INGERSOLL RAND CO LTD
Form DEF 14A
April 23, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Ingersoll-Rand Company Limited

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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Ingersoll-Rand Company Limited

Principal Executive Office:

Clarendon House
2 Church Street

Hamilton HM 11

Bermuda

US Mailing Address:

155 Chestnut Ridge Road
Montvale, NJ 07645

(201) 573-0123

NOTICE OF 2007 ANNUAL GENERAL MEETING OF SHAREHOLDERS

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

1. To elect seven directors to hold office for one year.

2. To adopt the Incentive Stock Plan of 2007.

3. To approve the appointment of PricewaterhouseCoopers LLP as independent auditors of the Company for 2007 and authorize the Board of Directors to fix the auditors remuneration.

4. To act on one shareholder proposal if presented at the meeting.

5. To conduct such other business properly brought before the meeting.

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

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

By Order of the Board of Directors

B. A. SANTORO
Vice President Corporate Governance

and Secretary

Dated: April 23, 2007

YOUR VOTE IS IMPORTANT

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

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PROXY STATEMENT

INFORMATION CONCERNING VOTING AND SOLICITATION

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

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

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

How Do I Attend the Annual General Meeting?

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

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

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

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

Why Did I Receive This Proxy Statement?

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

Who Can Vote?

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

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

How Do I Vote?

Shareholders of record can cast their votes by proxy by:

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

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

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

How Can Employees Vote Under Our Employee Plans?

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

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

May I Revoke My Proxy?

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

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

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

How Will My Proxy Get Voted?

If you properly complete, sign and date the enclosed proxy card and send it to us or properly deliver your proxy over the internet, your proxy holder (one of the individuals named on the enclosed proxy card) will vote your shares as you have directed. Under the rules of The New York Stock Exchange (NYSE), if your broker or nominee is a member of the NYSE and holds your shares in its name, the broker or nominee may vote your shares on Items 1 and 3 (routine matters) if it does not receive instructions from you. However, your broker or nominee may not vote your shares on Items 2 and 4 (non-routine matters) if it does not receive instructions from you and, accordingly, such shares will not be counted as votes for or against the non-routine matters, but rather will not be counted at all for these matters.

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

What Constitutes A Quorum?

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

What Vote Is Required To Approve Each Proposal?

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

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

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

Who Will Count The Votes?

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

Who Pays The Expenses Of This Proxy Statement?

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

How Will Voting On Any Other Matter Be Conducted?

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

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PROPOSALS REQUIRING YOUR VOTE

Item 1. Election of Directors

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

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

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

The Board of Directors recommends a vote FOR this proposal.

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

Gary D. Forsee age 57

Chairman of the Board (since December 2006) and Chief Executive Officer (since August 2005) of Sprint Nextel Corporation.

Chairman of the Board and Chief Executive Officer of Sprint Corporation from 2003 to 2005.

Vice Chairman Domestic Operations of BellSouth Corporation from 2002 to 2003.

Vice Chairman and President of BellSouth International from 2001 to 2002.

Other Activities:

Chairman, National Security Telecommunications Advisory Committee

Trustee, Board of Trustees, University of Missouri at Rolla

Trustee, National Board of Trustees, Boy Scouts of America

Peter C. Godsoe age 68, director since 1998

Chairman of the Board and Chief Executive Officer of The Bank of Nova Scotia (a Canadian-based international bank) from 1995 until retirement in 2004.

Director of:

- Barrick Gold Corporation
- Lonmin plc
- Onex Corporation
- Rogers Communications Inc.
- Sobeys Inc.
- Templeton Emerging Markets Investment Trust plc

Other Activities:

- Director, Atlantic Institute for Market Studies

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Director, Canadian Council of Christians and Jews

Director, Mount Sinai Hospital

Constance J. Horner age 65, director since 1994

Guest Scholar at the Brookings Institution from 1993 to 2005.

Commissioner of U.S. Commission on Civil Rights from 1993 to 1998.

Assistant to the President and Director of Presidential Personnel from 1991 to 1993.

Deputy Secretary, U.S. Department of Health and Human Services from 1989 to 1991.

Director of:

Pfizer Inc.

Prudential Financial, Inc.

Other Activities:

Trustee, Annie E. Casey Foundation

Trustee, The Prudential Foundation

Fellow, National Academy of Public Administration

Theodore E. Martin age 67, director since 1996

President and Chief Executive Officer of Barnes Group Inc. (manufacturer and distributor of precision springs and custom metal parts) from 1995 until retirement in 1998.

Director of:

Applera Corporation

C. R. Bard, Inc.

Strong Tool Company

Unisys Corporation

Other Activities:

Director, Edna McConnell Clark Foundation

Trustee (emeritus), Syracuse University

Patricia Nachtigal age 60, director since 2002

Senior Vice President and General Counsel of the Company since 2000.

Vice President and General Counsel of the Company from 1992 to 2000.

Other Activities:

Governor, Rutgers, The State University of New Jersey

Trustee, Rutgers, The State University of New Jersey

Advisory Trustee, National Multiple Sclerosis Society Greater North Jersey Chapter

Orin R. Smith age 71, director since 1995

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

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President and Chief Executive Officer of Engelhard Corporation from 1984 to 1995.

Director of:

Applera Corporation

Vulcan Materials Company

Other Activities: Trustee, Duxbury Bay Maritime School

Richard J. Swift age 62, director since 1995

Chairman of Financial Accounting Standards Advisory Council from January 2002 until December 2006.

Chairman, President and Chief Executive Officer of Foster Wheeler Ltd. (provider of design, engineering, construction, manufacturing, management and environmental services) from 1994 until 2001.

Director of:

CVS Corporation

Hubbell Incorporated

Kaman Corporation

Public Service Enterprise Group

Directors Continuing in Office until 2008

Ann C. Berzin age 55, director since 2001

Private investor since 2001.

Chairman and Chief Executive Officer of Financial Guaranty Insurance Company (insurer of municipal bonds and structured finance obligations), a subsidiary of General Electric Capital Corporation, from 1992 to 2001.

Director of Kindred Healthcare, Inc.

Other Activities: Director, ArtsConnection

Herbert L. Henkel age 59, director since 1999

Chairman of the Board (since May 2000) and President and Chief Executive Officer (since October 1999) of the Company.

President and Chief Operating Officer of the Company from April 1999 to October 1999.

Chief Operating Officer of Textron Inc. (a multi-industry company with operations in aircraft, automotive, industrial and finance) from 1998 to March 1999.

Vice President of Textron Inc. responsible for Textron Industrial Products Segment from 1993 to 1998.

Director of C. R. Bard, Inc.

H. William Lichtenberger age 71, director since 1995

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

Director of:

AEA LLC

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Arch Chemicals, Inc.

Huntsman Corporation

Other Activities: Director and Vice Chairman, Treasure Coast Hospices

Tony L. White age 60, director since 1997

Chairman, President and Chief Executive Officer of Applera Corporation (a developer, manufacturer and marketer of life science systems and genomic information products) since 1995.

Executive Vice President of Baxter International Inc. (provider of medical products and services) from 1993 to 1995.

Director of C.R. Bard, Inc.

Item 2. Adoption of the Incentive Stock Plan of 2007

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

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

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

Description of the 2007 Plan

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

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

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

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

Stock Options and Stock Appreciation Rights

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

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

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

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

Stock Awards

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

Performance-Based Awards

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

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Limitation on Full Value Awards

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

Certain Practices Prohibited

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

Adjustment and Change in Control Provisions

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

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

Term, Administration and Amendment

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

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

U.S. Federal Income Tax Consequences

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

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

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

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

The Board of Directors recommends a vote FOR this proposal.

Item 3. Approval of Appointment of Independent Auditors

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

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

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

Audit Committee Report

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

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

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

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

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

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

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

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

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

AUDIT COMMITTEE

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

Fees of the Independent Auditors

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

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

(a) Audit Fees for the fiscal years ended December 31, 2006 and 2005, respectively, were for professional services rendered for the audits of the annual consolidated financial statements of the Company and include quarterly reviews, statutory audits, issuance of comfort letters and consents and assistance with, and review of, documents filed with the SEC. Audit fees for December 31, 2006, and December 31, 2005, also include fees related to the audit of internal controls. The Company reported Audit Fees for fiscal year 2005 of $11,585,000 in its 2006 proxy statement. The difference of approximately $800,000 is attributable to additional statutory audits performed in fiscal year 2005, but not identified until after the date of the 2006 proxy statement.

(b) Audit-Related Fees consist of assurance and related services that are reasonably related to performing the audit and review of our financial statements. Audit-Related Fees for the years ended December 31, 2006 and 2005 include services related to audits of employee benefit plans and audits in connection with dispositions.

(c) Tax Fees for the years ended December 31, 2006 and 2005, respectively, include consultation and compliance services and services related to the Company s foreign sales corporation and to research and development credits.

(d) All Other Fees for the years ended December 31, 2006 and 2005, respectively, include license fees for global best practices database and technical accounting software, and review of a refund application for anti-dumping payments under the Continued Dumping Subsidy Offset Act.

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

Item 4. Shareholder Proposal Requiring a Shareholder Vote on an Advisory Resolution

With Respect to Executive Compensation

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

Shareholder Proposal

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

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

Supporting Statement

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

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

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

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

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

We urge stockholders to vote for this proposal.

Board of Directors Statement in Opposition to the Shareholder Proposal

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

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

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

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

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

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

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

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

(a) Unless otherwise indicated, all shares are held directly. No director or executive officer of the Company owns as much as 1% of the outstanding Class A common shares.

(b) Represents Class A common shares held by the trustee under the Ingersoll-Rand Company Employee Savings Plan (ESP) and the IR/Clark Leveraged Employee Stock Ownership Plan (LESOP) for the benefit of executive officers.

(c) Represents Class A common shares as to which directors and executive officers had options exercisable within 60 days of April 9, 2007, under the Company s Incentive Stock Plans.

(d) In the case of non-employee directors, these amounts represent common share equivalents earned and vested under the IR Directors Deferred Compensation and Stock Award Plan (the Director Deferral Plan I) and the IR Directors Deferred Compensation and Stock Award Plan II (the Director Deferral Plan II and, together with the Director Deferral Plan I, referred to as the Director Deferral Plans) (both of which are referred to below under the heading Compensation of Directors). In the case of executive officers these amounts represent (i) Class A common share equivalents earned and vested under the IR Executive Deferred Compensation Plan (the EDCP Plan I) and the IR Executive Deferred Compensation Plan II (the EDCP Plan II and, together with the EDPC Plan I, the EDCP Plans) and (ii) Class A common share equivalents resulting from dividends on stock awards deferred at the election of the executives.

(e) Includes 4,000 Class A common shares held in the names of Mr. Henkel s daughters, as to which beneficial ownership is disclaimed.

(f) The Class A common shares beneficially owned by all directors and executive officers as a group (including shares issuable under exercisable options) aggregated approximately 2% of the total outstanding Class A common shares. Common share equivalents accrued under the Director Deferral Plans, the EDCP Plans and the supplemental employee savings plan are not counted as outstanding shares in calculating these percentages.

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

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Barclays Global Investors, NA. 45 Fremont Street San Francisco, CA 94105	25,740,879(a)	8.47%

(a) Information regarding Barclays Global Investors, NA. and its stockholdings was obtained from a Schedule 13G filed with the SEC on January 23, 2007. The filing indicated that, as of December 31, 2006, Barclays Global Investors, NA. had sole investment power as to all of such shares and sole voting power as to 23,606,246 of such shares.

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CORPORATE GOVERNANCE

Corporate Governance Guidelines

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

Role of the Board of Directors

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

Board Responsibilities

The Board s core responsibilities include:

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

Director Compensation and Stock Ownership

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

Board Size and Composition

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

Board Advisors

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

Executive Sessions

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

Lead Director

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

Board Evaluation

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

Director Orientation and Education

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

Director Nomination Process

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

Declassified Board

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

Director Independence

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

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

Shareholder Communications with Directors

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

Code of Conduct

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

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

Committees of the Board

Audit Committee

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

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

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

A copy of the charter of the Audit Committee is available at our website, *www.ingersollrand.com*, under the heading Investor Relations Corporate Governance.

Compensation Committee

Members:	Orin R. Smith (Chair)
	Peter C. Godsoe
	Constance J. Horner

Tony L. White

Key Functions:

Establish executive compensation policies.

Review and approve the goals and objectives relevant to the compensation of the Chief Executive Officer, evaluate the Chief Executive Officer s performance against those goals and objectives and set the Chief Executive Officer s compensation level based on this evaluation.

Approve compensation of officers and key employees.

Administer the Company s equity compensation plans.

Review and recommend changes in principal employee benefit programs.

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

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

A copy of the charter of the Compensation Committee is available at our website, *www.ingersollrand.com*, under the heading Investor Relations Corporate Governance.

Corporate Governance and Nominating Committee

Members: Constance J. Horner (Chair)

Peter C. Godsoe

Orin R. Smith

Tony L. White

Key Functions:

Identify individuals qualified to become directors and recommend the candidates for all directorships.

Recommend individuals for election as officers.

Review the Company s Corporate Governance Guidelines and make recommendations for changes.

Consider questions of independence and possible conflicts of interest of directors and executive officers.

Take a leadership role in shaping the corporate governance of the Company.

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

A copy of the charter of the Corporate Governance and Nominating Committee is available at our website, *www.ingersollrand.com*, under the heading Investor Relations Corporate Governance.

Finance Committee

Members: H. William Lichtenberger (Chair)

Ann C. Berzin

Theodore E. Martin

Richard J. Swift

Key Functions:

Review proposed borrowings and issuances of securities.

Recommend to the Board the dividends to be paid on our common shares.

Review cash management policies.

Review periodic reports of the investment performance of the Company s employee benefit plans.

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

A copy of the charter of the Finance Committee is available at our website, *www.ingersollrand.com*, under the heading Investor Relations Corporate Governance.

Board, Committee and Annual Meeting Attendance

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

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

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

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

Compensation of Directors

2006 Director Compensation

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

2007 Director Compensation

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

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

Director Deferred Compensation

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

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2006 Director Compensation

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

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

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

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

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

(b) The amounts in this column represent the $60,000 Class A common share equivalent retainer provided to each non-employee director for fiscal year 2006 and the value of the 20% additional amount received by each non-employee director that elected to defer all or a portion of their cash retainer and meeting fees into Class A common share equivalents under the Director Deferral Plan II.

(c)

George W. Buckley declined to stand for re-election to the Board of Directors at the 2006 annual general meeting of shareholders due to time demands of his new position as Chairman, President and Chief Executive Officer of 3M Company. The compensation reflected for Mr. Buckley is through June 2006.

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

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

COMPENSATION DISCUSSION AND ANALYSIS AND EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

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

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

Compensation Philosophy Beliefs and Principles

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

Five design principles govern the executive compensation programs:

1. General program competitiveness:

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

2. Pay for performance:

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

3. Internal parity:

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

4. Alignment with various business strategies:

The executive compensation programs are structured to be flexible in recognizing that individuals within business units must focus on specific financial measures to meet the short and long term plans of the business unit for which they are accountable. This principle, in conjunction with the Company-wide philosophy of general competitiveness, pay for performance and internal parity, determines the award opportunity for business unit leaders. Thus, it is not only possible but also desirable for certain sector or business unit leaders to earn substantial awards in years when their units outperform the Company as a whole. Conversely, if a sector or business unit fails to meet its annual plan, that sector or business unit s leader may earn a lesser award in that year than his or her peers in a business unit or sector that did meet or exceed its goals.

5. Shareholder alignment:

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

Executive Compensation Programs

Peer Group Comparison

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

Program Structure and Compensation Committee Judgment

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

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

Total Direct Compensation

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

Base Salaries

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

The Annual Incentive Matrix (AIM) Program

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

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

The CEO s 2006 AIM Award

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

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

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

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

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

The AIM Award for Other Named Executive Officers (NEOs)

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

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

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

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

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

Performance Share Program (PSP)

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

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

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

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

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

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

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

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

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

Stock Options

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

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

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

2006 Stock Option Award for the CEO

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

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

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The Mix of Total Direct Compensation

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

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

Observations Regarding Mix

Total variable pay opportunity is comprised of the AIM program, stock option program and PSP program, and, together with the base salary, comprises the total direct compensation.

71% (total variable pay opportunity) of executive compensation opportunity was contingent on, and variable with, performance against pre-established business plans, while 49% (stock option and PSP programs) was contingent on, and variable with, stock price performance.

Employees with higher level positions and responsibilities had a greater portion of their pay opportunity at risk, that is, dependent on individual, business unit, sector and Company performance.

88% of the CEO s total direct compensation opportunity is contingent on performance; 75% of total direct compensation for the other NEOs is contingent on performance.

Both equity and non-equity awards are granted at the first meeting of the Compensation Committee each year, held the first Wednesday of February. The timing of this meeting allows management to review the prior year performance, and assemble all of the necessary information; this date usually follows the release of prior year earnings results. The date is not selected or changed to increase the value of stock option awards for executives.

Senior Executive Performance Plan

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

Executive Deferred Compensation Plans (EDCP Plans)

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

Share-Ownership Guidelines

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

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

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

Executive Perquisites

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

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Retirement Programs and Other Benefits

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

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

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

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

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

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

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

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

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

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

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

2006 Chief Executive Officer Compensation

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

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

AIM Program	$2,000,000
PSP Program	$3,523,313
Total Cash Incentive	$5,523,313
Stock Option Program	218,925 options

2006 Compensation of Other Named Executive Officers

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

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

Severance Arrangements

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

Change In Control Provisions

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

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Compensation Committee Report

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

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

COMPENSATION COMMITTEE

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

Executive Compensation

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

SUMMARY COMPENSATION TABLE

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

(a) Pursuant to the EDCP Plans, a portion of a participant s fiscal year 2006 annual salary may be deferred into a number of investment options. A portion of the salary of each of Messrs. Henkel (20%) and McLevish (50%) was deferred into the EDCP Plans. None of these deferrals were invested in Class A common share equivalents. Amounts shown are not reduced to reflect the NEO s elections, if any, to defer receipt of salary into the EDCP Plans.

(b) This column does not reflect a benefit to the Company in its financial statements of $784,248 as a result of an accounting change to the reporting of Mr. Henkel s stock awards granted in 1999. On August 2, 2006, the Compensation Committee decided that previously granted stock awards would be settled in Class A common shares rather than cash, as was the practice in the past. Due to this change, the Company marked down to market the value of Mr. Henkel s stock awards due to the difference in the stock price between the beginning of fiscal year 2006 and August 2, 2006. This one-time benefit would have the effect of artificially reducing Mr. Henkel s total compensation.

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(c) The amounts in this column represent the compensation costs of stock options for financial reporting purposes for the year under FAS 123(R) and do not reflect an amount paid to or realized by the NEOs. For a discussion of the assumptions made in determining the FAS 123(R) values see Note 11, Stock-Based Compensation to the Company s consolidated financial statements contained in its 2006 Annual Report. For retirement eligible participants, the entire amount of the stock option award is expensed in the year of grant. For participants who are not retirement eligible, the FAS 123(R) grant date fair value of the options is spread over the number of months of service required for the grant to become non-forfeitable, disregarding any adjustments for potential forfeitures.

(d) This column reflects the combined amounts earned as annual awards under the AIM program and the PSP program. Unless deferred into the EDCP Plans, payments are made in cash and, in the case of the PSP program, are based on the value of the Class A common shares on the date of the determination of the final award. The amounts earned as annual awards under the AIM program and the PSP program for fiscal year 2006 performance (paid out in February 2007, unless deferred into the EDCP Plans) are as follows:

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

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

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

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

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

(f) The amounts reflected in this column include:

for Ms. Nachtigal and Mr. Vasiloff, the cash portion of the dividend paid pursuant to the Company s MIU Plan;

Company contributions to the accounts of the NEOs under the ESP, as well as amounts credited to the accounts of such executive officers under the Supplemental ESP, which provide benefits which would have been provided under the applicable tax-qualified plan but for Internal Revenue Code and qualified plan restrictions on such benefits;

for Mr. Henkel and Ms. Nachtigal under the Senior Executive Death Benefit program, a portion of their respective life insurance policy premiums representing the difference between the cost of age graded insurance and premiums paid by such NEOs;

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for Ms. Nachtigal, income recognized during the term of the split-dollar life insurance policies purchased by the Company pursuant to the Estate Enhancement Program. The income amount is based on the face amount of the policy and the age of the insured under the policy;

the aggregate incremental cost to the Company for providing certain perquisites to the NEOs. For security and safety reasons and to maximize his availability for Company business, the Board of Directors requires Mr. Henkel to travel exclusively on Company-provided aircraft for business and personal purposes. The incremental cost to the Company of personal use of the Company aircraft is calculated based on the hourly average variable operating costs to the Company. Variable operating costs include fuel, maintenance, on-board catering and landing fees. The hourly average variable cost is multiplied by the amount of time flown for personal use to derive the incremental cost. The methodology excludes fixed costs that do not change based on usage, such as pilots and other employees salaries, management fees and training, hanger and insurance expenses. The Company also provided relocation benefits to Mr. Henkel, including reimbursement of household moving expenses and reimbursement of home sale and purchase closing costs. See Certain Relationships and Related Party Transactions. The Company provides its executive officers with Company-leased cars for business and personal use. The incremental cost of the Company-leased cars is calculated based on the lease, insurance, fuel and maintenance costs to the Company. In addition, the Company provides its executive officers with (i) financial counseling services, which may include tax preparation and estate planning services, (ii) medical services through an on-site physician under the Executive Health Program and (iii) wellness reimbursement for health club memberships;

for Mr. Vasiloff, the 20% supplemental amount on AIM and PSP awards deferred into Class A common share equivalents under the EDCP Plan II through August 2, 2006. For all NEOs in prior years, the 20% supplemental amounts were included in the Restricted Stock Awards column of the Summary Compensation Table. As previously discussed in Compensation Discussion and Analysis, all prior 20% supplemental amounts that had not vested at that date were accelerated. The accelerated supplemental amounts consist of 20,513 share equivalents, 7,372 share equivalents, 5,130 share equivalents, 3,704 share equivalents and 7,513 share equivalents for Messrs. Henkel, McLevish, Vasiloff and Lamach and Ms. Nachtigal, respectively;

for Messrs. Henkel and Vasiloff and Ms. Nachtigal, the estimated year over year increase in the value of the retiree medical plan. The increase was calculated based on the methods used for financial statement reporting purposes; and

for Mr. Henkel, those payments that reimbursed him for the income taxes payable in respect of relocation benefits he received as well as personal usage of company provided aircraft.

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

Name	MIU Plan ($)	ESP (including Supplemental ESP) ($)	Senior Executive Death Benefit Program ($)	Estate Enhancement Program ($)	Perquisites ($) (a)	20% Company Contribution To EDCP Plans ($)	Retiree Medical Plan ($)	Aircraft Usage Tax Gross-up ($)	Relocation Benefits Tax Gross-up ($)	Total ($)
H. L. Henkel		250,980	6,009		422,304		3,300	11,577	8,764	702,934
T. R. McLevish		63,756			37,125					100,881
M. W. Lamach		55,976			25,297					