



Ingersoll-Rand Company

2000 Financial Report

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Selected Financial Data

In millions except per share amounts

At and for the years ended:

December 31	2000	1999	1998	1997	1996
Net sales	\$ 8,798.2	\$7,842.6	\$7,540.2	\$6,374.2	\$5,973.5
Earnings from continuing operations	546.2	563.1	481.6	367.6	342.3
Total assets	10,528.5	8,400.2	7,926.4	8,033.8	5,232.2
Long-term debt	1,540.1	2,113.3	2,166.0	2,528.0	1,163.8
Shareholders' equity	3,495.2	3,083.0	2,730.1	2,364.8	2,109.9
Basic earnings per share:					
Continuing operations	\$3.39	\$3.44	\$2.94	\$2.25	\$2.12
Discontinued operations	0.76	0.17	0.17	0.08	0.10
Diluted earnings per share:					
Continuing operations	\$3.36	\$3.40	\$2.91	\$2.23	\$2.11
Discontinued operations	0.76	0.17	0.17	0.08	0.10
Dividends per common share	0.68	0.64	0.60	0.57	0.52

Management's Discussion and Analysis

Net earnings for 2000 were \$669.4 million, or diluted earnings per share of \$4.12. For the year net earnings from continuing operations were \$546.2 million or diluted earnings per share of \$3.36. Net earnings from discontinued operations contributed \$123.2 million or \$0.76 diluted earnings per share.

During 2000, the following significant events occurred that affect year-to-year comparisons:

- On June 14, 2000, the company acquired Hussmann International, Inc. (Hussmann), for approximately \$1.7 billion in cash including 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.
- In early 2000, the company completed the purchase of Dresser-Rand Company (D-R) by acquiring the joint venture partner's 51% share. The company had been reporting the results of D-R as discontinued operations. Since the sale of D-R was not completed within a year, D-R is now presented for all periods as results from assets held for sale, net of tax.
- In order to reposition itself for the future, the company began a program to restructure and initiate productivity investments across its worldwide operations. The total pretax cost of this program will be approximately \$325 million and will include plant rationalizations, organizational realignments consistent with the company's new market-based structure and the consolidation of back office processes. Every business sector has been impacted by the program, which will result in closing over 50 facilities, 40% of which are factories, and an 8% reduction in the workforce.
- The company implemented Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" in the fourth quarter of 2000. This required the company to include the revenues billed for shipping and handling in net sales. The effect was to increase net sales and cost of goods sold by \$180.6 million in 2000, \$175.9 million in 1999, and \$155.5 million in 1998.

Sales for 2000 were \$8,798.2 million, an increase of approximately 12% over the \$7,842.6 million in 1999. This increase includes the favorable effect of the Hussmann acquisition. Excluding Hussmann, sales increased approximately 3%.

Cost of goods sold, and selling and administrative expenses in 2000 include 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. The following table shows the 2000 results adjusted for productivity investments:

<i>In millions</i>	Reported results	Productivity investments	Adjusted results
Cost of goods sold	\$6,461.0	\$22.0	\$6,439.0
Selling and administrative expenses	1,146.7	28.0	1,118.7

Cost of goods sold in 2000 was 73.4% of sales as compared to 72.6% in 1999. Excluding productivity investments, the ratio was 73.2% of sales. The increase in the ratio of cost of goods sold to sales was due to the inclusion of Hussmann, which historically has had a higher ratio than the company has maintained.

Selling and administrative expenses were 13.0% of sales in 2000 as compared to 13.4% for 1999. Adjusted selling and administrative expenses were 12.7% of sales in 2000. The decrease in the ratio reflects that Hussmann's ratio was historically lower than the company's.

Restructuring charges for 2000 were \$76.2 million. The restructuring program began in the third quarter of 2000 and is expected to be substantially complete by the end of 2001. Restructuring charges of \$65.8 million consist of severance and other employee termination costs, while facility exit costs including lease terminations totaled \$10.4 million. Charges related to employee severance and other employee termination costs cover approximately 2,100 employees, of which 55% were terminated as of December 31, 2000.

Operating income for the year totaled \$1,114.3 million, a slight increase over 1999 operating income of \$1,099.3 million. Restructuring and productivity investments charges included in operating income were \$76.2 million and \$50.0 million, respectively. Excluding restructuring and productivity investments, as well as the increase due to the inclusion of the Hussmann acquisition, operating income increased by approximately 6%.

Interest expense for the year totaled \$253.7 million versus \$203.1 million for 1999. The increase is due to the impact of the debt incurred to purchase Hussmann. Interest expense from the debt required to purchase D-R is included in results from assets held for sale, net of tax.

Other income (expense), net, includes foreign exchange activities, equity in earnings of partially owned affiliates, and other miscellaneous income and expense items. In 2000, these activities resulted in a net expense of \$15.3 million, a favorable change of \$7.0 million from the \$22.3 million net expense reported in 1999. This positive change is attributable to the gains from the sale of three joint ventures, partially offset by higher foreign exchange losses.

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. Minority interest charges increased due to higher earnings in jointly owned entities in which the company has the majority ownership, while charges for equity-linked securities were comparable.

Results from assets held for sale, net of tax, contains the unsold portion of D-R. During the third quarter, the results from D-R were reclassified from discontinued operations to results from assets held for sale since its sale was not completed within a year. The company's portion of the net earnings of D-R for 2000 was \$23.3 million. These earnings include a \$30.2 million after-tax gain on the sale of D-R's compression services business, after-tax restructuring charges and productivity investments of \$9.9 million, interest expense net of tax on acquisition debt, and a foreign sales corporation tax benefit.

The company's effective tax rate for continuing operations was 34.1% in 2000 and 34.8% in 1999. The company's effective tax rate for continuing operations excluding D-R and restructuring and productivity

investments charges was 34.8% in 2000 and 35.5% in 1999. The effective tax rate in 2000 includes tax credits generated by the company's foreign sales corporation and other ongoing tax planning initiatives. The variance between the company's rate and the statutory rate of 35.0% is primarily due to lower tax rates associated with foreign earnings, the foreign sales corporation, tax benefits associated with income in Puerto Rico, offset by the effect of state and local taxes and the nondeductibility of goodwill.

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 (See Note 4 to the Consolidated Financial Statements).

Outlook

The world economy in 2001 is difficult to predict. This is especially true in the United States, where economic activity has declined in the last several months of 2000. Declines have occurred in key markets, particularly automotive, truck and trailer, and road development. Construction markets have stayed steady, but it is expected that they will also decline in the first half of 2001. Stronger results are expected from the air solutions, and security and safety businesses. The company expects its revenue to be up slightly, driven by new product introductions. The company's new product introductions scheduled for 2001 include electronic access products, new compact equipment offerings, a safe tire mounting system, new climate control offerings as well as a 70 kilowatt microturbine. The company expects Hussmann to add to earnings since it will be included for a full year. The company also expects to receive the initial benefit from productivity investments. The company anticipates pricing pressure in certain end-markets and product mix changes to negatively impact both revenue growth and earnings. It is expected that the company will spend about 6 cents per share to commercialize the PowerWorks™ microturbine product line.

Another significant factor in 2001 will be the conversion of the equity-linked securities in May. This will add approximately 8 million shares to the total number of outstanding shares of common stock, which will cause dilution of earnings per share.

The company believes that 2001 will be a challenging year which will produce another strong earnings performance.

Review of Business Segments

Climate Control

The Climate Control Sector includes Thermo King® transport temperature control equipment, and Hussmann® display case refrigeration. The sector's revenues for 2000 totaled \$2,021.1 million compared with \$1,221.8 million in 1999. The sector's revenues increased approximately 65% due to the inclusion of Hussmann, which was acquired on June 14, 2000. Operating income for the year was \$206.4 million, which included restructuring charges of \$3.6 million and productivity investments of \$6.9 million. Operating income for 1999 totaled \$166.5 million. During 2000, the Thermo King business was adversely affected by a severe decline in the North American truck and trailer market, continued weak truck and trailer results in Europe, and the unfavorable effect of currency. However, the bus air conditioning and sea-going container businesses improved substantially. Hussmann's operating results were consistent with expectations, but reduced capital spending by several major supermarket chains affected revenues.

Operating margins for the sector declined from 13.6% to 10.2% due to the inclusion of Hussmann's results, the decline in truck and trailer market and the unfavorable effect of foreign currency.

Industrial Productivity

The Industrial Productivity Sector is composed of a group of businesses focused on providing solutions for customers to enhance industrial efficiency. Reported revenues of \$3,025.0 million increased slightly from those reported for 1999 of \$2,991.1 million. Operating income was \$365.9 million, which included \$28.0 million of restructuring charges and \$8.1 million of productivity investments charges. Excluding these charges, operating income was \$402.0 million, an increase of 15.4% from \$348.5 million in 1999. This increase was primarily due to the improved results in the Air Solutions, and Bearings and Components businesses. The Industrial Productivity Sector consists of three segments:

- Air Solutions, which provides equipment and services for compressed air systems, reported sales of \$859.5 million for the year an improvement of 12.5% compared to 1999. Operating income increased by approximately 21.5%, excluding the effect of restructure charges of \$10.5 million and productivity investments of \$4.3 million. The business' performance benefited primarily from the increased emphasis on the aftermarket business and ongoing cost and expense reduction activity.
- Bearings and Components provides motion control technologies to the automotive and industrial markets. Revenues for the year declined slightly to \$1,185.3 million, from \$1,239.5 million for 1999, due to lower volumes in the automotive market. Operating income improved by 9.7% including restructuring and other charges. Significant ongoing cost and expense reduction activities and higher aftermarket revenues contributed to this improvement. Restructuring charges were \$11.5 million for this segment, while charges for productivity investments were \$1.3 million. The downturn in the production of light trucks and sport-utility vehicles affected the fourth-quarter 2000 revenues of this business.
- Industrial Products includes Club Car[®] golf cars and utility vehicles, tools and related industrial production equipment. Reported revenues of \$980.2 million for the year decreased slightly, compared to \$987.3 million in 1999. Excluding last year's revenues from the Automation Division (sold in the fourth quarter of 1999), revenues increased by 6.7%. Operating income of \$112.4 million for the year includes charges for restructuring of \$6.0 million and productivity investments of \$2.5 million. Lower margins resulted from cost pressures in the European industrial business and the unfavorable effects of currency.

Infrastructure

The Infrastructure Sector includes Bobcat[®] compact equipment, road pavers and compactors; portable power products, and drilling equipment. This sector's revenues for the year totaled \$2,341.7 million, versus \$2,341.5 million for 1999. Bobcat's revenue improvement due to volume gains was offset by lower sales in the balance of the sector. Operating income of \$375.5 million includes charges for restructuring of \$11.4 million and productivity investments of \$8.5 million. Excluding restructure and productivity investments, operating income increased slightly from the 1999 operating income level of \$393.1 million. Operating margins for the sector were impacted significantly by foreign exchange. Bobcat acquired a new product line and continues to introduce new products. This enables them to maintain market share in the compact equipment market. Portable power revenues declined as slowness in national rental accounts occurred. Road development revenues also declined as domestic market softness outweighed growth in Europe.

Security and Safety

The Security and Safety Sector includes architectural hardware products and electronic access-control technologies. For this sector, revenues increased by 9.5% to \$1,410.4 million, when compared to the prior year. Operating income for 2000 increased to \$271.6 million from \$248.4 million in 1999. This sector's operating income included \$15.1 million and \$8.9 million of charges for restructure and productivity investments, respectively. Revenue growth is attributable to continued strength in both the commercial and residential markets. In addition to higher volumes, profitability is due to productivity improvements and the successful assimilation of recent acquisitions.

Liquidity and Capital Resources

During 2000, the company acquired Hussmann for \$1.7 billion in cash, sold IDP for \$775 million in cash, and acquired full ownership of D-R for \$543 million. The acquisitions of Hussmann and D-R were financed principally by issuing short-term commercial paper and from internally generated cash. The acquisitions of Hussmann and D-R are discussed in Notes 5 and 3, respectively, and the sale of IDP in Note 4, to the Consolidated Financial Statements.

The following table contains several key measures used by management to gauge the company's financial performance:

	2000	1999	1998
Working capital (in millions)	\$(644)	\$1,129	\$737
Current ratio	0.8	1.6	1.5
Debt-to-total capital ratio	48%	42%	44%
Average working capital to net sales	1.5%	11.5%	10.5%
Average days outstanding in receivables	53.3	48.8	51.5
Average months' supply of inventory	2.3	2.4	2.4

Note: Working capital includes assets held for sale.

The company maintains significant operations in foreign countries; 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 foreign 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. (Additional information on the company's use of financial instruments can be found in Note 10 to the Consolidated Financial Statements.)

The following points highlight the financial results and financial condition of the company's operations with the impact of foreign currency translation where appropriate:

- Cash and cash equivalents totaled \$74.4 million at December 31, 2000, a \$148.5 million decrease from the prior year-end balance of \$222.9 million. Cash flows from operating activities provided \$774.1 million, investing activities used \$1,537.2 million and financing activities provided \$647.0 million. Net cash used by discontinued operations was \$22.1 million. Exchange rate changes during 2000 decreased cash and cash equivalents by \$10.3 million.

- Receivables totaled \$1,323.5 million at December 31, 2000, compared to \$988.5 million at the prior year end, a net increase of \$335.0 million. Acquisitions accounted for an increase of \$348.8 million. Receivables increased approximately \$58.0 million due to higher sales activity during the latter part of the fourth quarter, which were offset by reductions caused by exchange rate changes during 2000. The company also sold an additional \$40 million of accounts receivable to a financial institution in 2000. The average days outstanding in receivables was 53.3 days compared to the 1999 level of 48.8 days.
- Inventories amounted to \$1,022.9 million at December 31, 2000, an increase of \$280.8 million from last year's level of \$742.1 million. The net increase in inventories during 2000 is the result of an increase from acquisitions of \$132.7 million, a reduction caused by exchange rate changes during the year of \$27.8 million, and an overall increase in inventories.
- Prepaid expenses totaled \$82.0 million at the end of the year, \$21.3 million higher than the balance at December 31, 1999. The increase is associated with pensions and acquisitions.
- Assets held for sale totaled \$612.4 million. This reflects a decrease of \$187.3 million over the December 31, 1999, balance of \$799.7 million. The account balance at the end of 1999 primarily represented the company's investments in their ventures in IDP and D-R. (See Notes 4 and 3 to the Consolidated Financial Statements.) During the current year, activity in this account included the operating results of the joint ventures, the February 2000 purchase of the remaining 51% interest in D-R for \$543 million, the divestiture of IDP and D-R compression services business as well as the net change in the assets and liabilities of D-R. The company expects to complete the sale of D-R in 2001.
- Deferred income taxes (current) of \$82.0 million at December 31, 2000, represented the deferred tax benefit of the difference between the book and tax values of various current assets and liabilities. The components of the balance are included in Note 17 to the Consolidated Financial Statements.
- Investments in and advances from partially owned equity affiliates at December 31, 2000, totaled \$167.6 million, a decrease of \$30.6 million over the 1999 balance of \$198.2 million. During 2000, the company sold its interests in three partially owned affiliates relating to the manufacture of steering-column assemblies for approximately \$37 million in cash. Income and dividends from the investments in partially owned equity affiliates were \$8.9 million and \$2.8 million, respectively, in 2000. Amounts due from these units were \$10.6 million at December 31, 2000. Currency movements were the primary cause of the remaining change in the account balance.
- Net property, plant and equipment increased by \$287.8 million in 2000 to a year-end balance of \$1,528.0 million. Capital expenditures in 2000 totaled \$186.6 million, and acquisitions, net of dispositions added \$296.9 million. Foreign exchange fluctuations decreased net fixed assets by approximately \$19.4 million. The remaining net decrease was the result of depreciation, and sales and retirements.
- Intangible assets, net, totaled \$5,105.3 million at December 31, 2000, as compared to \$3,726.3 million at December 31, 1999, for a net increase of \$1,379.0 million. The amortization expense for the current year was \$135.4 million. Acquisition activity accounted for \$1.5 billion of the increase with the remainder due to foreign currency translation.

- Deferred income taxes (noncurrent) totaled \$114.1 million at December 31, 2000, an amount that was \$43.9 million lower than the 1999 balance. The components of this amount at December 31, 2000, can be found in Note 17 to the Consolidated Financial Statements.
- Other assets totaled \$290.7 million at year end, an increase of \$81.5 million from the 1999 balance, primarily due to an increase in prepaid pensions.
- Accounts payable and accruals totaled \$1,698.7 million at December 31, 2000, an increase of \$474.3 million from the previous year's balance of \$1,224.4 million. Acquisitions, net of dispositions, accounted for approximately \$388.6 million of the increase. Restructuring charges, and the timing of payrolls and benefits accounted for the additional increase in 2000.
- Loans payable, including current maturities of long-term debt, were \$2,121.8 million at the end of 2000, which reflects a significant increase of \$1,626.3 million from the \$495.5 million level at December 31, 1999. Loans payable at December 31, 2000, included approximately \$742.9 million of current maturities of long-term debt, while only \$73.1 million were included in the prior year-end balance. The additional increase in loans payable was due to acquisitions, principally Hussmann. In February 2001, the company replaced a portion of loans payable with long-term debt carrying an interest rate of 5.75%.
- Long-term debt, excluding current maturities, totaled \$1,540.1 million, a reduction of approximately \$573.2 million from the prior year's balance of \$2,113.3 million. Reductions in long-term debt of \$737.2 million and \$6.4 million represent the reclassification of the current maturities of long-term debt to loans payable and the payments of long-term debt, respectively.
- Postemployment and other benefit liabilities at December 31, 2000, totaled \$824.8 million, an increase of \$19.8 million from the December 31, 1999, balance. Postemployment liabilities include medical and life insurance postretirement benefits, long-term pension and other noncurrent benefit accruals. (See Notes 18 and 19 to the Consolidated Financial Statements for additional information.)
- Minority interest liabilities at December 31, 2000, totaled \$110.5 million, which represent a net increase of \$14.8 million over the balance at the end of the prior year. This liability represents the ownership interests of other entities in certain consolidated subsidiaries of the company.
- Other liabilities (noncurrent) at December 31, 2000, totaled \$188.8 million, an increase of \$27.0 million compared to the balance at December 31, 1999. The increase is associated with acquisitions during 2000. Generally, these accruals cover environmental, insurance, legal and other long-term contractual obligations.
- In May 1997, the board of directors authorized the repurchase of up to 15.0 million shares of the company's stock at management's discretion. A total of 9.9 million shares have been purchased since the inception of the program. During 2000, 3.0 million shares were repurchased. Treasury shares were used during the past year for a small acquisition and in connection with shares issued under stock incentive plans.

Other information concerning the company's financial resources, commitments and plans is as follows:

The average short-term borrowings outstanding, excluding current maturities of long-term debt, were \$1,352.1 million in 2000, compared to \$104.8 million in 1999. The weighted average interest rate during 2000 and 1999 was 6.6%. The maximum amounts outstanding during 2000 and 1999 were \$2,533.8 million and \$422.4 million, respectively.

The company had \$1.3 billion in domestic short-term credit lines and \$750.0 million in long-term credit lines at December 31, 2000, all of which were unused. Additionally, \$602.8 million of foreign credit lines were available for working capital purposes, \$433.3 million of which was unused at the end of the year. These facilities exceed projected requirements for 2000 and provide direct support for commercial paper and indirect support for other financial instruments, such as letters of credit and comfort letters.

In 2000, foreign currency translation adjustments decreased shareholders' equity by \$86.0 million. 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, euro-linked currencies 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 \$210.0 million in 2000 and \$170.0 in 1999. 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, 2000 and 1999, \$210.0 million and \$170.0 million of such receivables, respectively, remained uncollected.

Capital expenditures were \$186.6 million and \$190.5 million in 2000 and 1999, 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 2001 is estimated at approximately \$220 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, 2000, employment totaled 50,855. This represents an increase over the prior year's level of 46,062. This increase is due to the acquisitions during the year offset by the terminations under the company's restructuring program.

Financial Market Risk

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 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, 2000, was \$3.3 million and is considered insignificant in relation to the company's results of operations and shareholders' equity.

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, 2000, from \$1,537.1 million to an estimated fair value of \$1,465.0 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 2000, the company spent approximately \$5.0 million on capital projects for pollution abatement and control, and an additional \$6.0 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, the 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 approximately 26 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, state and federal 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 Standard

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 as 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.

1999 Compared to 1998

Sales for 1999 totaled \$7.8 billion, which generated \$1,099.3 million of operating income and \$563.1 million of net earnings from continuing operations (\$3.40 diluted earnings per share). Net earnings from discontinued operations totaled \$28.0 million (\$0.17 diluted earnings per share).

For 1998, sales were \$7.5 billion, which generated \$969.1 million of operating income and produced net earnings from continuing operations for the year of \$481.6 million (\$2.91 diluted earnings per share). In 1998, net earnings from discontinued operations totaled \$27.5 million (\$0.17 diluted earnings per share).

A comparison of key financial data between 1999 and 1998 follows:

- Net sales in 1999 amounted to \$7.8 billion, reflecting a 4.0% improvement over the 1998 total of \$7.5 billion. Net sales for 1999 and 1998 include increases of \$175.9 million and \$155.5 million, respectively, for the implementation of EITF No. 00-10, "Accounting for Shipping and Handling Fees and Costs."
- Cost of goods sold in 1999 was 72.6% of sales, compared to 73.5% in 1998. The ratio of cost of goods sold to sales reflected a marked improvement in 1999 compared to 1998 based on the continued success of the company's asset-management, strategic-sourcing and productivity improvement programs. Cost of goods sold includes the reclassification of shipping and handling fees.
- Selling and administrative expenses were 13.4% of sales in 1999, compared to 13.6% for 1998. This decrease is attributable to the company's cost-containment programs.
- Operating income for the year totaled \$1,099.3 million, a 13.4% increase compared to 1998 operating income of \$969.1 million. The ratio of operating income to sales in 1999 was 14.0%, compared to 12.9% for the prior year. This improvement was the combined effect of the company's aggressive productivity-improvement and procurement programs, and the continued stability of domestic markets.
- Interest expense for the year totaled \$203.1 million versus \$224.1 million for 1998. The reduction in interest expense totaled \$21.0 million principally due to lower average outstanding debt balances during 1999 when compared to the prior year.
- Other income (expense), net, is the sum of foreign exchange activities, equity in earnings of partially owned affiliates, and other miscellaneous income and expense items. In 1999, these activities resulted in a net expense of \$22.3 million, an unfavorable change of \$7.0 million compared to the 1998 net other expense of \$15.3 million. This change was caused by lower earnings from partially owned equity affiliates, lower miscellaneous income and higher miscellaneous expenses, which were offset by a favorable change in foreign currency activity in 1999 when compared to the prior year.

- The company's charges for minority interests are composed of two items: (1) charges associated with the company's equity-linked securities (issued during the first quarter of 1998), which totaled \$25.6 million in 1999 and \$19.7 million in 1998, and (2) interests of minority owners (less than 50%) in a consolidated unit of the company, which totaled \$3.5 million in 1999 and \$3.8 million in 1998.
- Results from assets held for sale (net of tax) represents the company's equity in the earnings of D-R. Equity earnings of D-R were \$18.2 million in 1999 and \$26.1 million in 1998.
- The company's effective tax rates for 1999 and 1998 were 34.8% and 34.2%, respectively. The variance from the 35.0% statutory rate primarily was due to lower tax rates associated with foreign earnings, the foreign sales corporation, favorable tax benefits associated with income earned in Puerto Rico, offset by the effect of state and local taxes and the nondeductibility of a portion of goodwill.
- Discontinued operations (net of tax) for 1999 amounted to \$28.0 million, which was \$0.5 million higher than the \$27.5 million for the year ended December 31, 1998. This category represents the company's 51% interest in IDP, net of appropriate taxes. Additional information on discontinued operations is contained throughout this report and in Note 4 to the Consolidated Financial Statements.

At December 31, 1999, employment totaled 46,062. This represents a slight decrease from 1998's level of 46,525.

During 1999, the company made progress in improving its liquidity and capital resources through its aggressive asset management programs and the ability to generate \$854.7 million of cash flow from its operations. These actions contributed to the company's reduction in its debt-to-total capital ratio from 44% at the end of 1998 to 42% at December 31, 1999. In addition, adjusting the December 31, 1999, short-term liability for the purchase of the remaining interest in IDP lowers the debt-to-total capital ratio to 38%.

The following points highlight the financial results and financial condition of the company's operations with the impact of foreign currency translation where appropriate:

- Cash and cash equivalents totaled \$222.9 million at December 31, 1999, a \$179.4 million increase from the prior year-end balance of \$43.5 million. Cash flows from operating activities provided \$854.7 million, investing activities used \$237.0 million and financing activities used \$445.1 million. Exchange rate changes during 1999 decreased cash and cash equivalents by \$7.8 million.
- Receivables totaled \$988.5 million at December 31, 1999, compared to \$963.7 million at the prior year end, a net increase of \$24.8 million. The increase is attributable to higher sales activity during the latter part of the fourth quarter and acquisitions, which were offset by reductions caused by exchange rate changes during 1999. The company focuses on decreasing its receivables base through its asset-management program, which produced a reduction in the average days outstanding in receivables to 48.8 days from the 1998 level of 51.5 days.
- Inventories amounted to \$742.1 million at December 31, 1999, a decrease of \$82.7 million from 1998's level of \$824.8 million. The net reduction to inventories during 1999 is the net result of the

reduction caused by exchange rate changes during the year of \$31.5 million, the company's effort to reduce inventories, and the net effect of reductions caused by dispositions exceeding increases from acquisitions.

- Prepaid expenses totaled \$60.7 million at the end of 1999, \$5.0 million higher than the balance at December 31, 1998. The increase is associated with a general increase in prepaid expense accounts from acquired companies during the year.
- Assets held for sale totaled \$799.7 million. This reflects an increase of \$399.6 million compared to the December 31, 1998, balance of \$400.1 million. The account balance at the end of 1998 primarily represents the company's investments in IDP and D-R, which are now identified as discontinued operations and results from assets held for sale (net of tax), respectively. (See Notes 4 and 3 to the Consolidated Financial Statements.) During 1999, this account was increased by the operating results of the joint ventures, and the December 31, 1999, purchase of the remaining 49% interest in IDP for \$377.0 million, as well as the net change in the assets and liabilities of IDP.
- Deferred income taxes (current) of \$53.9 million at December 31, 1999, represented the deferred tax benefit of the difference between the book and tax values of various current assets and liabilities. The components of the balance are included in Note 17 to the Consolidated Financial Statements.
- Investments in and advances with partially owned equity affiliates at December 31, 1999, totaled \$198.2 million, an increase of \$14.6 million compared to the 1998 balance of \$183.6 million. This category includes the company's investments in partially owned equity affiliates (i.e. 50% or less ownership). Income and dividends from the investments in partially owned equity affiliates were \$9.5 million and \$6.4 million, respectively, in 1999. Amounts due to these units increased \$1.5 million from December 31, 1998. Currency movements were the primary cause of the remaining change in the account balance.
- Net property, plant and equipment increased by \$3.5 million in 1999 to a year-end balance of \$1,240.2 million. Capital expenditures in 1999 totaled \$190.5 million, and acquisitions (net of dispositions) added \$2.7 million. Foreign exchange fluctuations decreased net fixed assets by approximately \$21.2 million. The remaining net decrease was the result of depreciation and sales and retirements.
- Intangible assets, net, totaled \$3,726.3 million at December 31, 1999, as compared to \$3,765.8 million at December 31, 1998, for a net decrease of \$39.5 million. The amortization expense for 1999 was \$112.8 million. Acquisition activity and the effects of foreign currency translation accounted for the balance of the change.
- Deferred income taxes (noncurrent) totaled \$158.0 million at December 31, 1999, an amount that was \$48.0 million lower than the 1998 balance. The components comprising the balance at December 31, 1999, can be found in Note 17 to the Consolidated Financial Statements.
- Other assets totaled \$209.2 million at December 31, 1999, an increase of \$33.5 million from the 1998 balance, primarily due to an increase in prepaid pensions of \$32.0 million.
- Accounts payable and accruals totaled \$1,224.4 million at December 31, 1999, a decrease of \$60.0 million from 1998's balance of \$1,284.4 million. Reduced inventory levels at year end and

acquisitions, net of dispositions, along with the timing of payrolls and benefits accounted for the reduction in 1999.

- Loans payable, including current maturities of long-term debt, were \$495.5 million at the end of 1999, which reflects a \$177.5 million increase from the \$318.0 million level at December 31, 1998. Approximately \$252.2 million of current maturities of long-term debt were repaid in 1999. The balance at the end of 1999 included a \$377.0 million note payable issued in connection with the company's purchase of the remaining interest in the IDP joint venture. Excluding this item, loans payable would have reflected a reduction from the 1998 year-end balance of approximately \$200.0 million.
- Long-term debt, excluding current maturities, totaled \$2,113.3 million, a reduction of approximately \$52.7 million from the prior year's balance of \$2,166.0 million. Reductions in long-term debt of \$73.1 million represent the reclassification of the current maturities of long-term debt to loans payable. Long-term financings for plant and office expansions accounted for the modest increase in debt activity for the year.
- Postemployment and other benefit liabilities at December 31, 1999, totaled \$805.0 million, a decrease of \$15.5 million from the December 31, 1998, balance. Postemployment liabilities include medical and life insurance postretirement benefits, long-term pension and other noncurrent benefit accruals. (See Notes 18 and 19 to the Consolidated Financial Statements for additional information.)
- Minority interest liabilities at December 31, 1999, totaled \$95.7 million, which represented a net increase of \$62.1 million from the balance at the end of the prior year. This liability represents the ownership interests of other entities in certain consolidated subsidiaries of the company. The increase for 1999 primarily represents an equity interest purchase by a vendor in an entity controlled by the company.
- Other liabilities (noncurrent) at December 31, 1999, totaled \$161.8 million, an increase of \$9.3 million from the balance at December 31, 1998. The increase is associated with acquisitions during 1999. These obligations are not expected to be paid in the next year. Generally, these accruals cover environmental, insurance, legal and other long-term contractual obligations.

Other information concerning the company's financial resources, commitments and plans is as follows:

The average short-term borrowings outstanding, excluding current maturities of long-term debt, was \$104.8 million in 1999, compared to \$314.8 million in 1998. The weighted average interest rate during 1999 was 6.6%, compared to 6.3% during 1998. The maximum amounts outstanding during 1999 and 1998 were \$422.4 million and \$794.1 million, respectively.

The company had \$1.3 billion in domestic short-term credit lines and \$750.0 million in long-term credit lines at December 31, 1999, all of which were unused. Additionally, \$599.8 million of foreign credit lines were available for working capital purposes, \$527.3 million of which was unused at the end of the year.

In 1999, foreign currency translation adjustments decreased shareholders' equity by \$46.5 million. This change was due to the strengthening of the U.S. dollar against other currencies in countries where the company has significant operations. Currency changes in the euro, euro-linked currencies and the British pound accounted for nearly all of the change.

Consolidated Statement of Income

In millions except per share amounts

For the years ended December 31	2000	1999	1998
Net sales	\$8,798.2	\$7,842.6	\$7,540.2
Cost of goods sold	6,461.0	5,690.9	5,543.3
Selling and administrative expenses	1,146.7	1,052.4	1,027.8
Restructuring charges	76.2	—	—
Operating income	1,114.3	1,099.3	969.1
Interest expense	(253.7)	(203.1)	(224.1)
Other income (expense), net	(15.3)	(22.3)	(15.3)
Minority interests	(39.3)	(29.1)	(23.5)
Results from assets held for sale (net of tax)	23.3	18.2	26.1
Earnings before income taxes	829.3	863.0	732.3
Provision for income taxes	283.1	299.9	250.7
Earnings from continuing operations	546.2	563.1	481.6
Discontinued operations (net of tax)	123.2	28.0	27.5
Net earnings	\$ 669.4	\$ 591.1	\$ 509.1
Basic earnings per share:			
Continuing operations	\$3.39	\$3.44	\$2.94
Discontinued operations	0.76	0.17	0.17
	\$4.15	\$3.61	\$3.11
Diluted earnings per share:			
Continuing operations	\$3.36	\$3.40	\$2.91
Discontinued operations	0.76	0.17	0.17
	\$4.12	\$3.57	\$3.08

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

In millions except share amounts

December 31	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	\$ 74.4	\$ 222.9
Marketable securities	125.6	0.5
Accounts and notes receivable, less allowance for doubtful accounts of \$42.8 in 2000 and \$33.4 in 1999	1,323.5	988.5
Inventories	1,022.9	742.1
Prepaid expenses	82.0	60.7
Assets held for sale	612.4	799.7
Deferred income taxes	82.0	53.9
	<u>3,322.8</u>	<u>2,868.3</u>
Investments in and advances with partially owned equity affiliates	167.6	198.2
Property, plant and equipment, at cost:		
Land and buildings	698.8	570.3
Machinery and equipment	1,719.1	1,514.6
	<u>2,417.9</u>	<u>2,084.9</u>
Less-accumulated depreciation	889.9	844.7
	<u>1,528.0</u>	<u>1,240.2</u>
Intangible assets, net	5,105.3	3,726.3
Deferred income taxes	114.1	158.0
Other assets	290.7	209.2
	<u>\$10,528.5</u>	<u>\$ 8,400.2</u>
Liabilities and Equity		
Current liabilities:		
Accounts payable and accruals	\$ 1,698.7	\$ 1,224.4
Loans payable	2,121.8	495.5
Income taxes	146.1	19.0
	<u>3,966.6</u>	<u>1,738.9</u>
Long-term debt	1,540.1	2,113.3
Postemployment and other benefit liabilities	824.8	805.0
Minority interests	110.5	95.7
Other liabilities	188.8	161.8
	<u>6,630.8</u>	<u>4,914.7</u>
Company obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the company	402.5	402.5
Shareholders' equity:		
Common stock, \$2 par value, authorized 600,000,000 shares; issued: 2000-171,466,627; 1999-171,168,096	343.1	342.3
Capital in excess of par value	258.8	237.8
Retained earnings	3,612.7	3,053.1
	<u>4,214.6</u>	<u>3,633.2</u>
Unallocated LESOP shares, at cost	(1.8)	(16.5)
Treasury stock, at cost	(471.0)	(356.7)
Accumulated other comprehensive income	(246.6)	(177.0)
Shareholders' equity	<u>3,495.2</u>	<u>3,083.0</u>
	<u>\$10,528.5</u>	<u>\$ 8,400.2</u>

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, 1997	\$2,364.8	\$334.8	167.4	\$ 92.4	\$2,156.5	\$(41.4)	\$ (44.5)	\$(133.0)	\$509.1
Net earnings	509.1				509.1				2.5
Foreign currency translation	2.5								\$511.6
Total comprehensive income									
Shares issued under stock and incentive plans	48.0	3.0	1.5	45.0					
Issuance of equity-linked securities	(16.4)			(16.4)					
Allocation of LESOP shares	26.8			12.4		14.4			
Purchase of treasury shares	(106.4)						(106.4)		
Cash dividends	(98.3)				(98.3)				
Balance at December 31, 1998	2,730.1	337.8	168.9	133.4	2,567.3	(27.0)	(150.9)	(130.5)	591.1
Net earnings	591.1				591.1				(46.5)
Foreign currency translation	(46.5)								\$544.6
Total comprehensive income									
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	3,083.0	342.3	171.2	237.8	3,053.1	(16.5)	(356.7)	(177.0)	669.4
Net earnings	669.4				669.4				(86.0)
Foreign currency translation	(86.0)								
Unrealized gain on marketable securities	16.4								16.4
Total comprehensive income	6.4								
Acquisition of business									
Shares issued under stock and incentive plans	11.7	0.8	0.3	10.3					
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	\$3,495.2	\$343.1	171.5	\$ 258.8	\$3,612.7	\$ (1.8)	\$(471.0)	\$(246.6)	

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

In millions

For the years ended December 31

	2000	1999	1998
Cash flows from operating activities:			
Income from continuing operations	\$ 546.2	\$ 563.1	\$ 481.6
Adjustments to arrive at net cash provided by operating activities:			
Restructure charges	76.2	—	—
Depreciation and amortization	297.0	272.4	263.6
Gain on sale of businesses	(36.1)	(14.6)	(6.6)
Gain on sale of property, plant and equipment	(5.0)	(3.4)	(8.9)
Minority interests, net of dividends	4.9	(0.2)	0.7
Equity earnings/losses, net of dividends	(6.1)	(3.1)	(6.9)
Deferred income taxes	8.5	41.8	6.2
Other items	35.7	40.9	26.7
Changes in assets and liabilities			
(Increase) decrease in:			
Accounts and notes receivable	(18.1)	(57.7)	109.3
Inventories	(175.9)	56.7	(76.0)
Other current and noncurrent assets	14.7	12.8	21.0
Increase (decrease) in:			
Accounts payable and accruals	93.5	(55.6)	86.0
Other current and noncurrent liabilities	(61.4)	1.6	(11.0)
Net cash provided by operating activities	774.1	854.7	885.7
Cash flows from investing activities:			
Capital expenditures	(186.6)	(190.5)	(200.9)
Proceeds from sales of property, plant and equipment	27.4	30.4	22.9
Proceeds from business dispositions	950.3	84.8	58.0
Acquisitions, net of cash*	(2,336.6)	(161.2)	(55.6)
(Increase) decrease in marketable securities	(3.3)	1.5	1.8
Cash provided by (invested in) or advances from (to) equity companies	11.6	(2.0)	11.9
Net cash used in investing activities	(1,537.2)	(237.0)	(161.9)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	947.6	(36.8)	(711.9)
Proceeds from long-term debt	3.1	21.5	0.2
Payments of long-term debt	(80.9)	(252.2)	(261.2)
Net change in debt	869.8	(267.5)	(972.9)
Net proceeds from issuance of equity-linked securities	—	—	389.6
Proceeds from exercise of stock options	8.3	70.2	36.2
Purchase of treasury stock	(121.3)	(205.8)	(106.4)
Dividends paid	(109.8)	(105.3)	(98.3)
Other	—	63.3	10.0
Net cash provided by (used in) financing activities	647.0	(445.1)	(741.8)
Net cash (used in) provided by discontinued operations	(22.1)	14.6	(6.0)
Effect of exchange rate changes on cash and cash equivalents	(10.3)	(7.8)	1.0
Net (decrease) increase in cash and cash equivalents	(148.5)	179.4	(23.0)
Cash and cash equivalents – beginning of year	222.9	43.5	66.5
Cash and cash equivalents – end of year	\$ 74.4	\$ 222.9	\$ 43.5
*Acquisitions:			
Working capital, other than cash	\$ (727.5)	\$ (61.0)	\$ (13.5)
Property, plant and equipment	(298.3)	(13.0)	(14.5)
Intangibles and other assets	(1,562.2)	(101.4)	(34.9)
Long-term debt and other liabilities	251.4	14.2	7.3
Net cash used to acquire businesses	\$(2,336.6)	\$(161.2)	\$(55.6)
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 346.8	\$ 230.4	\$ 206.1
Income taxes	175.7	217.7	245.4

In 1999, the company acquired the remaining 49% interest in IDP 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:

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 returns, 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 2000 presentation. The results of Dresser-Rand Company (D-R) have been reclassified from discontinued operations on the consolidated income statement into results from assets held for sale (net of tax) for all periods presented. All amounts and percentages disclosed in these Notes do not include discontinued operations or results from assets held for sale (net of tax).

The company implemented Emerging Issues Task Force Issue No. 00-10 "Accounting for Shipping and Handling Fees and Costs" in the fourth quarter of 2000. This required the company to include the revenues billed for shipping and handling in net sales. The impact increased net sales and cost of goods sold by \$180.6 million in 2000, \$175.9 million in 1999, and \$155.5 million in 1998.

Cash Equivalents: The company considers all highly liquid investments, consisting primarily of time deposits and commercial paper with maturities of three months or less when purchased, to be cash equivalents. Cash equivalents were \$1.0 million and \$73.0 million at December 31, 2000 and 1999, respectively.

Inventories: Inventories are stated at cost, which is not in excess of market. Most domestically manufactured inventories, excluding the Climate Control Sector, are valued on the last-in, first-out (LIFO) method. The Climate Control Sector and foreign manufactured inventories are valued using the first-in, first-out (FIFO) method.

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.

Intangible Assets: Intangible assets primarily represent the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Such excess costs are being amortized on a straight-line basis not to exceed 40 years. Net goodwill at December 31, 2000 and 1999, was \$4.9 billion and \$3.7 billion, respectively. Intangible assets are evaluated for impairment whenever circumstances indicate that the carrying amounts may not be recoverable. Intangible assets also include capitalized software, debt issuance costs, and costs allocated to patents, trademarks and other specifically identifiable assets arising from acquisitions. These assets are amortized on a straight-line

basis over their estimated useful lives. Accumulated amortization at December 31, 2000 and 1999, was \$481.8 million and \$353.5 million, respectively. Amortization expense was \$135.4 million, \$112.8 million and \$110.1 million in 2000, 1999 and 1998, respectively.

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.

Research and Development Costs: Research and development expenditures, including qualifying engineering costs, are expensed when incurred and amounted to \$188.4 million in 2000, \$186.2 million in 1999 and \$169.6 million in 1998.

Comprehensive Income: Comprehensive income includes net income, foreign currency translation adjustments and unrealized holding gains on marketable securities.

Foreign Currency: Assets and liabilities of foreign 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 foreign 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 \$6.3 million in 2000 and \$8.0 million in 1998 and increased net earnings by \$2.5 million in 1999. Accumulated other comprehensive income decreased in 2000 and 1999 by \$86.0 million and \$46.5 million, respectively, due to foreign currency equity adjustments related to translation and dispositions.

The company hedges certain foreign currency transactions and firm foreign currency commitments by entering into forward exchange contracts (forward contracts). Gains and losses associated with currency rate changes on forward contracts hedging foreign currency transactions are recorded currently in income. Gains and losses on forward contracts hedging firm foreign currency commitments are deferred off-balance sheet and included as a component of the related transaction, when recorded; however, a loss is not deferred if deferral would lead to the recognition of a loss in future periods. Cash flows resulting from forward contracts accounted for as hedges of identifiable transactions or events are classified in the same category as the cash flows from the items being hedged.

The company also purchases forward contracts to mitigate the exposure of forecasted future cash flows of foreign subsidiaries. These contracts range in duration from one to 12 months. Gains and losses associated with the change in fair market value of these contracts are recorded in other income (expense), net.

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 161.2 million, 163.6 million, and 163.7 million for 2000, 1999 and 1998, respectively. For diluted earnings per share purposes, these balances increased by 1.2 million, 2.1 million, and 1.8 million shares for 2000, 1999 and 1998, respectively, due to the effect of common equivalent shares issuable under the company's stock benefit plans.

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 16.

New Accounting Standard: 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 as the cumulative effect adjustment as a decrease to accumulated other comprehensive income at January 1, 2001.

Note 2 - Restructuring

The company has undertaken a restructuring program which includes such actions as plant rationalizations, organizational realignments consistent with the company's new market-based structure and the consolidation of back-office processes. Restructuring charges incurred consist of costs associated with severance and other employee termination benefits, and facility exit costs including lease terminations. Charges related to employee severance and other employee termination costs cover approximately 2,100 employees, of which 55% have been terminated as of December 31, 2000. The restructuring plan is expected to be substantially complete by the end of 2001.

The company recorded pretax restructuring charges by business segment for the year ended December 31, 2000, as follows:

<i>In millions</i>	
Climate control	\$ 3.6
Industrial productivity	
Air solutions	10.5
Bearings and components	11.5
Industrial products	6.0
Infrastructure	11.4
Security and safety	15.1
Corporate	18.1
Total	\$76.2

A reconciliation of the restructuring provision is as follows:

<i>In millions</i>	Employee termination costs	Facility exit costs	Total
Provision	\$65.8	\$10.4	\$76.2
Cash payments	(31.6)	(0.5)	(32.1)
Asset write-offs	—	(7.7)	(7.7)
Balance at December 31, 2000	\$34.2	\$ 2.2	\$36.4

Note 3 - Assets Held for Sale

In August 1999, the company announced its intention to dispose of its interest in D-R, a joint venture involved in the reciprocating compressor and turbo machinery business. On October 5, 1999, the joint venture partner, as permitted under the joint venture agreement, elected to sell its share of D-R to the company. On February 2, 2000, the company purchased the 51% of D-R not previously owned by acquiring the joint venture partner's share for a net purchase price of approximately \$543.0 million in cash.

On September 5, 2000, the company completed the sale of the reciprocating gas compressor packaging and rental business of D-R to Hanover Compressor Company (Hanover). The sale was completed for \$190.0 million, \$95.0 million cash with the balance in Hanover common stock. The company recorded a \$30.2 million after-tax gain on the sale.

The company continues the process to sell the remaining portion of D-R, which is classified on the consolidated income statement as results from assets held for sale (net of tax) for all periods presented. The net assets of D-R have been included in assets held for sale on the balance sheet. The company expects to complete the divestiture in 2001.

Summarized financial information at and for the year ended December 31, for D-R, is as follows:

<i>In millions</i>	2000	1999	1998
Net sales	\$871.3	\$1,194.7	\$1,248.5
Cost of goods sold	730.2	950.7	1,008.4
Selling and administrative expenses	134.1	164.3	152.2
Restructure charges	10.9	—	—
Operating (loss) income	(3.9)	79.7	87.9
Interest expense	(30.2)	—	—
Other income (expense), net	50.4	(3.0)	(6.6)
Earnings before income taxes	16.3	76.7	81.3
Income taxes	1.3	39.6	28.0
Net earnings	15.0	37.1	53.3
Partner's interest	(8.3)	18.9	27.2
Results from assets held for sale, net of tax	\$ 23.3	\$ 18.2	\$ 26.1

The gain on the sale of the reciprocating gas compressor packaging and rental business is included in other income (expense), net.

<i>In millions</i>	2000	1999
Cash and cash equivalents	\$ 11.0	\$ 34.5
Other current assets	448.4	509.7
Due from partners	—	128.9
Property, plant and equipment, net	114.4	178.0
Intangibles and other assets	438.1	129.4
Current liabilities	(251.4)	(306.6)
Other liabilities	(148.1)	(167.1)
Net partners' equity	\$612.4	\$506.8

The company's investment in D-R at December 31, 2000 and 1999, was \$612.4 million and \$217.4 million, respectively. The \$506.8 million net partners' equity in 1999 includes the investment of the majority partner. The payable to D-R has been netted against the assets held for sale in 1999. Results reported separately by D-R that are presented on a stand-alone basis may differ from the results presented above.

Note 4 - 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:

<i>In millions</i>	2000	1999	1998
Net sales	\$421.8	\$ 837.9	\$ 906.8
Operating income	5.3	63.9	75.3
Other income (expense), net	(1.2)	7.4	7.0
Interest expense	(10.1)	(1.4)	(1.6)
Minority interest	—	(23.7)	(30.7)
Earnings (loss) before income taxes	(6.0)	46.2	50.0
Income taxes	(4.4)	18.2	22.5
Earnings (loss) from operations	(1.6)	28.0	27.5
Gain on disposal of discontinued operations (net of tax)	124.8	—	—
Net earnings from discontinued operations	\$123.2	\$ 28.0	\$ 27.5

The net assets of IDP included in assets held for sale at December 31, 1999, were as follows:

<i>In millions</i>	
Cash and cash equivalents	\$ 49.9
Other current assets	351.0
Investments in and advances with partially owned affiliates	12.2
Property, plant and equipment, net	103.1
Intangibles and other assets	278.8
Current liabilities	(194.5)
Other liabilities	(74.3)
Cumulative translation adjustment	24.5
Net assets of discontinued operations held for sale	\$ 550.7

Note 5 - Acquisitions of Businesses

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 the Climate Control Sector.

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, depreciation and amortization of assets, including goodwill, based upon the preliminary purchase price allocations.

<i>In millions except per share amount</i>	2000	1999
Sales	\$ 9,432.0	\$ 9,157.6
Net earnings	631.0	533.5
Continuing operations		
Basic earnings per common share	\$ 3.15	\$ 3.09
Diluted earnings per common share	3.13	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.

During 2000, the company acquired Sambron S.A. (Sambron) for approximately \$19.0 million. Sambron manufactures and distributes a range of telescopic material handlers and is included in the Infrastructure Sector. For approximately \$23.0 million in cash, the company purchased a majority interest in Zexel Cold Systems, a manufacturer of bus air-conditioning equipment and refrigeration units for small trucks and is included in the Climate Control Sector. The company purchased Interflex Datensysteme GmbH (Interflex) for approximately \$60.0 million. Interflex provides integrated products and services for electronic access control, time and attendance recording, personnel scheduling and industrial data management and is included in the Security and Safety Sector. In addition, during 2000, the company also made several small acquisitions for cash and stock.

During 1999, the company completed the acquisition of Harrow Industries, Inc. (Harrow), a leading manufacturer of access control technologies, architectural hardware, and decorative bath fittings and accessories. Harrow is part of the Security and Safety Sector. The purchase price was approximately \$160.0 million, which included the assumption of certain debt.

During 1998, the company acquired for approximately \$15.4 million in cash, substantially all the assets of Johnstone Pump Company (Johnstone). Johnstone, part of Industrial Products, manufactures industrial piston pumps, automated dispensing systems and related products. The company acquired for approximately \$18.0 million certain manufacturing assets used to produce residential locks for its Security and Safety Sector. The company acquired full ownership of a joint venture which manufactures air ends for air compressors for its Air Solutions Segment.

All acquisitions have been accounted for as purchases. Each purchase price is preliminarily allocated to the acquired assets and liabilities based on their estimated fair values. The purchase price allocation is subject to final adjustment within one year of acquisition. The company has classified as goodwill the cost in excess of the fair value of the net assets acquired. Such excess cost is being amortized on a straight-line basis not to exceed forty years. Intangible assets also represent costs allocated to patents and trademarks and other specifically identifiable assets arising from the acquisition. These assets are being amortized over their estimated useful lives.

Note 6 - Dispositions

During 2000, the company sold 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 4).

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 Industrial Products Segment. The transaction resulted in a net gain of approximately \$4.4 million. The company also made several minor dispositions during 1999.

In 1998, the company sold the Spra-Coupe product line, which was reported as part of the Infrastructure Sector. The sale price of approximately \$35.0 million resulted in a \$9.0 million gain. The company also sold Ing. G. Klemm Bohrtechnik GmbH which was also part of the Infrastructure Sector.

Note 7 - Inventories

At December 31, inventories were as follows:

<i>In millions</i>	2000	1999
Raw materials and supplies	\$ 280.2	\$161.7
Work-in-process	231.7	191.7
Finished goods	654.4	532.9
	<u>1,166.3</u>	<u>886.3</u>
Less-LIFO reserve	143.4	144.2
Total	<u>\$1,022.9</u>	<u>\$742.1</u>

Work-in-process inventories are stated after deducting customer progress payments of \$13.3 million in 2000 and \$2.0 million in 1999. At December 31, 2000 and 1999, LIFO inventories comprised approximately 44% and 51%, respectively, of consolidated inventories. There were no material liquidations of LIFO layers for all periods presented.

Note 8 - Investments in Partially Owned Equity Affiliates

The company has numerous investments, ranging from 20% to 50%, in companies that operate in similar lines of business.

The company's investments in and amounts due (to)/from partially owned equity affiliates amounted to \$178.2 million and \$(10.6) million, respectively, at December 31, 2000, and \$197.4 million and \$0.8 million, respectively, at December 31, 1999. The company's equity in the net earnings of its partially owned equity affiliates was \$8.9 million, \$9.5 million and \$13.6 million in 2000, 1999 and 1998, respectively.

The company received dividends based on its equity interests in these companies of \$2.8 million, \$6.4 million, and \$6.7 million in 2000, 1999 and 1998, respectively.

Summarized financial information for these partially owned equity affiliates at December 31, and for the years then ended:

<i>In millions</i>	2000	1999
Current assets	\$267.2	\$329.8
Property, plant and equipment, net	214.6	260.0
Other assets	15.2	14.1
Total assets	\$497.0	\$603.9
Current liabilities	\$147.8	\$171.5
Long-term debt	31.6	61.3
Other liabilities	17.6	22.8
Total shareholders' equity	300.0	348.3
Total liabilities and equity	\$497.0	\$603.9

<i>In millions</i>	2000	1999	1998
Net sales	\$511.7	\$609.3	\$665.8
Gross profit	74.5	88.1	94.9
Net earnings	15.6	19.5	26.1

Note 9 - Accounts Payable and Accruals

Accounts payable and accruals at December 31, were:

<i>In millions</i>	2000	1999
Accounts payable	\$ 599.9	\$ 319.2
Accrued:		
Payrolls and benefits	218.7	215.1
Insurance and claims	139.2	116.1
Postemployment benefits	121.9	82.3
Warranties	63.9	57.8
Taxes other than income	51.8	36.9
Interest	43.5	60.6
Other	459.8	336.4
	\$1,698.7	\$1,224.4

Note 10 - Financial Instruments

The company, as a large multinational company, maintains significant operations in foreign countries. 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.

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 purpose of the company's 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, anticipated sales and purchases, and dividends relating to foreign subsidiaries. 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:

<i>In millions</i>	2000		1999	
	Buy	Sell	Buy	Sell
British pounds	\$ 59.0	\$ 3.4	\$ 29.2	\$16.3
Canadian dollars	106.8	33.1	107.3	17.9
Euro and euro-linked currencies	54.7	151.0	44.3	5.8
Japanese yen	27.6	0.3	4.9	0.6
Other	6.1	26.4	20.2	25.7
Total	\$254.2	\$214.2	\$205.9	\$66.3

Forward contracts utilized by the company have maturities of one to 12 months.

The company's forward contracts that hedge transactions or firm commitments do not subject the company to risk due to foreign exchange rate movement, since gains and losses on these contracts generally offset losses and gains on the assets, liabilities or other transactions being hedged. Contracts purchased to mitigate the variability of future cash flows of foreign subsidiaries bear market risk to the extent actual transacted amounts vary from the forecasted amounts. All gains and losses on these contracts have been included in earnings.

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:

<i>In millions</i>	2000	1999
Long-term debt:		
Carrying value	\$1,540.1	\$2,113.3
Estimated fair value	1,537.1	2,083.9
Forward contracts:		
Contract (notional) amounts:		
Buy contracts	\$ 254.2	\$ 205.9
Sell contracts	214.2	66.3
Fair (market) values:		
Buy contracts	266.7	209.2
Sell contracts	232.1	66.5

Fair value of long-term debt was determined by reference to the December 31, 2000 and 1999, market values of comparably rated debt instruments. Fair values of forward contracts are based on dealer quotes at the respective reporting dates.

Note 11 - Long-term Debt and Credit Facilities

At December 31, long-term debt consisted of:

<i>In millions</i>	2000	1999
6 7/8% Notes Due 2003	\$ 100.0	\$ 100.0
6.255% Notes Due 2001	—	400.0
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 2002-2028, at an average rate of 6.61%	377.0	609.9
6.75% Hussmann International senior notes due 2008	124.0	—
9.75% Clark Debentures Due 2001	—	100.0
Clark Medium-term Notes Due 2023, at an average rate of 8.22%	50.2	50.2
Other domestic and foreign loans and notes, at end-of-year average interest rates of 6.248% in 2000 and 5.756% in 1999, maturing in various amounts to 2015	63.9	28.2
	<u>\$1,540.1</u>	<u>\$2,113.3</u>

Debt retirements for the next five years are as follows: \$742.9 million in 2001, \$91.1 million in 2002, \$208.3 million in 2003, \$321.9 million in 2004 and \$205.5 million in 2005. At December 31, 2000, the company's committed revolving credit lines consisted of a 364-day line totaling \$1.3 billion and a five-year line totaling \$750.0 million, respectively. 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 0.06375% per annum. Available foreign lines of credit were \$602.8 million, of which \$433.3 million were unused at December 31, 2000. No major cash balances were subject to withdrawal restrictions. At December 31, 2000 and 1999, the average rate of interest for loans payable, excluding the current portion of long-term debt, was 6.914% and 4.186%, respectively.

Capitalized interest on construction and other capital projects amounted to \$4.4 million, \$4.0 million and \$4.0 million in 2000, 1999 and 1998, respectively. Interest income, included in other income (expense), net, was \$7.6 million, \$5.4 million and \$7.5 million in 2000, 1999 and 1998, respectively.

Note 12 - Commitments and Contingencies

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.

The company has established 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 \$210.0 million in 2000 and \$170.0 million in 1999. The additional \$40.0 million of accounts receivable was reflected as a benefit to operating activities in the consolidated statement of cash flows. The agreements between the special purpose corporations and the financial institution do not have a predefined expiration date. The company is retained as the servicer of the pooled receivables. During 2000, 1999 and 1998, such sales of receivables amounted to \$753.0 million, \$781.8 million and \$723.7 million, respectively. At December 31, 2000 and 1999, \$210.0 million and \$170.0 million of such sold receivables remained uncollected.

Receivables, excluding the designated pool of accounts and notes receivable, sold during 2000 and 1999 with recourse, amounted to \$47.9 million and \$57.5 million, respectively. At December 31, 2000 and 1999, \$18.6 million and \$18.7 million, respectively, of such receivables sold remained uncollected.

As of December 31, 2000, 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 \$194.6 million at December 31, 2000. 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 \$31.2 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 \$74.5 million in 2000, \$71.6 million in 1999 and \$71.2 million in 1998. 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: \$56.4 million in 2001, \$47.1 million in 2002, \$33.6 million in 2003, \$25.9 million in 2004, \$20.4 million in 2005 and \$37.2 million thereafter.

Note 13 - Equity-Linked Securities

In March 1998, the company, together with Ingersoll Financing I, a Delaware statutory business trust of the company (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).

Each equity-linked security consists of a unit comprised of (a) a contract to purchase from the company no later than May 16, 2001, a number of shares of the company's common stock determined in accordance with a specified formula and to receive an annual contract adjustment payment until May 15, 2001 of 0.53%, (in the case of an income security), or 0.78% (in the case of a growth security), and (b) either beneficial ownership of a capital security (in the case of an income security), or a 1/40 undivided beneficial interest in a zero coupon U.S. Treasury Security maturing May 15, 2001 (in the case of a growth security). Under the terms of the stock purchase contracts, the company will issue between 6.9 million and 8.3 million common shares by May 16, 2001. The capital securities associated with the income securities and the U.S. Treasury Securities associated with the growth securities have been pledged as collateral to secure the holders' obligations in respect of the common stock purchase contracts.

The capital securities were issued by the Finance Trust and are entitled to a distribution rate of 6.22% per annum of their \$25 stated liquidation amount. The Finance Trust utilized the proceeds from the issuance of the equity-linked and capital securities to purchase \$402.5 million of the company's 6.22% Debentures due May 16, 2003. The Debentures are the sole asset of the Finance Trust. The interest rate on the 6.22% Debentures and the distribution rate on the capital securities and common securities of the Finance Trust are to be reset, subject to certain limitations, effective May 16, 2001.

The company has recorded the present value of the contract adjustment payments, totaling \$6.4 million, as a liability and a reduction of shareholders' equity. The liability has been reduced as the contract adjustment payments are made. The company has the right to defer the contract adjustment payments and the payment of interest on the 6.22% Debentures, but any such election will subject the company to restrictions on the payment of dividends on, and redemption of, its outstanding shares of common stock, and on the payment of interest on, or redemption of, debt securities of the company junior in rank to the 6.22% Debentures.

The company paid costs of approximately \$12.9 million in connection with the issuance of the equity-linked securities and the capital securities. The portion of such costs which relate to the issuance of the stock purchase contracts has been recorded as a reduction of shareholders' equity.

Note 14 - Common Stock

In May 1997, the board of directors authorized the repurchase of up to 15.0 million shares of the company's common stock at management's discretion. Shares repurchased will be used for general corporate purposes. The number of treasury shares at December 31, 2000, and 1999, were 10.9 million and 8.0 million, respectively.

In November 1998, the company adopted a new shareholder rights plan to replace the plan which expired on December 22, 1998. Under the new plan, one right was distributed for each share of Ingersoll-Rand common stock outstanding at the close of business on December 22, 1998.

Initially, the rights are attached to the common stock and are not exercisable. The rights become exercisable and will trade separately from the common stock 10 days following the first public announcement that any person or group has acquired at least 15% of the company's outstanding common stock, or on the 10th day following the commencement or the announcement of an intention to commence a tender offer, which would result in that person or group acquiring beneficial ownership of at least 15% of the outstanding shares of common stock. Each right would entitle the holder to purchase one-thousandth of a share of Series A Preference Stock at an exercise price of \$200.

If any person or group acquires 15% or more of the company's common stock, the rights not held by the 15% shareholder would become exercisable to purchase the company's common stock at a 50% discount. The plan provides that, at any time after a person or group becomes an acquiring person and prior to the acquisition by that person or group of 50% or more of the outstanding common stock, the board may exchange the rights (other than the rights held by the acquiring person, which will have become void), at an exchange ratio of one share of common stock per right.

The new rights will expire on December 22, 2008, unless earlier redeemed or exchanged by the company, as provided in the rights plan. The company may elect to redeem the rights at \$0.01 per right.

Note 15 - Leveraged Employee Stock Ownership Plan

The company sponsors a Leveraged Employee Stock Ownership Plan (LESOP) for eligible employees. The LESOP is used to fund certain employee benefit plans. At December 31, 2000 and 1999, the LESOP held less than 0.1 million and 0.7 million shares, respectively, which are unallocated. The carrying value of the unallocated shares was \$1.8 million and \$16.5 million at December 31, 2000 and 1999, respectively, and is classified as a reduction of shareholders' equity pending allocation to participants. At December 31, 2000, the LESOP owed the company \$1.2 million payable in monthly installments through 2001. Company contributions to the LESOP and dividends on unallocated shares are used to make loan principal and interest payments. With each principal and interest payment, the LESOP allocates a portion of the common stock to participating employees.

Note 16 - Incentive Stock Plans

Under the company's Incentive Stock Plans, key employees have been granted options to purchase 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 \$16.7 million and \$0.10 cents per share for 2000; \$8.5 million and five cents per share for 1999; and \$14.7 million and nine cents per share for 1998. The average fair values of the options granted during 2000, 1999, and 1998 were estimated at \$16.89, \$14.15, and \$8.06, respectively, on the date of grant, using the Black-Scholes option-pricing model, which included the following assumptions:

	2000	1999	1998
Dividend yield	1.32%	1.27%	1.42%
Volatility	34.31%	29.59%	25.76%
Risk-free interest rate	6.45%	4.93%	5.39%
Expected life	4 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, 1998	6,043,400	\$13.83 - \$41.28	\$27.06
Granted	2,280,250	37.03 - 47.03	42.45
Exercised	(1,419,525)	13.83 - 40.47	25.65
Cancelled	(69,600)	24.08 - 41.28	33.75
December 31, 1998	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

At December 31, 2000, there were 490,233 SARs outstanding with no stock options attached. The company has reserved 7,585,318 shares for future awards at December 31, 2000. In addition, 280,809 shares of common stock were reserved for future issue, contingent upon attainment of certain performance goals and future service and 308,172 shares have been earned but deferred at December 31, 2000.

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

Range of exercise price	Number outstanding at 12/31/00	Options outstanding		Options exercisable	
		Weighted average remaining life	Weighted average exercise price	Number exercisable at 12/31/00	Weighted average exercise price
\$15.13 - \$24.08	1,171,150	3.22	\$22.63	1,171,150	\$22.63
24.21 - 33.67	1,482,700	5.83	30.49	1,482,700	30.49
37.62 - 42.03	265,066	8.05	40.04	152,498	41.06
42.31 - 42.31	1,293,050	7.06	42.31	1,293,050	42.31
42.84 - 48.13	570,550	9.04	46.39	97,047	45.17
49.09 - 49.09	1,921,862	7.92	49.09	868,568	49.09
51.09 - 51.09	300,000	8.19	51.09	233,333	51.09
53.03 - 53.03	2,087,885	8.95	53.03	76,365	53.03
53.63 - 65.41	221,250	8.54	62.21	73,744	62.21
69.75 - 69.75	18,000	8.34	69.75	18,000	69.75
\$15.13 - \$69.75	9,331,513	7.21	\$42.75	5,466,455	\$36.87

The weighted average number of shares exercisable and the weighted average exercise prices were 4,524,667 shares at a price of \$32.53 for December 31, 1999, and 4,561,025 shares at a price of \$27.44 for December 31, 1998.

The company also maintains a shareholder-approved Management Incentive Unit Award Plan. Under the plan, qualifying executives are awarded incentive units. When dividends are paid on common stock, 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 common stock equivalents. The fair value of accumulated common stock equivalents is paid in cash upon the participant's retirement. The number of common stock equivalents credited to participants' accounts at December 31, 2000 and 1999, are 399,352 and 484,341, respectively.

Note 17 - Income Taxes

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

<i>In millions</i>	2000	1999	1998
United States	\$673.5	\$687.2	\$566.0
Foreign	155.8	175.8	166.3
Total	\$829.3	\$863.0	\$732.3

The provision for income taxes was as follows:

<i>In millions</i>	2000	1999	1998
Current tax expense:			
United States	\$227.1	\$220.5	\$183.2
Foreign	43.5	37.6	61.3
Total current	270.6	258.1	244.5
Deferred tax expense:			
United States	17.5	26.4	12.0
Foreign	(5.0)	15.4	(5.8)
Total deferred	12.5	41.8	6.2
Total provision for income taxes	\$283.1	\$299.9	\$250.7

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		
	2000	1999	1998
Statutory U.S. rates	35.0%	35.0%	35.0%
Increase (decrease) in rates resulting from:			
Amortization of goodwill	2.8	2.0	2.5
Foreign operations	(0.8)	(1.0)	0.1
Foreign sales corporation	(2.4)	(1.7)	(2.0)
State and local income taxes, net of U.S. tax	2.2	2.1	2.3
Puerto Rico - Sec 936 Credit	(1.7)	(1.8)	(2.2)
Other	(1.0)	0.2	(1.5)
Effective tax rate	34.1%	34.8%	34.2%

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

<i>In millions</i>	2000	1999	1998
Current deferred assets and (liabilities):			
Differences between book and tax bases			
of inventories and receivables	\$ 24.2	\$ 21.1	\$ 21.4
Differences between book and tax expense for other			
employee related benefits and allowances	24.5	8.5	16.7
Other reserves and valuation allowances in excess			
of tax deductions	21.3	35.4	28.3
Other differences between tax and financial			
statement values	12.0	(11.1)	2.4
Gross current deferred net tax assets	82.0	53.9	68.8
Noncurrent deferred tax assets and (liabilities):			
Postretirement and postemployment benefits other			
than pensions in excess of tax deductions	269.6	262.4	255.1
Other reserves in excess of tax expense	124.0	119.2	124.0
Tax depreciation in excess of book depreciation	(159.4)	(124.7)	(96.0)
Pension contributions in excess of book expense	(45.6)	(38.5)	(32.6)
Taxes provided for unrepatriated foreign earnings	(22.5)	(22.5)	(22.5)
Gross noncurrent deferred net tax assets	166.1	195.9	228.0
Less: deferred tax valuation allowances	(52.0)	(37.9)	(22.0)
Total net deferred tax assets	\$ 196.1	\$ 211.9	\$ 274.8

A total of \$22.5 million of deferred taxes have been provided for a portion of the undistributed earnings of subsidiaries operating outside of the United States. As to the remainder, these earnings have been, and under current plans, will continue to be reinvested. Therefore, it is not practicable to estimate the amount of additional taxes which may be payable upon repatriation.

Note 18 - Postretirement Benefits Other Than Pensions

The company sponsors several postretirement plans that cover most domestic 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:

<i>In millions</i>	2000	1999
Change in benefit obligations:		
Benefit obligation at beginning of year	\$ 566.4	\$ 610.3
Service cost	8.4	8.8
Interest cost	40.7	38.0
Plan participants' contributions	4.3	4.3
Acquisitions	17.0	—
Actuarial losses (gains)	3.1	(36.8)
Benefits paid	(47.1)	(58.4)
IDP benefits	18.0	—
Other	(0.2)	0.2
Benefit obligation at end of year	\$ 610.6	\$ 566.4
Funded status:		
Plan assets less than benefit obligations	\$(610.6)	\$(566.4)
Unrecognized:		
Prior service gains	(49.9)	(54.5)
Plan net gains	(52.8)	(55.7)
Accrued costs in the balance sheet	\$(713.3)	\$(676.6)
Weighted-average assumptions:		
Discount rate	7.75%	7.50%
Current year medical inflation	6.75%	6.50%
Ultimate inflation rate (2003)	5.25%	5.00%

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

<i>In millions</i>	2000	1999	1998
Service cost	\$ 8.4	\$ 8.8	\$ 9.6
Interest cost	40.7	38.0	38.9
Net amortization of unrecognized prior service gains	(4.4)	(4.2)	(4.5)
Net periodic postretirement benefits cost	\$ 44.7	\$ 42.6	\$ 44.0

A 1% change in the medical trend rate assumed for postretirement benefits would have the following effects at December 31, 2000:

<i>In millions</i>	1% Increase	1% Decrease
Effect on total of service and interest cost components	\$ 4.8	\$ (3.9)
Effect on postretirement benefit obligation	44.6	(37.2)

Note 19 - Pension Plans

The company has noncontributory pension plans covering substantially all domestic employees. In addition, certain employees in other countries are covered by pension plans. The company's domestic salaried plans principally provide benefits based on a career average earnings formula. The company's hourly pension plans provide benefits under flat benefit formulas. Foreign plans provide benefits based on earnings and years of service. Most of the foreign 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 and its assets for all vested IDP plan participants.

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

<i>In millions</i>	2000	1999
Change in benefit obligations:		
Benefit obligation at beginning of year	\$1,934.7	\$1,985.7
Service cost	40.6	42.0
Interest cost	141.3	132.1
Employee contributions	4.5	4.5
Amendments	1.3	3.6
Acquisitions	182.1	35.7
Expenses paid	(2.3)	(3.9)
Actuarial (gains)/losses	(13.3)	(113.2)
Benefits paid	(153.7)	(142.4)
Foreign exchange impact	(31.4)	(14.0)
IDP obligation	65.7	—
Curtailments and other	4.7	4.6
Benefit obligation at end of year	\$2,174.2	\$1,934.7
Change in plan assets:		
Fair value at beginning of year	\$2,246.9	\$2,133.2
Actual return on assets	95.9	197.7
Company contributions	25.0	17.4
Employee contributions	4.5	4.5
Acquisitions	208.6	48.7
Expenses paid	(1.9)	(3.8)
Benefits paid	(152.8)	(140.2)
Foreign exchange impact	(34.1)	(10.6)
Assets from IDP	50.8	—
Fair value of assets at end of year	\$2,442.9	\$2,246.9

<i>In millions</i>	2000	1999
Funded status:		
Plan assets in excess of benefit obligations	\$ 268.7	\$ 312.2
Unrecognized:		
Net transition asset	19.0	6.9
Prior service costs	50.6	58.1
Plan net gains	(239.9)	(317.2)
Net amount recognized	\$ 98.4	\$ 60.0
Costs included in the balance sheet:		
Prepaid benefit cost	\$ 195.1	\$ 136.7
Accrued benefit liability	(101.5)	(79.7)
Intangible asset	4.8	3.0
Net amount recognized	\$ 98.4	\$ 60.0
Weighted-average assumptions:		
Discount rate:		
U.S. plans	7.75%	7.50%
International plans	6.00%	6.00%
Rate of compensation increase:		
U.S. plans	5.50%	5.25%
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:

<i>In millions</i>	2000	1999	1998
Service cost	\$ 40.6	\$ 42.0	\$ 37.7
Interest cost	141.3	132.1	130.3
Expected return on plan assets	(200.8)	(183.0)	(170.3)
Net amortization of unrecognized:			
Prior service costs	6.1	5.9	3.7
Transition amount	0.7	0.7	0.7
Plan net losses	(8.5)	2.9	2.3
Net pension (income) cost	(20.6)	0.6	4.4
Curtailement losses	11.5	0.4	0.5
Net pension (income) cost after curtailments	\$ (9.1)	\$ 1.0	\$ 4.9

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 \$152.0 million, \$116.3 million and \$39.7 million, respectively, as of December 31, 2000 and \$151.9 million, \$117.3 million and \$37.7 million, respectively, as of December 31, 1999.

Plan investment assets of domestic plans are balanced between equity securities and cash equivalents or debt securities. Assets of foreign plans are invested principally in equity securities.

Most of the company's domestic 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 \$32.0 million, \$25.1 million and \$29.0 million in 2000, 1999 and 1998, respectively.

The company's costs relating to foreign defined contribution plans, insured plans and other foreign benefit plans were \$6.1 million, \$4.1 million and \$5.3 million in 2000, 1999, and 1998, respectively.

Note 20 - Business Segment Information

Operating segments are defined as components of a company engaging in business activities for which separate financial information is available and evaluated regularly by the chief operating decision maker in assessing performance and allocating resources.

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 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:

The Climate Control Sector focuses on markets requiring refrigerant-gas compression technology and services to provide gas pressure for distribution to end users or to maintain a refrigeration cycle. This sector includes Thermo King® transport temperature control equipment, and Hussmann, a leader in display case refrigeration, which was acquired in June 2000.

The Industrial Productivity Sector is composed of a group of businesses focused on providing solutions for customers to enhance industrial efficiency. The Industrial Productivity Sector consists of three segments:

- Air Solutions Segment provides equipment and services for compressed air systems.
- Bearings and Components Segment provides motion control technologies to the automotive and industrial markets. These products include Torrington® and Fafnir® bearings and components.
- Industrial Products Segment includes Club Car® golf cars and utility vehicles, tools and related industrial production equipment.

The Infrastructure Sector designs, manufactures and markets powered vehicles that are utilized in infrastructure development, commercial construction and material movement fields. The Infrastructure Sector includes Bobcat® skid-steer loaders and compact hydraulic excavators, Blaw-Knox® and ABG® pavers, and Ingersoll-Rand® compactors, drilling equipment, and portable power products.

The Security and Safety Sector concentrates on manufacturing, marketing, and managing the distribution channels required to reach end user customers seeking products that enhance productivity and security in the industrial, construction, and do-it-yourself markets. Security and Safety includes architectural hardware products, such as Schlage® locks, Von Duprin® exit devices, door-control hardware, steel doors, and electronic access control technologies including, power-operated doors and architectural columns.

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

<i>In millions</i>	2000	1999	1998
Sales			
United States	\$5,790.4	\$5,167.4	\$4,871.3
Foreign	3,007.8	2,675.2	2,668.9
Total	\$8,798.2	\$7,842.6	\$7,540.2

<i>In millions</i>	2000	1999
Long-lived assets		
United States	\$1,305.3	\$ 803.4
Foreign	513.4	646.0
Total	\$1,818.7	\$1,449.4

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

<i>Dollar amounts in millions</i>	2000	1999	1998
Climate Control			
Sales	\$2,021.1	\$1,221.8	\$1,206.8
Operating income	206.4	166.5	159.3
Operating income as % of sales	10.2%	13.6%	13.2%
Depreciation and amortization	114.5	79.7	82.4
Industrial Productivity			
<i>Air Solutions</i>			
Sales	859.5	764.3	778.0
Operating income	93.7	89.3	72.1
Operating income as % of sales	10.9%	11.7%	9.3%
<i>Bearings & Components</i>			
Sales	1,185.3	1,239.5	1,249.6
Operating income	159.8	145.7	137.2
Operating income as % of sales	13.5%	11.8%	11.0%
<i>Industrial Products</i>			
Sales	980.2	987.3	965.5
Operating income	112.4	113.5	106.3
Operating income as % of sales	11.5%	11.5%	11.0%
Total Industrial Productivity			
Sales	3,025.0	2,991.1	2,993.1
Operating income	365.9	348.5	315.6
Operating income as % of sales	12.1%	11.7%	10.5%
Depreciation and amortization	83.7	96.4	92.7
Infrastructure			
Sales	2,341.7	2,341.5	2,224.1
Operating income	375.5	393.1	326.8
Operating income as % of sales	16.0%	16.8%	14.7%
Depreciation and amortization	57.8	57.7	56.8
Security & Safety			
Sales	1,410.4	1,288.2	1,116.2
Operating income	271.6	248.4	219.3
Operating income as % of sales	19.3%	19.3%	19.6%
Depreciation and amortization	35.1	36.4	29.1
<hr/>			
Total sales	\$8,798.2	\$7,842.6	\$7,540.2
Operating income from reportable segments	1,219.4	1,156.5	1,021.0
Unallocated corporate expenses	(105.1)	(57.2)	(51.9)
Total operating income	\$1,114.3	\$1,099.3	\$969.1
Total operating income as % of sales	12.7%	14.0%	12.9%
Depreciation and amortization from reportable segments	291.1	270.2	261.0
Unallocated depreciation and amortization	5.9	2.2	2.6
Total depreciation and amortization	\$297.0	\$272.4	\$263.6

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 accountants, 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 the selection of the independent accountants, who are then appointed by the board of directors, subject to ratification by the shareholders.

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



David W. Devonshire
Executive Vice President and Chief Financial Officer

Report of Independent Accountants

PricewaterhouseCoopers LLP
400 Campus Drive
Florham Park, NJ 07932

February 6, 2001

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

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 and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three 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 2000 and 1999 follows:

In millions except per share amounts

	Net sales	Cost of goods sold	Operating income	Net earnings	Basic earnings per common share	Diluted earnings per common share
2000						
First quarter	\$ 2,020.4	\$ 1,481.6	\$ 269.3	\$ 136.0	\$ 0.84	\$ 0.83
Second quarter	2,232.9	1,614.8	348.5	175.4	1.09	1.08
Third quarter	2,300.8	1,713.8	246.0	251.9	1.56	1.55
Fourth quarter	2,244.1	1,650.8	250.5	106.1	0.66	0.66
Year 2000	\$ 8,798.2	\$ 6,461.0	\$ 1,114.3	\$ 669.4	\$ 4.15	\$ 4.12
1999						
First quarter	\$ 1,933.6	\$ 1,432.7	\$ 238.6	\$ 121.1	\$ 0.74	\$ 0.73
Second quarter	2,089.6	1,516.0	304.8	166.6	1.01	0.99
Third quarter	1,888.9	1,367.5	272.9	137.5	0.84	0.83
Fourth quarter	1,930.5	1,374.7	283.0	165.9	1.02	1.01
Year 1999	\$ 7,842.6	\$ 5,690.9	\$ 1,099.3	\$ 591.1	\$ 3.61	\$ 3.57

All amounts shown have been restated to reflect adoption of Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" in the fourth quarter of 2000.

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 and also on the London and Amsterdam exchanges.

2000	Common Stock				
	High		Low		Dividend
First quarter	\$57	3/4	\$34	1/8	\$0.17
Second quarter	51	3/8	39	3/8	0.17
Third quarter	48	3/4	31	7/8	0.17
Fourth quarter	44	13/16	29	1/2	0.17
1999	High	Low	Dividend		
First quarter	\$52	7/16	\$44	5/8	\$0.15
Second quarter	73	13/16	49	7/8	0.15
Third quarter	67	11/16	53	–	0.17
Fourth quarter	58	1/2	44	7/8	0.17



Ingersoll-Rand Company
Corporate Headquarters
200 Chestnut Ridge Road
Woodcliff Lake, New Jersey 07677
www.irco.com