows: 2,500 shares (later adjusted to 5,000 shares to reflect the 2-for-1 stock split in September 2005) on the first anniversary of employment (February 2005); 2,500 shares (reported as 5,000 to give effect to the 2-for-1 stock split in September 2005) on the second anniversary of employment (February 2006); and the remaining 4,000 shares (reported as 8,000 to give effect to the 2-for-1 stock split in September 2005) on the third anniversary of employment (February 2007). The full value of these employment share units was reported in the year they were awarded in the Summary Compensation Table. Mr. Lamach's 8,000 employment share units reflected in this column vested on February 16, 2007.
- (e) The market value of the employment share units reflected in this column was computed using the closing market price of the Company's Class A common shares on the NYSE at December 29, 2006 (\$39.13).

### 2006 OPTION EXERCISES AND STOCK VESTED

The following table provides information regarding the amounts received by each NEO upon exercise of options or the vesting of stock during the fiscal year ended December 31, 2006.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (a)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) (b)
H.L. Henkel .....	—	—	—	—
T.R. McLevish .....	—	—	—	—
M.W. Lamach .....	—	—	5,000	203,500
P. Nachtigal .....	—	—	—	—
C.P. Vasiloff .....	40,000	786,159	—	—

- (a) This column reflects the aggregate dollar amount realized by the NEO upon the exercise of the options and sale of the underlying securities by determining the difference between the market price of the underlying securities at exercise and the exercise price of the options.
- (b) The amount in this column reflects the aggregate dollar amount realized by the NEO upon the vesting of a portion of Mr. Lamach's employment share units granted as part of his employment arrangement with the Company. The value realized on vesting is calculated by multiplying the number of vested share units by the value of the underlying shares on the vesting date.

## 2006 PENSION BENEFITS

The table below represents the estimated present value of defined benefits for the plans in which each NEO participates. For a description of each plan reported in the table, refer to Compensation Discussion and Analysis under the heading “Retirement Programs and Other Benefits” and the section below titled “Post Employment Benefits.”

Name	Plan Name (a)	Number of Years Credited Service (#) (b)	Present Value of Accumulated Benefit (\$) (c)	Payments During Last Fiscal Year (\$)
H.L. Henkel	Pension Plan	7.67	107,268	—
	Supplemental Pension Plan I	5.75	861,078	—
	Supplemental Pension Plan II	7.67	296,128	—
	Elected Officer Supplemental Program I	18.00(d)	11,474,171	—
	Elected Officer Supplemental Program II	20.00(d)	10,526,582	—
	10-Year Annuity	N/A	838,973	—
T.R. McLevish	Pension Plan	4.583	37,965	—
	Supplemental Pension Plan II	4.583	91,731	—
	Elected Officer Supplemental Program II	10.00(e)	1,439,821	—
M.W. Lamach	Pension Plan	2.833	11,242	—
	Supplemental Pension Plan II	2.833	35,570	—
	Elected Officer Supplemental Program II	20.00(f)	1,556,460	—
P. Nachtigal	Pension Plan	27.417	507,211	—
	Supplemental Pension Plan I	25.50	500,981	—
	Supplemental Pension Plan II	27.417	68,722	—
	Elected Officer Supplemental Program I	26.00	2,639,661	—
	Elected Officer Supplemental Program II	28.00	1,471,211	—
	MIU Plan	N/A	263,570	—
	10-Year Annuity Plan	N/A	279,577	—
C.P. Vasiloff	Pension Plan	30.417	396,636	—
	Supplemental Pension Plan I	28.50	236,051	—
	Supplemental Pension Plan II	30.417	132,163	—
	Elected Officer Supplemental Program II	31.00	4,101,653	—
	MIU Plan	N/A	197,948	—

- (a) In order to ensure compliance with the requirements of Section 409A of the Code to avoid the imposition of an excise tax, the Compensation Committee approved (i) an amendment to the Company’s EOSP Plan I and Supplemental Pension Plan I to freeze any further accruals under those plans, effective December 31, 2004 and (ii) the establishment of the EOSP Plan II and Supplemental Pension Plan II, effective January 1, 2005, which plans were intended to be identical to the provisions of the EOSP Plan I and Supplemental Pension Plan I, except for those changes necessitated by Section 409A of the Code.
- (b) The years of credited service calculation under the EOSP Plans differs from the calculation used in both the Pension Plan and the Supplemental Pension Plans. Under the EOSP Plans, a full year of service is credited to participants for any year in which they work at least one day. In both the Pension Plan and the Supplemental Pension Plans, the number of years of credited service is based on elapsed time (i.e. credit is given for each month in which a participant works at least one day). In addition, as noted above, the Supplemental Pension Plan II and the EOSP Plan II were established as mirror plans, effective January 1, 2005. The years of credited service used for calculating benefits under the EOSP Plan I and the Supplemental Pension Plan I are the years of credited service through December 31, 2004. The years of

credited service used for calculating benefits under the Pension Plan, EOSP Plan II and Supplemental Pension Plan II are the years of credited service through December 31, 2006. Years of credited service is not used in the determination of the present value of benefits for the MIU Plan and the 10-Year Annuity Plan. The benefits earned under the EOSP Plan I and Supplemental Pension Plan I serve as offsets to the benefits earned under the EOSP Plan II and Supplemental Pension Plan II; that is, there is no double counting.

- (c) The amounts in this column reflect the estimated present value of each NEO's accumulated benefit under the plans indicated. The calculations reflect the value of the benefits assuming that each NEO was fully vested under each plan. The benefits were computed as of the same pension plan measurement date (November 30, 2006) for financial statement reporting purposes, consistent with the assumptions described in Note 9 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2006.

A present value of benefits for the EOSP Plan I and Supplemental Pension Plan I is reported for those NEOs who were vested in those plans at December 31, 2004, the date on which those plans were frozen. If an NEO was not vested in the EOSP Plan I and Supplemental Pension Plan I at December 31, 2004, that NEO is not now, nor in the future, entitled to any benefit under those plans. See the section titled "Retirement Programs and Other Benefits" of Compensation Discussion and Analysis for more information on the material terms and conditions of payments and benefits available under the plans, including each plan's normal retirement payment and benefit formula, and the specific elements of compensation included in applying the payment and benefit formula.

- (d) Mr. Henkel's credited years of service exceed his actual years of service by 12 years pursuant to the provisions of his employment arrangement. Under his employment arrangement, Mr. Henkel's benefit accrues at a rate such that he will be entitled at age 62 to an annual benefit equivalent to 65% of his then final average compensation (less the pension benefit he receives from his former employer). The increase in present value of benefits resulting from those additional years of credited service and the accelerated rate at which his benefits accrue is \$16,803,905.
- (e) Mr. McLevish's credited years of service exceed his actual years of service by 5 years pursuant to the provisions of his employment arrangement. The increase in present value of benefits due to those additional years of credited service is \$786,387. Pursuant to Mr. McLevish's employment letter, vesting in the benefits provided under the EOSP II occurs after five years of employment with the Company.
- (f) Mr. Lamach's credited years of service exceed his actual years of service by 17 years pursuant to the provisions of his employment arrangement. The increase in present value of benefits due to those additional years of credited service is \$1,334,427. Mr. Lamach's benefit will be reduced by the pension benefit he receives from his former employer.

## 2006 NONQUALIFIED DEFERRED COMPENSATION

The Company's EDCP Plans are unfunded nonqualified plans maintained for the purpose of making available the option to defer receipt of current compensation to a select group of employees. All amounts deferred are from the annual salary, AIM program awards and PSP program awards, which the participant was entitled to receive in the year of deferral. The Company has established a non-qualified grantor trust (the "trust"), with a bank as the trustee, to hold certain assets deferred under the EDCP Plans. These assets are considered general assets of the Company and are available to its creditors in the event of the Company's insolvency. Amounts held in the trust are invested by the trustee using various investment vehicles.

Employees eligible for the EDCP Plans are key management or highly compensated employees who are recommended by a sector president or functional senior vice presidents for participation in the EDCP Plans and who meet certain requirements.

Participants can elect to defer salary that would otherwise be paid during the next calendar year and to defer the AIM and PSP program awards earned in the year the deferral was made, but otherwise would have been paid in the next calendar year. Participants may defer up to 50% of annual salary and up to 97% of each of the AIM program awards and PSP program awards. All such deferral elections are irrevocable. Participants are offered certain investment options (approximately 60 mutual fund investments and Class A common share equivalents), and can choose how they wish to allocate their deferrals among those investment options. Participants are 100% vested in all amounts deferred, and bear the risk of any earnings and losses on such deferred amounts.

Generally, deferred amounts may be distributed upon a termination of employment or at the time of a scheduled in-service distribution date chosen by the participant. Under the EDCP Plans, if a participant has completed 5 or more years of service at the time of termination, or is terminated due to long-term disability, death or retirement, the distribution is paid in accordance with the participant's election. If a participant terminates with less than 5 years of service and the termination is not as a result of retirement, long-term disability or death, the account balance for all plan years will be paid in a lump sum in the February following the year of termination. A participant can elect to receive distributions at termination over a period of 5, 10, or 15 annual installments, or in a single lump sum. A participant can elect to receive scheduled in-service distributions in future years that are at least 2 years after the end of the plan year for which they are deferring. In-service distributions can be received in 2 to 5 annual installments, or if no election is made, in a lump sum.

The stock grant plan is a frozen long-term incentive plan pursuant to which participants received performance-based stock awards. Stock awards pursuant to this plan have not been awarded since fiscal year 2001. Participants had the option of electing to defer those awards until retirement. The only current NEO in the plan is Mr. Henkel, who chose to defer receipt of substantially all his stock awards. Until the time of distribution, the stock awards accrue dividends in the form of Class A common share equivalents.

Please refer to Compensation Discussion and Analysis for a description of the nonqualified Supplemental ESP.

The following table provides information regarding contributions, earnings and balances for each NEO under our nonqualified deferred compensation plans.

<u>Name</u>	<u>Executive Contributions in Last Fiscal Year(\$)</u> (a)	<u>Registrant Contributions in Last Fiscal Year(\$)</u> (b)	<u>Aggregate Earnings in Last Fiscal Year(\$)</u> (c)	<u>Aggregate Withdrawals/ Distributions (\$)</u>	<u>Aggregate Balance at Last Fiscal Year End(\$)</u> (d)
H.L. Henkel					
EDCP Plan I .....	—	—	(118,276)	—	8,127,050
EDCP Plan II .....	4,479,683	—	515,879	—	16,124,057
Supplemental ESP .....	—	237,780	(15,739)	—	1,251,430
Stock Grant Plan (e) .....	—	—	76,715	—	8,446,314
T.R. McLevish					
EDCP Plan I .....	—	—	32,954	—	2,760,604
EDCP Plan II .....	1,734,765	—	169,835	—	4,191,787
Supplemental ESP .....	—	50,556	(3,131)	—	223,602
M.W. Lamach					
EDCP II .....	—	—	(23,482)	—	1,613,526
Supplemental ESP .....	—	42,776	(1,551)	—	95,596
P. Nachtigal					
EDCP Plan I .....	—	—	(19,895)	—	2,559,147
EDCP Plan II .....	—	—	(5,123)	—	351,999
Supplemental ESP .....	—	36,110	(1,663)	—	297,742
C.P. Vasiloff					
EDCP Plan I .....	—	—	58,707	—	937,829
EDCP Plan II .....	814,842	162,968(f)	(14,981)	—	1,442,399
Supplemental ESP .....	—	20,412	(786)	—	298,048

- (a) The annual salary deferrals included in this column are reflected in the Salary column of the Summary Compensation Table. The deferrals of the AIM and PSP program awards reflected in this column were reported in the Bonus column of the Summary Compensation Table included in our 2006 proxy statement.
- (b) All of the amounts reflected in this column are included as compensation in the Summary Compensation Table in the “All Other Compensation” column.
- (c) Amounts in this column include gains and losses on investments as well as dividends on Class A common share equivalents, and in the case of Mr. Lamach, dividends on his employment share units. None of the earnings or losses reported in this column are included in the Summary Compensation Table.
- (d) The following table reflects the amounts reported in the “Aggregate Balance at Last Fiscal Year End” column above that were previously reported as compensation to the NEOs in the Company’s Summary Compensation Table in proxy statements for prior years. Each of Messrs. Henkel, McLevish, Lamach and Vasiloff and Ms. Nachtigal first became NEOs and therefore had three years of their compensation reported in the Company’s proxy statements in fiscal years 2000, 2003, 2005, 2004 and 2006, respectively.

<u>Name</u>	<u>EDCP Plans (\$)</u>	<u>Supplemental ESP (\$)</u>
H. L. Henkel .....	18,395,038	704,285
T. R. McLevish .....	5,723,753	138,384
M. W. Lamach .....	1,529,086	51,734
P. Nachtigal .....	1,284,342	94,522
C. P. Vasiloff .....	2,129,577	147,182

- (e) These amounts represent dividends paid since September 2006 on past stock grant awards that have been deferred by Mr. Henkel. Prior to such time, all dividends paid on the stock grant awards were credited to Mr. Henkel's account in the EDCP Plans as Class A common share equivalents. The fair market value of those dividends was calculated using the average of the high and low price of the Company's Class A common shares on December 29, 2006 (\$39.36).
- (f) The amount reflected for Mr. Vasiloff represents the 20% supplemental amount on deferred compensation invested in Class A common share equivalents.

## POST EMPLOYMENT BENEFITS

The discussion and table below describe the compensation to which each of the NEOs would be entitled in the event of termination of such executive's employment, including termination following a change in control. The potential payments were determined under the terms of our plans and arrangements in effect on December 31, 2006. The table does not include the pension benefits or nonqualified deferred compensation amounts that would be paid to an NEO, which are set forth in the Pension Benefits table and Nonqualified Deferred Compensation table above, except to the extent that the NEO is entitled to an additional benefit as a result of the termination.

*Employment Arrangements and Severance.* The Company does not enter into employment contracts with all of their executives and does not have a general severance policy applicable to all executive officers. All of the NEOs are entitled to benefits upon termination of their employment following a change in control. However, only Messrs. Henkel, McLevish and Lamach are entitled to severance in the event of their involuntary termination without cause due to the terms of their employment agreements. Mr. Henkel would be eligible to receive a severance equal to two times the sum of his annual base salary and the previous year's award under the AIM program. Mr. McLevish would be eligible to receive a severance equal to one times his annual base salary. If he is terminated within 5 years following his employment date, Mr. Lamach would be eligible for 18 months of base annual salary plus the AIM program award he had earned for the year of termination.

*Change in Control.* The Company has entered into change in control agreements with each of its officers (a total of 17 employees) which provide for certain payments if the employment of a particular executive officer is terminated without "cause" (as defined in the change in control agreements) or the executive officer resigns for "good reason" (as defined in the change in control agreements), in each case, within two years following a change in control of the Company.

A "change in control" is defined as the occurrence of any of the following events: (i) any person unrelated to the Company becomes the beneficial owner of more than 30% of the combined voting power of the Company's voting stock, (ii) the directors serving at the time the change in control agreements were executed (or the directors subsequently elected by the shareholders of the Company whose election or nomination was duly approved by at least two-thirds of the then serving directors) fail to constitute a majority of the Board of Directors, (iii) the consummation of a merger or consolidation of the Company with any other corporation in which the Company's voting securities outstanding immediately prior to such merger or consolidation represent 50% or less of the combined voting securities of the Company immediately after such merger or consolidation, (iv) any sale or transfer of all or substantially all of the Company's assets, other than a sale or transfer with a corporation where the Company owns at least 80% of the combined voting power of such corporation or its parent after such transfer, or (v) any other event that the continuing directors determine to be a change in control.

Pursuant to the change in control agreement, each NEO would receive a lump sum equal to his or her annual salary and AIM award for the completed fiscal year for which payout has not occurred. In addition, each NEO is entitled to a lump sum severance payment from the Company equal to, in the case of the CEO, Chief Financial Officer and the General Counsel, three times the sum of (a) the NEO's annual salary in effect on the termination date, or, if higher, the annual salary in effect immediately prior to the reduction of the NEO's annual salary after the change in control and (b) the NEO's target AIM award for the year of termination or, if higher, the average of



the AIM award amounts beginning three years immediately preceding the change in control and ending on the termination date. In addition, each NEO is entitled to a lump sum payment equal to, in the case of the CEO, Chief Financial Officer and the General Counsel, three times the target PSP award for the year of termination multiplied by the share price received in the change in control transaction or, if higher, the average of the three awards beginning three years immediately preceding the change in control event and ending on the termination date. For Sector Presidents and Senior Vice Presidents (including Messrs. Lamach and Vasiloff), the calculation to arrive at the severance and target PSP award payment is a two and one-half multiple. For all other officers, the multiple to determine the severance and target PSP award payment is two times. The officers will also be able to participate in the Company's welfare employee benefit programs for the severance period (three years for Messrs. Henkel and McLevish and Ms. Nachtigal and two and one-half years for Messrs. Lamach and Vasiloff). For purposes of calculating the officer's non-qualified pension benefits, three years will be added to both the officer's age and service with the Company under the EOSP Plans. For post-retirement welfare benefits, the officer will be credited with any combination of additional years of service and age, not exceeding 10 years, to the extent necessary to qualify for such benefits. Subject to certain limitations, the Company would pay the excise taxes incurred by the individual as a result of the change in control payment.

*Enhanced Retirement Benefits.* An employee is vested in EOSP Plan II upon the earlier of (i) the attainment of age 55 and the completion of 5 years of service, (ii) attainment of age 62, (iii) death or (iv) change in control. A termination within two years following a change in control also triggers the payment of an enhanced benefit (as described above). Benefits under the EOSP Plans are forfeited in the event of termination for cause. In order to be eligible for an EOSP Plan benefit in the event of disability, a participant must remain disabled until age 65. An employee becomes vested in both the Pension Plan and the Supplemental Pension Plan II upon the completion of 5 years of service. To be entitled to a benefit under either the EOSP Plan I or Supplemental Pension Plan I, an employee had to have met the vesting criteria outlined above for each plan as of December 31, 2004. As of December 31, 2006, Messrs. Lamach and McLevish were not vested in the EOSP Plans, the Supplemental Pension Plans or the Pension Plan.

The MIU Plan follows the vesting requirements of the Pension Plan (5 years of service). Mr. Vasiloff and Ms. Nachtigal, the only NEOs who participate in this plan, are both vested. In addition, under the terms of the 10-Year Annuity Plan, Ms. Nachtigal is vested and would be ineligible for the benefit only if she was terminated for cause. Mr. Henkel, the only other NEO covered under the 10-Year Annuity Plan, must work until age 62 in order to be vested in the benefit. The only other circumstances under which he would be entitled to this benefit would be in the event of involuntary termination without cause or termination within two years following a change in control.

*Health Benefits.* In the event of a change in control, health benefits are provided, which include the cost of both active health and welfare benefits for the severance period (three years for Messrs. Henkel and McLevish and Ms. Nachtigal and two and one-half years for Messrs. Lamach and Vasiloff), as well as retiree medical, if applicable. In order to qualify for retiree medical benefits, an employee must have attained age 55 and completed 15 years of service at the time of termination and must have their age and years of service as of December 31, 2003, when added together, equal 50. Pursuant to his employment agreement, Mr. Henkel is eligible for retiree medical coverage at termination. In the event of termination without cause, the NEOs who are not eligible for retiree medical coverage would receive subsidized COBRA benefits for one year. For the three retirement eligible NEOs (Messrs. Henkel and Vasiloff and Ms. Nachtigal) the cost of coverage under the change in control scenario is less than under the other scenarios (except death) due to the coverage under health and welfare benefits for active employees for a period of three years, which would place such NEOs at a closer point in time to eligibility for Medicare coverage, at which point Medicare becomes the primary coverage and the Company's insurance becomes secondary. In the event of death, only married, retirement eligible participants (Messrs. Henkel and Vasiloff) would be eligible to have health benefits extended to their beneficiaries.



## POST EMPLOYMENT BENEFITS TABLE

<u>Compensation Components</u>	<u>Voluntary Resignation/ Retirement (\$)</u>	<u>Involuntary Without Cause (\$)</u>	<u>Involuntary With Cause (\$)</u>	<u>Change in Control (\$)</u>	<u>Disability (\$)</u>	<u>Death (\$)</u>
<b>Severance</b>						
Henkel .....	—	8,400,000	—	11,250,000	—	—
McLevish .....	—	550,000	—	3,173,800	—	—
Lamach .....	—	1,176,000	—	2,793,000	—	—
Vasiloff .....	—	—	—	2,622,000	—	—
Nachtigal .....	—	—	—	2,456,200	—	—
<b>2006 Earned But Unpaid AIM Award (a)</b>						
Henkel .....	—	—	—	2,100,000	—	—
McLevish .....	—	—	—	495,000	—	—
Lamach .....	—	—	—	441,000	—	—
Vasiloff .....	—	—	—	414,000	—	—
Nachtigal .....	—	—	—	329,000	—	—
<b>PSP Award Payout</b>						
Henkel .....	—	—	—	16,367,940	—	—
McLevish .....	—	—	—	2,901,145	—	—
Lamach .....	—	—	—	2,135,240	—	—
Vasiloff .....	—	—	—	2,585,766	—	—
Nachtigal .....	—	—	—	2,002,778	—	—
<b>Value of Accelerated Vesting of Options (b)</b>						
Henkel .....	—	—	—	349,402	—	—
McLevish .....	—	—	—	93,174	—	—
Lamach .....	—	—	—	69,880	—	—
Vasiloff .....	—	—	—	69,880	—	—
Nachtigal .....	—	—	—	62,116	—	—
<b>Enhanced Retirement Benefits (c)</b>						
Henkel .....	—	—	—	7,930,376	—	—
McLevish .....	—	—	—	965,325	—	—
Lamach .....	—	—	—	—	—	—
Vasiloff .....	—	—	—	1,749,302	—	—
Nachtigal .....	—	—	—	1,245,423	—	—
<b>Outplacement (d)</b>						
Henkel .....	—	20,000	—	100,000	—	—
McLevish .....	—	20,000	—	100,000	—	—
Lamach .....	—	20,000	—	100,000	—	—
Vasiloff .....	—	20,000	—	100,000	—	—
Nachtigal .....	—	20,000	—	100,000	—	—
<b>Health Benefits (e)</b>						
Henkel .....	120,000	120,000	120,000	113,000	120,000	66,000
McLevish .....	—	10,591	—	30,000	—	—
Lamach .....	—	10,591	—	30,000	—	—
Vasiloff .....	143,000	143,000	143,000	137,000	143,000	77,000
Nachtigal .....	53,000	53,000	53,000	64,000	53,000	—
<b>Tax Gross-Up (f)</b>						
Henkel .....	—	—	—	20,949,587	—	—
McLevish .....	—	—	—	3,707,819	—	—
Lamach .....	—	—	—	2,694,728	—	—
Vasiloff .....	—	—	—	2,916,041	—	—
Nachtigal .....	—	—	—	2,691,332	—	—
<b>Total Direct Cost to Company</b>						
Henkel .....	120,000	8,540,000	120,000	59,160,305	120,000	66,000
McLevish .....	—	580,591	—	11,466,263	—	—
Lamach .....	—	1,206,591	—	8,263,848	—	—
Vasiloff .....	143,000	163,000	143,000	10,593,989	143,000	77,000
Nachtigal .....	53,000	73,000	53,000	8,950,849	53,000	—

- (a) These amounts represent the earned but unpaid AIM awards at target since the Company's fiscal 2006 results were not determinable at December 31, 2006, the date the change in control is assumed to have occurred.
- (b) These amounts represent the in-the-money value of options that would be immediately vested as a result of a termination following a change in control. As set forth in the Incentive Stock Plan of 1998, this value was determined by multiplying the number of unvested options by the difference between the highest fair market value of the Class A common shares during the 60-day period preceding the change in control (\$40.75) and the relevant option exercise price.
- (c) Amounts for Mr. Henkel and Ms. Nachtigal also include the value of 10-Year Annuity Plan. In the event of a change in control of the Company and a termination of the NEOs, the present value of the pension benefits under the EOSP Plans, Supplemental Pension Plans and 10-Year Annuity Plan would be paid out as lump sums.
- (d) For a three year period following a change in control, the Company will reimburse the NEOs for all reasonable expenses actually incurred for professional outplacement services by qualified consultants, subject to a maximum amount of \$100,000. In the event of any other termination without cause, the NEOs would be eligible for outplacement services for a six month period provided that the sum of these services cannot exceed \$20,000.
- (e) For the severance period following a change in control, the Company will continue to cover the cost of the active health benefits for the NEOs. Of the NEOs, only Messrs. Henkel and Vasiloff and Ms. Nachtigal are entitled to retiree medical coverage. In the event of termination without cause, the NEOs who are not eligible for retiree medical coverage would have subsidized COBRA for one year.
- (f) Pursuant to the change in control agreements, if any payment or distribution by the Company to the NEOs is determined to be subject to the excise tax imposed under Section 4999 of the Code, they would be entitled to receive from the Company a payment in an amount sufficient to place them in the same after-tax financial position that they would have been if they had not incurred any excise tax.

### Equity Compensation Plan Information

The following table provides information as of December 31, 2006, with respect to the Company's Class A common shares that may be issued under equity compensation plans:

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights*</u>	<u>Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights</u>	<u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column*</u>
Equity compensation plans approved by security holders .....	19,164,942	\$31.53	17,185,581
Equity compensation plans not approved by security holders .....	—	—	—
Total .....	19,164,942	\$31.53	17,185,581

\* Does not reflect 272,687 shares that have been earned by plan participants who have elected to defer the distribution of such shares.

## CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

The Company does not generally engage in transactions in which its executive officers, directors or nominees for directors, any of their immediate family members or any of its 5% stockholders have a material interest. Pursuant to the Company's written related person transaction policy, any such transaction must be reported to management, which will prepare a summary of the transaction and refer it to the Corporate Governance and Nominating Committee for consideration and approval by the disinterested directors. The Corporate Governance and Nominating Committee reviews the material terms of the related person transaction, including the dollar values involved, the relationships and interests of the parties to the transaction and the impact, if any, to a director's independence. The Corporate Governance and Nominating Committee only approves those transactions that are in the best interest of the Company. In addition, the Company's Code of Conduct, which sets forth standards applicable to all employees, officers and directors of the Company, generally proscribes transactions that could result in a conflict of interest for the Company. Any waiver of the Code of Conduct for any executive officer or director requires the approval of the Company's Board of Directors. Any such waiver will, to the extent required by law or the NYSE, be disclosed on the Company's website at [www.ingersollrand.com](http://www.ingersollrand.com) or on a current report on Form 8-K. No such waivers were granted in 2006.

The Company offers a relocation program (the "Relocation Program") through a third-party provider for employees who relocate at the Company's request and, in appropriate circumstances, to new employees who relocate in connection with their employment by the Company. The Company believes this program offers a valuable incentive to attract and retain key employees. The Relocation Program provides a relocating employee who is eligible for benefits under the Relocation Program with financial assistance, both in selling his or her existing home and in purchasing a new residence.

In 2006, Mr. Henkel received benefits under the Relocation Program in connection with his relocation to corporate offices in North Carolina. In 2006, Mr. Henkel sold his home to the relocation company pursuant to the Relocation Program for \$3,612,500 based on the appraised value of the home. In 2007, the relocation company sold the home for \$3,760,000. In connection with the sale, the Company paid the relocation company the difference between the purchase price paid to Mr. Henkel and the net proceeds from the final sale price (\$150,735). The Company also paid the relocation company an additional amount of \$84,489, representing related out-of-pocket expenses associated with the acquisition of Mr. Henkel's home and carrying costs (e.g., taxes, maintenance, utilities and insurance).

We have not made payments to directors other than the fees to which they are entitled as directors (described under the heading "Compensation of Directors") and the reimbursement of expenses relating to their services as directors. We have made no loans to any director or officer nor have we purchased any shares of the Company from any director or officer.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and officers, and persons who beneficially own more than ten percent of the Company's common stock, to file reports of ownership and reports of changes in ownership with the SEC and the NYSE. To the Company's knowledge, based solely on its review of such forms received by the Company and written representations that no other reports were required, all Section 16(a) filing requirements were complied with for the year 2006, except that (1) nine executive officers, Messrs. J. Bolch, H. Henkel, M. Lamach, T. McLevish, R. Pedtke, M. Ryan, S. Shawley, C. Vasiloff and Ms. P. Nachtigal, inadvertently failed to timely file one report of a transaction related to the annual grant of stock options in February 2006, (2) two executive officers, Mr. C. Vasiloff and Ms. P. Nachtigal inadvertently failed to timely file one report of a transaction related to the crediting of Class A common share equivalents into Mr. Vasiloff's and Ms. Nachtigal's MIU accounts in September 2006, (3) each non-employee director inadvertently failed to timely file one report of a transaction relating to the crediting of Class A common share equivalents into their respective Deferred Compensation Accounts in September 2006 and (4) three executive officers, Messrs. Randall, Shawley and Vasiloff, inadvertently failed to timely file one report of a transaction related to the crediting of Class A common share equivalents in connection with deferred compensation under the EDCP Plans in February 2006. In each case, a Form 4 was filed promptly following the discovery of the omission.

## SHAREHOLDER PROPOSALS AND NOMINATIONS

Any proposal by a shareholder intended to be presented at the 2008 annual general meeting of shareholders of the Company must be received by the Company at the offices of Ingersoll-Rand Company at 155 Chestnut Ridge Road (P.O. Box 0445), Montvale, New Jersey 07645, Attn: Secretary, no later than December 20, 2007, for inclusion in the proxy materials relating to that meeting. Any such proposal must meet the requirements set forth in the rules and regulations of the SEC, including Rule 14a-8, in order for such proposals to be eligible for inclusion in our 2008 proxy statement.

The Company's Bye-laws, as amended, set forth procedures to be followed by shareholders who wish to nominate candidates for election to the Board in connection with annual general meetings of shareholders or pursuant to written shareholder consents or who wish to bring other business before a shareholders' general meeting. All such nominations must be made following written notice to the Secretary of the Company accompanied by certain background and other information specified in the Bye-laws. In connection with any annual general meeting, written notice of a shareholder's intention to make such nominations must be given to the Secretary of the Company not later than the date which is 90 days in advance of the anniversary of the immediately preceding annual general meeting or, if the date of the annual general meeting occurs more than 30 days before, or 60 days after, the anniversary of such immediately preceding annual general meeting, not later than the seventh day after the date on which notice of such annual general meeting is given.

The Corporate Governance and Nominating Committee will consider all shareholder recommendations for candidates for Board membership, which should be sent to the Committee, care of the Secretary of the Company, at the address set forth above. In addition to considering candidates recommended by shareholders, the Committee considers potential candidates recommended by current directors, Company officers, employees and others. As stated in the Company's Corporate Governance Guidelines attached as Appendix A to this proxy statement, all candidates for Board membership are selected based upon their judgment, character, achievements and experience in matters affecting business and industry. Candidates recommended by shareholders are evaluated in the same manner as director candidates identified by any other means.

In order for you to bring other business before a shareholder general meeting, timely notice must be received by the Secretary of the Company within the time limits described above. The notice must include a description of the proposed item, the reasons you believe support your position concerning the item, and other specified matters. These requirements are separate from and in addition to the requirements you must meet to have a proposal included in our proxy statement. The foregoing time limits also apply in determining whether notice is timely for purposes of rules adopted by the SEC relating to the exercise of discretionary voting authority.

If a shareholder wishes to communicate with the Board of Directors for any other reason, all such communications should be sent in writing, care of the Secretary of the Company, or by email at *irboard@irco.com*.

## HOUSEHOLDING

SEC rules permit a single set of annual reports and proxy statements to be sent to any household at which two or more shareholders reside if they appear to be members of the same family. Each shareholder continues to receive a separate proxy card. This procedure is referred to as householding. While the Company does not household in mailings to its shareholders of record, a number of brokerage firms with account holders who are Company shareholders have instituted householding. In these cases, a single proxy statement and annual report will be delivered to multiple shareholders sharing an address unless contrary instructions have been received from the affected shareholders. Once a shareholder has received notice from his or her broker that the broker will be householding communications to the shareholder's address, householding will continue until the shareholder is notified otherwise or until the shareholder revokes his or her consent. If at any time a shareholder no longer wishes to participate in householding and would prefer to receive a separate proxy statement and annual report, he or she should notify his or her broker. Any shareholder can receive a copy of the Company's proxy statement and annual report by contacting the Company at Ingersoll-Rand Company, 155 Chestnut Ridge Road, Montvale, New Jersey 07645, Attention: Secretary or by accessing it at the Company's website at [www.ingersollrand.com](http://www.ingersollrand.com).

Shareholders who hold their shares through a broker or other nominee who currently receive multiple copies of the proxy statement and annual report at their address and would like to request householding of their communications should contact their broker.

Dated: April 23, 2007

## INGERSOLL-RAND COMPANY LIMITED

### CORPORATE GOVERNANCE GUIDELINES

The following corporate governance guidelines and the charters of the committees of the Board of Directors of the Company, have been approved by the Board of Directors and provide the framework for the corporate governance of the Company.

#### **Role of the Board of Directors**

The Company's business is managed under the direction of the Board of Directors. The Board delegates to the Chief Executive Officer, and through that individual to other senior management, the authority and responsibility for managing the Company's business. The Board's role is to oversee the management and governance of the Company and to monitor senior management's performance.

Among the Board's core responsibilities are to:

- Select individuals for Board membership and evaluate the performance of the Board, Board committees and individual directors.
- Select, monitor, evaluate and compensate senior management.
- Assure that management succession planning is adequate.
- Review and approve significant corporate actions.
- Review and monitor implementation of management's strategic plans.
- Review and approve the Company's annual operating plans and budgets.
- Monitor corporate performance and evaluate results compared to the strategic plans and other long-range goals.
- Review the Company's financial controls and reporting systems.
- Review and approve the Company's financial statements and financial reporting.
- Review the Company's ethical standards and legal compliance programs and procedures.
- Monitor relations with shareholders, employees, and the communities in which the Company operates.

#### **Board Size and Composition**

The Board of Directors is comprised of such number of directors as the Board deems appropriate to function efficiently as a body, subject to the Company's Bye-Laws. The Corporate Governance and Nominating Committee reviews the composition of the full Board to identify the qualifications and areas of expertise needed to further enhance the composition of the Board, makes recommendations to the Board concerning the appropriate size and needs of the Board and, on its own or with the assistance of management or others, identifies candidates with those qualifications.

The Board is made up of a substantial majority of independent, non-employee directors. The Board considers that the Bermuda law requiring two directors to be officers of the Company should be the maximum number of employee directors. The Board establishes principles and procedures to determine whether or not any particular director is independent in accordance with applicable regulations and the requirements of the New York Stock Exchange. The standards currently in effect for determining the independence of individual directors are attached as Exhibit I to these Corporate Governance Guidelines.

## Selection of Directors

Under the Bye-Laws, the Board of Directors has authority to fill vacancies in the Board and to nominate candidates for election by the shareholders. The screening process is done by the Corporate Governance and Nominating Committee with direct input from the Chairman and CEO and from the other directors and from time to time with the assistance of director search firms. In considering candidates for director, the Corporate Governance and Nominating Committee will take into account all factors it considers appropriate, including, among other things, breadth of experience, understanding of business and financial issues, ability to exercise sound judgment, diversity, leadership, and achievements and experience in matters affecting business and industry. The Corporate Governance and Nominating Committee considers the entirety of each candidate's credentials and believes that at a minimum each nominee should satisfy the following criteria: highest character and integrity, experience and understanding of strategy and policy-setting, sufficient time to devote to Board matters, and no conflict of interest that would interfere with performance as a director. Shareholders may recommend candidates for Board membership for consideration by the Corporate Governance and Nominating Committee. Such recommendations should be sent to the Committee, care of the Secretary of the Company. Candidates recommended by shareholders are evaluated in the same manner as director candidates identified by any other means.

## Chairman of the Board and CEO

The positions of Chairman of the Board and CEO are held by the same person, except in unusual circumstances. This policy has worked well for the Company. It is the Board's view that the Company's corporate governance principles, the quality, stature and substantive business knowledge of the members of the Board of Directors, as well as the Board's culture of open communication with the CEO and senior management are conducive to Board effectiveness with a combined Chairman and CEO position.

## Committees of the Board

The Board of Directors has the following committees: Audit, Compensation, Corporate Governance and Nominating, and Finance. All committees have written, Board-approved charters detailing their responsibilities. Only non-employee directors serve on these committees. Chairpersons and members of these four committees are rotated periodically, as appropriate. At each meeting of the Audit Committee, committee members meet privately with representatives of the Company's independent auditors, and with the Company vice president responsible for the internal audit function.

The Audit Committee meets at least five times each year, the Compensation and Finance Committees each meet at least four times each year and the Corporate Governance and Nominating Committee meets at least three times each year. Additional committee meetings are called as required.

## Board Agenda and Meetings

The Chairman and Chief Executive Officer establishes the agendas for the Board meetings in conjunction with the lead director. Each director is free to suggest items for inclusion in the agenda, and each director is free to raise at any Board meeting subjects that are not on the agenda for that meeting. Board materials relating to agenda items are provided to Board members in advance of meetings to allow the directors to prepare for discussion of matters at the meeting. The Board reviews and approves the Company's yearly operating plan and specific financial goals at the start of each year, and the Board monitors performance throughout the year. The Board also reviews the Company's long-range strategic plan regularly. At an expanded Board meeting once a year, the Board reviews in depth the long-range strategic plan. At the expanded meeting, it also reviews senior management development and succession planning.

Management presentations are made to the Board and its committees regularly on various aspects of the Company's operations. The directors have unrestricted access to management and corporate staff.

## Executive Sessions of Non-employee Directors

The non-employee directors meet privately in executive sessions to review the performance of the CEO and to review recommendations of the Compensation Committee concerning compensation for the employee



directors. The non-employee directors also meet as necessary, but at least twice a year, in executive session to consider such matters as they deem appropriate without management being present.

### **Lead Director**

It is the policy of the Board that a Lead Director be appointed annually on a rotating basis from among the independent directors not concurrently serving as a chair of a Board committee. The Lead Director (a) presides at all meetings of the directors at which the Chairman is not present, including executive sessions of the independent directors; (b) serves as a liaison between the Chairman and the independent directors; (c) approves the information sent to the directors; (d) with input from the other independent directors, approves Board meeting agendas and Board meeting schedules to assure that there is sufficient time for discussion of all agenda items; (e) has the authority to call meetings of the independent directors; and (f) is available for direct communication from major shareholders.

### **Director Orientation and Continuing Education**

In order to become familiar with the Company, as well as the functioning of the Board of Directors, newly-appointed directors receive a variety of materials, including a Directors' Handbook, which provide an overview of the Company, its operations and organization. They are also provided with access to key management personnel to provide additional information, including significant issues currently facing the Company. Management will also maintain a program to keep directors up to date on legal, regulatory and other matters relevant to their positions as directors of a large publicly-held corporation.

### **Director Compensation and Stock Ownership**

The Corporate Governance and Nominating Committee periodically reviews the Board of Directors' compensation and benefits and compares them with director compensation and benefits at peer companies. It is the Board of Directors' policy that a significant portion of director compensation is in the form of IR shares or share equivalent units. Annually, \$95,000 of the director's compensation is mandatorily deferred into Company stock, which cannot be sold or transferred until the director's resignation or retirement. It is also the policy of the Board that directors' fees be the sole compensation received from the Company by any non-employee director.

### **CEO Performance Evaluation**

At the beginning of each year, the CEO presents his performance objectives for the upcoming year to the non-employee directors for their approval. At the end of the year, the non-employee directors then meet privately to discuss the CEO's performance for the current year against his performance objectives. The non-employee directors use this performance evaluation in the course of their deliberations when considering the compensation of the CEO. The non-employee directors and the CEO then meet to review the CEO's performance evaluation and compensation.

### **Chief Executive Officer Succession**

The Board of Directors views CEO selection as one of its most important responsibilities. To assist the Board in succession planning, the CEO reports at least annually to the Board providing an assessment of senior managers and their potential to succeed the CEO, either in the event of a sudden emergency or in anticipation of the CEO's future retirement.

### **Director Retirement**

Each non-employee director must retire at the annual general meeting immediately following his or her 72<sup>nd</sup> birthday. Directors who change the occupation they held when initially elected must offer to resign from the Board. At that time, the Corporate Governance and Nominating Committee reviews the continued appropriateness of Board membership under the new circumstances and makes a recommendation to the Board. Employee directors, including the CEO, must retire from the Board at the time of a change in their status as an officer of the Company, unless the policy is waived by the Board.

## **Board and Board Committee Performance Evaluation**

With the goal of increasing the effectiveness of the Board of Directors and its relationship to management, the Corporate Governance and Nominating Committee assists the Board in evaluating its performance as a whole and the performance of its committees. Each Board committee is also responsible for conducting an annual evaluation of its performance. The effectiveness and contributions of individual directors are considered each time a director stands for renomination.

## **Board Memberships**

The CEO and other members of senior management must seek the approval of the Board (or the Board committee to which this responsibility has been delegated), before accepting outside board memberships with for-profit entities.

Non-employee directors must advise the Chairman of the Board and the Chair of the Corporate Governance and Nominating Committee if they are being considered for election or appointment to a board of directors of another publicly-held company. The Corporate Governance and Nominating Committee will determine whether the new board membership is compatible with continued service on the Company's Board.

## **Independent Advice**

The Board or a committee of the Board may seek legal or other expert advice from a source independent of management. Generally, this would be with the knowledge of the CEO.

## **Code of Conduct**

The Company will maintain a code of business conduct and ethics which will articulate for employees, shareholders, customers and suppliers the standards of conduct, including conflicts of interest matters, to which the Company expects to adhere. Directors will also be required to abide by the code of conduct. Any waivers of the conflict of interest requirements of such code in favor of a director or executive officer will be subject to approval by the Board. In the case of the consideration of such a waiver in favor of a director, such director shall not participate in the deliberation or vote relating to such waiver.

## **Internal Audit Function**

The Company will maintain an internal audit function whose head will report directly to the CFO or CEO. The internal audit function is responsible for bringing a systematic, disciplined approach to evaluate the effectiveness of risk management, control and governance processes. Its duties include monitoring the compliance by Company operations with the Company's internal controls and identifying any deficiencies in the design or operation of such internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data.

*Guidelines for Determining Independence of Directors*

(A) A director will not be deemed “independent” if: (i) the director is affirmatively determined by the board of directors of the Company to have a material relationship to the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company); (ii) the director is or was within the last three years employed by the Company or any of its subsidiaries; (iii) an immediate family member of the director is or was within the last three years employed by the Company or any of its subsidiaries as an executive officer; (iv) the director or an immediate family member of the director has received during any twelve-month period within the last three years more than \$100,000 in direct compensation (other than director and Board committee fees and pension or other forms of deferred compensation not contingent on continued service as a director from the Company and its subsidiaries), provided, however that for purposes of this subparagraph (iv), compensation received by an immediate family member for service as an employee of the Company (other than an executive officer) shall not be included in determining a director’s independence; (v) the director, or an immediate family member of the director, is a current partner of a firm that is the Company’s internal or external auditor; (vi) the director is a current employee of such audit firm; (vii) an immediate family member of the director is a current employee of such audit firm and participates in the firm’s audit, assurance or tax compliance (but not tax planning) practice; (viii) the director or an immediate family member of the director was within the last three years (but is no longer) a partner or employee of such audit firm and personally worked on the Company’s audit within that time; (ix) an executive officer of the Company is or was within the last three years on the compensation committee of the board of directors of a company that employed the director, or an immediate family member of the director, as an executive officer at the same time; or (x) the director is a current employee, or has an immediate family member who is a current executive officer, of a company or tax exempt organization having any of the relationships with the Company described in paragraph (B) below.

(B) The following commercial or charitable relationships will not be considered to be material relationships that would impair a director’s independence: (i) if a director is a current employee, or an immediate family member of a director is a current executive officer, of another company that has made payments to, or receives payments from, the Company for property or services in an amount which, in any of the last three fiscal years, is \$1 million or less, or, if greater, is less than 2% of the annual revenues of that other company; or (ii) if a director is a current employee, or an immediate family member of a director is a current executive officer, of a tax exempt organization, and the Company’s discretionary charitable contributions to the organization in the aggregate are less than \$1 million or, if greater, less than 2% of that organization’s consolidated gross revenues. (The amount of any “match” of charitable contributions under the Company’s matching gifts program will not be included in calculating the amount of the Company’s contributions for this purpose.) The Board will annually review all commercial and charitable relationships of directors.

(C) For relationships other than those of the types described in (A) and (B), the determination of whether the director has a material relationship with the Company, and therefore may not be independent, will be made in good faith by the directors who satisfy the guidelines set forth in such preceding paragraphs.

(D) For purposes of these guidelines the term “immediate family member” includes an individual’s spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares such individual’s house.

(E) For purposes of these guidelines the term “executive officer” shall have the same meaning as the term “officer” in Rule 16a-1(f) of the Securities Exchange Act of 1934.

**INGERSOLL-RAND COMPANY LIMITED**  
**INCENTIVE STOCK PLAN OF 2007**

**1. Purpose of the Plan**

The purpose of the Plan is to aid the Company and its Affiliates in recruiting and retaining key employees and directors and to motivate such employees and directors to exert their best efforts on behalf of the Company and its Affiliates by providing incentives through the granting of Awards. The Company expects that it will benefit from the added interest which such key employees and directors will have in the welfare of the Company as a result of their proprietary interest in the Company's success.

**2. Definitions**

The following capitalized terms used in the Plan have the respective meanings set forth in this Section:

- (a) *Act*: The Securities Exchange Act of 1934, as amended, or any successor thereto.
- (b) *Affiliate*: With respect to the Company, any Person or entity directly or indirectly controlling, controlled by, or under common control with, the Company or any other Person or entity designated by the Board in which the Company or an Affiliate has an interest.
- (c) *Associate*: With respect to a specified Person, means (i) any corporation, partnership, or other organization of which such specified Person is an officer or partner; (ii) any trust or other estate in which such specified Person has a substantial beneficial interest or as to which such specified Person serves as trustee or in a similar fiduciary capacity; (iii) any relative or spouse of such specified Person, or any relative of such spouse who has the same home as such specified Person, or who is a director or officer of the Company or any of its Subsidiaries; and (iv) any Person who is a director, officer, or partner of such specified Person or of any corporation (other than the Company or any wholly-owned Subsidiary), partnership or other entity which is an Affiliate of such specified person.
- (d) *Award*: An Option, Stock Appreciation Right or Other Stock-Based Award granted pursuant to the Plan.
- (e) *Beneficial Owner*: A "beneficial owner", as such term is defined in Rule 13d-3 under the Act (or any successor rule thereto) *provided, however*, that any individual, corporation, partnership, group, association or other Person or entity which has the right to acquire any of the Company's outstanding securities entitled to vote generally in election of directors at any time in the future, whether such right is contingent or absolute, pursuant to any agreement, arrangement or understanding or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed the Beneficial Owner of such securities.
- (f) *Board*: The Board of Directors of the Company.
- (g) *Change in Control*: The date (i) any individual, corporation, partnership, group, association or other person or entity, together with its Affiliates and Associates (other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or Ingersoll-Rand Company, a New Jersey corporation), is or becomes the Beneficial Owner of securities of the Company representing 30% or more of the combined voting power of the Company's Voting Securities; (ii) the Continuing Directors fail to constitute a majority of the members of the Board; (iii) of consummation of any transaction or series of transactions under which the Company is merged or consolidated with any other company which is not an Affiliate; (iv) of any sale, lease, exchange or other transfer, in one transaction or a series of related transactions, of all, or substantially all, of the assets of the Company, other than any sale, lease, exchange or other transfer to any Person or entity where the Company owns, directly or indirectly, at least 80% of the combined voting power of the Voting Securities of such Person or entity or its parent corporation after any such transfer; or (v) any other event that the Continuing Directors determine to be a Change in Control; *provided, however*, that in the case of a transaction described in (i), (iii) or (v), above, there shall not be a

Change in Control if the shareholders of the Company immediately prior to any such transaction own (or continue to own by remaining outstanding or by being converted into Voting Securities of the surviving entity or parent entity) more than 50% of the combined voting power of the Voting Securities of the Company, the surviving entity or any parent of either immediately following such transaction, in substantially the same proportion to each other as prior to such transaction.

(h) *Code*: The Internal Revenue Code of 1986, as amended, or any successor thereto.

(i) *Committee*: The Compensation Committee of the Board (or a subcommittee thereof), or such other committee of the Board (including, without limitation, the full Board) to which the Board has delegated power to act under or pursuant to the provisions of the Plan.

(j) *Company*: Ingersoll-Rand Company Limited, a Bermuda company.

(k) *Continuing Directors*: A director who either was a member of the Board on December 1, 2006 or who became a member of the Board subsequent to such date and whose election, or nomination for election by the Company's shareholders, was Duly Approved by the Continuing Directors on the Board at the time of such nomination or election, either by a specific vote or by approval of the proxy statement issued by the Company on behalf of the Board in which such person is named as nominee for director, without due objection to such nomination, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person or entity other than the Board.

(l) *Duly Approved by the Continuing Directors*: An action approved by the vote of at least two-thirds of the Continuing Directors then on the Board.

(m) *Effective Date*: June 1, 2007.

(n) *Fair Market Value*: On a given date, (i) if there should be a public market for the Shares on such date, the average between the high and low price of the Shares as reported on such date on the Composite Tape of the principal national securities exchange on which such Shares are listed or admitted to trading, or, if the Shares are not listed or admitted on any national securities exchange, the arithmetic mean of the per Share closing bid price and per Share closing asked price on such date as quoted on the National Association of Securities Dealers Automated Quotation System (or such market in which such prices are regularly quoted) (the "NASDAQ"), or, if no sale of Shares shall have been reported on the Composite Tape of any national securities exchange or quoted on the NASDAQ on such date, then the immediately preceding date on which sales of the Shares have been so reported or quoted shall be used, and (ii) if there should not be a public market for the Shares on such date, the Fair Market Value shall be the value established by the Committee in good faith.

(o) *Full Value Awards*: Awards of Shares under the Plan (including any future grants of restricted stock or phantom stock) that are not awards of Options, Stock Appreciation Rights or other similar awards.

(p) *ISO*: An Option that is also an incentive stock option granted pursuant to Section 6(d) of the Plan.

(q) *Option*: A stock option granted pursuant to Section 6 of the Plan.

(r) *Option Price*: The purchase price per Share of an Option, as determined pursuant to Section 6(a) of the Plan.

(s) *Other Stock-Based Awards*: Awards granted pursuant to Section 8 of the Plan.

(t) *Participant*: An employee or director who is selected by the Committee to participate in the Plan.

(u) *Performance-Based Awards*: Certain Other Stock-Based Awards granted pursuant to Section 8(b) of the Plan.

(v) *Person*: A "person", as such term is used for purposes of Section 13(d) or 14(d) of the Act (or any successor section thereto), including any Affiliate or Associate of the Company.

(w) *Plan*: The Ingersoll-Rand Company Limited Incentive Stock Plan of 2007.

- (x) *Shares*: Class A common shares of the Company.
- (y) *Stock Appreciation Right*: A stock appreciation right granted pursuant to Section 7 of the Plan.
- (z) *Subsidiary*: A subsidiary corporation, as defined in Section 424(f) of the Code (or any successor section thereto).
- (aa) *Voting Securities*: The outstanding securities entitled to vote generally in election of directors.

### 3. Shares Subject to the Plan

Subject to Section 9, the total number of Shares which may be issued under the Plan is 14,000,000 and the maximum number of Shares for which ISOs may be granted is 20% of the total number of Shares which may be issued under the Plan. Of the total available Shares which may be issued under the Plan, not more than 25% shall be in the form of Full Value Awards. The Shares may consist, in whole or in part, of unissued Shares or treasury Shares. The issuance of Shares upon the exercise of an Award or in consideration of the cancellation or termination of an Award shall reduce the total number of Shares available under the Plan, as applicable. Shares which are subject to Awards that terminate or lapse without the payment of consideration may be granted again under the Plan.

### 4. Administration

The Plan shall be administered by the Committee, which may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of at least two individuals who are intended to qualify as “Non-Employee Directors” within the meaning of Rule 16b-3 under the Act (or any successor rule thereto), “independent directors” within the meaning of The New York Stock Exchange’s listed company rules and “outside directors” within the meaning of Section 162(m) of the Code (or any successor section thereto). Additionally, the Committee may delegate the authority to grant Awards under the Plan to any employee or group of employees of the Company or an Affiliate; *provided, however*, that such delegation and grants are consistent with applicable law and guidelines established by the Committee from time to time. Awards may, in the discretion of the Committee, be made under the Plan in assumption of, or in substitution for, outstanding awards previously granted by a company acquired by the Company or with which the Company and/or any of its Affiliates combines. The number of Shares underlying such substitute awards shall be counted against the aggregate number of Shares available for Awards under the Plan. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan. The Committee may correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems necessary or desirable. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned (including, but not limited to, Participants and their beneficiaries or successors). The Committee shall have the full power and authority to establish the terms and conditions of any Award consistent with the provisions of the Plan and to waive any such terms and conditions at any time (including, without limitation, accelerating or waiving any vesting conditions). The Committee shall require payment of any amount it may determine to be necessary for federal, state, local or other taxes as a result of the exercise, grant or vesting of an Award. The Committee shall not be required to issue any Award under the Plan until such obligations described in the previous sentence have been satisfied in full. In no event shall the Committee cancel any outstanding Option or Stock Appreciation Right for the purpose of reissuing such Option or Stock Appreciation Right to the Participant at a lower exercise price nor shall the Committee reduce the exercise price of an outstanding Option or Stock Appreciation Right.

### 5. Limitations

No Award may be granted under the Plan after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.



## 6. Terms and Conditions of Options

Options granted under the Plan shall be, as determined by the Committee, non-qualified or incentive stock options for United States federal income tax purposes, as evidenced by the related Award letters, and shall be subject to the foregoing and the following terms and conditions and to such other terms and conditions, not inconsistent therewith, as the Committee shall determine:

(a) *Option Price.* The Option Price per Share shall be determined by the Committee, but shall not be less than 100% of the Fair Market Value of a Share on the date an Option is granted (other than as described in Section 4).

(b) *Exercisability.* Options granted under the Plan shall be exercisable at such time and upon such terms and conditions as may be determined by the Committee, but in no event shall an Option be exercisable more than ten years after the date it is granted.

(c) *Exercise of Options.* Except as otherwise provided in the Plan or in an Award letter, an Option may be exercised for all, or from time to time any part, of the Shares for which it is then exercisable. For purposes of Section 6 of the Plan, the exercise date of an Option shall be the later of the date a notice of exercise is received by the Company or its designee or administrative agent in the form and manner satisfactory to the Company and, if applicable, the date payment is received by the Company or its designee or administrative agent in accordance with the following sentence. The purchase price for the Shares as to which an Option is exercised shall be paid to the Company as designated by the Committee, pursuant to one or more of the following methods: (i) in cash or its equivalent (e.g., by personal check) or (ii) if there is a public market for the Shares underlying the Options at such time, through the delivery of irrevocable instructions to a broker to sell Shares obtained upon the exercise of the Option and to deliver promptly to the Company an amount out of the proceeds of such sale equal to the aggregate Option Price for the Shares being purchased.

(d) *ISOs.* The Committee may grant Options under the Plan that are intended to be ISOs. Such ISOs shall comply with the requirements of Section 422 of the Code (or any successor section thereto). No ISO may be granted to any Participant who at the time of such grant, owns more than ten percent of the total combined voting power of all classes of stock of the Company or of any Subsidiary, unless (i) the Option Price for such ISO is at least 110% of the Fair Market Value of a Share on the date the ISO is granted and (ii) the date on which such ISO terminates is a date not later than the day preceding the fifth anniversary of the date on which the ISO is granted. Any Participant who disposes of Shares acquired upon the exercise of an ISO either (A) within two years after the date of grant of such ISO or (B) within one year after the transfer of such Shares to the Participant, shall notify the Company of such disposition and of the amount realized upon such disposition. All Options granted under the Plan are intended to be nonqualified stock options, unless the applicable Award letter expressly states that the Option is intended to be an ISO. If an Option is intended to be an ISO, and if for any reason such Option (or portion thereof) shall not qualify as an ISO, then, to the extent of such nonqualification, such Option (or portion thereof) shall be regarded as a nonqualified stock option granted under the Plan; *provided* that such Option (or portion thereof) otherwise complies with the Plan's requirements relating to nonqualified stock options. In no event shall any member of the Committee, the Company or any of its Affiliates (or their respective employees, officers or directors) have any liability to any Participant (or any other Person) due to the failure of an Option to qualify for any reason as an ISO.

(e) *Rights with Respect to Shares.* No Participant shall have any rights to dividends or other rights of a shareholder with respect to Shares subject to an Option until the Participant has given written notice of exercise of the Option, paid in full for such Shares and, if applicable, has satisfied any other conditions imposed by the Committee pursuant to the Plan.

## 7. Terms and Conditions of Stock Appreciation Rights

(a) *Grants.* The Committee may grant (i) a Stock Appreciation Right independent of an Option or (ii) a Stock Appreciation Right in connection with an Option, or a portion thereof. A Stock Appreciation Right granted



pursuant to clause (ii) of the preceding sentence (A) may only be granted at the time the related Option is granted, (B) shall cover the same number of Shares covered by an Option (or such lesser number of Shares as the Committee may determine) and (C) shall be subject to the same terms and conditions as such Option except for such additional limitations as are contemplated by this Section 7 (or such additional limitations as may be included in an Award letter).

(b) *Terms.* The exercise price per Share of a Stock Appreciation Right shall be an amount determined by the Committee but in no event shall such amount be less than the Fair Market Value of a Share on the date the Stock Appreciation Right is granted (other than as described in Section 4); *provided, however*, that in the case of a Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, the exercise price may not be less than the Option Price of the related Option. Each Stock Appreciation Right granted independent of an Option shall entitle a Participant upon exercise to a number of Shares equal to (1) an amount that is (i) the excess of (A) the opening price of the Shares (as reported on the Composite Tape of the principal national securities exchange on which such shares are listed or admitted to trading) on the exercise date of one Share (the “Opening Price”) over (B) the exercise price per Share, multiplied by (ii) the number of Shares covered by the Stock Appreciation Right, divided by (2) the Opening Price. Each Stock Appreciation Right granted in conjunction with an Option, or a portion thereof, shall entitle a Participant to surrender to the Company the unexercised Option, or any portion thereof, and to receive from the Company in exchange therefore a number of Shares equal to (1) an amount that is (i) the excess of (A) the Opening Price over (B) the Option Price per Share, multiplied by (ii) the number of Shares covered by the Option, or portion thereof, which is surrendered, divided by (2) the Opening Price. Payment shall be made in Shares. Stock Appreciation Rights may be exercised from time to time upon actual receipt by the Company or its designee or administrative agent of written notice of exercise in the form and manner satisfactory to the Company stating the number of Shares with respect to which the Stock Appreciation Right is being exercised. The date a notice of exercise is received by the Company shall be the exercise date. No fractional Shares will be issued in payment for Stock Appreciation Rights, but instead the number of Shares will be rounded downward to the next whole Share.

(c) *Limitations.* The Committee may impose, in its discretion, such conditions regarding the exercisability of Stock Appreciation Rights as it may deem fit, but in no event shall a Stock Appreciation Right be exercisable more than ten years after the date it is granted.

## 8. Other Stock-Based Awards

(a) *Generally.* The Committee, in its sole discretion, may grant or sell Awards of Shares (including (i) Awards of Shares in lieu of any incentive or variable compensation to which a Participant is entitled to from the Company or its Subsidiaries and (ii) Awards of Shares granted to non-employee directors as all or a part of their retainer or other fees for services), Awards of restricted Shares and Awards that are valued in whole or in part by reference to, or are otherwise based on the Fair Market Value of, Shares (“Other Stock-Based Awards”). Such Other Stock-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive, or vest with respect to, one or more Shares (or the equivalent cash value of such Shares) upon the completion of a specified period of service, the occurrence of an event and/or the attainment of performance objectives. Other Stock-Based Awards may be granted alone or in addition to any other Awards granted under the Plan. Subject to the provisions of the Plan, the Committee shall determine to whom and when Other Stock-Based Awards will be made, the number of Shares to be awarded under (or otherwise related to) such Other Stock-Based Awards, and all other terms and conditions of such Awards (including, without limitation, the vesting provisions thereof and provisions ensuring that all Shares so awarded and issued shall be fully paid and non-assessable).

(b) *Performance-Based Awards.* Notwithstanding anything to the contrary herein, certain Other Stock-Based Awards, Options and Stock Appreciation Rights granted under this Section 8 may be granted in a manner which is intended to be deductible by the Company under Section 162(m) of the Code (or any successor section thereto) (“Performance-Based Awards”). A Participant’s Performance-Based Award shall be determined based on the

attainment of written performance goals approved by the Committee for a performance period established by the Committee (i) while the outcome for that performance period is substantially uncertain and (ii) no more than 90 days after the commencement of the performance period to which the performance goal relates or, if less, the number of days which is equal to 25 percent of the relevant performance period. The performance goals, which must be objective, shall be based upon one or more of the following criteria: (i) consolidated earnings before or after taxes (including earnings before interest, taxes, depreciation and amortization); (ii) net income; (iii) operating income; (iv) earnings per Share; (v) book value per Share; (vi) return on shareholders' equity; (vii) expense management; (viii) return on invested capital; (ix) improvements in capital structure; (x) profitability of an identifiable business unit or product; (xi) maintenance or improvement of profit margins or revenue; (xii) stock price; (xiii) market share; (xiv) revenues or sales; (xv) costs; (xvi) available cash flow; (xvii) working capital; (xviii) return on assets; (xix) total shareholder return, (xx) productivity ratios, and (xxi) economic value added. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the performance goals may be calculated without regard to extraordinary items. The maximum amount of a Performance-Based Award during a calendar year to any Participant shall be: (x) with respect to Performance-Based Awards that are Options or Stock Appreciation Rights, 750,000 Shares and (y) with respect to Performance-Based Awards that are not Options or Stock Appreciation Rights, \$10,000,000 on the date of the award. No Performance-Based Awards will be paid for a performance period until certification is made by the Committee that the criteria described in this Section 8(b) has been attained. The amount of the Performance-Based Award actually paid to a given Participant may be less than (but not greater than) the amount determined by the applicable performance goal formula, at the discretion of the Committee. The amount of the Performance-Based Award determined by the Committee for a performance period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such performance period; *provided, however*, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Sections 162(m) and 409A of the Code, elect to defer payment of a Performance-Based Award.

## 9. Adjustments Upon Certain Events

Notwithstanding any other provisions in the Plan to the contrary (except for Section 17), the following provisions shall apply to all Awards granted under the Plan:

(a) *Generally.* In the event of any change in the outstanding Shares after the Effective Date by reason of any reorganization, recapitalization, merger, consolidation, spin-off, combination, combination or transaction or exchange of Shares or other corporate exchange, or any distribution to shareholders of Shares other than regular cash dividends or any transaction similar to the foregoing, the Committee in its sole discretion and without liability to any person shall make such substitution or adjustment, if any, as it deems to be equitable (subject to Section 17), as to (i) the number or kind of Shares or other securities issued or reserved for issuance pursuant to the Plan or pursuant to outstanding Awards, (ii) the maximum number of Shares for which Options or Stock Appreciation Rights may be granted during a calendar year to any Participant (iii) the maximum amount of a Performance-Based Award that may be granted during a calendar year to any Participant, (iv) the Option Price or exercise price of any stock appreciation right and/or (v) any other affected terms of such Awards. In the event of any change in the outstanding Shares after the Effective Date by reason of any stock split (forward or reverse) or any stock dividend, all adjustments described in the preceding sentence shall occur automatically in accordance with the ratio of the stock split or stock dividend, unless otherwise determined by the Committee.

(b) *Change in Control.* The provisions of this Section 9(b) shall apply in the event of a Change in Control, unless otherwise determined by the Committee in connection with the grant of an Award as reflected in the applicable Award letter.

(i) All outstanding Options and Stock Appreciation Rights shall become immediately vested and exercisable;

(ii) All Other Stock-Based Awards shall become immediately vested and payable; and

(iii) The performance period applicable to Performance-Based Awards shall lapse and the performance goals associated with such awards shall be deemed to have been met at their target level. Notwithstanding the foregoing, the Committee may (subject to Section 17), in its sole discretion, but shall not be obligated to, (A) cancel such Awards for fair value (as determined in the sole discretion of the Committee) which, in the case of Options and Stock Appreciation Rights, shall equal the excess, if any, of value of the consideration to be paid in the Change in Control transaction to holders of the same number of Shares subject to such Options or Stock Appreciation Rights (or, if no consideration is paid in any such transaction, the Fair Market Value of the Shares subject to such Options or Stock Appreciation Rights) over the aggregate exercise price of such Options or Stock Appreciation Rights, (B) provide for the issuance of substitute awards that will substantially preserve the otherwise applicable terms of any affected Awards previously granted hereunder as determined by the Committee in its sole discretion or (C) provide that for a period of at least 15 days prior to the Change in Control, such Options and Stock Appreciation Rights shall be exercisable as to all shares subject thereto and that upon the occurrence of the Change in Control, such Options and Stock Appreciation Rights shall terminate and be of no further force and effect.

#### **10. No Right to Employment or Awards**

The granting of an Award under the Plan shall impose no obligation on the Company or any Affiliate to continue the employment or service of a Participant and shall not lessen or affect the Company's or Affiliate's right to terminate the employment or service of such Participant. No Participant or other Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants, or holders or beneficiaries of Awards. The terms and conditions of Awards and the Committee's determinations and interpretations with respect thereto need not be the same with respect to each Participant (whether or not such Participants are similarly situated).

#### **11. Successors and Assigns**

The Plan shall be binding on all successors and assigns of the Company and a Participant, including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.

#### **12. Nontransferability of Awards**

Unless otherwise determined by the Committee, an Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution. An Award exercisable after the death of a Participant may be exercised by the legatees, personal representatives or distributees of the Participant.

#### **13. Amendments or Termination**

The Board may amend, alter or discontinue the Plan, but no amendment, alteration or discontinuation shall be made, (a) without the approval of the shareholders of the Company, if such action would (except as is provided in Section 9 of the Plan), increase the total number of Shares reserved for the purposes of the Plan or change the maximum number of Shares for which Awards may be granted to any Participant or (b) without the consent of a Participant, if such action would diminish any of the rights of the Participant under any Award theretofore granted to such Participant under the Plan; *provided, however*, that the Committee may amend the Plan in such manner as it deems necessary to permit the granting of Awards meeting the requirements of the Code or other applicable laws (including, without limitation, to avoid adverse tax consequences to the Company or to Participants).

#### **14. International Participants**

With respect to Participants who reside or work outside the United States of America and who are not (and who are not expected to be) "covered employees" within the meaning of Section 162(m) of the Code, the

Committee may, in its sole discretion, amend the terms of the Plan or Awards with respect to such Participants in order to conform such terms with the requirements of local law or to obtain more favorable tax or other treatment for a Participant, the Company or an Affiliate.

#### **15. Choice of Law**

The Plan shall be governed by and construed in accordance with the laws of the State of New Jersey without regard to conflicts of laws.

#### **16. Effectiveness of the Plan**

The Plan shall be effective as of the Effective Date, subject to the approval of the shareholders of the Company.

#### **17. Section 409A**

Notwithstanding other provisions of the Plan or any Award letter thereunder, no Award shall be granted, deferred, accelerated, extended, paid out or modified under this Plan in a manner that would result in the imposition of an additional tax under Section 409A of the Code upon a Participant. In the event that it is reasonably determined by the Committee that, as a result of Section 409A of the Code, payments in respect of any Award under the Plan may not be made at the time contemplated by the terms of the Plan or the relevant Award letter, as the case may be, without causing the Participant holding such Award to be subject to taxation under Section 409A of the Code, the Company will make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code.

Without limiting the generality of the foregoing, to the extent applicable, notwithstanding anything herein to the contrary, this Plan and Awards issued hereunder shall be interpreted in accordance with Section 409A of the Code and Department of Treasury regulations and other interpretative guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date. Notwithstanding any provision of the Plan to the contrary, in the event that the Committee determines that any amounts payable hereunder will be taxable to a Participant under Section 409A of the Code and related Department of Treasury guidance prior to payment to such Participant of such amount, the Company may (a) adopt such amendments to the Plan and Awards and appropriate policies and procedures, including amendments and policies with retroactive effect, that the Committee determines necessary or appropriate to preserve the intended tax treatment of the benefits provided by the Plan and Awards hereunder and/or (b) take such other actions as the Committee determines necessary or appropriate to avoid the imposition of an additional tax under Section 409A of the Code.

**DIRECTIONS TO THE MEETING**  
**Hilton Woodcliff Lake**  
**200 Tice Boulevard**  
**Woodcliff Lake, NJ 07677**

**From Garden State Parkway North:**

Exit 171 from the northbound lanes. From exit ramp, turn left onto Glen Road. Turn right onto Chestnut Ridge Road and travel 1/2 mile. Take 2<sup>nd</sup> left onto Tice Boulevard. The hotel is 500 yards on the left.

**From Newark Airport:**

Take NJ Turnpike North to Route 80 West. Follow Route 80 to Saddle Brook Exit and onto Garden State Parkway North. Follow directions for leaving Parkway at Exit 171. –OR– Take Interstate 78 West to Garden State Parkway North, Exit 171. Follow directions for leaving Parkway at Exit 171.

**From LaGuardia Airport:**

Take Grand Central Parkway to Tri-Borough Bridge to Major Deegan Expressway to Interstate 95 West and over George Washington Bridge. Take Route 80 to Saddle Brook Exit and onto Garden State Parkway North. Follow directions for leaving Parkway at Exit 171.

**From JFK Airport**

Van Wyck Expressway North to Grand Central Parkway West to Triboro Bridge. Take Major Deegan Expressway North to George Washington Bridge. Take Route 80 to Garden State Parkway North to Exit 171. Follow directions for leaving the Parkway at Exit 171.

**From Manhattan:**

Take the West Side Highway North to the Henry Hudson Parkway to the George Washington Bridge. From the bridge, take Route 80 West to the Garden State Parkway North to Exit 171 and follow directions for leaving the Parkway at Exit 171.

**From New York State Thruway:**

Follow signs leading to the Garden State Parkway. Take the first exit southbound from the Garden State Parkway for Schoolhouse Road. Turn left off the ramp on to Schoolhouse Road and travel one mile to Summit Avenue. Turn right on to Summit Avenue and proceed approximately one mile to Chestnut Ridge Road. Turn left on to Chestnut Ridge Road and travel approximately one mile. Turn right onto Tice Boulevard. The hotel is 500 yards on the left.



## *2006 Financials*





UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2006**

or

— TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_ to \_\_\_\_

**Commission File No. 1-985**

**INGERSOLL-RAND COMPANY LIMITED**

(Exact name of registrant as specified in its charter)

**Bermuda**

(State or other jurisdiction of  
incorporation or organization)

**75-2993910**

(I.R.S. Employer  
Identification No.)

**Clarendon House**

**2 Church Street**

**Hamilton HM 11, Bermuda**

(Address of principal executive offices)

Registrant's telephone number, including area code: (441) 295-2838

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

**Title of each class**

Class A Common Shares,  
Par Value \$1.00 per Share

**Name of each exchange on which registered**

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES X NO \_\_\_\_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES \_\_\_\_ NO X

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

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

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

Large accelerated filer X Accelerated filer \_\_\_\_ Non-accelerated filer \_\_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES \_\_\_\_ NO X

The aggregate market value of common stock held by nonaffiliates on June 30, 2006 was approximately \$13,896,126,182 based on the closing price of such stock on the New York Stock Exchange.

The number of Class A Common Shares outstanding as of February 21, 2007 was 307,801,047.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement to be filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's Annual General Meeting of Shareholders to be held June 6, 2007 are incorporated by reference into Part III of this Form 10-K.

**INGERSOLL-RAND COMPANY LIMITED**  
**Form 10-K**  
**For the Fiscal Year Ended December 31, 2006**

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## PART I

### Item 1. **BUSINESS**

#### **Overview**

Ingersoll-Rand Company Limited, a Bermuda company (we, our, IR-Limited or the Company), is a leading provider of climate control, compact vehicle, construction, industrial and security products. In each of these markets, we offer a diverse product portfolio that includes well-recognized industrial and commercial brands.

Through our business segments, we design, manufacture, sell and service:

- climate control technologies, including transport temperature control units and refrigerated display merchandisers;
- compact vehicle technologies, including skid-steer loaders, golf vehicles and utility vehicles;
- construction technologies, including road construction and repair equipment;
- industrial technologies, including compressed air systems and tools; and
- security technologies, including mechanical and electronic security products.

Ingersoll-Rand Company (IR-New Jersey) was organized in 1905 under the laws of the State of New Jersey as a consolidation of Ingersoll-Sergeant Drill Company and the Rand Drill Company, whose businesses were established in the early 1870's.

IR-Limited is the successor to IR-New Jersey following a corporate reorganization (the reorganization) that became effective on December 31, 2001. We believe that the reorganization has enabled us to begin to realize a variety of financial and strategic benefits, including to:

- help enhance business growth;
- create a more favorable corporate structure for expansion of our current business;
- improve expected cash flow for use in investing in the development of higher-growth product lines and businesses;
- improve expected cash flow for use in reducing the amount of our debt;
- reduce our worldwide effective tax rate;
- enable us to implement our business strategy more effectively; and
- expand our investor base as our shares may become more attractive to non-U.S. investors.

To consummate the reorganization, IR Merger Corporation, a New Jersey corporation, merged into IR-New Jersey, with IR-New Jersey as the surviving company. Upon the merger, IR-New Jersey became a wholly owned, indirect subsidiary of IR-Limited, and the outstanding shares of IR-New Jersey common stock were automatically cancelled in exchange for the issue of our Class A common shares. The number of Class B common shares issued had an aggregate value equal to the fair market value of the shares of the subsidiaries transferred (the transferred shares) and the amount of debt issued to us based on the market value of IR-New Jersey common stock at the effective time of the merger. Prior to the reorganization, neither IR-Limited nor IR-Merger Corporation had any significant assets or capitalization or engaged in any business or other activities other than in connection with formation and the merger and related reorganization transactions. 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 did not result in any changes to the consolidated amounts of assets, liabilities and shareholders' equity.

## **Business Segments**

### *Climate Control Technologies*

Climate Control Technologies provides solutions for customers to transport, preserve, store and display temperature-sensitive products by engaging in the design, manufacture, sale and service of transport temperature control units, HVAC systems, refrigerated display merchandisers, beverage coolers, auxiliary power units and walk-in storage coolers and freezers. This segment includes the Thermo King and Hussmann brands.

### *Compact Vehicle Technologies*

Compact Vehicle Technologies is engaged in the design, manufacture, sale and service of skid-steer loaders, all-wheel steer loaders, compact track loaders, compact excavators, attachments, golf vehicles and utility vehicles. This segment includes the Bobcat and Club Car brands.

### *Construction Technologies*

Construction Technologies is engaged in the design, manufacture, sale and service of road construction and repair equipment, portable power products, general-purpose construction equipment, attachments and portable light towers and compressors. This segment is comprised of the Utility Equipment, Road Development and Attachments businesses.

### *Industrial Technologies*

Industrial Technologies is focused on providing solutions to enhance customers' industrial and energy efficiency, mainly by engaging in the design, manufacture, sale and service of compressed air systems, tools, fluid and material handling and energy generation systems. This segment includes the Air Solutions and Productivity Solutions businesses.

### *Security Technologies*

Security Technologies is engaged in the design, manufacture, sale and service of mechanical and electronic security products, biometric access control systems, and security and scheduling software. Security Technologies includes the Schlage, LCN, Von Duprin and CISA brands.

## **Competitive Conditions**

The Company's products are sold in highly competitive markets throughout the world and compete against products produced by both U.S. and non-U.S. corporations. The principal methods of competition in these markets relate to price, quality, service and technology. The Company believes that it is one of the leading manufacturers in the world of air compression systems, construction equipment, transport temperature control products, refrigerated display merchandisers, refrigeration systems and controls, air tools, golf vehicles and utility vehicles. In addition, the Company believes it is a leading supplier in U.S. markets for architectural hardware products, mechanical locks, and electronic and biometric access-control technologies.

## **Distribution**

The Company's products are distributed by a number of methods, which the Company believes are appropriate to the type of product. Sales are made in the U.S. through branch sales offices and through distributors and dealers across the United States. Non-U.S. sales are made through numerous subsidiary sales and service companies with a supporting chain of distributors in over 100 countries.

## Products

Principal products of the Company include the following:

Air balancers	Golf vehicles
Air compressors & accessories	Hoists
Air dryers	Hydraulic breakers
Air logic controls	Lubrication equipment
Air motors	Microturbines
Air and electric tools	Material handling equipment
Asphalt compactors	Paving equipment
Asphalt pavers	Piston pumps
Automated dispensing systems	Pneumatic breakers
Automatic doors	Pneumatic cylinders
Auxiliary power unit	Pneumatic valves
Biometric access control systems	Portable compressors
Compact excavators	Portable generators
Compact track loaders	Portable light towers
Compact track-loader-backhoes	Portable security products
Diaphragm pumps	Refrigerated display cases
Door closers and controls	Refrigeration systems
Door locks, latches and locksets	Road-building machinery
Doors and door frames (steel)	Rough-terrain material handlers
Electrical security products	Skid-steer loaders
Electronic access-control systems	Soil compactors
Engine-starting systems	Spray-coating systems
Exit devices	Telescopic material handlers
Extrusion pump systems	Transport temperature control systems
Fastener-tightening systems	Utility vehicles
Fluid-handling equipment	Winches

These products are sold primarily under the Company's name and also under other names including ABG®, Blaw-Knox®, Bobcat®, Bricard®, CISA®, Club Car®, Hussmann®, Koxka®, LCN®, Montabert®, Schlage®, Thermo King®, and Von Duprin®.

## Working Capital

The products manufactured by the Company must usually be readily available to meet rapid delivery requirements. Such working capital requirements are not, however, in the opinion of management, materially different from those experienced by the Company's major competitors.

## Customers

No material part of the Company's business is dependent upon a single customer or a small group of customers. Therefore, the loss of any one customer would not have a material adverse effect on the Company's operations.

## Operations by Geographic Area

More than 40% of our 2006 net revenues were derived outside the United States. Sales outside of the United States are made in more than 100 countries. Therefore, the attendant risks of manufacturing or



selling in a particular country, such as nationalization and establishment of common markets, would not be expected to have a significant effect on the Company's non-U.S. operations. Additional information concerning the Company's operating segments is contained in Note 16, Business Segment Information, to the consolidated financial statements contained in this Annual Report on Form 10-K.

### **Raw Materials**

The Company manufactures many of the components included in its products. The principal raw materials required for the manufacture of the Company's products are purchased from numerous suppliers. Although higher prices for some raw materials important to some of the Company's businesses, particularly steel and non-ferrous metals, have caused pricing pressures, the Company believes that available sources of supply will generally be sufficient for its needs for the foreseeable future.

### **Backlog**

The Company's approximate backlog of orders, believed to be firm, at December 31, 2006 and 2005, were as follows:

<i>Dollar amounts in millions</i>	2006	2005
Climate Control Technologies	\$ 435.8	\$ 331.0
Compact Vehicle Technologies	234.3	162.6
Construction Technologies	175.6	129.7
Industrial Technologies	244.0	178.6
Security Technologies	182.8	140.0
Total	\$ 1,272.5	\$ 941.9

These backlog figures are based on orders received. While the major portion of the Company's products are built in advance of order and either shipped or assembled from stock, orders for specialized machinery or specific customer application are submitted with extensive lead times and are often subject to revision, deferral, cancellation or termination. The Company expects to ship substantially all of the backlog during 2007.

### **Research and Development**

The Company maintains extensive research and development facilities for experimenting, testing and developing high quality products. The Company spent \$175.5 million in 2006, \$162.4 million in 2005 and \$149.2 million in 2004 on research and development expenditures, including qualifying engineering costs. The Company also incurs engineering costs, which are not considered research and development expenditures.

### **Patents and Licenses**

The Company owns numerous patents and patent applications and is licensed under others. While it considers that in the aggregate its patents and licenses are valuable, it does not believe that its business is materially dependent on its patents or licenses or any group of them. In the Company's opinion, engineering and production skills, and experience are more responsible for its market position than patents or licenses.

### **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

remediation activities to address environmental cleanup from past operations at current and former manufacturing facilities.

During 2006, the Company spent approximately \$5 million on capital projects for pollution abatement and control, and an additional \$9.4 million for environmental remediation expenditures at sites presently or formerly owned or leased by the Company. 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 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.

Certain wholly owned subsidiaries of the Company are named as defendants in 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 vast majority of those claims have been filed against IR-New Jersey and 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 asbestos-related claims resolved to date have been dismissed or settled. For the years ended December 31, 2006, 2005 and 2004, total costs for settlement and defense of asbestos claims after insurance recoveries and net of tax were approximately \$31.6 million, \$16.8 million and \$16.5 million, respectively. The increase in asbestos-related costs in 2006 compared with 2005 and 2004 is primarily attributable to revised estimates for future recoveries to be received from the Company's insurance carriers, as well as declining levels of insurance coverage available for cost recoveries. With the assistance of independent advisors, the Company performs a thorough analysis, updated periodically, of its actual and anticipated future asbestos liabilities projected seven years in the future. 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.

Legislation recently under consideration in Congress concerns pending and future asbestos-related personal injury claims. Whether and when such legislation will become law, and the final provisions of such legislation, are unknown. Consequently, the Company cannot predict with any reasonable degree of certainty what effect, if any, such legislation would have upon the Company's financial position, results of operations or cash flows. See also the discussion under Note 15, Commitments and Contingencies, to the consolidated financial statements contained in this Annual Report on Form 10-K.

### **Employees**

There are approximately 43,000 employees of the Company throughout the world, of whom approximately 48% work in the United States. The Company believes relations with its employees are good.

### **Available Information**

The Company files annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 405 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The public can obtain any documents that are filed by the Company at <http://www.sec.gov>.

In addition, this Annual Report on Form 10-K, as well as the Company's quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to all of the foregoing reports, are made available free of charge on the Company's Internet website (<http://www.ingersollrand.com>) as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The Board of Directors of the Company has also adopted and posted in the Investor Relations section of its website the Company's Corporate Governance Guidelines and charters for each of the Board's standing committees. A copy of the above filings will also be provided free of charge upon written request to the Company.

### **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 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 this Annual Report on Form 10-K.

## Item 1A. **RISK FACTORS**

*The following are certain risk factors that could affect our business, financial condition, results of operations, and cash flows. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in forward-looking statements. Before you invest in our publicly traded securities, you should know that making such an investment involves some risks, including the risks described below. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our Class A common shares could decline, and you may lose all or part of your investment.*

### **Risks Relating to Our Businesses**

#### ***Currency exchange rate, commodity price and interest rate fluctuations may adversely affect our results.***

We are exposed to a variety of market risks, including the effects of changes in non-U.S. currency exchange rates, commodity prices and interest rates. See Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

More than 40% of our 2006 net revenues were derived outside the U.S., and we expect sales to non-U.S. customers to continue to represent a significant portion of our consolidated net revenues. Therefore, in the case where we manufacture our products in the U.S. and the U.S. dollar strengthens in relation to the currencies of the countries where we sell those products, such as the euro and Asian currencies, our U.S. dollar reported revenue and income will decrease. Although we enter into currency exchange contracts to reduce our risk related to currency exchange fluctuations, changes in the relative values of currencies occur from time to time and may, in some instances, have a significant effect on our results of operations. Furthermore, the reporting currency for our financial statements is the U.S. dollar. We have assets, liabilities, revenues and expenses denominated in currencies other than the U.S. dollar. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at the applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. Because we do not hedge against all of our currency exposure, our business will continue to be susceptible to currency fluctuations.

We are a large buyer of steel and non-ferrous metals, as well as other commodities required for the manufacture of our products. Volatility in the prices of these commodities could increase the costs of our products and services. We may not be able to pass on these costs to our customers and this could have a material adverse effect on our results of operations and cash flows. On a limited basis, we purchase commodity derivatives which reduce the volatility of the commodity prices for supplier contracts where fixed pricing is not available.

#### ***Material adverse legal judgments, fines, penalties or settlements could adversely affect our financial health.***

We estimate that our available cash and our cash flow from operations will be adequate to fund our operations for the foreseeable future. In making this estimate, we have not assumed the need to make any material payments in connection with any pending litigation or investigations. As required by U.S. generally accepted accounting principles, we establish reserves based on our assessment of

contingencies. Subsequent developments in legal proceedings, including current or future asbestos-related litigation, may affect our assessment and estimates of the loss contingency recorded as a reserve requiring us to make additional material payments, which could result in an adverse effect on our results of operations.

Such an outcome could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- restrict our ability to exploit business opportunities; and
- make it more difficult for us to satisfy our payment obligations with respect to our outstanding indebtedness.

***Significant shortages in the raw materials we use in our businesses could increase our operating costs.***

We rely on suppliers to secure raw materials, particularly steel and non-ferrous metals, required for the manufacture of our products. A disruption in deliveries from our suppliers or decreased availability of raw materials or commodities could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. We believe that available sources of supply will generally be sufficient for our needs for the foreseeable future. Nonetheless, the unavailability of some raw materials may have an adverse effect on our results of operations or financial condition.

Due to the instability of market prices, the Company is exposed to large fluctuations for the price of petroleum-based fuel. Higher energy costs increase our operating costs and the cost of shipping our products to customers around the world. Consequently, sharp price increases, the imposition of taxes or an interruption of supply, could cause the Company to lose the ability to effectively manage the risk of rising fuel prices and our operating income could be further affected.

***Our global operations subject us to economic risks.***

Our global operations are dependent upon products manufactured, purchased and sold in the U.S. and internationally, including China, Brazil, Africa and Eastern Europe. These activities are subject to risks that are inherent in operating globally, including the following:

- countries could change regulations or impose currency restrictions and other restraints;
- in some countries, there is a risk that the government may expropriate assets;
- some countries impose burdensome tariffs and quotas;
- national and international conflict, including terrorist acts, could significantly impact our financial condition and results of operations; and
- economic downturns, political instability and war or civil disturbances may disrupt production and distribution logistics or limit sales in individual markets.

***Implementing our acquisition strategy involves risks and our failure to successfully implement this strategy could have a material adverse effect on our business.***

One of our key strategies is to grow our business by selectively pursuing bolt-on acquisitions. Since 2000, we have completed approximately 65 acquisitions, and we are continuing to actively pursue additional bolt-on acquisition opportunities. Although we have been successful with this strategy in the past, we may not be able to grow our business in the future through acquisitions for a number of reasons, including:

- encountering difficulties identifying and executing acquisitions;
- increased competition for targets, which may increase acquisition costs;
- consolidation in our industries reducing the number of acquisition targets; and
- competition laws and regulations preventing us from making certain acquisitions.

In addition, there are potential risks associated with growing our business through acquisitions, including the failure to successfully integrate and realize the expected benefits of an acquisition. For example, with any past or future acquisition, there is the possibility that:

- the business culture of the acquired business may not match well with our culture;
- technological and product synergies, economies of scale and cost reductions may not occur as expected;
- management may be distracted from overseeing existing operations by the need to integrate acquired businesses;
- we may acquire or assume unexpected liabilities;
- unforeseen difficulties may arise in integrating operations and systems;
- we may fail to retain and assimilate employees of the acquired business; and
- we may experience problems in retaining customers and integrating customer bases.

Failure to continue implementing our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business, financial condition and results of operations.

***Our reputation and our ability to do business may be impaired by improper conduct by any of our employees or agents.***

We do business in many parts of the world that have experienced governmental corruption. Our corporate policy requires strict compliance with the U.S. Foreign Corrupt Practices Act and with local laws prohibiting payments to government officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. Improper actions by our employees or agents could subject us to civil or criminal penalties, including substantial monetary fines, as well as disgorgement, and could damage our reputation and, therefore, our ability to do business.



## Risks Relating to Our Reorganization as a Bermuda Company

The reorganization exposed us or our shareholders to the risks described below. In addition, we cannot be assured that the anticipated benefits of the reorganization will be realized.

***Changes in tax laws, adverse determinations by taxing authorities and changes in our status under U.S. tax laws could increase our tax burden and affect our operating results, as well as subject our shareholders to additional taxes.***

While our U.S. operations are subject to U.S. tax, we believe that our non-U.S. operations are generally not subject to U.S. tax other than withholding taxes. The realization of this or any other tax benefit of the reorganization could be impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof by the Internal Revenue Service or any other tax authority. We believe that our risks have been diminished by the enactment of the American Jobs Creation Act of 2004. The American Jobs Creation Act includes a provision that denies tax benefits to companies that have reincorporated after March 4, 2003. We completed our reincorporation in Bermuda on December 31, 2001, and therefore our transaction is grandfathered by the American Jobs Creation Act. In addition, we believe that neither we nor IR-New Jersey will incur significant U.S. federal income or withholding taxes as a result of the transfer of the transferred shares. However, we cannot give any assurances that anticipated tax costs with respect to the transferred shares will ultimately be borne out and that the Internal Revenue Service will not contest our determination in the course of its audit. The inability to realize any of these benefits could have a material impact on our operating results.

A non-U.S. corporation, such as the Company, will constitute a "controlled foreign corporation" or "CFC" for U.S. federal income tax purposes if certain ownership criteria are met. Although we believe that we and our non-U.S. subsidiaries currently are not CFCs, the U.S. Internal Revenue Service or a court may not concur with our conclusions. If the IRS or a court determined that we were a CFC, then each of our U.S. shareholders who own (directly, indirectly, or constructively) 10% or more of the total combined voting power of all classes of our stock on the last day of our taxable year (a "10% U.S. Voting Shareholder") would be required to include in gross income for U.S. federal income tax purposes its pro rata share of our "subpart F income" (and the subpart F income of any our subsidiaries determined to be a CFC) for the period during which we (and our non-U.S. subsidiaries) were a CFC. In addition, gain on the sale of our shares realized by such a shareholder may be treated as ordinary income to the extent of the shareholder's proportionate share of our and our CFC subsidiaries' undistributed earnings and profits accumulated during the shareholder's holding period of the shares while we are a CFC.

***Legislation regarding non-U.S. chartered companies could adversely affect us and our subsidiaries.***

The U.S. federal government and various other states and municipalities have proposed or may propose legislation intended to deny government contracts to U.S. companies that reincorporate outside of the U.S. For instance, The Homeland Security Appropriations Act, signed into law October 18, 2004, includes a provision that prohibits reincorporated companies from entering into contracts with the Department of Homeland Security for funds available under the Homeland Security Appropriations Act. In addition, the State of California adopted legislation intended to limit the eligibility of certain Bermuda and other non-U.S. chartered companies to participate in certain state contracts and the State of North Carolina enacted a bill that provides a preference for North Carolina or U.S. products and services. Generally, these types of legislation relate to direct sales and distribution, while we typically sell our products through distributors. However, we are unable to predict with any level of certainty the likelihood or final form of these types of legislation, the nature of regulations that may be promulgated thereunder, or the impact such enactments and increased regulatory scrutiny may have on our business.



We cannot provide any assurance that the impact on us of any adopted or proposed legislation in this area will not be materially adverse to our operations.

***Bermuda law differs from the laws in effect in the United States and may afford less protection to holders of our securities.***

We are organized under the laws of Bermuda. It may not be possible to enforce court judgments in Bermuda that are obtained in the U.S. against us or our directors or officers in Bermuda based on the civil liability provisions of the U.S. federal or state securities laws. We have been advised that the U.S. and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Bermuda.

In addition, as a result of Bermuda law, it would be difficult for a holder of our securities to effect service of process within the United States. However, we have irrevocably agreed that we may be served with process with respect to actions based on offers and sales of securities made in the United States by having Ingersoll-Rand Company, 155 Chestnut Ridge Road, Montvale, New Jersey 07645, be our U.S. agent appointed for that purpose.

Bermuda companies are governed by the Companies Act 1981 of Bermuda, which differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions, shareholder lawsuits and indemnification. Under Bermuda law, the duties of directors and officers of a Bermuda company are generally owed to the company only. Shareholders of Bermuda companies do not generally have rights to take action against directors or officers of the company, and may only do so in limited circumstances. Under Bermuda law, a company may also agree to indemnify directors and officers for any personal liability, not involving fraud or dishonesty, incurred in relation to the company. Thus, our shareholders may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the U.S.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

Manufacturing and assembly operations are conducted in 39 plants in the United States; 31 plants in Europe; 16 plants in Asia; 8 plants in Latin America; and 2 plants in Canada. The Company also maintains various warehouses, offices and repair centers throughout the world.

Substantially all plant facilities are owned by the Company and the remainder are under long-term lease arrangements. The Company believes that its plants and equipment have been well maintained and are generally in good condition.

Facilities under long-term lease arrangements are included below and are not significant to each operating segment's total number of plants or square footage.

Climate Control Technologies' manufacturing locations are as follows:

	<b>Number of Plants</b>	<b>Approximate Square Footage</b>
United States	10	3,874,000
Non - U.S.	15	2,513,000
<b>Total</b>	<b>25</b>	<b>6,387,000</b>

Compact Vehicle Technologies' manufacturing facilities are as follows:

	<b>Number of Plants</b>	<b>Approximate Square Footage</b>
United States	3	1,395,000
Non - U.S.	2	254,000
<b>Total</b>	<b>5</b>	<b>1,649,000</b>

Construction Technologies' manufacturing facilities are as follows:

	<b>Number of Plants</b>	<b>Approximate Square Footage</b>
United States	6	662,000
Non - U.S.	5	568,000
<b>Total</b>	<b>11</b>	<b>1,230,000</b>

Industrial Technologies' manufacturing facilities are as follows:

	<b>Number of Plants</b>	<b>Approximate Square Footage</b>
United States	9	1,359,000
Non - U.S.	13	1,090,000
<b>Total</b>	<b>22</b>	<b>2,449,000</b>

Security Technologies' manufacturing facilities are as follows:

	<b>Number of Plants</b>	<b>Approximate Square Footage</b>
United States	11	1,728,000
Non - U.S.	22	2,338,000
<b>Total</b>	<b>33</b>	<b>4,066,000</b>

**Item 3.      LEGAL PROCEEDINGS**

In the normal course of business, the Company is involved in a variety of lawsuits, claims and legal proceedings, including commercial and contract disputes, employment matters, product liability claims, environmental liabilities and intellectual property disputes. In the opinion of the Company, pending legal matters are not expected to have a material adverse effect on the results of operations, financial condition, liquidity or cash flows.

As previously reported, on November 10, 2004, the SEC issued an Order directing that a number of public companies, including the Company, provide information relating to their participation in transactions under the United Nations' Oil For Food Program. Upon receipt of the Order, the Company undertook a thorough review of its participation in the Program, provided the SEC with information responsive to the Order and provided additional information requested by the SEC. The Company will continue to cooperate fully with the SEC in this matter.

See also the discussion under Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental and Asbestos Matters and also Note 15, Commitments and Contingencies, to the consolidated financial statements contained in this Annual Report on Form 10-K.

**Item 4.      SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the Company's security holders during the last quarter of its fiscal year ended December 31, 2006.

## Executive Officers of the Registrant

The following information is included in accordance with the provision of Part III, Item 10.

<b>Name and Age</b>	<b>Date of Service as an Executive Officer</b>	<b>Principal Occupation and Other Information for Past Five Years</b>
Herbert L. Henkel (58)	4/5/1999	Chairman of Board and Chief Executive Officer, President and Director
Timothy R. McLevish (51)	5/1/2002	Senior Vice President and Chief Financial Officer (since June 2002); (Mead Corporation, Vice President, Chief Financial Officer, 1999-2002)
Marcia J. Avedon (45)	2/7/2007	Senior Vice President, Human Resources and Communication (since February 2007); (Merck & Co., Inc., Senior Vice President, Human Resources 2003-2006; Vice President, Talent Management & Organizational Effectiveness 2002-2003; Honeywell International, Vice President, Corporate Human Resources, 2001-2002)
James R. Bolch (49)	10/16/2005	Senior Vice President and President, Industrial Technologies Sector (since October 2005); (Schindler Elevator Corporation, Executive Vice President, Service Business 2004-2005; United Technologies Corporation UTC Power, Vice President Operations, 2001-2003)
William Gauld (53)	10/2/2006	Senior Vice President, Enterprise Services (since October 2006); (Principal, The W Group, 2005-2006; Pearson, plc, Chief Information Officer, 2001-2005)
Michael W. Lamach (43)	2/16/2004	Senior Vice President and President, Security Technologies (since February 2004); (Johnson Controls, Inc., Group Vice President and Managing Director Europe/Asia 2003-2004; Group Vice President and General Asia 2002-2003; Group Vice President and General Manager, Customer Business Units, 1999-2002)
Patricia Nachtigal (60)	11/2/1988	Director (since January 1, 2002); Senior Vice President and General Counsel
Richard F. Pedtke (58)	5/1/2005	Senior Vice President and President, Compact Vehicle Technologies (since May 2005); (President, ESA, Climate Control, 2003-2005; President, Thermo King International, 2000-2003)
Steven R. Shawley (54)	8/1/2005	Senior Vice President and President, Climate Control Technologies (since August 2005); (President Climate Control Americas, 2003-2005; President, Thermo King North America 2002-2003, Vice President and Controller, 1998-2002)
Christopher P. Vasiloff (55)	11/1/2001	Senior Vice President and President, Construction Technologies (since November 2001); (President, Portable Power, Infrastructure Sector, 2000-2001)
Richard W. Randall (56)	10/1/2002	Vice President and Controller (since October 2002); (President, Engineered Solutions, Industrial Solutions Sector, April 2002-September 2002; Vice President, Finance and Sector Controller, Industrial Solutions Sector 2001-2002; Vice President and Controller, Bearings and Components, Industrial Productivity Sector, 1999-2001)

No family relationship exists between any of the above-listed executive officers of the Company. All officers are elected to hold office for one year or until their successors are elected and qualified.

## PART II

### Item 5. **MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Information regarding the principal market for the Company's common shares and related shareholder matters are as follows:

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

2006	Common shares		
	High	Low	Dividend
First quarter	\$ 43.65	\$ 38.15	\$ 0.16
Second quarter	47.63	39.47	0.16
Third quarter	43.25	35.29	0.18
Fourth quarter	41.21	36.71	0.18
2005			
First quarter	\$ 43.66	\$ 36.53	\$0.125
Second quarter	41.18	35.40	0.125
Third quarter	41.50	35.96	0.160
Fourth quarter	41.23	36.35	0.160

The Bank of New York (Church Street Station, P.O. Box 11258, New York, NY 10286-1258, (800) 524-4458) is the transfer agent, registrar and dividend reinvestment agent.

Future dividends on our Class A common shares, if any, will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions and other factors that the Board of Directors may deem relevant, as well as our ability to pay dividends in compliance with the Bermuda Companies Act. This Act regulates the payment of dividends and the making of distributions from contributed surplus. We may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (i) we are, or would be after the payment, unable to pay our liabilities as they become due; or (ii) the realizable value of our assets would thereby be less than the aggregate of our liabilities and issued share capital and share premium accounts.

The approximate number of record holders of Class A common shares as of February 21, 2007 was 7,221.

Information regarding equity compensation plans required to be disclosed pursuant to this Item is included elsewhere in this Annual Report on Form 10-K.

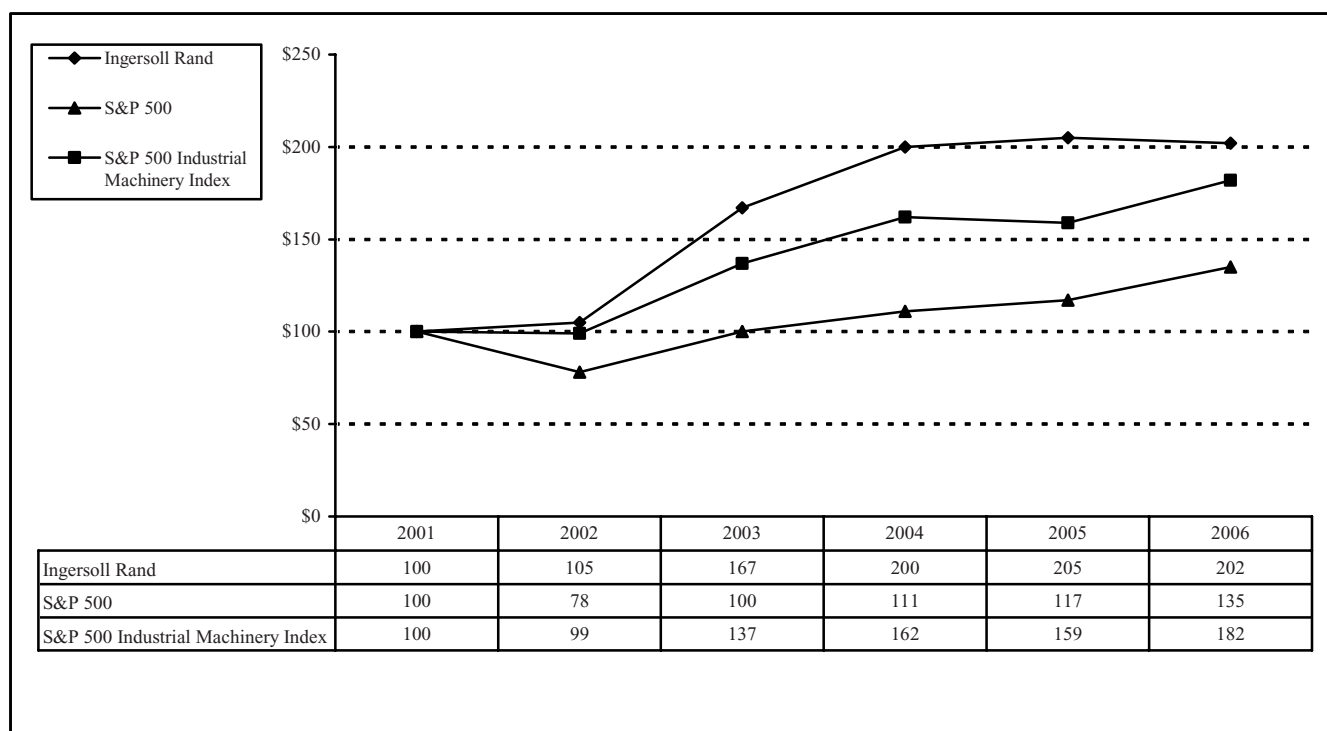
Shares of IR-Limited owned by its subsidiary are treated as treasury stock and are recorded at cost. During 2006, the Company purchased 27.7 million Class A common shares at a cost of \$1,096.3 million, which completed the Company's share repurchases under the \$2 billion plan that was authorized by the Board of Directors in August 2004 and expanded in August 2005. In December 2006, the Board of Directors authorized a new share repurchase program to repurchase up to \$2 billion worth of Class A common shares. No amounts were purchased under the December 2006 authorization as of December 31, 2006.

Total share repurchases for the three months ended December 31, 2006 are as follows:

Period	Total number of shares purchased (000's)	Average price paid per share	Total number of shares purchased as part of the publicly announced program (000's)	Approximate dollar value of shares still available to be purchased under the program (\$000's)
10/01/2006 - 10/31/2006	2,595.6	\$39.40	2,595.6	\$ -
11/01/2006 - 11/30/2006	-	-	-	-
12/01/2006 - 12/31/2006	-	-	-	-
Total	2,595.6		2,595.6	

### Performance Graph

The following graph compares for the five years ended December 31, 2006, the cumulative total shareholder return on our Class A common shares with the cumulative total return on the Standard & Poor's 500 Stock Index and the Standard & Poor's 500 Industrial Machinery Index. The graph assumes that \$100 had been invested in our Class A common shares, the Standard & Poor's 500 Stock Index and the Standard & Poor's Industrial Machinery Index on December 31, 2000 and assumes the reinvestment of dividends.



**Item 6. SELECTED FINANCIAL DATA**

In millions, except per share amounts:

At and for the years ended December 31,	2006	2005	2004	2003	2002
Net revenues	\$11,409.3	\$10,546.9	\$9,393.6	\$8,249.3	\$7,583.0
Earnings from continuing operations	1,068.3	1,053.1	829.8	532.8	322.4
Total assets	12,145.9	11,756.4	11,414.6	10,664.9	10,809.6
Long-term debt	905.2	1,184.3	1,267.6	1,518.4	2,091.4
Shareholders' equity	5,404.8	5,762.0	5,733.8	4,493.3	3,478.2
Basic earnings per common share: *					
Continuing operations	\$3.34	\$3.12	\$2.40	\$1.56	\$0.96
Discontinued operations	(0.11)	-	1.12	0.32	0.41
Diluted earnings per common share: *					
Continuing operations	\$3.31	\$3.09	\$2.36	\$1.55	\$0.95
Discontinued operations	(0.11)	-	1.11	0.32	0.41
Dividends per common share*	\$0.68	\$0.57	\$0.44	\$0.36	\$0.34

\*These amounts have been restated to reflect a two-for-one stock split that occurred in August 2005.



Item 7. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under Item 1A. Risk Factors in this Annual Report on Form 10-K. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Annual Report.*

**Overview**

**Organization**

Ingersoll-Rand Company Limited (we, our or the Company) is a leading innovation and solutions provider with strong brands and leading positions within its markets. Our business segments consist of Climate Control Technologies, Compact Vehicle Technologies, Construction Technologies, Industrial Technologies and Security Technologies. The Company generates revenue and cash primarily through the design, manufacture, sale and service of a diverse portfolio of industrial and commercial products that include well-recognized, premium brand names such as Bobcat®, Club Car®, Hussmann®, Ingersoll Rand®, Schlage® and Thermo King®.

We seek to drive shareholder value by achieving:

- Dramatic Growth, by developing innovative products and solutions that improve our customers' operations, expanding highly profitable recurring revenues and executing low-risk, high-return bolt-on acquisitions;
- Operational Excellence, by fostering a culture of continuous improvement and cost control; and
- Dual Citizenship, by encouraging our employees' active collaboration with colleagues across business units and geographic regions to achieve superior business results.

To achieve these goals and to become a more diversified company with strong growth prospects, we have transformed our product portfolio by divesting cyclical, low-growth, and asset-intensive businesses over the last few years. We continue to focus on increasing our recurring revenue stream, which includes revenues from parts, service, used equipment, rentals and attachments. We also intend to continuously improve the efficiencies, capabilities, and products and services of our high-potential businesses. We expect to use our strong operating cash flow for bolt-on acquisitions, share buybacks, capital expenditures and dividend enhancements.

At December 31, 2006, 2005 and 2004, employment was approximately 43,000, 40,000 and 36,000, respectively. The net increase during 2006 was primarily attributable to the acquisitions made during 2006.

**Trends and Economic Conditions**

We are a global corporation with worldwide operations. More than 40% of our 2006 net revenues were derived outside the United States. As a global business, our operations are affected by worldwide, regional and industry-specific economic factors, as well as political factors, wherever we operate or do business. However, our geographic and industry diversity, as well as the diversity of our product sales and services, has helped limit the impact of any one industry, or the economy of any single country, on

the consolidated operating results. Given the broad range of products manufactured and geographic markets served, management uses a variety of factors to predict the outlook for the Company. The Company monitors key competitors and customers to gauge relative performance and the outlook for the future. In addition, our order rates are indicative of future revenue and thus a key measure of anticipated performance. In those industry segments where we are a capital equipment provider, revenues depend on the capital expenditure budgets and spending patterns of our customers, who may delay or accelerate purchases in reaction to changes in their businesses and in the economy.

Our revenues for full-year 2006 increased by approximately 8% versus full-year 2005. Improved markets, new product introductions, product mix and pricing improvements drove this growth. The Company has been able to increase prices and add surcharges to help mitigate the impact of cost inflation during the year ended December 31, 2006. We also expect to see continued high material costs in 2007, which we plan to offset by increased productivity and pricing actions. The Company generated positive cash flows from operations during 2006 and expects to continue to produce positive annual operating cash flows for the foreseeable future.

The Company's major end markets for commercial construction, general industrial, refrigerated trucks and supermarkets remained firm during 2006. However, there was a deterioration in the North American market for compact equipment, as well as a reduction in security sales related to residential construction.

### ***Significant events in 2007***

On February 27, 2007, the Company agreed to sell its Road Development business unit to AB Volvo (publ) for cash proceeds of approximately \$1.3 billion, subject to post closing adjustments. The sale, which is subject to government regulatory approvals and other customary closing conditions, is targeted to close in the second quarter of 2007. The Company's Road Development business unit manufactures and sells asphalt paving equipment, compaction equipment, milling machines, and construction-related material handling equipment and has been reported as part of the Company's Construction Technologies sector.

The Road Development business unit had net revenues of approximately \$700 million for the year ended December 31, 2006. The Company expects to record a gain on the transaction when the sale is consummated.

### ***Significant Events in 2006***

In January 2006, the Company completed the acquisition of an 80% share of Shenzhen Bocom Systems Engineering Co. Ltd. (Bocom). Bocom is the largest independent security-systems integration company in China. The business supplies security-systems design, engineering, installation and integration, including expertise in video monitoring solutions for city and highway traffic, airports, government buildings and general surveillance. Bocom generated revenues of approximately \$24 million for the year ended December 31, 2006.

In October 2006, the Company completed the acquisition of Geith International, a leading provider of a wide range of attachments for the construction, excavation, demolition and scrap handling industries. For its fiscal year end March 31, 2006, Geith generated revenues of approximately \$54 million.

During 2006, the Company purchased 27.7 million Class A common shares at a cost of \$1,096.3 million, which completed the Company's share repurchases under the \$2 billion plan that was authorized by the Board of Directors in August 2004 and expanded in August 2005. In December 2006, the Board of Directors authorized a new share repurchase program to repurchase up to \$2 billion worth

of Class A common shares. No amounts were purchased under the December 2006 authorization as of December 31, 2006.

On October 6, 2006, the Company received a notice from the Internal Revenue Service (IRS) containing proposed adjustments to the Company's tax filings in connection with an audit of the 1998 through 2000 tax years. The principal proposed adjustments consist of the disallowance of certain capital losses taken in the Company's tax returns in 1999 and 2000. The disallowance would result in additional taxes and penalties of approximately \$155 million, plus interest through October 6, 2006 of approximately \$62 million. As previously reported, in the third quarter of 2006 the Company added approximately \$27 million (\$0.08 per dilutive share) to its previously established reserves.

### ***Significant Events in 2005***

In January, the Company completed the acquisition of the remaining 70% interest in Italy-based CISA S.p.A. (CISA) for approximately \$267 million in cash and the assumption of approximately \$244 million of debt. CISA manufactures an array of security products, including electronic locking systems, cylinders, door closers, and emergency exit hardware, and also markets safes and padlocks. In April, the Company acquired the remaining 20% interest in Shanghai Ingersoll-Rand Compressor Company Limited (SIRC), a joint venture established in 1987, for approximately \$26 million. SIRC manufactures a wide range of air compressors and components for the Company and provides a network of company-owned distribution centers located in most major cities in China to sell, install and service the Company's products. In May, the Company acquired Security One Systems, a security systems integrator located in Florida, for approximately \$31 million. Security One provides security design solutions including access control, closed circuit TV, video surveillance and alarm monitoring. In August, the Company established a joint venture with Taiwan Fu Hsing Industrial Company Ltd. (Taiwan Fu Hsing), a leading manufacturer of mechanical locks based in Taiwan, for approximately \$72 million. The Company has a majority interest in Taiwan Fu Hsing's mechanical door lock manufacturing subsidiaries in China and Malaysia, as well as a minority equity interest in Taiwan Fu Hsing. The Company also made several other bolt-on acquisitions during the year.

On August 3, 2005, the Company's Board of Directors declared a two-for-one stock split effected in the form of a stock distribution to shareholders on September 1, 2005. The Board also declared a 28% increase in the quarterly dividend of the Company's Class A common shares to 16 cents per share and expanded the Company's share repurchase program, which was established in August 2004, to \$2 billion. During 2005, the Company repurchased 19.4 million Class A common shares at a cost of \$763.6 million.

During the second quarter of 2005, the Company issued \$300 million aggregate principal amount of its 4.75% Senior Notes due in 2015. The notes are unconditionally guaranteed by IR-New Jersey.

### ***Significant Events in 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 included in "discontinued operations, net of tax," for all periods. The Company recorded an after-tax gain of \$282.5 million on the disposition.

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. The Company recorded an after-tax gain of \$38.6 million on the disposition, which is included in “discontinued operations, net of tax” for 2004.

During 2004, the Company recorded approximately \$29.5 million of after-tax income 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 Company’s board of directors authorized the repurchase of up to 10 million shares of the Company’s Class A common shares. Approximately 2.0 million of the above mentioned 5.3 million shares were repurchased under this program, while the remainder was repurchased under a plan approved in 1997. The Company’s 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.

## Results of Operations

<i>Dollar amounts in millions, Except per share data</i>	2006	% of Revenues	2005	% of Revenues	2004	% of Revenues
Net revenues	\$11,409.3		\$10,546.9		\$9,393.6	
Cost of goods sold	8,424.2	73.9%	7,744.1	73.4%	6,854.0	73.0%
Selling and administrative expenses	1,544.3	13.5%	1,441.0	13.7%	1,419.3	15.1%
Operating income	1,440.8	12.6%	1,361.8	12.9%	1,120.3	11.9%
Interest expense	(131.8)		(144.3)		(153.1)	
Other income, net	5.9		53.0		17.0	
Minority interests	(14.9)		(12.7)		(16.0)	
Earnings before income taxes	1,300.0		1,257.8		968.2	
Provision for income taxes	231.7		204.7		138.4	
Earnings from continuing operations	1,068.3		1,053.1		829.8	
Discontinued operations, net of tax	(35.8)		1.1		388.9	
Net earnings	\$1,032.5		\$1,054.2		\$1,218.7	
Diluted earnings per common share:						
Continuing operations	\$3.31		\$3.09		\$2.36	
Discontinued operations	(0.11)		-		1.11	
Net earnings	\$3.20		\$3.09		\$3.47	

### Revenues

2006 vs. 2005: Net revenues increased by 8.2% in 2006, or \$862.4 million, compared with 2005, which primarily resulted from improved end markets and new product introductions (5%), improved pricing (2%), as well as acquisitions (1%), primarily in our Industrial Technologies, Construction Technologies

and Security Technologies segments. Increased sales volumes were most prevalent in our Climate Control Technologies, Construction Technologies and Industrial Technologies segments. The Company continues to make progress in increasing recurring revenues, which improved by 11% over the year ended December 31, 2005.

2005 vs. 2004: Net revenues increased by 12.3% in 2005, or \$1,153.3 million, compared with 2004, which primarily resulted from improved end markets, new product introductions and product mix (7%), acquisitions (4%), mainly in our Security Technologies and Climate Control Technologies segments, as well as improved pricing in all our segments. Increased sales volumes were most prevalent in our Compact Vehicle Technologies, Construction Technologies and Industrial Technologies segments.

### ***Cost of Goods Sold***

2006 vs. 2005: Cost of goods sold as a percentage of net revenues in 2006, increased to 73.9% compared with 73.4% in 2005, as higher material costs were mostly offset by productivity improvements in 2006.

2005 vs. 2004: Cost of goods sold as a percentage of net revenues in 2005, increased to 73.4% compared with 73.0% in 2004, as higher material costs were mostly offset by cost benefits from higher volumes and productivity improvements.

### ***Selling and Administrative Expenses***

2006 vs. 2005: Selling and administrative expenses as a percentage of net revenues in 2006, decreased slightly compared with 2005, mainly due to increased revenues in 2006. In addition, 2006 selling and administrative expenses were favorably impacted by a change in estimate of the Company's allowance for doubtful accounts reserve during the first quarter of 2006, which resulted in a \$20.5 million decrease in selling and administrative expenses. The change in estimate was made in light of various business and economic factors, including a significant change in the Company's business portfolio and historical and expected write-off experience. In addition, the Company purchased a new insurance policy, which limits its bad debt exposure. This benefit was more than offset by \$23.2 million of additional share-based compensation costs, which includes \$16.2 million associated with stock options from the adoption of Statement of Financial Accounting Standard No. 123(R).

2005 vs. 2004: Selling and administrative expenses were 13.7% of net revenues in 2005, compared with 15.1% for 2004. The decrease in the ratio is mainly due to higher revenues in 2005. Selling and administrative expenses during 2005 were favorably impacted by lower share-based liability costs (\$46 million), as well as the favorable settlement of certain product-related litigation, an adjustment to the allowance for doubtful accounts estimate and lower employee benefit costs. Acquisitions increased the 2005 selling and administrative expenses (\$64 million). Expenses for 2004 included higher product and litigation expenses, offset by a gain on sale of corporate real estate.

### ***Operating Income***

2006 vs. 2005: Operating income increased by \$79.0 million in 2006, compared with 2005. The increase in operating income was mainly attributable to increased revenues, productivity improvements, improved pricing and favorable volumes. These benefits were partially offset by higher material costs and investments in new product development and productivity programs. The Company also recorded expenses of \$7.6 million for employee severance and termination benefits in the fourth quarter of 2006.

2005 vs. 2004: Operating income increased by \$241.5 million in 2005, compared with 2004. The increase in operating income was mainly attributable to increased revenues and improved cost ratios for



cost of goods sold and selling and administrative expenses as previously discussed. Productivity improvements also favorably impacted operating income for 2005.

### ***Interest Expense***

2006 vs. 2005: Interest expense decreased by \$12.5 million in 2006, compared with 2005. The decrease was mainly attributable to lower average interest rates and lower year-over-year average debt levels resulting from the timing of borrowing and repayments in 2006.

2005 vs. 2004: Interest expense decreased by \$8.8 million in 2005, compared with 2004. The benefits of lower average interest rates were partially offset by higher year-over-year average debt levels resulting from the issuance of \$300 million of debt in the second quarter of 2005.

### ***Other Income, Net***

2006 vs. 2005: Other income, net, decreased by \$47.1 million in 2006, compared with 2005, mainly due to unfavorable foreign exchange losses (\$21.4 million), decreased interest income (\$13.3 million) and lower earnings from equity investments (\$4.1 million), partially offset by a reduction of a product liability reserve (\$8.7 million). Other income, net in 2005 included income from a reduction of a liability for a business previously divested (\$10.4 million).

2005 vs. 2004: Other income, net, increased by \$36.0 million in 2005, compared with 2004, mainly due to increased interest income (\$17.3 million), increased income from currency exchange gains (\$11.7 million) and income from a reduction of a liability for a business previously divested (\$10.4 million). These increases were partially offset by lower earnings from equity investments (\$4.5 million).

### ***Minority Interests***

2006 vs. 2005: Minority interests expense increased by \$2.2 million in 2006, compared with 2005. This increase resulted from increased earnings of majority-owned subsidiaries purchased in 2005.

2005 vs. 2004: Minority interests decreased by \$3.3 million in 2005, compared with 2004. This decrease resulted from the buyout of the minority interests of several consolidated subsidiaries, partially offset by new minority interests of majority-owned consolidated subsidiaries purchased in 2005.

### ***Provision for Income Taxes***

2006 vs. 2005: The effective tax rate for 2006 was 17.8%, compared with 16.3% for 2005. The increase in the effective rate during 2006 primarily relates to the \$27 million charge the Company recorded in the third quarter of 2006 associated with the notice received from the IRS as described under “Significant Events of 2006.”

2005 vs. 2004: The effective tax rate for 2005 was 16.3%, compared with 14.3% for 2004. The increase in the tax provision and effective rate over 2004 relates to an increase in earnings, especially in higher tax rate jurisdictions.

### ***Discontinued Operations***

The Company has continued its transition to become a more diversified company with strong growth prospects by divesting cyclical, low-growth, asset intensive businesses. The components of discontinued operations for 2006, 2005 and 2004 are as follows:

<i>In millions</i>	2006	2005	2004
Net revenues	\$ -	\$ -	\$ 882.0
Retained (costs) income, net of tax	\$ (36.5)	\$ (34.1)	\$ 54.0
Net gain on disposals, net of tax	0.7	35.2	334.9
Total discontinued operations, net of tax	\$ (35.8)	\$ 1.1	\$ 388.9

#### 2006

Retained costs for discontinued operations mainly include costs related to postretirement benefits and product and legal costs (mostly asbestos-related) from previously sold businesses. Net gain on disposals represents additional gains from previously sold businesses.

#### 2005

Discontinued operations for the year ended December 31, 2005, amounted to income of \$1.1 million, net of tax benefits of \$48.2 million. This total includes net after tax gains of \$35.2 million, mainly due to divested businesses, primarily Ingersoll-Dresser Pump Company (IDP) (\$12.0 million), Dresser-Rand (\$10.3 million) and Waterjet (\$12.2 million), primarily from the resolution of tax matters regarding these divestitures. The after-tax loss from retained costs of discontinued operations amounted to \$34.1 million. These costs mainly include costs related to postretirement benefits and product and legal costs (mostly asbestos-related) from previously sold businesses.

#### 2004

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 on disposals 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 income from discontinued operations amounted to \$54.0 million. This income includes profits from divested businesses, primarily Dresser-Rand (\$45.0 million) and Engineered Solutions (\$20.9 million), which includes an antidumping subsidy net of tax of \$29.5 million. This income is partially offset by retained costs related to IDP (\$14.9 million), which mostly include product liability costs primarily related to asbestos liability claims and employee benefit costs.

### Review of Business Segments

The Company classifies its business into five reportable segments based on industry and market focus: Climate Control Technologies, Compact Vehicle Technologies, Construction Technologies, Industrial Technologies and Security Technologies. The segment discussions that follow describe the significant factors contributing to the changes in results for each segment included in continuing operations.

#### *Climate Control Technologies*

Climate Control Technologies provides solutions for customers to transport, preserve, store and display temperature-sensitive products by engaging in the design, manufacture, sale and service of transport temperature control units, HVAC systems, refrigerated display merchandisers, beverage coolers, auxiliary power units and walk-in storage coolers and freezers. This segment includes the Thermo King and Hussmann brands.

<i>Dollar amounts in millions</i>	2006	% change	2005	% change	2004
Net revenues	\$ 3,171.0	11.1%	\$ 2,853.6	2.1%	\$ 2,793.7
Operating income	356.0	13.0%	315.1	1.9%	309.1
Operating margin	11.2%		11.0%		11.1%



2006 vs. 2005: Net revenues increased by 11.1% in 2006, or \$317.4 million, compared with 2005, which mainly resulted from higher volumes and product mix (9%) and improved product pricing (2%). Operating income increased during the year due to higher volumes and product mix (\$71 million) and improved product pricing (\$46 million), partially offset by higher material costs (\$70 million) and investments in new product development and productivity programs (\$10 million).

Revenues from North American operations for the year ended 2006 increased by approximately 13% compared with 2005, due to growth across all of our businesses. Revenues were bolstered by the Tripac® auxiliary power unit and increased display case sales and stationary refrigeration services revenue. Non-U.S. revenues for the year ended 2006 increased 9% compared with 2005, as the increase in the sales of display cases and refrigerated trailers in Europe more than offset the decline in refrigerated cases and the bus air conditioning market in Asia Pacific.

2005 vs. 2004: Net revenues increased by 2.1% in 2005, or \$59.9 million, compared with 2004, which primarily resulted from acquisitions (2%) and improved product pricing (2%), partially offset by lower volumes and product mix (2%). Operating income increased slightly due to improved product pricing (\$42 million) and increased productivity (\$15 million), offset by higher material costs (\$51 million) and product mix.

Net revenue increases by Climate Control Americas (4%) and Climate Control Asia Pacific (11%), more than offset a decline in Climate Control Europe (3%). Net revenues and operating income benefited from strong worldwide market conditions for the truck & trailer, aftermarket and container business lines. The retail business declined in the Americas and Europe, but strengthened in Asia Pacific.

### ***Compact Vehicle Technologies***

Compact Vehicle Technologies is engaged in the design, manufacture, sale and service of skid-steer loaders, all-wheel steer loaders, compact track loaders, compact excavators, attachments, golf vehicles and utility vehicles. This segment includes the Bobcat and Club Car brands.

<i>Dollar amounts in millions</i>	2006	% change	2005	% change	2004
Net revenues	\$ 2,641.2	-1.5%	\$ 2,681.1	18.5%	\$ 2,261.7
Operating income	358.0	-13.8%	415.2	25.1%	332.0
Operating margin	13.6%		15.5%		14.7%

2006 vs. 2005: Net revenues decreased by 1.5% in 2006, or \$39.9 million, compared with 2005, mainly due to lower volumes and product mix (4%), partially offset by improved pricing (2%). Operating income for the year ended 2006 decreased due to lower volumes and product mix (\$47 million), higher material costs (\$34 million), higher product related costs (\$17 million) and investments in new product development and productivity programs (\$15 million), partially offset by improved product pricing (\$32 million) and increased productivity (\$28 million).

Bobcat revenues for the year ended 2006 decreased 5% compared with 2005, mainly due to a deterioration in the North American markets for compact equipment and a related decline in shipments to third party dealers as they reduced their inventory levels. In addition, the year ended 2005 results benefited from equipment and attachment sales related to Gulf Coast hurricane clean up efforts. Club Car revenues for the year ended 2006 increased by 11% compared with 2005, mainly due to higher sales of golf cars and transport and utility vehicles, as well as significant growth in the aftermarket and international markets.

2005 vs. 2004: Net revenues increased by 18.5% in 2005, or \$419.4 million, compared with 2004, mainly due to higher volumes and product mix (17%) and improved pricing (2%). Operating income for the year ended 2005 increased significantly, due to higher volumes and product mix (\$106 million) and improved pricing (\$51 million). Operating income and margins were negatively impacted by higher material costs (\$53 million), investments in productivity improvements (\$8 million) and currency translation (\$9 million).

Bobcat's revenue growth reflect higher volumes driven by improved markets, new products and attachments introduced during the year and an increase in aftermarket parts sales. Club Car's business also had improvements in volume and pricing, with growth in golf and utility vehicles due to increased market share and new product launches.

### ***Construction Technologies***

Construction Technologies is engaged in the design, manufacture, sale and service of road construction and repair equipment, portable power products, general-purpose construction equipment, attachments and portable light towers and compressors. This segment is comprised of the Utility Equipment, Road Development and Attachments businesses.

<i>Dollar amounts in millions</i>	2006	% change	2005	% change	2004
Net revenues	\$ 1,362.3	16.6%	\$ 1,168.6	16.0%	\$ 1,007.1
Operating income	148.0	42.6%	103.8	-1.3%	105.2
Operating margin	10.9%		8.9%		10.4%

2006 vs. 2005: Net revenues increased by 16.6% in 2006, or \$193.7 million, compared with 2005, primarily due to higher volumes and product mix (14%), improved product pricing (2%) and acquisitions (1%). Operating income for the year ended 2006 increased due to higher volumes and product mix (\$36 million) and improved product pricing (\$21 million) and increased productivity (\$21 million). These increases in operating income were partially offset by increases in product related costs (\$13 million), investments in new product development and productivity programs (\$13 million) and higher material costs (\$10 million).

Road Development revenues for the year ended 2006 increased 8% compared with 2005, due to the strength in the international markets, offset by declines in the U.S. compaction market. The Utility Equipment and Attachments businesses had combined revenue growth for the year ended 2006 of 28% compared with 2005, due to acquisitions and growth in all major geographic regions.

2005 vs. 2004: Net revenues increased by 16.0% in 2005, or \$161.5 million, compared with 2004, mainly due to higher volumes and product mix (12%) and improved product pricing (3%). Operating income benefited from higher volumes and product mix (\$20 million) and improved pricing (\$34 million). However, higher material costs (\$42 million), investments in productivity programs and new product development (\$7 million) and manufacturing inefficiencies more than offset these gains and reduced operating income for the segment.

All businesses in the segment had significant revenue growth in 2005, despite a decline in the Road Development business experienced at the end of the year due to the curtailment of construction investment by the Chinese government. The product line also experienced operating margin pressure from high material costs and manufacturing inefficiencies throughout the year. Utility Equipment continued to show significant growth as it launched new products, expanded distribution and was in position to assist during the hurricane season.

### **Industrial Technologies**

Industrial Technologies is focused on providing solutions to enhance customers' industrial and energy efficiency, mainly by engaging in the design, manufacture, sale and service of compressed air systems, tools, fluid and material handling and energy generation systems. This segment includes the Air Solutions and Productivity Solutions businesses.

<i>Dollar amounts in millions</i>	2006	% change	2005	% change	2004
Net revenues	\$ 1,949.8	11.8%	\$ 1,743.9	12.3%	\$ 1,552.8
Operating income	262.0	16.5%	224.9	24.6%	180.5
Operating margin	13.4%		12.9%		11.6%

2006 vs. 2005: Net revenues increased by 11.8% in 2006, or \$205.9 million, compared with 2005, mainly due to higher volumes and product mix (9%), improved product pricing (2%) and acquisitions (1%). Operating income for the year ended 2006 was higher due to increased productivity (\$36 million), improved product pricing (\$31 million) and higher volumes and product mix (\$23 million). These gains were partially offset by higher material costs (\$40 million), investments in new product development and productivity programs (\$8 million) and additional costs associated with a labor dispute in India (\$5 million).

Air Solutions revenues for the year ended 2006 increased 13% compared with 2005, driven by continued strength in worldwide industrial markets, supported by higher revenues in all major geographic regions and growth in recurring revenues. Productivity Solutions revenues for the year ended 2006 increased by 9% compared with 2005, as a result of new product growth and increased recurring revenues, as well as strong international growth.

2005 vs. 2004: Net revenues increased by 12.3% in 2005, or \$191.1 million, compared with 2004, mainly due to higher volumes and product mix (10%) and product pricing (2%). Operating income for 2005 increased significantly due to higher volumes and product mix (\$37 million), improved product pricing (\$29 million) and productivity improvements (\$12 million). Investments in productivity (\$11 million) and higher material costs (\$5 million) partially offset some of the operating income gains.

Net revenues and operating income increased substantially for all businesses in the segment, mainly due to new product launches and increased recurring revenues. Net revenue increases by Air Solutions (14%) and Productivity Solutions (9%) were also generated by geographic expansion, contributing to higher net revenues in all regions.

### **Security Technologies**

Security Technologies is engaged in the design, manufacture, sale and service of mechanical and electronic security products, biometric access control systems, and security and scheduling software. Security Technologies includes the Schlage, LCN, Von Duprin and CISA brands.

<i>Dollar amounts in millions</i>	2006	% change	2005	% change	2004
Net revenues	\$ 2,285.0	8.8%	\$ 2,099.7	18.1%	\$ 1,778.3
Operating income	400.2	5.1%	380.7	24.9%	304.8
Operating margin	17.5%		18.1%		17.1%

2006 vs. 2005: Net revenues increased by 8.8% in 2006, or \$185.3 million, compared with 2005, mainly due to higher volumes and product mix (4%), acquisitions (3%) and improved product pricing

(2%). Operating income for the year ended 2006 increased due to improved product pricing (\$55 million), increased productivity (\$29 million), favorable currency movement and higher volumes and product mix. These gains were partially offset by higher material costs (\$47 million) and investments in new product development and productivity programs (\$32 million).

Net revenues grew in all major geographic regions during 2006. North American revenues increased 4% due to strong commercial market gains. Revenues in Europe increased 12% due to the acquisitions made in 2005, as well as increased pricing and higher volumes. Asia Pacific revenues were up sharply, primarily due to bolt-on acquisitions.

2005 vs. 2004: Net revenues increased by 18.1% in 2005, or \$321.4 million, compared with 2004, mainly due to acquisitions during the year (16%) and improved product pricing (3%). Operating income also improved during 2005. Improved pricing (\$54 million), productivity improvements (\$29 million) and acquisitions (\$23 million) all had favorable impacts on operating income. Operating income was negatively impacted by higher material costs (\$29 million), unfavorable product mix and volumes (\$19 million) and productivity investment costs (\$18 million). The 2004 operating income was also negatively impacted by one-time costs (\$28 million) related to a product warranty issue, a plant closing and the discontinuance of a plumbing fixture product line, and legal expenses.

Net revenues in the segment benefited from strong growth in the electronic controls and integrated solutions businesses in 2005. Increases in North American revenues (6%) were the result of strong construction markets, especially commercial, and recurring revenues. Non-U.S. revenues were helped by the 2005 acquisitions, which increased the breadth of products and customer base in Europe and Asia Pacific.

## Employee Benefit Plans

### Pensions

Net pension cost is based on the weighted-average assumptions used at the end of the previous year to calculate the pension benefit obligation, adjusted for any curtailment and settlement gains or losses. Net periodic pension cost for 2006, 2005 and 2004 was as follows:

<i>In millions</i>	2006	2005	2004
Net periodic pension cost	\$ 32.7	\$ 32.4	\$ 26.5
Curtailment/settlement losses	-	4.0	41.1 *
Net periodic pension cost after curtailments/settlements	\$ 32.7	\$ 36.4	\$ 67.6

\*The curtailment and settlement losses in 2004 are associated primarily with the sale of Dresser-Rand and Drilling Solutions

Net pension cost for 2007 is projected to be approximately \$21.7 million. The assumptions expected to be used to calculate the 2007 net periodic pension cost are as follows:

Discount rate:	
U.S. plans	5.50%
Non-U.S. plans	5.00%
Rate of compensation increase:	
U.S. plans	4.00%
Non-U.S. plans	4.25%
Expected return on plan assets:	
U.S. plans	8.50%
Non-U.S. plans	7.25%

The Company's pension plans for U.S. non-collectively bargained employees provide benefits on a final average pay formula. The Company's collectively bargained pension plans principally provide benefits based on a flat benefit formula. Non-U.S. plans usually provide benefits based on an earnings and years of service formula. Additional supplemental benefit plans are maintained by the Company for officers and other key employees. Pension benefit payments are expected to be paid as follows: \$192.1 million in 2007, \$192.0 million in 2008, \$200.6 million in 2009, \$227.3 million in 2010, \$204.4 million in 2011 and \$1,089.7 million for the years 2012 to 2016.

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 to meet any statutory requirements, laws and local regulatory agencies' requirements. Key investment management decisions reviewed regularly are asset allocations, investment manager performance, investment advisors and trustees. 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. As of December 31, 2006, the Company's strategic global asset allocation for its pension plans was 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 at least quarterly and appropriate adjustments are made. Based on its most recent ALM study, the Company in 2007 has begun to adjust its strategic global asset allocation for its pension plans to be approximately 40% in equity securities and 60% in debt securities, real estate and cash.

The Company made contributions to its pension plans of \$31.7 million in 2006, \$119.4 million in 2005, and \$170.1 million in 2004. The Company currently projects that it will be required to contribute approximately \$24 million to its plans worldwide in 2007. 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.

The Company anticipates funding the plans in 2007 in accordance with contributions required by funding regulations or the laws of each jurisdiction.

As of December 31, 2006, the Company has a net liability on its balance sheet of \$218.4 million, which consists of long-term prepaid pension costs of \$119.3 million and current and non-current pension benefits liabilities of \$337.7 million. It is the Company's objective to contribute to its pension plans to ensure adequate funds are available in the plans to make benefit payments to plan participants when required. However, certain plans are not or cannot be funded due to either legal or tax requirements in certain jurisdictions. As of December 31, 2006, approximately seven percent of the Company's projected benefit obligation relates to plans that are unfunded.



In 2006, the Company adopted Statement of Financial Accounting Standard No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)” (SFAS 158), which requires the Company to record the funded status of its pension plans on its balance sheet effective December 31, 2006. Refer to Note 9 in the Company’s financial statements and the Liquidity and Capital Resources section for further details of the impact of SFAS 158.

### ***Postretirement Benefits Other Than Pensions***

Net periodic postretirement benefit cost is based on the weighted-average assumptions used at the end of the previous year to calculate the postretirement benefit obligation, adjusted for any curtailment and settlement gains or losses, if any. Net periodic postretirement cost for 2006, 2005 and 2004 was as follows:

<i>In millions</i>	2006	2005	2004
Net periodic postretirement benefit cost	\$ 79.2	\$ 74.0	\$ 76.9

Net periodic postretirement benefit cost for 2007 is projected to be approximately \$84.5 million. The assumptions expected to be used to calculate the 2007 net periodic postretirement benefit cost are the same as were used at the end of 2006 to calculate the postretirement benefit obligation.

The Company funds postretirement benefit costs principally on a pay-as-you-go basis. Benefit payments for postretirement benefits, which are net of expected plan participant contributions and Medicare Part D subsidy, are expected to be paid as follows: \$72.0 million in 2007, \$75.0 million in 2008, \$76.1 million in 2009, \$77.1 million in 2010, \$79.1 million in 2011 and \$380.7 million for the years 2012 to 2016.

In 2006, the Company adopted SFAS 158, which requires the Company to record the funded status of its postretirement plans on its balance sheet effective December 31, 2006. Refer to Note 8 in the Company’s financial statements and the Liquidity and Capital Resources section for further details of the impact of SFAS 158.

### **Liquidity and Capital Resources**

The following table contains several key measures to gauge the Company’s financial condition and liquidity:

<i>Dollar amounts in millions</i>	2006	2005	2004
Cash and cash equivalents	\$ 362.3	\$ 880.6	\$ 1,703.1
Marketable securities	0.7	156.5	0.6
Working capital	482.3	1,048.5	1,732.8
Total debt	1,984.6	2,117.0	1,880.4
Total stockholders' equity	5,404.8	5,762.0	5,733.8
Debt-to-total capital ratio	26.6%	26.7%	24.3%
Operating cash flow from continuing operations	1,008.8	873.2	770.2
Average days outstanding in receivables	63.0	56.5	55.6
Inventory turnover	6.4	6.9	6.5
Capital expenditures	212.3	141.8	125.6

## ***Overview of Cash Flows and Liquidity***

### ***Operating Activities***

2006 vs. 2005: The Company's primary source of liquidity is operating cash flows. Net cash provided by operating activities from continuing operations increased to \$1,008.8 million in 2006 compared with \$873.2 in 2005. The change was primarily due to the increases in accrued liabilities during the period offset by increases in accounts receivable and inventories.

2005 vs. 2004: Net cash provided by operating activities from continuing operations increased to \$873.2 million in 2005 compared with \$770.2 million 2004. This change was mainly due to higher earnings from continuing operations of \$1,053.1 million compared with \$829.8 million in 2004, and an increase in deferred income taxes, partially offset by decreases in other current and noncurrent liabilities.

### ***Investing Activities***

2006 vs. 2005: Net cash used in investing activities from continuing operations in 2006 was \$161.2 million, compared with \$771.7 million in 2005. The change in investing activities was primarily attributable to lower cash payments for business acquisitions and an increase in net proceeds from the sale and purchase of marketable securities. For the years ended December 31, 2006 and 2005, cash used to purchase businesses was \$121.5 million and \$514.7 million, respectively. The Company had net proceeds from the sale of marketable securities of \$155.8 million for the year ended December 31, 2006, compared with an outflow of \$153.2 million from the net purchase of marketable securities for the year ended December 31, 2005.

2005 vs. 2004: Net cash used in investing activities from continuing operations in 2005 was \$771.7 million compared with net cash provided by investing activities of \$1,312.2 million in 2004. The decrease was primarily attributable to the cash used for the acquisitions of CISA S.p.A. and Taiwan Fu Hsing Industrial Company Ltd. in 2005 and the significant decrease in proceeds received for business divestitures, compared with 2004.

### ***Financing Activities***

2006 vs. 2005: Net cash used in financing activities from continuing operations in 2006 was \$1,358.7 million compared with \$875.7 million in 2005. The increase reflects the 2006 repurchases of approximately 27.7 million Class A common shares at a cost of \$1,096.3 million, compared with 19.4 million Class A common shares at a cost of \$763.6 million during 2005.

2005 vs. 2004: Net cash used in financing activities from continuing operations in 2005 was \$875.7 million compared with \$807.2 million in 2004. The increase reflects the 2005 repurchase of approximately 19.4 million Class A common shares for \$763.6 million, partially offset by the higher debt repayments in 2004 and the issuance of \$300 million of debt during 2005. Also during 2005, the Company repurchased the preferred shares of two subsidiaries for \$73.6 million, from unrelated third party holders of the shares. The Company has fully consolidated these subsidiaries since their initial purchase.

Certain prior year amounts have been reclassified to conform to the current year presentation. The Company has revised its December 31, 2004 consolidated statement of cash flows to separately disclose the effects of discontinued operations by cash flow activity. The Company had previously reported these amounts on a combined basis. The Company also reclassified its presentation of capitalized software on its December 31, 2005 consolidated balance sheet from intangible assets to property, plant and equipment to better depict the nature and intent of the investment. Concurrently, the Company reclassified its consolidated statement of cash flow for the years ended December 31, 2005 and 2004,



respectively, in order to show capitalized software purchases as an investing activity rather than an operating activity to be consistent with the Company's balance sheet presentation.

#### *Other Liquidity Measures*

At December 31, 2006 the Company's debt levels declined slightly from those at December 31, 2005. During 2006, the Company repaid \$513.7 million of long-term debt, consisting primarily of \$502.6 million associated with long-term debt maturing in the second quarter. These payments were partially offset by net short-term borrowings of \$369.2 million, primarily consisting of commercial paper issuances in the second half of 2006.

Capital expenditures were \$212.3 million, \$141.8 million and \$125.6 million for 2006, 2005 and 2004, respectively. The Company's investments continue to improve manufacturing productivity, reduce costs and provide environmental enhancements and advanced technologies for existing facilities. The capital expenditure program for 2007 is estimated to be approximately \$220-\$260 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.

#### **Capitalization**

In addition to operating cash flow, the Company maintains significant availability under its commercial paper program. 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, 2006, the Company's credit ratings were as follows:

	Short-term	Long-term
Moody's	P-2	A3
Standard and Poor's	A-2	A-
Fitch	F2	A-

*The credit ratings set forth above are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning rating organization. Each rating should be evaluated independently of any other rating.*

The Company's debt-to-total capital ratio at December 31, 2006 remained consistent with 2005, as increased profits were more than offset by the reduction of shareholders' equity as a result of the Company's adoption of SFAS 158 for its pension and postretirement plans. SFAS 158 requires the Company to record the funded status of its pension and postretirement plans on its balance sheet effective December 31, 2006. The adoption of SFAS 158 resulted in a decrease of total assets of \$476.0 million and shareholders' equity of \$472.8 million (net of tax of \$268.2 million) and an increase of total liabilities of \$265.0 million. Refer to Notes 8 and 9 in the Company's financial statements for further details of the impact of SFAS 158.

The Company has additional short-term borrowing alternatives, should the need arise. At December 31, 2006, the Company's committed revolving credit lines consisted of two five-year lines totaling \$2.0 billion of which \$750 million expires in June 2009 and \$1.25 billion expires in August 2010. These lines were unused and provide support for the Company's commercial paper program and indirectly provide support for other financing instruments, such as letters of credit and comfort letters, as required in the normal course of business. The Company compensates banks for these lines with fees equal to a weighted average of .0775% per annum. Available non-U.S. lines of credit were \$786.9 million, of which \$612.0 million were unused at December 31, 2006. These lines provide support for bank guarantees, letters of credit and other working capital purposes.

In 2007, the Company has debt retirements of \$626.8 million, which includes \$549.1 million in bonds that may require early repayment at the option of the holders. The Company believes that its cash generation, large unused capacity under its committed borrowing facilities and the ability to obtain additional external financing, if necessary, provide sufficient capacity to cover all cash requirements for capital expenditures, dividends, debt repayments, and operating lease and purchase obligations in 2007.

In August 2005, the Company's Board of Directors declared a two-for-one stock split effected in the form of a stock distribution to shareholders on September 1, 2005. All references to the number of shares outstanding, per share amounts, and stock option data of the Company's common shares were restated in 2005 to reflect the effect of the stock split. Shareholders' equity reflects the stock split by reclassifying from "Retained earnings" to "Class A common shares" an amount equal to the par value of the additional shares from the split as of the distribution date. The Board also authorized in August 2005, an increase of the quarterly dividend on the Company's Class A common shares from 12.5 cents to 16 cents per share. In August 2006, the Board authorized an increase of the quarterly dividend on the Company's Class A common shares from 16 cents to 18 cents per share.

### Contractual Obligations

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

Payments due by period	Long-term debt	Interest payments on long-term debt	Purchase obligations	Operating leases	Total contractual cash obligations
Less than 1 year	\$ 626.8 *	\$ 97.3	\$ 643.2	\$ 57.7	\$ 1,425.0
1 - 3 years	148.5	105.5	45.0	75.0	374.0
3 - 5 years	20.9	99.2	6.6	32.1	158.8
More than 5 years	735.8	431.6	-	20.6	1,188.0
Total	\$ 1,532.0	\$ 733.6	\$ 694.8	\$ 185.4	\$ 3,145.8

\*Includes \$549.1 million of debt redeemable at the option of the holder. The scheduled maturities of these bonds range between 2027 and 2028.

Future expected obligations under the Company's pension and postretirement benefit plans and repayments of short-term borrowings 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. The Company anticipates funding the plans in 2007 in accordance with contributions required by funding regulations or laws of each jurisdiction. The Company currently projects that it will be required to contribute approximately \$24 million to its pension plans worldwide in 2007. Postretirement benefit plans, excluding pensions, are not required to be funded in advance and are principally funded on a pay-as-you-go basis. The Company currently projects that it will make payments, net of plan participants' contributions and Medicare Part D subsidy, of approximately \$72 million in 2007 for its postretirement benefit plans.

The short-term borrowings outstanding at December 31, 2006, were \$452.6 million compared with \$76.1 million at December 31, 2005.

For financial market risk impacting the Company, see Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

## 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 remediation activities to address environmental cleanup from past operations at current and former manufacturing facilities.

During 2006, the Company spent approximately \$5 million on capital projects for pollution abatement and control, and an additional \$9.4 million for environmental remediation expenditures at sites presently or formerly owned or leased by the Company. 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 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.

Certain wholly owned subsidiaries of the Company are named as defendants in 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 vast majority of those claims have been filed against IR-New Jersey and 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 asbestos-related claims resolved to date have been dismissed or settled. For the years ended December 31, 2006, 2005 and 2004, total costs for settlement and defense of asbestos claims after insurance recoveries and net of tax were approximately \$31.6 million, \$16.8 million and \$16.5 million, respectively. The increase in asbestos-related costs in 2006 compared with 2005 and 2004 is primarily attributable to revised estimates for future recoveries to be received from the Company's insurance carriers, as well as declining levels of insurance coverage available for cost recoveries. With the assistance of independent advisors, the Company performs a thorough analysis, updated periodically, of its actual and anticipated future asbestos liabilities projected seven years in the future. 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.

Legislation recently under consideration in Congress concerns pending and future asbestos-related personal injury claims. Whether and when such legislation will become law, and the final provisions of such legislation, are unknown. Consequently, the Company cannot predict with any reasonable degree of certainty what effect, if any, such legislation would have upon the Company's financial position, results of operations or cash flows. See also the discussion under Note 15, Commitments and Contingencies, to the consolidated financial statements contained in this Annual Report on Form 10-K.

### **Guarantees**

As part of its reorganization in 2001, the Company has fully and unconditionally guaranteed payment of all of the issued public debt securities of IR-New Jersey. No other subsidiary of the Company guarantees these securities.

IR-New Jersey has unconditionally guaranteed payment of the principal, premium, if any, and interest on the Company's 4.75% Senior Notes due in 2015 in aggregate principal amount of \$300 million. The guarantee is unsecured and provided on an unsubordinated basis. The guarantee ranks equally in right of payment with all of the existing and future unsecured and unsubordinated debt of IR-New Jersey.

### **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:

- Allowance for doubtful accounts – The Company has provided an allowance for doubtful accounts receivable using a Company policy formula based upon its knowledge of its end markets, customer base and products.

In the first quarter of 2006, the Company changed its estimate of the allowance for doubtful accounts in light of various business and economic factors, including a significant change in its business portfolio and historical and expected write-off experience. In addition, the Company signed a new insurance policy which limits its bad debt exposure. As a result, the Company reduced its allowance by \$20.5 million, or \$17.1 million after-tax, which increased first quarter 2006 diluted earnings per share by \$0.05.

- 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 determination of fair market value. The Company's goodwill and other intangible assets are tested and reviewed annually for impairment 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. Assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows can be

generated. 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.

- **Loss contingencies – Liabilities** are recorded for various contingencies arising in the normal course of business, including litigation and administrative proceedings, environmental and asbestos matters and product liability, product warranty, worker's compensation and other claims. The Company has recorded reserves in the financial statements related to these matters, which are developed using input derived from actuarial estimates and historical and anticipated experience data depending on the nature of the reserve, and in certain instances with consultation of legal counsel, 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.
- **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; (c) collectibility is reasonably assured; and (d) delivery has occurred or service has been rendered. Delivery generally occurs when the title and the risks and rewards of ownership have substantially transferred to the customer. Revenue from maintenance contracts or extended warranties is recognized on a straight-line basis over the life of the contract, unless another method is more representative of the costs incurred. The Company enters into agreements that contain multiple elements, such as equipment, installation and service revenue. For multiple-element arrangements, the Company recognizes revenue for delivered elements when the delivered item has stand-alone value to the customer, fair values or undelivered elements are known, customer acceptance has occurred, and there are only customary refund or return rights related to the delivered elements.
- **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 non-U.S. 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.

- Employee benefit plans – The Company provides a range of benefits to eligible employees and retired employees, including pensions, postretirement and postemployment 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 into earnings over future periods. Effective December 31, 2006, these effects are generally recognized in shareholders' equity on an annual basis, due to the adoption of SFAS 158. 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, a study based on the Citigroup Pension Liability index, 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 in the three basic assumptions are as follows: the discount rate would increase expense by approximately \$5.7 million, the rate of compensation increase would decrease expense by approximately \$4.7 million, and the estimated return on assets assumption would increase expense by approximately \$6.9 million. A 0.25% rate decrease in the discount rate for postretirement benefits would increase net periodic postretirement benefit cost by \$1.6 million and a 1.0% increase in the health care cost trend rate would increase the cost by approximately \$6.3 million.

In 2006, the Company adopted SFAS 158, which requires the Company to record the funded status of its pension and other postretirement plans on its balance sheet effective December 31, 2006. Refer to Notes 8 and 9 in the Company's financial statements and the Liquidity and Capital Resources section for further details of the impact of SFAS 158.

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.

### **New Accounting Standards**

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the Company for the fiscal year ended December 31, 2006. SAB 108 did not have a material impact on the Company's financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109" (FIN 48), which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The provisions of FIN 48 are effective for the Company for the fiscal year beginning on January 1, 2007. The Company is still assessing the impact of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 establishes a framework for measuring fair value that is based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information to develop those assumptions. Additionally, the standard expands the disclosures about fair value measurements to include disclosing the fair value measurements of assets or liabilities within each level of the fair value hierarchy. SFAS 157 is effective for the Company starting on January 1, 2008. The Company is currently evaluating the impact on its financial statements of adopting SFAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 permits companies the option, at specified election dates, to measure financial assets and liabilities at their current fair value, with the corresponding changes in fair value from period to period recognized in the income statement. Additionally, SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. SFAS 159 is effective for the Company starting on January 1, 2008. The Company is currently evaluating the impact on its financial statements of adopting SFAS 159.

### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

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



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

The Company evaluates its exposure to changes in 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 currency derivative instruments in place at December 31, 2006, 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 an unrealized loss of approximately \$32.5 million, as compared with \$16.0 million at December 31, 2005. These amounts would be offset by changes in the fair value of underlying currency transactions.

The Company entered into two total return swaps (the Swaps) which are derivative instruments used to hedge the Company's exposure to changes in its share-based compensation expense. The Swaps are benchmarked to the Company's Class A common share price and therefore, are exposed to the variations in the market price of our Class A common shares. Assuming a 10% decrease in our share price at December 31, 2006, the Swaps would have an unrealized loss of approximately \$3.3 million. This amount would be offset by changes in the fair value of underlying share-based compensation expense.

From time to time the Company participates in the debt markets through the issuance of commercial paper, which, by its terms, has a maturity of less than a year. In managing its portfolio the Company issues and reissues commercial paper, thus exposing it to interest rate risk in a market environment of rising interest rates.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

- (a) The following consolidated financial statements and the report thereon of PricewaterhouseCoopers LLP dated March 1, 2007, are presented following Item 15 of this Annual Report on Form 10-K.

**Consolidated Financial Statements:**

Report of independent registered public accounting firm  
Consolidated balance sheets at December 31, 2006 and 2005  
For the years ended December 31, 2006, 2005 and 2004:  
Consolidated statements of income  
Consolidated statements of shareholders' equity  
Consolidated statements of cash flows  
Notes to consolidated financial statements

**Financial Statement Schedule:**

Consolidated schedule for the years ended December 31, 2006, 2005 and 2004:  
Schedule II -- Valuation and Qualifying Accounts

- (b) The unaudited quarterly financial data for the two years ended December 31, is as follows:

*In millions, except per share amounts*

	Net revenues	Cost of goods sold	Operating income	Net earnings	Basic earnings per common share*	Diluted earnings per common share*
2006						
First quarter	\$ 2,711.0	\$ 1,998.0	\$ 341.1	\$ 253.2	\$0.77	\$0.76
Second quarter	3,041.9	2,215.4	416.5	313.5	0.96	0.95
Third quarter	2,765.9	2,043.8	357.7	243.8	0.77	0.76
Fourth quarter	2,890.5	2,167.0	325.5	222.0	0.72	0.72
Year 2006	\$ 11,409.3	\$ 8,424.2	\$ 1,440.8	\$ 1,032.5	\$3.23	\$3.20
2005						
First quarter	\$ 2,458.8	\$ 1,810.6	\$ 297.0	\$ 223.0	\$0.64	\$0.64
Second quarter	2,759.5	2,019.1	379.1	285.4	0.84	0.83
Third quarter	2,615.3	1,920.7	340.0	254.2	0.76	0.75
Fourth quarter	2,713.3	1,993.7	345.7	291.6	0.88	0.87
Year 2005	\$ 10,546.9	\$ 7,744.1	\$ 1,361.8	\$ 1,054.2	\$3.12	\$3.09

\*The amounts have been restated to reflect a two-for-one stock split that occurred in August 2005.

## **Item 9. CHANGES IN AND DISAGREEMENTS WITH INDEPENDENT ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **Item 9A. CONTROLS AND PROCEDURES**

### ***Disclosure Controls and Procedures***

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded as of December 31, 2006, that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this Annual Report on Form 10-K has been recorded, processed, summarized and reported when required and the information is accumulated and communicated, as appropriate, to allow timely decisions regarding required disclosure.

### ***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 as such term is defined under Exchange Act Rules 13a-15(f) and 15d-15(f). 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. 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 and procedures may deteriorate.

Management has assessed the effectiveness of internal control over financial reporting as of December 31, 2006. 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, 2006. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report.

***Changes in Internal Control Over Financial Reporting***

There has been no change in the Company's internal controls over financial reporting during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

## PART III

The information called for by Part III (Items 10, 11, 12, and 13) of Form 10-K will be included in the Company's Proxy Statement for the Company's 2007 Annual General Meeting of Shareholders, which the Company intends to file within 120 days after the close of its fiscal year ended December 31, 2006 and is hereby incorporated by reference to such Proxy Statement, except that the information as to the Company's executive officers which follows Item 4 in this Annual Report on Form 10-K, is incorporated by reference into Items 10 and 12, respectively, of this Report.

### Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the information contained under the caption "Audit and Non-Audit Fees" in our 2007 Proxy Statement.

In early 2005, our registered public accounting firm, PricewaterhouseCoopers LLP (PwC), informed the Securities Exchange Commission (the SEC), the Public Company Accounting Oversight Board and our Audit Committee that certain non-audit work that PwC previously performed in China and Taiwan has raised questions regarding PwC's independence with respect to its performance of audit services for us.

During the fiscal years 2004, 2003, 2002 and 2001, certain PwC affiliates, in connection with the preparation of local tax returns, made payments to local tax authorities with respect to individual employee tax liabilities. As a result, PwC's non-U.S. affiliates had temporary custody of small amounts of our corporate funds. The fees we paid to PwC's non-U.S. affiliates in China and Taiwan for the preparation of these tax returns, including the services mentioned above, were \$433, \$14,765, \$24,849 and \$18,767 for the years 2004, 2003, 2002 and 2001, respectively. These services were discontinued in 2004.

Our Audit Committee has reviewed the facts surrounding these services provided by PwC. PwC has informed the Audit Committee that it does not believe that the performance of the tax services described above has impaired PwC's independence. In light of the de minimis fees paid to PwC, the ministerial nature of the actions performed and the fact that the services have been discontinued, neither our Audit Committee nor PwC believes that PwC's independence was impaired by the performance of these services.

## PART IV

### Item 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULE

- (a) 1. and 2.                    Financial statements and financial statement schedule  
See Item 8.
3.                                Exhibits  
The exhibits listed on the accompanying index to exhibits are filed as part of this Annual Report on Form 10-K.

**INGERSOLL-RAND COMPANY LIMITED**  
**INDEX TO EXHIBITS**  
**(Item 15(a))**

**Description**

- 2 Agreement and Plan of Merger, dated as of October 31, 2001, among Ingersoll-Rand Company Limited, Ingersoll-Rand Company and IR Merger Corporation. Incorporated by reference to Amendment No. 1 to Form S-4. Registration Statement No. 333-71642, filed October 30, 2001.
- 2.1 Stock and Asset Purchase Agreement, dated as of October 16, 2002, between Ingersoll-Rand Company Limited, on behalf of itself and certain of its subsidiaries and The Timken Company, on behalf of itself and certain of its subsidiaries. Incorporated by reference to Form 8-K dated October 16, 2002.
- 2.2 Amendment to the Stock and Asset Purchase Agreement, dated as of February 18, 2003, amending the Stock Purchase Agreement, dated as of October 16, 2002, between Ingersoll-Rand Company Limited, on behalf of itself and certain of its subsidiaries and The Timken Company, on behalf of itself and certain of its subsidiaries. Incorporated by reference to Form Schedule 13D, filed March 5, 2003 by Ingersoll-Rand Company.
- 2.3 Equity Purchase Agreement between FRC Acquisition LLC, on behalf of itself and the other buyers named therein, and Ingersoll-Rand Company Limited, on behalf of itself and the other sellers named therein, dated August 25, 2004, in connection with the divestiture of Dresser-Rand. Incorporated by reference to Form 8-K dated August 25, 2004.
- 2.4 Pricing Agreement, dated as of May 24, 2005 among Ingersoll-Rand Company Limited, Banc of America Securities, LLC, Deutsche Bank Securities Inc. and Ingersoll-Rand Company. Incorporated by reference to Form 8-K for Ingersoll-Rand Company Limited, dated May 24, 2005, filed May 27, 2005.
- 2.5 Asset and Stock Purchase Agreement, dated as of February 27, 2007, among Ingersoll-Rand Company limited, on behalf of itself and the other sellers named therein, and AB Volvo (publ), on behalf of itself and the other buyers named therein. Incorporated by reference to Form 8-K for Ingersoll-Rand Company Limited dated February 27, 2007, filed February 28, 2007.
- 3.1 Memorandum of Association of Ingersoll-Rand Company Limited. Incorporated by reference to Amendment No. 1 to Form S-4 Registration Statement No. 333-71642, filed October 30, 2001.
- 3.2 Amended and Restated Bye-Laws of Ingersoll-Rand Company Limited, dated June 1, 2005. Incorporated by reference to Form 10-Q for the quarter ended June 30, 2005, of Ingersoll-Rand Company Limited, filed August 5, 2005.
- 4.1 Certificate of Designation, Preferences and Rights of Series A Preference Shares of Ingersoll-Rand Company Limited. Incorporated by reference to Amendment No. 1 to Form S-4 Registration Statement No. 333-71642, filed October 30, 2001.
- 4.2 Rights Agreement between Ingersoll-Rand Company Limited and The Bank of New York, as Rights Agent. Incorporated by reference to Amendment No. 1 to Form S-4 Registration Statement No. 333-71642, filed October 30, 2001.

- 4.3 Voting Agreement between Ingersoll-Rand Company Limited and Ingersoll-Rand Company. Incorporated by reference to Amendment No. 1 to Form S-4 Registration Statement No. 333-71642, filed October 30, 2001.
- 4.4 Indenture dated as of August 1, 1986, between Ingersoll-Rand Company and The Bank of New York, as Trustee, as supplemented by first, second and third supplemental indentures. Incorporated by reference to Ingersoll-Rand Company's Form S-3 Registration Statement No. 333-39474 as filed March 18, 1991 and to Form S-3 Registration Statement No. 333-50902 as filed November 29, 2000.
- 4.5 Fourth Supplemental Indenture, dated as of December 31, 2001, among Ingersoll-Rand Company Limited, Ingersoll-Rand Company and The Bank of New York, as trustee. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2001, filed March 13, 2002.
- 4.6 Credit Agreement dated as of August 12, 2005, among Ingersoll-Rand Company and Ingersoll-Rand Company Limited, the banks listed therein, and Citicorp USA, Inc., as Syndication Agent, and Bank of America, N.A., Deutsche Bank Securities Inc., The Bank of Tokyo-Mitsubishi, Ltd., New York Branch and UBS Securities LLC, as Documentation Agents, and JPMorgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., as Lead Arrangers and Bookrunners. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.
- 4.7 Credit Agreement, dated as of June 25, 2004, among Ingersoll-Rand Company and Ingersoll-Rand Company Limited, the banks listed therein, The JPMorgan Chase Bank, as Administrative Agent, Citibank N.A., and Deutsche Bank Securities Inc., as Co-Syndication Agents, and The Bank of Tokyo-Mitsubishi, Ltd, as Documentation Agent, and J.P. Morgan Securities Inc., as Lead Arranger and Bookrunner. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2004, filed March 16, 2005.
- 4.8 Ingersoll-Rand Company Limited and its subsidiaries are parties to several long-term debt instruments under which in each case the total amount of securities authorized does not exceed 10% of the total assets of Ingersoll-Rand Company Limited and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii) of Item 601(b) of Regulation S-K, Ingersoll-Rand Company Limited agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.
- 4.9 Indenture dated as of May 24, 2005 among Ingersoll-Rand Company Limited, Ingersoll-Rand Company and Wells Fargo Bank, N.A., as trustee. Incorporated by reference to Form 8-K for Ingersoll-Rand Company Limited, dated May 24, 2005, filed May 27, 2005.
- 10.1 Management Incentive Unit Plan of Ingersoll-Rand Company. Amendment to the Management Incentive Unit Plan, effective January 1, 1982. Amendment to the Management Incentive Unit Plan, effective January 1, 1987. Amendment to the Management Incentive Unit Plan, effective June 3, 1987. Incorporated by reference to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30, 1994.



- 10.2 Reorganization Amendment to Management Incentive Unit Plan, dated December 31, 2001. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2001, filed March 13, 2002.
- 10.3 Amended and Restated Director Deferred Compensation and Stock Award Plan. Incorporated by reference to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 2000, filed March 20, 2001.
- 10.4 First Amendment to Director Deferred Compensation and Stock Award Plan. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2001, filed March 13, 2002.
- 10.5 Second Amendment to Director Deferred Compensation and Stock Award Plan. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2003, filed February 27, 2004.
- 10.6 Third Amendment to Director Deferred Compensation and Stock Award Plan, dated December 31, 2004. Incorporated by reference to Form 8-K of Ingersoll-Rand Company Limited, dated December 31, 2004, filed January 6, 2005.
- 10.7 Fourth Amendment to Director Deferred Compensation and Stock Award Plan, dated March 10, 2005. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2004, filed March 16, 2005.
- 10.8 Director Deferred Compensation and Stock Award Plan II, dated December 31, 2004. Incorporated by reference to Form 8-K of Ingersoll-Rand Company Limited, dated December 31, 2004, filed January 6, 2005.
- 10.9 First Amendment to Director Deferred Compensation and Stock Award Plan II, dated March 10, 2005. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2004, filed March 16, 2005.
- 10.10 Description of Annual Incentive Arrangements for Chairman, President, Sector Presidents and other Staff Officers of Ingersoll-Rand Company Limited. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.
- 10.11 Description of Performance Share Program for Chairman, President and Chief Executive Officer and the other Participants of Ingersoll-Rand Company Limited. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.
- 10.12 Form of Change in Control Agreement with Tier 1 Officers of Ingersoll-Rand Company Limited, dated as of December 1, 2006. Incorporated by reference to Exhibit 99.1 in Form 8-K of Ingersoll-Rand Company Limited, dated November 30, 2006, filed December 4, 2006.
- 10.13 Form of Change in Control Agreement with Tier 2 Officers of Ingersoll-Rand Company Limited, dated as of December 1, 2006. Incorporated by reference to Exhibit 99.2 in Form 8-K of Ingersoll-Rand Company Limited, dated November 30, 2006, filed December 4, 2006.

- 10.14 Executive Supplementary Retirement Agreement for selected executive officers of Ingersoll-Rand Company. Incorporated by reference to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30, 1994.
- 10.15 Executive Supplementary Retirement Agreement for selected executive officers of Ingersoll-Rand Company. Incorporated by reference to Form 10-K for the year ended December 31, 1996, filed March 26, 1997.
- 10.16 Forms of insurance and related letter agreements with certain executive officers of Ingersoll-Rand Company. Incorporated by reference to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30, 1994.
- 10.17 Amended and Restated Supplemental Pension Plan, dated January 1, 2003. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2002, filed March 5, 2003.
- 10.18 First Amendment to the Amended and Restated Supplemental Pension Plan, dated January 1, 2003. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2003, filed February 27, 2004.
- 10.19 Amended and Restated Supplemental Employee Savings Plan, dated January 1, 2003. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2002, filed March 5, 2003.
- 10.20 First Amendment to the Amended and Restated Supplemental Employee Savings Plan, dated January 1, 2003. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2003, filed February 27, 2004.
- 10.21 Incentive Stock Plan of 1995. Incorporated by reference to the Notice of 1995 Annual Meeting of Shareholders and Proxy Statement dated March 15, 1995. See Appendix A of the Proxy Statement dated March 15, 1995.
- 10.22 Reorganization Amendment to Incentive Stock Plan of 1995, dated December 21, 2001. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2001, filed March 13, 2002.
- 10.23 Senior Executive Performance Plan. Incorporated by reference to the Notice of 2000 Annual Meeting of Shareholders and Proxy Statement of Ingersoll-Rand Company, dated March 7, 2000. See Appendix A of the Proxy Statement, dated March 7, 2000.
- 10.24 Amended and Restated Elected Officers Supplemental Plan, dated December 31, 2004. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2004, filed March 16, 2005.
- 10.25 Amendment, dated February 1, 2006, to Amended and Restated Elected Officers Supplemental Plan, dated December 31, 2004. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.

- 10.26 Elected Officers Supplemental Plan II, dated February 1, 2006. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.
- 10.27 Amended and Restated Executive Deferred Compensation Plan. Incorporated by reference to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 2000, filed March 20, 2001.
- 10.28 First Amendment to Executive Deferred Compensation Plan, dated December 31, 2001. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2001, filed March 13, 2002.
- 10.29 Second Amendment to Executive Deferred Compensation Plan, dated February 24, 2004. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2003, filed February 27, 2004.
- 10.30 Third Amendment to Executive Deferred Compensation Plan, dated December 31, 2004. Incorporated by reference to Form 8-K of Ingersoll-Rand Company Limited dated December 31, 2004, filed January 6, 2005.
- 10.31 Fourth Amendment to Executive Deferred Compensation Plan, dated March 10, 2005. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2004, filed March 16, 2005.
- 10.32 Executive Deferred Compensation Plan II, dated December 31, 2004. Incorporated by reference to Form 8-K of Ingersoll-Rand Company Limited dated December 31, 2004, filed January 6, 2005.
- 10.33 First Amendment to Executive Deferred Compensation Plan II, dated March 10, 2005. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2004, filed March 16, 2005.
- 10.34 Amended and Restated Incentive Stock Plan of 1998. Incorporated by reference to Ingersoll-Rand Company Limited's Form S-8 Registration Statement, filed December 1, 2005.
- 10.35 Amendment to the Ingersoll-Rand Company Limited Amended and Restated Incentive Stock Plan of 1998, dated December 7, 2005. Incorporated by reference to Form 8-K of Ingersoll-Rand Company Limited, dated December 7, 2005, filed December 9, 2005.
- 10.36 Composite Employment Agreement with Chief Executive Officer. Incorporated by reference to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1999, filed March 30, 2000.
- 10.37 Employment Agreement with Timothy McLevish, Senior Vice President and Chief Financial Officer. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2002, filed March 5, 2003.
- 10.38 Employment Agreement with Michael Lamach, Senior Vice President. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2003, filed February 27, 2004.

- 10.39 Addendum, dated June 3, 2005, to Employment Agreement with Timothy R. McLevish. Incorporated by reference to Form 8-K of Ingersoll-Rand Company Limited, dated June 1, 2005, filed June 6, 2005.
- 10.40 Employment Agreement with James R. Bolch, Senior Vice President. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.
- 10.41 Addendum, dated December 8, 2005, to Employment Agreement with James R. Bolch. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.
- 10.42 Amended and Restated Estate Enhancement Program, dated June 1, 1998, and the related form agreements. Incorporated by reference to Form 10-Q of Ingersoll-Rand Company Limited for the quarter ended March 31, 2006, filed May 5, 2006.
- 10.43 First Amendment to the Amended and Restated Estate Enhancement Program, dated December 31, 2001. Incorporated by reference to Form 10-Q of Ingersoll-Rand Company Limited for the quarter ended March 31, 2006, filed May 5, 2006.
- 10.44 Employment Agreement with William Gauld, Senior Vice President, dated September 7, 2006. Filed herewith.
- 10.45 Employment Agreement with Marcia J. Avedon, Senior Vice President, dated January 8, 2007. Filed herewith.
- 12 Computations of Ratios of Earnings to Fixed Charges. Filed herewith.
- 14 Ingersoll-Rand Company Limited Code of Ethics. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.
- 21 List of Subsidiaries of Ingersoll-Rand Company Limited. Filed herewith.
- 23 Consent of Independent Registered Public Accounting Firm. Filed herewith.
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.
- 32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### INGERSOLL RAND COMPANY LIMITED

(Registrant)

By: /S/ Herbert L. Henkel  
(Herbert L. Henkel)  
Chief Executive Officer

Date: March 1, 2007

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/S/ Herbert L. Henkel</u> (Herbert L. Henkel)	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2007
<u>/S/ Timothy R. McLevish</u> (Timothy R. McLevish)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2007
<u>/S/ Richard W. Randall</u> (Richard W. Randall)	Vice President and Controller (Principal Accounting Officer)	March 1, 2007
<u>/S/ Ann C. Berzin</u> (Ann C. Berzin)	Director	March 1, 2007
<u>/S/ Peter C. Godsoe</u> (Peter C. Godsoe)	Director	March 1, 2007
<u>/S/ Constance Horner</u> (Constance Horner)	Director	March 1, 2007
<u>/S/ H. William Lichtenberger</u> (H. William Lichtenberger)	Director	March 1, 2007
<u>/S/ Theodore E. Martin</u> (Theodore E. Martin)	Director	March 1, 2007
<u>/S/ Patricia Nachtigal</u> (Patricia Nachtigal)	Director	March 1, 2007
<u>/S/ Orin R. Smith</u> (Orin R. Smith)	Director	March 1, 2007
<u>/S/ Richard J. Swift</u> (Richard J. Swift)	Director	March 1, 2007
<u>/S/ Tony L. White</u> (Tony L. White)	Director	March 1, 2007

**INGERSOLL-RAND COMPANY LIMITED**  
**Index to Consolidated Financial Statements**

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## Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Ingersoll-Rand Company Limited's (successor company to Ingersoll-Rand Company) consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, 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 and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Ingersoll-Rand Company Limited and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2), presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standard No. 123(R), *Share-Based Payment*, as of January 1, 2006, using the modified prospective method.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment to FASB Statements No. 87, 88, 106, and 132(R)*, as of December 31, 2006.

### Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring 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, 2006, based on 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 1, 2007

# Ingersoll-Rand Company Limited

## Consolidated Statements of Income

*In millions, except per share amounts*

For the years ended December 31,	2006	2005	2004
Net revenues	\$11,409.3	\$10,546.9	\$9,393.6
Cost of goods sold	8,424.2	7,744.1	6,854.0
Selling and administrative expenses	1,544.3	1,441.0	1,419.3
Operating income	1,440.8	1,361.8	1,120.3
Interest expense	(131.8)	(144.3)	(153.1)
Other income, net	5.9	53.0	17.0
Minority interests	(14.9)	(12.7)	(16.0)
Earnings before income taxes	1,300.0	1,257.8	968.2
Provision for income taxes	231.7	204.7	138.4
Earnings from continuing operations	1,068.3	1,053.1	829.8
Discontinued operations, net of tax	(35.8)	1.1	388.9
Net earnings	\$1,032.5	\$1,054.2	\$1,218.7
Basic earnings per common share:			
Earnings from continuing operations	\$3.34	\$3.12	\$2.40
Discontinued operations, net of tax	(0.11)	-	1.12
Net earnings	\$3.23	\$3.12	\$3.52
Diluted earnings per common share:			
Earnings from continuing operations	\$3.31	\$3.09	\$2.36
Discontinued operations, net of tax	(0.11)	-	1.11
Net earnings	\$3.20	\$3.09	\$3.47

*See accompanying Notes to Consolidated Financial Statements.*

**Ingersoll-Rand Company Limited****Consolidated Balance Sheets***In millions*

December 31,	2006	2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 362.3	\$ 880.6
Marketable securities	0.7	156.5
Accounts and notes receivable, less allowance of \$17.8 in 2006 and \$47.6 in 2005	1,996.2	1,679.0
Inventories	1,320.3	1,128.8
Prepaid expenses and deferred income taxes	416.4	403.3
Total current assets	4,095.9	4,248.2
Property, plant and equipment, net	1,276.3	1,157.5
Goodwill	4,604.8	4,433.4
Intangible assets, net	736.2	717.0
Other assets	1,432.7	1,200.3
Total assets	\$ 12,145.9	\$ 11,756.4
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,026.8	\$ 812.5
Accrued compensation and benefits	383.8	401.4
Accrued expenses and other current liabilities	1,123.6	1,053.1
Loans payable and current maturities of long-term debt	1,079.4	932.7
Total current liabilities	3,613.6	3,199.7
Long-term debt	905.2	1,184.3
Postemployment and other benefit liabilities	1,428.8	1,000.9
Other noncurrent liabilities	793.5	609.5
Total liabilities	6,741.1	5,994.4
Commitments and contingencies (Note 15)		
<b>Shareholders' equity:</b>		
Class A common shares, \$1 par value (364,462,276 and 360,740,316 shares issued at December 31, 2006 and 2005, respectively, and net of 57,699,279 and 30,032,378 shares owned by subsidiary at December 31, 2006 and 2005, respectively)	306.8	330.7
Retained earnings	5,456.1	5,558.9
Accumulated other comprehensive income (loss)	(358.1)	(127.6)
Total shareholders' equity	5,404.8	5,762.0
Total liabilities and shareholders' equity	\$ 12,145.9	\$ 11,756.4

*See accompanying Notes to Consolidated Financial Statements.*

**Ingersoll-Rand Company Limited**  
**Consolidated Statements of Shareholders' Equity**

<i>In millions, except per share amounts</i>	Total shareholders' equity	Common stock Amount	Shares	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Comprehensive income
<i>Balance at December 31, 2003</i>	\$ 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
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					(16.5)		
Shares issued under incentive stock plans	213.5	3.9	3.9	209.6			
Repurchase of common shares by subsidiary	(355.9)	(5.3)	(5.3)	(350.6)			
Change in fiscal year end of subsidiary, net of tax of \$7.3	(16.5)						
Cash dividends, declared and paid (\$0.44 per share)	(152.6)				(152.6)		
<i>Balance at December 31, 2004</i>	5,733.8	173.1	173.1	469.6	5,028.3	62.8	
Net earnings	1,054.2				1,054.2		\$1,054.2
Currency translation	(267.7)					(267.7)	(267.7)
Change in fair value of marketable securities and derivatives qualifying as cash flow hedges, net of tax of \$0.3	5.7					5.7	5.7
Minimum pension liability adjustment, net of tax of \$60.5	71.6					71.6	71.6
Total comprehensive income							
Shares issued under incentive stock plans	120.0	2.3	2.3	117.7			
Repurchase of common shares by subsidiary	(763.6)	(19.4)	(19.4)	(587.3)			
Stock split	-	174.7	174.7		(174.7)		
Cash dividends, declared and paid (\$0.57 per share)	(192.0)				(192.0)		
<i>Balance at December 31, 2005</i>	5,762.0	330.7	330.7	-	5,558.9	(127.6)	
Net earnings	1,032.5				1,032.5		\$1,032.5
Currency translation	258.8					258.8	258.8
Change in fair value of marketable securities and derivatives qualifying as cash flow hedges, net of tax of \$0.8	(7.3)					(7.3)	(7.3)
Minimum pension liability adjustment, net of tax of \$3.2	(9.2)					(9.2)	(9.2)
Total comprehensive income							
Adoption of FASB Statement No. 158, net of tax of \$268.2	(472.8)					(472.8)	
Shares issued under incentive stock plans	111.1	3.8	3.8	107.3			
Repurchase of common shares by subsidiary	(1,096.3)	(27.7)	(27.7)	(150.9)			
Share-based compensation	43.6			43.6			
Cash dividends, declared and paid (\$0.68 per share)	(217.6)				(217.6)		
<i>Balance at December 31, 2006</i>	\$5,404.8	\$306.8	306.8	\$ -	\$5,456.1	(\$358.1)	

See accompanying Notes to Consolidated Financial Statements.

**Ingersoll-Rand Company Limited**  
**Consolidated Statements of Cash Flows**  
*In millions*

For the years ended December 31,	2006	2005	2004
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 1,032.5	\$ 1,054.2	\$ 1,218.7
Loss (income) from discontinued operations, net of tax	35.8	(1.1)	(388.9)
Adjustments to arrive at net cash provided by operating activities:			
Depreciation and amortization	190.7	195.7	174.4
Gain on sale of businesses	-	(1.5)	-
Gain on sale of property, plant and equipment	(5.7)	(2.4)	(8.9)
Minority interests, net of dividends	9.2	(1.3)	6.3
Equity earnings, net of dividends	0.1	0.4	(8.6)
Stock settled share based compensation	23.4	-	-
Deferred income taxes	(59.3)	64.0	(59.2)
Other items	(31.1)	(42.0)	(16.6)
Changes in other assets and liabilities			
(Increase) decrease in:			
Accounts and notes receivable	(204.7)	(128.5)	(70.1)
Inventories	(116.1)	0.6	(174.8)
Other current and noncurrent assets	(91.7)	(189.1)	(139.2)
Increase (decrease) in:			
Accounts and notes payable	169.2	87.8	91.5
Other current and noncurrent liabilities	56.5	(163.6)	145.6
Net cash (used in) provided by continuing operating activities	1,008.8	873.2	770.2
Net cash (used in) provided by discontinued operating activities	(36.6)	(34.1)	27.3
<b>Cash flows from investing activities:</b>			
Capital expenditures	(212.3)	(141.8)	(125.6)
Proceeds from sale of property, plant and equipment	16.4	19.0	50.4
Acquisitions, net of cash acquired	(121.5)	(514.7)	(33.7)
Proceeds from business dispositions	-	11.4	1,413.2
Proceeds from sales and maturities of marketable securities	155.8	-	0.3
Purchase of marketable securities	-	(153.2)	-
Cash provided by equity companies, net	0.4	7.6	7.6
Net cash (used in) provided by continuing investing activities	(161.2)	(771.7)	1,312.2
Net cash (used in) provided by discontinued investing activities	-	-	(7.4)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings	369.2	(40.2)	(16.3)
Proceeds from long-term debt	4.0	301.7	-
Payments of long-term debt	(513.7)	(198.8)	(453.1)
Net change in debt	(140.5)	62.7	(469.4)
Redemption of preferred stock of subsidiaries	-	(73.6)	-
Proceeds from exercise of stock options	95.7	90.9	170.7
Dividends paid	(217.6)	(192.1)	(152.6)
Repurchase of common shares by subsidiary	(1,096.3)	(763.6)	(355.9)
Net cash (used in) provided by continuing financing activities	(1,358.7)	(875.7)	(807.2)
Net cash (used in) provided by discontinued financing activities	-	-	(1.0)
<b>Effect of change in fiscal year end of businesses</b>	-	-	(23.8)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	29.4	(14.2)	16.5
Net (decrease) increase in cash and cash equivalents	(518.3)	(822.5)	1,286.8
Cash and cash equivalents - beginning of period	880.6	1,703.1	416.3
Cash and cash equivalents - end of period	\$ 362.3	\$ 880.6	\$ 1,703.1
<b>Cash paid during the year for:</b>			
Interest, net of amounts capitalized	\$ 105.2	\$ 131.2	\$ 124.2
Income taxes, net of refunds	\$ 195.3	\$ 270.0	\$ 170.8

*See accompanying 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, did not result in any changes to the consolidated amounts of assets, liabilities and shareholders' equity.

The results for Hussmann International, Inc. and its majority-owned affiliates had been on a 15-day lag for U.S. operations and a one-month lag for non-U.S. operations, since its acquisition in 2000. During the first quarter of 2004, these lags were eliminated, and the financial results were recorded on a current basis. The result of this action was a net loss of \$16.5 million, which was recorded directly to retained earnings on the Consolidated Balance Sheet, and a resulting cash outflow of \$23.8 million, which was shown as a separate line item on the Consolidated Statement of Cash Flows.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS 158). SFAS 158 requires an entity to recognize in its balance sheet the funded status of its defined benefit pension and postretirement plans. The standard also requires an entity to recognize changes in the funded status within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. At December 31, 2006, the Company adopted the provisions of SFAS 158 for its postretirement and pension plans. The adoption of SFAS 158 resulted in a decrease of total assets of \$476.0 million and shareholders' equity of \$472.8 million (net of tax of \$268.2 million) and an increase of total liabilities of \$265.0 million. Refer to Note 8 and 9 for further details of the impact of SFAS 158.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," (SFAS 123(R)) using the modified prospective method of adoption. SFAS 123(R) requires companies to recognize compensation expense for an amount equal to the fair value of the share-based payment issued. Under the modified prospective method, financial statement amounts for prior periods have not been restated to reflect the fair value method of recognizing compensation cost relating to stock options. Refer to Note 11 for further details of the impact of SFAS 123(R).

**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. Some of the more significant estimates include accounting for doubtful accounts, useful lives of property, plant and equipment and intangible assets, purchase price allocation of acquired businesses, valuation of assets, including goodwill and other intangible assets, product warranties, sales allowances, taxes, environmental, product liability, asbestos and other contingencies. Actual results could differ from those estimates.

**Principles of Consolidation:** The Company's consolidated financial statements include all wholly owned and majority-owned subsidiaries. Partially owned equity affiliates are accounted for under the equity method. The Company is also required to consolidate variable interest entities in which it bears a majority of the risk to the entities' potential losses or stands to gain from a majority of the entities' expected returns. Intercompany transactions and balances have been eliminated.

**Cash and 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.

**Marketable Securities:** The Company invests in marketable securities and classifies the securities as available-for-sale under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In accordance with SFAS 115, available-for-sale marketable securities are accounted for at market prices, with the unrealized gain or loss, less applicable deferred income taxes, recorded within accumulated other comprehensive income (loss).

**Inventories:** Inventories are stated at the lower of cost or market. Most U.S. manufactured inventories, excluding the Climate Control Technologies segment, are valued using the last-in, first-out (LIFO) method. All other inventories are valued using the first-in, first-out (FIFO) method. At December 31, 2006 and 2005, inventories on LIFO were approximately 40% of the company's total inventory.

**Allowance for Doubtful Accounts:** The Company has provided an allowance for doubtful accounts receivable using a formula based upon company policy, derived from its knowledge of its end markets, customer base and products.

In the first quarter of 2006, the Company changed its estimate of the allowance for doubtful accounts in light of various business and economic factors, including a significant change in its business portfolio and historical and expected write-off experience. In addition, the Company signed a new insurance policy which limits its bad debt exposure. As a result, the Company reduced its allowance by \$20.5 million, or \$17.1 million after-tax, which increased first quarter 2006 diluted earnings per share by \$0.05.

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost, less accumulated depreciation. For assets placed in service prior to December 31, 1994, the Company principally uses accelerated depreciation methods. Assets placed in service subsequent to that date, excluding leasehold improvements, are depreciated using the straight-line method over the estimated useful life of the asset. Leasehold improvements are depreciated over the shorter of their economic useful life or their lease term. Useful lives range from 10 to 50 years for buildings and improvements and from 3 to 12 years for machinery and equipment.

Repair and maintenance costs that do not extend the useful life of the asset are charged against earnings as incurred. Major replacements and significant improvements are capitalized.

The Company assesses the recoverability of the carrying value of its property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to the future net undiscounted cash flows expected to be generated by the asset. If the undiscounted cash



flows are less than the carrying amount of the asset, an impairment loss is recognized for the amount by which the carrying value of the asset exceeds the fair value of the assets.

**Goodwill and Intangible Assets:** The Company records goodwill as the excess of the purchase price over the fair value of net identifiable assets and liabilities of an acquired business.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company tests for impairment during the fourth quarter of its fiscal year using September 30th balances. Recoverability of goodwill is measured at the reporting unit level and determined using a two step process. The first step compares the carrying amount of the reporting unit to its estimated fair value. The fair value of each reporting unit is determined by an estimate of its discounted cash flows. To the extent that the carrying value of the reporting unit exceeds its estimated fair value, a second step is performed, wherein the reporting units carrying value of goodwill is compared to its implied fair value of goodwill. To the extent that the carrying value exceeds the fair value, impairment exists and an impairment loss must be recognized.

Recoverability of other intangible assets with indefinite useful lives is measured by a comparison of the carrying amount of the intangible assets to the fair value of the respective intangible assets. Any excess of the carrying value over the fair value is recognized as an impairment loss. Other intangible assets such as patents, customer-related intangible assets and other intangible assets with finite lives are amortized on a straight-line basis over their estimated economic lives. Recoverability of intangible assets with finite lives is assessed in the same manner as for property, plant and equipment.

**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. These accruals are adjusted for known or anticipated warranty claims as new information becomes available.

**Treasury Stock:** The Company repurchases its Class A common shares from time to time in the open market and in privately negotiated transactions based upon market conditions and the discretion of management. These long-term repurchase programs are authorized by the Board of Directors and serve in part to offset dilution from the Company's incentive stock plan. These acquired Class A common shares owned by a subsidiary of the Company are recorded at cost and amounted to \$2,215.8 million and \$1,119.5 million at December 31, 2006 and 2005, respectively.

**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; (c) collectibility is reasonably assured; and (d) delivery has occurred or service has been rendered. Delivery generally occurs when the title and the risks and rewards of ownership have substantially transferred to the customer. Revenue from maintenance contracts or extended warranties is recognized on a straight-line basis over the life of the contract, unless another method is more representative of the costs incurred. The Company enters into agreements that contain multiple elements, such as equipment, installation and service. For multiple-element arrangements, the Company recognizes revenue for delivered elements when the delivered item has stand-alone value to the customer, fair values or

undelivered elements are known, customer acceptance has occurred, and there are only customary refund or return rights related to the delivered elements.

**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.

**Research and Development Costs:** Research and development expenditures, including qualifying engineering costs, are expensed when incurred and amounted to \$175.5 million, \$162.4 million and \$149.2 million in 2006, 2005 and 2004, respectively. The Company also incurs engineering costs that are not considered research and development expenditures.

**Software Costs:** The Company follows the guidance outlined in Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" for all software developed or obtained for internal use, which requires companies to capitalize certain internal-use software costs once specific criteria are met and subsequently amortize these costs over the software's useful life, which ranges from 3 to 7 years.

In the fourth quarter of 2006, the Company adjusted its estimated useful life of certain of its capitalized software from 5 to 7 years due to the length of time that the Company expects to utilize these software platforms. The impact in the fourth quarter of 2006 for this adjustment was a reduction of amortization expense of \$1.8 million.

**Employee Benefit Plans:** The Company provides a range of benefits to eligible employees and retired employees, including pensions, postretirement and post-employment 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 into earnings over future periods. Effective December 31, 2006, these amounts are generally recognized into shareholders' equity on an annual basis, due to the adoption of SFAS 158. The Company reviews its actuarial assumptions at each measurement date, which is November 30 for its plans, and makes modifications to the assumptions based on current rates and trends, if appropriate.

**Loss Contingencies:** Liabilities are recorded for various contingencies arising in the normal course of business, including litigation and administrative proceedings, environmental matters, product liability, product warranty, worker's compensation and other claims. The Company has recorded reserves in the financial statements related to these matters, which are developed using input derived from actuarial estimates and historical and anticipated experience data depending on the nature of the reserve, and in certain instances with consultation of legal counsel, 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.

**Derivative Financial Instruments:** The Company periodically enters into cash flow and other hedge transactions specifically to hedge its exposure to various risks related to interest rates, foreign exchange rates and securities pricing. The Company recognizes all derivatives on the consolidated balance sheet at their fair value as either assets or liabilities. For cash flow designated hedges, the effective portion of the changes in fair value of the derivative contract are recorded in other comprehensive income, net of taxes, and are recognized in the income statement at the time earnings are affected by the hedged transaction. For other hedge transactions, the changes in the fair value of the derivative contract are recognized in the income statement.

**Currency Translation:** For the Company's entities where the functional currency is other than the U.S. dollar, assets and liabilities have been translated at year-end exchange rates, and income and expenses translated using average exchange rates for the respective periods. Adjustments resulting from the process of translating an entity's financial statements into the U.S. dollar have been recorded in accumulated other comprehensive income and are included in net earnings only upon sale or liquidation of the underlying investment.

Transactions that are denominated in a currency other than an entity's functional currency are subject to changes in exchange rates with the resulting gains and losses recorded within net earnings. Net currency transaction gains (losses) which the Company records within Other income, net were \$(19.3) million, \$2.2 million and \$(9.6) million in 2006, 2005 and 2004, respectively.

**Reclassifications:** Certain prior year amounts have been reclassified to conform to the current year presentation. The Company has revised its December 31, 2004 consolidated statement of cash flows to separately disclose the effects of discontinued operations by cash flow activity. The Company had previously reported these amounts on a combined basis. The Company also reclassified its presentation of capitalized software on its December 31, 2005 consolidated balance sheet from intangible assets to property, plant and equipment to better depict the nature and intent of the investment. Concurrently, the Company reclassified its consolidated statement of cash flow for the years ended December 31, 2005 and 2004 in order to show capitalized software purchases as an investing activity rather than an operating activity to be consistent with the Company's balance sheet presentation.

**New Accounting Standards:** In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the Company for the fiscal year ended December 31, 2006. SAB 108 did not have a material impact on the Company's financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109" (FIN 48), which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions.

The provisions of FIN 48 are effective for the Company's fiscal year beginning January 1, 2007. The Company is still assessing the impact of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 establishes a framework for measuring fair value that is based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information to develop those assumptions. Additionally, the standard expands the disclosures about fair value measurements to include disclosing the fair value measurements of assets or liabilities within each level of the fair value hierarchy. SFAS 157 is effective for the Company starting on January 1, 2008. The Company is currently evaluating the impact on its financial statements of adopting SFAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 permits companies the option, at specified election dates, to measure financial assets and liabilities at their current fair value, with the corresponding changes in fair value from period to period recognized in the income statement. Additionally, SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. SFAS 159 is effective for the Company starting on January 1, 2008. The Company is currently evaluating the impact on its financial statements of adopting SFAS 159.

## NOTE 2 – MARKETABLE SECURITIES

At December 31, marketable securities were as follows:

<i>In millions</i>	2006			2005		
	Amortized cost or cost	Unrealized losses	Fair value	Amortized cost or cost	Unrealized gains	Fair value
Short-term marketable securities:						
Equity securities	\$ 0.7	\$ -	\$ 0.7	\$ 0.6	\$ -	\$ 0.6
Commercial paper	-	-	-	4.5	-	4.5
Municipal bonds	-	-	-	151.4	-	151.4
Total	<u>\$ 0.7</u>	<u>\$ -</u>	<u>\$ 0.7</u>	<u>\$ 156.5</u>	<u>\$ -</u>	<u>\$ 156.5</u>
Long-term marketable securities:						
Equity securities	\$ 18.7	\$ (4.4)	\$ 14.3	\$ 20.6	\$ 0.3	\$ 20.9
Total	<u>\$ 18.7</u>	<u>\$ (4.4)</u>	<u>\$ 14.3</u>	<u>\$ 20.6</u>	<u>\$ 0.3</u>	<u>\$ 20.9</u>

Long-term marketable securities are included within Other assets on the Consolidated Balance Sheet.

## NOTE 3 – INVENTORIES

At December 31, inventories were as follows:

<i>In millions</i>	2006	2005
Raw materials and supplies	\$ 496.5	\$ 436.3
Work-in-process	220.1	193.4
Finished goods	762.3	622.4
	1,478.9	1,252.1
Less - LIFO reserve	158.6	123.3
Total	\$ 1,320.3	\$ 1,128.8

#### NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

At December 31, property, plant and equipment were as follows:

<i>In millions</i>	2006	2005
Land	\$ 72.3	\$ 66.6
Buildings	605.7	536.7
Machinery and equipment	1,555.4	1,391.5
Software	215.1	169.5
	2,448.5	2,164.3
Accumulated depreciation	1,172.2	1,006.8
Total	\$ 1,276.3	\$ 1,157.5

Depreciation expense for 2006, 2005 and 2004 was \$163.5 million, 164.2 million and \$159.2 million, which include amounts for software amortization of \$33.7 million, \$28.5 million and \$25.0 million, respectively. Capitalized interest on construction and other capital projects amounted to \$5.8 million, \$2.9 million and \$2.2 million in 2006, 2005 and 2004, respectively.

#### NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

<i>In millions</i>	Climate Control Technologies	Compact Vehicle Technologies	Construction Technologies	Industrial Technologies	Security Technologies	Total
Balance at December 31, 2004	\$2,618.7	\$801.4	\$101.3	\$119.4	\$570.2	\$4,211.0
Acquisitions and adjustments*	(35.7)	(3.6)	10.8	23.0	368.6	363.1
Dispositions	(0.3)	-	-	-	-	(0.3)
Translation	(68.5)	(3.3)	(0.4)	(5.0)	(63.2)	(140.4)
Balance at December 31, 2005	2,514.2	794.5	111.7	137.4	875.6	4,433.4
Acquisitions and adjustments*	(22.2)	(1.0)	40.9	14.3	17.9	49.9
Dispositions	-	-	-	-	-	-
Translation	53.1	4.4	1.1	5.5	57.4	121.5
Balance at December 31, 2006	\$2,545.1	\$797.9	\$153.7	\$157.2	\$950.9	\$4,604.8

\* Includes current year adjustments related to final purchase price allocation adjustments.

The Company initially records as goodwill the excess of the purchase price over the preliminary fair value of the net assets acquired. Once the final valuation has been performed for each acquisition, there may be adjustments recorded to goodwill.

During 2006, the Company made several bolt-on acquisitions for an aggregate purchase price of approximately \$120 million, which resulted in additional goodwill of \$75.3 million. In January 2005, the Company completed the acquisition of the remaining 70% interest in Italy-based CISA S.p.A for approximately \$267 million in cash and the assumption of approximately \$244 million of debt. The Company also made several other bolt-on acquisitions during 2005. The Company recorded approximately \$405 million of goodwill associated with these businesses acquired during 2005.

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

<i>In millions</i>	2006		2005	
	Gross amount	Accumulated amortization	Gross amount	Accumulated amortization
Customer relationships	\$ 510.6	\$ 73.0	\$ 484.0	\$ 58.6
Trademarks	105.0	10.0	93.7	5.3
Patents	38.4	25.9	36.6	23.5
Other	50.6	24.3	55.4	20.7
Total amortizable intangible assets	704.6	133.2	669.7	108.1
Indefinite-lived intangible assets	164.8	-	155.4	-
Total	\$ 869.4	\$ 133.2	\$ 825.1	\$ 108.1

Intangible asset amortization expense for 2006, 2005 and 2004 was \$25.9 million, \$30.1 million and \$14.5 million, respectively. Estimated amortization expense on existing intangible assets is approximately \$20 million for each of the next five fiscal years.

#### **NOTE 6 – DEBT AND CREDIT FACILITIES**

At December 31, loans payable and current maturities of long-term debt consisted of the following:

<i>In millions</i>	2006	2005
Current maturities of long-term debt	\$ 626.8	\$ 856.6
Other short-term borrowings	452.6	76.1
Total	\$ 1,079.4	\$ 932.7

The weighted-average interest rate for total short-term debt at December 31, 2006 and 2005, was 6.3% and 6.8%, respectively.

As of December 31, 2006, the Company had \$378.0 million outstanding under its commercial paper program, which is included in Other short-term borrowings above.

At December 31, long-term debt consisted of:



<i>In millions</i>	2006	2005
6.57% Medium-term Note Due 2007	\$ -	\$ 40.0
6.75% Senior Notes Due 2008	124.9	124.8
4.75% Senior Notes Due 2015	299.0	298.9
9.00% Debentures Due 2021	125.0	125.0
7.20% Debentures Due 2007-2025	135.0	142.5
6.48% Debentures Due 2025	149.7	149.7
6.44% Debentures Due 2027	-	200.0
Medium-term Notes Due 2023, at an average rate of 8.22%	50.3	50.3
Other loans and notes, at end-of-year average interest rates of 4.73% in 2006 and 3.06% in 2005, maturing in various amounts to 2016	21.3	53.1
Total	\$ 905.2	\$ 1,184.3

The fair value of long-term debt, including current maturities of long-term debt, at December 31, 2006 and 2005, was \$1,593.2 million and \$2,191.5 million, respectively. The fair value of long-term debt was based upon quoted market values.

Long-term debt retirements are as follows: \$626.8 million in 2007, \$138.0 million in 2008, \$10.5 million in 2009, \$10.5 million in 2010, \$10.4 million in 2011 and \$735.8 million thereafter. Long-term debt retirements for 2007 include \$549.1 million which only requires repayment at the option of the holder. If these options are not exercised, the final maturity dates of these instruments would range between 2027 and 2028. During the second quarter of 2005, the Company issued \$300 million aggregate principal amount of its 4.75% Senior Notes due in 2015. The notes are unconditionally guaranteed by IR-New Jersey.

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%. As of December 31, 2006, the Company's debt-to-total capital ratio was significantly beneath this limit.

At December 31, 2006, the Company's committed revolving credit lines consisted of two five-year lines totaling \$2.0 billion, of which \$750 million expires in June 2009 and \$1.25 billion expires in August 2010. These lines were unused and provide support for the Company's commercial paper program and indirectly provide support for other financing instruments, such as letters of credit and comfort letters, as required in the normal course of business. The Company compensates banks for unused lines with fees equal to a weighted average of .0775% per annum. Available non-U.S. lines of credit were \$786.9 million, of which \$612.0 million were unused at December 31, 2006. These lines provide support for bank guarantees, letters of credit and other working capital purposes.

Interest income, included in Other income, net, was \$16.3 million, \$29.6 million and \$12.3 million for 2006, 2005 and 2004, respectively.

## **NOTE 7 – FINANCIAL INSTRUMENTS**

In the normal course of business, the Company from time to time uses various financial instruments, including derivative financial instruments, to manage risks associated with interest rate, currency, commodity price and share-based compensation exposures. Derivative instruments are not used for trading or speculative purposes. On the date a derivative contract is entered into, the Company



designates the derivative instrument as either a hedge of a forecasted transaction (a cash flow hedge) or a hedge of recognized asset or liability (a cash flow or undesignated hedge). The Company formally documents its hedge relationships, including identification of the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivative instruments that are designated as hedges to specific assets, liabilities or forecasted transactions.

The Company also assesses both at the inception and at least quarterly thereafter, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in the cash flows of the hedged item. Any ineffective portion of a derivative instrument's change in fair value is recorded directly in Other income, net, in the period of change. There were no material adjustments as a result of ineffectiveness to the results of operations for the years ended December 31, 2006, 2005 and 2004. If the hedging relationship ceases to be highly effective, or it becomes probable that a forecasted transaction is no longer expected to occur, the hedging relationship will be undesignated and any future gains and losses on the derivative instrument would be recorded in Other income, net.

The fair market value of derivative financial instruments is determined through market-based valuations and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded.

#### *Currency and Commodity Hedging Instruments*

The estimated fair value of currency hedges outstanding at December 31, 2006 and 2005, was a projected loss of \$1.6 million and projected gain of \$1.6 million, respectively. The notional amount of the currency hedges was \$559.2 million and \$252.1 million at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, \$1.1 million and \$3.4 million, net of tax, respectively, was included in accumulated other comprehensive income related to the fair value of currency hedges. The amount expected to be reclassified to earnings over the next twelve months is \$1.1 million. The actual amounts that will be reclassified to earnings may vary from this amount as a result of changes in market conditions. At December 31, 2006, the maximum term of the Company's currency hedges was 12 months.

During 2006, the Company did not purchase any commodity derivatives. However, it has used fixed-priced supplier agreements, when available, to replace matured commodity forward contracts. The estimated fair value of outstanding commodity contracts at December 31, 2005, was minimal. The notional amount of the outstanding commodity contracts was \$0.7 million at December 31, 2005.

#### *Other Hedging Instruments*

In August 2006, the Company entered into two total return swaps (the Swaps) which are derivative instruments used to hedge the Company's exposure to changes in its share-based compensation expense. The aggregate notional amount of the Swaps is approximately \$52.6 million, and the fair value of the Swaps was a gain of \$2.1 million as of December 31, 2006, which was recorded within Selling and administrative expenses.

In March 2005, the Company entered into interest rate locks for the forecasted issuance of \$300 million of Senior Notes due 2015. These interest rate locks met the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair value of the interest rate locks were deferred in accumulated other comprehensive income and will be recognized into interest expense over the life of the debt. At December 31, 2006, \$9.5 million of deferred losses was included in

accumulated other comprehensive income related to the interest rate locks and \$0.9 million is expected to be reclassified to earnings over the next twelve months.

#### *Concentration of Credit Risk*

The counterparties to the Company's forward contracts consist of a number of highly rated major international financial institutions. The Company could be exposed to losses 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.

#### *Fair Value of Financial Instruments*

The carrying value of cash and cash equivalents, 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 8 – 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.

The following table details information regarding the Company's postretirement plans at December 31:

<i>In millions</i>	2006	2005
Change in benefit obligations:		
Benefit obligation at beginning of year	\$ 1,009.3	\$ 964.6
Service cost	11.8	9.3
Interest cost	55.0	54.9
Plan participants' contributions	12.9	10.2
Actuarial losses	43.4	52.4
Benefits paid, net of Medicare Part D subsidy *	(97.0)	(81.7)
Other	(0.2)	(0.4)
Benefit obligations at end of year	\$ 1,035.2	\$ 1,009.3

\* Amounts are net of Medicare Part D subsidy of \$7.1 million in 2006

Funded status:		
Plan assets less than benefit obligations	\$ (1,035.2)	\$ (1,009.3)
Unrecognized:		
Prior service gains	-	(26.4)
Plan net actuarial losses	-	295.4
Net amount recognized	\$ (1,035.2)	\$ (740.3)
Amounts included in the balance sheet:		
Accrued compensation and benefits	\$ (79.0)	\$ (78.5)
Postemployment and other benefit liabilities	(956.2)	(661.8)
Net amount recognized	\$ (1,035.2)	\$ (740.3)

As explained further in Note 1, in 2006, the Company adopted SFAS 158, which requires the Company to record the funded status of its postretirement plans on its balance sheet effective December 31, 2006. The adoption of SFAS 158 for the Company's postretirement plans other than pensions resulted in an increase of total liabilities of \$300.4 million and a decrease of shareholders' equity of \$135.7 million (net of tax of \$164.7 million).

The pretax amounts recognized in accumulated other comprehensive loss were as follows:

<i>In millions</i>	2006	2005
Prior service gains	\$ (21.8)	-
Plan net actuarial losses	322.2	-
Total	\$ 300.4	-

The amounts expected to be recognized in net periodic postretirement benefits cost in 2007 for prior service gains and plan net actuarial losses are \$4.2 million and \$19.8 million, respectively.

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

<i>In millions</i>	2006	2005	2004
Service cost	\$ 11.8	\$ 9.3	\$ 10.2
Interest cost	55.0	54.9	57.3
Net amortization of prior service gains	(4.2)	(4.2)	(7.2)
Net amortization of net actuarial losses	16.6	14.0	16.6
Net periodic postretirement benefit cost	\$ 79.2	\$ 74.0	\$ 76.9

Assumptions:	2006	2005	2004
Weighted-average discount rate assumption used to determine:			
Benefit obligations at December 31	5.50%	5.50%	5.75%
Net periodic benefit cost	5.50%	5.75%	6.00%
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	2013	2012	2011

A 1% change in the medical trend rate assumed for postretirement benefits would have the following effects at December 31, 2006:

<i>In millions</i>	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 6.3	\$ 5.0
Effect on postretirement benefit obligation	81.0	68.4

Benefit payments for postretirement benefits, which are net of expected plan participant contributions and Medicare Part D subsidy, are expected to be paid as follows: \$72.0 million in 2007, \$75.0 million in 2008, \$76.1 million in 2009, \$77.1 million in 2010, \$79.1 million in 2011 and \$380.7 million for the years 2012 to 2016.

#### **NOTE 9 – 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. The Company's pension plans for U.S. non-collectively bargained employees provided benefits on a modest final average pay formula. The Company's U.S. collectively bargained pension plans principally provide benefits based on a flat benefit formula. Non-U.S. plans provide benefits based on earnings and years of service. The Company maintains additional other supplemental benefit plans for officers and other key employees.

The following table details information regarding the Company's pension plans at December 31:

<i>In millions</i>	2006	2005
Change in benefit obligations:		
Benefit obligation at beginning of year	\$ 3,033.2	\$ 2,942.4
Service cost	54.6	52.9
Interest cost	161.3	161.3
Employee contributions	2.8	2.8
Acquisitions	-	18.4
Amendments	19.8	(2.0)
Expenses paid	(3.6)	(2.7)
Actuarial losses	7.4	121.7
Benefits paid	(205.8)	(208.0)
Currency exchange impact	101.1	(87.0)
Curtailments and settlements	(7.6)	(3.3)
Other	12.5	36.7
Benefit obligation at end of year	\$ 3,175.7	\$ 3,033.2
Change in plan assets:		
Fair value at beginning of year	\$ 2,727.0	\$ 2,647.5
Actual return on assets	325.7	232.3
Company contributions	31.6	119.4
Employee contributions	2.8	2.8
Expenses paid	(3.6)	(2.7)
Benefits paid	(205.8)	(208.0)
Currency exchange impact	85.2	(68.0)
Settlements	(8.0)	(3.2)
Other	2.4	6.9
Fair value of assets end of year	\$ 2,957.3	\$ 2,727.0

<i>In millions</i>	2006	2005
Funded status:		
Plan assets less than the benefit obligations	\$ (218.4)	\$ (306.2)
Unrecognized:		
Net transition asset	-	2.9
Prior service costs	-	53.5
Plan net actuarial losses	-	672.1
Net amount recognized	\$ (218.4)	\$ 422.3

Amounts included in the balance sheet:		
Long-term prepaid expenses in other assets	\$ 119.3	\$ 435.1
Accrued compensation and benefits	(12.6)	(20.4)
Postemployment and other benefit liabilities	(325.1)	(192.2)
Pension intangible included in other assets *	-	13.2
Accumulated other comprehensive income *	-	186.6
Net amount recognized	\$ (218.4)	\$ 422.3

\* Amounts represent the impact of recording additional minimum liabilities (AMLs). Upon the adoption of SFAS 158 AMLs are no longer required, as the funded status of the pension plans is recorded on the balance sheet.

As explained further in Note 1, the Company adopted SFAS 158, which requires the Company to record the funded status of its pension plans on its balance sheet effective December 31, 2006. The adoption of FAS 158 resulted in a decrease of total assets of \$476.0 million, total liabilities of \$35.4 million and total shareholders' equity of \$337.1 million (net of tax of \$103.5 million).

The pretax amounts recognized in accumulated other comprehensive loss were as follows:

<i>In millions</i>	2006	2005
Net transition asset	\$ 2.1	-
Prior service costs	63.0	-
Plan net actuarial losses	574.5	-
Total	\$ 639.6	-

Weighted-average assumptions used:

Benefit obligations at December 31,	2006	2005
Discount rate:		
U.S. plans	5.50%	5.50%
Non-U.S. plans	5.00%	5.00%
Rate of compensation increase:		
U.S. plans	4.00%	4.00%
Non-U.S. plans	4.25%	4.00%

The amounts expected to be recognized in net periodic pension cost during the year ended 2007 for the net transition asset, prior service costs and plan net actuarial losses are \$0.9 million, \$9.5 million and \$18.4 million, respectively. The Company does not expect to receive any plan assets during 2007.

The accumulated benefit obligation for all defined benefit pension plans was \$3,005.3 million and \$2,868.6 million at December 31, 2006 and 2005, 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 \$1,198.4 million, \$1,101.5 million and \$861.9 million respectively, as of December 31, 2006 and \$1,053.4 million, \$953.1 million and \$746.6 million respectively, as of December 31, 2005.

Pension benefit payments, are expected to be paid as follows: \$192.1 million in 2007, \$192.0 million in 2008, \$200.6 million in 2009, \$227.3 million in 2010, \$204.4 million in 2011 and \$1,089.7 million for the years 2012 to 2016.

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

<i>In millions</i>	2006	2005	2004
Service cost	\$ 54.6	\$ 52.9	\$ 46.7
Interest cost	161.3	161.3	173.0
Expected return on plan assets	(218.9)	(213.9)	(221.1)
Net amortization of:			
Prior service costs	9.4	8.8	8.8
Transition amount	0.9	0.9	0.9
Plan net actuarial losses	25.4	22.4	18.2
Net periodic pension cost	32.7	32.4	26.5
Curtailment/settlement losses	-	4.0	41.1 *
Net periodic pension cost after curtailments/settlements	\$ 32.7	\$ 36.4	\$ 67.6

\* The curtailment and settlement losses in 2004 are associated primarily with the sale of Dresser-Rand and Drilling Solutions.

Pension expense for 2007 is projected to be approximately \$21.7 million, utilizing the assumptions for calculating the pension benefit obligations at the end of 2006.

Weighted-average assumptions used:

Net periodic pension cost for the year ended December 31,	2006	2005	2004
Discount rate:			
U.S. plans	5.50%	5.75%	6.00%
Non-U.S. plans	5.00%	5.25%	5.75%
Rate of compensation increase:			
U.S. plans	4.00%	4.00%	4.00%
Non-U.S. plans	4.00%	4.00%	3.75%
Expected return on plan assets:			
U.S. plans	8.50%	8.75%	8.75%
Non-U.S. plans	7.25%	7.50%	7.50%



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 asset 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 has 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.

The Company's pension plans weighted-average asset allocations at December 31, 2006 and 2005, by asset category are as follows:

Asset category	2006	2005
Equity securities	62.0%	58.4%
Debt securities	33.1%	33.5%
Real estate	0.3%	0.3%
Other (including cash)	4.6%	7.8%
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 management 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. As of December 31, 2006, the Company's strategic global asset allocation for its pension plans was 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 at least quarterly and any appropriate adjustments are made. Based on its most recent ALM study, the Company in 2007 has begun to adjust its strategic global asset allocation for its plans to be approximately 40% in equity securities and 60% in debt securities, real estate and cash.

The Company made contributions to its pension plans of \$31.7 million in 2006, \$119.4 million in 2005, and \$170.1 million in 2004, respectively. The Company currently projects that it will be required to contribute approximately \$24 million to its plans worldwide in 2007. 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.

The Company anticipates funding the plans in 2007 in accordance with contributions required by funding regulations or the laws of each jurisdiction.

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 \$48.6 million, \$46.8 million and \$52.6 million in 2006, 2005 and 2004, respectively. The Company's contributions relating to non-U.S. defined contribution plans and other non-U.S. benefit plans were \$8.8 million, \$8.1 million and \$11.1 million in 2006, 2005 and 2004, respectively.

## **NOTE 10 – SHAREHOLDERS' EQUITY**

### *Common Stock*

On August 3, 2005, the Company's Board of Directors declared a two-for-one stock split, effected in the form of a stock distribution on September 1, 2005. The Company retained the current par value of \$1.00 per share for all common shares. All references in the financial statements and notes to the number of shares outstanding, per share amounts, and stock option data of the Company's common shares were restated in 2005 to reflect the effect of the stock split. Shareholders' equity reflects the stock split by reclassifying from "retained earnings" to "Class A common shares" an amount equal to the par value of the additional shares arising from the split as of the distribution date.

Also in August 2005, the Board of Directors of the Company expanded the Company's existing share repurchase program to allow the repurchase of up to a total of \$2 billion worth of Class A common shares. The plan was established on August 4, 2004, and initially authorized the Company to repurchase up to 20 million Class A common shares. During 2006, the Company repurchased 27.7 million Class A common shares at a total cost of \$1,096.3 million, which completed the Company's share repurchases under the \$2 billion plan. In December 2006, the Board of Directors authorized a new share repurchase program for the repurchase of up to \$2 billion worth of Class A common shares. No amounts were purchased under the December 2006 authorization as of December 31, 2006.

Effective December 31, 2001, IR-Limited became the successor to IR-New Jersey, following the 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 270,500,006 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. 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, 2006 or 2005.

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 redeemed or exchanged earlier by the Company, as provided in the rights plan. Under the rights plan, one preference share purchase right was distributed for each Class A common share. As a result of the two-for-one stock split in September 2005, the rights were adjusted so that each issued share of Class A common share now has associated with it one-half of a right. The rights only become exercisable, and will trade separately from the Class A common shares, 10 days after the first public announcement that any person or group has acquired at least 15% of the Company's outstanding Class A common shares or on the 10<sup>th</sup> day following the commencement or the announcement of an intention to commence a tender offer, which would result in that person or group acquiring a beneficial ownership of at least 15% of the

outstanding Class A common shares. Each right entitles a holder to purchase one-thousandth of a share of Series A preferred stock at an exercise price of \$200.

If any person or group acquires 15% or more of the Company's Class A common shares, the rights not held by the 15% shareholder would become exercisable to purchase the Company's Class A common shares at a 50% discount. The plan provides that, at any time after a person or group becomes an acquiring person and prior to the acquisition by that person or group of 50% or more of the outstanding Class A common shares, the Board may exchange the rights (other than the rights held by the acquiring person, which will have become void), at an exchange ratio of one Class A common share per two rights. The Company may elect to redeem the rights at \$0.01 per right.

#### *Accumulated Other Comprehensive (Loss) Income*

The components of accumulated comprehensive loss are as follows:

<i>In millions</i>	2006	2005
Foreign currency translation adjustment	\$ 263.9	\$ 5.1
Fair value of derivatives qualifying as cash flow hedges, net of tax	(10.5)	(6.7)
Unrealized gain (loss) on marketable securities, net of tax	(3.3)	0.2
Pension and postretirement obligation adjustments, net of tax	(608.2)	(126.2)
Accumulated other comprehensive loss	\$ (358.1)	\$ (127.6)

#### **NOTE 11 – SHARE-BASED COMPENSATION**

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS 123(R)) using the modified prospective method of adoption. SFAS 123(R) requires companies to recognize compensation expense for an amount equal to the fair value of the share-based award issued. Under the modified prospective method, financial statement amounts for prior periods have not been restated to reflect the fair value method of recognizing compensation cost relating to stock options.

Prior to the adoption, the Company had accounted for stock option plans under the recognition and measurement principles of Accounting Principles Board No. 25 "Accounting for Stock Issued to Employees" (APB 25). Compensation expense was not recognized for employee stock options because they were granted with strike prices that were not less than the fair market value of the Company's stock on the date of the grant. Compensation expense was recorded for other share-based payments primarily including stock appreciation rights (SARs), performance shares, deferred compensation and management incentive units awards. The Company's Incentive Stock Plans authorize the Company to issue stock options and other share-based incentives. The total shares authorized by the shareholders was 60.0 million (after adjustment for the 2005 stock split), of which 17.2 million remained available for future incentive awards at December 31, 2006.

#### *Stock Options*

On December 7, 2005, the Compensation Committee of the Company's board of directors approved the acceleration of the vesting of all outstanding and unvested stock options under the Company's stock plan for active employees, effective December 31, 2005. As a result of the acceleration, 9.7 million stock options became exercisable, with exercise prices ranging from \$19.53 to \$39.85, and a weighted-

average exercise price of \$34.95. In addition to the acceleration of the vesting date, the terms and conditions of the stock option agreements governing the stock options were changed to prohibit transfers of any shares acquired through the exercise of these accelerated options until the earlier of (i) the original vesting date of the option or (ii) termination of employment, retirement, death or disability. The charge associated with the acceleration of vesting was approximately \$1 million, which was recorded in the fourth quarter of 2005 and represents the intrinsic value for the estimated number of stock options that would have been forfeited had the acceleration not occurred. Stock options issued after January 1, 2006, generally vest ratably over a three-year period from their date of grant and expire at the end of 10 years.

The average fair value of stock options granted during the year ended December 31, 2006, was \$10.42, using the Black-Scholes option-pricing model, with the following assumptions at the grant date:

Dividend yield	1.49%
Volatility	27.70%
Risk-free rate of return	4.47%
Expected life	4.42 years

The fair value of each of the Company's stock option awards is expensed on a straight-line basis over the required service period, which is generally the three-year vesting period of the options. For options granted to retirement eligible employees, the Company recognized expense for the fair value of the options at the grant date. Expected volatility is based on the implied historical volatility from traded options on the Company's stock. The risk-free rate of interest for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. The Company uses historical data to estimate forfeitures within its valuation model. The Company's expected life of the stock option awards is derived from historical experience and represents the period of time that awards are expected to be outstanding.

Changes in options outstanding under the plans for the years 2004, 2005 and 2006 are as follows:

	Shares subject to option	Weighted- average exercise price	Aggregate intrinsic value (millions)	Weighted- average remaining life
December 31, 2003	21,296,994	\$ 21.77		
Granted	6,555,680	32.24		
Exercised	(7,847,656)	21.85		
Cancelled	(1,151,544)	25.38		
December 31, 2004	18,853,474	25.19		
Granted	6,091,600	38.70		
Exercised	(3,921,949)	23.10		
Cancelled	(1,140,649)	33.77		
December 31, 2005	19,882,476	29.26		
Granted	3,305,190	39.33		
Exercised	(3,707,839)	25.77		
Cancelled	(314,885)	38.82		
Outstanding December 31, 2006	19,164,942	\$ 31.53	\$ 146.6	6.2
Exercisable December 31, 2006	16,109,612	\$ 30.03	\$ 146.6	5.7

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

Range of exercise price	Options outstanding			Options exercisable		
	Number outstanding at December 31, 2006	Weighted- average remaining life	Weighted- average exercise price	Number exercisable at December 31, 2006	Weighted- average remaining life	Weighted- average exercise price
\$ 15.00 - \$ 20.00	2,069,652	5.5	\$ 19.50	2,069,652	5.5	\$ 19.50
20.01 - 25.00	3,009,224	3.8	21.54	3,009,224	3.8	21.54
25.01 - 30.00	1,597,081	2.4	26.16	1,597,081	2.4	26.16
30.01 - 35.00	4,401,706	6.1	32.26	4,401,706	6.1	32.26
35.01 - 40.00	8,059,279	8.1	38.97	5,031,949	7.6	38.70
40.01 - 45.00	28,000	9.4	41.80	-	-	-
\$ 16.83 - \$ 43.16	19,164,942	6.2	\$ 31.53	16,109,612	5.7	\$ 30.03

At December 31, 2006, there was \$15.3 million of total unrecognized compensation cost from stock option arrangements granted under the plan, which is related to unvested shares of non-retirement eligible employees. This compensation will be recognized over the required service period, which is generally the three-year vesting period. The aggregate intrinsic value of options exercised during the year ended December 31, 2006 and 2005 was \$63.3 million and \$69.5 million, respectively.

#### SARs

SARs generally vest ratably over a three-year period from the date of grant and expire at the end of ten years. Effective August 2, 2006, all exercised SARs are settled with the Company's Class A common shares. Previously, exercised SARs were paid in cash. The following table summarizes the information for currently outstanding SARs:

	Shares subject to exercise	Weighted- average exercise price	Aggregate intrinsic value (millions)	Weighted- average remaining life
December 31, 2003	1,779,804	\$ 21.72		
Granted	627,340	32.22		
Exercised	(671,256)	22.50		
Cancelled	(126,090)	26.12		
December 31, 2004	1,609,798	25.12		
Granted	617,700	38.69		
Exercised	(345,556)	23.15		
Cancelled	(112,808)	29.95		
December 31, 2005	1,769,134	30.05		
Granted	395,020	39.12		
Exercised	(327,717)	24.49		
Cancelled	(142,683)	32.18		
Outstanding December 31, 2006	1,693,754	\$ 33.11	\$ 10.2	6.9
Exercisable December 31, 2006	834,304	\$ 28.17	\$ 9.1	5.6

### *Performance Shares*

The Company has a performance share program for key employees. The program provides annual awards for the achievement of pre-established long-term strategic initiatives and annual financial performance of the Company. The annual target award level is expressed as a number of the Company's Class A common shares and the award is paid in cash.

### *Deferred Compensation*

The Company allows key employees and non-employee directors to defer a portion of their eligible compensation into a number of investment choices, including Class A common share equivalents. The portion deferred into Class A common share equivalents is currently subject to market fluctuations based on the Company's share price. Effective August 2, 2006, the Compensation Committee eliminated the provision in the deferred compensation plans making plan participants eligible to receive a 20% supplemental amount on deferrals invested for five years in the Company's Class A common share equivalents. In addition, effective August 2, 2006, the Compensation Committee vested the previously awarded, but unvested, portions of the 20% supplemental amount awarded under the deferred compensation plans. The Company reversed \$0.4 million of expense in the third quarter of 2006 as a result of the changes to the deferred compensation plans.

### *Other Plans*

The Company maintains a shareholder-approved Management Incentive Unit Award Plan. Under the plan, participating key employees were awarded incentive units. When dividends are paid on Class A common shares, phantom dividends are awarded to unit holders, one-half of which is paid in cash, the remaining half of which is credited to the participants' account in the form of Class A common share equivalents. The value of the actual incentive units is never paid to participants, and only the fair value of accumulated common share equivalents is paid in cash upon the participants' retirement. The number of common share equivalents credited to participants' accounts at December 31, 2006 is 271,040.



Stock grants were issued prior to February 2000 as an incentive plan for certain key employees, with varying vesting periods. At December 31, 2006, there were 272,678 stock grants outstanding, all of which were vested. Effective August 2, 2006, all remaining stock grants will be settled with the Company's Class A common shares.

#### *Compensation Expense*

Share-based compensation expense is included in Selling and administrative expenses. The following table summarizes the expenses recognized:

<i>In millions</i>	2006	2005	2004
Stock options	\$ 16.2	\$ 1.0	\$ -
SARs	5.6	2.4	9.1
Performance shares	11.2	6.8	24.9
Deferred compensation	(0.4)	(0.9)	10.9
Other	-	0.1	10.4
Pre-tax expense	32.6	9.4	55.3
Tax benefit	12.5	3.6	21.2
After tax expense	\$ 20.1	\$ 5.8	\$ 34.1

Compensation expense was recognized during the year ended December 31, 2006, for all share-based option awards granted since January 1, 2006, based on the grant date fair value in accordance with the provisions of SFAS 123(R). The Company recorded additional stock-option expense of \$16.2 million in 2006 associated with the adoption of SFAS 123(R).

The following table illustrates the effect on net earnings and earnings per share had the Company applied the fair value recognition provisions of SFAS 123, "Accounting for Stock-Based Compensation," for the year ended December 31, 2005 and 2004:

<i>In millions, except per share amounts</i>	2005	2004
Net earnings, as reported	\$1,054.2	\$1,218.7
Add (Deduct): Stock-based employee compensation (income) expense included in reported net income, net of tax	5.8	34.1
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	79.7	63.9
Pro forma net earnings	\$980.3	\$1,188.9
Basic earnings per share:		
As reported	\$3.12	\$3.52
Pro forma	2.90	3.43
Diluted earnings per share:		
As reported	\$3.09	\$3.47
Pro forma	2.87	3.39



The average fair value of stock options granted during the years ended December 31, 2005 and 2004 was \$12.67 and \$11.39 respectively, using the Black-Scholes option-pricing model, with the following assumptions at the grant date:

	2005	2004
Dividend yield	1.30%	1.19%
Volatility	35.57%	39.31%
Risk-free rate of return	3.60%	3.29%
Expected life	5 years	5 years

#### NOTE 12 – INCOME TAXES

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

<i>In millions</i>	2006	2005	2004
United States	\$ 303.9	\$ 337.2	\$ 199.9
Non-U.S.	996.1	920.6	768.3
Total	\$ 1,300.0	\$ 1,257.8	\$ 968.2

The provision was as follows:

<i>In millions</i>	2006	2005	2004
Current tax expense:			
United States	\$ 161.8	\$ 63.8	\$ 132.6
Non-U.S.	129.2	76.9	65.0
Total current	291.0	140.7	197.6
Deferred tax (benefit) expense:			
United States	(111.7)	23.7	(78.9)
Non-U.S.	52.4	40.3	19.7
Total deferred	(59.3)	64.0	(59.2)
Total provision for income taxes	\$ 231.7	\$ 204.7	\$ 138.4

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					
	2006		2005		2004	
Statutory U.S. rate	35.0	%	35.0	%	35.0	%
Increase (decrease) in rates resulting from:						
Non-U.S. operations	(19.3)		(17.6)		(19.0)	
Manufacturing exemption / Extraterritorial income	(0.3)		(0.7)		(2.4)	
State and local income taxes, net of U.S. tax	0.4		0.7		0.7	
Puerto Rico - Sec 936 Credit	-		(0.9)		(1.2)	
Other	2.0		(0.2)		1.2	
Effective tax rate	17.8	%	16.3	%	14.3	%

At December 31, a summary of the deferred tax accounts follows:

<i>In millions</i>	2006	2005
Current deferred assets and (liabilities)		
Difference between book and tax bases		
of inventories and receivables	\$ (6.7)	\$ 23.4
Difference between book and tax expense for		
other employee-related benefits and allowances	32.8	70.6
Other reserves and valuation allowances		
in excess of tax deductions	158.4	233.3
Other differences between tax and		
financial statement values	72.0	(14.8)
Gross current deferred net tax assets	256.5	312.5
Noncurrent deferred assets and (liabilities)		
Postretirement and postemployment benefits		
other than pensions in excess of tax deductions	452.7	321.1
Tax benefit of operating losses and credit		
carryforwards	633.8	484.1
Other reserves in excess of tax expense	93.1	77.7
Tax depreciation / amortization in excess of		
book depreciation / amortization	(428.6)	(408.4)
Pension contributions in excess of book expense	43.5	(148.5)
Gross noncurrent deferred net tax assets	794.5	326.0
Less: deferred tax valuation allowances	(184.9)	(107.9)
Total net deferred tax assets	\$ 866.1	\$ 530.6

Included in Accrued expenses and other current liabilities on the Consolidated Balance Sheet are \$389.0 million and \$376.8 million of current income taxes payable at December 31, 2006 and 2005, respectively. Included in Prepaid expenses and deferred income taxes on the Consolidated Balance Sheet are \$287.9 million and \$309.3 million of current deferred tax assets at December 31, 2006 and 2005, respectively.

At December 31, 2006, net U.S. and non-U.S. federal operating loss carryforwards of \$1,232.8 million are available to offset taxable income in future years. The U.S. federal carryforwards will begin to expire in 2022, while a significant portion of the non-U.S. net operating losses generally have unlimited carryforward periods. The net operating loss carryforwards were incurred in various jurisdictions, predominantly the United States, the United Kingdom, Brazil, Germany and Switzerland. State net operating loss carryforwards at December 31, 2006 of \$6,089.4 million are available to offset taxable income in future periods. The state carryforwards will expire in future years generally through 2026. A valuation allowance of \$184.9 million has been recorded for certain state and non-U.S. carryforwards, which will likely not be realized. The change in the valuation allowance is predominantly attributable to increases in foreign net operating loss carryforwards and other foreign deferred tax assets. Approximately \$11 million of the valuation allowance was acquired in prior year business combination transactions and any tax benefit, when realized, will reduce goodwill rather than the income tax provision.

At December 31, 2006, no deferred taxes have been provided for any portion of the \$5.4 billion of undistributed earnings of the Company's subsidiaries, 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.

Tax incentives, in the form of tax holidays, have been granted in certain jurisdictions to encourage industrial development. The expiration of these tax holidays varies by country. The most significant tax holidays relate to the Company's locations in China, which have generally received a 2-year full holiday followed by a 3-year 50% exemption, and the Company's qualifying locations in Ireland, which were granted a 10% tax rate through 2010. The 2006 benefit for all tax holidays was approximately \$5.1 million, or \$0.02 of income per dilutive share. The American Jobs Creation Act (the AJCA) replaced an export incentive with a deduction from U.S. domestic manufacturing income. This provision of the AJCA did not have a material impact on the Company's income tax provision for 2006 or 2005.

On October 6, 2006, the Company received a notice from the Internal Revenue Service (IRS) containing proposed adjustments to the Company's tax filings in connection with an audit of the 1998 through 2000 tax years. The principal proposed adjustments consist of the disallowance of certain capital losses taken in the Company's tax returns in 1999 and 2000. The disallowance would result in additional taxes and penalties of approximately \$155 million, plus interest through October 6, 2006 of approximately \$62 million. The Company disputes the IRS's position and intends to contest the proposed disallowance. The Company added approximately \$27 million (\$0.08 per dilutive share) to its previously established reserves, as a charge in the third quarter of 2006. After taking this charge into account, the Company believes that it has adequately reserved for the ultimate resolution of this issue. Should the IRS prevail in its disallowance of the capital losses and imposition of penalties and interest, it would result in a cash outflow of approximately \$155 million, plus interest through the payment date. The issues raised in the notice are not related to the Company's reorganization in Bermuda, which was effective December 31, 2001.

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 13 – DISCONTINUED OPERATIONS**

The Company has continued its transition to become a more diversified company with strong growth prospects by divesting cyclical, low-growth, asset intensive businesses. The components of discontinued operations for 2006, 2005 and 2004 are as follows:

<i>In millions</i>	2006	2005	2004
Net revenues	\$ -	\$ -	\$ 882.0
Retained (costs) income, net of tax	\$ (36.5)	\$ (34.1)	\$ 54.0
Net gain on disposals, net of tax	0.7	35.2	334.9
Total discontinued operations, net of tax	\$ (35.8)	\$ 1.1	\$ 388.9

**2006**

Retained costs for discontinued operations mainly include costs related to postretirement benefits and product and legal costs (mostly asbestos-related) from previously sold businesses. Net gain on disposals represents additional gains from previously sold businesses.

**2005**

Discontinued operations for the year ended December 31, 2005, amounted to income of \$1.1 million, net of tax benefits of \$48.2 million. This total includes net after tax gains of \$35.2 million, mainly due to divested businesses, primarily Ingersoll-Dresser Pump Company (IDP) (\$12.0 million), Dresser-Rand (\$10.3 million) and Waterjet (\$12.2 million), primarily from the resolution of tax matters regarding these divestitures. The after-tax loss from retained costs of discontinued operations amounted to \$34.1 million. These costs mainly include costs related to postretirement benefits and product and legal costs (mostly asbestos-related) from previously sold businesses.

**2004**

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 on disposals 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 income from discontinued operations amounted to \$54.0 million. This income includes profits from divested businesses, primarily Dresser-Rand (\$45.0 million) and Engineered Solutions (\$20.9 million), which includes an antidumping subsidy net of tax of \$29.5 million. This income is partially offset by retained costs related to IDP (\$14.9 million), which mostly include product liability costs primarily related to asbestos liability claims and employee benefit costs.

**NOTE 14 – EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net earnings by 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, includes shares issuable under share-based compensation plans. The following table details the weighted-average number of Class A common shares outstanding for basic and diluted earnings per share calculations at December 31:

<i>In millions</i>	2006	2005	2004
Weighted-average number of basic shares	319.9	337.6	346.5
Shares issuable under incentive stock plans	3.2	3.7	4.4
Weighted-average number of diluted shares	323.1	341.3	350.9
Anti-dilutive shares	3.2	0.1	-

#### **NOTE 15 – 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 non-recurring 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.

Certain wholly owned subsidiaries of the Company are named as defendants in 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 vast majority of those claims have been filed against IR-New Jersey and 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 asbestos-related claims resolved to date have been dismissed or settled. For the years ended December 31, 2006, 2005 and 2004, total costs for settlement and defense of asbestos claims after insurance recoveries and net of tax were approximately \$31.6 million, \$16.8 million and \$16.5 million, respectively. The increase in asbestos-related costs in 2006 compared with 2005 and 2004 is primarily attributable to revised estimates for future recoveries to be received from the Company's insurance carriers, as well as declining levels of insurance coverage available for cost recoveries. With the assistance of independent advisors, the Company performs a thorough analysis, updated periodically, of its actual and anticipated future asbestos liabilities projected seven years in the future. 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.

Legislation recently under consideration in Congress concerns pending and future asbestos-related personal injury claims. Whether and when such legislation will become law, and the final provisions of such legislation, are unknown. Consequently, the Company cannot predict with any reasonable degree of certainty what effect, if any, such legislation would have upon the Company's financial position, results of operations 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 \$18.8 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 \$13.8 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 \$12.7 million of the obligation will expire during 2007. The remainder extends through 2008.

The Company is contingently liable for customs duties in certain non-U.S. countries which totaled \$5.8 million at December 31, 2006. 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 remediation efforts are probable and the costs can be reasonably estimated.

The following represents the changes in the Company's product warranty liability for 2006 and 2005:

<i>In millions</i>	2006	2005
Balance at beginning of year	\$ 183.5	\$ 190.5
Reductions for payments	(99.8)	(85.4)
Accruals for warranties issued during the current period	108.0	70.2
Changes for accruals related to preexisting warranties	(2.0)	11.9
Acquisitions	0.4	1.1
Translation	5.1	(4.8)
Balance at end of the year	\$ 195.2	\$ 183.5

Certain office and warehouse facilities, transportation vehicles and data processing equipment are leased. Total rental expense was \$73.8 million in 2006, \$61.9 million in 2005 and \$62.7 million in 2004. Minimum lease payments required under non-cancelable operating leases with terms in excess of one year for the next five years and thereafter, are as follows: \$57.7 million in 2007, \$43.7 million in 2008, \$31.3 million in 2009, \$18.3 million in 2010, \$13.8 million in 2011 and \$20.6 million thereafter.

#### **NOTE 16 – 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 2004, the Company sold its Drilling Solutions and Dresser-Rand businesses. The results of these divested businesses have been excluded from the previous reportable segments for business segment reporting and has been shown separately in “Discontinued operations, net of tax” in the financial statements.

During the first quarter of 2005, the Company realigned its internal organization and operating segments to reflect its market focus and to promote greater transparency of results. The former Infrastructure segment was disaggregated into two segments – the Compact Vehicle Technologies segment and the Construction Technologies segment. The 2004 segment results have been restated to conform to this change.

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 Technologies provides solutions to transport, preserve, store and display temperature-sensitive products by engaging in the design, manufacture, sale and service of transport temperature control units, HVAC systems, refrigerated display merchandisers, beverage coolers, auxiliary power units and walk-in storage coolers and freezers. The segment includes the Thermo King and Hussmann brands.

The Compact Vehicle Technologies segment is engaged in the design, manufacture, sale and service of skid-steer loaders, all-wheel steer loaders, compact track loaders, compact excavators, attachments, golf vehicles and utility vehicles. The segment includes the Bobcat and Club Car brands.

Construction Technologies is engaged in the design, manufacture, sale and service of road construction and repair equipment, portable power products, general-purpose construction equipment, attachments and portable light towers and compressors. The segment is comprised of the Utility Equipment, Road Development and Attachments businesses.

Industrial Technologies is focused on providing solutions to enhance customers’ industrial and energy efficiency, mainly by engaging in the design, manufacture, sale and service of compressed air systems, tools, fluid and material handling and energy generation systems. The segment includes the Air Solutions and Productivity Solutions businesses.

Security Technologies is engaged in the design, manufacture, sale and service of mechanical and electronic security products, biometric access control systems, and security and scheduling software. The segment includes the Schlage, LCN, Von Duprin and CISA brands.

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



<i>Dollar amounts in millions</i>	2006	2005	2004
<b>Climate Control Technologies</b>			
Revenues	\$ 3,171.0	\$ 2,853.6	\$ 2,793.7
Operating income	356.0	315.1	309.1
Operating income as a percentage of revenues	11.2%	11.0%	11.1%
Depreciation and amortization	52.1	53.7	59.2
Capital expenditures	25.6	10.4	13.9
<b>Compact Vehicle Technologies</b>			
Revenues	2,641.2	2,681.1	2,261.7
Operating income	358.0	415.2	332.0
Operating income as a percentage of revenues	13.6%	15.5%	14.7%
Depreciation and amortization	28.0	31.8	28.1
Capital expenditures	47.6	41.8	28.3
<b>Construction Technologies</b>			
Revenues	1,362.3	1,168.6	1,007.1
Operating income	148.0	103.8	105.2
Operating income as a percentage of revenues	10.9%	8.9%	10.4%
Depreciation and amortization	12.9	14.3	15.5
Capital expenditures	18.5	19.3	11.3
<b>Industrial Technologies</b>			
Revenues	1,949.8	1,743.9	1,552.8
Operating income	262.0	224.9	180.5
Operating income as a percentage of revenues	13.4%	12.9%	11.6%
Depreciation and amortization	25.2	19.6	23.2
Capital expenditures	51.7	30.5	12.4
<b>Security Technologies</b>			
Revenues	2,285.0	2,099.7	1,778.3
Operating income	400.2	380.7	304.8
Operating income as a percentage of revenues	17.5%	18.1%	17.1%
Depreciation and amortization	42.6	44.6	21.9
Capital expenditures	43.6	22.8	12.0
Total revenues	\$ 11,409.3	\$ 10,546.9	\$ 9,393.6
Operating income from reportable segments	1,524.2	1,439.7	1,231.6
Unallocated corporate expense	(83.4)	(77.9)	(111.3)
Total operating income	\$ 1,440.8	\$ 1,361.8	\$ 1,120.3
Total operating income as a percentage of revenues	12.6%	12.9%	11.9%
Depreciation and amortization from reportable segments	160.8	164.0	147.9
Unallocated depreciation and amortization	29.9	31.7	26.5
Total depreciation and amortization	\$ 190.7	\$ 195.7	\$ 174.4
Capital expenditures from reportable segments	187.0	124.8	77.9
Corporate capital expenditures	25.3	17.0	47.7
Total capital expenditures	\$ 212.3	\$ 141.8	\$ 125.6

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

<i>In millions</i>	2006	2005	2004
<b>Revenues</b>			
United States	\$ 6,438.7	\$ 6,305.7	\$ 5,775.1
Non-U.S.	4,970.6	4,241.2	3,618.5
Total	\$ 11,409.3	\$ 10,546.9	\$ 9,393.6

<i>In millions</i>	2006	2005
<b>Long-lived assets</b>		
United States	\$ 1,159.9	\$ 1,376.2
Non-U.S.	623.8	509.1
Total	\$ 1,783.7	\$ 1,885.3

#### **NOTE 17 – 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.

IR-New Jersey has unconditionally guaranteed payment of the principal, premium, if any, and interest on the Company’s 4.75% Senior Notes due in 2015 in the aggregate principal amount of \$300 million. The guarantee is unsecured and provided on an unsubordinated basis. The guarantee ranks equally in right of payment with all of the existing and future unsecured and unsubordinated debt 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, 2006

<i>In millions</i>	IR Limited	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Limited Consolidated
Net revenues	\$ -	\$ 1,582.4	\$ 9,826.9	\$ -	\$ 11,409.3
Cost of goods sold	-	1,181.5	7,242.7	-	8,424.2
Selling and administrative expenses	16.3	341.9	1,186.1	-	1,544.3
Operating (loss) income	(16.3)	59.0	1,398.1	-	1,440.8
Equity earnings in affiliates (net of tax)	1,116.6	607.4	156.7	(1,880.7)	-
Interest expense	(30.3)	(75.1)	(26.4)	-	(131.8)
Intercompany interest and fees	(32.9)	(645.0)	677.9	-	-
Other income (expense), net	(4.6)	63.9	(68.3)	-	(9.0)
Earnings (loss) before income taxes	1,032.5	10.2	2,138.0	(1,880.7)	1,300.0
(Benefit) provision for income taxes	-	(177.5)	409.2	-	231.7
Earnings (loss) from continuing operations	1,032.5	187.7	1,728.8	(1,880.7)	1,068.3
Discontinued operations, net of tax	-	(31.0)	(4.8)	-	(35.8)
Net earnings (loss)	\$ 1,032.5	\$ 156.7	\$ 1,724.0	\$ (1,880.7)	\$ 1,032.5

## Condensed Consolidating Income Statement

For the year ended December 31, 2005

<i>In millions</i>	IR Limited	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Limited Consolidated
Net revenues	\$ -	\$ 1,638.3	\$ 8,908.6	\$ -	\$ 10,546.9
Cost of goods sold	-	1,271.4	6,472.7	-	7,744.1
Selling and administrative expenses	1.2	338.7	1,101.1	-	1,441.0
Operating (loss) income	(1.2)	28.2	1,334.8	-	1,361.8
Equity earnings in affiliates (net of tax)	1,104.8	487.1	197.7	(1,789.6)	-
Interest expense	(9.1)	(104.7)	(30.5)	-	(144.3)
Intercompany interest and fees	(38.4)	(425.8)	464.2	-	-
Other income (expense), net	(1.9)	104.7	(62.5)	-	40.3
Earnings (loss) before income taxes	1,054.2	89.5	1,903.7	(1,789.6)	1,257.8
(Benefit) provision for income taxes	-	(112.7)	317.4	-	204.7
Earnings (loss) from continuing operations	1,054.2	202.2	1,586.3	(1,789.6)	1,053.1
Discontinued operations, net of tax	-	(4.5)	5.6	-	1.1
Net earnings (loss)	\$ 1,054.2	\$ 197.7	\$ 1,591.9	\$ (1,789.6)	\$ 1,054.2

## Condensed Consolidating Income Statement

For the year ended December 31, 2004

<i>In millions</i>	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 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 Balance Sheet

December 31, 2006

<i>In millions</i>	IR Limited	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Limited Consolidated
Current assets:					
Cash and cash equivalents	\$ 1.7	\$ 81.6	\$ 279.0	\$ -	\$ 362.3
Marketable securities	-	-	0.7	-	0.7
Accounts and notes receivable, net	0.3	283.7	1,712.2	-	1,996.2
Inventories, net	-	204.5	1,115.8	-	1,320.3
Prepaid expenses and deferred income taxes	0.4	389.4	26.6	-	416.4
Accounts and notes receivable affiliates	921.4	2,662.1	26,537.6	(30,121.1)	-
Total current assets	923.8	3,621.3	29,671.9	(30,121.1)	4,095.9
Investment in affiliates	7,130.9	11,565.2	31,009.6	(49,705.7)	-
Property, plant and equipment, net	-	280.8	995.5	-	1,276.3
Intangible assets, net	-	81.1	5,259.9	-	5,341.0
Other assets	1.7	1,283.8	147.2	-	1,432.7
Total assets	\$ 8,056.4	\$ 16,832.2	\$ 67,084.1	\$ (79,826.8)	\$ 12,145.9
Current liabilities:					
Accounts payable and accruals	\$ 6.3	\$ 487.7	\$ 2,040.2	\$ -	\$ 2,534.2
Loans payable and current maturities of long-term debt	378.0	596.8	104.6	-	1,079.4
Accounts and note payable affiliates	779.0	7,035.7	22,306.4	(30,121.1)	-
Total current liabilities	1,163.3	8,120.2	24,451.2	(30,121.1)	3,613.6
Long-term debt	299.0	411.3	194.9	-	905.2
Note payable affiliate	950.0	2,697.4	-	(3,647.4)	-
Other noncurrent liabilities	239.3	1,847.5	135.5	-	2,222.3
Total liabilities	2,651.6	13,076.4	24,781.6	(33,768.5)	6,741.1
Shareholders' equity:					
Class A common shares	364.5	-	(57.7)	-	306.8
Class B common shares	270.6	-	-	(270.6)	-
Common shares	-	-	2,362.8	(2,362.8)	-
Other shareholders' equity	9,403.3	4,815.3	43,957.1	(52,719.6)	5,456.1
Accumulated other comprehensive income (loss)	(36.4)	(627.9)	205.7	100.5	(358.1)
	10,002.0	4,187.4	46,467.9	(55,252.5)	5,404.8
Less: Contra account	(4,597.2)	(431.6)	(4,165.4)	9,194.2	-
Total shareholders' equity	5,404.8	3,755.8	42,302.5	(46,058.3)	5,404.8
Total liabilities and equity	\$ 8,056.4	\$ 16,832.2	\$ 67,084.1	\$ (79,826.8)	\$ 12,145.9

# Condensed Consolidating Balance Sheet

December 31, 2005

<i>In millions</i>	IR Limited	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Limited Consolidated
Current assets:					
Cash and cash equivalents	\$ 25.5	\$ 207.1	\$ 648.0	\$ -	\$ 880.6
Marketable securities	-	-	156.5	-	156.5
Accounts and notes receivable, net	1.3	311.8	1,365.9	-	1,679.0
Inventories, net	-	188.9	939.9	-	1,128.8
Prepaid expenses and deferred income taxes	-	62.1	341.2	-	403.3
Accounts and notes receivable affiliates	299.6	3,660.9	22,687.9	(26,648.4)	-
Total current assets	326.4	4,430.8	26,139.4	(26,648.4)	4,248.2
Investment in affiliates	7,092.7	11,440.6	29,894.4	(48,427.7)	-
Property, plant and equipment, net	-	291.6	865.9	-	1,157.5
Intangible assets, net	-	118.9	5,031.5	-	5,150.4
Other assets	1.9	854.0	344.4	-	1,200.3
Total assets	\$ 7,421.0	\$ 17,135.9	\$ 62,275.6	\$ (75,076.1)	\$ 11,756.4
Current liabilities:					
Accounts payable and accruals	\$ 5.8	\$ 561.2	\$ 1,700.0	\$ -	\$ 2,267.0
Loans payable and current maturities of long-term debt	-	849.4	83.3	-	932.7
Accounts and note payable affiliates	956.6	5,870.1	19,821.7	(26,648.4)	-
Total current liabilities	962.4	7,280.7	21,605.0	(26,648.4)	3,199.7
Long-term debt	298.9	658.1	227.3	-	1,184.3
Note payable affiliate	300.0	3,347.4	-	(3,647.4)	-
Other noncurrent liabilities	97.7	1,389.0	123.7	-	1,610.4
Total liabilities	1,659.0	12,675.2	21,956.0	(30,295.8)	5,994.4
Shareholders' equity:					
Class A common shares	360.8	-	(30.1)	-	330.7
Class B common shares	270.6	-	-	(270.6)	-
Common shares	-	-	2,362.8	(2,362.8)	-
Other shareholders' equity	9,740.2	5,066.6	42,376.2	(51,624.1)	5,558.9
Accumulated other comprehensive income (loss)	193.9	(158.7)	(33.2)	(129.6)	(127.6)
	10,565.5	4,907.9	44,675.7	(54,387.1)	5,762.0
Less: Contra account	(4,803.5)	(447.2)	(4,356.1)	9,606.8	-
Total shareholders' equity	5,762.0	4,460.7	40,319.6	(44,780.3)	5,762.0
Total liabilities and equity	\$ 7,421.0	\$ 17,135.9	\$ 62,275.6	\$ (75,076.1)	\$ 11,756.4

## Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2006

<i>In millions</i>	IR Limited	IR New Jersey	Other Subsidiaries	IR Limited Consolidated
Net cash (used in) provided by continuing operating activities	\$ (67.4)	\$ (918.9)	\$ 1,995.1	\$ 1,008.8
Net cash (used in) provided by discontinued operating activities	-	(31.2)	(5.4)	(36.6)
Cash flows from investing activities:				
Capital expenditures	-	(52.8)	(159.5)	(212.3)
Proceeds from sale of property, plant and equipment	-	1.0	15.4	16.4
Acquisitions, net of cash	-	(11.8)	(109.7)	(121.5)
Proceeds from business dispositions	-	-	-	-
Purchase of marketable securities	-	-	155.8	155.8
Cash provided by equity companies, net	-	-	0.4	0.4
Net cash (used in) provided by continuing investing activities	-	(63.6)	(97.6)	(161.2)
Net cash (used in) provided by discontinued investing activities	-	-	-	-
Cash flows from financing activities:				
Net change in debt	379.1	(499.7)	(19.9)	(140.5)
Net inter-company (payments) proceeds	(7.3)	1,372.3	(1,365.0)	-
Proceeds from the exercise of stock options	95.7	-	-	95.7
Dividends (paid) received	(423.9)	15.6	190.7	(217.6)
Repurchase of common shares by subsidiary	-	-	(1,096.3)	(1,096.3)
Net cash (used in) provided by continuing financing activities	43.6	888.2	(2,290.5)	(1,358.7)
Net cash (used in) provided by discontinued financing activities	-	-	-	-
Effect of exchange rate changes on cash and cash equivalents	-	-	29.4	29.4
Net (decrease) increase in cash and cash equivalents	(23.8)	(125.5)	(369.0)	(518.3)
Cash and cash equivalents - beginning of period	25.5	207.1	648.0	880.6
Cash and cash equivalents - end of period	\$ 1.7	\$ 81.6	\$ 279.0	\$ 362.3



**Condensed Consolidating Statement of Cash Flows**  
For the year ended December 31, 2005

<i>In millions</i>	IR Limited	IR New Jersey	Other Subsidiaries	IR Limited Consolidated
Net cash (used in) provided by continuing operating activities	\$ (32.0)	\$ (475.7)	\$ 1,380.9	\$ 873.2
Net cash (used in) provided by discontinued operating activities	-	(18.5)	(15.6)	(34.1)
Cash flows from investing activities:				
Capital expenditures	-	(49.4)	(92.4)	(141.8)
Proceeds from sale of property, plant and equipment	-	2.2	16.8	19.0
Acquisitions, net of cash	-	-	(514.7)	(514.7)
Proceeds from business dispositions	-	3.7	7.7	11.4
Purchase of marketable securities	-	-	(153.2)	(153.2)
Cash provided by equity companies	-	-	7.6	7.6
Net cash (used in) provided by continuing investing activities	-	(43.5)	(728.2)	(771.7)
Net cash (used in) provided by discontinued investing activities	-	-	-	-
Cash flows from financing activities:				
Net change in debt	297.4	(87.3)	(147.4)	62.7
Net inter-company (payments) proceeds	(134.8)	(25.2)	160.0	-
Proceeds from the exercise of stock options	90.9	-	-	90.9
Dividends (paid) received	(359.2)	13.2	153.9	(192.1)
Redemption of preferred stock of subsidiary	(73.6)	-	-	(73.6)
Repurchase of common shares by subsidiary	-	-	(763.6)	(763.6)
Net cash (used in) provided by continuing financing activities	(179.3)	(99.3)	(597.1)	(875.7)
Net cash (used in) provided by discontinued financing activities	-	-	-	-
Effect of exchange rate changes on cash and cash equivalents	-	-	(14.2)	(14.2)
Net (decrease) increase in cash and cash equivalents	(211.3)	(637.0)	25.8	(822.5)
Cash and cash equivalents - beginning of period	236.8	844.1	622.2	1,703.1
Cash and cash equivalents - end of period	\$ 25.5	\$ 207.1	\$ 648.0	\$ 880.6

## Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2004

<i>In millions</i>	IR Limited	IR New Jersey	Other Subsidiaries	IR Limited Consolidated
Net cash (used in) provided by continuing operating activities	\$ (14.5)	\$ (574.2)	\$ 1,358.9	\$ 770.2
Net cash (used in) provided by discontinued operating activities	-	(13.5)	40.8	27.3
Cash flows from investing activities:				
Capital expenditures	-	(42.1)	(83.5)	(125.6)
Proceeds from sale of property, plant and equipment	-	17.7	32.7	50.4
Acquisitions, net of cash	-	-	(33.7)	(33.7)
Proceeds from the sale of marketable securities	-	-	0.3	0.3
Proceeds from business dispositions	-	189.0	1,224.2	1,413.2
Cash provided by equity companies	-	-	7.6	7.6
Net cash (used in) provided by continuing investing activities	-	164.6	1,147.6	1,312.2
Net cash (used in) provided by discontinued investing activities	-	-	(7.4)	(7.4)
Cash flows from financing activities:				
Net change in debt	-	(409.5)	(59.9)	(469.4)
Net inter-company (payments) proceeds	191.4	1,562.4	(1,753.8)	-
Proceeds from the exercise of stock options	170.7	-	-	170.7
Dividends (paid) received	(271.3)	10.2	108.5	(152.6)
Repurchase of common shares by subsidiary	-	-	(355.9)	(355.9)
Net cash (used in) provided by continuing financing activities	90.8	1,163.1	(2,061.1)	(807.2)
Net cash (used in) provided by discontinued financing activities	-	-	(1.0)	(1.0)
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	470.5	1,286.8
Cash and cash equivalents - beginning of period	160.5	104.1	151.7	416.3
Cash and cash equivalents - end of period	\$ 236.8	\$ 844.1	\$ 622.2	\$ 1,703.1

### NOTE 18 – SUBSEQUENT EVENTS (UNAUDITED)

On February 27, 2007, the Company agreed to sell its Road Development business unit to AB Volvo (publ) for cash proceeds of approximately \$1.3 billion, subject to post closing adjustments. The sale, which is subject to government regulatory approvals and other customary closing conditions, is targeted to close in the second quarter of 2007. The Company's Road Development business unit manufactures and sells asphalt paving equipment, compaction equipment, milling machines, and construction-related material handling equipment and has been reported as part of the Company's Construction Technologies sector.

The Road Development business unit had net revenues of approximately \$700 million for the year ended December 31, 2006. The Company expects to record a gain on the transaction when the sale is consummated.

**INGERSOLL RAND COMPANY LIMITED**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
(Amounts in millions)

**Allowances for Doubtful Accounts:**

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<b>Balance December 31, 2003</b>	\$ 58.7
Additions charged to costs and expenses	21.0
Deductions *	(11.9)
Business acquisitions and divestitures, net	(1.2)
Currency translation	3.5
	<hr/>
<b>Balance December 31, 2004</b>	70.1
Net reductions in costs and expenses	(4.3)
Deductions *	(21.0)
Business acquisitions and divestitures, net	5.1
Currency translation	(2.3)
	<hr/>
<b>Balance December 31, 2005</b>	47.6
Net reductions in costs and expenses	(16.3)
Deductions *	(17.3)
Business acquisitions and divestitures, net	1.6
Currency translation	2.2
	<hr/>
<b>Balance December 31, 2006</b>	\$ 17.8

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(\*) "Deductions" include accounts and advances written off, less recoveries.

**SCHEDULE II**

**INGERSOLL RAND COMPANY LIMITED**  
**VALUATION AND QUALIFYING ACCOUNTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
(Amounts in millions)

**Reserve for LIFO:**

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<b>Balance December 31, 2003</b>	\$ 69.4
Additions	40.8
Reductions	<u>(7.2)</u>
<b>Balance December 31, 2004</b>	103.0
Additions	23.3
Reductions	<u>(3.0)</u>
<b>Balance December 31, 2005</b>	123.3
Additions	36.0
Reductions	<u>(0.7)</u>
<b>Balance December 31, 2006</b>	<u>\$ 158.6</u>

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# Information for Shareholders

## Directors

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

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  
Former Deputy Secretary, U.S. Department  
of Health and Human Services.

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  
Retired Chairman and Chief Executive Officer,  
Foster Wheeler Ltd.

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

## Committees of the Board

### Audit

R. J. Swift, Chair; A. C. Berzin, T. E. Martin  
H. W. Lichtenberger.

### Finance

H. W. Lichtenberger, Chair; A. C. Berzin,  
T. E. Martin, R. J. Swift.

### Compensation

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

### Corporate Governance and Nominating

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

## Officers

Herbert L. Henkel  
Chairman, President and  
Chief Executive Officer

Marcia J. Avedon  
Senior Vice President

James R. Bolch  
Senior Vice President

William B. Gauld  
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

Richard F. Pedtke  
Senior Vice President

Steven R. Shawley  
Senior Vice President

Christopher P. Vasiloff  
Senior Vice President

Barbara L. Brasier  
Vice President and Treasurer

Lawrence R. Kurland  
Vice President

Barry J. Libenson  
Vice President

Richard W. Randall  
Vice President and Controller

Barbara A. Santoro  
Vice President, Corporate  
Governance and Secretary

Timothy E. Scofield  
Vice President

Jeff Zhenning Song  
Vice President

## Corporate Data

### Shareholder Information Services

The company's 2006 annual report on Form 10-K as filed with the Securities and Exchange Commission is available by calling Ingersoll Rand Shareholder Information Services at 800.955.9845 (international: 402.573.9931), or through Ingersoll Rand's web site, [www.ingersollrand.com](http://www.ingersollrand.com). Individuals also can contact Ingersoll Rand 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.ingersollrand.com](http://www.ingersollrand.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 and Cash Payment 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 cash investments up to \$120,000 per year, in Ingersoll Rand Class A common shares for a fee of \$0.10 per share, which includes brokerage fees and commissions. 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 6, 2007, 11:00 am  
Hilton Woodcliff Lake  
200 Tice Blvd  
Woodcliff Lake, NJ 07677

### Stock Exchange

New York

IR  
LISTED  
NYSE

### 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 10286-1258

Send certificates for transfers and address changes to:

Receive and Deliver Department—11W  
P.O. Box 11002  
Church Street Station  
New York, NY 10286-1002



Ingersoll Rand is a leading diversified industrial company providing products, services and integrated solutions to industries ranging from transportation and manufacturing to food retailing, construction, and agriculture. With a 135-year-old heritage of technological innovation, we help companies worldwide to be more productive, efficient and innovative. In every line of our business, Ingersoll Rand enables companies and their customers to create progress.

[www.ingersollrand.com](http://www.ingersollrand.com)