Ingersoll-Rand Company Limited

2001 Financial Report

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Selected Financial Data

In millions except per share amounts
At and for the years ended:

December 31	2001	2000	1999	1998	1997
Net sales	$ 9,682.0	$ 9,597.6	$ 7,819.0	$ 7,517.6	$ 6,355.1
Earnings from continuing operations	246.2	546.2	563.1	481.6	367.6
Total assets	11,063.7	11,052.6	8,390.4	7,918.1	8,026.7
Long-term debt	2,900.7	1,540.4	2,113.3	2,166.0	2,528.0
Shareholders' equity	3,916.6	3,481.2	3,073.2	2,721.8	2,357.7
Basic earnings per share:					
Continuing operations	$ 1.49	$ 3.39	$ 3.44	$ 2.94	$ 2.25
Discontinued operations	—	0.76	0.17	0.17	0.08
Diluted earnings per share:					
Continuing operations	$ 1.48	$ 3.36	$ 3.40	$ 2.91	$ 2.23
Discontinued operations	—	0.76	0.17	0.17	0.08
Dividends per common share	0.68	0.68	0.64	0.60	0.57

Management's Discussion and Analysis

During 2001, the following significant events occurred that affect year-to-year comparisons:

Effective December 31, 2001, Ingersoll-Rand Company Limited, a Bermuda company (IR-Limited or the company) became the successor to Ingersoll-Rand Company, a New Jersey corporation (IR-New Jersey), following a corporate reorganization (the reorganization). The reorganization was accomplished through a merger of a newly-formed merger subsidiary into IR-New Jersey. IR-New Jersey, the surviving company, continues to exist as an indirect, wholly-owned subsidiary of IR-Limited. IR-Limited and its subsidiaries continue to conduct the businesses previously conducted by IR-New Jersey and its subsidiaries. The reorganization has been accounted for as a reorganization of entities under common control and accordingly it did not result in any changes to the consolidated amounts of assets, liabilities and stockholders' equity.

During 2001, the consolidated financial statements were restated to report Dresser-Rand Company (Dresser-Rand) on a fully-consolidated basis since the February 2000 acquisition of the remaining 51%. Previously, the company reported the results and net assets of Dresser-Rand as assets held for sale. The company owned 49% of Dresser-Rand in 1999 and accounted for it under the equity method.

During 2001, the company expanded its Industrial Solutions Sector to include Dresser-Rand, renamed its Bearings and Components Segment, to Engineered Solutions and aggregated its tools and related production equipment operations, previously reported as part of the Industrial Products Segment, in the Air and Productivity Solutions Segment. Club Car has been added to the Infrastructure Segment. All segment data presented reflects the new segment structure.

In 2001, the company acquired twelve entities for cash of $158.3 million and treasury stock of $15.3 million. The major acquisitions by segment are as follows:

Climate Control

- Grenco Transportkoeling B.V., based in the Netherlands, a transport refrigeration sales and service business.

- National Refrigeration Services, Inc. (NRS), based in Atlanta, Georgia, a leading provider of commercial refrigeration products and services for food storage, distribution and display throughout the United States.

- Taylor Industries Inc., based in Des Moines, Iowa and an affiliated business, Taylor Refrigeration (Taylor), distributes, installs and services refrigeration equipment, food service equipment and electric doors.

Engineered Solutions

- Nadella S.A., based in France, supplies precision needle bearings for automotive and industrial applications. Nadella was previously 50% owned by the company.

Infrastructure

- Superstav spol. s.r.o., based in the Czech Republic, and Earth Force America, Inc., based in South Carolina, both of which are manufacturers of compact tractor loader backhoes.

Security and Safety

- Kryptonite Corporation, based in Massachusetts, a leading manufacturer of locks for recreational and portable security applications.

- ITO Emniyet Kilit Sistemleri A., based in Turkey, a leading manufacturer and distributor of locks, cylinders and keys.

The company adopted Emerging Issues Task Force Issue No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" in the fourth quarter of 2001. Upon adoption, financial statements for all periods presented have been restated to comply with the income statement classification of reseller finance costs and cooperative advertising programs, which resulted in decreases to net sales of $28.6 million, $24.0 million and $23.6 million, decreases in cost of goods sold of $13.1 million, $15.8 million and $17.7 million, increases in selling and administrative expenses of $18.5 million, $21.3 million and $13.7 million, and decreases in interest expense of $34.0 million, $29.5 million and $19.6 million in 2001, 2000 and 1999, respectively.

During 2001, the company continued the restructuring program and productivity initiatives that were initiated in 2000, which include such actions as employee severance, plant rationalizations, organizational realignments consistent with the company's market-based structure and the consolidation of back-office processes. In response to continued weakness in its major end markets, the company initiated a second phase of restructuring and productivity initiatives in the fourth quarter of 2001 focused on reducing general and administrative expenses and is expected to cost $150 million and be completed by the end of 2002. The programs have resulted in the closure of 20 plants and a workforce reduction of more than 3,900 employees. Charges for restructuring and productivity initiatives for full-year 2001 totaled $216.9 million.

Results of Operations

Net earnings for 2001 were $246.2 million, or diluted earnings per share of $1.48 as compared to $669.4 million and $4.12 per share, and $591.1 million and $3.57 per share in 2000 and 1999, respectively. All dollar amounts are in millions.

	2001			2000			1999
	Reported Results	Restructure and Other Charges	Adjusted Results	Reported Results	Restructure and Other Charges	Adjusted Results	Reported Results
Sales	$9,682.0	$ —	$9,682.0	$9,597.6	$ —	$9,597.6	$7,819.0
Cost of goods sold	7,611.5	85.9	7,525.6	7,141.4	25.1	7,116.3	5,673.2
Selling and administrative expenses	1,454.2	47.4	1,406.8	1,279.6	29.3	1,250.3	1,066.1
Restructuring charges	93.1	93.1	—	87.2	87.2	—	—
Operating income	$ 523.2	$(226.4)	$ 749.6	$1,089.4	$(141.6)	$1,231.0	$1,079.7
Operating margin	5.4%		7.7%	11.4%		12.8%	13.8%

Cost of goods sold, and selling and administrative expenses in 2001 and 2000 include other charges for productivity investments. Productivity investments consist of costs for equipment moving, facility redesign, employee relocation and retraining, and systems enhancements. Charges for productivity investments are expensed as incurred. Productivity investments were incurred by all business segments. Additionally in 2001, $9.5 million was included in selling and administrative expenses for costs associated with the reincorporation in Bermuda.

Revenues

2001 vs. 2000: Revenues for 2001 increased by approximately 1%, compared to 2000. Excluding acquisitions, revenues declined by approximately 8%. The poor economic conditions have significantly impacted several of the company's end markets, and most major business segments have experienced lower demand. Excluding acquisition activity, revenues decreased in every segment.

2000 vs. 1999: Revenues for 2000 increased by approximately 23% when compared with 1999. This increase includes the favorable effect of the Hussmann acquisition, as well as the inclusion of Dresser-Rand.

Cost of Goods Sold

2001 vs. 2000: Cost of goods sold in 2001 was 78.6% of sales as compared to 74.4% in 2000. Excluding productivity investments, the ratio was 77.7% compared to 74.1%. The increase in the ratio of cost of goods sold to sales was due to reduced volume, unfavorable product mix, plant inefficiencies related to restructuring, and the full year inclusion of Hussmann, which historically has had a higher ratio than the other operations of the company. Additionally, cost of goods sold in 2001 includes a $25 million benefit from payments received from the U.S. Customs for antidumping claims.

2000 vs. 1999: Cost of goods sold in 2000 was 74.4% of sales as compared to 72.6% in 1999. Excluding productivity investments, the ratio was 74.1% in 2000. The increase in the ratio of cost of goods sold to sales was mainly due to the inclusion of Hussmann.

Selling and Administrative Expenses

2001 vs. 2000: Selling and administrative expenses were 15.0% of sales in 2001 as compared to 13.3% for 2000. Adjusted selling and administrative expenses were 14.5% of sales in 2001 as compared to 13.0% in 2000. The increase in the ratio reflects acquisitions of sales and service businesses that historically maintain higher ratios than the company's, and lower sales volumes by almost all segments.

2000 vs. 1999: Selling and administrative expenses were 13.3% of sales in 2000 as compared to 13.6% for 1999. Adjusted selling and administrative expenses were 13.0% of sales in 2000.

Restructure

In 2000, the company began a program to restructure its worldwide operations. The costs associated with this program included severance, plant rationalizations, organizational realignments consistent with the company's market-based structure and the consolidation of back office processes. Due to continued weakness in its major end markets, the company initiated a second phase of restructuring in the fourth quarter of 2001 that will focus on reducing general and administrative expenses. Restructure expense, primarily related to severance, was $93.1 million in 2001 as compared to $87.2 million in 2000.

Operating Income

2001 vs. 2000: Operating income for 2001 decreased by approximately 52% compared to 2000. Excluding restructure and other charges, operating income decreased by approximately 39% from comparable 2000 results. Comparable operating income margins also declined dramatically.

2000 vs. 1999: Operating income for 2000 increased slightly compared to 1999. Excluding restructure and other charges, operating income for 2000 increased by approximately 14% over 1999 due to the inclusion of Hussmann and Dresser-Rand.

Interest Expense

2001 vs. 2000: Interest expense for 2001 totaled $253.0 million, a decrease from 2000's total of $255.3 million. Lower average interest rates, combined with a reduction in outstanding debt were offset by a full year of interest associated with the debt incurred to purchase Hussmann.

2000 vs. 1999: Interest expense of $255.3 million for 2000 was significantly higher than the $183.5 million in 1999 due to the impact of the debt incurred to purchase Hussmann and Dresser-Rand.

Other Income (Expense)

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

2001 vs. 2000: In 2001, other income (expense), net, aggregated $6.8 million of net expense, as compared with $35.8 million of net income in 2000. Included in 2001 is $25 million in benefits from payments from U.S. Customs for antidumping claims associated with Engineered Solutions for years prior to 2001, partially reduced by one-time costs related to settlements of contract disputes. Additionally, 2001 includes increases in other normal miscellaneous expenses, which were partially offset by an $8.8 million gain on the sale of stock received in connection with the sale of Dresser-Rand's compression services business. Included in 2000 is a $50.4 million gain on the sale of Dresser-Rand's compression services business, which was partially offset by foreign exchange losses.

2000 vs. 1999: In 2000, other income (expense), net, aggregated $35.8 million of net income, as compared with $3.1 million of net income in 1999. During 2000, the $50.4 million gain on the sale of the compression services business of Dresser-Rand, offset by higher foreign exchange losses, resulted in the increase.

Minority Interests

The company's charges for minority interests are composed of two items: (1) charges associated with the company's equity-linked securities, and (2) interests of minority owners (less than 50%) in consolidated subsidiaries of the company.

2001 vs. 2000: Minority interests decreased from $39.3 million in 2000, to $20.1 million in 2001, mainly as a result of the conversion of equity-linked securities into approximately 8.3 million common shares in May 2001. This eliminated the charges associated with the securities. Additionally, earnings from consolidated entities in which the company has a majority ownership declined.

2000 vs. 1999: Minority interests charges increased from $29.1 million in 1999 to $39.3 million in 2000 due to higher earnings in entities in which the company has the majority ownership, while charges for equity-linked securities were comparable.

Provision for Income Taxes

As a result of the reorganization and subsequent incorporation in Bermuda, as well as other tax planning strategies, the company had a net tax benefit of $2.9 million for the year ended December 31, 2001. This compared to a provision of $284.4 million, and an effective tax rate of 34% for 2000 and a provision of $307.1 million, and an effective tax rate of 35% for 1999. As a result of the reincorporation from New Jersey to Bermuda, the company recorded a one time tax benefit of $59.8 million related to the utilization of previously limited foreign tax credits and net operating loss carryforwards in certain non-U.S.

jurisdictions. The reincorporation is expected to provide annual tax savings of approximately $40 million to $60 million beginning in 2002. Also in 2001, the company realized a benefit of approximately $18.5 million related to prior year foreign sales corporation benefits. The effective tax rate for 2002 is expected to be approximately 20%.

Discontinued Operations

2000: Earnings from discontinued operations, net of tax, were $123.2 million for 2000. This represents the Ingersoll-Dresser Pump Company (IDP) operating loss of $1.6 million in 2000, and an after-tax gain of $124.8 million recorded on the sale of IDP.

1999: Earnings from discontinued operations, net of tax, for 1999 amounted to $28.0 million. This represents the company's 51% interest in IDP, net of appropriate taxes.

Outlook

The direction of the world economy during 2002 is very difficult to predict. There are many conflicting opinions about the prospects and timing of a recovery. In 2001 the company saw declines in virtually all of its key end markets, and expects to see declining markets for the first half of 2002 with a stabilization and slow gradual recovery in the second half of the year. First half 2002 revenues are forecasted to decrease 3% to 4% compared to last year, while second half revenues are expected to be up slightly compared with 2001. Overall, the company sees 2002 revenues declining by 1% to 3% compared to 2001.

Some of the key components expected to affect 2002 include major benefits from restructuring programs and from tax savings associated with the reincorporation in Bermuda, increased insurance and pension expenses, investment spending on new products and growth initiatives, results of new goodwill and intangible asset accounting and uncertain volume.

The first half of 2002 will be challenging. A gradual improvement in the North American economy coupled with tax and restructuring benefits are expected to generate favorable year-over-year earnings comparisons in the second half of 2002.

Review of Business Segments

During 2001, the company expanded its Industrial Solutions Sector to include Dresser-Rand, renamed its Bearings and Components Segment to Engineered Solutions and aggregated its tools and related production equipment operations, previously reported as part of the Industrial Products Segment, in the Air and Productivity Solutions Segment. Club Car has been added to the Infrastructure Segment.

The modification resulted from a change in the management reporting structure which occurred during the fourth quarter of 2001. Reportable segments have been restated to reflect these changes.

The following table summarizes costs for restructure and productivity investments by segment, for 2001 and 2000, in millions:

	2001		2000	
	Restructure	Productivity Investments	Restructure	Productivity Investments
Climate Control	$31.7	$ 32.1	$ 3.6	$ 6.9
Industrial Solutions				
Air and Productivity Solutions	16.2	21.6	16.5	6.0
Dresser-Rand	2.1	7.1	11.0	4.4
Engineered Solutions	19.6	15.3	11.5	1.3
Infrastructure	5.7	12.5	11.4	9.3
Security and Safety	3.0	25.2	15.1	8.9
Corporate	14.8	10.0	18.1	17.6
Total	$93.1	$123.8	$87.2	$54.4

Climate Control

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

	2001	2000	1999
Sales	$2,438.2	$2,002.4	$1,202.6
Operating income, reported	$ 21.7	$ 206.3	$ 166.5
Operating margin, reported	0.9%	10.3%	13.8%
Operating income, before restructure and other charges	$ 85.5	$ 216.8	$ 166.5
Operating margin, before restructure and other charges	3.5%	10.8%	13.8%

2001 vs. 2000: Climate Control revenues increased approximately 22% due to the full year inclusion of Hussmann as well as the 2001 acquisitions of NRS and Taylor. The increase due to acquisitions was substantially offset by lower Thermo King revenues, which resulted from deterioration of worldwide markets, especially the U.S. truck and trailer market. Operating income and margins decreased primarily due to declining revenues in higher margin product lines, pricing pressure in the container business, lower margins on acquired businesses and reduced spending by major U.S. supermarket chains.

2000 vs. 1999: Revenues increased by approximately 67% due to the acquisition of Hussmann in June 2000. Excluding Hussmann, operating income and margins decreased due to a severe decline in the North American truck and trailer market and continued weak truck and trailer results in Europe. However, the bus air conditioning and sea-going container business improved substantially.

Industrial Solutions

Industrial Solutions is composed of a diverse group of businesses focused on providing solutions to enhance customers' industrial efficiency. Industrial Solutions consists of the following three segments: Air and Productivity Solutions, Dresser-Rand, and Engineered Solutions.

Air and Productivity Solutions

Air and Productivity Solutions is engaged in the design, manufacture, sale and service of air compressors, fluid products, microturbines and industrial tools. All dollar amounts are in millions.

	2001	2000	1999
Sales	$1,308.0	$1,412.9	$1,381.4
Operating income, reported	$ 52.7	$ 162.5	$ 159.3
Operating margin, reported	4.0%	11.5%	11.5%
Operating income, before restructure and other charges	$ 90.5	$ 185.0	$ 159.3
Operating margin, before restructure and other charges	6.9%	13.1%	11.5%

2001 vs. 2000: Air and Productivity Solutions' revenues decreased by approximately 7% primarily due to declining U.S. industrial activity, which was partially offset by continued strong growth in aftermarket service revenues. Operating income and margins also decreased due to lower demand for medium and large compressors used in industrial applications, as well as increased spending on development of the PowerWorks microturbine.

2000 vs. 1999: Revenues increased by approximately 2%. Excluding restructure and other charges, operating income and margins were higher due to an increased emphasis on the aftermarket business and ongoing cost and expense reduction activity, offset by spending on development of the PowerWorks microturbine.

Dresser-Rand

Dresser-Rand is engaged in the design, manufacture, sale and service of gas compressors, gas and steam turbines, and generators. All dollar amounts are in millions.

	2001	2000
Sales	$881.3	$834.0
Operating income, reported	$ 21.4	$ 4.6
Operating margin, reported	2.4%	0.6%
Operating income, before restructure and other charges	$ 30.6	$ 20.0
Operating margin, before restructure and other charges	3.5%	2.4%

2001 vs. 2000: Dresser-Rand revenues increased by approximately 6% due to increased volume. Operating income and margins were also up, reflecting the increased volume and cost reductions from restructuring actions. Prior to February 2000, the company only owned 49% of Dresser-Rand and carried its investment on an equity basis.

Engineered Solutions

Engineered Solutions is engaged in the design, manufacture, sale and service of precision bearing products and motion control components and assemblies. It includes both Automotive and Industrial Engineered Solutions. This segment was formerly known as Bearings and Components. All dollar amounts are in millions.

	2001	2000	1999
Sales	$ 1,077.8	$ 1,185.4	$ 1,239.5
Operating income, reported	$ 78.0	$ 159.8	$ 145.8
Operating margin, reported	7.2%	13.5%	11.8%
Operating income, before restructure and other charges	$ 112.9	$ 172.6	$ 145.8
Operating margin, before restructure and other charges	10.5%	14.6%	11.8%

2001 vs. 2000: Engineered Solutions' revenues decreased by approximately 9% due to lower volumes in the U.S. automotive and industrial equipment markets. Operating income and margins also decreased as a result of lower volumes. Operating income in 2001 includes a $25 million benefit from payments received from the U.S. Customs for antidumping claims.

2000 vs. 1999: Revenues decreased approximately 4% due to lower volumes in the automotive market as a result of a downturn in the production of light trucks and sport-utility vehicles. Operating income and margins increased due to significant ongoing cost and expense reduction activities, as well as higher aftermarket revenues.

Infrastructure

Infrastructure is engaged in the design, manufacture, sale and service of skid-steer loaders, mini-excavators, electric and gasoline powered golf and utility vehicles, portable compressors and light towers, road construction and repair equipment, and a broad line of drills and drill accessories. It includes Bobcat, Club Car, Portable Power, Road Development and Specialty Equipment. All dollar amounts are in millions.

	2001	2000	1999
Sales	$ 2,570.3	$ 2,752.5	$ 2,707.3
Operating income, reported	$ 219.7	$ 389.7	$ 416.9
Operating margin, reported	8.5%	14.2%	15.4%
Operating income, before restructure and other charges	$ 237.9	$ 410.4	$ 416.9
Operating margin, before restructure and other charges	9.3%	14.9%	15.4%

2001 vs. 2000: Infrastructure revenues decreased by approximately 7% along with dramatic declines in operating income and margins, as a result of significantly reduced demand from large U.S. rental companies and new equipment dealers who are aggressively managing inventory, as well as weaker North American Road Development. Operating margins also declined due to aggressive pricing and terms offered by competitors.

2000 vs. 1999: Revenues increased by approximately 2%. Bobcat's revenue improvement due to volume gains was offset by lower sales in the rest of Infrastructure. Portable Power revenues declined as slowness in national rental accounts occurred, while Road Development revenues declined as a result of U.S. market softness.

Security and Safety

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

	2001	2000	1999
Sales	$1,406.4	$1,410.4	$1,288.2
Operating income, reported	$ 230.8	$ 271.6	$ 248.4
Operating margin, reported	16.4%	19.3%	19.3%
Operating income, before restructure and other charges	$ 259.0	$ 295.6	$ 248.4
Operating margin, before restructure and other charges	18.4%	21.0%	19.3%

2001 vs. 2000: Security and Safety revenues remained constant, reflecting lower commercial and residential demand, offset by higher electronic solutions' revenues. Operating income was also lower, however margins remained strong. Lower operating income margins were affected by increased development spending in the electronic security solutions business.

2000 vs. 1999: Revenues increased approximately 10% due to continuing strength in both the commercial and residential markets. Excluding restructure and other charges, operating income and margins were also higher. In addition to higher volumes, increased profitability was due to productivity improvements and the successful assimilation of acquisitions in 2000.

Liquidity and Capital Resources

The following table contains several key measures used by management to gauge the company's financial performance. All dollar amounts are in millions.

	2001	2000	1999
Operating cash flow	$601.6	$ 737.0	$854.7
Working capital	$336.8	$(992.3)	$964.1
Current ratio	1.1	0.8	1.6
Debt-to-total capital ratio	48%	49%	44%
Average working capital to net sales	0.2%	(2.9)%	9.3%
Average days outstanding in receivables	54.2	56.3	49.0
Average months' supply of inventory	2.7	2.5	2.3

Note: 1999 working capital includes $582.8 million in assets held for sale.

The company's primary source for liquidity has been operating cash flow, supplemented by commercial paper. The company's ability to borrow at a cost effective rate under the commercial paper program is contingent upon maintaining an investment grade credit rating. Additionally, the company has other short-

term borrowing alternatives should the need arise. At December 31, 2001, the company had $2.5 billion in U.S. credit lines available. The company has improved its liquidity by refinancing $1.4 billion of short-term debt in 2001 with long-term, fixed rate debt at rates ranging from 5.75% to 6.25%. Due to this the company is less exposed to interest rate volatility and refinancing risk. The company continues to utilize a program to securitize accounts receivable to increase liquidity. During 2001, the company had sold approximately $1,439 million under this program, with $275 million outstanding at December 31, 2001.

In May 2001, equity-linked securities in the amount of $402.5 million of Ingersoll-Rand Financing I, a Delaware statutory business trust of IR-New Jersey, were exchanged for 8.3 million shares of common stock issued by IR-New Jersey in accordance with common stock purchase contracts issued by IR-New Jersey. Following the completion of these transactions, $32.5 million of securities remain outstanding and are included in long-term debt. The securities bear a distribution rate of 6.29% per annum and will mature in May 2003.

During 2000, the company acquired Hussmann for $1.7 billion in cash, sold IDP for $775 million in cash, and acquired full ownership of Dresser-Rand for $543 million. The acquisitions of Hussmann and Dresser-Rand were financed principally by issuing short-term commercial paper and from internally generated cash.

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

Payments due by period	Long-term debt	Operating leases	Total contractual cash obligations
2002	$ 192.3	$ 77.9	$ 270.2
2003	838.3	58.6	896.9
2004	573.2	39.7	612.9
2005	207.2	24.7	231.9
2006	588.2	19.4	607.6
Thereafter	694.5	36.3	730.8
Total	$ 3,093.7	$ 256.6	$ 3,350.3

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all registrants to include a discussion of "critical" accounting policies or methods used in the preparation of financial statements. The notes to the financial statements include a summary of significant accounting policies and methods used in the preparation of the consolidated financial statements and the following reviews the more critical accounting policies and methods used by the company:

- Revenue recognition – The company recognizes revenue on sales of product at the time the goods are shipped and title has passed to the customer or when the services are performed. Provisions for discounts and rebates to the customers and other adjustments are provided for at the time of sale as a reduction to revenue.

- Depreciation and amortization – The company depreciates property, plant and equipment and amortizes goodwill and other intangible assets using primarily straight-line methods over the estimated remaining useful lives. Beginning on January 1, 2002, with the adoption of a new accounting standard, the company will no longer be required to amortize a substantial portion of its goodwill and other intangible assets.

- Hedging instruments – The effective portion of the change in the fair value of cash flow hedges are temporarily recorded in other comprehensive income, then recognized in earnings along with the effects of the hedged item. The company does not use derivatives for speculative purposes. A transition adjustment, of $1.2 million, after tax, was recorded in equity upon adoption of SFAS 133 and has been reclassed to earnings during the year. Ending equity includes $1.5 million related to cash flow hedges. The various instruments utilized are summarized later in Management's Discussion and Analysis.

- Employee benefit plans – The company provides a range of benefits to employees and retired employees, including pensions, post-retirement, post-employment and health care benefits. The company records annual amounts relating to these plans based on calculations, which include various actuarial assumptions, including discount rates, assumed rates of returns, compensation increases, turnover rates and health care cost trend rates. The company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. The effect of the modifications is generally recorded or amortized over future periods. The company believes that the assumptions utilized in recording its obligations under its plans are reasonable based on input from its actuaries and information as to assumptions used by other employers.

- Commitments and contingencies – The company is involved in various litigations, claims and administrative proceedings, including environmental matters, arising in the normal course of business. The company has recorded reserves in the financial statements related to these matters which are developed based on consultation with legal counsel and internal and external consultants and engineers, depending on the nature of the reserve. 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 liability with respect to these matters would have a material effect on the financial condition, results of operations, liquidity or cash flows of the company for any year.

- Accrued liabilities – The company has accrued liabilities for product liability claims, workers compensation matters and product warranty issues. 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 reserve. The company believes its estimated reserves are reasonable.

- Allowance for doubtful accounts and inventory reserves – The company has provided an allowance for doubtful account receivables and inventory reserves based upon its knowledge of its end markets, customer base and products.

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

The average short-term borrowings outstanding, excluding current maturities of long-term debt, were $997.9 million in 2001, compared to $1,352.1 million in 2000. The weighted average interest rate during

2001 and 2000 was 5.5% and 6.6%. The maximum amounts outstanding during 2001 and 2000 were $1,505.8 million and $2,533.8 million, respectively.

The company had $1.25 billion in U.S. short-term credit lines and $1.25 billion in long-term credit lines at December 31, 2001, all of which were unused. Additionally, $1.0 billion of non-U.S. credit lines were available for working capital purposes, $786.5 million of which was unused at the end of the year. These facilities exceed projected requirements for 2002 and provide direct support for commercial paper and indirect support for other financial instruments, such as letters of credit and comfort letters.

In 2001 and 2000, foreign currency translation adjustments decreased shareholders' equity by $45.9 million and $90.2 million, respectively. This was due to the strengthening of the U.S. dollar against other currencies in countries where the company has significant operations. Currency fluctuations in the euro and the British pound accounted for nearly all of the change.

The company utilizes two wholly owned, special purpose subsidiaries to purchase accounts and notes receivable at a discount from the company on a continuous basis. These special purpose subsidiaries simultaneously sell an undivided interest in these accounts and notes receivable to a financial institution up to a maximum of $300.0 million in 2001 and $240.0 million in 2000. The agreements between the special purpose corporations and the financial institution do not have predefined expiration dates. The company is retained as the servicer of the pooled receivables. At December 31, 2001 and 2000, $275.0 million and $210.0 million of such receivables, respectively, remained uncollected.

Capital expenditures were $200.6 million and $201.3 million in 2001 and 2000, respectively. The company continues investing to improve manufacturing productivity, reduce costs, and provide environmental enhancements and advanced technologies for existing facilities. The capital expenditure program for 2002 is estimated at approximately $200.0 million, including amounts approved in prior periods. Many of these projects are subject to review and cancellation at the option of the company without incurring substantial charges. There are no planned projects, either individually or in the aggregate, that represent a material commitment for the company.

At December 31, 2001, 2000 and 1999, employment totaled 55,898, 56,688 and 46,062, respectively. The decrease from 2000 to 2001 was due to terminations from the company's restructuring program, which were partially offset by acquisitions. The increase from 1999 to 2000 was due to acquisitions during the year, which were partially offset by terminations under the company's restructuring program.

Financial Market Risk

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

The company generates foreign currency exposures in the normal course of business. To mitigate the risk from foreign currency exchange rate fluctuations, the company will generally enter into forward currency exchange contracts or options for the purchase or sale of a currency in accordance with the company's policies and procedures. The company applies sensitivity analysis and value at risk (VAR)

techniques when measuring the company's exposure to currency fluctuations. VAR is a measurement of the estimated loss in fair value until currency positions can be neutralized, recessed or liquidated and assumes a 95% confidence level with normal market conditions. The potential one-day loss, as of December 31, 2001, was $3.1 million and is considered insignificant in relation to the company's results of operations and shareholders' equity.

The company maintains significant operations in countries other than the U.S.; therefore, the movement of the U.S. dollar against foreign currencies has an impact on the company's financial position. Generally, the functional currency of the company's non-U.S. subsidiaries is their local currency. The company manages exposure to changes in foreign currency exchange rates through its normal operating and financing activities, as well as through the use of forward exchange contracts and options. The company attempts, through its hedging activities, to mitigate the impact on income of changes in foreign exchange rates.

At December 31, the contractual amounts of foreign currency contracts were:

In millions	2001		2000	
	Buy	Sell	Buy	Sell
British pounds	$ 14.0	$ 8.8	$ 59.5	$ 4.6
Canadian dollars	137.6	9.6	106.8	33.1
Euro and euro-linked currencies	23.0	185.6	75.8	157.7
Japanese yen	21.6	27.3	27.6	0.3
Other	12.2	18.7	7.4	27.3
Total	$ 208.4	$ 250.0	$ 277.1	$ 223.0

Starting in late 1999, the company began purchasing on a limited basis, commodity derivatives to hedge the variable portion in supplier contracts of the costs of metals used in its products. Gains and losses on the derivatives are included in cost of sales in the same period as the hedged transaction.

The following table summarizes commodity contracts by maturity:

Commodity contracts	2002	2003	Total
Aluminum			
Contract amount in millions	$ 17.7	—	$ 17.7
Contract quantity (in 000 lbs.)	28.9	—	28.9
Copper			
Contract amount in millions	$ 8.3	—	$ 8.3
Contract quantity (in 000 lbs.)	10.9	—	10.9
Zinc			
Contract amount in millions	—	$ 2.1	$ 2.1
Contract quantity (in 000 lbs.)	—	5.5	5.5
Total			
Contract amount in millions	$ 26.0	$ 2.1	$ 28.1
Contract quantity (in 000 lbs.)	39.8	5.5	45.3

With regard to interest rate risk, the effect of a hypothetical 1% increase in interest rates, across all maturities, would decrease the estimated fair value of the company's long-term debt at December 31, 2001, from $2,996.7 million to an estimated fair value of $2,889.6 million.

Environmental Matters

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

During 2001, the company spent approximately $2.0 million on capital projects for pollution abatement and control, and an additional $7.8 million for environmental remediation expenditures at sites presently or formerly owned or leased by the company. It should be noted that these amounts are difficult to estimate because environmental improvement costs are generally a part of the overall improvement costs at a particular plant. Therefore, an accurate estimate of which portion of an improvement or a capital expenditure relates to an environmental improvement is difficult to ascertain. The company believes that these expenditure levels will continue and may increase over time. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

The company is a party to environmental lawsuits and claims, and has received notices of potential violations of environmental laws and regulations from the Environmental Protection Agency and similar state authorities. It is identified as a potentially responsible party (PRP) for cleanup costs associated with off-site waste disposal at federal Superfund and state remediation sites, excluding sites as to which the company's records disclose no involvement or as to which the company's liability has been fully determined. For all sites there are other PRPs and in most instances, the company's site involvement is minimal.

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

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

New Accounting Standards

The FASB issued Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which became effective for the company on March 31, 2001. The statement revises the accounting standards for securitizations

and other transfers of financial assets and collateral and requires certain disclosures. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adoption of SFAS No. 140 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

For all business combinations subsequent to June 30, 2001, the company applied the provisions of SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." Under the provisions of these standards, goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization, while all other intangible assets are to be amortized over their estimated useful lives. Amortization expense related to goodwill was $135.1 million in 2001, $135.3 million in 2000 and $102.3 million in 1999.

Additional provisions of SFAS No. 141 and No. 142, including annual impairment testing for goodwill and intangible assets, became effective for the company on January 1, 2002. The company is currently determining the impact of adopting these provisions under the transition provisions of the statements, and anticipates that it may record an impairment charge.

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. The standard requires that legal obligations associated with the retirement of tangible long-lived assets be recorded at fair value when incurred and is effective January 1, 2003, for the company. The company is currently reviewing the provisions of SFAS No. 143 to determine the standard's impact upon adoption.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued, which provides guidance on the accounting for the impairment or disposal of long-lived assets and was adopted January 1, 2002, by the company. Adoption of SFAS No. 144 did not have a material effect on the company's consolidated financial position or results of operations.

The company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and its amendments as of January 1, 2001. The statement requires all derivatives to be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivatives will be recognized in earnings or other comprehensive income, depending on the designated purpose of the derivative. The company recorded approximately $1.2 million after tax representing the cumulative effect adjustment as a decrease to accumulated other comprehensive income at January 1, 2001.

Forward-looking Statements

This annual report contains not only historical information, but also forward-looking statements regarding expectations for future company performance. Forward-looking statements involve risk and uncertainty. See the company's 2000 Annual Report on Form 10-K for a discussion of factors which could cause future results to differ from current expectations.

Consolidated Statement of Income

In millions except per share amounts

For the years ended December 31	2001	2000	1999
Net sales	$9,682.0	$9,597.6	$7,819.0
Cost of goods sold	7,611.5	7,141.4	5,673.2
Selling and administrative expenses	1,454.2	1,279.6	1,066.1
Restructuring charges	93.1	87.2	—
Operating income	523.2	1,089.4	1,079.7
Interest expense	(253.0)	(255.3)	(183.5)
Other income (expense), net	(6.8)	35.8	3.1
Minority interests	(20.1)	(39.3)	(29.1)
Earnings before income taxes	243.3	830.6	870.2
(Benefit)/provision for income taxes	(2.9)	284.4	307.1
Earnings from continuing operations	246.2	546.2	563.1
Discontinued operations (net of tax)	—	123.2	28.0
Net earnings	$ 246.2	$ 669.4	$ 591.1
Basic earnings per share:			
Continuing operations	$1.49	$3.39	$3.44
Discontinued operations	—	0.76	0.17
	$1.49	$4.15	$3.61
Diluted earnings per share:			
Continuing operations	$1.48	$3.36	$3.40
Discontinued operations	—	0.76	0.17
	$1.48	$4.12	$3.57

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

In millions except share amounts

For the years ended December 31	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 114.0	$ 97.0
Marketable securities	7.4	130.4
Accounts and notes receivable, less allowances of $54.3 in 2001 and $48.5 in 2000	1,482.9	1,671.0
Inventories	1,295.3	1,242.3
Prepaid expenses and deferred income taxes	288.2	235.5
	3,187.8	3,376.2
Property, plant and equipment, net	1,633.0	1,653.4
Intangible assets, net	5,689.3	5,372.2
Deferred income taxes	—	152.9
Other assets	553.6	497.9
	$11,063.7	$11,052.6
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 761.0	$ 681.4
Accrued expenses and other current liabilities	1,526.3	1,561.0
Loans payable	563.7	2,126.1
	2,851.0	4,368.5
Long-term debt	2,900.7	1,540.4
Deferred income taxes	170.1	—
Postemployment and other benefit liabilities	920.4	957.8
Minority interests	110.5	113.4
Other liabilities	194.4	188.8
	7,147.1	7,168.9
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the company	—	402.5
Shareholders' equity:		
Common shares (168,003,884 and 171,466,627 shares issued in 2001 and 2000, respectively)	168.0	343.1
Capital in excess of par value	324.2	258.8
Retained earnings	3,745.8	3,612.7
	4,238.0	4,214.6
Unallocated LESOP shares, at cost	—	(1.8)
Treasury stock, at cost	—	(471.0)
Accumulated other comprehensive income	(321.4)	(260.6)
Shareholders' equity	3,916.6	3,481.2
	$11,063.7	$11,052.6

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

In millions	Total shareholders' equity	Common stock Amount	Common stock Shares	Capital in excess of par value	Retained earnings	Unallocated LESOP	Treasury stock	Accumulated other comprehensive income	Comprehensive income
Balance at December 31, 1998	$2,721.8	$337.8	168.9	$133.4	$2,567.3	$(27.0)	$(150.9)	$(138.8)	
Net earnings	591.1				591.1				$591.1
Foreign currency translation	(48.0)							(48.0)	(48.0)
Total comprehensive income									$543.1
Shares issued under stock and incentive plans	94.8	4.5	2.3	90.3					
Allocation of LESOP shares	24.6			14.1		10.5			
Purchase of treasury shares	(205.8)						(205.8)		
Cash dividends	(105.3)				(105.3)				
Balance at December 31, 1999	3,073.2	342.3	171.2	237.8	3,053.1	(16.5)	(356.7)	(186.8)	
Net earnings	669.4				669.4				$669.4
Foreign currency translation	(90.2)							(90.2)	(90.2)
Unrealized gain on marketable securities	16.4							16.4	16.4
Total comprehensive income									$595.6
Acquisition of business	6.4						6.4		
Shares issued under stock and incentive plans	11.7	0.8	0.3	10.3			0.6		
Allocation of LESOP shares	25.4			10.7		14.7			
Purchase of treasury shares	(121.3)						(121.3)		
Cash dividends	(109.8)				(109.8)				
Balance at December 31, 2000	3,481.2	343.1	171.5	258.8	3,612.7	(1.8)	(471.0)	(260.6)	
Net earnings	246.2				246.2				$246.2
Foreign currency translation	(45.9)							(45.9)	(45.9)
Cumulative effect of change in accounting principal (SFAS 133), net of tax	(1.2)							(1.2)	(1.2)
Cash flow hedges, net of tax:									
Unrealized (loss) gain	1.5							1.5	1.5
Reclassification adjustments	1.2							1.2	1.2
Reclassification to realized on marketable securities, net of tax	(16.4)							(16.4)	(16.4)
Total comprehensive income									$185.4
Acquisition of business	15.3						15.3		
Shares issued under stock and incentive plans	15.3	0.6	0.4	14.7					
Allocation of LESOP shares	2.5			0.7		1.8			
Purchase of treasury shares	(72.5)						(72.5)		
Stock issued related to equity-linked securities	402.5	16.7	8.3	385.8					
Treasury stock cancellation	—	(24.4)	(12.2)	(503.8)			528.2		
Common stock conversion	—	(168.0)		168.0					
Cash dividends	(113.1)				(113.1)				
Balance at December 31, 2001	$3,916.6	$168.0	168.0	$324.2	$3,745.8	—	—	$(321.4)	

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In millions

For the years ended December 31	2001	2000	1999
Cash flows from operating activities:			
Income from continuing operations	$ 246.2	$ 546.2	$ 563.1
Adjustments to arrive at net cash provided by operating activities:			
Restructure charges	93.1	87.2	—
Depreciation and amortization	362.5	327.1	272.4
Gain on sale of businesses	—	(42.9)	(14.6)
Loss/(gain) on sale of property, plant and equipment	1.6	(5.1)	(3.4)
Minority interests, net of dividends	(3.4)	4.9	(0.2)
Equity earnings/losses, net of dividends	(1.5)	0.8	(28.5)
Deferred income taxes	23.4	13.6	62.2
Other items	10.6	35.7	40.9
Changes in assets and liabilities			
(Increase)/decrease in:			
Accounts and notes receivable	229.4	(31.6)	(57.7)
Inventories	(24.1)	(160.2)	56.7
Other current and noncurrent assets	(172.9)	3.1	12.8
Increase/(decrease) in:			
Accounts payable and accruals	40.0	50.3	(55.6)
Other current and noncurrent liabilities	(203.3)	(92.1)	6.6
Net cash provided by operating activities	601.6	737.0	854.7
Cash flows from investing activities:			
Capital expenditures	(200.6)	(201.3)	(190.5)
Proceeds from sales of property, plant and equipment	41.7	28.5	30.4
Acquisitions, net of cash *	(158.3)	(2,288.0)	(161.2)
Proceeds from business dispositions	17.5	977.3	84.8
Decrease/(increase) in marketable securities	97.2	(6.3)	1.5
Cash provided by/(invested in) or advances from/(to) equity companies	15.7	12.2	(2.0)
Net cash used in investing activities	(186.8)	(1,477.6)	(237.0)
Cash flows from financing activities:			
(Decrease)/increase in short-term borrowings	(1,026.1)	950.2	(36.8)
Proceeds from long-term debt	1,493.8	3.1	21.5
Payments of long-term debt	(681.8)	(80.9)	(252.2)
Net change in debt	(214.1)	872.4	(267.5)
Proceeds from exercise of stock options	9.7	8.3	70.2
Dividends paid	(113.1)	(109.8)	(105.3)
Purchase of treasury stock	(72.5)	(121.3)	(205.8)
Other	—	—	63.3
Net cash (used in)/provided by financing activities	(390.0)	649.6	(445.1)
Net cash (used in)/provided by discontinued operations	—	(22.1)	14.6
Effect of exchange rate changes on cash and cash equivalents	(7.8)	(12.8)	(7.8)
Net increase/(decrease) in cash and cash equivalents	17.0	(125.9)	179.4
Cash and cash equivalents-beginning of year	97.0	222.9	43.5
Cash and cash equivalents-end of year	$ 114.0	$ 97.0	$ 222.9
***Acquisitions:**			
Working capital, other than cash	$ (5.9)	$ (376.8)	$ (61.0)
Property, plant and equipment	(41.6)	(487.2)	(13.0)
Intangibles and other assets	(126.6)	(1,806.2)	(101.4)
Long-term debt and other liabilities	0.5	375.7	14.2
Treasury stock issued	15.3	6.5	—
Net cash used to acquire businesses	$ (158.3)	$ (2,288.0)	$ (161.2)
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 293.4	$ 346.8	$ 230.4
Income taxes	154.6	175.7	217.7

In 1999, the company acquired the remaining 49% interest in Ingersoll-Dresser Pump Company in a noncash transaction by issuing a note for $377.0 million.

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1-Summary of Significant Accounting Policies

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

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

Principles of Consolidation: The consolidated financial statements include all wholly owned and majority-owned subsidiaries. Intercompany transactions and balances have been eliminated. Partially owned equity affiliates are accounted for under the equity method. In conformity with generally accepted accounting principles, management has used estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Significant estimates include accounting for doubtful accounts, amortization and depreciation, warranty, sales allowances, taxes, environmental, product liability and other contingencies. Actual results could differ from those estimates.

Reclassifications: Reclassifications were made to prior year amounts to conform with the 2001 presentation. The accompanying consolidated financial statements restate the previously presented amounts to report Dresser-Rand Company (Dresser-Rand) on a fully consolidated basis since acquisition. Previously, the company reported the results and net assets of Dresser-Rand as assets held for sale.

The company adopted Emerging Issues Task Force Issue No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" in the fourth quarter of 2001. Upon adoption, financial statements for all periods presented were restated to comply with the income statement classification of reseller finance costs and cooperative advertising programs, which resulted in decreases to net sales of $28.6 million, $24.0 million and $23.6 million, decreases in cost of goods sold of $13.1 million, $15.8 million and $17.7 million, increases in selling and administrative expenses of $18.5 million, $21.3 million and $13.7 million, and decreases in interest expense of $34.0 million, $29.5 million and $19.6 million in 2001, 2000 and 1999, respectively.

Cash Equivalents: The company considers all highly liquid investments, consisting primarily of time deposits and commercial paper with maturities of three months or less when purchased, to be cash equivalents. Cash equivalents were $0.5 million and $1.0 million at December 31, 2001 and 2000, respectively.

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

Property, Plant and Equipment: Property, plant and equipment are stated at cost, less accumulated depreciation. The company principally uses accelerated depreciation methods for assets placed in service prior to December 31, 1994. Assets acquired subsequent to that date are depreciated using the straight-line method over their estimated useful lives. At December 31, 2001 and 2000, gross land and buildings totaled $761.7 million and $738.9 million, respectively, while gross machinery and equipment totaled $1,887.2 million and $1,827.7 million, respectively. Accumulated depreciation at December 31, 2001 and 2000 was $1,015.9 million and $913.2 million, respectively.

Intangible Assets: Goodwill, net, was $4.8 billion and $5.3 billion at December 31, 2001 and 2000, respectively. Accumulated amortization amounted to $554.4 million and $448.4 million at December 31, 2001 and 2000, respectively. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, “Goodwill and Other Intangible Assets,” goodwill associated with acquisitions consummated after June 30, 2001 is not being amortized. All other goodwill has been amortized on a straight-line basis over periods not to exceed 40 years through December 31, 2001. Amortization expense for goodwill for 2001, 2000 and 1999 was $135.1 million, $135.3 million and $102.3 million, respectively.

Other intangible assets, net, were $877.7 million and $104.2 million at December 31, 2001 and 2000, respectively. These amounts include capitalized software, debt issuance costs, and costs allocated to patents, trademarks and other specifically identifiable assets arising from acquisitions, which are being amortized on a straight-line basis over their estimated useful lives. At December 31, 2001 and 2000, accumulated amortization of other intangibles amounted to $86.0 million and $43.0 million, respectively.

During 2001, the company reclassified certain amounts from goodwill to other intangible assets as a result of final valuations on the 2000 acquisitions and increased goodwill associated with deferred tax liabilities. The carrying value of goodwill and other intangibles is reviewed if the facts and circumstances, such as significant decline in sales, earnings or cash flows or material adverse changes in the business climate, suggest that it may be impaired. If this review indicates that goodwill will not be recoverable as determined based on the estimated undiscounted cash flows of the entity acquired, impairment is measured by comparing the carrying value of goodwill to fair value. Fair value is determined based on quoted market values, discounted cash flows or appraisals.

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

Environmental Costs: Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to existing conditions caused by past operations, which do not contribute to current or future revenues, are expensed. Costs to prepare environmental site evaluations and feasibility studies are accrued when the company commits to perform them. Liabilities for remediation costs are recorded when they are probable and reasonably estimable,

generally no later than the completion of feasibility studies or the company's commitment to a plan of action. The assessment of this liability, which is calculated based on existing technology, does not reflect any offset for possible recoveries from insurance companies and is not discounted.

Revenue Recognition: Revenues are recognized on sales of product at the time the goods are shipped and title has passed to the customer or when services are performed. Provisions for discounts and rebates to customers and other adjustments are provided for at the time of sale as a reduction of revenue.

Research and Development Costs: Research and development expenditures, including qualifying engineering costs, are expensed when incurred and amounted to $215.4 million in 2001, $198.2 million in 2000 and $186.2 million in 1999.

Comprehensive Income: Comprehensive income includes net income, foreign currency translation adjustments, amounts relating to cash flow hedges, and unrealized holding gains and losses on marketable securities.

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

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

Foreign currency transactions and translations recorded in the income statement decreased net earnings by $2.3 million and $7.6 million in 2001 and 2000 respectively, and increased net earnings by $2.5 million in 1999. Accumulated other comprehensive income decreased in 2001 and 2000 by $60.8 million and $73.8 million, respectively, primarily due to foreign currency equity adjustments related to translation.

Earnings Per Share: Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding as well as potentially dilutive common shares, which in the company's case comprise shares issuable under stock benefit plans. The weighted average number of common shares outstanding for basic earnings per share calculations were 165.1 million, 161.2 million and 163.6 million for 2001, 2000 and 1999, respectively. For diluted earnings per share purposes, these balances increased by 1.2 million, 1.2 million and 2.1 million shares for 2001, 2000 and 1999, respectively. At December 31, 2001, 2000 and 1999, 5.6 million, 6.5 million and 0.2 million shares, respectively, were excluded because the effect would be anti-dilutive.

Stock-based Compensation: The company continues to apply the principles of APB No. 25 "Accounting for Stock Issued to Employees," and has provided pro forma fair value disclosures in Note 14.

New Accounting Standards: In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued, which provides guidance on the accounting for the impairment or disposal of long-lived assets and was adopted January 1, 2002, by the company. Adoption of SFAS No. 144 did not have a material effect on the company's consolidated financial position or results of operations.

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations" was issued. The standard requires that legal obligations associated with the retirement of tangible long-lived assets be recorded at fair value when incurred and is effective January 1, 2003 for the company. The company is currently reviewing the provisions of SFAS No. 143 to determine the standard's impact upon adoption.

Also in June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." The requirements and effects of these pronouncements are discussed in Note 4.

In September 2000, the FASB issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement is effective for transfers and services of financial assets occurring after March 31, 2001, and is discussed in Note 10.

The company adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and its amendments as of January 1, 2001. The requirements and effects of such adoption are discussed in Note 7.

Note 2-Restructuring

During 2001, the company continued a restructuring program that was initiated in 2000, which includes such actions as employee severance, plant rationalizations, organizational realignments consistent with the company's market-based structure and the consolidation of back-office processes. In response to continued weakness in its major end markets, the company initiated a second phase of restructuring in the fourth quarter of 2001, which is focused on reducing general and administrative expense and is expected to be completed by the end of 2002. The programs have resulted in the closure of 20 plants and a workforce reduction of more than 3,900 employees. Charges for restructuring for full-year 2001 totaled $93.1 million.

The company recorded pretax restructuring charges by business segment for the year ended December 31, as follows:

In millions	2001	2000
Climate Control	$31.7	$ 3.6
Industrial Solutions		
Air and Productivity Solutions	16.2	16.5
Dresser-Rand	2.1	11.0
Engineered Solutions	19.6	11.5
Infrastructure	5.7	11.4
Security and Safety	3.0	15.1
Corporate	14.8	18.1
Total	$93.1	$87.2

A reconciliation of the restructuring provision is as follows:

In millions	Employee termination costs	Facility exit costs	Total
Provision	$74.2	$13.0	$87.2
Cash payments	(33.7)	(1.7)	(35.4)
Non-cash write-offs	(5.2)	(8.6)	(13.8)
Balance at December 31, 2000	35.3	2.7	38.0
Provision	80.0	13.1	93.1
Cash payments	(74.7)	(6.7)	(81.4)
Non-cash write-offs	(6.1)	(2.0)	(8.1)
Balance at December 31, 2001	$34.5	$ 7.1	$41.6

Note 3-Discontinued Operations

In August 1999, the company announced its plan to divest Ingersoll-Dresser Pump Company (IDP). On August 8, 2000, the company sold IDP for $775.0 million. The company realized an after-tax gain of $124.8 million. The net assets of IDP had been classified as assets held for sale. IDP's results have been reported as discontinued operations (net of tax) in the accompanying financial statements.

Earnings from discontinued operations included the following results for the years ended December 31:

In millions	2000	1999
Net sales	$421.8	$837.9
Operating income	5.3	63.9
Other income (expense), net	(1.2)	7.4
Interest expense	(10.1)	(1.4)
Minority interest	—	(23.7)
Earnings (loss) before income taxes	(6.0)	46.2
Income taxes	(4.4)	18.2
Earnings (loss) from operations	(1.6)	28.0
Gain on disposal of discontinued operations (net of tax)	124.8	—
Net earnings from discontinued operations	$123.2	$ 28.0

Note 4-Acquisitions of Businesses

In 2001, the company acquired 12 entities for cash of $158.3 million and treasury stock of $15.3 million. The following acquisitions account for the majority of all acquisitions during the year.

Climate Control

- Grenco Transportkoeling B.V., based in the Netherlands, a transport refrigeration sales and service business.
- National Refrigeration Services, Inc. (NRS), based in Atlanta, Georgia, a leading provider of commercial refrigeration products and services for food storage, distribution and display throughout the United States.
- Taylor Industries Inc., based in Des Moines, Iowa and an affiliated business, Taylor Refrigeration (Taylor), distributes, installs and services refrigeration equipment, food service equipment and electric doors.

Engineered Solutions

- Nadella S.A., based in France, supplies precision needle bearings for automotive and industrial applications. Nadella was previously 50% owned by the company.

Infrastructure

- Superstav spol. s.r.o., based in the Czech Republic, and Earth Force America, Inc., based in South Carolina, both of which are manufacturers of compact tractor loader backhoes.

Security and Safety

- Kryptonite Corporation, based in Massachusetts, a leading manufacturer of locks for recreational and portable security applications.
- ITO Emniyet Kilit Sistemleri A., based in Turkey, a leading manufacturer and distributor of locks, cylinders and keys.

In June 2000, the company acquired Hussmann International, Inc. (Hussmann), for approximately $1.7 billion in cash after consideration of amounts paid for outstanding stock options, debt retirement, employee contracts and transaction costs. Hussmann's business is the design, production, installation and service of merchandising and refrigeration systems for the global food industry. Hussmann is included in Climate Control.

The results of Hussmann's operations have been included in the consolidated financial statements from acquisition date. The following unaudited pro forma consolidated results for the years ended December 31, 2000 and 1999 reflect the acquisition as though it occurred at the beginning of the respective periods after adjustments for interest on acquisition debt, and depreciation and amortization of assets, including goodwill:

In millions except per share amounts	2000	1999
Sales	$10,231.4	$9,134.0
Net earnings	614.1	534.5
Continuing operations		
Basic earnings per common share	$3.04	$3.10
Diluted earnings per common share	3.02	3.05

The above pro forma results are not necessarily indicative of what the actual results would have been had the acquisition occurred at the beginning of the respective periods. Further, the pro forma results are not intended to be a projection of future results of the combined companies.

In connection with the Hussmann acquisition, purchase accounting reserves were created for the closure and restructure of a number of Hussmann facilities. The amounts are as follows:

In millions	Employee termination costs	Facility exit costs	Total
Original reserves recorded	$ 6.6	$17.3	$23.9
Cash payments	(1.1)	(0.6)	(1.7)
Balance at December 31, 2000	5.5	16.7	22.2
Reserves	14.2	28.5	42.7
Cash payments	(7.6)	(22.1)	(29.7)
Balance at December 31, 2001	$12.1	$23.1	$35.2

In February 2000, the company completed the purchase of the 51% of Dresser-Rand not previously owned by acquiring the joint venture partner's share for a net purchase price of approximately $543.0 million in cash.

For all business combinations subsequent to June 30, 2001, the company applied the provisions of SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets." Under the provisions of these standards, goodwill and intangible assets deemed to have indefinite lives are no longer subject to amortization, while all other intangible assets are to be amortized over their estimated useful lives. Amortization related to goodwill was $135.1 million in 2001, $135.3 million in 2000 and $102.3 million in 1999.

Additional provisions of SFAS No. 141 and No. 142, including annual impairment testing for goodwill and intangible assets, became effective for the company on January 1, 2002. The company is currently determining the impact of adopting these provisions under the transition provisions of the statements, and anticipates that it may record an impairment charge.

Note 5-Dispositions

During 2000, the company sold the Compression Services business of Dresser-Rand for a gain of $50.4 million, as well as the Corona Clipper business for approximately $43.0 million, which approximated book value. The company also sold its interests in three joint ventures relating to the manufacture of full steering-column assemblies for approximately $37.0 million in cash. In August 2000, the company sold IDP for $775.0 million (Note 3).

During 1999, the company received proceeds of $47.0 million, which approximated book value, on the sale of a portion of the Harrow assets. In December 1999, the company also sold certain net assets of the Automation Division of the Air and Productivity Solutions Segment. The transaction resulted in a net gain of approximately $4.4 million. The company also made several minor dispositions during 1999.

Note 6-Inventories

At December 31, inventories were as follows:

In millions	2001	2000
Raw materials and supplies	$ 307.9	$ 358.4
Work-in-process	395.5	372.9
Finished goods	733.1	654.4
	1,436.5	1,385.7
Less-LIFO reserve	141.2	143.4
Total	$1,295.3	$1,242.3

Work-in-process inventories are stated after deducting customer progress payments of $139.5 million in 2001 and $127.3 million in 2000. At December 31, 2001 and 2000, LIFO inventories comprised approximately 33% and 36%, respectively, of consolidated inventories. There were no material liquidations of LIFO layers for all periods presented.

Note 7-Financial Instruments

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

The purpose of the company's currency hedging activities is to mitigate the impact of changes in foreign currency exchange rates. The company attempts to hedge transaction exposures through natural offsets. To the extent that this is not practicable, major exposure areas considered for hedging include foreign currency denominated receivables and payables, intercompany loans, firm committed transactions, and forecasted sales and purchases. The following table summarizes by major currency the contractual amounts of the company's forward contracts in U.S. dollars. Foreign currency amounts are translated at year-end rates at the respective reporting date. The "buy" amounts represent the U.S. equivalent of commitments to purchase foreign currencies, and the "sell" amounts represent the U.S. equivalent of commitments to sell foreign currencies. Some of the forward contracts involve the exchange of two foreign currencies according to local needs in foreign subsidiaries.

At December 31, the contractual amounts were:

In millions	2001		2000	
	Buy	Sell	Buy	Sell
British pounds	$ 14.0	$ 8.8	$ 59.5	$ 4.6
Canadian dollars	137.6	9.6	106.8	33.1
Euro and euro-linked currencies	23.0	185.6	75.8	157.7
Japanese yen	21.6	27.3	27.6	0.3
Other	12.2	18.7	7.4	27.3
Total	$208.4	$250.0	$277.1	$223.0

Starting in late 1999, the company began purchasing on a limited basis, commodity contracts to hedge the costs of metals used in its products. Gains and losses on the derivatives are included in cost of sales in the same period as the hedged transaction.

The following table summarized commodity contracts by maturity:

Commodity contracts	2002	2003	Total
Aluminum			
Contract amount in millions	$17.7	—	$17.7
Contract quantity (in 000 lbs.)	28.9	—	28.9
Copper			
Contract amount in millions	$ 8.3	—	$ 8.3
Contract quantity (in 000 lbs.)	10.9	—	10.9
Zinc			
Contract amount in millions	—	$2.1	$ 2.1
Contract quantity (in 000 lbs.)	—	5.5	5.5
Total			
Contract amount in millions	$26.0	$2.1	$28.1
Contract quantity (in 000 lbs.)	39.8	5.5	45.3

SFAS 133, “Accounting for Derivative Instruments and Hedging Activities,” and its amendments, became effective for the company on January 1, 2001. The statement requires all derivatives to be recognized as assets or liabilities on the balance sheet and measured at fair value. Changes in the fair value of derivatives will be recognized in earnings or other comprehensive income, depending on the designated purpose of the derivative. If a derivative qualifies for cash flow hedge accounting the effective portion of changes in fair value is recorded temporarily in other comprehensive income, then recognized in earnings along with the related effects of the hedged items. If a derivative qualifies for fair value hedge accounting, the changes in fair value of the derivative and the hedged item are recognized currently in earnings. There was no ineffective portion of hedges reported in earnings in 2001.

The $1.2 million, after tax, recorded in equity at January 1, 2001, upon the adoption of these new standards, was reclassified to earnings during the year. Of the $1.5 million recorded in equity at December 31, 2001, $0.3 million is expected to be reclassified to earnings over the twelve month period ending December 31, 2002, while $1.2 million, related to an interest rate swap used as a cash flow hedge of the forecasted issuance of debt that occurred in the second quarter, will be reclassified to earnings over the next four years. The actual amounts that will be reclassified to earnings over the next twelve months will vary from this amount as a result of changes in market conditions. No amounts were reclassified to earnings during the year in connection with forecasted transactions that were no longer considered probable of occurring.

At December 31, 2001, the maximum term of derivative instruments that hedge forecasted transactions, for foreign currency hedges, was 12 months. At December 31, 2001, the maximum term of derivative instruments that hedge forecasted transactions, for commodity hedges, was 24 months.

Derivatives not designated as hedges primarily consist of options and forward contracts. Although these instruments are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, as amended.

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

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

The following table summarizes the estimated fair value of the company's remaining financial instruments at December 31:

In millions	2001	2000
Long-term debt:		
Carrying value	$ 2,900.7	$ 1,540.4
Estimated fair value	2,996.7	1,537.4
Currency contracts:		
Contract (notional) amounts:		
Buy contracts	$ 208.4	$ 277.1
Sell contracts	250.0	223.0
Fair (market) values:		
Buy contracts	206.7	289.7
Sell contracts	247.5	242.3
Commodity contracts:		
Contract (notional) amounts:		
Buy contracts	$ 28.1	$ 34.0
Fair (market) values:		
Buy contracts	25.5	34.2

Fair value of long-term debt was determined by reference to the December 31, 2001 and 2000, market values of comparably rated debt instruments. Fair values of forward contracts are based on dealer quotes at the respective reporting dates.

Note 8-Long-Term Debt and Credit Facilities

At December 31, long-term debt consisted of:

In millions	2001	2000
5.75% Notes Due 2003	$ 600.0	$ —
6 7/8% Notes Due 2003	100.0	100.0
5.80% Notes Due 2004	249.8	—
6.25% Notes Due 2006	574.4	—
9% Debentures Due 2021	125.0	125.0
7.20% Debentures Due 2025	150.0	150.0
6.48% Debentures Due 2025	150.0	150.0
6.391% Debentures Due 2027	200.0	200.0
6.443% Debentures Due 2027	200.0	200.0
Medium-term Notes Due 2003-2028, at an average rate of 6.56%	296.7	377.0
6.75% Senior Notes Due 2008	124.4	124.0
6.29% Securities Due 2003	32.5	-
Medium-term Notes Due 2023, at an average rate of 8.22%	50.2	50.2
Other loans and notes, at end-of-year average interest rates of 3.997% in 2001 and 6.248% in 2000, maturing in various amounts to 2015	47.7	64.2
	$ 2,900.7	$ 1,540.4

Debt retirements for the next five years are as follows: $192.3 million in 2002, $838.3 million in 2003, $573.2 million in 2004, $207.2 million in 2005 and $588.2 million in 2006.

In February 2001, the company issued $600 million of 5.75% notes due February 2003. In May 2001, the company issued notes with a par value of $575 million at 6.25% per annum due May 2006, and $250 million at 5.80% per annum due June 2004. The proceeds from these financings were used to refinance short-term borrowings related to the acquisition of Hussmann.

At December 31, 2001, the company's committed revolving credit lines consisted of a 364-day line totaling $1.25 billion and a five-year line totaling $1.25 billion. These lines were unused and provide support for commercial paper and indirectly provide support for other financing instruments, such as letters of credit and comfort letters, as required in the normal course of business. The company compensates banks for these lines with fees equal to a weighted average of 0.08% per annum. Available foreign lines of credit were $1.0 billion, of which $786.5 million were unused at December 31, 2001. No major cash balances were subject to withdrawal restrictions. At December 31, 2001 and 2000, the average rate of interest for loans payable, excluding the current portion of long-term debt, was 4.704% and 6.914%, respectively.

Capitalized interest on construction and other capital projects amounted to $4.0 million, $4.4 million and $4.0 million in 2001, 2000 and 1999, respectively. Interest income, included in other income (expense), net, was $9.8 million, $8.7 million and $5.4 million in 2001, 2000 and 1999, respectively.

Note 9-Commitments and Contingincies

The company is involved in various litigations, claims and administrative proceedings, including environmental matters, arising in the normal course of business. In assessing its potential environmental liability, the company bases its estimates on current technologies and does not discount its liability or assume any insurance recoveries. 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 recovery or liability with respect to these matters would not have a material effect on the financial condition, results of operations, liquidity or cash flows of the company for any year.

As of December 31, 2001, the company had no significant concentrations of credit risk in trade receivables due to the large number of customers which comprised its receivables base and their dispersion across different industries and countries. In the normal course of business, the company has issued several direct and indirect guarantees, including performance letters of credit, totaling approximately $239.0 million at December 31, 2001. The company sells product under various arrangements through institutions that provide leasing and product financing alternatives to retail and wholesale customers. Under these arrangements, the company is contingently liable for loan guarantees and residual values of equipment of approximately $29.3 million after consideration of ultimate net loss provisions. The risk of loss to the company is minimal, and historically, only immaterial losses have been incurred relating to these arrangements. Management believes these guarantees will not adversely affect the consolidated financial statements.

Certain office and warehouse facilities, transportation vehicles and data processing equipment are leased. Total rental expense was $108.8 million in 2001, $84.6 million in 2000 and $71.6 million in 1999.

Minimum lease payments required under noncancellable operating leases with terms in excess of one year for the next five years and thereafter, are as follows: $77.9 million in 2002, $58.6 million in 2003, $39.7 million in 2004, $24.7 million in 2005, $19.4 million in 2006 and $36.3 million thereafter.

Note 10-Sales of Receivables

The FASB issued Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which became effective for the company on March 31, 2001. The statement revises the accounting standards for securitizations and other transfers of financial assets and collateral and requires certain disclosures. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. Adoption of SFAS No. 140 had no effect on the company's consolidated financial position, consolidated results of operations, or liquidity.

The company has agreements under which several of its operating subsidiaries sell a defined pool of trade accounts receivable to two wholly owned special purpose subsidiaries of the company. The subsidiaries, are separate legal entities, that hold these receivables and sell undivided interests in such accounts receivable to financiers who, in turn, purchase and receive ownership and security interests in those receivables. As collections reduce accounts receivable included in the pool, the operating subsidiaries sell new receivables to the special purpose subsidiaries. The special purpose subsidiaries have the risk of credit loss on the receivables and, accordingly, the full amount of the allowance for doubtful accounts has been retained in the Consolidated Balance Sheets. The operating subsidiaries retain collection and administrative responsibilities for the participating interests in the defined pool. The availability under the programs in 2001 is $300 million. At December 31, 2001, 2000 and 1999, $275 million, $210 million and $170 million, respectively, were utilized under the program. Increases under the program are reflected as operating activities in the Consolidated Statement of Cash Flows. The proceeds of sale are less than the face amount of accounts receivable sold by an amount to issue commercial paper backed by these accounts receivable. The discount from the face amount is accounted for as a loss on the sale of receivables and has been included in other income (expense), net, in the Consolidated Statements of Income, and amounted to $10.6 million, $11.4 million and $10.2 million in 2001, 2000 and 1999, respectively. The weighted average discount rate was 4.68%, 6.21% and 5.99% during the years 2001, 2000 and 1999, respectively.

The agreements between the special purpose corporations and the financial institutions do not have a predefined expiration date. The company is retained as the servicer of the pooled receivables. During 2001, 2000 and 1999, such sales of receivables amounted to $1,439.0 million, $753.0 million and $781.8 million, respectively.

Receivables, excluding the designated pool of accounts and note receivable, sold during 2001 and 2000 with recourse amounted to $310.7 million and $240.3 million, respectively. At December 31, 2001 and 2000, $115.6 million and $108.2 million, respectively, of such receivables sold remained uncollected and on the Consolidated Balance Sheet.

Note 11-Equity-Linked Securities

In March 1998, IR-New Jersey, together with Ingersoll-Rand Financing I, a Delaware statutory business trust of IR-New Jersey (Finance Trust), issued an aggregate of (a) 16,100,000 equity-linked securities,

and (b) 1,610,000 Finance Trust 6.22% capital securities, each with a $25 stated liquidation amount (the capital securities). The equity-linked securities consisted of (a) 14,490,000 income equity-linked securities (income securities), and (b) 1,610,000 growth equity-linked securities (growth securities).

In May 2001, equity-linked securities in the amount of $402.5 million of Ingersoll-Rand Financing I, a Delaware statutory business trust of IR-New Jersey, were exchanged for 8.3 million shares of common stock issued by IR-New Jersey in accordance with common stock purchase contracts issued by IR-New Jersey. Following the completion of these transactions, $32.5 million of securities remain outstanding and are included in long-term debt. The securities bear a distribution rate of 6.29% per annum and will mature in May 2003.

Note 12-Common Stock

Effective December 31, 2001, IR-Limited became the successor to IR-New Jersey, following a corporate reorganization. The reorganization was accomplished through a merger of a newly-formed merger subsidiary into IR-New Jersey. Upon consummation of the merger the shares of IR-New Jersey common stock automatically became IR-Limited Class A common shares. As part of the reorganization, IR-New Jersey and certain of its subsidiaries, immediately prior to the merger transferred shares of certain IR-New Jersey subsidiaries and issued certain debt in exchange for which IR-Limited issued 135,250,003 Class B common shares. The Class B common shares are non-voting and will pay comparable dividends to the Class A common shares.

The authorized share capital of IR-Limited is $1,175,010,000, consisting of (1) 1,175,000,000 common shares, par value $1.00 per share, which common shares consist of (a) 600,000,000 Class A common shares and (b) 575,000,000 Class B common shares, and (2) 10,000,000 preference shares, par value $0.001 per share, which preference shares consist of 600,000 Series A preference shares and such other series of preference shares as may be designated from time to time with the respective rights and restrictions determined by the board of directors. Class A common shares (and associated preference share purchase rights) were issued to holders of IR-New Jersey common stock in the merger. None of the preference shares were outstanding at December 31, 2001.

Class A common shares issued were 168,003,884 at $1.00 par value at December 31, 2001 compared to 171,466,627 common shares at $2.00 par value at December 31, 2000. The decrease in the par value of common shares from, $2.00 to $1.00 is recorded as an increase to capital in excess of par value and a decrease in common stock on the Consolidated Statement of Shareholders' Equity.

At December 31, 2001, treasury shares outstanding of 12.2 million were retired due to the reorganization by reducing capital in excess of par by $503.8 million and common stock by $24.4 million. The company has adopted a shareholder rights plan to protect shareholders from attempts to acquire control of the company at an inadequate price. The plan will expire on December 22, 2008, unless earlier redeemed or exchanged by the company, as provided in the rights plan.

Note 13-Leveraged Employee Stock Ownership Plan

The company sponsors a Leveraged Employee Stock Ownership Plan (LESOP) for eligible employees. The LESOP was used to fund certain employee benefit plans. At December 31, 2001, the LESOP had allocated all shares to employee accounts.

Note 14-Incentive Stock Plans

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

Under SFAS No. 123, compensation cost for the applicable provisions of the company's incentive stock plans would be determined based upon the fair value at the grant date for awards issued since 1996. Applying this methodology would have reduced net earnings and diluted earnings per share by approximately $30.5 million and $0.18 per share for 2001; $16.7 million and $0.10 per share for 2000; and $8.5 million and $0.05 per share for 1999. The average fair values of the options granted during 2001, 2000 and 1999 were estimated at $14.60, $16.89 and $14.15, respectively, on the date of grant, using the Black-Scholes option-pricing model, which included the following assumptions:

	2001	2000	1999
Dividend yield	1.65%	1.32%	1.27%
Volatility	37.59%	34.31%	29.59%
Risk-free interest rate	5.01%	6.45%	4.93%
Expected life	5 years	4 years	4 years

Changes in options outstanding under the plans were as follows:

	Shares subject to option	Option price range per share	Weighted average exercise price
January 1, 1999	6,834,525	$14.77 — $47.03	$32.43
Granted	2,816,480	49.09 — 69.75	50.50
Exercised	(2,216,558)	14.77 — 46.00	31.74
Cancelled	(93,590)	26.21 — 26.63	48.99
December 31, 1999	7,340,857	$15.13 — $69.75	$39.35
Granted	2,626,785	37.63 — 53.03	51.41
Exercised	(243,499)	15.13 — 42.31	28.78
Cancelled	(392,630)	20.67 — 62.59	46.77
December 31, 2000	9,331,513	$15.13 — $69.75	$42.75
Granted	4,245,465	40.42 — 49.14	41.31
Exercised	(346,266)	15.13 — 42.31	27.52
Cancelled	(159,736)	33.67 — 53.03	49.40
December 31, 2001	13,070,976	$20.67 — $69.75	$42.77

At December 31, 2001, there were 761,239 SARs outstanding with no stock options attached. The company has reserved 8,397,409 shares for future awards at December 31, 2001. In addition, 295,416 shares of Class A common shares were reserved for future issue, contingent upon attainment of certain performance goals and future service and 342,476 shares have been earned but deferred at December 31, 2001.

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

		Options outstanding		Options exercisable	
Range of exercise price	Number outstanding at 12/31/01	Weighted average remaining life	Weighted average exercise price	Number exercisable at 12/31/01	Weighted average exercise price
$20.67 — $26.21	1,559,150	2.99	$24.06	1,559,150	$24.06
28.54 — 40.47	1,000,900	5.85	34.68	891,198	34.13
40.53 — 40.53	3,093,053	9.01	40.53	—	—
40.75 — 42.31	1,587,170	6.56	42.00	1,332,544	42.24
42.84 — 48.13	1,091,926	8.57	45.47	712,896	45.11
49.09 — 49.09	1,857,310	6.94	49.09	1,352,993	49.09
49.14 — 51.09	443,100	7.92	50.46	266,666	51.09
53.03 — 53.03	2,199,117	8.05	53.03	785,303	53.03
53.62 — 65.41	221,250	7.54	62.21	147,493	62.21
69.75 — 69.75	18,000	7.34	69.75	18,000	69.75
$20.67 — $69.75	13,070,976	7.19	$42.77	7,066,243	$40.83

The weighted average number of shares exercisable and the weighted average exercise prices were 5,466,455 shares at a price of $36.87 for December 31, 2000, and 4,524,667 shares at a price of $32.53 for December 31, 1999.

The company also maintains a shareholder-approved Management Incentive Unit Award Plan. Under the plan, participating executives are awarded incentive units. When dividends are paid on Class A common shares, dividends are awarded to unit holders, one-half of which is paid in cash, the remaining half of which is credited to the participant's account in the form of so-called Class A common share equivalents. The fair value of accumulated common share equivalents is paid in cash upon the participant's retirement. The number of common share equivalents credited to participants' accounts at December 31, 2001 and 2000, are 347,177 and 399,352, respectively.

Note 15-Income Taxes

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

In millions	2001	2000	1999
United States	$ 88.7	$674.8	$694.4
Non-U.S.	154.6	155.8	175.8
Total	$243.3	$830.6	$870.2

The provision for income taxes was as follows:

In millions	2001	2000	1999
Current tax expense:			
United States	$(24.1)	$228.4	$227.7
Non-U.S.	46.5	43.5	37.6
Total current	22.4	271.9	265.3
Deferred tax expense:			
United States	(15.2)	17.5	26.4
Non-U.S.	(10.1)	(5.0)	15.4
Total deferred	(25.3)	12.5	41.8
Total provision for income taxes	$ (2.9)	$284.4	$307.1

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

	Percent of pretax income		
	2001	2000	1999
Statutory U.S. rate	35.0%	35.0%	35.0%
Increase (decrease) in rates resulting from:			
Amortization of goodwill	10.5	2.8	2.0
Non-U.S. operations	(31.6)	(0.8)	(1.0)
Foreign sales corporation	(9.5)	(3.1)	(1.7)
State and local income taxes, net of U.S. tax	(3.8)	2.2	2.1
Puerto Rico - Sec 936 Credit	(6.0)	(1.7)	(1.7)
Other	4.2	(0.2)	0.6
Effective tax rate	(1.2)%	34.2%	35.3%

A summary of the deferred tax accounts at December 31, follows:

In millions	2001	2000	1999
Current deferred assets and (liabilities):			
Differences between book and tax bases of inventories and receivables	$ 34.2	$ 34.4	$ 31.0
Differences between book and tax expense for other employee related benefits and allowances	67.3	75.8	43.6
Other reserves and valuation allowances in excess of tax deductions	71.7	26.3	42.0
Other differences between tax and financial statement values	21.7	9.2	(11.1)
Gross current deferred net tax assets	194.9	145.7	105.5
Noncurrent deferred tax assets and (liabilities):			
Postretirement and postemployment benefits other than pensions in excess of tax deductions	300.0	312.6	287.3
Other reserves in excess of tax expense	153.3	125.9	119.2
Tax depreciation/amortization in excess of book depreciation/amortization	(511.7)	(166.9)	(128.1)
Pension contributions in excess of book expense	(41.0)	(44.2)	(38.5)
Taxes provided for undistributed accumulated subsidiary earnings	(5.8)	(22.5)	(22.5)
Gross noncurrent deferred net tax assets and (liabilities)	(105.2)	204.9	217.4
Less: deferred tax valuation allowances	(64.9)	(52.0)	(37.9)
Total net deferred tax assets	$ 24.8	$ 298.6	$ 285.0

A total of $5.8 million of deferred taxes have been provided for a portion of the undistributed earnings of the company's subsidiaries. As to the remainder, these earnings have been, and under current plans, will continue to be reinvested and it is not practicable to estimate the amount of additional taxes which may be payable upon distribution. During 2001, the company determined that it no longer required deferred taxes of $16.7 million, which had been recorded with respect to such earnings in prior years and accordingly reduced the deferred tax liability recording a current tax benefit for such amount.

As a result of the reincorporation from New Jersey to Bermuda, the company recorded a one time tax benefit of $59.8 million related to the utilization of previously limited foreign tax credits and net operating loss carryforwards in certain non-U.S. jurisdictions.

Note 16-Postretirement Benefits Other Than Pensions

The company sponsors several postretirement plans that cover most U.S. employees. These plans provide for health care benefits and in some instances, life insurance benefits. Postretirement health plans are contributory and are adjusted annually. Life insurance plans are noncontributory. When fulltime employees retire from the company between age 55 and 65, most are eligible to receive, at a cost to the retiree, certain health care benefits identical to those available to active employees. After attaining age 65, an eligible retiree's health care benefit coverage becomes coordinated with Medicare. The company

funds the benefit costs principally on a pay-as-you-go basis. The company retained retiree health care benefits as a liability for all qualified retired IDP employees.

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

In millions	2001	2000
Change in benefit obligations:		
Benefit obligation at beginning of year	$ 730.0	$ 566.4
Service cost	9.9	9.3
Interest cost	56.1	48.9
Plan participants' contributions	4.3	4.3
Acquisitions	—	140.1
Actuarial losses	181.4	3.1
Benefits paid	(68.6)	(55.2)
Curtailment/special termination benefits	—	13.3
Other	0.5	(0.2)
Benefit obligation at end of year	$ 913.6	$ 730.0
Funded status:		
Plan assets less than benefit obligations	$(913.6)	$(730.0)
Unrecognized:		
Prior service gains	(45.4)	(49.9)
Plan net losses/(gains)	131.4	(55.0)
Accrued costs in the balance sheet	$(827.6)	$(834.9)
Weighted-average assumptions:		
Discount rate	7.25%	7.75%
Current year medical inflation	11.00%	6.75%
Ultimate inflation rate (2008)	5.25%	5.25%

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

In millions	2001	2000	1999
Service cost	$ 9.9	$ 9.3	$ 8.8
Interest cost	56.1	48.9	38.0
Net amortization of unrecognized prior service (gains)	(4.5)	(4.4)	(4.2)
Net periodic postretirement benefits cost	$61.5	$53.8	$42.6

A 1% change in the medical trend rate assumed for postretirement benefits would have the following effects at December 31, 2001:

In millions	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 5.1	$ 4.5
Effect on postretirement benefit obligation	74.3	58.2

Note 17-Pension Plans

The company has noncontributory pension plans covering substantially all U.S. employees. In addition, certain employees in other countries are covered by pension plans. The company's U.S. salaried plans principally provide benefits based on a career average earnings formula. The company's hourly pension plans provide benefits under flat benefit formulas. Non-U.S. plans provide benefits based on earnings and years of service. Most of the non-U.S. plans require employee contributions based on the employee's earnings. In addition, the company maintains other supplemental benefit plans for officers and other key employees. The company's policy is to fund an amount which could be in excess of the pension cost expensed, subject to the limitations imposed by current statutes or tax regulations. The company retained the pension plan liabilities and related plan assets for all vested IDP plan participants.

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

In millions	2001	2000
Change in benefit obligations:		
Benefit obligation at beginning of year	$2,372.7	$1,934.7
Service cost	47.0	42.6
Interest cost	170.6	151.7
Employee contributions	4.4	4.7
Amendments	8.1	1.3
Acquisitions	10.8	386.1
Expenses paid	(3.6)	(2.3)
Actuarial losses/(gains)	99.1	(17.9)
Benefits paid	(201.1)	(157.1)
Foreign exchange impact	(17.5)	(44.4)
IDP obligation	—	65.7
Curtailments and other	5.0	7.6
Benefit obligation at end of year	$2,495.5	$2,372.7
Change in plan assets:		
Fair value at beginning of year	$2,640.0	$2,246.9
Actual return on assets	10.8	106.4
Company contributions	64.2	27.5
Employee contributions	4.4	4.7
Acquisitions	12.7	407.2
Expenses paid	(3.6)	(1.9)
Benefits paid	(204.6)	(160.8)
Foreign exchange impact	(14.2)	(40.8)
Assets from IDP	—	50.8
Other	0.1	—
Fair value of assets at end of year	$2,509.8	$2,640.0

In millions	2001	2000
Funded status:		
Plan assets in excess of benefit obligations	$ 14.3	$267.3
Unrecognized:		
Net transition asset	5.1	19.0
Prior service costs	52.4	50.6
Plan net losses (gains)	119.5	(238.5)
Net amount recognized	$191.3	$ 98.4
Costs included in the balance sheet:		
Prepaid benefit cost	$270.9	$196.9
Accrued benefit liability	(79.6)	(103.3)
Intangible asset	—	4.8
Net amount recognized	$191.3	$ 98.4
Weighted-average assumptions:		
Discount rate:		
U.S. plans	7.25%	7.75%
International plans	6.00%	6.00%
Rate of compensation increase:		
U.S. plans	5.00%	5.50%
International plans	3.50%	3.50%
Expected return on plan assets:		
U.S. plans	9.00%	9.00%
International plans	7.75%	7.75%

The components of the company's pension related costs (income) for the years ended December 31, include the following:

In millions	2001	2000	1999
Service cost	$ 47.0	$ 42.6	$ 42.0
Interest cost	170.6	151.7	132.1
Expected return on plan assets	(226.7)	(213.5)	(183.0)
Net amortization of unrecognized:			
Prior service costs	6.0	6.1	5.9
Transition amount	0.2	0.7	0.7
Plan net (gains)/losses	(4.6)	(8.5)	2.9
Net pension (income) cost	(7.5)	(20.9)	0.6
Curtailment losses	11.2	11.5	0.4
Net pension cost (income) after curtailments	$ 3.7	$ (9.4)	$ 1.0

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations more than plan assets were $435.7 million, $397.1 million and $317.2 million, respectively, as of December 31, 2001 and $199.5 million, $161.5 million and $75.8 million, respectively, as of December 31, 2000.

Plan investment assets of U.S. plans are balanced between equity securities and cash equivalents or debt securities. Assets of non-U.S. plans are invested principally in equity securities.

Most of the company's U.S. employees are covered by savings and other defined contribution plans. Employer contributions and costs are determined based on criteria specific to the individual plans and amounted to approximately $44.0 million, $44.7 million and $25.1 million in 2001, 2000 and 1999, respectively. The company's costs relating to non-U.S. defined contribution plans, insured plans and other non-U.S. benefit plans were $6.5 million, $6.7 million and $4.1 million in 2001, 2000 and 1999, respectively.

Note 18-Business Segment Information

During 2001, the company expanded its Industrial Solutions Sector to include Dresser-Rand, renamed its Bearings and Components Segment to Engineered Solutions and aggregated its tools and related production equipment operations, previously reported as part of the Industrial Products Segment, in the Air and Productivity Solution Segment. Club Car has been added to the Infrastructure Segment.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the operating segments' results are prepared on a management basis that is consistent with the manner in which the company disaggregates financial information for internal review and decision making. The company evaluates performance based on operating income and operating income contribution rates. Intercompany sales transactions are entirely contained within each segment and are eliminated at the segment level. A description of the company's reportable segments is as follows:

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

Industrial Solutions is composed of a group of businesses focused on providing solutions for customers to enhance industrial efficiency. Industrial Solutions consists of the following:

- Air and Productivity Solutions is engaged in the design, manufacture, sale and service of air compressors, fluid products, microturbines, and industrial tools. It comprises Industrial Air Solutions and Productivity Solutions, and has been aggregated based primarily on the nature of products and services, and the nature of their production processes.

- Dresser-Rand is engaged in the design, manufacture, sale and service of gas compressors, gas and steam turbines, and generators.

- Engineered Solutions is engaged in the design, manufacture, sale and service of precision bearing products and motion control components and assemblies. The segment includes both Automotive and Industrial Engineered Solutions. Operating income in 2001 includes a $25 million benefit from payments received from the U.S. Customs for antidumping claims.

Infrastructure is engaged in the design, manufacture, sale and service of skid-steer loaders, mini-excavators, electric and gasoline powered golf and utility vehicles, portable compressors and light

towers, road construction and repair equipment, and a broad line of drills and drill accessories. It comprises Bobcat, Club Car, Portable Power, Road Development, and Specialty Equipment.

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

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

In millions	2001	2000	1999
Sales			
United States	$6,124.8	$5,989.4	$4,719.3
Non-U.S.	3,557.2	3,608.2	3,099.7
Total	$9,682.0	$9,597.6	$7,819.0

In millions	2001	2000
Long-lived assets		
United States	$1,352.6	$1,432.1
Non-U.S.	689.3	545.1
Total	$2,041.9	$1,977.2

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

Dollar amounts in millions	2001	2000	1999
Climate Control			
Sales	$ 2,438.2	$ 2,002.4	$ 1,202.6
Operating income	21.7	206.3	166.5
Operating income as % of sales	0.9%	10.3%	13.8%
Depreciation and amortization	148.5	114.5	78.9
Industrial Solutions			
Air and Productivity Solutions			
Sales	1,308.0	1,412.9	1,381.4
Operating income	52.7	162.5	159.3
Operating income as % of sales	4.0%	11.5%	11.5%
Dresser-Rand			
Sales	881.3	834.0	—
Operating income	21.4	4.6	—
Operating income as % of sales	2.4%	0.6%	—
Engineered Solutions			
Sales	1,077.8	1,185.4	1,239.5
Operating income	78.0	159.8	145.8
Operating income as % of sales	7.2%	13.5%	11.8%
Total Industrial Solutions			
Sales	3,267.1	3,432.3	2,620.9
Operating income	152.1	326.9	305.1
Operating income as % of sales	4.7%	9.5%	11.6%
Depreciation and amortization	107.5	105.2	86.2
Infrastructure			
Sales	2,570.3	2,752.5	2,707.3
Operating income	219.7	389.7	416.9
Operating income as % of sales	8.5%	14.2%	15.4%
Depreciation and amortization	66.1	66.4	64.7
Security and Safety			
Sales	1,406.4	1,410.4	1,288.2
Operating income	230.8	271.6	248.4
Operating income as % of sales	16.4%	19.3%	19.3%
Depreciation and amortization	27.8	35.1	39.4
Total sales	$ 9,682.0	$ 9,597.6	$ 7,819.0
Operating income from reportable segments	624.3	1,194.5	1,136.9
Unallocated corporate expenses	(101.1)	(105.1)	(57.2)
Total operating income	$ 523.2	$ 1,089.4	$ 1,079.7
Total operating income as % of sales	5.4%	11.4%	13.8%
Depreciation and amortization from reportable segments	349.9	321.2	269.2
Unallocated depreciation and amortization	12.6	5.9	3.2
Total depreciation and amortization	$ 362.5	$ 327.1	$ 272.4

Note 19-Ingersoll-Rand New Jersey

As part of the reorganization IR-Limited unconditionally guaranteed all of the issued public debt securities of IR-New Jersey. The following condensed consolidated financial information for IR-Limited (Parent), IR-New Jersey (Issuer), and all their other subsidiaries is included so that separate financial statements of IR-New Jersey are not required to be filed with the Securities Exchange Commission. The condensed consolidating financial statements present the Parent and Issuer investments in their subsidiaries using the equity method of accounting.

Condensed Consolidating Balance Sheet

December 31, 2001

(In millions)	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	Total
Current assets:					
Cash and cash equivalents	$ —	$ 23.4	$ 90.6	$ —	$ 114.0
Marketable securities	—	—	7.4	—	7.4
Accounts and notes receivable, net	—	128.3	1,354.6	—	1,482.9
Inventories	—	134.8	1,160.5	—	1,295.3
Prepaid expenses and deferred income taxes	—	57.8	230.4	—	288.2
Accounts and notes receivable affiliates	—	—	2,957.9	(2,957.9)	—
Total current assets	—	344.3	5,801.4	(2,957.9)	3,187.8
Investment in affiliates	5,547.5	12,825.5	8,708.2	(27,081.2)	—
Property, plant and equipment, net	—	238.9	1,394.1	—	1,633.0
Intangible assets, net	—	145.0	5,544.3	—	5,689.3
Note receivable affiliate	3,647.4	—	—	(3,647.4)	—
Other assets	—	196.5	357.1	—	553.6
Total assets	$ 9,194.9	$ 13,750.2	$ 21,805.1	$ (33,686.5)	$ 11,063.7
Current liabilities:					
Accounts payable	$ —	$ 100.8	$ 660.2	$ —	$ 761.0
Accrued expenses and other current liabilities	—	218.5	1,307.8	—	1,526.3
Loans payable	—	449.7	114.0	—	563.7
Accounts and notes payable affiliates	—	2,650.0	307.9	(2,957.9)	—
Total current liabilities	—	3,419.0	2,389.9	(2,957.9)	2,851.0
Long-term debt	—	2,650.6	250.1	—	2,900.7
Deferred income taxes	—	—	170.1	—	170.1
Minority interests	—	—	110.5	—	110.5
Note payable affiliate	—	3,647.4	—	(3,647.4)	—
Other liabilities	—	116.6	998.2	—	1,114.8
	—	9,833.6	3,918.8	(6,605.3)	7,147.1
Shareholders' equity:					
Class A common shares	168.0	—	—	—	168.0
Class B common shares	135.3	—	—	(135.3)	—
Common shares	—	—	2,362.8	(2,362.8)	—
Other shareholders' equity	8,891.6	4,039.4	15,787.8	(24,648.8)	4,070.0
Accumulated other comprehensive income	—	(122.8)	(264.3)	65.7	(321.4)
Total shareholders' equity	9,194.9	3,916.6	17,886.3	(27,081.2)	3,916.6
Total liabilities and equity	$ 9,194.9	$ 13,750.2	$ 21,805.1	$ (33,686.5)	$ 11,063.7

Condensed Consolidating Balance Sheet

December 31, 2000

(In millions)	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	Total
Current assets:					
Cash and cash equivalents	$ —	$ —	$ 97.0	$ —	$ 97.0
Marketable securities	—	120.3	10.1	—	130.4
Accounts and notes receivable, net	—	154.7	1,516.3	—	1,671.0
Inventories	—	120.5	1,121.8	—	1,242.3
Prepaid expenses and deferred income taxes	—	223.7	11.8	—	235.5
Accounts and notes receivable affiliates	—	—	2,028.0	(2,028.0)	—
Total current assets	—	619.2	4,785.0	(2,028.0)	3,376.2
Investment in affiliates	—	8,281.7	—	(8,281.7)	—
Property, plant and equipment, net	—	243.5	1,409.9	—	1,653.4
Intangible assets, net	—	112.5	5,259.7	—	5,372.2
Deferred income taxes	—	—	152.9	—	152.9
Other assets	—	99.7	398.2	—	497.9
Total assets	$ —	$ 9,356.6	$ 12,005.7	$ (10,309.7)	$ 11,052.6
Current liabilities:					
Accounts payable	$ —	$ 123.2	$ 558.2	$ —	$ 681.4
Accrued expenses and other current liabilities	—	508.7	1,052.3	—	1,561.0
Loans payable	—	1,880.6	245.5	—	2,126.1
Accounts and notes payable affiliates	—	2,028.0	—	(2,028.0)	—
Total current liabilities	—	4,540.5	1,856.0	(2,028.0)	4,368.5
Long-term debt	—	1,306.6	233.8	—	1,540.4
Minority interests	—	—	113.4	—	113.4
Other liabilities	—	28.3	1,118.3	—	1,146.6
	—	5,875.4	3,321.5	(2,028.0)	7,168.9
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the company	—	—	402.5	—	402.5
Shareholders' equity:					
Common stock	—	343.1	164.9	(164.9)	343.1
Other shareholders' equity	—	3,398.7	8,368.3	(8,368.3)	3,398.7
Accumulated other comprehensive income	—	(260.6)	(251.5)	251.5	(260.6)
Total shareholders' equity	—	3,481.2	8,281.7	(8,281.7)	3,481.2
Total liabilities and equity	$ —	$ 9,356.6	$ 12,005.7	$ (10,309.7)	$ 11,052.6

Condensed Consolidating Income Statement

For the year ended December 31, 2001

(In millions)	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	$ —	$ 1,200.0	$ 8,482.0	$ —	$ 9,682.0
Cost of goods sold	—	892.5	6,719.0	—	7,611.5
Selling and administrative expenses	—	245.3	1,208.9	—	1,454.2
Restructuring charges	—	25.5	67.6	—	93.1
Operating income	—	36.7	486.5	—	523.2
Equity earnings in affiliates (net of tax)	—	336.9	—	(336.9)	—
Interest expense	—	(203.0)	(50.0)	—	(253.0)
Intercompany interest and fees	—	(17.6)	17.6	—	—
Other income (expense), net	—	(85.0)	78.2	—	(6.8)
Minority interests	—	—	(20.1)	—	(20.1)
Earnings before income taxes	—	68.0	512.2	(336.9)	243.3
(Benefit)/provision for income taxes	—	(178.2)	175.3	—	(2.9)
Net earnings	$ —	$ 246.2	$ 336.9	$ (336.9)	$ 246.2

Condensed Consolidating Income Statement

For the year ended December 31, 2000

(In millions)	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	$ —	$ 1,302.2	$ 8,295.4	$ —	$ 9,597.6
Cost of goods sold	—	845.1	6,296.3	—	7,141.4
Selling and administrative expenses	—	212.8	1,066.8	—	1,279.6
Restructuring charges	—	35.5	51.7	—	87.2
Operating income	—	208.8	880.6	—	1,089.4
Equity earnings in affiliates (net of tax)	—	725.8	—	(725.8)	—
Interest expense	—	(219.3)	(36.0)	—	(255.3)
Intercompany interest and fees	—	(42.1)	42.1	—	—
Other income (expense), net	—	(68.0)	103.8	—	35.8
Minority interests	—	—	(39.3)	—	(39.3)
Earnings before income taxes	—	605.2	951.2	(725.8)	830.6
(Benefit)/provision for income taxes	—	(64.2)	348.6	—	284.4
Earnings from continuing operations	—	669.4	602.6	(725.8)	546.2
Discontinued operations (net of tax)	—	—	123.2	—	123.2
Net earnings	$ —	$ 669.4	$ 725.8	$ (725.8)	$ 669.4

Condensed Consolidating Income Statement

For the year ended December 31, 1999

(In millions)	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	Total
Net sales	$ —	$ 1,340.0	$ 6,479.0	$ —	$ 7,819.0
Cost of goods sold	—	944.9	4,728.3	—	5,673.2
Selling and administrative expenses	—	240.8	825.3	—	1,066.1
Operating income	—	154.3	925.4	—	1,079.7
Equity earnings in affiliates (net of tax)	—	640.4	—	(640.4)	—
Interest expense	—	(153.7)	(29.8)	—	(183.5)
Intercompany interest and fees	—	(34.9)	34.9	—	—
Other income (expense), net	—	(26.5)	29.6	—	3.1
Minority interests	—	—	(29.1)	—	(29.1)
Earnings before income taxes	—	579.6	931.0	(640.4)	870.2
(Benefit)/provision for income taxes	—	(11.5)	318.6	—	307.1
Earnings from continuing operations	—	591.1	612.4	(640.4)	563.1
Discontinued operations (net of tax)	—	—	28.0	—	28.0
Net earnings	$ —	$ 591.1	$ 640.4	$ (640.4)	$ 591.1

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2001

(In millions)	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by operating activities	$ —	$ 213.0	$ 388.6	$ —	$ 601.6
Cash flows from investing activities:					
Capital expenditures	—	(21.5)	(179.1)	—	(200.6)
Proceeds from sale of property, plant and equipment	—	—	41.7	—	41.7
Acquisitions, net of cash	—	(9.2)	(149.1)	—	(158.3)
Proceeds from business dispositions	—	—	17.5	—	17.5
Decrease /(increase) in marketable securities	—	103.9	(6.7)	—	97.2
Other, net	—	—	15.7	—	15.7
Net cash provided by/(used in) investing activities	—	73.2	(260.0)	—	(186.8)
Cash flows from financing activities:					
Net change in debt	—	(86.9)	(127.2)	—	(214.1)
Proceeds from the exercise of stock options	—	9.7	—	—	9.7
Dividends paid	—	(113.1)	—	—	(113.1)
Purchase of treasury stock	—	(72.5)	—	—	(72.5)
Net cash (used in)/provided by financing activities	—	(262.8)	(127.2)	—	(390.0)
Effect of exchange rate changes on cash and and cash equivalents	—	—	(7.8)	—	(7.8)
Net increase/(decrease) in cash and cash equivalents	—	23.4	(6.4)	—	17.0
Cash and cash equivalents - beginning of period	—	—	97.0	—	97.0
Cash and cash equivalents - end of period	$ —	$ 23.4	$ 90.6	$ —	$ 114.0

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2000

(In millions)	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	Total
cash (used in)/provided by operating activities	$ —	$ (792.4)	$ 1,409.1	$ 120.3	$ 737.0
Cash flows from investing activities:					
Capital expenditures	—	(19.5)	(181.8)	—	(201.3)
Proceeds from sale of property, plant and equipment	—	2.7	25.8	—	28.5
Acquisitions, net of cash	—	—	(2,288.0)	—	(2,288.0)
Proceeds from business dispositions	—	—	977.3	—	977.3
Decrease/(increase) in marketable securities	—	120.3	(6.3)	(120.3)	(6.3)
Other, net	—	—	12.2	—	12.2
Net cash provided by/(used in) investing activities	—	103.5	(1,460.8)	(120.3)	(1,477.6)
Cash flows from financing activities:					
Net change in debt	—	794.1	78.3	—	872.4
Proceeds from the exercise of stock options	—	8.3	—	—	8.3
Dividends paid	—	(109.8)	—	—	(109.8)
Purchase of treasury stock	—	(121.3)	—	—	(121.3)
Net cash provided by financing activities	—	571.3	78.3	—	649.6
Net cash used in discontinued operations	—	—	(22.1)	—	(22.1)
Effect of exchange rate changes on cash and cash equivalents	—	—	(12.8)	—	(12.8)
Net decrease in cash and cash equivalents	—	(117.6)	(8.3)	—	(125.9)
Cash and cash equivalents - beginning of period	—	117.6	105.3	—	222.9
Cash and cash equivalents - end of period	$ —	$ —	$ 97.0	$ —	$ 97.0

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 1999

(In millions)	IR-Limited	IR-New Jersey	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by operating activities	$ —	$ 663.2	$191.5	$ —	$854.7
Cash flows from investing activities:					
Capital expenditures	—	(36.1)	(154.4)	—	(190.5)
Proceeds from sale of property, plant and equipment	—	0.3	30.1	—	30.4
Acquisitions, net of cash	—	—	(161.2)	—	(161.2)
Proceeds from business dispositions	—	23.8	61.0	—	84.8
Decrease in marketable securities	—	—	1.5	—	1.5
Other, net	—	—	(2.0)	—	(2.0)
Net cash (used in) investing activities	—	(12.0)	(225.0)	—	(237.0)
Cash flows from financing activities:					
Net change in debt	—	(292.7)	25.2	—	(267.5)
Proceeds from the exercise of stock options	—	70.2	—	—	70.2
Dividends paid	—	(105.3)	—	—	(105.3)
Purchase of treasury stock	—	(205.8)	—	—	(205.8)
Other, net	—	—	63.3	—	63.3
Net cash (used in)/provided by financing activities	—	(533.6)	88.5	—	(445.1)
Net cash provided by discontinued operations	—	—	14.6	—	14.6
Effect of exchange rate changes on cash and and cash equivalents	—	—	(7.8)	—	(7.8)
Net increase in cash and cash equivalents	—	117.6	61.8	—	179.4
Cash and cash equivalents - beginning of period	—	—	43.5	—	43.5
Cash and cash equivalents - end of period	$ —	$ 117.6	$105.3	$ —	$222.9

Report of Management

The accompanying consolidated financial statements have been prepared by the company. They conform with generally accepted accounting principles and reflect judgments and estimates as to the expected effects of incomplete transactions and events being accounted for currently. The company believes that the accounting systems and related controls that it maintains are sufficient to provide reasonable assurance that assets are safeguarded, transactions are appropriately authorized and recorded, and the financial records are reliable for preparing such financial statements. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting controls must be related to the benefits derived. The company maintains an internal audit function that is responsible for evaluating the adequacy and application of financial and operating controls, and for testing compliance with company policies and procedures.

The Audit Committee of the board of directors is comprised entirely of individuals who are not employees of the company. This committee meets periodically with the independent auditors, the internal auditors and management to consider audit results and to discuss significant internal accounting controls, auditing and financial reporting matters. The Audit Committee recommends to the board of directors the selection of the independent auditors, who are then appointed by the shareholders.

The independent auditors are engaged to perform an audit of the consolidated financial statements in accordance with generally accepted auditing standards. Their report follows.

Herbert L. Henkel
Chairman, President and Chief Executive Officer

Report of Independent Accountants

PricewaterhouseCoopers
Dorchester House
7 Church Street
Hamilton HM 11
Bermuda

February 5, 2002

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

In our opinion, the accompanying Consolidated Balance Sheet and the related Consolidated Statements of Income, Shareholders' Equity and Cash Flows present fairly, in all material respects, the financial position of Ingersoll-Rand Company Limited and its subsidiaries, the successor company to Ingersoll-Rand Company, at December 31, 2001, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers

Report of Independent Accountants

PricewaterhouseCoopers LLP
400 Campus Drive
Florham Park, NJ 07932
U.S.A.

February 6, 2001

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

In our opinion, the accompanying Consolidated Balance Sheet and the related Consolidated Statements of Income, Shareholders' Equity and Cash Flows present fairly, in all material respects, the financial position of Ingersoll-Rand Company Limited and its subsidiaries, the successor company to Ingersoll-Rand Company, at December 31, 2000 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Quarterly Financial Data

Summarized unaudited quarterly financial data for 2001 and 2000 follows:

In millions except per share amounts

2001	Net sales	Cost of goods sold	Operating income	Net earnings	Basic earnings per common share	Diluted earnings per common share
First quarter	$2,291.3	$1,787.3	$ 138.6	$ 49.3	$0.31	$0.31
Second quarter	2,459.3	1,933.3	162.4	62.9	0.38	0.38
Third quarter	2,374.9	1,865.0	115.5	33.9	0.20	0.20
Fourth quarter	2,556.5	2,025.9	106.7	100.1	0.60	0.59
Year 2001	$9,682.0	$7,611.5	$ 523.2	$246.2	$1.49	$1.48
2000						
First quarter	$2,163.2	$1,607.0	$ 258.7	$136.1	$0.84	$0.83
Second quarter	2,476.8	1,829.0	333.3	175.3	1.09	1.08
Third quarter	2,504.6	1,883.9	235.4	251.9	1.56	1.55
Fourth quarter	2,453.0	1,821.5	262.0	106.1	0.66	0.66
Year 2000	$9,597.6	$7,141.4	$1,089.4	$669.4	$4.15	$4.12

All amounts shown have been restated to reflect adoption of Emerging Issues Task Force Issue No. 00-25, “Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor’s Products” in the fourth quarter of 2001.

Share Prices and Dividends

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

	Common Stock		
2001	High	Low	Dividend
First quarter	$48.84	$37.75	$0.17
Second quarter	50.28	38.20	0.17
Third quarter	45.20	30.41	0.17
Fourth quarter	$45.66	$32.50	$0.17
2000	**High**	**Low**	**Dividend**
First quarter	$57.75	$34.13	$0.17
Second quarter	51.38	39.38	0.17
Third quarter	48.75	31.88	0.17
Fourth quarter	$44.81	$29.50	$0.17

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