INGERSOLL RAND CO LTD
Form 10-K
February 29, 2008

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, 2007

or

o 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	**75-2993910**
(State or other jurisdiction of incorporation or organization)	*(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	Name of each exchange on which registered
Class A Common Shares, Par Value $1.00 per Share	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 o

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 o 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 o

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 o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

The aggregate market value of common stock held by nonaffiliates on June 30, 2007 was approximately $16,085,365,752 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 25, 2008 was 272,645,080.

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 4, 2008 are incorporated by reference into Part II and Part III of this Form 10-K.

Form 10-K
For the Fiscal Year Ended December 31, 2007

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CAUTIONARY STATEMENT FOR FORWARD LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “forecast,” “outlook,” “intend,” “strategy,” “plan,” “may,” “sho “will be,” “will continue,” “will likely result,” or the negative thereof or variations thereon or similar terminology generally intended to identify forward-looking statements.

Forward-looking statements may relate to such matters as projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, share repurchases or other financial items; any statements of the plans, strategies and objectives of management for future operations, including those relating to our proposed acquisition of Trane Inc.; any statements concerning expected development, performance or market share relating to our products; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes, including those relating to the Internal Revenue Service audit of our consolidated subsidiaries' tax filings in 2001 and 2002; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance. They are subject to future events, risks and uncertainties – many of which are beyond our control – as well as potentially inaccurate assumptions, that could cause actual results to differ materially from our expectations and projections. Some of the material risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described in Item 1A. “Risk Factors.” You should read that information in conjunction with “Management's Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this report and our Consolidated Financial Statements and related notes in Item 8 of this report. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that have not been anticipated or that are not described in this report, generally because we do not perceive them to be material, that could cause results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made, and we do not undertake to update these forward-looking statements. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the Securities and Exchange Commission.

PART I

Item 1. **BUSINESS**

Overview

Ingersoll-Rand Company Limited (IR Limited), a Bermuda company, and its consolidated subsidiaries (we, our, the Company) is a leading innovation and solutions provider with strong brands and leading positions within our markets. Our business segments consist of Climate Control Technologies, Industrial Technologies and Security Technologies. We generate 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 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 strategic acquisitions;
- *Operational Excellence*, by fostering a lean 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 transformed our enterprise portfolio by divesting cyclical, low-growth and asset-intensive businesses. We continue to focus on increasing our recurring revenue stream, which includes revenues from parts, service, used equipment and rentals. We also intend to continuously improve the efficiencies, capabilities, products and services of our high-potential businesses.

Recent Acquisitions and Divestitures

On December 17, 2007, we announced that we had executed a definitive agreement to acquire Trane Inc., formerly American Standard Companies Inc., in a transaction currently valued at approximately $9.5 billion. This transaction, which is expected to close during the second quarter of 2008, is subject to approval by Trane shareholders, regulatory approval and contractual closing conditions. There can be no assurance that the acquisition will be consummated.

Trane is a global leader in indoor climate control systems, services and solutions and provides systems and services that enhance the quality and comfort of the air in homes and buildings around the world. They offer customers a broad range of energy-efficient heating, ventilation and air conditioning systems; dehumidifying and air cleaning products; service and parts support; advanced building controls; and financing solutions. Their systems and services have leading positions in commercial, residential, institutional and industrial markets; a reputation for reliability, high quality and product innovation; and a powerful distribution network. Trane has more than 29,000 employees and 34 production facilities worldwide, with 2007 annual revenues of $7.45 billion.

On November 30, 2007, we completed the sale of our Bobcat, Utility Equipment and Attachments business units (collectively, Compact Equipment) to Doosan Infracore for cash proceeds of approximately $4.9 billion, subject to post-closing purchase price adjustments. We recorded a gain on sale of $2,652.0 million (net of tax of $939.0 million). Compact Equipment manufactured and sold compact equipment including skid-steer loaders, compact truck loaders, mini-excavators and telescopic tool handlers; portable air compressors, generators, light towers; general-purpose light construction equipment; and attachments.

On April 30, 2007, we completed the sale of our Road Development business unit to AB Volvo (publ) in all countries except for India, which closed on May 4, 2007, for cash proceeds of approximately $1.3 billion, subject to post-closing purchase price adjustments. We recorded a gain on sale of $634.7 million (net of tax of $164.4 million). The Road Development business unit manufactures and sells asphalt paving equipment, compaction equipment, milling machines and construction-related material handling equipment.

2001 Reorganization
Our predecessor company, 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.

We are a successor to IR-New Jersey following a corporate reorganization that became effective on December 31, 2001. We believe that the reorganization has enabled us 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.

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, refrigerated display merchandisers, beverage coolers, auxiliary power units and walk-in storage coolers and freezers. This segment includes the Thermo King, Hussmann and Koxka brands.

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, golf and utility vehicles and energy generation systems. This segment includes the Ingersoll Rand and Club Car brands.

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. This segment includes the Schlage, LCN, Von Duprin and CISA brands.

Competitive Conditions
Our 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. We believe that we are one of the leading manufacturers in the world of air compression systems, transport temperature control products, refrigerated display merchandisers, refrigeration systems and controls, air tools, and golf and utility vehicles. In addition, we believe we are a leading supplier in U.S. markets for architectural hardware products, mechanical locks and electronic and biometric access-control technologies.

Distribution

Our products are distributed by a number of methods, which we believe are appropriate to the type of product. U.S. sales are made through branch sales offices and through distributors, dealers and large retailers across the country. Non-U.S. sales are made through numerous subsidiary sales and service companies with a supporting chain of distributors throughout the world.

Products

Our principal products by segment include the following:

Climate Control Technologies

Refrigerated display cases
Refrigeration systems
Transport temperature control systems

Industrial Technologies

Air balancers
Air compressors & accessories
Air treatment
Air motors
Air and electric tools
Blowers
Diaphragm pumps
Engine-starting systems
Fluid-handling equipment
Golf vehicles
Lubrication equipment
Material handling equipment
Microturbines
Piston pumps
Utility vehicles

Security Technologies

Automatic doors
Biometric access control systems
Door closers and controls
Door locks, latches and locksets
Doors and door frames (steel)
Electrical security products
Electronic access-control systems
Exit devices
Portable security products

These products are sold primarily under our name and as well as under other names including CISA®, Club Car®, Hussmann®, Koxka®, LCN®, Schlage®, Thermo King® and Von Duprin®.

Working Capital

We manufacture products that usually must be readily available to meet our customer’s rapid delivery requirements. Such working capital requirements are not, however, in the opinion of management, materially different from those experienced by our major competitors.

Customers

No material part of our 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 our operations.

Operations by Geographic Area
More than 45% of our 2007 net revenues were derived outside the U.S. and sold 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 our non-U.S. operations. Additional information concerning our operating segments is contained in Note 21, Business Segment Information, to the consolidated financial statements. For a discussion of risks attendant to our non-U.S. operations, see "Risk Factors – Currency exchange rate and commodity price fluctuations may adversely affect our results," "Risk Factors – Our global operations subject us to economic risks," in Item 1A and "Quantitative and Qualitative Disclosure about Market Risk" in Item 7A.

Raw Materials
We manufacture many of the components included in our products. The principal raw materials required are purchased from numerous suppliers. Although higher prices for some raw materials, particularly steel and non-ferrous metals, have caused pricing pressures to some of our businesses, we believe that available sources of supply will generally be sufficient for the foreseeable future.

Backlog
Our approximate backlog of orders, believed to be firm, at December 31, 2007 and 2006, were as follows:

Dollar amounts in millions		2007		2006
Climate Control Technologies	$	507.2	$	435.8
Industrial Technologies		429.8		357.7
Security Technologies		216.5		182.8
Total	$	1,153.5	$	976.3

These backlog figures are based on orders received. While the major portion of our 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. We expect to ship substantially the entire backlog at December 31, 2007 during 2008.

Research and Development
We maintain research and development facilities for experimenting, testing and developing high quality products. Research and development expenditures, including qualifying engineering costs were $128.6 million in 2007, $126.7 million in 2006 and $120.4 million in 2005.

Patents and Licenses
We own numerous patents and patent applications and are licensed under others. While we consider that in the aggregate our patents and licenses are valuable, we do not believe that our business is materially dependent on our patents or licenses or any group of them. In our opinion, engineering and production skills and experience are more responsible for our market position than our patents and/or licenses.

Environmental Matters
We continue 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, we are currently engaged in site investigations and remediation activities to address environmental cleanup from past operations at current and former manufacturing facilities.

We are sometimes a party to environmental lawsuits and claims and have received notices of potential violations of environmental laws and regulations from the Environmental Protection Agency and similar state authorities. We have been also 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 such sites, there are other PRPs and, in most instances, our involvement is minimal.

In estimating our liability, we have assumed we 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.

During 2007, we spent $5.6 million on capital projects for pollution abatement and control, and an additional $11.1 million for environmental remediation expenditures at sites presently or formerly owned or leased by us. As of December 31, 2007, we have recorded reserves for environmental matters of $101.8 million. We believe that these expenditures and accrual 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.

For a further discussion of our potential environmental liabilities, see also Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental and Asbestos Matters and also Note 20, Commitments and Contingencies, to the consolidated financial statements.

Asbestos Matters

Certain of our wholly owned subsidiaries 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 has been filed against our wholly owned subsidiary, IR-New Jersey, and generally allege injury caused by exposure to asbestos contained in certain of IR-New Jersey's products, primarily pumps and compressors. 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 and packings purchased from third-party suppliers.

Prior to the fourth quarter of 2007, we recorded a liability (which we periodically updated) for our actual and anticipated future asbestos settlement costs projected seven years into the future. We did not record a liability for future asbestos settlement costs beyond the seven-year period covered by our reserve because such costs previously were not reasonably estimable.

In the fourth quarter of 2007, we again reviewed our history and experience with asbestos-related litigation and determined that it had now become possible to make a reasonable estimate of our total liability for pending and unasserted potential future asbestos-related claims. This determination was based upon our analysis of developments in asbestos litigation, including the substantial and continuing decline in the filing of non-malignancy claims against us, the establishment in many jurisdictions of inactive or deferral dockets for such claims, the decreased value of non-malignancy claims because of changes in the legal and judicial treatment of such claims, increasing focus of the asbestos litigation upon malignancy claims, primarily those involving mesothelioma, a cancer with a known historical and predictable future annual incidence rate, and our substantial accumulated experience with respect to the resolution of malignancy claims, particularly mesothelioma claims, filed against us. With the aid of an outside expert, we have estimated our total liability for pending and unasserted future asbestos-related claims through 2053 at $755 million.

As a result, we recorded a non-cash charge to earnings of discontinued operations of $449 million ($277 million after tax) which is the difference between the amount by which we increased our total estimated liability for pending and projected future asbestos-related claims and the amount that we expect to recover from insurers with respect to that increased liability.

For a further discussion of asbestos matters, see also Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental and Asbestos Matters and also Note 20, Commitments and Contingencies, to the consolidated financial statements.

Employees

We have approximately 35,560 employees throughout the world, of which approximately 49% work in the U.S.

Available Information

We file 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 100 F Street, N.E., 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 us at http://www.sec.gov.

In addition, this Annual Report on Form 10-K, as well as our 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 our 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 our 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 us.

Certifications

New York Stock Exchange Annual Chief Executive Officer Certification

The Company's Chief Executive Officer submitted to the New York Stock Exchange the Annual CEO Certification as the Company's compliance with the New York Stock Exchange's corporate governance listing standards required by Section 303A.12 of the New York Stock Exchange'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 and commodity price 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 45% of our 2007 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. 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. Because we do not hedge against all of our currency exposure, our business will continue to be susceptible to currency fluctuations.

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.

We are also 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.

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.

We face continuing risks relating to settlements with the U.S. Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) arising from certain payments made in 2000-2003 by foreign subsidiaries in connection with the United Nations' Oil For Food Program.

On November 10, 2004, the SEC issued an Order directing that a number of public companies, including us, provide information relating to their participation in certain transactions under the United Nations' Oil for Food Program. Upon receipt of the Order, we undertook a thorough review of our participation in the Oil for Food Program and provided the SEC with information responsive to its investigation of our participation in the program. On October 31, 2007, we announced that we had reached settlements with the SEC and the DOJ relating to certain payments made by our foreign subsidiaries in 2000-2003 in connection with the Oil For Food Program. Pursuant to the settlements with the SEC and DOJ, we have, among other things, (i) consented to the entry of a civil injunction in the SEC action, (ii) entered into a three-year deferred prosecution agreement with the DOJ, and (iii) agreed to implement improvements to our compliance program designed to enhance detection and prevention of violations of the Foreign Corrupt Practices Act of 1977 (FCPA) and other applicable anti-corruption laws. If the DOJ determines, in its sole discretion, that we have committed a federal crime or have otherwise breached the deferred prosecution agreement during its three-year term, we may be subject to prosecution for any federal criminal violation of which the DOJ has knowledge, including, without limitation, violations of the FCPA in connection with the Oil For Food Program. Breaches of the settlements with SEC and DOJ may also subject us to, among other things, further enforcement actions by the SEC or the DOJ, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects and the market value of our stock. For a further discussion of the settlements with the SEC and DOJ, see "Legal Proceedings."

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 generally accepted accounting principles in the United States, 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 and we may be required 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 and higher energy prices 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.

Additionally, we are exposed to large fluctuations for the price of petroleum-based fuel due to the instability of current market prices. 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 us to lose the ability to effectively manage the risk of rising fuel prices and may have an adverse effect on our results of operations or financial condition.

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 strategic acquisitions. Since 2000, we have completed approximately 65 acquisitions, and we recently announced that we had executed a definitive agreement to acquire Trane Inc. in a transaction currently valued at approximately $9.5 billion. We may continue to actively pursue additional strategic 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;
- competition laws and regulations preventing us from making certain acquisitions; and
- the ability to secure necessary financing.

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.

Risks Relating to Our Reorganization as a Bermuda Company

The reorganization exposed us and 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. or other tax laws could increase our tax burden and affect our operating results, as well as subject our shareholders to additional taxes.

The realization of any tax benefit related to our 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 (IRS) or any other tax authority. From time to time, proposals have been made and/or legislation has been introduced to change the U.S. tax law that if enacted could increase our tax burden and could have a material adverse impact on our financial condition and results of operations.

While our U.S. operations are subject to U.S. tax, we believe that a significant portion of our non-U.S. operations are generally not subject to U.S. tax other than withholding taxes. Our conclusions are based on, among other things, our determination that we, and a significant portion of our foreign subsidiaries, are not currently “controlled foreign corporations” (CFCs) within the meaning of the U.S. tax laws, although the IRS or a court may not concur with our conclusions. A non-U.S. corporation, such as us, will constitute a CFC for U.S. federal income tax purposes if certain ownership criteria are met. If the IRS or a court determined that we (or any of our non-U.S. subsidiaries) 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 (or the stock of any of our non-U.S. subsidiaries) on the last day of the applicable 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 and other similar types of income (and the subpart F and other similar types of income of any of 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 (or any of our non-U.S. subsidiaries) are a CFC. Treatment of us or any of our non-U.S. subsidiaries as a CFC could have a material adverse impact on our financial condition and results of operations.

On July 20, 2007, we, and our consolidated subsidiaries, received a notice from the IRS containing proposed adjustments to our consolidated subsidiaries' tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of our reincorporation in Bermuda. The most significant adjustments proposed by the IRS involve treating the entire intercompany debt incurred in connection with our reincorporation in Bermuda as equity. As a result of this recharacterization, the IRS has disallowed the deduction of interest paid on the debt and imposed dividend withholding taxes on the payments denominated as interest. Proposed adjustments on this issue, if upheld in their entirety, would result in additional taxes with respect to the 2002 tax year of approximately $190 million plus interest and would require us to record additional charges associated with this matter. For a further discussion of the IRS audit, see "Legal Proceedings" and Note 18, Income Taxes, to the consolidated financial statements.

We strongly disagree with the view of the IRS and are vigorously contesting these proposed adjustments. Although the outcome of this matter cannot be predicted with certainty, based upon an analysis of the strength of our position, we believe that we have adequately reserved for this matter. At this time, the IRS has not yet begun their examination of our consolidated subsidiaries' tax filings for years subsequent to the 2002 tax year. We believe it likely, if the above adjustments or a portion of such adjustments by the IRS are ultimately sustained, that these adjustments will also affect subsequent tax years.

As noted above, the IRS did not contest the validity of our reincorporation in Bermuda in the above-mentioned notice. We believe that neither we nor our consolidated subsidiary IR-New Jersey will incur significant U.S. federal income or withholding taxes as a result of the transfer of the shares of our subsidiaries that occurred as part of the reorganization. However, we cannot give any assurances that the IRS will agree with our determination.

The inability to realize any anticipated tax benefits related to our reorganization, discussed above in this section "Risks Relating to our Reorganization as a Bermuda Company", could have a material adverse impact on our financial condition and results of operations.

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**

As of December 31, 2007, we owned or leased a total of approximately 13.5 million square feet of space worldwide. Manufacturing and assembly operations are conducted in 29 plants in the United States; 31 plants in Europe; 14 plants in Asia; 6 plants in Latin America; and 1 plant in Canada. We also maintain various warehouses, offices and repair centers throughout the world.

Substantially all plant facilities are owned us with the remainder under long-term lease arrangements. We believe that our plants have been well maintained, are generally in good condition and are suitable for the conduct of our business. At December 31, 2007, we were productively utilizing the majority of the space in our facilities.

The locations by segment of our major manufacturing facilities at December 31, 2007 were as follows:

Climate Control Technologies

Americas	Europe, Middle East, Africa	Asia Pacific
Londrina, Brazil	Kolin, Czech Republic	Luoyang, China
Monterrey, Mexico	Galway, Ireland	Shenzen, China
Mexico City, Mexico	Barcelona, Spain	Suzhou, China
Arecibo, Puerto Rico	Pamplona, Spain	Tauranga, New Zealand
Ciales, Puerto Rico	Peralta, Spain	
Chino, California		
Louisville, Georgia		
Suwanee, Georgia		
Minneapolis, Minnesota		
Bridgeton, Missouri		
Hastings, Nebraska		
Gloversville, New York		

Industrial Technologies

Americas	Europe, Middle East, Africa	Asia Pacific
Montreal, Canada	Douai, France	Guanbxi, China
Augusta, Georgia	Wasquehal, France	Changzhou, China
Campbellsville, Kentucky	Oberhausen, Germany	Nanjing, China
Rochester Hills, Michigan	Fogliano Redipuglia, Italy	Shanghai, China
Madison Heights, Michigan	Vignate, Italy	Ahmadabad, India
Davidson, North Carolina	Pavlovo, Russia	New Delhi, India
Mocksville, North Carolina		
Athens, Pennsylvania		
West Chester, Pennsylvania		
Seattle, Washington		

Security Technologies

Americas	Europe, Middle East, Africa	Asia Pacific
Ensenada, Mexico	Feuquieres, France	Shanghai, China
Tecate, Mexico	Renchen, Germany	Auckland, New Zealand
San Jose, California	Faenza, Italy	
Security, Colorado	Monsampolo, Italy	
New Haven, Connecticut	Duzce, Turkey	
Princeton, Illinois	Birmingham, UK	
Indianapolis, Indiana		
Cincinnati, Ohio		
Caracas, Venezuela		

Item 3. **LEGAL PROCEEDINGS**

In the normal course of business, we are 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 our opinion, pending legal matters are not expected to have a material adverse effect on our results of operations, financial condition, liquidity or cash flows.

As previously reported, on November 10, 2004, the Securities and Exchange Commission (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 Oil for Food Program, provided the SEC with information responsive to the Order and provided additional information requested by the SEC. During a March 27, 2007 meeting with the SEC, at which a representative of the Department of Justice (DOJ) was also present, the Company began discussions concerning the resolution of this matter with both the SEC and DOJ. On October 31, 2007, the Company announced it had reached settlements with the SEC and DOJ relating to this matter. Under the terms of the settlements, the Company paid a total of $6.7 million in penalties, interest and disgorgement of profits. The Company consented to the entry of a civil injunction in the SEC action and entered into a three-year deferred prosecution agreement with the DOJ. Under both settlements, the Company has implemented, and will continue to implement, improvements to its compliance program that are consistent with its longstanding policy against improper payments. In the settlement documents, the Government noted that the Company thoroughly cooperated with the investigation, that the Company had conducted its own complete investigation of the conduct at issue, promptly and thoroughly reported its findings to them, and took prompt remedial measures. In a related matter, on July 10, 2007, representatives of the Italian Guardia di Finanza (Financial Police) requested documents from Ingersoll-Rand Italiana S.p.A pertaining to certain Oil for Food transactions undertaken by that subsidiary of the Company. Such transactions have previously been reported to the SEC and DOJ, and the Company will continue to cooperate fully with the Italian authorities in this matter.

On July 20, 2007, the Company and its consolidated subsidiaries 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 2001 and 2002 tax years. The IRS did not contest the validity of the Company's reincorporation in Bermuda. The most significant adjustments proposed by the IRS involve treating the entire intercompany debt incurred in connection with the Company's reincorporation in Bermuda as equity. As a result of this recharacterization, the IRS has disallowed the deduction of interest paid on the debt and imposed dividend withholding taxes on the payments denominated as interest. These adjustments proposed by the IRS, if upheld in their entirety, would result in additional taxes with respect to 2002 of approximately $190 million plus interest, and would require the Company to record additional charges associated with this matter. At this time, the IRS has not yet begun their examination of the Company's tax filings for years subsequent to 2002. However, if these adjustments or a portion of these adjustments proposed by the IRS are ultimately sustained, it is likely to also affect subsequent tax years.

The Company strongly disagrees with the view of the IRS and filed a protest with the IRS in the third quarter of 2007. Going forward, the Company intends to vigorously contest these proposed adjustments. The Company, in consultation with its outside advisors, carefully considered many factors in determining the terms of the intercompany debt, including the obligor's ability to service the debt and the availability of equivalent financing from unrelated parties, two factors prominently cited by the IRS in denying debt treatment. The Company believes that its characterization of that obligation as debt for tax purposes was supported by the relevant facts and legal authorities at the time of its creation. The subsequent financial results of the relevant companies, including the actual cash flow generated by operations and the production of significant additional cash flow from dispositions have confirmed the ability to service this debt. Although the outcome of this matter cannot be predicted with certainty, based upon an analysis of the strength of its position, the Company believes that it is adequately reserved for this matter. As the Company moves forward to resolve this matter with the IRS, it is reasonably possible that the reserves established may be adjusted within the next 12 months. However, the Company does not expect that the ultimate resolution will have a material adverse impact on its future results of operations or financial position. See Note 18, Income Taxes, to the consolidated financial statements for a further discussion of tax matters.

Certain of our wholly owned subsidiaries 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 has been filed against our wholly owned subsidiary, Ingersoll-Rand Company (IR-New Jersey), and generally allege injury caused by exposure to asbestos contained in certain of IR-New Jersey's products, primarily pumps and compressors. 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 and packings purchased from third-party suppliers.

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 20, Commitments and Contingencies, and Note 18, Income Taxes, to the consolidated financial statements.

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, 2007.

Executive Officers of the Registrant

Pursuant to the General Instruction G(3) of Form 10-K, the following list of executive officers of the Company as of February 25, 2008 is included as an unnumbered item in Part I of this report in lieu of being included in the Company's Proxy Statement for its 2008 Annual General Meeting of Shareholders.

Name and Age	Date of Service as an Executive Officer	Principal Occupation and Other Information for Past Five Years
Herbert L. Henkel (59)	4/5/1999	Chairman of Board and Chief Executive Officer, President and Director
James V. Gelly (48)	10/6/2007	Senior Vice President and Chief Financial Officer (since October 2007); Rockwell Automation, Chief Financial Officer, (2004-2007); Honeywell International, Vice President and Treasurer (1999-2003)
Marcia J. Avedon (46)	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 (50)	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 B. Gauld (54)	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 (44)	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 Manager, Asia 2002-2003; Group Vice President and General Manager, Customer Business Units, 1999-2002)
Patricia Nachtigal (61)	11/2/1988	Director (since January 1, 2002); Senior Vice President and General Counsel
Steven R. Shawley (55)	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)

Richard W. Randall (57)	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 our common shares and related shareholder matters is as follows:

Our Class A common shares are traded on the New York Stock Exchange under the symbol IR. As of February 25, 2008, the approximate number of record holders of Class A common shares was 6,902. The high and low closing price per share and the dividend paid per share for the following periods were as follows:

		Common shares	
2007	High	Low	Dividend
First quarter	$ 45.42	$ 38.75	$ 0.18
Second quarter	55.99	43.61	0.18
Third quarter	55.99	47.21	0.18
Fourth quarter	55.55	43.60	0.18
2006			
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

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.

Information regarding equity compensation plans required to be disclosed pursuant to this Item is incorporated by reference from our definite Proxy Statement for the Annual General Meeting of Shareholders.

Shares of IR-Limited owned by a subsidiary are treated as treasury stock and are recorded at cost. During 2007, we repurchased 39.7 million Class A common shares at a cost $1,999.9 million under our existing $4 billion share repurchase program. This repurchase program was originally authorized by the Board of Directors in December 2006 to repurchase up to $2 billion and subsequently expanded to $4 billion in May 2007.

During 2006, we completed our original $2 billion share repurchase program by repurchasing 27.7 million Class A common shares at a cost of $1,096.3 million. This share repurchase program was originally authorized by the Board of Directors in August 2004 and subsequently expanded in August 2005.

Total share repurchases for the three months ended December 31, 2007 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)
10/01/2007 - 10/31/2007	1,097.1	$ 54.01	1,097.1	$ 2,000,100
11/01/2007 - 11/30/2007	-	-	-	2,000,100
12/01/2007 - 12/31/2007	-	-	-	2,000,100
Total	1,097.1		1,097.1	

Performance Graph

The following graph compares 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 for the five years ended December 31, 2007. The graph assumes an investment of $100 in our Class A common shares, the Standard & Poor’s 500 Stock Index and the Standard & Poor’s Industrial Machinery Index on December 31, 2001 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,	2007	2006	2005	2004	2003
Net revenues	$ 8,763.1	$ 8,033.7	$ 7,263.7	$ 6,663.2	$ 6,083.4
Earnings from continuing operations	733.1	765.0	731.8	554.2	362.5
Earnings from discontinued operations	3,233.6	267.5	322.4	664.5	282.0
Total assets	14,376.2	12,145.9	11,756.4	11,414.6	10,664.9
Total debt	1,453.7	1,984.6	2,117.0	1,880.4	2,315.4
Shareholders' equity	7,907.9	5,404.8	5,761.9	5,733.8	4,493.3
Basic earnings per common share:					
Continuing operations	$ 2.52	$ 2.39	$ 2.17	$ 1.60	$ 1.06
Discontinued operations	11.12	0.84	0.95	1.92	0.82
Diluted earnings per common share:					
Continuing operations	$ 2.48	$ 2.37	$ 2.14	$ 1.58	$ 1.05
Discontinued operations	10.95	0.83	0.95	1.89	0.82
Dividends per common share	$ 0.72	$ 0.68	$ 0.57	$ 0.44	$ 0.36

1. Earnings and dividends per common share amounts have been restated to reflect a two-for-one stock split that occurred in August 2005.

2. 2006 – 2003 amounts have been restated to reflect Compact Equipment and the Road Development business unit as discontinued operations.

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 (IR Limited), a Bermuda company, and its consolidated subsidiaries (we, our or the Company) is a leading innovation and solutions provider with strong brands and leading positions within our markets. Our business segments consist of Climate Control Technologies, Industrial Technologies and Security Technologies. We generate 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 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 strategic acquisitions;

· *Operational Excellence*, by fostering a lean 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 transformed our enterprise portfolio by divesting cyclical, low-growth, and asset-intensive businesses. We continue to focus on increasing our recurring revenue stream, which includes revenues from parts, service, used equipment and rentals. We also intend to continuously improve the efficiencies, capabilities, and products and services of our high-potential businesses.

Acquisitions and Divestitures

On December 17, 2007, we announced that we had executed a definitive agreement to acquire Trane Inc., formerly American Standard Companies Inc., in a transaction currently valued at approximately $9.5 billion. This transaction, which is expected to close during the second quarter of 2008, is subject to approval by Trane shareholders, regulatory approval and contractual closing conditions. There can be no assurance that the acquisition will be consummated.

Trane is a global leader in indoor climate control systems, services and solutions and provides systems and services that enhance the quality and comfort of the air in homes and buildings around the world. They offer customers a broad range of energy-efficient heating, ventilation and air conditioning systems; dehumidifying and air cleaning products; service and parts support; advanced building controls; and financing solutions. Their systems and services have leading positions in commercial, residential, institutional and industrial markets; a reputation for reliability, high quality and product innovation; and a powerful distribution network. Trane has more than 29,000 employees and 34 production facilities worldwide, with 2007 annual revenues of $7.45 billion.

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On November 30, 2007, we completed the sale of our Bobcat, Utility Equipment and Attachments business units (collectively, Compact Equipment) to Doosan Infracore for cash proceeds of approximately $4.9 billion, subject to post-closing purchase price adjustments. We recorded a gain on sale of $2,652.0 million (net of tax of $939.0 million). Compact Equipment manufactures and sells compact equipment including skid-steer loaders, compact track loaders, mini-excavators and telescopic tool handlers; portable air compressors, generators, light towers; general-purpose light construction equipment; and attachments.

On April 30, 2007, we completed the sale of our Road Development business unit to AB Volvo (publ) in all countries except for India, which closed on May 4, 2007, for cash proceeds of approximately $1.3 billion, subject to post-closing purchase price adjustments. We recorded a gain on sale of $634.7 million (net of tax of $164.4 million). The Road Development business unit manufactures and sells asphalt paving equipment, compaction equipment, milling machines and construction-related material handling equipment.

Trends and Economic Conditions

We are a global corporation with worldwide operations. More than 45% of our 2007 net revenues are derived outside the U.S. 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. We monitor key competitors and customers in order 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 from continuing operations for the full-year 2007 increased approximately 9% compared with the same period of 2006. Strong international markets, new product introductions, increased recurring revenue, higher volumes, pricing improvements and a favorable currency impact drove this growth. Our major end markets in Europe, Asia and Latin America experienced significant growth. This growth helped to drive revenue increases in all three our operating segments. We have also been able to increase prices and add surcharges to help mitigate the impact of cost inflation during the year. We have generated positive cash flows from operating activities during 2007 and expect to continue to produce positive operating cash flows for the foreseeable future.

For 2008, we expect to see slower growth in North America and Western Europe offset by the activity levels in the developing economies of Eastern Europe, Asia and Latin America. Additionally, we expect to see lower material cost inflation in 2008 relative to the past few years.

Significant events in 2007

As discussed in Acquisitions and Divestitures above, in 2007, we sold our Compact Equipment and Road Development business unit for gross proceeds of approximately $6.2 billion.

On January 11, 2008 we announced that we had taken a non-cash charge in the fourth quarter 2007 to earnings of discontinued operations of $449 million ($277 million after tax) relating to the company's liability for all pending and estimated future asbestos claims through 2053. This charge results from an increase in our recorded liability for asbestos claims by $538 million, from $217 million to $755 million, offset by a corresponding $89 million increase in its assets for probable asbestos-related insurance recoveries, which now total $250 million. For a further discussion of asbestos matters, see Note 20, Commitments and Contingencies, to the consolidated financial statements.

On July 20, 2007, the Company and its consolidated subsidiaries received a notice from the IRS containing proposed adjustments to the Company’s tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of the Company’s reincorporation in Bermuda. The most significant adjustments proposed by the IRS involve treating the entire intercompany debt incurred in connection with the Company’s reincorporation in Bermuda as equity. As a result of this recharacterization, the IRS has disallowed the deduction of interest paid on the debt and imposed dividend withholding taxes on the payments denominated as interest. These adjustments proposed by the IRS, if upheld in their entirety, would result in additional taxes with respect to 2002 of approximately $190 million plus interest, and would require the Company to record additional charges associated with this matter. At this time, the IRS has not yet begun their examination of the Company’s tax filings for years subsequent to 2002. However, if these adjustments or a portion of these adjustments proposed by the IRS are ultimately sustained, it is likely to also affect subsequent tax years.

The Company strongly disagrees with the view of the IRS and filed a protest with the IRS in the third quarter of 2007. Going forward, the Company intends to vigorously contest these proposed adjustments. The Company, in consultation with its outside advisors, carefully considered many factors in determining the terms of the intercompany debt, including the obligor’s ability to service the debt and the availability of equivalent financing from unrelated parties, two factors prominently cited by the IRS in denying debt treatment. The Company believes that its characterization of that obligation as debt for tax purposes was supported by the relevant facts and legal authorities at the time of its creation. The subsequent financial results of the relevant companies, including the actual cash flow generated by operations and the production of significant additional cash flow from dispositions have confirmed the ability to service this debt. Although the outcome of this matter cannot be predicted with certainty, based upon an analysis of the strength of its position, the Company believes that it is adequately reserved for this matter. As the Company moves forward to resolve this matter with the IRS, it is reasonably possible that the reserves established may be adjusted within the next 12 months. However, the Company does not expect that the ultimate resolution will have a material adverse impact on its future results of operations or financial position. See Note 18, Income Taxes, to the consolidated financial statements for a further discussion of tax matters.

During 2007, we repurchased 39.7 million Class A common shares at a cost $1,999.9 million under our existing $4 billion share repurchase program. This repurchase program was originally authorized by the Board of Directors in December 2006 to repurchase up to $2 billion and subsequently expanded to $4 billion in May 2007.

Significant Events in 2006

During 2006, we completed our original $2 billion share repurchase program by repurchasing 27.7 million Class A common shares at a cost of $1,096.3 million. This share repurchase program was originally authorized by the Board of Directors in August 2004 and subsequently 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 repurchased under the December 2006 authorization as of December 31, 2006.

On October 6, 2006, we received a notice from the Internal Revenue Service (IRS) containing proposed adjustments to our 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 our 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 a result, in the third quarter of 2006, we added approximately $27 million ($0.08 per dilutive share) to previously established reserves. In order to reduce the potential interest expense associated with this matter, we made a payment to the IRS of $217 million in the third quarter of 2007. See Note 18, Income Taxes, to the consolidated financial statements for a further discussion of tax matters.

Significant Events in 2005

In January, we 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 August, we 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. We have 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.

On August 3, 2005, our Board of Directors declared a two-for-one stock split effected in the form of a stock distribution to shareholders on September 1, 2005. In addition, they also expanded our share repurchase program, which was established in August 2004, to $2 billion. During 2005, we repurchased 19.4 million Class A common shares at a cost of $763.6 million.

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

Results of Operations

Dollar amounts in millions, except per share data	2007	% of Revenues	2006	% of Revenues	2005	% of Revenues
Net revenues	$ 8,763.1		$ 8,033.7		$ 7,263.7	
Cost of goods sold	6,272.0	71.6%	5,768.4	71.8%	5,203.2	71.6%
Selling and administrative expenses	1,433.3	16.3%	1,266.8	15.8%	1,172.7	16.2%
Operating income	1,057.8	12.1%	998.5	12.4%	887.8	12.2%
Interest expense	(136.2)		(133.6)		(145.1)	
Other income, net	15.9		(7.3)		50.1	
Earnings before income taxes	937.5		857.6		792.8	
Provision for income taxes	204.4		92.6		61.0	
Earnings from continuing operations	733.1		765.0		731.8	
Discontinued operations, net of tax	3,233.6		267.5		322.4	
Net earnings	$ 3,966.7		$ 1,032.5		$ 1,054.2	
Diluted earnings per common share:						
Continuing operations	$ 2.48		$ 2.37		$ 2.14	
Discontinued operations	10.95		0.83		0.95	
Net earnings	$ 13.43		$ 3.20		$ 3.09	

Revenues

2007 vs. 2006: Net revenues increased by 9% in 2007, or $729.4 million, compared with 2006, which primarily resulted from the following:

Volume/product mix	4.0%
Pricing	2.0%
Currency exchange rates	2.5%
Acquisitions	0.5%
Total	9.0%

Revenues increased significantly in the European, Asian and Latin American regions as volumes, product mix and pricing all improved during 2007. North American revenues increased moderately compared to 2006. These increases occurred in each of our business segments. Recurring revenues continue to be a source of growth as they improved 9% over the prior year and accounted for 18% of net revenues in 2007.

2006 vs. 2005: Net revenues increased by 11% in 2006, or $770.0 million, compared with 2005, which primarily resulted from the following:

Volume/product mix	7.0%
Pricing	2.0%
Acquisitions	1.5%
Currency exchange rates	0.5%
Total	11.0%

All business segments experienced higher revenues on increased volumes created by favorable end markets and new product introductions. Revenues from all major geographic regions also improved during 2006. Recurring revenues improved 10% in 2006 over the prior year.

Cost of Goods Sold

2007 vs. 2006: In 2007, Cost of goods sold as a percentage of net revenues decreased slightly compared with 2006. Increased leverage on higher revenues provided a benefit which was offset by unfavorable mix and higher material costs. Restructuring costs, which accounted for $25 million of the year-over-year increase, had a 0.3% impact on Cost of goods sold as a percent of revenue.

2006 vs. 2005: In 2006, Cost of goods sold as a percentage of net revenues increased slightly compared with 2005. Increased leverage on higher revenues was more than offset by higher material costs and investments in productivity programs.

Selling and Administrative Expenses

2007 vs. 2006: Selling and administrative expenses as a percentage of net revenues increased compared with 2006. This increase was primarily due to increased costs of $23 million associated with the divestiture of Compact Equipment and the Road Development business unit. In addition, share-based compensation expense of $20 million and the prior year adjustment of the allowance for doubtful accounts of $15 million also contributed to the increase. These additional costs were partially offset by better leverage from higher revenue.

2006 vs. 2005: Selling and administrative expenses as a percentage of net revenues decreased compared with 2005. This decrease was primarily due to increased leverage from higher revenues, partially offset by increased investments in new product development of $30 million and lower productivity of $20 million. In addition, 2006 Selling and administrative expenses were favorably impacted by a change in estimate of the allowance for doubtful accounts reserve during the first quarter of 2006, which resulted in a $15 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 our business portfolio and historical and expected write-off experience. In addition, we purchased a new insurance policy, which limits our bad debt exposure. This benefit was more than offset by $20 million of additional share-based compensation costs, which includes $14 million associated with stock options from the adoption of Statement of Financial Accounting Standard No. 123(R).

Operating Income

2007 vs. 2006: Operating income increased by $59.3 million or 5.9% in 2007, compared with 2006. 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, restructuring costs and unfavorable product mix.

2006 vs. 2005: Operating income increased by $110.7 million or 12.5% in 2006, compared with 2005. The increase in Operating income was mainly attributable to improved pricing and higher volumes. These benefits were partially offset by higher material costs, investments in new product development and productivity programs and restructuring costs.

Interest Expense

2007 vs. 2006: Interest expense increased by $2.6 million in 2007, compared with 2006. The increase was mainly attributable to higher year-over-year average debt levels due to the issuance and subsequent repayment of commercial paper during 2007.

2006 vs. 2005: Interest expense decreased by $11.5 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.

Other Income, Net

Other income, net increased by $23.2 million in 2007 and decreased by $57.4 million in 2006, which primarily resulted from the following:

In millions	2007	2006	2005
Interest income	$ 36.2	$ 15.9	$ 29.1
Exchange gain (loss)	(2.8)	(21.3)	6.8
Minority interests	(14.3)	(14.9)	(12.7)
Earnings from equity investments	1.0	(0.1)	4.1
Other	(4.2)	13.1	22.8
Other income, net	$ 15.9	$ (7.3)	$ 50.1

2007 vs. 2006: Other income, net increased in 2007 compared with 2006, mainly due to increased interest income as result of higher average cash balances during 2007. Additionally, Other income, net in 2006 included income from a reduction of a product liability reserve of approximately $9 million.

2006 vs. 2005: Other income, net decreased in 2006 compared with 2005, mainly due to unfavorable foreign exchange movement and lower earnings from equity investments. Also interest income decreased as a result of lower average cash balances during 2006. These decreases were partially offset by a reduction of a $9 million product liability reserve in 2006. In addition, Other income, net in 2005 included income of approximately $10 million from a reduction of a liability for a business previously divested.

Provision for Income Taxes

Our effective tax rate was 21.8%, 10.8% and 7.7% for 2007, 2006 and 2005 respectively. The table below highlights the major changes in our effective tax rate as well as provides a reconciliation to the statutory U.S. tax rate:

	Percent of pretax income		
	2007	2006	2005
Statutory U.S. rate	35.0%	35.0%	35.0%
Increase (decrease) in rates resulting from:			
Non-U.S. operations	(21.0)	(28.2)	(26.4)
Tax reserves	8.0	4.8	2.2
Other adjustments	(0.2)	(0.8)	(3.1)
Effective tax rate	21.8%	10.8%	7.7%

2007 vs. 2006: The effective tax rate increased approximately 11% in 2007 compared with 2006. The increase in the effective tax rate during 2007 was primarily due to increased earnings in higher tax jurisdictions (7.2%) and increased tax reserves (3.2%) primarily associated with Financial Accounting Standard Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109” (FIN 48), a new accounting standard that we adopted in 2007. FIN 48 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.

2006 vs. 2005: The effective tax rate increased approximately 3.1% in 2007 compared with 2006. The increase in the effective tax rate during 2006 primarily relates to the $27 million charge that we recorded in the third quarter of 2006 associated with the notice received from the IRS, as described under "Significant Events in 2006".

Review of Business Segments

We classify our business into three reportable segments based on industry and market focus: Climate Control 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, refrigerated display merchandisers, beverage coolers, auxiliary power units and walk-in storage coolers and freezers. This segment includes the Thermo King, Hussmann and Koxka brands.

Dollar amounts in millions	2007	% change	2006	% change	2005
Net revenues	$ 3,372.4	6.4%	$ 3,171.0	11.1%	$ 2,853.6
Operating income	382.6	7.5%	356.0	13.0%	315.1
Operating margin	11.3%		11.2%		11.0%

2007 vs. 2006: Net revenues increased by 6.4% in 2007, or $201.4 million, compared with 2006, which mainly resulted from favorable currency movement (4%), higher volumes and product mix (2%) and improved product pricing. Operating income increased during the year due to increased productivity ($68 million), improved product pricing ($44 million) and favorable currency movement ($15 million). These increases were partially offset by higher material costs ($46 million), investments in restructuring ($22 million), unfavorable product mix ($20 million) and new product development ($8 million).

Net revenues grew in the European, Asian and Latin American regions during the year ended 2007, benefiting from strong truck and trailer sales and year-over-year gains in bus and marine containers. These gains were partially offset by lower activity levels in the North American trailer markets. Revenues for service and installation increased with growth in the North American and Asian markets, offsetting weakness in the European market for display cases.

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.

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, golf and utility vehicles and energy generation systems. This segment includes the Ingersoll Rand and Club Car brands.

Dollar amounts in millions		2007	% change		2006	% change		2005
Net revenues	$	2,877.1	11.6%	$	2,577.7	11.6%	$	2,310.4
Operating income		392.0	11.4%		351.8	16.6%		301.6
Operating margin		13.6%			13.6%			13.1%

2007 vs. 2006: Net revenues increased by 11.6% in 2007, or $299.4 million, compared with 2006, mainly due to higher volumes and product mix (5%), a favorable currency impact (2%), acquisitions (2%) and improved product pricing (2%). Operating income for the year ended 2007 was higher due to improved product pricing ($48 million), increased productivity ($33 million) and higher volumes ($32 million). These gains were partially offset by higher material costs ($63 million) and investments in new product development and productivity programs ($13 million).

Air Solutions revenues increased 16% compared with 2006, mainly driven by favorable worldwide industrial markets and increased recurring revenues. Productivity Solutions revenues increased moderately compared with 2006, mainly due to non-U.S. growth in the industrial fluid and handling markets and higher service revenues, partially offset by a weak domestic market for tools. Club Car revenues increased 10% compared with 2006, mainly due to growth in the sales of utility, off-road and aftermarket vehicles and ongoing market share gains in a soft golf market.

2006 vs. 2005: Net revenues increased by 11.6% in 2006, or $267.3 million, compared with 2005, mainly due to higher volumes and product mix (9%), improved product pricing (2%) and acquisitions. Operating income for the year ended 2006 was higher due to increased productivity ($51 million), improved product pricing ($40 million) and higher volumes and product mix ($37 million). These gains were partially offset by higher material costs ($59 million), investments in new product development and productivity programs ($12 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, resulting in 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. Club Car revenues for the year ended 2006 increased by 11% compared with 2005, mainly due to higher sales of golf cars, transport and utility vehicles, as well as significant growth in the aftermarket and international markets.

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. This segment includes the Schlage, LCN, Von Duprin and CISA brands.

Dollar amounts in millions	2007	% change	2006	% change	2005
Net revenues	$ 2,513.6	10.0%	$ 2,285.0	8.8%	$ 2,099.7
Operating income	433.5	8.3%	400.2	5.1%	380.7
Operating margin	17.2%		17.5%		18.1%

2007 vs. 2006: Net revenues increased by 10.0% in 2007, or $228.6 million, compared with 2006, mainly due to higher volumes and product mix (5%) and improved product pricing (4%). Operating income for the year ended 2007 increased due to improved product pricing ($84 million) and increased productivity ($15 million). These gains were partially offset by higher material costs ($35 million), lower volumes ($16 million), new product development ($6 million) and investments in restructuring ($5 million).

Net revenues grew in all regions during the year benefiting from strong worldwide commercial construction markets, especially in schools, universities and health-care facilities. Revenues from electronic access control and mechanical products also increased year-over-year. Market share gains from both the new home-builder channel and large retail customers increased revenue along with the introduction of residential electronic products and new product designs. These increases helped offset the effects of a declining North American residential market.

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 ($30 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. Asian revenues were up sharply, primarily due to bolt-on acquisitions.

Discontinued Operations

The components of discontinued operations for the years ended December 31 are as follows:

In millions	2007	2006	2005
Revenues	$ 2,957.8	$ 3,375.7	$ 3,283.2
Pre-tax earnings (loss) from operations	(82.5)	376.6	413.6
Pre-tax gain on sale	4,382.6	1.1	4.4
Tax expense	(1,066.5)	(110.2)	(95.6)
Discontinued operations, net	$ 3,233.6	$ 267.5	$ 322.4

Pre-tax loss from operations in 2007 includes a non-cash charge of $449.0 million related to our liability for all pending and estimated future asbestos claims through 2053 as discussed below in “Other Discontinued Operations”.

Discontinued operations by business for the years ended December 31 are as follows:

In millions	2007	2006	2005
Compact Equipment, net of tax	$ 2,927.1	$ 240.4	$ 284.7
Road Development, net of tax	672.5	62.9	36.6
Other discontinued operations, net of tax	(366.0)	(35.8)	1.1
Total discontinued operations, net of tax	$ 3,233.6	$ 267.5	$ 322.4

Compact Equipment Divestiture

On July 29, 2007, we agreed to sell our Bobcat, Utility Equipment and Attachments business units (collectively, Compact Equipment) to Doosan Infracore for gross proceeds of approximately $4.9 billion, subject to post closing purchase price adjustments. The sale was completed on November 30, 2007.

Compact Equipment manufactures and sells compact equipment, including skid-steer loaders, compact track loaders, mini-excavators and telescopic tool handlers; portable air compressors, generators and light towers; general-purpose light construction equipment; and attachments. We have accounted for Compact Equipment as discontinued operations and classified the assets and liabilities as held for sale for all periods presented in accordance with Statement of Financial Accounting Standard No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (SFAS 144).

Net revenues and after-tax earnings of Compact Equipment for the years ended December 31 were as follows:

In millions	2007	2006	2005
Net revenues	$ 2,705.9	$ 2,648.4	$ 2,610.1
After-tax earnings from operations	$ 275.1	$ 240.4	$ 284.7
Gain on sale, net of tax of $939.0	2,652.0	-	-
Total discontinued operations, net of tax	$ 2,927.1	$ 240.4	$ 284.7

Road Development Divestiture

On February 27, 2007, we agreed to sell our Road Development business unit to AB Volvo (publ) for cash proceeds of approximately $1.3 billion, subject to post closing purchase price adjustments. The sale was completed on April 30, 2007, in all countries except for India, which closed on May 4, 2007.

The Road Development business unit manufactures and sells asphalt paving equipment, compaction equipment, milling machines and construction-related material handling equipment. We have accounted for the Road Development business unit as discontinued operations and classified the assets and liabilities sold to AB Volvo as held for sale for all periods presented in accordance with SFAS 144.

Net revenues and after-tax earnings of the Road Development business unit for the years ended December 31 were as follows:

In millions	2007	2006	2005
Net revenues	$ 251.9	$ 727.3	$ 673.1
After-tax earnings from operations	$ 37.8	$ 62.9	$ 36.6
Gain on sale, net of tax of $164.4	634.7	-	-
Total discontinued operations, net of tax	$ 672.5	$ 62.9	$ 36.6

Other Discontinued Operations

We also have retained costs from previously sold businesses that mainly include costs related to postretirement benefits, product liability and legal costs (mostly asbestos-related). The components of other discontinued operations for the years ended December 31 were as follows:

In millions	2007	2006	2005
Retained costs, net of tax	$ (340.9)	$ (36.5)	$ (34.1)
Net gain (loss) on disposals, net of tax	(25.1)	0.7	35.2
Total discontinued operations, net of tax	$ (366.0)	$ (35.8)	$ 1.1

During the fourth quarter of 2007, we recorded a non-cash charge of $449.0 million ($277 million after tax) related to our liability for all pending and estimated future asbestos claims through 2053. Refer to Note 20, Commitments and Contingencies, in the consolidated financial statements for further details on asbestos-related matters.

Liquidity and Capital Resources

The following table reflects the major categories of cash flows for the years ended December 31, respectively. For additional details, please see the Consolidated Statements of Cash Flows in the consolidated financial statements.

In millions	2007	2006	2005
Operating cash flow provided by (used in) continuing operations	$ 829.9	$ 813.1	$ 440.9
Investing cash flow provided by (used in) continuing operations	6,052.4	(28.7)	(688.6)
Financing cash flow provided by (used in) continuing operations	(2,563.1)	(1,343.2)	(875.7)

Operating Activities

2007 vs. 2006: Our primary source of liquidity is operating cash flows. Net cash provided by operating activities from continuing operations increased to $829.9 million in 2007 compared with $813.1 in 2006. The change was primarily due to higher cash-based earnings in 2007, partially, offset by the $217 million payment to the IRS made during 2007. For further details regarding this tax payment, see Note 18, Income Taxes in the consolidated financial statements.

2006 vs. 2005: Net cash provided by operating activities from continuing operations increased to $813.1 million in 2006 compared with $440.9 million in 2005. This change was mainly due to higher cash-based earnings and a lower investment in our working capital in 2006 compared with 2005.

Investing Activities

2007 vs. 2006: Net cash provided by investing activities from continuing operations in 2007 was $6,052.4 million, compared with net cash used in investing activities from continuing operations of $28.7 million in 2006. The change in investing activities was primarily attributable to the net proceeds of $6,154.3 million from the sale of Compact

Equipment and the Road Development business unit in 2007.

2006 vs. 2005: Net cash used in investing activities from continuing operations in 2006 was $28.7 million compared with $688.6 million in 2005. The change was primarily attributable to decreased acquisition activity in 2006. Cash used for acquisitions in 2006 was $49.7 million compared with $484.7 million in 2005, which included the purchase of CISA S.p.A. and Taiwan Fu Hsing Industrial Company Ltd. The decrease was partially offset by increased capital expenditures of $144.8 million in 2006 compared with $86.1 million in 2005. Additionally, during 2006 we sold $155.8 million of marketable securities that were purchased for $152.6 million in 2005.

Financing Activities

2007 vs. 2006: Net cash used in financing activities from continuing operations in 2007 was $2,563.1 million compared with $1,343.2 million in 2006. The change in financing activities was primarily due to the increase in repurchases of Class A common shares and the repayment of $551.7 million of short-term and long-term debt. During 2007, we repurchased approximately 39.7 million Class A common shares at a cost of $1,999.9 million. During 2006, we repurchased 27.7 million Class A common shares at a cost of $1,096.3 million.

2006 vs. 2005: Net cash used in financing activities from continuing operations in 2006 was $1,343.2 million compared with $875.7 million in 2005. The change in financing activities is primarily due to the increase in repurchases of Class A common shares and the repayment of $513.7 million of long-term debt. During 2006, the Company repurchased approximately 27.7 million Class A common shares at a cost of $1,096.3 million. During 2005, the Company repurchased 19.4 million Class A common shares at a cost of $763.6 million. 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.

Other Liquidity Measures

The following table contains several key measures to gauge our financial condition and liquidity at the period ended December 31:

In millions	2007	2006	2005
Cash and cash equivalents	$ 4,735.3	$ 355.8	$ 876.0
Total debt	1,453.7	1,984.6	2,117.0
Total shareholders' equity	7,907.9	5,404.8	5,761.9
Debt-to-total capital ratio	15.4%	26.6%	26.7%

Cash and cash equivalents increased by $4,379.5 million during 2007. The increase is mainly attributable to the sale of Compact Equipment and the Road Development business unit, which generated proceeds of $6,154.3 million.

Total debt levels declined by $530.9 million during 2007 as we repaid $141.8 million of long-term debt and $378.0 million of commercial paper.

In connection with the proposed Trane acquisition, each share of Trane's common stock (which approximated 195 million at December 31, 2007) will be exchanged for a combination of (i) 0.23 of an Ingersoll Rand Class A common share and (ii) $36.50 in cash, without interest. We intend to use a combination of cash on hand and debt financing in order to pay for the cash portion of the consideration. We have secured commitments from JPMorgan Chase Bank, N.A., J.P. Morgan Securities Inc., Credit Suisse, Cayman Islands Branch, Credit Suisse Securities (USA) LLC, Goldman Sachs Bank USA and Goldman Sachs Credit Partners L.P. to provide up to $3.9 billion in financing through a 364-day senior unsecured bridge facility. If unused, the debt commitments will expire on September 30, 2008.

In 2007, there was significant volatility in the capital markets, which led to an overall tightening of the credit markets. During 2008, we intend to refinance the bridge financing primarily with a combination of short-term and long-term debt. Financing terms will be determined by market conditions at the time of issuance. As such, we cannot assess the impact of the financing on our future financial results.

Our debt-to-total capital ratio at December 31, 2007 decreased significantly compared with 2006, due to a substantial increase in Shareholders' equity as the result of the $3,286.7 million gain from the sale of Compact Equipment and the Road Development business unit. Additionally, the debt-to-capital ratio was affected by the repayment of $530.9 million of debt during 2007.

Capital expenditures were $119.7 million, $144.8 million and $86.1 million for 2007, 2006 and 2005, respectively. Our investments continue to improve manufacturing productivity, reduce costs and provide environmental enhancements and advanced technologies for existing facilities. The capital expenditure program for 2008 is estimated to be approximately $150 million, including amounts approved in prior periods. Many of these projects are subject to review and cancellation at our option without incurring substantial charges.

For financial market risk impacting the Company, see Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

Capitalization

In addition to operating cash flow, we maintain significant credit availability under our commercial paper programs. Our ability to borrow at a cost-effective rate under the commercial paper programs is contingent upon maintaining an investment-grade credit rating. As of December 31, 2007, our credit ratings were as follows:

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

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.

We have additional short-term borrowing alternatives, should the need arise. At December 31, 2007, our 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 our commercial paper program and indirectly provide support for other financing instruments, such as letters of credit, as required in the normal course of business. We compensate banks for these lines with fees equal to a weighted average of .0775% per annum. Available non-U.S. lines of credit were $756.9 million, of which $620.5 million were unused at December 31, 2007. These lines provide support for bank guarantees, letters of credit and other working capital purposes.

In 2008, we have long-term debt retirements of $681.1 million, which include $547.9 million in bonds that may require early repayment at the option of the holders. We believe that our cash generation and large unused capacity under our committed borrowing facilities provide sufficient capacity to cover all cash requirements for capital expenditures, dividends, debt repayments, and operating lease and purchase obligations in 2008.

In August 2005, our 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 our 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 our 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 our Class A common shares from 16 cents to 18 cents per share.

Contractual Obligations
The following table summarizes our contractual cash obligations by required payment periods, in millions:

Payments due by period	Short-term debt	Long-term debt	Interest payments on long-term debt	Purchase obligations	Operating leases	Total contractual cash obligations
Less than 1 year	$ 59.9	$ 681.1 *	$ 84.4	$ 639.0	$ 54.2	$ 1,518.6
1 - 3 years	-	18.3	89.1	187.5	81.0	375.9
3 - 5 years	-	18.1	86.1	-	43.8	148.0
More than 5 years	-	676.3	316.6	-	24.8	1,017.7
Total	$ 59.9	$ 1,393.8	$ 576.2	$ 826.5	$ 203.8	$ 3,060.2

* Includes $547.9 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 our pension and postretirement benefit plans, income taxes, environmental and asbestos matters have not been included in the contractual cash obligations table above.

Pensions
In 2006, we adopted 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), which requires us to record the funded status of our pension plans on the balance sheet effective December 31, 2006.

As of December 31, 2007, we had net obligations on our balance sheet of $71.5 million, which consist of long-term prepaid pension costs of $166.9 million and current and non-current pension benefits liabilities of $238.4 million. It is our objective to contribute to the 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, 2007, approximately seven percent of our projected benefit obligation relates to plans that are unfunded.

Our investment objectives in managing 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 our required 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, 2007, our strategic global asset allocation for the

pension plans was 55% in equity securities and 45% in debt securities and cash. We set 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 the most recent ALM study, we have begun to adjust our strategic global asset allocation for the pension plans to be approximately 40% in equity securities and 60% in debt securities, real estate and cash.

Contributions to our pension plans were $25.5 million in 2007, $31.6 million in 2006, and $119.4 million in 2005. Our policy allows us to fund an amount, which could be in excess of the pension cost expensed, subject to the limitations imposed by current tax regulations. We anticipate funding the plans in 2008 in accordance with contributions required by funding regulations or the laws of each jurisdiction and currently project that we will be required to contribute approximately $30 million to our plans worldwide in 2008.

Our pension plans for U.S. non-collectively bargained employees provide benefits on a final average pay formula. 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 us for officers and other key employees. Pension benefit payments are expected to be paid as follows: $167.5 million in 2008, $168.1 million in 2009, $184.6 million in 2010, $163.4 million in 2011, $171.1 million in 2012 and $912.0 million for the years 2013 to 2017.

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 2007, 2006 and 2005 were as follows:

In millions	2007	2006	2005
Net periodic pension benefit cost	$ 11.5	$ 32.7	$ 32.4
Net curtailment and settlement (gains) losses	63.5	-	4.0
Net periodic pension benefit (income) cost after net curtailment and settlement (gains) losses	$ 75.0	$ 32.7	$ 36.4
Amounts recorded in continuing operations	$ 20.6	$ 38.3	$ 45.8
Amounts recorded in discontinued operations	54.4	(5.6)	(9.4)
Total	$ 75.0	$ 32.7	$ 36.4

Net periodic pension cost for 2008 is projected to be approximately $23 million.

Postretirement Benefits Other Than Pensions

In 2006, we adopted SFAS 158, which requires us to record the funded status of our postretirement plans on the balance sheet effective December 31, 2006.

We fund 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: $51.1 million in 2008, $52.2 million in 2009, $55.2 million in 2010, $56.2 million in 2011, $56.3 million in 2012 and $280.4 million for the years 2013 to 2017.

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 2007, 2006 and 2005 were as follows:

In millions		2007		2006		2005
Net periodic postretirement benefit cost	$	78.1	$	79.2	$	74.0
Net curtailment and settlement (gains) losses		(265.9)		-		-
Net periodic postretirement benefit (income) cost after net curtailment and settlement (gains) losses	$	(187.8)	$	79.2	$	74.0
Amounts recorded in continuing operations	$	22.7	$	25.7	$	25.1
Amounts recorded in discontinued operations		(210.5)		53.5		48.9
Total	$	(187.8)	$	79.2	$	74.0

Net periodic postretirement benefit cost for 2008 is projected to be approximately $53 million.

Income Taxes

As of December 31, 2007, the Company has accrued current income taxes payable of approximately $594 million, and expects to pay various taxing authorities a substantial portion of the balance in the first quarter of 2008. These large tax payments are primarily associated with 2007 earnings from operations, as well as the large gain on the Compact Equipment divestiture during the fourth quarter of 2007.

Effective January 1, 2007, the Company adopted 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 recognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. As a result of adopting FIN 48, the company recorded additional liabilities to its previously established reserves, and a corresponding decrease in retained earnings of $145.6 million. The Company has total unrecognized tax benefits of $379.8 million as of December 31, 2007.

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. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Germany, Italy, the Netherlands Switzerland and the United States. In general, the examination of the Company’s material tax returns is completed for the years prior to 2000.

The Internal Revenue Service (IRS) has completed the examination of the Company’s federal income tax returns through the 2000 tax year and has issued a notice proposing adjustments. The principle proposed adjustment relates to the disallowance of certain capital losses. The Company disputes the IRS position and protests have been filed with the IRS Appeals Division. In order to reduce the potential interest expense associated with this matter, the Company made a payment of $217 million in the third quarter of 2007, which reduced the Company’s total liability for uncertain tax positions by $141 million. The issues raised by the IRS associated with this payment are not related to the Company's reorganization in Bermuda, or the Company's intercompany debt structure.

On July 20, 2007, the Company and its consolidated subsidiaries received a notice from the IRS containing proposed adjustments to the Company’s tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of the Company’s reincorporation in Bermuda. The most significant adjustments proposed by the IRS involve treating the entire intercompany debt incurred in connection with the Company’s reincorporation in Bermuda as equity. As a result of this recharacterization, the IRS has disallowed the deduction of interest paid on the debt and imposed dividend withholding taxes on the payments denominated as interest. These adjustments proposed by the IRS, if upheld in their entirety, would result in additional taxes with respect to 2002 of approximately $190 million plus interest, and would require the Company to record additional charges associated with this matter. At this time, the IRS has not yet begun their examination of the Company’s tax filings for years subsequent to 2002. However, if these adjustments or a portion of these adjustments proposed by the IRS are ultimately sustained, it is likely to also affect subsequent tax years.

The Company strongly disagrees with the view of the IRS and filed a protest with the IRS in the third quarter of 2007. Going forward, the Company intends to vigorously contest these proposed adjustments. The Company, in consultation with its outside advisors, carefully considered many factors in determining the terms of the intercompany debt, including the obligor’s ability to service the debt and the availability of equivalent financing from unrelated parties, two factors prominently cited by the IRS in denying debt treatment. The Company believes that its characterization of that obligation as debt for tax purposes was supported by the relevant facts and legal authorities at the time of its creation. The subsequent financial results of the relevant companies, including the actual cash flow generated by operations and the production of significant additional cash flow from dispositions have confirmed the ability to service this debt. Although the outcome of this matter cannot be predicted with certainty, based upon an analysis of the strength of its position, the Company believes that it is adequately reserved for this matter. As the Company moves forward to resolve this matter with the IRS, it is reasonably possible that the reserves established may be adjusted within the next 12 months. However, the Company does not expect that the ultimate resolution will have a material adverse impact on its future results of operations or financial position.

The Company believes that it has adequately provided for any reasonably foreseeable resolution of any tax disputes, but will adjust its reserves if events so dictate in accordance with FIN 48. 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.

Commitments and Contingencies

We are 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.

Environmental Matters
We continue 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, we are currently engaged in site investigations and remediation activities to address environmental cleanup from past operations at current and former manufacturing facilities.

We are sometimes a party to environmental lawsuits and claims and have received notices of potential violations of environmental laws and regulations from the Environmental Protection Agency and similar state authorities. We have also been 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 such sites, there are other PRPs and, in most instances, our involvement is minimal.

In estimating our liability, we have assumed we 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.

During 2007, we spent $5.6 million on capital projects for pollution abatement and control, and an additional $11.1 million for environmental remediation expenditures at sites presently or formerly owned or leased by us. As of December 31, 2007, we have recorded reserves for environmental matters of $101.8 million. We believe that these expenditures and accrual 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.

For a further discussion of our potential environmental liabilities, see Note 20, Commitments and Contingencies, to the consolidated financial statements.

Asbestos Matters
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 has been filed against IR-New Jersey and generally allege injury caused by exposure to asbestos contained in certain of IR-New Jersey's products, primarily pumps and compressors. 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 and packings purchased from third-party suppliers.

Prior to the fourth quarter of 2007, the Company recorded a liability (which it periodically updated) for its actual and anticipated future asbestos settlement costs projected seven years into the future. The Company did not record a liability for future asbestos settlement costs beyond the seven-year period covered by its reserve because such costs previously were not reasonably estimable for the reasons detailed below.

In the fourth quarter of 2007, the Company again reviewed its history and experience with asbestos-related litigation and determined that it had now become possible to make a reasonable estimate of its total liability for pending and unasserted potential future asbestos-related claims. This determination was based upon the Company's analysis of developments in asbestos litigation, including the substantial and continuing decline in the filing of non-malignancy claims against the Company, the establishment in many jurisdictions of inactive or deferral dockets for such claims, the decreased value of non-malignancy claims because of changes in the legal and judicial treatment of such claims, increasing focus of the asbestos litigation upon malignancy claims, primarily those involving mesothelioma, a cancer with a known historical and predictable future annual incidence rate, and the Company's substantial accumulated experience with respect to the resolution of malignancy claims, particularly mesothelioma claims, filed against it.

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Accordingly, in the fourth quarter of 2007, the Company retained Dr. Thomas Vasquez of Analysis, Research & Planning Corporation (collectively, “ARPC”) to assist it in calculating an estimate of the Company’s total liability for pending and unasserted future asbestos-related claims. ARPC is a respected expert in performing complex calculations such as this. ARPC has been involved in many asbestos-related valuations of current and future liabilities, and its valuation methodologies have been accepted by numerous courts.

The methodology used by ARPC to project the Company’s total liability for pending and unasserted potential future asbestos-related claims relied upon and included the following factors, among others:

- ARPC’s interpretation of a widely accepted forecast of the population likely to have been occupationally exposed to asbestos;
- epidemiological studies estimating the number of people likely to develop asbestos-related diseases such as mesothelioma and lung cancer;
- the Company’s historical experience with the filing of non-malignancy claims against it and the historical ratio between the numbers of non-malignancy and lung cancer claims filed against the Company;
- ARPC’s analysis of the number of people likely to file an asbestos-related personal injury claim against the Company based on such epidemiological and historical data and the Company’s most recent three-year claims history;
- an analysis of the Company’s pending cases, by type of disease claimed;
- an analysis of the Company’s most recent three-year history to determine the average settlement and resolution value of claims, by type of disease claimed;
- an adjustment for inflation in the future average settlement value of claims, at a 2.5% annual inflation rate, adjusted downward to 1.5% to take account of the declining value of claims resulting from the aging of the claimant population;
- an analysis of the period over which the Company has and is likely to resolve asbestos-related claims against it in the future.

Based on these factors, ARPC calculated a total estimated liability of $755 million for the Company to resolve all pending and unasserted potential future claims through 2053, which is ARPC’s reasonable best estimate of the time it will take to resolve asbestos-related claims. This amount is on a pre-tax basis, not discounted for the time-value of money, and excludes the Company’s defense fees (which will continue to be expensed by the Company as they are incurred). After considering ARPC’s analysis and the factors listed above, in the fourth quarter of 2007, the Company increased its recorded liability for asbestos claims by $538 million, from $217 million to $755 million.

In addition, during the fourth quarter of 2007, the Company recorded an $89 million increase in its assets for probable asbestos-related insurance recoveries to $250 million. This represents amounts due to the Company for previously paid and settled claims and the probable reimbursements relating to its estimated liability for pending and future claims. In calculating this amount, the Company used the estimated asbestos liability for pending and projected future claims calculated by ARPC. It also considered the amount of insurance available, gaps in coverage, allocation methodologies, solvency ratings and creditworthiness of the insurers, the amounts already recovered from and the potential for settlements with insurers, and the terms of existing settlement agreements with insurers.

During the fourth quarter of 2007, the Company recorded a non-cash charge to earnings of discontinued operations of $449 million ($277 million after tax), which is the difference between the amount by which the Company increased its total estimated liability for pending and projected future asbestos-related claims and the amount that the Company expects to recover from insurers with respect to that increased liability.

The amounts recorded by the Company for asbestos-related liabilities and insurance-related assets are based on currently available information. The Company's actual liabilities or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in the Company's or ARPC's calculations vary significantly from actual results. Key variables in these assumptions are identified above and include the number and type of new claims to be filed each year, the average cost of resolution of each such new claim, the resolution of coverage issues with insurance carriers, and the solvency risk with respect to the Company's insurance carriers. Furthermore, predictions with respect to these variables are subject to greater uncertainty as the projection period lengthens. Other factors that may affect the Company's liability include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms that may be made by state and federal courts, and the passage of state or federal tort reform legislation.

The aggregate amount of the stated limits in insurance policies available to the Company for asbestos-related claims, acquired over many years and from many different carriers, is substantial. However, limitations in that coverage, primarily due to the considerations described above, are expected to result in the projected total liability to claimants substantially exceeding the probable insurance recovery.

From receipt of its first asbestos claims more than 25 years ago to December 31, 2007, the Company has resolved (by settlement or by dismissal) approximately 208,000 claims. The total amount of all settlements paid by the Company (excluding insurance recoveries) and by its insurance carriers is approximately $308 million, for an average payment per resolved claim of $1,480. The average payment per claim resolved during the year ended December 31, 2007 was $7,491. This amount reflects the Company's emphasis on resolution of higher value malignancy claims, particularly mesothelioma claims, rather than lower value non-malignancy claims, which are more heavily represented in the Company's historical settlements. The table below provides additional information regarding asbestos-related claims filed against the Company:

	2002	2003	2004	2005	2006	2007
Open claims - January 1	77,675	96,294	104,513	105,811	102,968	101,709
New claims filed	37,172	30,843	13,541	11,132	6,457	5,398
Claims settled	(16,443)	(21,096)	(11,503)	(12,505)	(6,558)	(5,005)
Claims dismissed	(2,110)	(1,528)	(740)	(1,470)	(1,158)	(1,479)
Open claims - December 31	96,294	104,513	105,811	102,968	101,709	100,623

Over 90 percent of the open claims against the Company are non-malignancy claims, many of which have been placed on inactive or deferral dockets and the vast majority of which have little or no settlement value against the Company, particularly in light of recent changes in the legal and judicial treatment of such claims.

Malignancy claims accounted for: approximately 73 percent of the Company's total asbestos-related settlement payments during the three-year period ended December 31, 2004; approximately 87 percent during the three-year period ended December 31, 2007; and approximately 93 percent in 2007. Non-malignancy claims accounted for: approximately 27 percent of the Company's total asbestos-related settlement payments during the three-year period ended December 31, 2004; approximately 13 percent during the three-year period ended December 31, 2007; and approximately seven percent in 2007.

For the twelve-month period ended December 31, 2007, total costs for the settlement and defense of asbestos claims after insurance recoveries and net of tax were approximately $37 million.

Other Matters
As previously reported, on November 10, 2004, the Securities and Exchange Commission (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 Oil for Food Program, provided the SEC with information responsive to the Order and provided additional information requested by the SEC. During a March 27, 2007 meeting with the SEC, at which a representative of the Department of Justice (DOJ) was also present, the Company began discussions concerning the resolution of this matter with both the SEC and DOJ. On October 31, 2007, the Company announced it had reached settlements with the SEC and DOJ relating to this matter. Under the terms of the settlements, the Company paid a total of $6.7 million in penalties, interest and disgorgement of profits. The Company consented to the entry of a civil injunction in the SEC action and entered into a three-year deferred prosecution agreement with the DOJ. Under both settlements, the Company has implemented, and will continue to implement, improvements to its compliance program that are consistent with its longstanding policy against improper payments. In the settlement documents, the Government noted that the Company thoroughly cooperated with the investigation, that the Company had conducted its own complete investigation of the conduct at issue, promptly and thoroughly reported its findings to them, and took prompt remedial measures. In a related matter, on July 10, 2007, representatives of the Italian Guardia di Finanza (Financial Police) requested documents from Ingersoll-Rand Italiana S.p.A pertaining to certain Oil for Food transactions undertaken by that subsidiary of the Company. Such transactions have previously been reported to the SEC and DOJ, and the Company will continue to cooperate fully with the Italian authorities in this matter.

We sell product on a continuous basis under various arrangements through institutions that provide leasing and product financing alternatives to retail and wholesale customers. Under these arrangements, we are contingently liable for loan guarantees and residual values of equipment of $5.0 million, including consideration of ultimate net loss provisions. The risk of loss to us 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. We believe these guarantees will not adversely affect the condensed consolidated financial statements.

We are contingently liable for customs duties in certain non-U.S. countries which totaled $11.9 million as of December 31, 2007. These amounts are not accrued as we intend on exporting the product to another country for final sale.

We also have other contingent liabilities for $10.5 million. These liabilities primarily result from performance bonds, guarantees and stand-by letters of credit associated with the prior sale of products from divested businesses.

The following represents the changes in our product warranty liability for 2007 and 2006:

In millions		2007		2006
Balance at beginning of year	$	137.1	$	135.2
Reductions for payments		(68.5)		(61.7)
Accruals for warranties issued during the current period		80.1		66.1
Changes for accruals related to preexisting warranties		(7.8)		(6.9)
Acquisitions		-		0.4
Translation		6.0		4.0
Balance at end of the year	$	146.9	$	137.1

Certain office and warehouse facilities, transportation vehicles and data processing equipment are leased. Total rental expense was $72.2 million in 2007, $68.2 million in 2006 and $57.8 million in 2005. 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: $54.2 million in 2008, $46.2 million in 2009, $34.8 million in 2010, $24.3 million in 2011, $19.5 million in 2012 and $24.8 million thereafter.

Guarantees
As part of its reorganization in 2001, we have fully and unconditionally guaranteed payment of all of the issued public debt securities of IR-New Jersey. No other subsidiary of ours guarantees these securities.

IR-New Jersey has unconditionally guaranteed payment of the principal, premium, if any, and interest on our 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 consolidated 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 we believe are the critical accounting policies and methods used by us:

- Allowance for doubtful accounts – The Company has provided an allowance for doubtful accounts receivable which represents the best estimate of probable loss inherent in the Company’s accounts receivable portfolio. This estimate is based upon the Company’s 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 $14.6 million, or $13.0 million after-tax, which increased first quarter 2006 diluted earnings per share by $0.04.

- Goodwill and indefinite-lived 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 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 indefinite-lived 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 and finite-lived intangibles - Long-lived assets and finite-lived intangibles 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. 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. 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.

- 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.

- Asbestos Matters - Certain wholly owned subsidiaries of the Company are named as defendants in asbestos-related lawsuits in state and federal courts. The Company records a liability for its actual and anticipated future claims as well as an asset for anticipated insurance settlements. Although the Company was neither a manufacturer or producer of asbestos, some of its formerly manufactured components from third party suppliers utilized asbestos related components. As a result, amounts related to asbestos are recorded within Discontinued operations, net of tax. Refer to Note 20, Commitments and Contingencies, in the consolidated financial statements for further details of asbestos-related matters.

- Revenue Recognition – Revenue is 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 of 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 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. Actuarial valuations are performed to determine expense in accordance with generally accepted accounting principles in the United States. 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 asset 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 fifteen-year period 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 benefit 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 $6.0 million; the rate of compensation increase would decrease expense by approximately $3.4 million; and the estimated return on assets assumption would increase expense by approximately $6.1 million. A 0.25% rate decrease in the discount rate for postretirement benefits would increase net periodic postretirement benefit cost by $0.8 million and a 1.0% increase in the health-care cost trend rate would increase the cost by approximately $1.7 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 13 and 14 in the consolidated financial statements and the Liquidity and Capital Resources section for further details of the impact of SFAS 158.

The preparation of financial statements includes the use of estimates and assumptions that affect a number of amounts included in the Company's consolidated 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 material impact on the consolidated financial statements.

Recently Adopted Accounting Pronouncements: In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections" (SFAS 154) which replaces APB No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28." SFAS 154 provides guidance on the accounting for, and reporting of, accounting changes and error corrections. It establishes a retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 was effective for the Company on January 1, 2006. The adoption of SFAS 154 did not have a material impact on its consolidated financial position and results of operations.

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 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.

In September 2006, the FASB issued 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.

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.

Effective January 1, 2007, the Company adopted 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. As a result of adopting FIN 48 as of January 1, 2007, the Company recorded additional liabilities to its previously established reserves, and corresponding decrease in Retained earnings of $145.6 million.

Recently Issued Accounting Pronouncements: 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 of adopting SFAS 157 on its financial statements.

In February 2007, the FASB issued SFAS 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 of adopting SFAS 159 on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," (SFAS 141 (R)). This statement addresses financial accounting and reporting for business combinations and supersedes SFAS 141, "Business Combinations." SFAS 141(R) retains the fundamental requirements set forth in SFAS 141 regarding the purchase method of accounting, but expands the guidance in order to properly recognize and measure, at fair value, the identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquired business. In addition, the statement introduces new accounting guidance on how to recognize and measure contingent consideration, contingencies, acquisition and restructuring costs. SFAS 141(R) is effective for acquisitions occurring after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No 51.” It clarifies that a noncontrolling interest in a subsidiary represents an ownership interest that should be reported as equity in the consolidated financial statements. In addition, the statement requires expanded income statement presentation and disclosures that clearly identify and distinguish between the interests of the Company and the interests of the non-controlling owners of the subsidiary. SFAS 160 is effective for the Company starting on January 1, 2009. The Company is currently evaluating the impact of adopting SFAS 160 on its financial statements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to fluctuations in non-U.S. currency exchange rates, interest rates and commodity prices which could impact our results of operations and financial condition. To manage certain of those exposures, we use derivative instruments, primarily forward contracts. Derivative instruments utilized by us in our hedging activities are viewed as risk management tools, involve little complexity and are not used for trading or speculative purposes. To minimize the risk of counter party non-performance, derivative instrument agreements are made only through major financial institutions with significant experience in such derivative instruments.

Foreign Currency Exposures

We have operations throughout the world that manufacture and sell their products in various international markets. As a result, we are exposed to movements in exchange rates of various currencies against the U.S. dollar as well as against other currencies throughout the world. We actively manage the currency exposures that are associated with non-U.S. currency purchases and sales and other assets and liabilities at the operating unit level. Exposures that cannot be naturally offset within an operating unit to an insignificant amount are hedged with foreign currency derivatives. We also have non-U.S. currency net asset exposures, which we currently do not hedge with any derivative instrument.

We evaluate our exposure to changes in currency exchange rates using a sensitivity analysis. The sensitivity analysis is a measurement of the potential gain or 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, 2007, a hypothetical change in fair value of those derivative instruments assuming a 10% increase in exchange rates against the U.S. dollar would result in an unrealized gain of approximately $17.2 million, as compared with an unrealized loss of $27.7 million at December 31, 2006. These amounts would be offset by changes in the fair value of the underlying currency transactions.

Commodity Price Exposures

We are exposed to volatility in the prices of raw materials used in some of our products and use both fixed price contracts and derivative contracts, in limited circumstances, to manage this exposure. We evaluate our exposure to changes in commodity prices using a sensitivity analysis. The sensitivity analysis is a measurement of the potential gain or loss in fair value based on a percentage increase or decrease in commodity prices. Based on the firmly committed commodity derivative instruments in place at December 31, 2007, a hypothetical change in fair value of those derivative instruments assuming a 10% decrease in commodity prices would result in an unrealized loss of approximately $2.4 million. At December 31, 2006 we did not have any derivative instruments hedging our commodity exposure. These amounts would be offset by changes in the fair value of underlying the commodity transactions.

Interest Rate Exposure

Our long-term debt portfolio mainly consists of fixed-rate instruments. From time to time we participate in the debt markets through the issuance of commercial paper, which, by its terms, has a maturity of less than a year. As such, we are exposed to interest rate risk.

Item 8. **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

(a) The following consolidated financial statements and the report thereon of PricewaterhouseCoopers LLP dated February 25, 2008, are presented following Item 15 of this Annual Report on Form 10-K.

Consolidated Financial Statements:
Report of independent registered public accounting firm
Consolidated statements of income for the years ended December 31, 2007, 2006 and 2005
Consolidated balance sheets at December 31, 2007 and 2006
For the years ended December 31, 2007, 2006 and 2005:
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, 2007, 2006 and 2005:
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	2007							
		First Quarter		Second Quarter		Third Quarter		Fourth Quarter
Net revenues	$	1,976.2	$	2,224.6	$	2,239.0	$	2,323.3
Cost of goods sold		1,416.0		1,589.7		1,608.2		1,658.1
Operating income		208.6		274.1		276.3		298.8
Net earnings		217.5		964.1		266.6		2,518.5
Earnings per common share:								
Basic	$	0.71	$	3.21	$	0.94	$	9.23
Diluted	$	0.70	$	3.17	$	0.92	$	9.06

	2006							
		First Quarter		Second Quarter		Third Quarter		Fourth Quarter
Net revenues	$	1,804.6	$	2,048.1	$	2,038.0	$	2,143.0
Cost of goods sold		1,300.7		1,463.1		1,465.3		1,539.3
Operating income		197.9		252.5		269.0		279.1
Net earnings		253.2		313.5		243.8		222.0
Earnings per common share:								
Basic	$	0.77	$	0.96	$	0.77	$	0.72
Diluted	$	0.76	$	0.95	$	0.76	$	0.72

1. In the second quarter of 2007, basic and diluted earnings per common share included $2.25 and $2.22, respectively, related to the gain on sale of discontinued operations. For a further discussion of discontinued operations, see Footnote 4, Divestitures and Discontinued Operations, to the consolidated financial statements.

2. In the fourth quarter of 2007, basic and diluted earnings per common share included $9.48 and $9.30, respectively, related to the gain on sale of discontinued operations. In addition, basic and diluted earnings per common share included a charge of $1.02 and $1.00, respectively relating to asbestos matters for a previously divested business of

the Company. For a further description of discontinued operations and asbestos matters, see Footnote 4, Divestitures and Discontinued Operations, and Footnote 20, Commitments and Contingencies, respectively, to the consolidated financial statements.

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, 2007, 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, 2007. 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, 2007.

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, 2007 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 2008 Annual General Meeting of Shareholders, which the Company intends to file within 120 days after the close of its fiscal year ended December 31, 2007 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.

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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

2.1 Agreement and Plan of Merger, dated as of October 31, 2001, among Ingersoll-Rand Company Limited, Ingersoll-Rand Company and IR Merger Corporation. (Previously filed with the Securities and Exchange Commission as an exhibit to Amendment No. 1 to the Registration Statement on Form S-4 (No. 333-71642), filed October 30, 2001, and incorporated herein by reference.)

2.2 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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated October 16, 2002, filed October 17, 2002, and incorporated herein by reference.)

2.3 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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form Schedule 13D, filed February 28, 2003 by Ingersoll-Rand Company and incorporated herein by reference.)

2.4 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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated August 25, 2004, filed August 26, 2004, and incorporated herein by reference.)

2.5 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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated May 24, 2005, filed May 27, 2005, and incorporated herein by reference.)

2.6 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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated February 27, 2007, filed February 28, 2007, and incorporated herein by reference.)

2.7 Asset and Stock Purchase Agreement, dated as of July 29, 2007, among Ingersoll-Rand Company Limited, on behalf of itself and certain of its subsidiaries, and Doosan Infracore Co., Ltd. and Doosan Engine Co., Ltd., on behalf of themselves and certain of their subsidiaries. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated July 29, 2007, filed July 31, 2007, and incorporated herein by reference.)

2.8 Agreement and Plan of Merger, dated as of December 15, 2007, among Ingersoll-Rand Company Limited, Indian Merger Sub, Inc. and Trane Inc. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated December 15, 2007, filed December 17, 2007, and incorporated herein by reference.)

3.1 Memorandum of Association of Ingersoll-Rand Company Limited. (Previously filed with the Securities and Exchange Commission as an exhibit to Amendment No. 1 to the Registration Statement on Form S-4 (No. 333-71642), filed October 30, 2001, and incorporated herein by reference.)

3.2 Amended and Restated Bye-Laws of Ingersoll-Rand Company Limited, dated June 1, 2005. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-Q for the quarter ended June 30, 2005, filed August 5, 2005, and incorporated herein by reference.)

4.1 Certificate of Designation, Preferences and Rights of Series A Preference Shares of Ingersoll-Rand Company Limited. (Previously filed with the Securities and Exchange Commission as an exhibit to Amendment No. 1 to the Registration Statement on Form S-4 (No. 333-71642), filed October 30, 2001, and incorporated herein by reference.)

4.2 Rights Agreement between Ingersoll-Rand Company Limited and The Bank of New York, as Rights Agent. (Previously filed with the Securities and Exchange Commission as an exhibit to Amendment No. 1 to the Registration Statement on Form S-4 (No. 333-71642), filed October 30, 2001, and incorporated herein by reference.)

4.3 Voting Agreement between Ingersoll-Rand Company Limited and Ingersoll-Rand Company. (Previously filed with the Securities and Exchange Commission as an exhibit to Amendment No. 1 to the Registration Statement on Form S-4 (No. 333-71642), filed October 30, 2001, and incorporated herein by reference.)

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. (Previously filed with the Securities and Exchange Commission as an exhibit to Ingersoll-Rand Company's Registration Statement on Form S-3 (No. 333-39474), filed March 18, 1991, and incorporated herein by reference, and to Ingersoll-Rand Company's Registration Statement on Form S-3 (No. 333-50902), filed November 29, 2000, and incorporated herein by reference.)

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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2001, filed March 13, 2002, and incorporated herein by reference.)

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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2006, filed March 1, 2006, and incorporated herein by reference.)

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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2004, filed March 16, 2005, and incorporated herein by reference.)

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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated May 24, 2005, filed May 27, 2005, and incorporated herein by reference.)

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. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30, 1994, and incorporated herein by reference.)

10.2 Reorganization Amendment to Management Incentive Unit Plan, dated December 31, 2001. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2001, filed March 13, 2002, and incorporated herein by reference.)

10.3 Description of Annual Incentive Arrangements for Chairman, President, Sector Presidents and other Staff Officers of Ingersoll-Rand Company Limited. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2005, filed March 1, 2006, and incorporated herein by reference.)

10.4 Description of Performance Share Program for Chairman, President and Chief Executive Officer and the other Participants of Ingersoll-Rand Company Limited. Filed herewith.

10.5 Form of Change in Control Agreement with Tier 1 Officers of Ingersoll-Rand Company Limited, dated as of December 1, 2006. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated November 30, 2006, filed December 4, 2006, and incorporated herein by reference.)

10.6 Form of Change in Control Agreement with Tier 2 Officers of Ingersoll-Rand Company Limited, dated as of December 1, 2006. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated November 30, 2006, filed December 4, 2006, and incorporated herein by reference.)

10.7 Executive Supplementary Retirement Agreement for selected executive officers of Ingersoll- Rand Company. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30, 1994, and incorporated herein by reference.)

10.8 Executive Supplementary Retirement Agreement for selected executive officers of Ingersoll-Rand Company. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1996, filed March 26, 1997, and incorporated herein by reference.)

10.9 Forms of insurance and related letter agreements with certain executive officers of Ingersoll-Rand Company. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30, 1994, and incorporated herein by reference.)

10.10 Amended and Restated Supplemental Pension Plan, dated January 1, 2003. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2002, filed March 5, 2003, and incorporated herein by reference.)

10.11 First Amendment to the Amended and Restated Supplemental Pension Plan, dated January 1, 2003. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2003, filed February 27, 2004, and incorporated herein by reference.)

10.12 Amended and Restated Supplemental Employee Savings Plan, dated January 1, 2003. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2002, filed March 5, 2003, and incorporated herein by reference.)

10.13 First Amendment to the Amended and Restated Supplemental Employee Savings Plan, dated January 1, 2003. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2003, filed February 27, 2004, and incorporated herein by reference.)

10.14 Incentive Stock Plan of 1995. (Previously filed with the Securities and Exchange Commission as Appendix A to the Notice of 1995 Annual Meeting of Shareholders and Proxy Statement of Ingersoll-Rand Company dated March 15, 1995, and incorporated herein by reference.)

10.15 Reorganization Amendment to Incentive Stock Plan of 1995, dated December 21, 2001. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2001, filed March 13, 2002, and incorporated herein by reference.)

10.16 Senior Executive Performance Plan. (Previously filed with the Securities and Exchange Commission as Appendix A to the Notice of 2000 Annual Meeting of Shareholders and Proxy Statement of Ingersoll-Rand Company, dated March 7, 2000, and incorporated herein by reference.)

10.17 Amended and Restated Elected Officers Supplemental Plan, dated December 31, 2004. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2004, filed March 16, 2005, and incorporated herein by reference.)

10.18 Amendment, dated February 1, 2006, to Amended and Restated Elected Officers Supplemental Plan, dated December 31, 2004. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2005, filed March 1, 2006, and incorporated herein by reference.)

10.19 Elected Officers Supplemental Plan II, dated February 1, 2006. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2005, filed March 1, 2006, and incorporated herein by reference.)

10.20 Amended and Restated Incentive Stock Plan of 1998. (Previously filed with the Securities and Exchange Commission as an exhibit to the Registration Statement on Form S-8 (No. 333-130047), filed December 1, 2005, and incorporated herein by reference.)

10.21 Amendment to the Ingersoll-Rand Company Limited Amended and Restated Incentive Stock Plan of 1998, dated December 7, 2005. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 8-K dated December 7, 2005, filed December 9, 2005, and incorporated herein by reference.)

10.22 Composite Employment Agreement with Chief Executive Officer. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1999, filed March 30, 2000, and incorporated herein by reference.)

10.23 Employment Agreement with Michael Lamach, Senior Vice President. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2003, filed February 27, 2004, and incorporated herein by reference.)

10.24 Employment Agreement with James R. Bolch, Senior Vice President. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2005, filed March 1, 2006, and incorporated herein by reference.)

10.25 Addendum, dated December 8, 2005, to Employment Agreement with James R. Bolch. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2005, filed March 1, 2006, and incorporated herein by reference.)

10.26 Amended and Restated Estate Enhancement Program, dated June 1, 1998, and the related form agreements. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-Q for the quarter ended March 31, 2006, filed May 5, 2006, and incorporated herein by reference.)

10.27 First Amendment to the Amended and Restated Estate Enhancement Program, dated December 31, 2001. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-Q for the quarter ended March 31, 2006, filed May 5, 2006, and incorporated herein by reference.)

10.28 Employment Agreement with William Gauld, Senior Vice President, dated September 7, 2006. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2006, filed March 1, 2007, and incorporated herein by reference.)

10.29 Employment Agreement with Marcia J. Avedon, Senior Vice President, dated January 8, 2007. (Previously filed with the Securities and Exchange Commission as an exhibit to Form 10-K for the year ended December 31, 2006, filed March 1, 2007, and incorporated herein by reference.)

10.30 Ingersoll-Rand Company Limited Incentive Stock Plan of 2007. (Previously filed with the Securities and Exchange Commission as an exhibit to the Registration Statement on Form S-8 (No. 333-143716), filed June 13, 2007, and incorporated herein by reference.)