NAVARRO IMELDA
Form 4
December 05, 2008

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
NAVARRO IMELDA

(Last) (First) (Middle)

P.O. BOX 1359

(Street)

LAREDO, TX 78040

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
INTERNATIONAL BANCSHARES CORP [IBOC]

3. Date of Earliest Transaction (Month/Day/Year)
12/04/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
COMMON STOCK	12/04/2008		S		6,919	D	$ 23.3	243,550	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
NAVARRO IMELDA P.O. BOX 1359 LAREDO, TX 78040	X			

Signatures

/S/IMELDA NAVARRO	12/04/2008
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. reasonably practicable after such reports are electronically filed with or furnished to the SEC. The Board of Directors of the Company has also adopted and posted in the Investor Relations section of its website the Company's Corporate Governance Guidelines and charters for each of the Board's standing committees. A copy of the above filings will also be provided free of charge upon written request to the Company.

Certifications

New York Stock Exchange Annual Chief Executive Officer Certification
The Company's Chief Executive Officer submitted to the New York Stock Exchange ("NYSE") the Annual CEO Certification as the Company's compliance with the NYSE's corporate governance listing standards required by Section 303A.12 of the NYSE's listing standards.

Sarbanes-Oxley Act Section 302 Certification
The certifications of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to this Annual Report on Form 10-K.

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Explanation of Responses:

Item 1A. **RISK FACTORS**

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

Risks Relating to Our Businesses

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

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

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

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

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

We estimate that our available cash and our cash flow from operations will be adequate to fund our operations for the foreseeable future. In making this estimate, we have not assumed the need to make any material payments in connection with any pending litigation or investigations. As required by U.S. generally accepted accounting principles, we establish reserves based on our assessment of contingencies. Subsequent developments in legal proceedings, including current or future asbestos-related litigation, may affect our assessment and estimates of the loss contingency recorded as a reserve requiring us to make additional material payments, which could result in an adverse effect on our results of operations.

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

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

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

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

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

Our global operations subject us to economic risks.

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Reorganization as a Bermuda Company

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

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

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

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

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

The U.S. federal government and various other states and municipalities have proposed or may propose legislation intended to deny government contracts to U.S. companies that reincorporate outside of the U.S. For instance, The Homeland Security Appropriations Act, signed into law October 18, 2004, includes a provision that prohibits reincorporated companies from entering into contracts with the Department of Homeland Security for funds available under the Homeland Security Appropriations Act. In addition, the State of California adopted legislation intended to limit the eligibility of certain Bermuda and other non-U.S. chartered companies to participate in certain state contracts and the State of North Carolina enacted a bill that provides a preference for North Carolina or U.S. products and services. Generally, these types of legislation relate to direct sales and distribution, while we typically sell our products through distributors. However, we are unable to predict with any level of certainty the likelihood or final form of these types of legislation, the nature of regulations that may be promulgated thereunder, or the impact such enactments and increased regulatory scrutiny may have on our business. We cannot provide any assurance that the impact on us of any adopted or proposed legislation in this area will not be materially adverse to our operations.

Explanation of Responses:

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

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

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

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

Item 1B. **UNRESOLVED STAFF COMMENTS**

None.

Item 2. **PROPERTIES**

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

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

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

Climate Control Technologies' manufacturing locations are as follows:

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

Compact Vehicle Technologies' manufacturing facilities are as follows:

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

Construction Technologies' manufacturing facilities are as follows:

	Number of Plants	Approximate Square Footage
United States	6	
Non - U.S.	5	

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

As used in these Notes, references to Key, we, our, us and similar terms refer to the consolidated entity c
refers solely to the parent holding company, and KeyBank refers to KeyCorp s subsidiary, KeyBank National Assoc
We have provided the following list of acronyms and abbreviations as a tool for the reader. The acronyms and abbre
Notes to Consolidated Financial Statements (Unaudited) as well as Management s Discussion & Analysis of Financ

AICPA: American Institute of Certified Public Accountants.
ALCO: Asset/Liability Management Committee.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
Austin: Austin Capital Management, Ltd.
CMO: Collateralized mortgage obligation.
Common Shares: Common Shares, $1 par value.
CPP: Capital Purchase Program of the U.S. Treasury.
DIF: Deposit Insurance Fund.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve System**.**
FHLMC: Federal Home Loan Mortgage Corporation.
FNMA: Federal National Mortgage Association.

N/M: Not meaningful.
NOW: Negotiable Order of With
NYSE: New York Stock Exchan
OCI: Other comprehensive incor
OREO: Other real estate owned.
OTTI: Other-than-temporary im
QSPE: Qualifying special purpos
PBO: Projected Benefit Obligatio
S&P: Standard and Poor s Ratin Companies, Inc.
SCAP: Supervisory Capital Asse Reserve.
SEC: U.S. Securities & Exchang
Series A Preferred Stock: KeyC Convertible Preferred Stock, Seri
Series B Preferred Stock: KeyC Preferred Stock, Series B issued t
SILO: Sale in, lease out transacti

GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
Heartland: Heartland Payment Systems, Inc.
IRS: Internal Revenue Service.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
LILO: Lease in, lease out transaction.
Moody s: Moody s Investors Service, Inc.
N/A: Not applicable.
NASDAQ: National Association of Securities Dealers Automated Quotation System.

SPE: Special purpose entity.
TAG: Transaction Account Guar
TARP: Troubled Assets Relief P
TE: Taxable equivalent.
TLGP: Temporary Liquidity Gu
U.S. Treasury: United States De
VAR: Value at risk.
VEBA: Voluntary Employee Be
VIE: Variable interest entity.
XBRL: eXtensible Business Rep

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The consolidated financial statements include the accounts of KeyCorp and its subsidiaries. All significant intercom
eliminated in consolidation.
The consolidated financial statements include any voting rights entities in which we have a controlling financial inte
accounting guidance for consolidations, we also consolidate a VIE if we have: (i) a variable interest in the entity; (ii)
most significantly impact the entity s economic performance; and (iii) the obligation to absorb losses of the entity th
or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered
interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees,
and other contracts, agreements and financial instruments. See Note 7 (Variable Interest Entities) for information
We use the equity method to account for unconsolidated investments in voting rights entities or VIEs if we have sign
and financing decisions (usually defined as a voting or economic interest of 20% to 50%, but not controlling). Uncon
or VIEs in which we have a voting or economic interest of less than 20% generally are carried at cost. Investments h
investment company subsidiaries (primarily principal investments) are carried at fair value.
Effective January 1, 2010, we prospectively adopted new accounting guidance which changes the way we account fo
concept of a QSPE and changing the requirements for derecognition of financial assets. In adopting this guidance, w
possible consolidation. As a result, we consolidated our education loan securitization trusts thereby adding $2.8 billi
balance sheet including $2.6 billion of loans. Prior to January 1, 2010, QSPEs, including securitization trusts, establi
guidance for transfers of financial assets were not consolidated. For additional information related to the consolidati
see the section entitled Accounting Standards Adopted in 2010 in this note and Note 16 (Discontinued Operatio
We believe that the unaudited condensed consolidated interim financial statements reflect all adjustments of a norma
necessary for a fair presentation of the results for the interim periods presented. Some previously reported amounts h
reporting practices.
The results of operations for the interim period are not necessarily indicative of the results of operations to be expect
statements should be read in conjunction with the audited consolidated financial statements and related notes include
In preparing these financial statements, subsequent events were evaluated through the time the financial statements w
considered issued when they are widely distributed to all shareholders and other financial statement users, or filed w
accounting standards, all material subsequent events have been either recognized in the financial statements or disclo

Goodwill and Other Intangible Assets

In accordance with relevant accounting guidance, goodwill and certain other intangible assets are subject to impairm
annually. We perform goodwill impairment testing in the fourth quarter of each year. Our reporting units for purpose
Community Banking and National Banking. Due to uncertainty regarding the strength of the economic recovery, we
indicators for goodwill and other intangible assets, and to evaluate the carrying amount of these assets as necessary.
Based on our review of impairment indicators during the first and second quarters of 2010, we determined that furth
Community Banking unit were necessary. These reviews indicated the estimated fair value of the Community Banki
amount

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at both June 30, 2010 and March 31, 2010. No further impairment testing was required. There was no goodwill asso
June 30, 2010 or March 31, 2010.

Offsetting Derivative Positions

In accordance with the applicable accounting guidance related to the offsetting of certain derivative contracts on the
impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts held with a
offset the net derivative position with the related collateral when recognizing derivative assets and liabilities. Additi
offsetting is provided in Note 14 (Derivatives and Hedging Activities).

Accounting Guidance Adopted in 2010

Transfers of financial assets. In June 2009, the FASB issued new accounting guidance which changes the way entit
eliminating the concept of a QSPE and changing the requirements for derecognition of financial assets. This guidanc
was effective at the start of an entity s first fiscal year beginning after November 15, 2009 (effective January 1, 201
have a material effect on our financial condition or results of operations.

Consolidation of variable interest entities. In June 2009, the FASB issued new accounting guidance which, in addit
changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voti
The determination of whether a company is required to consolidate an entity is based on, among other things, the en
ability to direct the activities that most significantly impact the entity s economic performance. This guidance was e
year beginning after November 15, 2009 (effective January 1, 2010, for us).

In conjunction with our prospective adoption of this guidance on January 1, 2010, we consolidated our education lo
discontinued assets and liabilities), thereby adding $2.8 billion in assets and liabilities to our balance sheet, of which
In February 2010, the FASB deferred the application of this new guidance for certain investment entities and clarifi
qualifying for this deferral will continue to apply the previously existing consolidation guidance.

Improving disclosures about fair value measurements. In January 2010, the FASB issued accounting guidance wh
aspects of an entity s fair value disclosures and clarifies existing fair value disclosure requirements. The new disclo
interim and annual reporting periods beginning after December 15, 2009 (effective January 1, 2010, for us), except f
issuances and settlements in the rollforward of activity in Level 3 fair value measurements, which are effective for i
December 15, 2010 (effective January 1, 2011, for us). Our policy is to recognize transfers between levels of the fai
period. The required disclosures are provided in Note 15 (Fair Value Measurements).

Accounting Guidance Pending Adoption at June 30, 2010

Credit quality disclosures. In July 2010, the FASB issued new accounting guidance which requires additional disclo
receivables (i.e. loans) and the allowance for credit losses. Most of these additional disclosures will be required for i
or after December 15, 2010 (effective December 31, 2010, for us). Specific items regarding activity that occurred be
such as the allowance rollforward and modification disclosures, will be required for periods beginning after Decemb

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Embedded credit derivatives. In March 2010, the FASB issued new accounting guidance that amends and clarifies h
embedded in beneficial interests in securitized financial assets. This accounting guidance eliminates the existing sco
features embedded in beneficial interests in securitized financial assets. This guidance will be effective the first day
2010 (effective July 1, 2010, for us) with early adoption permitted. We have no financial instruments that would be s

2. Earnings Per Common Share

Our basic and diluted earnings per common share are calculated as follows:

dollars in millions, except per share amounts		Three months ended Ju 2010	
EARNINGS			
Income (loss) from continuing operations	**$**	**101**	$
Less: Net income (loss) attributable to noncontrolling interests		**4**	
Income (loss) from continuing operations attributable to Key		**97**	
Less: Dividends on Series A Preferred Stock		**6**	
Noncash deemed dividend common shares exchanged for Series A Preferred Stock			
Cash dividends on Series B Preferred Stock		**31**	
Amortization of discount on Series B Preferred Stock		**4**	
Income (loss) from continuing operations attributable to Key common shareholders		**56**	
Income (loss) from discontinued operations, net of taxes [a]		**(27)**	
Net income (loss) attributable to Key common shareholders	**$**	**29**	$
WEIGHTED-AVERAGE COMMON SHARES			
Weighted-average common shares outstanding (000)		**874,664**	57
Effect of dilutive convertible preferred stock, common stock options and other stock awards (000)			
Weighted-average common shares and potential common shares outstanding (000)		**874,664**	57
EARNINGS PER COMMON SHARE			
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.06**	$
Income (loss) from discontinued operations, net of taxes [a]		**(.03)**	
Net income (loss) attributable to Key common shareholders		**.03**	
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.06**	$
Income (loss) from discontinued operations, net of taxes [a]		**(.03)**	
Net income (loss) attributable to Key common shareholders assuming dilution		**.03**	

(a)

In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. As a result of these decisions, we have accounted for these businesses as discontinued operations. The loss from discontinued operations for the six-month period ended June 30, 2010, was primarily attributable to fair value adjustments related to the education lending securitization trusts. Included in the loss from discontinued operations for the six-month period

ended June 30, 2009, is a charge for intangible assets impairment related to Austin.

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3. Line of Business Results

The specific lines of business that comprise each of the major business groups (operating segments) are described be
re-aligned our reporting structure for our business groups. Prior to 2010, Consumer Finance consisted mainly of port
portfolios and were included in our National Banking segment. For all periods presented, we are reflecting the result
The automobile dealer floor-plan business, previously included in Consumer Finance, has been re-aligned with the C
the Community Banking segment. Our tuition processing business was moved from Consumer Finance to Global Tr
Capital and Corporate Banking Services. In addition, other previously identified exit portfolios included in the Natio
Other Segments.

Community Banking

Regional Banking provides individuals with branch-based deposit and investment products, personal finance servic
home equity and various types of installment loans. This line of business also provides small businesses with deposi
business advisory services.

Regional Banking also offers financial, estate and retirement planning, and asset management services to assist high
portfolio management, insurance, charitable giving and related needs.

Commercial Banking provides midsize businesses with products and services that include commercial lending, cash
and employee benefit programs, succession planning, access to capital markets, derivatives and foreign exchange.

National Banking

Real Estate Capital and Corporate Banking Services consists of two business units, Real Estate Capital and Corpor
Real Estate Capital is a national business that provides construction and interim lending, permanent debt placements
banking, and other commercial banking products and services to developers, brokers and owner-investors. This unit
properties (i.e., generally properties in which at least 50% of the debt service is provided by rental income from non
emphasizes providing clients with finance solutions through access to the capital markets.

Corporate Banking Services provides cash management, interest rate derivatives, and foreign exchange products and
Banking and National Banking groups. Through its Public Sector and Financial Institutions businesses, Corporate B
commercial banking products and services to government and not-for-profit entities and to community banks. A vari
the processing of tuition payments for private schools, are provided through the Global Treasury Management unit.

Equipment Finance meets the equipment leasing needs of companies worldwide and provides equipment manufactu
options for their clients. Lease financing receivables and related revenues are assigned to other lines of business (pri
Commercial Banking) if those businesses are principally responsible for maintaining the relationship with the client.

Institutional and Capital Markets, through its KeyBanc Capital Markets unit, provides commercial lending, treasur
derivatives, foreign exchange, equity and debt

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underwriting and trading, and syndicated finance products and services to large corporations and middle-market con
Institutional and Capital Markets, through its Victory Capital Management unit, also manages or offers advice regar
base, including corporations, labor unions, not-for-profit organizations, governments and individuals. These portfoli
common funds or the Victory family of mutual funds.

Other Segments

Other Segments consist of Corporate Treasury, our Principal Investing unit and various exit portfolios which were p
Banking segment. These exit portfolios were moved to Other Segments during the first quarter of 2010.

Reconciling Items

Total assets included under Reconciling Items primarily represent the unallocated portion of nonearning assets of
the funding of these assets are part of net interest income and are allocated to the business segments through noninte
intercompany eliminations and certain items that are not allocated to the business segments because they do not refle

The table on the following pages shows selected financial data for each major business group for the three- and six-
This table is accompanied by supplementary information for each of the lines of business that make up these groups
internal financial reporting system that we use to monitor and manage our financial performance. GAAP guides fina
guidance for management accounting the way we use our judgment and experience to make reporting decision
report may not be comparable with line of business results presented by other companies.

The selected financial data are based on internal accounting policies designed to compile results on a consistent basi
economics of the businesses. In accordance with our policies:

- ♦ Net interest income is determined by assigning a standard cost for funds used or a standard credit for funds prov
prepayment and/or repricing characteristics. The net effect of this funds transfer pricing is charged to the lines o
balances of each line.

- ♦ Indirect expenses, such as computer servicing costs and corporate overhead, are allocated based on assumptions
actually uses the services.

- ♦ The consolidated provision for loan losses is allocated among the lines of business primarily based on their actu
loan growth and changes in risk profile. The amount of the consolidated provision is based on the methodology
allowance for loan losses. This methodology is described in Note 1 (Summary of Significant Accounting Polic
Losses on page 82 in our 2009 Annual Report to Shareholders.

- ♦ Income taxes are allocated based on the statutory federal income tax rate of 35% (adjusted for tax-exempt intere
insurance and tax credits associated with investments in low-income housing projects) and a blended state incom
benefit) of 2.2%.

- ♦ Capital is assigned based on our assessment of economic risk factors (primarily credit, operating and market risk

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Developing and applying the methodologies that we use to allocate items among our lines of business is a dynamic p
revised periodically to reflect accounting enhancements, changes in the risk profile of a particular business or chang

Three months ended June 30, *dollars in millions*	**Community Banking 2010**	**200**
SUMMARY OF OPERATIONS		
Net interest income (TE)	**$ 408**	$ 43
Noninterest income	**199**	19
Total revenue (TE) [a]	**607**	63
Provision (credit) for loan losses	**121**	19
Depreciation and amortization expense	**9**	1
Other noninterest expense	**446**	48
Income (loss) from continuing operations before income taxes (TE)	**31**	(6
Allocated income taxes and TE adjustments	**(1)**	(3
Income (loss) from continuing operations	**32**	(3
Income (loss) from discontinued operations, net of taxes		
Net income (loss)	**32**	(3
Less: Net income (loss) attributable to noncontrolling interests		
Net income (loss) attributable to Key	**$ 32**	$ (3
AVERAGE BALANCES [b]		
Loans and leases	**$ 27,218**	$ 30,30
Total assets [a]	**30,292**	33,16
Deposits	**50,421**	52,78
OTHER FINANCIAL DATA		
Net loan charge-offs [b]	**$ 148**	$ 11
Return on average allocated equity [b]	**3.46 %**	(3.3
Return on average allocated equity	**3.46**	(3.3
Average full-time equivalent employees [e]	**8,246**	8,70

Six months ended June 30, *dollars in millions*	**Community Banking 2010**	**20**
SUMMARY OF OPERATIONS		
Net interest income (TE)	**$ 821**	$ 8
Noninterest income	**386**	3
Total revenue (TE) [a]	**1,207**	1,2
Provision (credit) for loan losses	**263**	3
Depreciation and amortization expense	**18**	
Other noninterest expense	**904**	9

Income (loss) from continuing operations before income taxes (TE)	**22**	(
Allocated income taxes and TE adjustments	**(16)**	(
Income (loss) from continuing operations	**38**	(
Income (loss) from discontinued operations, net of taxes		
Net income (loss)	**38**	(
Less: Net income (loss) attributable to noncontrolling interests		
Net income (loss) attributable to Key	**$ 38**	$ (
AVERAGE BALANCES [b]		
Loans and leases	**$ 27,492**	$ 30,7
Total assets [a]	**30,581**	33,6
Deposits	**50,937**	52,2
OTHER FINANCIAL DATA		
Net loan charge-offs [b]	**$ 264**	$ 2
Return on average allocated equity [b]	**2.06 %**	(1.
Return on average allocated equity	**2.06**	(1.
Average full-time equivalent employees [e]	**8,217**	8,8

(a) Substantially all revenue generated by our major business groups is derived from clients that reside in the United States. Substantially all long-lived assets, including premises and equipment, capitalized software and goodwill held by our major business groups, are located in the United States.

(b) From continuing operations.

(c) Other Segments results for the second quarter of 2009 include net gains of $125 million ($78 million after tax) in connection with the repositioning of the securities portfolio and a $95 million ($59 million after tax) gain related to the exchange of Key common shares for capital securities.

(d) Reconciling Items for the second quarter of 2009 include a $32 million ($20 million after tax) gain from the sale of Key s claim associated with the Lehman Brothers bankruptcy.

(e) The number of average full-time equivalent employees has not been adjusted for discontinued operations.

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Other Segments 2010	Other Segments 2009	Total Segments 2010	Total Segments 2009	Reconciling Items 2010	Reconciling Items 2009	2010
$ 9	$ (91)	**$ 616**	$ 580	**$ 7**	$ (5)	**$ 623**
77	278 (c)	**486**	682	**6**	24 (d)	**492**
86	187	**1,102**	1,262	**13**	19	**1,115**
7	131	**227**	824	**1**	(1)	**228**
10	18	**44**	60	**41**	40	**85**
33	34	**713**	780	**(29)**	(25)	**684**
36	4	**118**	(402)		5	**118**
3	(8)	**20**	(172)	**(3)**	2	**17**
33	12	**98**	(230)	**3**	3	**101**
				(27)	4	**(27)**
33	12	**98**	(230)	**(24)**	7	**74**
4	4	**4**	3			**4**
$ 29	$ 8	**$ 94**	$ (233)	**$ (24)**	$ 7	**$ 70**
$ 6,738	$ 9,765	**$ 54,904**	$ 68,656	**$ 49**	$ 54	**$ 54,953**
30,583	27,920	**85,656**	95,880	**2,188**	608	**87,844**
1,574	1,974	**64,469**	67,779	**(60)**	(416)	**64,409**
$ 115	$ 136	**$ 436**	$ 502	**$ (1)**		**$ 435**
N/M	N/M	**4.60 %**	(10.50) %	**N/M**	N/M	**3.65%**
N/M	N/M	**4.60**	(10.50)	**N/M**	N/M	**2.64**
40	87	**10,613**	11,341	**5,052**	5,596	**15,665**

Other Segments 2010	Other Segments 2009	Total Segments 2010	Total Segments 2009	Reconciling Items 2010	Reconciling Items 2009	2010
$ 25	$ (132)	**$ 1,242**	$ 1,183	**$ 13**	$ (13)	**$ 1,255**
157	282 (c)	**932**	1,073	**10**	111 (d)	**942**
182	150	**2,174**	2,256	**23**	98	**2,197**
128	324	**651**	1,669	**(10)**	1	**641**
21	36	**90**	121	**83**	80	**173**
63	73	**1,446**	1,671	**(65)**	(90)	**1,381**

(30)	(283)	**(13)**	(1,205)	**15**	107	**2**
(31)	(126)	**(52)**	(421)	**(6)**	19	**(58)**
1	(157)	**39**	(784)	**21**	88	**60**
				(25)	(25)	**(25)**
1	(157)	**39**	(784)	**(4)**	63	**35**
20	(4)	**20**	(7)			**20**
$ (19)	$ (153)	**$ 19**	$ (777)	**$ (4)**	$ 63	**$ 15**
$ 7,047	$ 10,180	**$ 56,229**	$ 70,108	**$ 53**	$ 45	**$ 56,282**
29,962	27,651	**86,064**	97,314	**2,219**	584	**88,283**
1,609	1,884	**64,991**	66,603	**(109)**	(293)	**64,882**
$ 269	$ 267	**$ 957**	$ 962			**$ 957**
N/M	N/M	**.46%**	(17.62) %	**N/M**	N/M	**.75%**
N/M	N/M	**.46**	(17.62)	**N/M**	N/M	**.28**
41	97	**10,606**	11,503	**5,112**	5,698	**15,718**

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Supplementary information (Community Banking lines of business)

Three months ended June 30, *dollars in millions*	**Regional Banking** **2010**	200
Total revenue (TE)	**$ 494**	$ 52
Provision for loan losses	**57**	16
Noninterest expense	**409**	43
Net income (loss) attributable to Key	**30**	(3
Average loans and leases	**18,405**	19,74
Average loans held for sale	**69**	16
Average deposits	**45,234**	48,71
Net loan charge-offs	**82**	7
Net loan charge-offs to average loans	**1.79 %**	1.4
Nonperforming assets at period end	**$ 339**	$ 24
Return on average allocated equity	**4.90 %**	(6.6
Average full-time equivalent employees	**7,891**	8,33

Six months ended June 30, *dollars in millions*	**Regional Banking** **2010**	200
Total revenue (TE)	**$ 985**	$ 1,03
Provision for loan losses	**172**	23
Noninterest expense	**830**	84
Net income (loss) attributable to Key	**14**	(1
Average loans and leases	**18,578**	19,87
Average loans held for sale	**75**	14
Average deposits	**45,713**	48,25
Net loan charge-offs	**179**	12
Net loan charge-offs to average loans	**1.94 %**	1.2
Nonperforming assets at period end	**$ 339**	$ 24
Return on average allocated equity	**1.15 %**	(.8
Average full-time equivalent employees	**7,864**	8,45

Supplementary information (National Banking lines of business)

Three months ended June 30, *dollars in millions*	**Real Estate Capital and Corporate Banking Services** **2010**	 **2009**	**Equipment Financ** **2010**	 **2**
Total revenue (TE)	**$ 176**	$ 191	**$ 61**	$
Provision for loan losses	**77**	414	**10**	
Noninterest expense	**106**	113	**49**	
Net income (loss) attributable to Key	**(4)**	(209)	**1**	
Average loans and leases	**11,465**	15,145	**4,478**	5,
Average loans held for sale	**194**	182	**16**	
Average deposits	**9,811**	10,678	**5**	
Net loan charge-offs	**142**	212	**18**	

Net loan charge-offs to average loans	**4.97 %**	5.61 %	**1.61 %**	2
Nonperforming assets at period end	**$ 867**	$ 1,023	**$ 106**	$
Return on average allocated equity	**(.78) %**	(34.43) %	**1.14 %**	(25
Average full-time equivalent employees	**1,052**	1,125	**549**	

Six months ended June 30,	**Real Estate Capital and Corporate Banking Services**		**Equipment Financ**	
dollars in millions	**2010**	**2009**	**2010**	**20**
Total revenue (TE)	**$ 320**	$ 374	**$ 122**	$ 1
Provision for loan losses	**222**	852	**14**	
Noninterest expense	**221**	304	**96**	1
Net income (loss) attributable to Key	**(76)**	(530)	**7**	(
Average loans and leases	**11,900**	15,432	**4,525**	5,0
Average loans held for sale	**154**	194	**9**	
Average deposits	**9,823**	10,433	**5**	
Net loan charge-offs	**349**	385	**36**	
Net loan charge-offs to average loans	**5.91 %**	5.03 %	**1.60 %**	2
Nonperforming assets at period end	**$ 867**	$ 1,023	**$ 106**	$ 1
Return on average allocated equity	**(7.42) %**	(45.00) %	**3.92 %**	(20
Average full-time equivalent employees	**1,065**	1,146	**556**	6

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4. Securities

Securities available for sale. These are securities that we intend to hold for an indefinite period of time but that may
rates, prepayment risk, liquidity needs or other factors. Securities available for sale are reported at fair value. Unreal
deemed temporary are recorded in equity as a component of AOCI on the balance sheet. Unrealized losses on equity
other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identificat
(losses) on the income statement. Unrealized losses on debt securities deemed to be other-than-temporary are in
income statement or AOCI in accordance with the applicable accounting guidance related to the recognition of OTT

Other securities held in the available-for-sale portfolio are primarily marketable equity securities that are traded o
NASDAQ.

Held-to-maturity securities. These are debt securities that we have the intent and ability to hold until maturity. Debt
amortization of premiums and accretion of discounts using the interest method. This method produces a constant rate

Other securities held in the held-to-maturity portfolio consist of foreign bonds, capital securities and preferred eq

The amortized cost, unrealized gains and losses, and approximate fair value of our securities available for sale and h
following tables. Gross unrealized gains and losses represent the difference between the amortized cost and the fair v
the dates indicated. Accordingly, the amount of these gains and losses may change in the future as market conditions

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in millions	Amortized Cost	G Unreal G
SECURITIES AVAILABLE FOR SALE		
U.S. Treasury, agencies and corporations	**$ 8**	
States and political subdivisions	**75**	**$**
Collateralized mortgage obligations	**17,817**	
Other mortgage-backed securities	**1,187**	
Other securities	**106**	
Total securities available for sale	**$ 19,193**	**$**
HELD-TO-MATURITY SECURITIES		
States and political subdivisions	**$ 3**	
Other securities	**16**	
Total held-to-maturity securities	**$ 19**	

in millions	Amortized Cost	I G Unreal G
SECURITIES AVAILABLE FOR SALE		
U.S. Treasury, agencies and corporations	$ 8	
States and political subdivisions	81	$
Collateralized mortgage obligations	14,894	
Other mortgage-backed securities	1,351	
Other securities	100	
Total securities available for sale	$ 16,434	$
HELD-TO-MATURITY SECURITIES		
States and political subdivisions	$ 3	
Other securities	21	
Total held-to-maturity securities	$ 24	

in millions	Amortized Cost	G Unreal G
SECURITIES AVAILABLE FOR SALE		
U.S. Treasury, agencies and corporations	$ 1,710	
States and political subdivisions	85	$
Collateralized mortgage obligations	8,462	
Other mortgage-backed securities	1,525	
Other securities	66	
Total securities available for sale	$ 11,848	$
HELD-TO-MATURITY SECURITIES		
States and political subdivisions	$ 4	
Other securities	21	
Total held-to-maturity securities	$ 25	

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The following table summarizes our securities available for sale that were in an unrealized loss position as of June 3
2009.

	Duration of Unrealized Loss Position							
	Less than 12 Months				12 Months or Longe			
in millions		Fair Value		Gross Unrealized Losses		Fair Value		G Unrea L
JUNE 30, 2010								
Securities available for sale:								
Other securities	**$**	**18**	**$**	**2**	**$**	**3**	**$**	
Total temporarily impaired securities	**$**	**18**	**$**	**2**	**$**	**3**	**$**	
DECEMBER 31, 2009								
Securities available for sale:								
Collateralized mortgage obligations	$	4,988	$	75				
Other securities		2			$	4	$	
Total temporarily impaired securities	$	4,990	$	75	$	4	$	
JUNE 30, 2009								
Securities available for sale:								
Collateralized mortgage obligations	$	1,660	$	38				
Other securities		10		1	$	2	$	
Total temporarily impaired securities	$	1,670	$	39	$	2	$	

The unrealized losses within each investment category are considered temporary since we expect to collect all contra
Accordingly, these investments have been reduced to their fair value through OCI, not earnings.
We regularly assess our securities portfolio for OTTI. The assessments are based on the nature of the securities, und
the issuer, the extent and duration of the loss, our intent related to the individual securities, and the likelihood that w
expected recovery.
Debt securities identified to have OTTI are written down to their current fair value. For those debt securities that we
required to sell, prior to the expected recovery of the amortized cost, the entire impairment (i.e., the difference betwe
recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be req
credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a component o
the following table, there was $4 million in impairment losses recognized in earnings for the three months ended Jun

Three months ended June 30, 2010	
in millions	
Balance at March 31, 2010	
Impairment recognized in earnings	$ 4

Balance at June 30, 2010	$ 4

As a result of adopting new consolidation guidance on January 1, 2010, we have consolidated our education loan sec
interests in these trusts. Prior to our consolidation of these trusts, we accounted for the residual interests associated w
which we regularly assessed for impairment. These residual interests will no longer be assessed for impairment. The
these trusts are included in discontinued assets and discontinued liabilities on the balance sheet as a result of o
For more information about this discontinued operation, see Note 16 (Discontinued Operations).
Realized gains and losses related to securities available for sale were as follows:

Six months ended June 30, 2010 *in millions*	
Realized gains	$ 5
Realized losses	4
Net securities gains (losses)	$ 1

At June 30, 2010, securities available for sale and held-to-maturity securities totaling $12.1 billion were pledged to s
agreements, public and trust deposits, to facilitate access to secured funding, and for other purposes required or perm
The following table shows securities by remaining maturity. Collateralized mortgage obligations and other mortgage
included in the securities available-for-sale portfolio are presented based on their expected average lives. The rema
held-to-maturity portfolio, are presented based on their remaining contractual maturity. Actual maturities may differ
borrowers have the right to prepay obligations with or without prepayment penalties.

	Securities Available for Sale	
June 30, 2010 *in millions*	**Amortized Cost**	**V**
Due in one year or less	$ 679	$
Due after one through five years	18,371	1
Due after five through ten years	126	
Due after ten years	17	
Total	$ 19,193	$ 1

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5. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions		June 30, 2010
Commercial, financial and agricultural	$	**17,113**
Commercial real estate:		
Commercial mortgage		**9,971**
Construction		**3,430**
Total commercial real estate loans		**13,401**
Commercial lease financing		**6,620**
Total commercial loans		**37,134**
Real estate residential mortgage		**1,846**
Home equity:		
Community Banking		**9,775**
Other		**753**
Total home equity loans		**10,528**
Consumer other Community Banking		**1,147**
Consumer other:		
Marine		**2,491**
Other		**188**
Total consumer other		**2,679**
Total consumer loans		**16,200**
Total loans [a]	$	**53,334**

(a) Excludes loans in the amount of $6.6 billion, $3.5 billion and $3.6 billion at June 30, 2010, December 31, 2009 and June 30, 2009, respectively, related to the discontinued operations of the education lending business.

We use interest rate swaps, which modify the repricing characteristics of certain loans, to manage interest rate risk. F
Note 20 (Derivatives and Hedging Activities), which begins on page 122 of our 2009 Annual Report to Sharehold
Our loans held for sale by category are summarized as follows:

in millions		**June 30, 2010**
Commercial, financial and agricultural	**$**	**255**
Real estate commercial mortgage		**235**
Real estate construction		**112**
Commercial lease financing		**16**
Real estate residential mortgage		**81**
Automobile		
Total loans held for sale (a)	**$**	**699** (b)

(a) Excludes loans in the amount of $92 million, $434 million and $148 million at June 30, 2010, December 31, 2009, and June 30, 2009, respectively, related to the discontinued operations of the education lending business.

(b) The beginning balance at December 31, 2009 of $443 million increased by new originations in the amount of $1.321 billion and net transfers from held to maturity in the amount of $174 million, and decreased by loan sales of $1.200 billion, transfers to

OREO/valuation adjustments of $17 million and loan payments of $22 million, for an ending balance of $699 million at June 30, 2010.

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Changes in the allowance for loan losses are summarized as follows:

in millions		Three months ended Ju 2010	
Balance at beginning of period	**$**	**2,425**	$
Charge-offs		**(492)**	
Recoveries		**57**	
Net loans charged off		**(435)**	
Provision for loan losses from continuing operations		**228**	
Foreign currency translation adjustment		**1**	
Balance at end of period	**$**	**2,219**	$

Changes in the liability for credit losses on lending-related commitments are summarized as follows:

in millions		Three months ended Ju 2010	
Balance at beginning of period	**$**	**119**	$
Provision (credit) for losses on lending-related commitments		**(10)**	
Balance at end of period [(a)]	**$**	**109**	$

(a) Included in accrued expense and other liabilities on the balance sheet.

6. Mortgage Servicing Assets

We originate and periodically sell commercial mortgage loans but continue to service those loans for the buyers. We commercial mortgage loans for other lenders. A servicing asset is recorded if we purchase or retain the right to servi exceed the going market rate. Changes in the carrying amount of mortgage servicing assets are summarized as follov

in millions	Six months ended June 30, 2010		2009
Balance at beginning of period	**$ 221**	$	242
Servicing retained from loan sales	**3**		4
Purchases	**7**		15
Amortization	**(22)**		(27)
Balance at end of period	**$ 209**	$	234

Fair value at end of period	**$**	**307**	$	403

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows assoc
calculation uses a number of assumptions that are based on current market conditions. Primary economic assumptio
mortgage servicing assets at June 30, 2010 and 2009, are:

- w prepayment speed generally at an annual rate of 0.00% to 25.00%;
- w expected credit losses at a static rate of 2.00% to 3.00%; and
- w residual cash flows discount rate of 7.00% to 15.00%.

Changes in these assumptions could cause the fair value of mortgage servicing assets to change in the future. The vo
losses are critical to the valuation of servicing assets. At June 30, 2010, a 1.00% increase in the assumed default rate
$9 million decrease in the fair value of our mortgage servicing assets.

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Contractual fee income from servicing commercial mortgage loans totaled $37 million and $34 million for the six-m
respectively. We have elected to remeasure servicing assets using the amortization method. The amortization of serv
and over the period of, the estimated net servicing income. The amortization of servicing assets for each period, as s
reduction to fee income. Both the contractual fee income and the amortization are recorded in other income on th
Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 (
under the heading Servicing Assets on page 82 of our 2009 Annual Report to Shareholders and Note 16 (Discon
lending.

7. Variable Interest Entities

A VIE is a partnership, limited liability company, trust or other legal entity that meets any one of the following crite

- The entity does not have sufficient equity to conduct its activities without additional subordinated financial supp
- The entity s investors lack the power to direct the activities that most significantly impact the entity s economic
- The entity s equity at risk holders do not have the obligation to absorb losses and the right to receive residual re
- The voting rights of some investors are not proportional to their economic interest in the entity, and substantially conducted on behalf of investors with disproportionately few voting rights.

Our VIEs, including those consolidated and those in which we hold a significant interest, are summarized below. We
subordinated interest that exposes us to a significant portion, but not the majority, of the VIE s expected losses or re
power to direct the activities that most significantly impact the entity s economic performance.

	Consolidated VIEs		
in millions	**Total Assets**	**Total Liabilities**	**Total Assets**
June 30, 2010			
LIHTC funds	$ 134	N/A	$ 175
Education loan securitization trusts	3,285	$ 3,135	N/A
LIHTC investments	N/A	N/A	963

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Our involvement with VIEs is described below.

Consolidated VIEs

LIHTC guaranteed funds. KAHC formed limited partnerships, known as funds, which invested in LIHTC operating
offered in syndication to qualified investors who paid a fee to KAHC for a guaranteed return. We also earned syndic
asset management fees. The funds assets primarily are investments in LIHTC operating partnerships, which totaled
investments are recorded in accrued income and other assets on the balance sheet and serve as collateral for the fu
We have not formed new funds or added LIHTC partnerships since October 2003. However, we continue to act as a
for existing funds under a guarantee obligation. As a result of this guarantee obligation, we have determined that we
We recorded additional expenses of approximately $2 million related to this guarantee obligation during the first six
return guarantee agreements with LIHTC investors is presented in Note 13 (Commitments, Contingent Liabilities a
In accordance with the applicable accounting guidance for distinguishing liabilities from equity, third-party interests
are considered mandatorily redeemable instruments and are recorded in accrued expense and other liabilities on th
indefinitely deferred the measurement and recognition provisions of this accounting guidance for mandatorily redeem
finite-lived subsidiaries, such as our LIHTC guaranteed funds. We adjust our financial statements each period for th
profits and losses. At June 30, 2010, we estimated the settlement value of these third-party interests to be between $
value, including reserves, totaled $143 million. The partnership agreement for each of our guaranteed funds requires

Education loan securitization trusts. In September 2009, we decided to exit the government-guaranteed education l
accounted for this business as a discontinued operation. As part of our education lending business model, we would
as the transferor, retained a portion of the risk in the form of a residual interest and also retained the right to service t
fees.

As a result of adopting the new consolidation accounting guidance issued by the FASB in June 2009, we have conso
securitization trusts as of January 1, 2010. We were required to consolidate these trusts because we hold the residual
the power to direct the activities that most significantly impact the economic performance of these trusts. We electe
assets held by these trusts can only be used to settle the obligations or securities issued by the trusts. We cannot sell
consolidated trusts. The security holders or beneficial interest holders do not have recourse to us. We do not have an
other than the securities issued by the trusts. We have not securitized any education loans since 2006. Additional inf
Note 16 (Discontinued Operations) under the heading Education lending.

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Unconsolidated VIEs

LIHTC nonguaranteed funds. Although we hold significant interests in certain nonguaranteed funds that we formed not the primary beneficiary of those funds because we do not absorb the majority of the funds expected losses and most significantly impact the economic performance of these entities. At June 30, 2010, assets of these unconsolidat Our maximum exposure to loss in connection with these funds is minimal, and we do not have any liability recorded nonguaranteed funds since October 2003.

LIHTC investments. Through the Community Banking business group, we have made investments directly in LIHT parties. As a limited partner in these operating partnerships, we are allocated tax credits and deductions associated w determined that we are not the primary beneficiary of these investments because the general partners have the power most significantly impact their economic performance and have the obligation to absorb expected losses and the righ June 30, 2010, assets of these unconsolidated LIHTC operating partnerships totaled approximately $963 million. At in connection with these partnerships is the unamortized investment balance of $373 million plus $78 million of tax do not have any liability recorded related to these investments because we believe the likelihood of any loss in conne During the first six months of 2010, we did not obtain significant direct investments (either individually or in the agg We have additional investments in unconsolidated LIHTC operating partnerships that are held by the consolidated L operating partnerships were approximately $1.3 billion at June 30, 2010. The tax credits and deductions associated w investors based on their ownership percentages. We have determined that we are not the primary beneficiary of these have the power to direct the activities that most significantly impact their economic performance and the obligation residual returns from the entity. Information regarding our exposure to loss in connection with these guaranteed fund Return guarantee agreement with LIHTC investors.

Commercial and residential real estate investments and principal investments. Our Principal Investing unit and the Services line of business make equity and mezzanine investments, some of which are in VIEs. These investments are subject to the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. We are no disclosure provisions in the applicable accounting guidance for consolidations to these investments, which remain un deferred the effective date of this guidance for such nonregistered investment companies.

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8. Nonperforming Assets and Past Due Loans from Continuing Operat

Impaired loans totaled $1.4 billion at June 30, 2010, compared to $1.9 billion at December 31, 2009, and $1.9 billion
average balance of $1.6 billion for the second quarter of 2010 and $1.7 billion for the second quarter of 2009. At Jur
included in impaired loans) totaled $213 million while at December 31, 2009, restructured loans totaled $364 millior
were added during the first six months of 2010, the decrease in restructured loans was primarily attributable to the tr
restructurings to performing status, and $83 million in payments and charge-offs. Restructured loans were nominal a
Our nonperforming assets and past due loans were as follows:

in millions		**June 3 201**
Impaired loans	**$**	**1,43**
Other nonperforming loans		**26**
Total nonperforming loans		**1,70**
Nonperforming loans held for sale		**22**
Other real estate owned (OREO)		**20**
Allowance for OREO losses		**(6**
OREO, net of allowance		**13**
Other nonperforming assets		**2**
Total nonperforming assets	**$**	**2,08**
Impaired loans with a specifically allocated allowance	**$**	**1,09**
Specifically allocated allowance for impaired loans		**15**
Restructured loans included in nonaccrual loans [(a)]	**$**	**16**
Restructured loans with a specifically allocated allowance [(b)]		**6**
Specifically allocated allowance for restructured loans [(c)]		**1**
Accruing loans past due 90 days or more	**$**	**24**
Accruing loans past due 30 through 89 days		**61**

(a) Restructured loans (i.e. troubled debt restructurings) are those for which we, for reasons related to a borrower s financial difficulties, have granted a

concession to the borrower that we would not otherwise have considered. These concessions are made to improve the collectability of the loan and generally take the form of a reduction of the interest rate, extension of the maturity date or reduction in the principal balance.

(b) Included in impaired loans with a specifically allocated allowance.

(c) Included in specifically allocated allowance for impaired loans.

At June 30, 2010, we did not have any significant commitments to lend additional funds to borrowers with loans on
We evaluate the collectability of our loans as described in Note 1 (Summary of Significant Accounting Policies) t
page 82 of our 2009 Annual Report to Shareholders.

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9. Capital Securities Issued by Unconsolidated Subsidiaries

We own the outstanding common stock of business trusts formed by us that issued corporation-obligated mandatoril
trusts used the proceeds from the issuance of their capital securities and common stock to buy debentures issued by
assets; the interest payments from the debentures finance the distributions paid on the capital securities.

We unconditionally guarantee the following payments or distributions on behalf of the trusts:

- w required distributions on the capital securities;
- w the redemption price when a capital security is redeemed; and
- w the amounts due if a trust is liquidated or terminated.

Our capital securities have historically provided an attractive source of funds: they currently constitute Tier 1 capital
the same federal tax advantages as debt.

In 2005, the Federal Reserve adopted a rule that allows bank holding companies to continue to treat capital securitie
quantitative limits that were to take effect March 31, 2009. On March 17, 2009, in light of continued stress in the fin
the effective date of these new limits until March 31, 2011. We believe this new rule will not have any material effe

The enactment of the Dodd-Frank Act changes the regulatory capital standards that apply to bank holding companie
securities and cumulative preferred securities (excluding TARP CPP preferred stock issued to the United States or it
October 4, 2010) as Tier 1 eligible capital. This three year phase-out period, which commences January 1, 2013, and
securities being treated only as Tier 2 capital. These changes in effect apply the same leverage and risk-based capita
institutions to bank holding companies, savings and loan companies, and non-bank financial companies identified as
has 180 days from the enactment of the Dodd-Frank Act to issue its regulations in this area. We anticipate that the F
should provide additional clarity to the regulatory capital guidelines applicable to bank holding companies such as K

As of June 30, 2010, the capital securities issued by the KeyCorp and Union State Bank capital trusts represent $1.8

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The capital securities, common stock and related debentures are summarized as follows:

dollars in millions	Capital Securities, Net of Discount [a]	Common Stock	Principal Amount of Debentures, Net of Discount
June 30, 2010			
KeyCorp Capital I	**$ 156**	**$ 6**	**$ 158**
KeyCorp Capital II	**81**	**4**	**106**
KeyCorp Capital III	**102**	**4**	**136**
KeyCorp Capital V	**115**	**4**	**128**
KeyCorp Capital VI	**55**	**2**	**60**
KeyCorp Capital VII	**164**	**5**	**177**
KeyCorp Capital VIII	**171**		**210**
KeyCorp Capital IX	**331**		**359**
KeyCorp Capital X	**570**		**616**
Union State Capital I	**20**	**1**	**21**
Union State Statutory II	**20**		**20**
Union State Statutory IV	**10**		**10**
Total	**$ 1,795**	**$ 26**	**$ 2,001**
Total			
December 31, 2009 Total	$ 1,872	$ 26	$ 1,906
June 30, 2009 Total	$ 2,449	$ 29	$ 2,485

(a) The capital securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of capital securities carries an interest rate identical to that of the related debenture. Certain

capital securities include basis adjustments related to fair value hedges totaling $4 million at June 30, 2010, $81 million at December 31, 2009, and $158 million at June 30, 2009. See Note 14 (Derivatives and Hedging Activities) for an explanation of fair value hedges.

(b) We have the right to redeem our debentures: (i) in whole or in part, on or after July 1, 2008 (for debentures owned by KeyCorp Capital I); March 18, 1999 (for debentures owned by KeyCorp Capital II); July 16, 1999 (for debentures owned by KeyCorp Capital III); July 21, 2008 (for debentures owned by KeyCorp Capital V); December 15, 2008 (for debentures owned by KeyCorp Capital VI); June 15, 2010 (for debentures owned by KeyCorp Capital VII); June 15, 2011 (for debentures owned

by KeyCorp Capital VIII); December 15, 2011 (for debentures owned by KeyCorp Capital IX); March 15, 2013 (for debentures owned by KeyCorp Capital X); February 1, 2007 (for debentures owned by Union State Capital I); July 31, 2006 (for debentures owned by Union State Statutory II); and April 7, 2009 (for debentures owned by Union State Statutory IV); and (ii) in whole at any time within 90 days after and during the continuation of a tax event, a capital treatment event , with respect to KeyCorp Capital V, VI, VII, VIII, IX and X only an investment company event with respect to KeyCorp Capital X only a rating agency event (as each is defined in the applicable indenture). If the debentures purchased by KeyCorp Capital I, KeyCorp Capital V, KeyCorp Capital

VI, KeyCorp Capital VII, KeyCorp Capital VIII, KeyCorp Capital IX, Union State Capital I or Union State Statutory IV are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (a) the principal amount, plus any accrued but unpaid interest or (b) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points (25 basis points or 50 basis points in the case of redemption upon either a tax event or a capital treatment event for KeyCorp Capital III), plus any accrued but unpaid interest. If the debentures

purchased by Union State Statutory II are redeemed before July 31, 2011, the redemption price will be 101.50% of the principal amount, plus any accrued but unpaid interest. When debentures are; redeemed in response to tax or capital treatment events, the redemption price for KeyCorp Capital II and KeyCorp Capital III generally is slightly more favorable to us. The principal amount of debentures includes adjustments related to hedging with financial instruments totaling $184 million at June 30, 2010, $89 million at December 31, 2009, and $165 million at June 30, 2009.

(c) The interest rates for KeyCorp Capital II, KeyCorp Capital III, KeyCorp Capital V, KeyCorp Capital VI, KeyCorp Capital VII, KeyCorp Capital VIII, KeyCorp

Capital IX, KeyCorp Capital X and Union State Capital I are fixed. KeyCorp Capital I has a floating interest rate equal to three-month LIBOR plus 74 basis points that reprices quarterly. Union State Statutory II has a floating interest rate equal to three-month LIBOR plus 358 basis points that reprices quarterly. Union State Statutory IV has a floating interest rate equal to three-month LIBOR plus 280 basis points that reprices quarterly. The total interest rates are weighted-average rates.

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10. Shareholders Equity

Cumulative effect adjustment (after-tax)

Effective January 1, 2010, we adopted new consolidation accounting guidance. As a result of adopting this new guid
securitization trusts (classified as discontinued assets and liabilities), thereby adding $2.8 billion in assets and liabilit
cumulative effect adjustment (after-tax) of $45 million to beginning retained earnings on January 1, 2010. Additiona
consolidation guidance and the consolidation of these education loan securitization trusts is provided in Note 1 (Ba
Operations).

We did not undertake any new capital generating activities during the first six months of 2010. Note 15 (Sharehold
Report to Shareholders provides information regarding our capital generating activities in 2009.

11. Employee Benefits

Pension Plans

Effective December 31, 2009, we amended our pension plans to freeze all benefit accruals. We will continue to cred
until they receive their plan benefits. The plans were closed to new employees as of December 31, 2009.

The components of net pension cost for all funded and unfunded plans are as follows:

in millions	**Three months ended J** **2010**	
Service cost of benefits earned		$
Interest cost on PBO	**$ 15**	
Expected return on plan assets	**(18)**	
Amortization of losses	**9**	
Net pension cost	**$ 6**	$

Other Postretirement Benefit Plans

We sponsor a contributory postretirement healthcare plan that covers substantially all active and retired employees h
criteria. Retirees contributions are adjusted annually to reflect certain cost-sharing provisions and benefit limitation
covering certain grandfathered employees; the plan is noncontributory. Separate VEBA trusts are used to fund the he
The components of net postretirement benefit cost for all funded and unfunded plans are as follows:

in millions	**Three months ended J** **2010**	
Interest cost on APBO	**$ 1**	$
Expected return on plan assets	**(1)**	
Amortization of unrecognized prior service benefit	**(1)**	
Net postretirement (benefit) cost	**$ (1)**	

The Patient Protection and Affordable Care Act and Education Reconciliation Act of 2010, which were signed
respectively, changed the tax treatment of

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federal subsidies paid to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equ
As a result of these laws, these subsidy payments become taxable in tax years beginning after December 31, 2012. T
taxes requires the impact of a change in tax law to be immediately recognized in the period that includes the enactm
of the Patient Protection and Affordable Care Act and Education Reconciliation Act of 2010 did not impact us
a result of Medicare Part D subsidies received.

12. Income Taxes

Income Tax Provision

In accordance with current accounting guidance, the principal method established for computing the provision for in
make our best estimate of the effective tax rate expected to be applicable for the full year. This estimated effective ta
pre-tax operating income to determine the interim provision for income taxes. This method has been used to determi
for income taxes for the quarters ended March 31, 2010 and June 30, 2009.

However, the accounting guidance allows for an alternative method to computing the effective tax rate and, thus the
taxpayer is unable to calculate a reliable estimate of the effective tax rate for the entire year. Due to the current econ
the alternative method is more reliable in determining the provision for income taxes for the second quarter of 2010.
calculated by applying the statutory federal income tax rate to the quarter s consolidated operating income before ta
recognized in the quarter which include income from corporate-owned life insurance and tax credits related to invest
then adding state taxes.

Deferred Tax Asset

As of June 30, 2010, we had a net deferred tax asset from continuing operations of $594 million compared to a net d
of $577 million as of December 31, 2009 included in accrued income and other assets on the balance sheet; prior
deferred tax liability position. To determine the amount of deferred tax assets that are more likely than not to be real
quarterly assessment of all available evidence. This evidence includes, but is not limited to, taxable income in prior p
projected future reversals of deferred tax items. Based on these criteria, and in particular our projections for future ta
more likely than not that we will realize the net deferred tax asset in future periods.

Unrecognized Tax Benefits

As permitted under the applicable accounting guidance for income taxes, it is our policy to recognize interest and pe
income tax expense.

13. Commitments, Contingent Liabilities and Guarantees

Legal Proceedings

Shareholder derivative matter. On July 6, 2010, certain current and former directors and executive officers of KeyC
King, Jr. v. Henry L. Meyer III, et al., a shareholder derivative lawsuit filed in the Cuyahoga County Court of Comm
KeyCorp defendants violated their fiduciary duties, including their duties of candor, good faith and loyalty, and are l
enrichment in connection with 2009 executive compensation decisions.

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The complaint seeks unspecified compensatory damages from the KeyCorp defendants, various forms of equitable a
other professional fees and costs. KeyCorp was also named as a nominal defendant in the lawsuit, but no damages ar
KeyCorp s Board of Directors has appointed a special committee of non-management directors to assess its executi
the allegations made in the complaint. This committee has retained an independent law firm to assist in its investigat
Taylor litigation. On August 11, 2008, a purported class action case was filed against KeyCorp, its directors and cer
et al., in the United States District Court for the Northern District of Ohio. On September 16, 2008, a second and rel
captioned *Wildes v. KeyCorp et al*. The plaintiffs in these cases seek to represent a class of all participants in our 401
defendants in the lawsuit breached fiduciary duties owed to them under ERISA. On January 7, 2009, the Court conso
single action. Plaintiffs have since filed their consolidated complaint, which continues to name certain employees as
directors. We strongly disagree with the allegations asserted against us in these actions, and intend to vigorously def
Madoff-related claims. In December 2008, Austin, a subsidiary that specialized in managing hedge fund investment
its funds had suffered investment losses of up to approximately $186 million resulting from the crimes perpetrated b
controlled. The investment losses borne by Austin s clients stem from investments that Austin made in certain Mad
including putative class actions and direct actions, and one arbitration proceeding were filed against Austin seeking
Madoff s crimes. The lawsuits and arbitration proceeding allege various claims, including negligence, fraud, breach
securities laws and ERISA. In the event we were to incur any liability for this matter, we believe it would be covered
insurance policy, subject to a $25 million self-insurance deductible and usual policy exceptions.
In April 2009, we decided to wind down Austin s operations and have determined that the related exit costs will not
discontinued operations is included in Note 16 (Discontinued Operations).
Data Treasury matter. In February 2006, an action styled *DataTreasury Corporation v. Wells Fargo & Company, e*
numerous other financial institutions, as owners and users of Small Value Payments Company, LLC software, in the
District of Texas. The plaintiff alleges patent infringement and is seeking an unspecified amount of damages and tre
entered an order establishing three trial dates due to the number of defendants involved in the action, including an O
trial phase codefendants. We strongly disagree with the allegations asserted against us, and have been vigorously de
has established appropriate reserves for the matter consistent with applicable accounting guidance.
Other litigation. In the ordinary course of business, we are subject to other legal actions that involve claims for subs
presently known to us, we do not believe there is any legal action to which we are a party, or involving any of our pr
would reasonably be expected to have a material adverse effect on our financial condition.

Guarantees

We are a guarantor in various agreements with third parties. The following table shows the types of guarantees that
Information pertaining to the basis for determining the liabilities recorded in connection with these guarantees is inc

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Significant Accounting Policies) under the heading Guarantees on page 84 of our 2009 Annual Report to Sharel

June 30, 2010
in millions

Financial guarantees:
Standby letters of credit
Recourse agreement with FNMA
Return guarantee agreement with LIHTC investors
Written put options [a]
Default guarantees

Total

(a) The maximum potential undiscounted future payments represent notional amounts of derivatives qualifying as guarantees.

We determine the payment/performance risk associated with each type of guarantee described below based on the pr
the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0-30% p
probability of payment) or high (71-100% probability of payment) to assess the payment/performance risk, and have
risk associated with each type of guarantee outstanding at June 30, 2010, is low.

Standby letters of credit. KeyBank issues standby letters of credit to address clients financing needs. These instrun
when a client fails to repay an outstanding loan or debt instrument, or fails to perform some contractual nonfinancial
standby letters of credit are treated as loans to the client; they bear interest (generally at variable rates) and pose the
2010, our standby letters of credit had a remaining weighted-average life of 1.6 years, with remaining actual lives ra
ten years.

Recourse agreement with FNMA. We participate as a lender in the FNMA Delegated Underwriting and Servicing p
originating, underwriting and servicing mortgages, and we assume a limited portion of the risk of loss during the ren
loan that we sell to FNMA. We maintain a reserve for such potential losses in an amount that we believe approximat
2010, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of 5.9 yea
outstanding of loans sold by us as a participant in this program was $2.2 billion. As shown in the preceding table, th
future payments that we could be required to make under this program is equal to approximately one-third of the pri
June 30, 2010. If we are required to make a payment, we would have an interest in the collateral underlying the relat
loss incurred could be offset by the amount of any recovery from the collateral.

Return guarantee agreement with LIHTC investors. KAHC, a subsidiary of KeyBank, offered limited partnership i
formed by KAHC invested in low-income residential rental properties that qualify for federal low income housing ta
Revenue Code. In certain partnerships, investors paid a fee to KAHC for a guaranteed return that is based on the fin
property s confirmed LIHTC status throughout a fifteen-year compliance period. Typically, KAHC provides these g
and deductions associated with the specific properties. If KAHC defaults on its obligation to provide the guaranteed

necessary payments to investors. No recourse or collateral is available to offset our guarantee obligation other than t
properties and the residual value of the operating partnership interests.

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As shown in the previous table, KAHC maintained a reserve in the amount of $62 million at June 30, 2010, which w
future obligations under the guarantees. The maximum exposure to loss reflected in the table represents undiscounte
return on and of their investments.

These guarantees have expiration dates that extend through 2019, but there have been no new partnerships formed u
Additional information regarding these partnerships is included in Note 7 (Variable Interest Entities).

Written put options. In the ordinary course of business, we write interest rate caps and floors for commercial loar
respectively, with us and wish to mitigate their exposure to changes in interest rates. At June 30, 2010, our written p
These instruments are considered to be guarantees as we are required to make payments to the counterparty (the com
underlying variable that is related to an asset, a liability or an equity security held by the guaranteed party. We are ol
benchmark interest rate is above or below a specified level (known as the strike rate). These written put options a
which are further discussed in Note 14 (Derivatives and Hedging Activities). We typically mitigate our potential
positions with third parties.

Written put options where the counterparty is a broker-dealer or bank are accounted for as derivatives at fair value, b
counterparties do not typically hold the underlying instruments. In addition, we are a purchaser and seller of credit d
Note 14.

Default guarantees. Some lines of business participate in guarantees that obligate us to perform if the debtor (typica
obligations to third parties. We generally undertake these guarantees for one of two possible reasons: either the risk
investment return, or we are supporting our underlying investment. The terms of these default guarantees range from
some default guarantees do not have a contractual end date. Although no collateral is held, we would receive a pro ra
or all of the amounts due from the debtor.

Other Off-Balance Sheet Risk

Other off-balance sheet risk stems from financial instruments that do not meet the definition of a guarantee as specif
guarantees, and from other relationships.

Liquidity facilities that support asset-backed commercial paper conduits. We provide liquidity facilities to several
conduits. These facilities obligate us to provide funding in the event that a credit market disruption or other factors p
paper. At June 30, 2010, we had one liquidity facility remaining, which will expire by May, 2011, obligating us to p
The aggregate amount available to be drawn is based on the amount of current commitments to borrowers and totale
periodically evaluate our commitments to provide liquidity.

Indemnifications provided in the ordinary course of business. We provide certain indemnifications, primarily throu
contracts that we execute in the ordinary course of business in connection with loan sales and other ongoing activitie
sales of businesses. We maintain reserves, when appropriate, with respect to liability that reasonably could arise in c

Intercompany guarantees. KeyCorp and certain of our affiliates are parties to various guarantees that facilitate the c
These business activities encompass debt issuance, certain lease and insurance obligations, the purchase or issuance
leasing transactions involving clients.

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Heartland Payment Systems matter. Under an agreement between KeyBank and Heartland Payment Systems, Inc. (
membership in the Visa and MasterCard networks to provide merchant payment processing services for Visa and M
Heartland publicly announced its discovery of an alleged criminal breach of its credit card payment processing syste
reportedly occurred during 2008 and allegedly involved the malicious collection of in-transit, unencrypted payment
Heartland s 2008 Form 10-K filed with the SEC on March 10, 2009, (Heartland s 2008 Form 10-K) reported tha
MasterCard, asserted claims seeking to impose fines, penalties, and/or other assessments against Heartland and/or ce
as a result of the alleged potential breach of the respective card brand rules and regulations, and the alleged criminal
systems environment.

KeyBank has received letters from both Visa and MasterCard imposing fines, penalties or assessments related to the
Heartland, KeyBank has certain rights of indemnification from Heartland for costs assessed against it by Visa and M
KeyBank has notified Heartland of its indemnification rights. In the event that Heartland is unable to fulfill its inden
charges (net of any indemnification) could be significant, although it is not possible to quantify them at this time. Ac
we have not established any reserve.

In Heartland s Form 10-K filed with the SEC on March 10, 2010 (Heartland s 2009 Form 10-K), Heartland disc
reported settlement among Heartland, Visa U.S.A. Inc., Visa International Service Association, and Visa Inc., and th
Heartland Bank.

In Heartland s Form 8-K filed with the SEC on May 19, 2010, Heartland disclosed that it had entered into a settlem
Incorporated to resolve potential claims and other disputes among Heartland, the Acquiring Banks, including KeyBa
MasterCard and certain MasterCard Issuers, on the other hand, with respect to potential rights of MasterCard issuers
MasterCard and MasterCard Issuers related to the Intrusion. The maximum potential aggregate amounts payable to t
Settlement Agreement will not exceed $41.4 million, including MasterCard s credit of $6.6 million of the non-comp
amounts. The Settlement Agreement contains mutual releases between Heartland and the Acquiring Bank, on the on
Issuers who accept the recovery offers, on the other hand, of claims relating to the Intrusion. Consummation of the s
termination period. At March 31, 2010, Heartland carried a $42.8 million reserve for the Intrusion (before adjustmer
For further information on Heartland and the Intrusion, see Heartland s 2009 Form 10-K, Heartland s 2008 Form 1
on May 11, 2009, August 7, 2009, and May 7, 2010, Heartland s Form 8-K filed with the SEC on August 4, 2009, N
2010, February 18, 2010, February 24, 2010, and May 19, 2010.

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14. Derivatives and Hedging Activities

We are a party to various derivative instruments, mainly through our subsidiary, KeyBank. Derivative instruments a
have a notional amount and an underlying variable, require no net investment and allow for the net settlement of pos
as the basis for the payment provision of the contract, and takes the form of units, such as shares or dollars. A deriva
interest rate, security price, commodity price, foreign exchange rate, index or other variable. The interaction between
variable determines the number of units to be exchanged between the parties and influences the fair value of the deri
The primary derivatives that we use are interest rate swaps, caps, floors and futures; foreign exchange contracts; ene
derivatives. Generally, these instruments help us manage exposure to interest rate risk, mitigate the credit risk inhere
changes in foreign currency exchange rates, and meet client financing and hedging needs. Interest rate risk represent
equity or net interest income will be adversely affected by fluctuations in interest rates. Credit risk is the risk of loss
meet contractual payment or performance terms. Foreign exchange risk is the risk that an exchange rate will adverse
instrument.

Derivative assets and liabilities are recorded at fair value on the balance sheet, after taking into account the effects o
agreements. These bilateral collateral and master netting agreements allow us to settle all derivative contracts held w
offset net derivative positions with related collateral, where applicable. As a result, we could have derivative contrac
derivative assets on the balance sheet and contracts with positive fair values included in derivative liabilities.

At June 30, 2010, after taking into account the effects of bilateral collateral and master netting agreements, we had $
$244 million of derivative liabilities that relate to contracts entered into for hedging purposes. As of the same date, a
collateral and master netting agreements, and a reserve for potential future losses, we had derivative assets of $872 n
that were not designated as hedging instruments.

The recently enacted Dodd-Frank Act may limit the types of derivatives activities conducted by KeyBank and other
is possible that our continued use of one or more of the types of derivatives noted above could be affected.

Additional information regarding our accounting policies for derivatives is provided in Note 1 (Basis of Presentatic
of our 2009 Annual Report to Shareholders.

Derivatives Designated in Hedge Relationships

Changes in interest rates and differences in the repricing and maturity characteristics of interest-earning assets and in
fluctuations in net interest income and the economic value of equity. To minimize the volatility of net interest incom
interest rate risk in accordance with policy limits established by the Enterprise Risk Management Committee. We ut
part of a hedge relationship in accordance with the applicable accounting guidance for derivatives and hedging to mi
derivative instruments used to manage interest rate risk are interest rate swaps, which modify the interest rate charac
instruments are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.
index.

We designate certain receive fixed/pay variable interest rate swaps as fair value hedges. These swaps are used pri
risk. These contracts convert certain fixed-rate long-

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term debt into variable-rate obligations. As a result, we receive fixed-rate interest payments in exchange for making
contracts without exchanging the notional amounts.
Similarly, we designate certain receive fixed/pay variable interest rate swaps as cash flow hedges. These contract
into fixed-rate loans to reduce the potential adverse effect of interest rate decreases on future interest income. These
interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging
certain pay fixed/receive variable interest rate swaps as cash flow hedges. These swaps are used to convert certai
We also use interest rate swaps to hedge the floating-rate debt that funds fixed-rate leases entered into by our Equip
are designated as cash flow hedges to mitigate the interest rate mismatch between the fixed-rate lease cash flows and
The derivatives used for managing foreign currency exchange risk are cross currency swaps. We have several outsta
are denominated in foreign currencies. The notes are subject to translation risk, which represents the possibility that
foreign-denominated debt will occur based on movement of the underlying foreign currency spot rate. It is our pract
changes caused by changes in foreign currency exchange rates and interest rates. The hedge converts the notes to a v
which is designated as a fair value hedge of foreign currency exchange risk.

Derivatives Not Designated in Hedge Relationships

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instrumen
significant amount in interest rate swap contracts entered into to manage economic risks at June 30, 2010.
Like other financial services institutions, we originate loans and extend credit, both of which expose us to credit risk
portfolio and the associated credit risk in a manner consistent with asset quality objectives. This process entails the u
default swaps ¾ to mitigate our credit risk. Credit default swaps enable us to transfer to a third party a portion of the
extension of credit, and to manage portfolio concentration and correlation risks. Occasionally, we also provide credi
of credit default swaps. In most instances, this objective is accomplished through the use of an investment-grade div
swaps. These transactions may generate fee income, and diversify and reduce overall portfolio credit risk volatility.
management purposes, they are not treated as hedging instruments as defined by the applicable accounting guidance
We also enter into derivative contracts to meet customer needs and for proprietary purposes that consist of the follov

w interest rate swap, cap, floor and futures contracts entered into generally to accommodate the needs of commerci

w energy swap and options contracts entered into to accommodate the needs of clients;

w interest rate swaps and foreign exchange contracts used for proprietary trading purposes;

w positions with third parties that are intended to offset or mitigate the interest rate or market risk related to client p

w foreign exchange forward contracts entered into to accommodate the needs of clients.

These contracts are not designated as part of hedge relationships.

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Fair Values, Volume of Activity and Gain/Loss Information Related to Derivative Instruments

The following table summarizes the fair values of our derivative instruments on a gross basis as of June 30, 2010, D volume of our derivative transaction activity during the first half of 2010 is represented by the change in the notiona from December 31, 2009 to June 30, 2010. The notional amounts are not affected by bilateral collateral and master r are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following tabl

	June 30, 2010			**December 31, 2009**		
		Fair Value			**Fair Value**	
in millions	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**	**Notional Amount**	**Derivative Assets**	**Derivative Liabilities**
Derivatives designated as hedging instruments:						
Interest rate	**$ 14,168**	**$ 601**	**$ 4**	$ 18,259	$ 489	$ 9
Foreign exchange	**1,383**	**14**	**334**	1,888	78	189
Total	**15,551**	**615**	**338**	20,147	567	198
Derivatives not designated as hedging instruments:						
Interest rate	**65,173**	**1,624**	**1,611**	70,017	1,434	1,345
Foreign exchange	**7,617**	**183**	**163**	6,293	206	184
Energy and commodity	**2,031**	**344**	**364**	1,955	403	427
Credit	**3,640**	**47**	**37**	4,538	55	49
Equity	**18**	**1**	**1**	3	1	1
Total	**78,479**	**2,199**	**2,176**	82,806	2,099	2,006
Netting adjustments [(a)]	**N/A**	**(1,661)**	**(1,193)**	N/A	(1,572)	(1,192)
Total derivatives Total	**$ 94,030**	**$ 1,153**	**$ 1,321**	$ 102,953	$ 1,094	$ 1,012

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance related to the offsetting

of certain derivative contracts on the balance sheet. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral.

Fair value hedges. Instruments designated as fair value hedges are recorded at fair value and included in derivativ
sheet. The effective portion of a change in the fair value of a hedging instrument designated as a fair value hedge is
change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in t
recorded in other income on the income statement with no corresponding offset. During the six-month period end
portion of these hedging instruments from the assessment of hedge effectiveness. While some ineffectiveness is pres
fair value hedges remained highly effective as of June 30, 2010.

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The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the six-month periods end
are recorded on the income statement.

			Six months ended Jun	
in millions	**Income Statement Location of Net Gains (Losses) on Derivative**	**Net Gains (Losses) on Derivative**	**Hedged Item**	**Incon**
Interest rate	Other income	**$ 184**	Long-term debt	
	Interest expense			
Interest rate	Long-term debt	**109**		
Foreign exchange	Other income	**(264)**	Long-term debt	
	Interest expense			
Foreign exchange	Long-term debt	**3**	Long-term debt	Inte
Total		**$ 32**		

			Six months ended Jun	
in millions	**Income Statement Location of Net Gains (Losses) on Derivative**	**Net Gains (Losses) on Derivative**	**Hedged Item**	**Incon**
Interest rate	Other income	$ (437)	Long-term debt	
Interest rate	Interest expense Long-term	112		

	debt			
Foreign exchange	Other income	66	Long-term debt	
	Interest expense			
Foreign exchange	Long-term debt	12	Long-term debt	Inte
Total		$ (247)		

(a) Net gains (losses) on hedged items represent the change in fair value caused by fluctuations in interest rates.

(b) Net losses on hedged items represent the change in fair value caused by fluctuations in foreign currency exchange rates.

Cash flow hedges. Instruments designated as cash flow hedges are recorded at fair value and included in derivative
sheet. The effective portion of a gain or loss on a cash flow hedge is initially recorded as a component of AOCI on th
into income when the hedged transaction impacts earnings (e.g. when we pay variable-rate interest on debt, receive v
sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other inc
six-month period ended June 30, 2010, we did not exclude any portion of these hedging instruments from the assessi
ineffectiveness is present in our hedging relationships, all of our cash flow hedges remained highly effective as of
The following table summarizes the pre-tax net gains (losses) on our cash flow hedges for the six-month periods end
are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OC
net gains (losses) reclassified from OCI into income during the current period and the portion of net gains (losses) re
amount of hedge ineffectiveness.

		Six months ended June 30,	
in millions	**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Net Gai (Losse Reclassifie From OCI In Incon (Effectiv Portion**

Interest rate	**$**	**42**	Interest income Loans	**$**	**13**
Interest rate		**(22)**	Interest expense Long-term debt		**(1**
Interest rate			Net gains (losses) from loan securitizations and sales		
Total	**$**	**20**		**$**	**12**
Total					

Six months ended June 30, 2

in millions		**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**		**Net Gain (Losses Reclassifie From OCI Int Incom (Effectiv Portion**
Interest rate	$	102	Interest income Loans	$	23
Interest rate		25	Interest expense Long-term debt		(
Interest rate		4	Net gains (losses) from loan securitizations and sales		
Total	$	131		$	22
Total					

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The after-tax change in AOCI resulting from cash flow hedges is as follows:

in millions		December 31, 2009		2 Hedg Acti
Accumulated other comprehensive income resulting from cash flow hedges	$	114	**$**	

Considering the interest rates, yield curves and notional amounts as of June 30, 2010, we would expect to reclassify derivative instruments from AOCI to income during the next twelve months. In addition, we expect to reclassify app terminated cash flow hedges from AOCI to income during the next 12 months. The maximum length of time over w 18 years.

Nonhedging instruments. Our derivatives that are not designated as hedging instruments are recorded at fair value i the balance sheet. Adjustments to the fair values of these instruments, as well as any premium paid or received, are i markets income (loss) on the income statement.

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging i June 30, 2010 and 2009, and where they are recorded on the income statement.

	Six months ended June 30,			
in millions		**2010**		**2009**
NET GAINS (LOSSES) [(a)]				
Interest rate	**$**	**7**	$	15
Foreign exchange		**20**		31
Energy and commodity		**4**		4
Credit		**(9)**		(23)
Total net gains (losses)	**$**	**22**	$	27

(a) Recorded in investment banking and capital markets income (loss) on the income statement.

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter int agreements using standard forms published by ISDA. These agreements provide for the net settlement of all contrac default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accorda We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government

collateral netted against derivative assets on the balance sheet totaled $469 million at June 30, 2010, $381 million at
June 30, 2009. The collateral netted against derivative liabilities totaled $2 million at June 30, 2010, less than $1 mil
at June 30, 2009.

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The following table summarizes our largest exposure to an individual counterparty at the dates indicated.

in millions		**June 3** **201**
Largest gross exposure to an individual counterparty	$	**21**
Collateral posted by this counterparty		**3**
Derivative liability with this counterparty		**32**
Collateral pledged to this counterparty		**15**
Net exposure after netting adjustments and collateral		**2**

The following table summarizes the fair value of our derivative assets by type. These assets represent our gross expo
the effects of bilateral collateral and master netting agreements and other means used to mitigate risk.

in millions		**June 3** **201**
Interest rate	$	**1,43**
Foreign exchange		**9**
Energy and commodity		**7**
Credit		**1**
Equity		
Derivative assets before collateral		**1,62**
Less: Related collateral		**46**
Total derivative assets	$	**1,15**

We enter into derivative transactions with two primary groups: broker-dealers and banks, and clients. Since these gr
we have different methods for managing counterparty credit exposure and credit risk.
We enter into transactions with broker-dealers and banks for various risk management purposes and proprietary trad
generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with the
taking into account the effects of bilateral collateral and master netting agreements, we had gross exposure of $1.1 b
exposure of $314 million after the application of master netting agreements and collateral; our net exposure to broke
reduced to $84 million with the $230 million of additional collateral held in the form of securities.
We enter into transactions with clients to accommodate their business needs. These types of transactions generally a
master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and mar
with broker-dealers and other banks. Due to the smaller size and magnitude of the individual contracts with clients,
connection with these derivative transactions. To address the risk of default associated with the uncollateralized con
(included in derivative assets) in the amount of $80 million at June 30, 2010, which we estimate to be the potenti
counterparties in the event of default. At June 30, 2009 and December 31, 2009 the default reserve was $52 million
2010, after taking into account the effects of master netting agreements, we had gross exposure of $958 million to cl
$841 million on our derivatives with clients after the application of master netting agreements, collateral and the rel

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Credit Derivatives

We are both a buyer and seller of credit protection through the credit derivative market. We purchase credit derivativ
specific commercial lending and swap obligations. We also sell credit derivatives, mainly index credit default swaps
loan portfolio.

The following table summarizes the fair value of our credit derivatives purchased and sold by type. The fair value of
take into account the effects of bilateral collateral or master netting agreements.

	June 30, 2010			December 31, 2009		
in millions	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Ne**
Single name credit default swaps	**$ 12**	**$ (4)**	**$ 8**	$ 5	$ (3)	$ 2
Traded credit default swap indices	**1**	**(2)**	**(1)**	2		2
Total credit derivatives Other	**5**	**(2)**	**3**	(1)	4	3
Total credit derivatives	**$ 18**	**$ (8)**	**$ 10**	$ 6	$ 1	$ 7

Single name credit default swaps are bilateral contracts whereby the seller agrees, for a premium, to provide protecti
in connection with a specific debt obligation. The protected credit risk is related to adverse credit events, such as ban
acceleration or restructuring of obligations, specified in the credit derivative contract using standard documentation f
single name credit derivative, we would be required to pay the purchaser the difference between the par value and th
settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement) i
predefined credit event. For a single name credit derivative, the notional amount represents the maximum amount th
event that physical settlement occurs and we receive our portion of the related debt obligation, we will join other cre
result in the recovery of a portion of the amount paid under the credit default swap contract. We also may purchase c
reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

A traded credit default swap index represents a position on a basket or portfolio of reference entities. As a seller of p
would be required to pay the purchaser if one or more of the entities in the index had a credit event. For a credit defa
represents the maximum amount that a seller could be required to pay. Upon a credit event, the amount payable is ba
allocated to the specific defaulting entity.

The majority of transactions represented by the other category shown in the above table are risk participation agre
participant has a swap agreement with a customer. The lead participant (purchaser of protection) then enters into a ri
counterparty (seller of protection), under which the counterparty receives a fee to accept a portion of the lead partici
the swap contract, the counterparty to the risk participation agreement must reimburse the lead participant for the co
value of the customer swap as of the default date. If the customer swap has a negative fair value, the counterparty ha
notional amount represents the maximum amount that the seller could be required to pay. In the case of customer de
of the lead participant s claims against the customer under the terms of the initial swap agreement between the lead

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet
June 30, 2009. The payment/performance risk assessment is based on the default probabilities for the underlying ref
credit ratings matrix provided by Moody s, specifically Moody s Idealized Cumulative Default Rates, except as
table represents a weighted-average of

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the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly
to make a payment under the credit derivative contracts.

dollars in millions	June 30, 2010 Notional Amount	Average Term (Years)	Payment / Performance Risk	December 31, 2009 Notional Amount	Average Term (Years)	Payment / Performance Risk
Single name credit default swaps	**$ 1,102**	**2.45**	**4.10 %**	$ 1,140	2.57	4.88 %
Traded credit default swap indices	**344**	**4.00**	**8.08**	733	2.71	13.29
Other	**46**	**3.09**	**7.70**	44	1.94	5.41
Total credit derivatives sold	**$ 1,492**			$ 1,917		

(a) The other credit derivatives were not referenced to an entity s debt obligation. We determined the payment/performance risk based on the probability that we could be required to pay the maximum amount under the credit derivatives. We have determined that the payment/performance risk associated with the other credit derivatives was low (i.e., less than or equal to 30% probability of payment).

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these c
amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our lo
Moody s and S&P. Collateral requirements are also based on minimum transfer amounts, which are specific to each
ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterpart
Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for
KeyBank s ratings with Moody s and S&P were A2 and A-, respectively, and KeyCorp s ratings with Mood
were a downgrade of our ratings, we could be required to post additional collateral under those ISDA Master Agree
As of June 30, 2010, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., thos

provisions based on our ratings) held by KeyBank that were in a net liability position totaled $1.1 billion, which incl
$1.9 billion in derivative liabilities. We had $1.1 billion in cash and securities collateral posted to cover those positio
The following table summarizes the additional cash and securities collateral that KeyBank would have been required
features been triggered for the derivative contracts in a net liability position as of June 30, 2010, December 31, 2009
amounts were calculated based on scenarios under which KeyBank s ratings are downgraded one, two or three ratin
all collateral already posted. At June 30, 2010, KeyCorp did not have any derivatives in a net liability position that c

	June 30, 2010		**December 31, 200**	
in millions	**Moody s**	**S&P**	**Moody s**	
KeyBank s long-term senior unsecured credit ratings	**A2**	**A-**	A2	
One rating downgrade	**$ 28**	**$ 22**	$ 34	$
Two rating downgrades	**51**	**25**	56	
Three rating downgrades	**59**	**30**	65	

If KeyBank s ratings had been downgraded below investment grade as of June 30, 2010, payments of up to $81 mil
terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account a
downgraded below investment grade, KeyBank s long-term senior unsecured credit rating would need to be downg
by S&P.

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15. Fair Value Measurements

Fair Value Determination

As defined in the applicable accounting guidance for fair value measurements and disclosures, fair value is the price
orderly transaction between market participants in our principal market. We have established and documented our pr
assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or s
quoted market prices, we determine the fair value of our assets and liabilities using valuation models or third-party p
on market-based parameters when available, such as interest rate yield curves, option volatilities and credit spreads,
may be based on our judgment, assumptions and estimates related to credit quality, liquidity, interest rates and other
Valuation adjustments, such as those pertaining to counterparty and our own credit quality and liquidity, may be nec
recorded at fair value. Credit valuation adjustments are made when market pricing is not indicative of the counterpar
When we are unable to observe recent market transactions for identical or similar instruments, we make liquidity val
the uncertainty in the pricing and trading of the instrument. Liquidity valuation adjustments are based on the followi

- the amount of time since the last relevant valuation;
- whether there is an actual trade or relevant external quote available at the measurement date; and
- volatility associated with the primary pricing components.

We ensure that our fair value measurements are accurate and appropriate by relying upon various controls, including

- an independent review and approval of valuation models;
- a detailed review of profit and loss conducted on a regular basis; and
- a validation of valuation model components against benchmark data and similar products, where possible.

We review any changes to valuation methodologies to ensure they are appropriate and justified, and refine valuation
becomes available.

Additional information regarding our accounting policies for the determination of fair value is provided in Note 1 (
under the heading Fair Value Measurements on page 84 of our 2009 Annual Report to Shareholders.

Qualitative Disclosures of Valuation Techniques

Loans. Loans recorded as trading account assets are valued using an internal cash flow model because the market in
active. The most significant inputs to our internal model are actual and projected financial results for the individual b
classified as Level 3 assets. As of June 30, 2010, there was one loan that was actively traded. This loan was valued b
and, therefore, classified as Level 2 since the fair value recorded is based on observable market data.

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Securities (trading and available for sale). Securities are classified as Level 1 when quoted market prices are availa
securities. Level 1 instruments include exchange-traded equity securities. If quoted prices for identical securities are
pricing models or quoted prices of similar securities. These instruments, classified as Level 2 assets, include municip
government, corporate bonds, certain mortgage-backed securities, securities issued by the U.S. Treasury and certain
obligations. Inputs to the pricing models include actual trade data (i.e., spreads, credit ratings and interest rates) for c
high-grade scales, option-adjusted spreads and standard inputs, such as yields, broker/dealer quotes, bids and offers.
for a particular instrument, we use internal models based on certain assumptions to determine fair value. Such instru
certain commercial mortgage-backed securities and certain commercial paper. Inputs for the Level 3 internal models
underlying loans, which take into account expected default and recovery percentages, market research and discount
conditions.

Private equity and mezzanine investments. Private equity and mezzanine investments consist of investments in debt
Capital line of business. They include direct investments made in a property, as well as indirect investments made in
purpose of investing in properties. There is not an active market in which to value these investments. The direct inve
transaction price. The carrying amount is then adjusted based upon the estimated future cash flows associated with t
future cash flows include the cost of build-out, future selling prices, current market outlook and operating performan
investments are valued using a methodology that is consistent with accounting guidance that allows us to use statem
net asset value per share. A primary input used in estimating fair value is the most recent value of the capital accoun
investee funds. Private equity and mezzanine investments are classified as Level 3 assets since our judgment impact
Within private equity and mezzanine investments, we have investments in real estate private equity funds. The main
portfolio of real estate investments that provides attractive risk-adjusted returns and current income for investors. Ce
determinable fair values and represent our ownership interest in an entity that follows measurement principles under
following table presents the fair value of the funds and related unfunded commitments at June 30, 2010:

June 30, 2010
in millions

INVESTMENT TYPE
Passive funds [(a)]
Co-managed funds [(b)]

Total

(a) We invest in passive funds, which are multi-investor private equity funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in

the funds. Some funds have no restrictions on sale, while others require investors to remain in the fund until maturity. The funds will be liquidated over a period of one to six years.

(b) We are a manager or co-manager of these funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. In addition, we receive management fees. A sale or transfer of our interest in the funds can only occur through written consent of a majority of the fund s investors. In one instance, the other co-manager of the fund must consent to the sale or transfer of our interest in the fund. The funds will

mature over a
period of four to
seven years.

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Principal investments. Principal investments consist of investments in equity and debt instruments made by our prin
investments (investments made in a particular company), as well as indirect investments (investments made through
predominantly privately held companies and funds. When quoted prices are available in an active market for the ider
in the valuation process, and the related investments are classified as Level 1 assets. However, in most cases, quoted
identical investment, and we must rely upon other sources and inputs, such as market multiples; historical and foreca
depreciation and amortization; net debt levels; and investment risk ratings to perform the valuations of the direct inv
primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investin
values. The indirect investments are valued using a methodology that is consistent with accounting guidance that allo
value per share (or its equivalent, such as member units or an ownership interest in partners capital to which a prop
primary input used in estimating fair value is the most recent value of the capital accounts as reported by the general
investments are classified as Level 3 assets since our assumptions impact the overall determination of fair value. The
indirect funds and related unfunded commitments at June 30, 2010:

June 30, 2010
in millions

INVESTMENT TYPE
Private equity funds [(a)]
Hedge funds [(b)]
Total

(a) Consists of buyout, venture capital and fund of funds. These investments can never be redeemed with the investee funds. Instead, distributions are received through the liquidation of the underlying investments of the fund. These investments cannot be sold without the approval of the general partners of the investee funds. We estimate that the underlying investments of the funds will be

liquidated over a period of one to ten years.

(b) Consists of investee funds invested in long and short positions of stressed and distressed fixed income-oriented securities with the goal of producing attractive risk-adjusted returns. The investments can be redeemed quarterly with 45 days notice. However, the general partners may impose quarterly redemption limits that may delay receipt of requested redemptions.

Derivatives. Exchange-traded derivatives are valued using quoted prices and, therefore, are classified as Level 1 inst derivatives are exchange-traded, so the majority of our derivative positions are valued using internally developed mo observable market inputs, such as interest rate curves, yield curves, the LIBOR discount rates and curves, index pric volatility surfaces. These derivative contracts, which are classified as Level 2 instruments, include interest rate swap credit default swaps. In addition, we have a few customized derivative instruments and risk participations that are cla derivative positions are valued using internally developed models. Inputs to the models consist of available market d well as our assumptions, such as loss probabilities and proxy prices.

Market convention implies a credit rating of AA equivalent in the pricing of derivative contracts, which assumes creditworthiness. To reflect the actual exposure on our derivative contracts related to both counterparty and our own adjustment in the form of a default reserve. The credit component is valued on a counterparty-by-counterparty basis considers master netting and collateral agreements. The default reserve is considered to be a Level 3 input.

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Other assets and liabilities. The value of our repurchase and reverse repurchase agreements, trade date receivables a the valuation of the underlying securities. The underlying securities may include equity securities, which are valued market for identical securities, resulting in a Level 1 classification. If quoted prices for identical securities are not av pricing models or quoted prices of similar securities, resulting in a Level 2 classification. Inputs include spreads, cre rate-driven products. Inputs include actual trade data for comparable assets, and bids and offers for the credit-driven corporate bonds and mortgage-backed securities, while interest rate-driven securities include government bonds, U.S by the U.S. government.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. These assets a regular basis. The following tables present our assets and liabilities measured at fair value on a recurring basis at Jun

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June 30, 2010 *in millions*	**Level 1**	**Level 2**	**Level**
ASSETS MEASURED ON A RECURRING BASIS			
Short term investments:			
Securities purchased under resale agreements		$ 416	
Trading account assets:			
U.S. Treasury, agencies and corporations		7	
Other mortgage-backed securities			$
Other securities	$ 59	910	2
Total trading account securities	59	917	2
Commercial loans		2	
Total trading account assets	59	919	3
Securities available for sale:			
U.S. Treasury, agencies and corporations		8	
States and political subdivisions		78	
Collateralized mortgage obligations		18,290	
Other mortgage-backed securities		1,283	

Guarantees

As part of its reorganization in 2001, the Company has fully and unconditionally guaranteed payment of all of the i
No other subsidiary of the Company guarantees these securities.

IR-New Jersey has unconditionally guaranteed payment of the principal, premium, if any, and interest on the C
aggregate principal amount of $300 million. The guarantee is unsecured and provided on an unsubordinated b
payment with all of the existing and future unsecured and unsubordinated debt of IR-New Jersey.

Critical Accounting Policies

The notes to the financial statements include a summary of significant accounting policies and methods used in
statements and the following summarizes what the Company believes are the critical accounting policies and metho

- Allowance for doubtful accounts - The Company has provided an allowance for doubtful accounts receivable us
  knowledge of its end markets, customer base and products.

In the first quarter of 2006, the Company changed its estimate of the allowance for doubtful accounts in light of var
a significant change in its business portfolio and historical and expected write-off experience. In addition, the Co
limits its bad debt exposure. As a result, the Company reduced its allowance by $20.5 million, or $17.1 million
diluted earnings per share by $0.05.

- Goodwill and other intangible assets - The Company has significant goodwill and other intangible assets on
  valuation and classification of these assets and the assignment of amortization lives involves significant judgment
  intangibles under established accounting guidelines for impairment also requires significant use of judgment an
  determination of fair market value. The Company's goodwill and other intangible assets are tested and review
  significant change in circumstances. The Company believes that its use of estimates and assumptions are rea

accounting principles. Changes in business conditions could potentially require future adjustments to these valuati

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· Long-lived assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances
may not be recoverable. Assets are grouped with other assets and liabilities at the lowest level for which id
impairment in the carrying value of an asset would be recognized whenever anticipated future undiscounted cash
value. The impairment is measured as the amount by which the carrying value exceeds the fair value of the asse
cash flows.

· Loss contingencies - Liabilities are recorded for various contingencies arising in the normal course of busin
proceedings, environmental and asbestos matters and product liability, product warranty, worker's compensation
reserves in the financial statements related to these matters, which are developed using input derived from actu
experience data depending on the nature of the reserve, and in certain instances with consultation of legal co
engineers. Subject to the uncertainties inherent in estimating future costs for these types of liabilities, the C
reasonable and does not believe the final determination of the liabilities with respect to these matters would hav
results of operations, liquidity or cash flows of the Company for any year.

· Revenue Recognition - Revenue is generally recognized and earned when all of the following criteria are
arrangement exists; (b) price is fixed or determinable; (c) collectibility is reasonably assured; and (d) deliver
Delivery generally occurs when the title and the risks and rewards of ownership have substantially transferred
contracts or extended warranties is recognized on a straight-line basis over the life of the contract, unless anoth
incurred. The Company enters into agreements that contain multiple elements, such as equipment, installatio
arrangements, the Company recognizes revenue for delivered elements when the delivered item has stand
undelivered elements are known, customer acceptance has occurred, and there are only customary refund or return

· Income taxes - Deferred tax assets and liabilities are determined based on temporary differences between fin
liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to
benefits, such as net operating losses and non-U.S. tax credits, to the extent that realizing these benefits is conside
The Company regularly reviews the recoverability of its deferred tax assets considering its historic profitability,
reversals of existing temporary differences and the feasibility of its tax planning strategies. Where appropriate, the
respect to a future tax benefit.

The provision for income taxes involves a significant amount of management judgment regarding interpretation of
which the Company operates. Future changes in applicable laws, projected levels of taxable income, and tax planni
balances recorded by the Company. In addition, U.S. and non-U.S. tax authorities periodically review income ta
issues regarding its filing positions, timing and amount of income or deductions, and the allocation of income an
operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolu
with respect to that return. The Company believes that it has adequately provided for any reasonably foreseeable r
adjust its estimate if significant events so dictate. To the extent that the ultimate results differ from the original or
will be recorded in the provision for income taxes in the period that the matter is finally resolved.

· Employee benefit plans - The Company provides a range of benefits to eligible employees and retired emplo
postemployment health-care benefits. Determining the cost associated with such benefits is dependent on vari
rates, expected return on plan assets, compensation increases, employee mortality and turnover rates, and healt
perform the required calculations to determine expense in accordance with U.S. generally accepted accounting
actuarial assumptions and are generally accumulated and amortized into earnings over future periods. Effective D
recognized in shareholders' equity on an annual basis, due to the adoption of SFAS 158. The Company reviews
date and makes modifications to the assumptions based on current rates and trends, if appropriate. The discount r
expected long-term rates of return on plan assets are determined as of the measurement date. The discount rate re
effectively settled. It is established and based primarily on the yields of high-quality fixed-income investments av
life of the plans, a study based on the Citigroup Pension Liability index, and a review of the current yields reporte
of compensation increase is dependent on expected future compensation levels. The expected long-term rates of
be earned over the period until the benefits are paid, which should reflect the rates of return on present investme
expected long-term rate of return on plan assets is based on what is achievable given the plan's investment polic
return trends for the larger plans are reviewed over fifteen, ten and five-year periods. The actual rates of return fo
periods have exceeded the expected rates of return used. The Company believes that the assumptions utilized i
reasonable based on input from its actuaries, outside investment advisors, and information as to assumptions used

Changes in any of the assumptions can have an impact on the net periodic pension cost or postretirement cost. Esti
cost of a 0.25% rate decrease in the three basic assumptions are as follows: the discount rate would increase expe
compensation increase would decrease expense by approximately $4.7 million, and the estimated return on as
approximately $6.9 million. A 0.25% rate decrease in the discount rate for postretirement benefits would increase n
million and a 1.0% increase in the health care cost trend rate would increase the cost by approximately $6.3 million.

In 2006, the Company adopted SFAS 158, which requires the Company to record the funded status of its pension
sheet effective December 31, 2006. Refer to Notes 8 and 9 in the Company's financial statements and the Liqui
details of the impact of SFAS 158.

The preparation of all financial statements includes the use of estimates and assumptions that affect a number of
statements. If actual amounts are ultimately different from previous estimates, the revisions are included in the
actual amounts become known. Historically, the aggregate differences, if any, between the Company's estimates
significant impact on the consolidated financial statements.

New Accounting Standards

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No.
Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 provi
the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstate
should quantify errors using both a balance sheet and an income statement approach and evaluate whether either a
that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 is effective for the
31, 2006. SAB 108 did not have a material impact on the Company's financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an in
which prescribes a recognition threshold and measurement process for recording in the financial statements uncerta
in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in inte
uncertain tax positions. The provisions of FIN 48 are effective for the Company for the fiscal year beginning on Ja
the impact of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, "Fair Value Measu
framework for measuring fair value that is based on the assumptions market participants would use when pricing a
hierarchy that prioritizes the information to develop those assumptions. Additionally, the standard expands the
include disclosing the fair value measurements of assets or liabilities within each level of the fair value hierarchy. S
on January 1, 2008. The Company is currently evaluating the impact on its financial statements of adopting SFAS 1

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, "The Fair Value Optio
(SFAS 159). SFAS 159 permits companies the option, at specified election dates, to measure financial assets and
corresponding changes in fair value from period to period recognized in the income statement. Additionally, SFA
requirements designed to facilitate comparisons between companies that choose different measurement attributes
effective for the Company starting on January 1, 2008. The Company is currently evaluating the impact on its financ

Item 7A. **QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The Company is exposed to fluctuations in the price of major raw materials used in the manufacturing process, cu
From time to time, the Company enters into agreements to reduce its raw material, currency and interest rate
non-performance, those agreements are made only through major financial institutions with significant experience in

The Company experiences currency exposures in the normal course of business. To mitigate the risk from currency
generally enter into forward currency exchange contracts for the purchase or sale of a currency to hedge this exposur

The Company evaluates its exposure to changes in currency exchange rates using a sensitivity analysis. The sensitiv
loss in fair value based on a percentage increase or decrease in exchange rates against the U.S. dollar. Based o
instruments in place at December 31, 2006, a hypothetical change in fair value of those financial instruments assum
the U.S. dollar would result in an unrealized loss of approximately $32.5 million, as compared with $16.0 million at
offset by changes in the fair value of underlying currency transactions.

The Company entered into two total return swaps (the Swaps) which are derivative instruments used to hedg
share-based compensation expense. The Swaps are benchmarked to the Company's Class A common share price an
market price of our Class A common shares. Assuming a 10% decrease in our share price at December 31, 2006
approximately $3.3 million. This amount would be offset by changes in the fair value of underlying share-based con

From time to time the Company participates in the debt markets through the issuance of commercial paper, which, l
In managing its portfolio the Company issues and reissues commercial paper, thus exposing it to interest rate risk in

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

(a) The following consolidated financial statements and the report thereon of PricewaterhouseCoopers LLP dated Ma
of this Annual Report on Form 10-K.

Consolidated Financial Statements:
Report of independent registered public accounting firm
Consolidated balance sheets at December 31, 2006 and 2005
For the years ended December 31, 2006, 2005 and 2004:
Consolidated statements of income
Consolidated statements of shareholders' equity
Consolidated statements of cash flows
Notes to consolidated financial statements

Financial Statement Schedule:
Consolidated schedule for the years ended December 31, 2006, 2005 and 2004:
Schedule II — Valuation and Qualifying Accounts

(b) The unaudited quarterly financial data for the two years ended December 31, is a

In millions, except per share amounts

2006	Net revenues	Cost of goods sold	Operating income	Net earning
First quarter	$ 2,711.0	$ 1,998.0	$ 341.1	$
Second quarter	3,041.9	2,215.4	416.5	
Third quarter	2,765.9	2,043.8	357.7	
Fourth quarter	2,890.5	2,167.0	325.5	
Year 2006	$ 11,409.3	$ 8,424.2	$ 1,440.8	$ 1
2005				
First quarter	$ 2,458.8	$ 1,810.6	$ 297.0	$
Second quarter	2,759.5	2,019.1	379.1	
Third quarter	2,615.3	1,920.7	340.0	
Fourth quarter	2,713.3	1,993.7	345.7	
Year 2005	$ 10,546.9	$ 7,744.1	$ 1,361.8	$ 1

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

Item 9. **CHANGES IN AND DISAGREEMENTS WITH INDEPENDENT ACCOUNTANTS ON ACCOUNT**

None.

Item 9A **CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures
The Company's management, including its Chief Executive Officer and Chief Financial Officer, have conducted a
controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange A
as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief E
concluded as of December 31, 2006, that the disclosure controls and procedures are effective in ensuring that all m
Annual Report on Form 10-K has been recorded, processed, summarized and reported when required and the infor
appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting
The Company's management is responsible for establishing and maintaining adequate internal control over fina
Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting is a process designed to
reliability of financial reporting and the preparation of financial statements for external purposes in accordance with

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.
effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in con
the policies and procedures may deteriorate.

Management has assessed the effectiveness of internal control over financial reporting as of December 31, 2006
utilized the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission
Management concluded that based on its assessment, the Company's internal control over financial reporti
Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2006
LLP, an independent registered public accounting firm, as stated in their report.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal controls over financial reporting during the quarter ended Dece
is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. **OTHER INFORMATION**

None.

PART III

The information called for by Part III (Items 10, 11, 12, and 13) of Form 10-K will be included in the Company's Pr
General Meeting of Shareholders, which the Company intends to file within 120 days after the close of its fiscal
incorporated by reference to such Proxy Statement, except that the information as to the Company's executive offic
on Form 10-K, is incorporated by reference into Items 10 and 12, respectively, of this Report.

Item 14. **PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated herein by reference to the information contained under the c
Proxy Statement.

In early 2005, our registered public accounting firm, PricewaterhouseCoopers LLP (PwC), informed the Securities
Company Accounting Oversight Board and our Audit Committee that certain non-audit work that PwC previous
questions regarding PwC's independence with respect to its performance of audit services for us.

During the fiscal years 2004, 2003, 2002 and 2001, certain PwC affiliates, in connection with the preparation of
authorities with respect to individual employee tax liabilities. As a result, PwC's non-U.S. affiliates had tempora
funds. The fees we paid to PwC's non-U.S. affiliates in China and Taiwan for the preparation of these tax returns,
$433, $14,765, $24,849 and $18,767 for the years 2004, 2003, 2002 and 2001, respectively. These services were dis

Our Audit Committee has reviewed the facts surrounding these services provided by PwC. PwC has informed the
the performance of the tax services described above has impaired PwC's independence. In light of the de minimis
actions performed and the fact that the services have been discontinued, neither our Audit Committee nor PwC belie
the performance of these services.

PART IV

<u>Item 15.</u> **<u>EXHIBITS AND FINANCIAL STATEMENTS SCHEDULE</u>**

(a) 1. and 2. <u>Financial statements and financial statement schedule</u>

See Item 8.

3. <u>Exhibits</u>

The exhibits listed on the accompanying index to exhibits are filed as part of this Annual Rep

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INGERSOLL-RAND COMPANY LIMITED
INDEX TO EXHIBITS
(Item 15(a))

Description

2 Agreement and Plan of Merger, dated as of October 31, 2001, among Ingersoll-Rand Company Limited, Ingersol
Incorporated by reference to Amendment No. 1 to Form S-4. Registration Statement No, 333-71642, filed October

2.1 Stock and Asset Purchase Agreement, dated as of October 16, 2002, between Ingersoll-Rand Company L
subsidiaries and The Timken Company, on behalf of itself and certain of its subsidiaries. Incorporated by referen

2.2 Amendment to the Stock and Asset Purchase Agreement, dated as of February 18, 2003, amending the Stock
2002, between Ingersoll-Rand Company Limited, on behalf of itself and certain of its subsidiaries and The Timk
its subsidiaries. Incorporated by reference to Form Schedule 13D, filed March 5, 2003 by Ingersoll-Rand Compa

2.3 Equity Purchase Agreement between FRC Acquisition LLC, on behalf of itself and the other buyers named ther
behalf of itself and the other sellers named therein, dated August 25, 2004, in connection with the divestiture o
Form 8-K dated August 25, 2004.

2.4 Pricing Agreement, dated as of May 24, 2005 among Ingersoll-Rand Company Limited, Banc of America Secur
Ingersoll-Rand Company. Incorporated by reference to Form 8-K for Ingersoll-Rand Company Limited, dated M

2.5 Asset and Stock Purchase Agreement, dated as of February 27, 2007, among Ingersoll-Rand Company limited, o
therein, and AB Volvo (publ), on behalf of itself and the other buyers named therein. Incorporated by reference t
Limited dated February 27, 2007, filed February 28, 2007.

3.1 Memorandum of Association of Ingersoll-Rand Company Limited. Incorporated by reference to Amendment No
333-71642, filed October 30, 2001.

3.2 Amended and Restated Bye-Laws of Ingersoll-Rand Company Limited, dated June 1, 2005. Incorporated by r
June 30, 2005, of Ingersoll-Rand Company Limited, filed August 5, 2005.

4.1 Certificate of Designation, Preferences and Rights of Series A Preference Shares of Ingersoll-Rand Com
Amendment No. 1 to Form S-4 Registration Statement No. 333-71642, filed October 30, 2001.

4.2 Rights Agreement between Ingersoll-Rand Company Limited and The Bank of New York, as Rights Agent. Inco
Form S-4 Registration Statement No. 333-71642, filed October 30, 2001.

4.3 Voting Agreement between Ingersoll-Rand Company Limited and Ingersoll-Rand Company. Incorporated by
Registration Statement No. 333-71642, filed October 30, 2001.

4.4 Indenture dated as of August 1, 1986, between Ingersoll-Rand Company and The Bank of New York, as Trust
supplemental indentures. Incorporated by reference to Ingersoll-Rand Company's Form S-3 Registration Statem
to Form S-3 Registration Statement No. 333-50902 as filed November 29, 2000.

4.5 Fourth Supplemental Indenture, dated as of December 31, 2001, among Ingersoll-Rand Company Limited, In
York, as trustee. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended

4.6 Credit Agreement dated as of August 12, 2005, among Ingersoll-Rand Company and Ingersoll-Rand Company
USA, Inc., as Syndication Agent, and Bank of America, N.A., Deutsche Bank Securities Inc., The Bank of T
UBS Securities LLC, as Documentation Agents, and JPMorgan Chase Bank, N.A., as Administrative Agent,
Global Markets Inc., as Lead Arrangers and Bookrunners. Incorporated by reference to Form 10-K of Ingerso
December 31, 2006, filed March 1, 2006.

4.7 Credit Agreement, dated as of June 25, 2004, among Ingersoll-Rand Company and Ingersoll-Rand Company Li
Chase Bank, as Administrative Agent, Citibank N.A., and Deutsche Bank Securities Inc., as Co-Syndication Ag
as Documentation Agent, and J.P. Morgan Securities Inc., as Lead Arranger and Bookrunner. Incorporated b
Company Limited for the year ended December 31, 2004, filed March 16, 2005.

4.8 Ingersoll-Rand Company Limited and its subsidiaries are parties to several long-term debt instruments under wh
authorized does not exceed 10% of the total assets of Ingersoll-Rand Company Limited and its subsidiaries on a
4(iii) of Item 601(b) of Regulation S-K, Ingersoll-Rand Company Limited agrees to furnish a copy of such instru
Commission upon request.

4.9 Indenture dated as of May 24, 2005 among Ingersoll-Rand Company Limited, Ingersoll-Rand Company and We
by reference to Form 8-K for Ingersoll-Rand Company Limited, dated May 24, 2005, filed May 27, 2005.

10.1 Management Incentive Unit Plan of Ingersoll-Rand Company. Amendment to the Management Incentive Uni
to the Management Incentive Unit Plan, effective January 1, 1987. Amendment to the Management Incentive U
by reference to Form 10-K of Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30,

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10.2 Reorganization Amendment to Management Incentive Unit Plan, dated December 31, 2001. Incorporated b
Company Limited for the year ended December 31, 2001, filed March 13, 2002.

10.3 Amended and Restated Director Deferred Compensation and Stock Award Plan. Incorporated by reference to F
year ended December 31, 2000, filed March 20, 2001.

10.4 First Amendment to Director Deferred Compensation and Stock Award Plan. Incorporated by reference to Fo
for the year ended December 31, 2001, filed March 13, 2002.

10.5 Second Amendment to Director Deferred Compensation and Stock Award Plan. Incorporated by referenc
Limited for the year ended December 31, 2003, filed February 27, 2004.

10.6 Third Amendment to Director Deferred Compensation and Stock Award Plan, dated December 31, 2004
Ingersoll-Rand Company Limited, dated December 31, 2004, filed January 6, 2005.

10.7 Fourth Amendment to Director Deferred Compensation and Stock Award Plan, dated March 10, 2005.
Ingersoll-Rand Company Limited for the year ended December 31, 2004, filed March 16, 2005.

10.8 Director Deferred Compensation and Stock Award Plan II, dated December 31, 2004. Incorporated by refere
Limited, dated December 31, 2004, filed January 6, 2005.

10.9 First Amendment to Director Deferred Compensation and Stock Award Plan II, dated March 10, 2005.
Ingersoll-Rand Company Limited for the year ended December 31, 2004, filed March 16, 2005.

10.10 Description of Annual Incentive Arrangements for Chairman, President, Sector Presidents and other Staff O
Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31

10.11 Description of Performance Share Program for Chairman, President and Chief Executive Officer and the o
Limited. Incorporated by reference to Form 10-K of Ingersoll-Rand Company Limited for the year ended Dece

10.12 Form of Change in Control Agreement with Tier 1 Officers of Ingersoll-Rand Company Limited, dated as of D
to Exhibit 99.1 in Form 8-K of Ingersoll-Rand Company Limited, dated November 30, 2006, filed December 4

10.13 Form of Change in Control Agreement with Tier 2 Officers of Ingersoll-Rand Company Limited, dated as of
to Exhibit 99.2 in Form 8-K of Ingersoll-Rand Company Limited, dated November 30, 2006, filed December 4

10.14 Executive Supplementary Retirement Agreement for selected executive officers of Ingersoll- Rand Compan
Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30, 1994.

10.15 Executive Supplementary Retirement Agreement for selected executive officers of Ingersoll-Rand Company
the year ended December 31, 1996, filed March 26, 1997.

10.16 Forms of insurance and related letter agreements with certain executive officers of Ingersoll-Rand Compan
Ingersoll-Rand Company for the year ended December 31, 1993, filed March 30, 1994.

10.17 Amended and Restated Supplemental Pension Plan, dated January 1, 2003. Incorporated by reference to Form
the year ended December 31, 2002, filed March 5, 2003.

10.18 First Amendment to the Amended and Restated Supplemental Pension Plan, dated January 1, 2003. I
Ingersoll-Rand Company Limited for the year ended December 31, 2003, filed February 27, 2004.

10.19 Amended and Restated Supplemental Employee Savings Plan, dated January 1, 2003. Incorporated by referen
Limited for the year ended December 31, 2002, filed March 5, 2003.

10.20 First Amendment to the Amended and Restated Supplemental Employee Savings Plan, dated January 1, 2003.
Ingersoll-Rand Company Limited for the year ended December 31, 2003, filed February 27, 2004.

10.21 Incentive Stock Plan of 1995. Incorporated by reference to the Notice of 1995 Annual Meeting of Shareholde
See Appendix A of the Proxy Statement dated March 15, 1995.

10.22 Reorganization Amendment to Incentive Stock Plan of 1995, dated December 21, 2001. Incorporated b
Company Limited for the year ended December 31, 2001, filed March 13, 2002.

10.23 Senior Executive Performance Plan. Incorporated by reference to the Notice of 2000 Annual Meetin
Ingersoll-Rand Company, dated March 7, 2000. See Appendix A of the Proxy Statement, dated March 7, 2000

10.24 Amended and Restated Elected Officers Supplemental Plan, dated December 31, 2004. Incorporated by refere
Limited for the year ended December 31, 2004, filed March 16, 2005.

10.25 Amendment, dated February 1, 2006, to Amended and Restated Elected Officers Supplemental Plan, dated De
Form 10-K of Ingersoll-Rand Company Limited for the year ended December 31, 2006, filed March 1, 2006.

10.26 Elected Officers Supplemental Plan II, dated February 1, 2006. Incorporated by reference to Form 10-K of Ing ended December 31, 2006, filed March 1, 2006.

10.27 Amended and Restated Executive Deferred Compensation Plan. Incorporated by reference to Form 10-K of December 31, 2000, filed March 20, 2001.

10.28 First Amendment to Executive Deferred Compensation Plan, dated December 31, 2001. Incorporated by Company Limited for the year ended December 31, 2001, filed March 13, 2002.

10.29 Second Amendment to Executive Deferred Compensation Plan, dated February 24, 2004. Incorporated b Company Limited for the year ended December 31, 2003, filed February 27, 2004.

10.30 Third Amendment to Executive Deferred Compensation Plan, dated December 31, 2004. Incorporated l Company Limited dated December 31, 2004, filed January 6, 2005.

10.31 Fourth Amendment to Executive Deferred Compensation Plan, dated March 10, 2005. Incorporated by referen Limited for the year ended December 31, 2004, filed March 16, 2005.

10.32 Executive Deferred Compensation Plan II, dated December 31, 2004. Incorporated by reference to Form 8- December 31, 2004, filed January 6, 2005.

10.33 First Amendment to Executive Deferred Compensation Plan II, dated March 10, 2005. Incorporated by referen Limited for the year ended December 31, 2004, filed March 16, 2005.

10.34 Amended and Restated Incentive Stock Plan of 1998. Incorporated by reference to Ingersoll-Rand Compan filed December 1, 2005.

10.35 Amendment to the Ingersoll-Rand Company Limited Amended and Restated Incentive Stock Plan of 199 reference to Form 8-K of Ingersoll-Rand Company Limited, dated December 7, 2005, filed December 9, 2005

10.36 Composite Employment Agreement with Chief Executive Officer. Incorporated by reference to Form 10-K o December 31, 1999, filed March 30, 2000.

10.37 Employment Agreement with Timothy McLevish, Senior Vice President and Chief Financial Officer. Ingersoll-Rand Company Limited for the year ended December 31, 2002, filed March 5, 2003.

10.38 Employment Agreement with Michael Lamach, Senior Vice President. Incorporated by reference to Form 10-l year ended December 31, 2003, filed February 27, 2004.

10.39 Addendum, dated June 3, 2005, to Employment Agreement with Timothy R. McLevish. Incorporated by refer
Limited, dated June 1, 2005, filed June 6, 2005.

10.40 Employment Agreement with James R. Bolch, Senior Vice President. Incorporated by reference to Form 10-
year ended December 31, 2006, filed March 1, 2006.

10.41 Addendum, dated December 8, 2005, to Employment Agreement with James R. Bolch. Incorporated by refere
Limited for the year ended December 31, 2006, filed March 1, 2006.

10.42 Amended and Restated Estate Enhancement Program, dated June 1, 1998, and the related form agreements
Ingersoll-Rand Company Limited for the quarter ended March 31, 2006, filed May 5, 2006.

10.43 First Amendment to the Amended and Restated Estate Enhancement Program, dated December 31, 2001
Ingersoll-Rand Company Limited for the quarter ended March 31, 2006, filed May 5, 2006.

10.44 Employment Agreement with William Gauld, Senior Vice President, dated September 7,

10.45 Employment Agreement with Marcia J. Avedon, Senior Vice President, dated January 8,

12 Computations of Ratios of Earnings to Fixed Charges. Filed herewith.

14 Ingersoll-Rand Company Limited Code of Ethics. Incorporated by reference to Form 10-K of Ingersoll-Rand C
31, 2006, filed March 1, 2006.

21 List of Subsidiaries of Ingersoll-Rand Company Limited. Filed herewit

23 Consent of Independent Registered Public Accounting Firm. Filed herew

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant
2002. Filed herewith.

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as adopted pursuant to S
Filed herewith.

32 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-1
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly c
the undersigned, thereunto duly authorized.

INGERSOLL RAND COMPANY LIMITED
(Registrant)

By: /S/ Herbert L. Henkel

(Herbert L. Henkel)
Chief Executive Officer
Date: March 1, 2007

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed by the following per
capacities and on the dates indicated.

Signature	Title
/S/ Herbert L. Henkel (Herbert L. Henkel)	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)
/S/ Timothy R. McLevish (Timothy R. McLevish)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ Richard W. Randall (Richard W. Randall)	Vice President and Controller (Principal Accounting Officer)
/S/ Ann C. Berzin (Ann C. Berzin)	Director
/S/ Peter C. Godsoe (Peter C. Godsoe)	Director
/S/ Constance Horner (Constance Horner)	Director
/S/ H. William Lichtenberger (H. William Lichtenberger)	Director

/S/ Theodore E. Martin (Theodore E. Martin)	Director
/S/ Patricia Nachtigal (Patricia Nachtigal)	Director
/S/ Orin R. Smith (Orin R. Smith)	Director
/S/ Richard J. Swift (Richard J. Swift)	Director
/S/ Tony L. White (Tony L. White)	Director

INGERSOLL-RAND COMPANY LIMITED
Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Income

Consolidated Balance Sheets

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Schedule II - Valuation and Qualifying Accounts

Report of Independent Registered Public Accounting Firm

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

We have completed integrated audits of Ingersoll-Rand Company Limited's (successor company to Ingersoll-Ran
and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the
(United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly
of Ingersoll-Rand Company Limited and its subsidiaries at December 31, 2006 and 2005, and the results of their c
three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in
our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2), presents fairly, in a
therein when read in conjunction with the related consolidated financial statements. These financial statemen
responsibility of the Company's management. Our responsibility is to express an opinion on these financial statem
our audits. We conducted our audits of these statements in accordance with the standards of the Public Company
Those standards require that we plan and perform the audit to obtain reasonable assurance about whether th
misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amoun
assessing the accounting principles used and significant estimates made by management, and evaluating the overal
that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financial Ac
Payment, as of January 1, 2006, using the modified prospective method.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Statement of Financia
Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment to FASB Statements No.
2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financi
Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteri
Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly
criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control
2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company
effective internal control over financial reporting and for its assessment of the effectiveness of internal control ov
express opinions on management's assessment and on the effectiveness of the Company's internal control ov
conducted our audit of internal control over financial reporting in accordance with the standards of the Public Co
States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether eff
was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an u
reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness o
procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for

A company's internal control over financial reporting is a process designed to provide reasonable assurance regardi
preparation of financial statements for external purposes in accordance with generally accepted accounting principle
reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reason
transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are r
financial statements in accordance with generally accepted accounting principles, and that receipts and expendi
accordance with authorizations of management and directors of the company; and (iii) provide reasonable assuranc
unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financia

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatem
effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in co
the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP
Florham Park, New Jersey
March 1, 2007

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Ingersoll-Rand Company Limited
Consolidated Statements of Income
In millions, except per share amounts

For the years ended December 31,		2006	
Net revenues	$	11,409.3	$
Cost of goods sold		8,424.2	
Selling and administrative expenses		1,544.3	
Operating income		1,440.8	
Interest expense		(131.8)	
Other income, net		5.9	
Minority interests		(14.9)	
Earnings before income taxes		1,300.0	
Provision for income taxes		231.7	
Earnings from continuing operations		1,068.3	
Discontinued operations, net of tax		(35.8)	
Net earnings	$	1,032.5	$
Basic earnings per common share:			
Earnings from continuing operations	$	3.34	$
Discontinued operations, net of tax		(0.11)	
Net earnings	$	3.23	$
Diluted earnings per common share:			
Earnings from continuing operations	$	3.31	$
Discontinued operations, net of tax		(0.11)	
Net earnings	$	3.20	$

See accompanying Notes to Consolidated Financial Statements.

Ingersoll-Rand Company Limited
Consolidated Balance Sheets
In millions

December 31,	
ASSETS	
Current assets:	
Cash and cash equivalents	$
Marketable securities	
Accounts and notes receivable, less allowance of $17.8 in 2006 and $47.6 in 2005	
Inventories	
Prepaid expenses and deferred income taxes	
Total current assets	
Property, plant and equipment, net	
Goodwill	
Intangible assets, net	
Other assets	
Total assets	$
LIABILITIES AND EQUITY	
Current liabilities:	
Accounts payable	$
Accrued compensation and benefits	
Accrued expenses and other current liabilities	
Loans payable and current maturities of long-term debt	
Total current liabilities	
Long-term debt	
Postemployment and other benefit liabilities	
Other noncurrent liabilities	
Total liabilities	
Commitments and contingencies (Note 15)	
Shareholders' equity:	
Class A common shares, $1 par value (364,462,276 and 360,740,316 shares issued at December 31, 2006 and 2005, respectively, and net of 57,699,279 and 30,032,378 shares owned by subsidiary at December 31, 2006 and 2005, respectively)	
Retained earnings	
Accumulated other comprehensive income (loss)	
Total shareholders' equity	
Total liabilities and shareholders' equity	$

See accompanying Notes to Consolidated Financial Statements.

Ingersoll-Rand Company Limited
Consolidated Statements of Shareholders' Equity
In millions, except per share amounts

	Total shareholders' equity	Common stock Amount	Common stock Shares	Capital in excess of par value	
Balance at December 31, 2003	$ 4,493.3	$ 174.5	174.5	$ 610.6	$
Net earnings	1,218.7				
Currency translation	168.7				
Change in fair value of derivatives qualifying as cash flow hedges, net of tax of $0.4	3.1				
Minimum pension liability adjustment, net of tax of $103.7	161.5				
Total comprehensive income					
Shares issued under incentive stock plans	213.5	3.9	3.9	209.6	
Repurchase of common shares by subsidiary	(355.9)	(5.3)	(5.3)	(350.6)	
Change in fiscal year end of subsidiary, net of tax of $7.3	(16.5)				
Cash dividends, declared and paid ($0.44 per share)	(152.6)				
Balance at December 31, 2004	5,733.8	173.1	173.1	469.6	
Net earnings	1,054.2				
Currency translation	(267.7)				
Change in fair value of marketable securities and derivatives qualifying as cash flow hedges, net of tax of $0.3	5.7				
Minimum pension liability adjustment, net of tax of $60.5	71.6				
Total comprehensive income					
Shares issued under incentive stock plans	120.0	2.3	2.3	117.7	
Repurchase of common shares by subsidiary	(763.6)	(19.4)	(19.4)	(587.3)	
Stock split	-	174.7	174.7		
Cash dividends, declared and paid ($0.57 per share)	(192.0)				
Balance at December 31, 2005	5,762.0	330.7	330.7	-	
Net earnings	1,032.5				
Currency translation	258.8				
Change in fair value of marketable securities and derivatives qualifying as cash flow hedges, net of tax of $0.8	(7.3)				
Minimum pension liability adjustment, net of tax of $3.2	(9.2)				
Total comprehensive income					
Adoption of FASB Statement No. 158, net of tax of $268.2	(472.8)				
Shares issued under incentive stock plans	111.1	3.8	3.8	107.3	

Repurchase of common shares by subsidiary		(1,096.3)		(27.7)	(27.7)		(150.9)
Share-based compensation		43.6					43.6
Cash dividends, declared and paid ($0.68 per share)		(217.6)					
Balance at December 31, 2006	$	5,404.8	$	306.8	306.8	$	-	$

See accompanying Notes to Consolidated Financial Statements.

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Ingersoll-Rand Company Limited
Consolidated Statements of Cash Flows
In millions

For the years ended December 31,		2006	
Cash flows from operating activities:			
Net earnings	$	1,032.5	$
Loss (income) from discontinued operations, net of tax		35.8	
Adjustments to arrive at net cash provided by operating activities:			
Depreciation and amortization		190.7	
Gain on sale of businesses		-	
Gain on sale of property, plant and equipment		(5.7)	
Minority interests, net of dividends		9.2	
Equity earnings, net of dividends		0.1	
Stock settled share based compensation		23.4	
Deferred income taxes		(59.3)	
Other items		(31.1)	
Changes in other assets and liabilities			
(Increase) decrease in:			
Accounts and notes receivable		(204.7)	
Inventories		(116.1)	
Other current and noncurrent assets		(91.7)	
Increase (decrease) in:			
Accounts and notes payable		169.2	
Other current and noncurrent liabilities		56.5	
Net cash (used in) provided by continuing operating activities		1,008.8	
Net cash (used in) provided by discontinued operating activities		(36.6)	
Cash flows from investing activities:			
Capital expenditures		(212.3)	
Proceeds from sale of property, plant and equipment		16.4	
Acquisitions, net of cash acquired		(121.5)	
Proceeds from business dispositions		-	
Proceeds from sales and maturities of marketable securities		155.8	
Purchase of marketable securities		-	
Cash provided by equity companies, net		0.4	
Net cash (used in) provided by continuing investing activities		(161.2)	
Net cash (used in) provided by discontinued investing activities		-	
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings		369.2	
Proceeds from long-term debt		4.0	
Payments of long-term debt		(513.7)	
Net change in debt		(140.5)	
Redemption of preferred stock of subsidiaries		-	
Proceeds from exercise of stock options		95.7	
Dividends paid		(217.6)	
Repurchase of common shares by subsidiary		(1,096.3)	
Net cash (used in) provided by continuing financing activities		(1,358.7)	
Net cash (used in) provided by discontinued financing activities		-	
Effect of change in fiscal year end of businesses		-	

Effect of exchange rate changes on cash and cash equivalents		29.4	
Net (decrease) increase in cash and cash equivalents		(518.3)	
Cash and cash equivalents - beginning of period		880.6	
Cash and cash equivalents - end of period	$	362.3	$
Cash paid during the year for:			
Interest, net of amounts capitalized	$	105.2	$
Income taxes, net of refunds	$	195.3	$

See accompanying Notes to Consolidated Financial Statements.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation: The consolidated financial statements of Ingersoll-Rand Company Limited, a Bermuda com prepared in accordance with generally accepted accounting principles in the United States. IR-Limited is the succes corporation (IR-New Jersey), following a corporate reorganization (the reorganization) that became effective on accomplished through a merger of a newly formed merger subsidiary of IR-Limited. IR-Limited and its subsidiaries conducted by IR-New Jersey and its subsidiaries. The reorganization has been accounted for as a reorganiz accordingly, did not result in any changes to the consolidated amounts of assets, liabilities and shareholders' equity.

The results for Hussmann International, Inc. and its majority-owned affiliates had been on a 15-day lag for U.S. operations, since its acquisition in 2000. During the first quarter of 2004, these lags were eliminated, and the fina The result of this action was a net loss of $16.5 million, which was recorded directly to retained earnings on the Co outflow of $23.8 million, which was shown as a separate line item on the Consolidated Statement of Cash Flows.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accou Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 8 requires an entity to recognize in its balance sheet the funded status of its defined benefit pension and postretiremen recognize changes in the funded status within accumulated other comprehensive income, net of tax, to the extent s components of periodic net benefit cost. At December 31, 2006, the Company adopted the provisions of SFAS 158 adoption of SFAS 158 resulted in a decrease of total assets of $476.0 million and shareholders' equity of $472.8 increase of total liabilities of $265.0 million. Refer to Note 8 and 9 for further details of the impact of SFAS 158.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2 using the modified prospective method of adoption. SFAS 123(R) requires companies to recognize compensation ex the share-based payment issued. Under the modified prospective method, financial statement amounts for prior pe value method of recognizing compensation cost relating to stock options. Refer to Note 11 for further details of the i

Use of Estimates: In conformity with generally accepted accounting principles, management has used estimates and of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Some of the mor doubtful accounts, useful lives of property, plant and equipment and intangible assets, purchase price allocation including goodwill and other intangible assets, product warranties, sales allowances, taxes, environmental, produ Actual results could differ from those estimates.

Principles of Consolidation: The Company's consolidated financial statements include all wholly owned and majo
affiliates are accounted for under the equity method. The Company is also required to consolidate variable interest
to the entities' potential losses or stands to gain from a majority of the entities' expected returns. Intercompany trans

Cash and Cash Equivalents: The Company considers all highly liquid investments, consisting primarily of time d
of three months or less when purchased, to be cash equivalents.

Marketable Securities: The Company invests in marketable securities and classifies the securities as available-f
Certain Investments in Debt and Equity Securities." In accordance with SFAS 115, available-for-sale marketable se
the unrealized gain or loss, less applicable deferred income taxes, recorded within accumulated other comprehensive

Inventories: Inventories are stated at the lower of cost or market. Most U.S. manufactured inventories, excluding t
valued using the last-in, first-out (LIFO) method. All other inventories are valued using the first-in, first-out (FIF
inventories on LIFO were approximately 40% of the company's total inventory.

Allowance for Doubtful Accounts: The Company has provided an allowance for doubtful accounts receivable
derived from its knowledge of its end markets, customer base and products.

In the first quarter of 2006, the Company changed its estimate of the allowance for doubtful accounts in light of var
a significant change in its business portfolio and historical and expected write-off experience. In addition, the Co
limits its bad debt exposure. As a result, the Company reduced its allowance by $20.5 million, or $17.1 million
diluted earnings per share by $0.05.

Property, Plant and Equipment: Property, plant and equipment are stated at cost, less accumulated depreciation.
31, 1994, the Company principally uses accelerated depreciation methods. Assets placed in service subsequent to
are depreciated using the straight-line method over the estimated useful life of the asset. Leasehold improveme
economic useful life or their lease term. Useful lives range from 10 to 50 years for buildings and improvemen
equipment.

Repair and maintenance costs that do not extend the useful life of the asset are charged against earnings as in
improvements are capitalized.

The Company assesses the recoverability of the carrying value of its property, plant and equipment whenever event
carrying amount of the asset may not be recoverable. Recoverability is measured by a comparison of the ca
undiscounted cash flows expected to be generated by the asset. If the undiscounted cash flows are less than the carry
recognized for the amount by which the carrying value of the asset exceeds the fair value of the assets.

Goodwill and Intangible Assets: The Company records goodwill as the excess of the purchase price over the fair v
an acquired business.

Goodwill and other intangible assets with indefinite useful lives are not amortized, but instead are tested for impai
changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The Company tests
fiscal year using September 30th balances. Recoverability of goodwill is measured at the reporting unit level and c
step compares the carrying amount of the reporting unit to its estimated fair value. The fair value of each repo
discounted cash flows. To the extent that the carrying value of the reporting unit exceeds its estimated fair val
reporting units carrying value of goodwill is compared to its implied fair value of goodwill. To the extent tha
impairment exists and an impairment loss must be recognized.

Recoverability of other intangible assets with indefinite useful lives is measured by a comparison of the carrying am
of the respective intangible assets. Any excess of the carrying value over the fair value is recognized as an imp
patents, customer-related intangible assets and other intangible assets with finite lives are amortized on a straight-l
Recoverability of intangible assets with finite lives is assessed in the same manner as for property, plant and equipm

Income Taxes: Deferred taxes are provided on temporary differences between assets and liabilities for financia
enacted tax rates expected to apply when temporary differences are settled or realized. A valuation allowance is
realization is not likely.

Product Warranties: Warranty accruals are recorded at the time of sale and are estimated based upon product wa
accruals are adjusted for known or anticipated warranty claims as new information becomes available.

Treasury Stock: The Company repurchases its Class A common shares from time to time in the open market and i
market conditions and the discretion of management. These long-term repurchase programs are authorized by the
dilution from the Company's incentive stock plan. These acquired Class A common shares owned by a subsid
amounted to $2,215.8 million and $1,119.5 million at December 31, 2006 and 2005, respectively.

Revenue Recognition: Revenue is generally recognized and earned when all of the following criteria are satisfied: (
exists; (b) price is fixed or determinable; (c) collectibility is reasonably assured; and (d) delivery has occurred or s
occurs when the title and the risks and rewards of ownership have substantially transferred to the customer. Reve
warranties is recognized on a straight-line basis over the life of the contract, unless another method is more repre
enters into agreements that contain multiple elements, such as equipment, installation and service. For multiple-ele
revenue for delivered elements when the delivered item has stand-alone value to the customer, fair values or
acceptance has occurred, and there are only customary refund or return rights related to the delivered elements.

Environmental Costs: Environmental expenditures relating to current operations are expensed or capitalized as
conditions caused by past operations, which do not contribute to current or future revenues, are expensed. Costs t
feasibility studies are accrued when the Company commits to perform them. Liabilities for remediation costs are rec
estimable, generally no later than the completion of feasibility studies or the Company's commitment to a plan of ac
calculated based on existing technology, does not reflect any offset for possible recoveries from insurance companie

Research and Development Costs: Research and development expenditures, including qualifying engineering cos
to $175.5 million, $162.4 million and $149.2 million in 2006, 2005 and 2004, respectively. The Company also inc
research and development expenditures.

Software Costs: The Company follows the guidance outlined in Statement of Position 98-1, "Accounting for th
Obtained for Internal Use" for all software developed or obtained for internal use, which requires companies to cap
specific criteria are met and subsequently amortize these costs over the software's useful life, which ranges from 3 to

In the fourth quarter of 2006, the Company adjusted its estimated useful life of certain of its capitalized software fi
the Company expects to utilize these software platforms. The impact in the fourth quarter of 2006 for this adjustme
$1.8 million.

Employee Benefit Plans: The Company provides a range of benefits to eligible employees and retired employ
post-employment health-care benefits. Determining the cost associated with such benefits is dependent on various a
expected return on plan assets, compensation increases, employee mortality and turnover rates, and health-care cost
required calculations to determine expense in accordance with U.S. generally accepted accounting principles.
assumptions and are generally accumulated and amortized into earnings over future periods. Effective Decem
recognized into shareholders' equity on an annual basis, due to the adoption of SFAS 158. The Company reviews
date, which is November 30 for its plans, and makes modifications to the assumptions based on current rates and tren

Loss Contingencies: Liabilities are recorded for various contingencies arising in the normal course of busin
proceedings, environmental matters, product liability, product warranty, worker's compensation and other claim
financial statements related to these matters, which are developed using input derived from actuarial estimates a
depending on the nature of the reserve, and in certain instances with consultation of legal counsel, internal and exte
uncertainties inherent in estimating future costs for these types of liabilities, the Company believes its estimated re
final determination of the liabilities with respect to these matters would have a material effect on the financial con
flows of the Company for any year.

Derivative Financial Instruments: The Company periodically enters into cash flow and other hedge transaction
risks related to interest rates, foreign exchange rates and securities pricing. The Company recognizes all derivatives
value as either assets or liabilities. For cash flow designated hedges, the effective portion of the changes in fair va
other comprehensive income, net of taxes, and are recognized in the income statement at the time earnings are affec
transactions, the changes in the fair value of the derivative contract are recognized in the income statement.

Currency Translation: For the Company's entities where the functional currency is other than the U.S. dollar
year-end exchange rates, and income and expenses translated using average exchange rates for the respective peric
translating an entity's financial statements into the U.S. dollar have been recorded in accumulated other comprehe
only upon sale or liquidation of the underlying investment.

Transactions that are denominated in a currency other than an entity's functional currency are subject to changes
losses recorded within net earnings. Net currency transaction gains (losses) which the Company records within
million and $(9.6) million in 2006, 2005 and 2004, respectively.

Reclassifications: Certain prior year amounts have been reclassified to conform to the current year presentation. Th
consolidated statement of cash flows to separately disclose the effects of discontinued operations by cash flow ac
these amounts on a combined basis. The Company also reclassified its presentation of capitalized software on its D
from intangible assets to property, plant and equipment to better depict the nature and intent of the investment
consolidated statement of cash flow for the years ended December 31, 2005 and 2004 in order to show capitalize
rather than an operating activity to be consistent with the Company's balance sheet presentation.

New Accounting Standards: In September 2006, the Securities and Exchange Commission (SEC) issued Staff A
Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB
on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying
believes that registrants should quantify errors using both a balance sheet and an income statement approach an
quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material.
fiscal year ended December 31, 2006. SAB 108 did not have a material impact on the Company's financial statemen

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an in
which prescribes a recognition threshold and measurement process for recording in the financial statements uncert
in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, accounting in inte
uncertain tax positions. The provisions of FIN 48 are effective for the Company's fiscal year beginning January 1, 2
of FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 establis
based on the assumptions market participants would use when pricing an asset or liability and establishes a fair valu
develop those assumptions. Additionally, the standard expands the disclosures about fair value measurements to inc
assets or liabilities within each level of the fair value hierarchy. SFAS 157 is effective for the Company starting o
evaluating the impact on its financial statements of adopting SFAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, "The Fair Value Optio
(SFAS 159). SFAS 159 permits companies the option, at specified election dates, to measure financial assets and
corresponding changes in fair value from period to period recognized in the income statement. Additionally, SFA
requirements designed to facilitate comparisons between companies that choose different measurement attributes
effective for the Company starting on January 1, 2008. The Company is currently evaluating the impact on its financ

NOTE 2 - MARKETABLE SECURITIES

At December 31, marketable securities were as follows:

		2006		
In millions	Amortized cost or cost	Unrealized losses	Fair value	Amortized cos or cost
Short-term marketable securities:				
Equity securities	$ 0.7	$ -	$ 0.7	$ 0
Commercial paper	-	-	-	4
Municipal bonds	-	-	-	151
Total	$ 0.7	$ -	$ 0.7	$ 156
Long-term marketable securities:				
Equity securities	$ 18.7	$ (4.4)	$ 14.3	$ 20
Total	$ 18.7	$ (4.4)	$ 14.3	$ 20

Long-term marketable securities are included within Other assets on the Consolidated Balance Sheet.

NOTE 3 - INVENTORIES

At December 31, inventories were as follows:

In millions	
Raw materials and supplies	$
Work-in-process	
Finished goods	
Less - LIFO reserve	
Total	$

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NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

At December 31, property, plant and equipment were as follows:

In millions	
Land	$
Buildings	
Machinery and equipment	
Software	
Accumulated depreciation	
Total	$

Depreciation expense for 2006, 2005 and 2004 was $163.5 million, 164.2 million and $159.2 million, which incluc
million, $28.5 million and $25.0 million, respectively. Capitalized interest on construction and other capital projec
$2.2 million in 2006, 2005 and 2004, respectively.

NOTE 5 - GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are as follows:

In millions	Climate Control Technologies	Compact Vehicle Technologies	Construction Technologies	Industria Technolog
Balance at December 31, 2004	$ 2,618.7	$ 801.4	$ 101.3	$
Acquisitions and adjustments*	(35.7)	(3.6)	10.8	
Dispositions	(0.3)	-	-	
Translation	(68.5)	(3.3)	(0.4)	
Balance at December 31, 2005	2,514.2	794.5	111.7	
Acquisitions and adjustments*	(22.2)	(1.0)	40.9	
Dispositions	-	-	-	
Translation	53.1	4.4	1.1	
Balance at December 31, 2006	$ 2,545.1	$ 797.9	$ 153.7	$

* Includes current year adjustments related to final purchase price allocation adjustments.

The Company initially records as goodwill the excess of the purchase price over the preliminary fair value of the ne
been performed for each acquisition, there may be adjustments recorded to goodwill.

During 2006, the Company made several bolt-on acquisitions for an aggregate purchase price of approximatel
goodwill of $75.3 million. In January 2005, the Company completed the acquisition of the remaining 70% interest
$267 million in cash and the assumption of approximately $244 million of debt. The Company also made severa
Company recorded approximately $405 million of goodwill associated with these businesses acquired during 2005.

The following table sets forth the gross amount and accumulated amortization of the Company's intangible assets at

In millions	2006 Gross amount	2006 Accumulated amortization	
Customer relationships	$ 510.6	$ 73.0	$
Trademarks	105.0	10.0	
Patents	38.4	25.9	
Other	50.6	24.3	
Total amortizable intangible assets	704.6	133.2	
Indefinite-lived intangible assets	164.8	-	
Total	$ 869.4	$ 133.2	$

Intangible asset amortization expense for 2006, 2005 and 2004 was $25.9 million, $30.1 million and $14.5 million, on existing intangible assets is approximately $20 million for each of the next five fiscal years.

NOTE 6 - DEBT AND CREDIT FACILITIES

At December 31, loans payable and the current maturities of long-term debt consisted of the following:

In millions	
Current maturities of long-term debt	$
Other short-term borrowings	
Total	$

The weighted-average interest rate for total short-term debt at December 31, 2006 and 2005, was 6.3% and 6.8%, re

As of December 31, 2006, the Company had $378.0 million outstanding under its commercial paper program, whi above.

At December 31, long-term debt consisted of:

In millions	
6.57% Medium-term Note Due 2007	$
6.75% Senior Notes Due 2008	
4.75% Senior Notes Due 2015	
9.00% Debentures Due 2021	
7.20% Debentures Due 2007-2025	
6.48% Debentures Due 2025	
6.44% Debentures Due 2027	
Medium-term Notes Due 2023, at an average rate of 8.22%	
Other loans and notes, at end-of-year average interest rates of 4.73% in 2006 and 3.06% in 2005, maturing in various amounts to 2016	
Total	$

The fair value of long-term debt, including current maturities of long-term debt, at December 31, 2006 and 2005
respectively. The fair value of long-term debt was based upon quoted market values.

Long-term debt retirements are as follows: $626.8 million in 2007, $138.0 million in 2008, $10.5 million in 2009,
and $735.8 million thereafter. Long-term debt retirements for 2007 include $549.1 million which only requires r
options are not exercised, the final maturity dates of these instruments would range between 2027 and 2028. Dur
issued $300 million aggregate principal amount of its 4.75% Senior Notes due in 2015. The notes are unconditionall

The Company's public debt has no financial covenants and its $2.0 billion revolving credit lines have a debt-to-total
2006, the Company's debt-to-total capital ratio was significantly beneath this limit.

At December 31, 2006, the Company's committed revolving credit lines consisted of two five-year lines totaling
June 2009 and $1.25 billion expires in August 2010. These lines were unused and provide support for the Compar
provide support for other financing instruments, such as letters of credit and comfort letters, as required in th
compensates banks for unused lines with fees equal to a weighted average of .0775% per annum. Available non-U.S
$612.0 million were unused at December 31, 2006. These lines provide support for bank guarantees, letters of credit

Interest income, included in Other income, net, was $16.3 million, $29.6 million and $12.3 million for 2006, 2005 a

NOTE 7 - FINANCIAL INSTRUMENTS

In the normal course of business, the Company from time to time uses various financial instruments, including der
associated with interest rate, currency, commodity price and share-based compensation exposures. Derivative instr
purposes. On the date a derivative contract is entered into, the Company designates the derivative instrument as eit
flow hedge) or a hedge of recognized asset or liability (a cash flow or undesignated hedge). The Company formally
identification of the derivative instruments and the hedged items, as well as its risk management objectives and str
This process includes linking derivative instruments that are designated as hedges to specific assets, liabilities or for

The Company also assesses both at the inception and at least quarterly thereafter, whether the derivatives used i
offsetting the changes in the cash flows of the hedged item. Any ineffective portion of a derivative instrument's ch
income, net, in the period of change. There were no material adjustments as a result of ineffectiveness to the result
31, 2006, 2005 and 2004. If the hedging relationship ceases to be highly effective, or it becomes probable that a f
occur, the hedging relationship will be undesignated and any future gains and losses on the derivative instrument wo

The fair market value of derivative financial instruments is determined through market-based valuations and ma
losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they ar

Currency and Commodity Hedging Instruments
The estimated fair value of currency hedges outstanding at December 31, 2006 and 2005, was a projected loss of $
respectively. The notional amount of the currency hedges was $559.2 million and $252.1 million at December 31, 2
2006 and 2005, $1.1 million and $3.4 million, net of tax, respectively, was included in accumulated other comp
currency hedges. The amount expected to be reclassified to earnings over the next twelve months is $1.1 million. T
earnings may vary from this amount as a result of changes in market conditions. At December 31, 2006, the maxi
was 12 months.

During 2006, the Company did not purchase any commodity derivatives. However, it has used fixed-priced sup
matured commodity forward contracts. The estimated fair value of outstanding commodity contracts at December 3
the outstanding commodity contracts was $0.7 million at December 31, 2005.

Other Hedging Instruments
In August 2006, the Company entered into two total return swaps (the Swaps) which are derivative instruments used
in its share-based compensation expense. The aggregate notional amount of the Swaps is approximately $52.6 milli
of $2.1 million as of December 31, 2006, which was recorded within Selling and administrative expenses.

In March 2005, the Company entered into interest rate locks for the forecasted issuance of $300 million of Senior
the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair v
accumulated other comprehensive income and will be recognized into interest expense over the life of the debt. At
losses was included in accumulated other comprehensive income related to the interest rate locks and $0.9 million
the next twelve months.

Concentration of Credit Risk
The counterparties to the Company's forward contracts consist of a number of highly rated major international f
exposed to losses in the event of nonperformance by the counterparties. However, credit ratings and concentrat
monitored on a continuous basis and present no significant credit risk to the Company.

Fair Value of Financial Instruments
The carrying value of cash and cash equivalents, accounts receivable, short-term borrowings and accounts payable a
to the short-term nature of these instruments.

NOTE 8 - POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company sponsors several postretirement plans that cover certain eligible employees. These plans provide for h
insurance benefits. Postretirement health plans generally are contributory and contributions are adjusted annually.
noncontributory. The Company funds the postretirement benefit costs principally on a pay-as-you-go basis.

The following table details information regarding the Company’s postretirement plans at December 31:

In millions	
Change in benefit obligations:	
Benefit obligation at beginning of year	$
Service cost	
Interest cost	
Plan participants' contributions	
Actuarial losses	
Benefits paid, net of Medicare Part D subsidy *	
Other	
Benefit obligations at end of year	$
* Amounts are net of Medicare Part D subsidy of $7.1 million in 2006	
Funded status:	
Plan assets less than benefit obligations	$
Unrecognized:	
Prior service gains	
Plan net actuarial losses	
Net amount recognized	$
Amounts included in the balance sheet:	
Accrued compensation and benefits	$
Postemployment and other benefit liabilities	
Net amount recognized	$

As explained further in Note 1, in 2006, the Company adopted SFAS 158, which requires the Company to record th
its balance sheet effective December 31, 2006. The adoption of SFAS 158 for the Company's postretirement plans
total liabilities of $300.4 million and a decrease of shareholders' equity of $135.7 million (net of tax of $164.7 millio

The pretax amounts recognized in accumulated other comprehensive loss were as follows:

In millions	
Prior service gains	$
Plan net actuarial losses	
Total	$

The amounts expected to be recognized in net periodic postretirement benefits cost in 2007 for prior service gains
and $19.8 million, respectively.

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

In millions		2006	
Service cost	$	11.8	$
Interest cost		55.0	
Net amortization of prior service gains		(4.2)	
Net amortization of net actuarial losses		16.6	
Net periodic postretirement benefit cost	$	79.2	$

Assumptions:	2006
Weighted-average discount rate assumption used to determine:	
Benefit obligations at December 31	5.50%
Net periodic benefit cost	5.50%
Assumed health care cost trend rates at December 31:	
Current year medical inflation	11.00%
Ultimate inflation rate	5.25%
Year that the rate reaches the ultimate trend rate	2013

A 1% change in the medical trend rate assumed for postretirement benefits would have the following effects at Dece

In millions	1
Effect on total of service and interest cost components	$
Effect on postretirement benefit obligation	

Benefit payments for postretirement benefits, which are net of expected plan participant contributions and Medica
follows: $72.0 million in 2007, $75.0 million in 2008, $76.1 million in 2009, $77.1 million in 2010, $79.1 million
to 2016.

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NOTE 9 - PENSION PLANS

The Company has noncontributory pension plans covering substantially all U.S. employees. In addition, certai
covered by pension plans. The Company’s pension plans for U.S. non-collectively bargained employees provided b
The Company’s U.S. collectively bargained pension plans principally provide benefits based on a flat benefit form
earnings and years of service. The Company maintains additional other supplemental benefit plans for officers and c

The following table details information regarding the Company’s pension plans at December 31:

In millions	
Change in benefit obligations:	
Benefit obligation at beginning of year	$
Service cost	
Interest cost	
Employee contributions	
Acquisitions	
Amendments	
Expenses paid	
Actuarial losses	
Benefits paid	
Currency exchange impact	
Curtailments and settlements	
Other	
Benefit obligation at end of year	$
Change in plan assets:	
Fair value at beginning of year	$
Actual return on assets	
Company contributions	
Employee contributions	
Expenses paid	
Benefits paid	
Currency exchange impact	
Settlements	
Other	
Fair value of assets end of year	$

In millions	
Funded status:	
Plan assets less than the benefit obligations	$
Unrecognized:	
Net transition asset	
Prior service costs	
Plan net actuarial losses	
Net amount recognized	$
Amounts included in the balance sheet:	
Long-term prepaid expenses in other assets	$
Accrued compensation and benefits	
Postemployment and other benefit liabilities	
Pension intangible included in other assets *	
Accumulated other comprehensive income *	
Net amount recognized	$

* Amounts represent the impact of recording additional minimum liabilities (AMLs). Upon the adoption of SFAS 15
status of the pension plans is recorded on the balance sheet.

As explained further in Note 1, the Company adopted SFAS 158, which requires the Company to record the funded
effective December 31, 2006. The adoption of FAS 158 resulted in a decrease of total assets of $476.0 millio
shareholders' equity of $337.1 million (net of tax of $103.5 million).

The pretax amounts recognized in accumulated other comprehensive loss were as follows:

In millions	
Net transition asset	$
Prior service costs	
Plan net actuarial losses	
Total	$

Weighted-average assumptions used:

Benefit obligations at December 31,
Discount rate:
U.S. plans
Non-U.S. plans
Rate of compensation increase:
U.S. plans
Non-U.S. plans

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The amounts expected to be recognized in net periodic pension cost during the year ended 2007 for the net tran
actuarial losses are $0.9 million, $9.5 million and $18.4 million, respectively. The Company does not expect to recei

The accumulated benefit obligation for all defined benefit pension plans was $3,005.3 million and $2,868.6 million
The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans wi
plan assets were $1,198.4 million, $1,101.5 million and $861.9 million respectively, as of December 31, 2006 and
million respectively, as of December 31, 2005.

Pension benefit payments, are expected to be paid as follows: $192.1 million in 2007, $192.0 million in 2008, $2
$204.4 million in 2011 and $1,089.7 million for the years 2012 to 2016.

The components of the Company's pension related costs for the years ended December 31, include the following:

In millions		2006	
Service cost	$	54.6	$
Interest cost		161.3	
Expected return on plan assets		(218.9)	
Net amortization of:			
Prior service costs		9.4	
Transition amount		0.9	
Plan net actual losses		25.4	
Net periodic pension cost		32.7	
Curtailment/settlement losses		-	
Net periodic pension cost after curtailments/settlements	$	32.7	$

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

Pension expense for 2007 is projected to be approximately $21.7 million, utilizing the assumptions for calculating
2006.

Weighted-average assumptions used:

Net periodic pension cost for the year ended December 31,	2006
Discount rate:	
U.S. plans	5.50%
Non-U.S. plans	5.00%
Rate of compensation increase:	
U.S. plans	4.00%
Non-U.S. plans	4.00%
Expected return on plan assets:	
U.S. plans	8.50%
Non-U.S. plans	7.25%

The expected long-term rates of return on plan assets are determined as of the measurement date. The expected lo
rates of return to be earned over the period until the benefits are paid. Accordingly, the long-term rates of retur
investments, expected contributions to be received during the current year and on reinvestments over the period. T
rates of return during the periods for which the payment of benefits is deferred. The expected long-term rate
achievable given the plan's investment policy and the types of assets held. Historical asset return trends for the l
five-year periods. The actual rate of return for plan assets over the last ten- and fifteen-year periods has exceeded t
reviews each plan and its historical returns and asset allocations to determine the appropriate expected long-term rat

The Company's pension plans weighted-average asset allocations at December 31, 2006 and 2005, by asset category

Asset category
Equity securities
Debt securities
Real estate
Other (including cash)
Total

The Company's investment objectives in managing its defined benefit plan assets are to ensure that present and fu
beneficiaries are met as they become due; to provide a total return that, over the long term, minimizes the present v
appropriate levels of risk; and meet any statutory requirements, laws and local regulatory agencies' requirements. K
regularly are asset allocations, investment manager performance, investment advisors and trustees or custodians. A
as the basis for global asset allocation decisions and updated approximately every five years or as required. As of
global asset allocation for its pension plans was 60% in equity securities and 40% in debt securities and cash. The
plus or minus 5%. The asset allocations are reviewed at least quarterly and any appropriate adjustments are ma
Company in 2007 has begun to adjust its strategic global asset allocation for its plans to be approximately 40% in e
estate and cash.

The Company made contributions to its pension plans of $31.7 million in 2006, $119.4 million in 2005, and $170.
currently projects that it will be required to contribute approximately $24 million to its plans worldwide in 200
amount, which could be in excess of the pension cost expensed, subject to the limitations imposed by current tax re

The Company anticipates funding the plans in 2007 in accordance with contributions required by funding regulatio

Most of the Company's U.S. employees are covered by savings and other defined contribution plans. Employer
specific to the individual plans and amounted to approximately $48.6 million, $46.8 million and $52.6 millio
Company's contributions relating to non-U.S. defined contribution plans and other non-U.S. benefit plans were $
2006, 2005 and 2004, respectively.

NOTE 10 - SHAREHOLDERS' EQUITY

Common Stock

On August 3, 2005, the Company's Board of Directors declared a two-for-one stock split, effected in the form of a
Company retained the current par value of $1.00 per share for all common shares. All references in the financial
outstanding, per share amounts, and stock option data of the Company's common shares were restated in 2005 to r
equity reflects the stock split by reclassifying from "retained earnings" to "Class A common shares" an amount equ
from the split as of the distribution date.

Also in August 2005, the Board of Directors of the Company expanded the Company's existing share repurchase p
of $2 billion worth of Class A common shares. The plan was established on August 4, 2004, and initially authorize
Class A common shares. During 2006, the Company repurchased 27.7 million Class A common shares at a total c
Company's share repurchases under the $2 billion plan. In December 2006, the Board of Directors authorized a ne
of up to $2 billion worth of Class A common shares. No amounts were purchased under the December 2006 authori

Effective December 31, 2001, IR-Limited became the successor to IR-New Jersey, following the reorganization. T
merger of a newly formed merger subsidiary into IR-New Jersey. Upon consummation of the merger the shares o
became IR-Limited Class A common shares. As part of the reorganization, IR-New Jersey and certain of its su
transferred shares of certain IR-New Jersey subsidiaries and issued certain debt in exchange for which IR-Limite
The Class B common shares are non-voting and pay comparable dividends to the Class A common shares. T
$1,175,010,000, consisting of (1) 1,175,000,000 common shares, par value $1.00 per share, which common share
shares and (b) 575,000,000 Class B common shares, and (2) 10,000,000 preference shares, par value $0.001 per s
preference share purchase rights) were issued to holders of IR-New Jersey common stock in the merger. No prefer
2006 or 2005.

The Company has adopted a shareholder rights plan to protect shareholders from attempts to acquire control of the
expire on December 22, 2008, unless redeemed or exchanged earlier by the Company, as provided in the rights pla
purchase right was distributed for each Class A common share. As a result of the two-for-one stock split in Septem
issued share of Class A common share now has associated with it one-half of a right. The rights only become exerci
A common shares, 10 days after the first public announcement that any person or group has acquired at least 15% o
shares or on the 10th day following the commencement or the announcement of an intention to commence a tend
group acquiring a beneficial ownership of at least 15% of the outstanding Class A common shares. Each right ent
share of Series A preferred stock at an exercise price of $200.

If any person or group acquires 15% or more of the Company's Class A common shares, the rights not held by the
purchase the Company's Class A common shares at a 50% discount. The plan provides that, at any time after a per
prior to the acquisition by that person or group of 50% or more of the outstanding Class A common shares, the B
rights held by the acquiring person, which will have become void), at an exchange ratio of one Class A common sh
redeem the rights at $0.01 per right.

Accumulated Other Comprehensive (Loss) Income
The components of accumulated comprehensive loss are as follows:

In millions	
Foreign currency translation adjustment	$
Fair value of derivatives qualifying as cash flow hedges, net of tax	
Unrealized gain (loss) on marketable securities, net of tax	
Pension and postretirement obligation adjustments, net of tax	
Accumulated other comprehensive loss	$

NOTE 11 - SHARE-BASED COMPENSATION

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," (SFAS 12
adoption. SFAS 123(R) requires companies to recognize compensation expense for an amount equal to the fair val
modified prospective method, financial statement amounts for prior periods have not been restated to reflect the fa
cost relating to stock options.

Prior to the adoption, the Company had accounted for stock option plans under the recognition and measurement p
25 "Accounting for Stock Issued to Employees" (APB 25). Compensation expense was not recognized for employe
strike prices that were not less than the fair market value of the Company's stock on the date of the grant. Co
share-based payments primarily including stock appreciation rights (SARs), performance shares, deferred compens
The Company's Incentive Stock Plans authorize the Company to issue stock options and other share-based in
shareholders was 60.0 million (after adjustment for the 2005 stock split), of which 17.2 million remained available
2006.

Stock Options
On December 7, 2005, the Compensation Committee of the Company's board of directors approved the acceleration
stock options under the Company's stock plan for active employees, effective December 31, 2005. As a result of the
exercisable, with exercise prices ranging from $19.53 to $39.85, and a weighted-average exercise price of $34.95
date, the terms and conditions of the stock option agreements governing the stock options were changed to prohibi
exercise of these accelerated options until the earlier of (i) the original vesting date of the option or (ii) termination o
The charge associated with the acceleration of vesting was approximately $1 million, which was recorded in the fou
value for the estimated number of stock options that would have been forfeited had the acceleration not occurred
generally vest ratably over a three-year period from their date of grant and expire at the end of 10 years.

The average fair value of stock options granted during the year ended December 31, 2006, was $10.42, using the
following assumptions at the grant date:

Dividend yield	
Volatility	
Risk-free rate of return	
Expected life	

The fair value of each of the Company's stock option awards is expensed on a straight-line basis over the required s
vesting period of the options. For options granted to retirement eligible employees, the Company recognized expen
date. Expected volatility is based on the implied historical volatility from traded options on the Company's stock.
the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on
equal to the expected term of the award. The Company uses historical data to estimate forfeitures within its valuati
stock option awards is derived from historical experience and represents the period of time that awards are expected

Changes in options outstanding under the plans for the years 2004, 2005 and 2006 are as follows:

	Shares subject to option	Weighted-average exercise price	val
December 31, 2003	21,296,994	$ 21.77	
Granted	6,555,680	32.24	
Exercised	(7,847,656)	21.85	
Cancelled	(1,151,544)	25.38	
December 31, 2004	18,853,474	25.19	
Granted	6,091,600	38.70	
Exercised	(3,921,949)	23.10	
Cancelled	(1,140,649)	33.77	
December 31, 2005	19,882,476	29.26	
Granted	3,305,190	39.33	
Exercised	(3,707,839)	25.77	
Cancelled	(314,885)	38.82	
Outstanding December 31, 2006	19,164,942	$ 31.53	$
Exercisable December 31, 2006	16,109,612	$ 30.03	$

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

Range of exercise price			Options outstanding			Op
			Number outstanding at December 31, 2006	Weighted-average remaining life	Weighted-average exercise price	Number exercisable at December 31, 2006
$ 15.00	-	$ 20.00	2,069,652	5.5	$ 19.50	2,069,652
20.01	-	25.00	3,009,224	3.8	21.54	3,009,224
25.01	-	30.00	1,597,081	2.4	26.16	1,597,081
30.01	-	35.00	4,401,706	6.1	32.26	4,401,706
35.01	-	40.00	8,059,279	8.1	38.97	5,031,949
40.01	-	45.00	28,000	9.4	41.80	-
$ 16.83	-	$ 43.16	19,164,942	6.2	$ 31.53	16,109,612

At December 31, 2006, there was $15.3 million of total unrecognized compensation cost from stock option arrange
to unvested shares of non-retirement eligible employees. This compensation will be recognized over the required se
vesting period. The aggregate intrinsic value of options exercised during the year ended December 31, 2006 an
respectively.

SARs

SARs generally vest ratably over a three-year period from the date of grant and expire at the end of ten years. Effe
settled with the Company's Class A common shares. Previously, exercised SARs were paid in cash. The following
outstanding SARs:

	Shares subject to exercise	Weighted-average exercise price	val
December 31, 2003	1,779,804	$ 21.72	
Granted	627,340	32.22	
Exercised	(671,256)	22.50	
Cancelled	(126,090)	26.12	
December 31, 2004	1,609,798	25.12	
Granted	617,700	38.69	
Exercised	(345,556)	23.15	
Cancelled	(112,808)	29.95	
December 31, 2005	1,769,134	30.05	
Granted	395,020	39.12	
Exercised	(327,717)	24.49	
Cancelled	(142,683)	32.18	
Outstanding December 31, 2006	1,693,754	$ 33.11	$
Exercisable December 31, 2006	834,304	$ 28.17	$

Performance Shares

The Company has a performance share program for key employees. The program provides annual awards for th strategic initiatives and annual financial performance of the Company. The annual target award level is expressed as shares and the award is paid in cash.

Deferred Compensation

The Company allows key employees and non-employee directors to defer a portion of their eligible compensation i Class A common share equivalents. The portion deferred into Class A common share equivalents is currently Company's share price. Effective August 2, 2006, the Compensation Committee eliminated the provision in t participants eligible to receive a 20% supplemental amount on deferrals invested for five years in the Company's Cl effective August 2, 2006, the Compensation Committee vested the previously awarded, but unvested, portions of t the deferred compensation plans. The Company reversed $0.4 million of expense in the third quarter of 200 compensation plans.

Other Plans

The Company maintains a shareholder-approved Management Incentive Unit Award Plan. Under the plan, particip units. When dividends are paid on Class A common shares, phantom dividends are awarded to unit holders, one-ha of which is credited to the participants' account in the form of Class A common share equivalents. The value participants, and only the fair value of accumulated common share equivalents is paid in cash upon the participa equivalents credited to participants' accounts at December 31, 2006 is 271,040.

Stock grants were issued prior to February 2000 as an incentive plan for certain key employees, with varying vestin
272,678 stock grants outstanding, all of which were vested. Effective August 2, 2006, all remaining stock grant
common shares.

Compensation Expense
Share-based compensation expense is included in Selling and administrative expenses. The following table summari

In millions		2006	
Stock options	$	16.2	$
SARs		5.6	
Performance shares		11.2	
Deferred compensation		(0.4)	
Other		-	
Pre-tax expense		32.6	
Tax benefit		12.5	
After tax expense	$	20.1	$

Compensation expense was recognized during the year ended December 31, 2006, for all share-based option awar
grant date fair value in accordance with the provisions of SFAS 123(R). The Company recorded additional sto
associated with the adoption of SFAS 123(R).

The following table illustrates the effect on net earnings and earnings per share had the Company applied the fa
"Accounting for Stock-Based Compensation," for the year ended December 31, 2005 and 2004:

In millions, except per share amounts	
Net earnings, as reported	$
Add (Deduct): Stock-based employee compensation (income) expense included in reported net income, net of tax	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	
Pro forma net earnings	$
Basic earnings per share:	
As reported	$
Pro forma	
Diluted earnings per share:	
As reported	$
Pro forma	

The average fair value of stock options granted during the years ended December 31, 2005 and 2004 was $12.67 and
option-pricing model, with the following assumptions at the grant date:

Dividend yield
Volatility
Risk-free rate of return
Expected life

NOTE 12 - INCOME TAXES

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

In millions		2006	
United States	$	303.9	$
Non-U.S.		996.1	
Total	$	1,300.0	$

The provision was as follows:

In millions		2006	
Current tax expense:			
United States	$	161.8	$
Non-U.S.		129.2	
Total current		291.0	
Deferred tax (benefit) expense:			
United States		(111.7)	
Non-U.S.		52.4	
Total deferred		(59.3)	
Total provision for income taxes	$	231.7	$

The provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S.
a result of the following differences:

	Percent c
	2006
Statutory U.S. rate	35.0%
Increase (decrease) in rates resulting from:	
Non-U.S. operations	(19.3)
Manufacturing exemption / Extraterritorial income	(0.3)
State and local income taxes, net of U.S. tax	0.4
Puerto Rico - Sec 936 Credit	-
Other	2.0
Effective tax rate	17.8%

At December 31, a summary of the deferred tax accounts follows:

In millions	
Current deferred assets and (liabilities)	
Difference between book and tax bases of inventories and receivables	$
Difference between book and tax expense for other employee-related benefits and allowances	
Other reserves and valuation allowances in excess of tax deductions	
Other differences between tax and financial statement values	
Gross current deferred net tax assets	
Noncurrent deferred assets and (liabilities)	
Postretirement and postemployment benefits other than pensions in excess of tax deductions	
Tax benefit of operating losses and credit carryforwards	
Other reserves in excess of tax expense	
Tax depreciation / amortization in excess of book depreciation / amortization	
Pension contributions in excess of book expense	
Gross noncurrent deferred net tax assets	
Less: deferred tax valuation allowances	
Total net deferred tax assets	$

Included in Accrued expenses and other current liabilities on the Consolidated Balance Sheet are $389.0 million
payable at December 31, 2006 and 2005, respectively. Included in Prepaid expenses and deferred income taxes o
million and $309.3 million of current deferred tax assets at December 31, 2006 and 2005, respectively.

At December 31, 2006, net U.S and non-U.S. federal operating loss carryforwards of $1,232.8 million are availabl
U.S. federal carryforwards will begin to expire in 2022, while a significant portion of the non-U.S. net operating
periods. The net operating loss carryforwards were incurred in various jurisdictions, predominantly the United Stat
Switzerland. State net operating loss carryforwards at December 31, 2006 of $6,089.4 million are available to offs
carryforwards will expire in future years generally through 2026. A valuation allowance of $184.9 million has
carryforwards, which will likely not be realized. The change in the valuation allowance is predominantly attribut
carryforwards and other foreign deferred tax assets. Approximately $11 million of the valuation allowance was
transactions and any tax benefit, when realized, will reduce goodwill rather than the income tax provision.

At December 31, 2006, no deferred taxes have been provided for any portion of the $5.4 billion of undistributed
these earnings have been, and under current plans will continue to be, permanently reinvested in these subsidiaries,
of additional taxes which may be payable upon distribution.

Tax incentives, in the form of tax holidays, have been granted in certain jurisdictions to encourage industrial deve
varies by country. The most significant tax holidays relate to the Company’s locations in China, which have genera
3-year 50% exemption, and the Company’s qualifying locations in Ireland, which were granted a 10% tax rate thro
was approximately $5.1 million, or $0.02 of income per dilutive share. The American Jobs Creation Act (the AJCA
from U.S. domestic manufacturing income. This provision of the AJCA did not have a material impact on the Comp

On October 6, 2006, the Company received a notice from the Internal Revenue Service (IRS) containing propose
connection with an audit of the 1998 through 2000 tax years. The principal proposed adjustments consist of the dis
Company's tax returns in 1999 and 2000. The disallowance would result in additional taxes and penalties of appr
October 6, 2006 of approximately $62 million. The Company disputes the IRS's position and intends to contest the
approximately $27 million ($0.08 per dilutive share) to its previously established reserves, as a charge in the third
account, the Company believes that it has adequately reserved for the ultimate resolution of this issue. Should the
losses and imposition of penalties and interest, it would result in a cash outflow of approximately $155 million, plus
raised in the notice are not related to the Company's reorganization in Bermuda, which was effective December 31,

As part of the audit of the tax years 2000-2002, the Company is actively engaged in discussion with the Internal R
reincorporation in Bermuda in 2001. The Company has provided for reasonably foreseeable resolution of all tax dis
events so dictate. In the event that the ultimate resolution of an issue differs materially from the original or adjust
recorded in the provision for income taxes in the period that the matter is finally resolved.

NOTE 13 - DISCONTINUED OPERATIONS

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

In millions		2006	
Net revenues	$	-	$
Retained (costs) income, net of tax	$	(36.5)	$
Net gain on disposals, net of tax		0.7	
Total discontinued operations, net of tax	$	(35.8)	$

2006
Retained costs for discontinued operations mainly include costs related to postretirement benefits and product a
previously sold businesses. Net gain on disposals represents additional gains from previously sold businesses.

2005
Discontinued operations for the year ended December 31, 2005, amounted to income of $1.1 million, net of tax be
after tax gains of $35.2 million, mainly due to divested businesses, primarily Ingersoll-Dresser Pump Company
million) and Waterjet ($12.2 million), primarily from the resolution of tax matters regarding these divestitur
discontinued operations amounted to $34.1 million. These costs mainly include costs related to postretirement
asbestos-related) from previously sold businesses.

2004
Discontinued operations for the year ended December 31, 2004, amounted to income of $388.9 million, net of tax pr
net after tax gains on disposals of $334.9 million, primarily comprised of gains from the sales of Dresser-Rand ($
million). After-tax income from discontinued operations amounted to $54.0 million. This income includes
Dresser-Rand ($45.0 million) and Engineered Solutions ($20.9 million), which includes an antidumping subsid
partially offset by retained costs related to IDP ($14.9 million), which mostly include product liability costs prin
employee benefit costs.

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NOTE 14 - EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings by the weighted-average number of Class A comr
share is based on the weighted-average number of Class A common shares outstanding, as well as potentially dilu
case, includes shares issuable under share-based compensation plans. The following table details the weighted
outstanding for basic and diluted earnings per share calculations at December 31:

In millions	2006
Weighted-average number of basic shares	319.9
Shares issuable under incentive stock plans	3.2
Weighted-average number of diluted shares	323.1
Anti-dilutive shares	3.2

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Company is involved in various litigations, claims and administrative proceedings, including environmental an
for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additi
Subject to the uncertainties inherent in estimating future costs for contingent liabilities, management believes that t
matters would not have a material adverse effect on the financial condition, results of operations, liquidity or cash fl

Environmental remediation costs are determined on a site-by-site basis and accruals are made when it is probable
reasonably. The Company estimates the amount of recurring and non-recurring costs at each site using internal and
the following factors are considered: the type of contaminant, the stage of the clean-up, applicable law and existing
accruals, are reviewed and updated quarterly to reflect changes in facts and law. The Company does not discount it
when environmental liabilities are recorded.

Certain wholly owned subsidiaries of the Company are named as defendants in asbestos-related lawsuits in state an
large number of other companies have also been named as defendants. The vast majority of those claims have be
allege injury caused by exposure to asbestos contained in certain of IR-New Jersey's products. Although IR-New Je
of asbestos, some of its formerly manufactured products utilized asbestos-containing components, such as gaskets pu

All asbestos-related claims resolved to date have been dismissed or settled. For the years ended December 31, 2006
defense of asbestos claims after insurance recoveries and net of tax were approximately $31.6 million, $16.8 million
in asbestos-related costs in 2006 compared with 2005 and 2004 is primarily attributable to revised estimates f
Company's insurance carriers, as well as declining levels of insurance coverage available for cost recoveries. W
Company performs a thorough analysis, updated periodically, of its actual and anticipated future asbestos liabilit
upon such analysis, the Company believes that its reserves and insurance are adequate to cover its asbestos liabili
likely to have a material adverse effect on its financial position, results of operations, liquidity or cash flows.

Legislation recently under consideration in Congress concerns pending and future asbestos-related personal injury c
become law, and the final provisions of such legislation, are unknown. Consequently, the Company cannot predict
effect, if any, such legislation would have upon the Company's financial position, results of operations or cash flows

The Company sells products on a continuous basis under various arrangements through institutions that provide leas and wholesale customers. Under these arrangements, the Company is contingently liable for loan guarantees and r $18.8 million, including consideration of ultimate net loss provisions. The risk of loss to the Company is minimal, been incurred relating to these arrangements since the fair value of the underlying equipment that serves as colla liability. Management believes these guarantees will not adversely affect the consolidated financial statements.

The Company has remained contingently liable for approximately $13.8 million relating to performance bonds a which the Company divested in 2000. The acquirer of IDP is the primary obligor under these performance bonds these arrangements the Company would be required to satisfy these financial obligations. The Company estimates t during 2007. The remainder extends through 2008.

The Company is contingently liable for customs duties in certain non-U.S. countries which totaled $5.8 million a accrued as the Company intends on exporting the product to another country for final sale.

In connection with the disposition of certain businesses and facilities, the Company has indemnified the purcha environmental contamination, if any, existing on the date of disposition. Such expected costs are accrued wh remediation efforts are probable and the costs can be reasonably estimated.

The following represents the changes in the Company's product warranty liability for 2006 and 2005:

In millions	
Balance at beginning of year	$
Reductions for payments	
Accruals for warranties issued during the current period	
Changes for accruals related to preexisting warranties	
Acquisitions	
Translation	
Balance at end of the year	$

Certain office and warehouse facilities, transportation vehicles and data processing equipment are leased. Total rer million in 2005 and $62.7 million in 2004. Minimum lease payments required under non-cancelable operating lease five years and thereafter, are as follows: $57.7 million in 2007, $43.7 million in 2008, $31.3 million in 2009, $18 $20.6 million thereafter.

NOTE 16 - BUSINESS SEGMENT INFORMATION

The accounting policies of the operating segments are the same as those described in the summary of significant segments' results are prepared on a management basis that is consistent with the manner in which the Company d review and decision making. The Company evaluates performance based on operating income and operating margi considered immaterial.

The Company has divested various businesses over the past few years as it moves to being a leading global diver
Company sold its Drilling Solutions and Dresser-Rand businesses. The results of these divested businesses have
segments for business segment reporting and has been shown separately in “Discontinued operations, net of tax” in t

During the first quarter of 2005, the Company realigned its internal organization and operating segments to ref
transparency of results. The former Infrastructure segment was disaggregated into two segments - the Comp
Construction Technologies segment. The 2004 segment results have been restated to conform to this change.

Each reportable segment is based primarily on the types of products it generates. The operating segments have bee
and quantitative thresholds as required by SFAS No. 131, “Disclosures About Segments of an Enterprise and Relat
reportable segments is as follows:

Climate Control Technologies provides solutions to transport, preserve, store and display temperature-sensitive pro
sale and service of transport temperature control units, HVAC systems, refrigerated display merchandisers, bevera
storage coolers and freezers. The segment includes the Thermo King and Hussmann brands.

The Compact Vehicle Technologies segment is engaged in the design, manufacture, sale and service of skid-steer l
loaders, compact excavators, attachments, golf vehicles and utility vehicles. The segment includes the Bobcat and C

Construction Technologies is engaged in the design, manufacture, sale and service of road construction and
general-purpose construction equipment, attachments and portable light towers and compressors. The segment
Development and Attachments businesses.

Industrial Technologies is focused on providing solutions to enhance customers’ industrial and energy efficiency, m
sale and service of compressed air systems, tools, fluid and material handling and energy generation systems.
Productivity Solutions businesses.

Security Technologies is engaged in the design, manufacture, sale and service of mechanical and electronic securit
and security and scheduling software. The segment includes the Schlage, LCN, Von Duprin and CISA brands.

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

Dollar amounts in millions		2006	
Climate Control Technologies			
Revenues	$	3,171.0	$
Operating income		356.0	
Operating income as a percentage of revenues		11.2%	
Depreciation and amortization		52.1	
Capital expenditures		25.6	
Compact Vehicle Technologies			
Revenues		2,641.2	
Operating income		358.0	
Operating income as a percentage of revenues		13.6%	
Depreciation and amortization		28.0	
Capital expenditures		47.6	
Construction Technologies			
Revenues		1,362.3	
Operating income		148.0	
Operating income as a percentage of revenues		10.9%	
Depreciation and amortization		12.9	
Capital expenditures		18.5	
Industrial Technologies			
Revenues		1,949.8	
Operating income		262.0	
Operating income as a percentage of revenues		13.4%	
Depreciation and amortization		25.2	
Capital expenditures		51.7	
Security Technologies			
Revenues		2,285.0	
Operating income		400.2	
Operating income as a percentage of revenues		17.5%	
Depreciation and amortization		42.6	
Capital expenditures		43.6	
Total revenues	$	11,409.3	$
Operating income from reportable segments		1,524.2	
Unallocated corporate expense		(83.4)	
Total operating income	$	1,440.8	$
Total operating income as a percentage of revenues		12.6%	
Depreciation and amortization from reportable segments		160.8	
Unallocated depreciation and amortization		29.9	
Total depreciation and amortization	$	190.7	$
Capital expenditures from reportable segments		187.0	

Corporate capital expenditures		25.3	
Total capital expenditures	$	212.3	$

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

In millions		2006	
Revenues			
United States	$	6,438.7	$
Non-U.S.		4,970.6	
Total	$	11,409.3	$

In millions	
Long-lived assets	
United States	$
Non-U.S.	
Total	$

NOTE 17 - IR-NEW JERSEY

As part of the reorganization, IR-Limited guaranteed all of the issued public debt securities of IR-New Jersey. Tl
owned by the parent, IR-Limited, the guarantees are full and unconditional, and no other subsidiary of the Comp
condensed consolidated financial information for IR-Limited, IR-New Jersey, and all their other subsidiaries is inc
IR-New Jersey are not required to be filed with the U.S. Securities and Exchange Commission.

As part of the reorganization of December 31, 2001, IR-Limited issued Class B common shares to IR-New Jersey in
certain IR-New Jersey subsidiaries. The note, which is due in 2011, has a fixed rate of interest of 11% per annum
restrictive covenants upon IR-New Jersey. The Class B common shares are non-voting and pay dividends compar
IR-Limited contributed the note to a wholly owned subsidiary, which subsequently transferred portions of the note
included in the "Other Subsidiaries" below. Accordingly, the subsidiaries of IR-Limited remain creditors of IR-New

IR-New Jersey has unconditionally guaranteed payment of the principal, premium, if any, and interest on the Com
aggregate principal amount of $300 million. The guarantee is unsecured and provided on an unsubordinated b
payment with all of the existing and future unsecured and unsubordinated debt of IR-New Jersey.

The condensed consolidating financial statements present IR-Limited and IR-New Jersey investments in their subsi
Intercompany investments in the non-voting Class B common shares are accounted for on the cost method and
accordance with generally accepted accounting principles, the amounts related to the issuance of the Class B shar
Shareholders' Equity since the Class B issuance on December 31, 2001. The notes payable continue to be reflecte
Jersey and are enforceable in accordance with their terms.

Condensed Consolidating Income Statement
For the year ended December 31, 2006

In millions	IR Limited	IR New Jersey	Other Subsidiaries
Net revenues	$ -	$ 1,582.4	$ 9,82
Cost of goods sold	-	1,181.5	7,24
Selling and administrative expenses	16.3	341.9	1,18
Operating (loss) income	(16.3)	59.0	1,39
Equity earnings in affiliates (net of tax)	1,116.6	607.4	15
Interest expense	(30.3)	(75.1)	(2
Intercompany interest and fees	(32.9)	(645.0)	67
Other income (expense), net	(4.6)	63.9	(6
Earnings (loss) before income taxes	1,032.5	10.2	2,13
(Benefit) provision for income taxes	-	(177.5)	40
Earnings (loss) from continuing operations	1,032.5	187.7	1,72
Discontinued operations, net of tax	-	(31.0)	(
Net earnings (loss)	$ 1,032.5	$ 156.7	$ 1,72

Condensed Consolidating Income Statement
For the year ended December 31, 2005

In millions	IR Limited	IR New Jersey	Other Subsidiaries
Net revenues	$ -	$ 1,638.3	$ 8,90
Cost of goods sold	-	1,271.4	6,47
Selling and administrative expenses	1.2	338.7	1,10
Operating (loss) income	(1.2)	28.2	1,33
Equity earnings in affiliates (net of tax)	1,104.8	487.1	19
Interest expense	(9.1)	(104.7)	(3
Intercompany interest and fees	(38.4)	(425.8)	46
Other income (expense), net	(1.9)	104.7	(6
Earnings (loss) before income taxes	1,054.2	89.5	1,90
(Benefit) provision for income taxes	-	(112.7)	31
Earnings (loss) from continuing operations	1,054.2	202.2	1,58
Discontinued operations, net of tax	-	(4.5)	
Net earnings (loss)	$ 1,054.2	$ 197.7	$ 1,59

Condensed Consolidating Income Statement
For the year ended December 31, 2004

In millions	IR Limited	IR New Jersey	Other Subsidiaries
Net revenues	$ -	$ 1,390.2	$ 8,00
Cost of goods sold	-	1,071.5	5,78
Selling and administrative expenses	0.1	354.5	1,06
Operating income	(0.1)	(35.8)	1,15
Equity earnings in affiliates (net of tax)	1,231.6	956.3	57
Interest expense	(0.2)	(122.2)	(3
Intercompany interest and fees	(7.5)	(538.4)	54
Other income (expense), net	(5.1)	87.3	(8
Earnings (loss) before income taxes	1,218.7	347.2	2,16
(Benefit) provision for income taxes	-	(219.5)	35
Earnings (loss) from continuing operations	1,218.7	566.7	1,80
Discontinued operations, net of tax	-	9.5	37
Net earnings (loss)	$ 1,218.7	$ 576.2	$ 2,18

Condensed Consolidating Balance Sheet
December 31, 2006

In millions	IR Limited	IR New Jersey	Other Subsidiaries
Current assets:			
Cash and cash equivalents	$ 1.7	$ 81.6	$ 27
Marketable securities	-	-	
Accounts and notes receivable, net	0.3	283.7	1,71
Inventories, net	-	204.5	1,11
Prepaid expenses and deferred income taxes	0.4	389.4	2
Accounts and notes receivable affiliates	921.4	2,662.1	26,53
Total current assets	923.8	3,621.3	29,67
Investment in affiliates	7,130.9	11,565.2	31,00
Property, plant and equipment, net	-	280.8	99
Intangible assets, net	-	81.1	5,25
Other assets	1.7	1,283.8	14
Total assets	$ 8,056.4	$ 16,832.2	$ 67,08
Current liabilities:			
Accounts payable and accruals	$ 6.3	$ 487.7	$ 2,04
Loans payable and current maturities of long-term debt	378.0	596.8	10
Accounts and note payable affiliates	779.0	7,035.7	22,30
Total current liabilities	1,163.3	8,120.2	24,45
Long-term debt	299.0	411.3	19
Note payable affiliate	950.0	2,697.4	
Other noncurrent liabilities	239.3	1,847.5	13
Total liabilities	2,651.6	13,076.4	24,78
Shareholders' equity:			
Class A common shares	364.5	-	(5
Class B common shares	270.6	-	
Common shares	-	-	2,36
Other shareholders' equity	9,403.3	4,815.3	43,95
Accumulated other comprehensive income (loss)	(36.4)	(627.9)	20
	10,002.0	4,187.4	46,46
Less: Contra account	(4,597.2)	(431.6)	(4,16
Total shareholders' equity	5,404.8	3,755.8	42,30
Total liabilities and equity	$ 8,056.4	$ 16,832.2	$ 67,08

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Condensed Consolidating Balance Sheet
December 31, 2005

In millions	IR Limited	IR New Jersey	Other Subsidiaries
Current assets:			
Cash and cash equivalents	$ 25.5	$ 207.1	$ 64
Marketable securities	-	-	15
Accounts and notes receivable, net	1.3	311.8	1,36
Inventories, net	-	188.9	93
Prepaid expenses and deferred income taxes	-	62.1	34
Accounts and notes receivable affiliates	299.6	3,660.9	22,68
Total current assets	326.4	4,430.8	26,13
Investment in affiliates	7,092.7	11,440.6	29,89
Property, plant and equipment, net	-	291.6	86
Intangible assets, net	-	118.9	5,03
Other assets	1.9	854.0	34
Total assets	$ 7,421.0	$ 17,135.9	$ 62,27
Current liabilities:			
Accounts payable and accruals	$ 5.8	$ 561.2	$ 1,70
Loans payable and current maturities of long-term debt	-	849.4	8
Accounts and note payable affiliates	956.6	5,870.1	19,82
Total current liabilities	962.4	7,280.7	21,60
Long-term debt	298.9	658.1	22
Note payable affiliate	300.0	3,347.4	
Other noncurrent liabilities	97.7	1,389.0	12
Total liabilities	1,659.0	12,675.2	21,95
Shareholders' equity:			
Class A common shares	360.8	-	(3
Class B common shares	270.6	-	
Common shares	-	-	2,36
Other shareholders' equity	9,740.2	5,066.6	42,37
Accumulated other comprehensive income (loss)	193.9	(158.7)	(3
	10,565.5	4,907.9	44,67
Less: Contra account	(4,803.5)	(447.2)	(4,35
Total shareholders' equity	5,762.0	4,460.7	40,31
Total liabilities and equity	$ 7,421.0	$ 17,135.9	$ 62,27

Condensed Consolidating Statement of Cash Flows
For the year ended December 31, 2006

In millions		IR Limited		IR New Jersey	
Net cash (used in) provided by continuing operating activities	$	(67.4)	$	(918.9)	$
Net cash (used in) provided by discontinued operating activities		-		(31.2)	
Cash flows from investing activities:					
Capital expenditures		-		(52.8)	
Proceeds from sale of property, plant and equipment		-		1.0	
Acquisitions, net of cash		-		(11.8)	
Proceeds from business dispositions		-		-	
Purchase of marketable securities		-		-	
Cash provided by equity companies, net		-		-	
Net cash (used in) provided by continuing investing activities		-		(63.6)	
Net cash (used in) provided by discontinued investing activities		-		-	
Cash flows from financing activities:					
Net change in debt		379.1		(499.7)	
Net inter-company (payments) proceeds		(7.3)		1,372.3	
Proceeds from the exercise of stock options		95.7		-	
Dividends (paid) received		(423.9)		15.6	
Repurchase of common shares by subsidiary		-		-	
Net cash (used in) provided by continuing financing activities		43.6		888.2	
Net cash (used in) provided by discontinued financing activities		-		-	
Effect of exchange rate changes on cash and cash equivalents		-		-	
Net (decrease) increase in cash and cash equivalents		(23.8)		(125.5)	
Cash and cash equivalents - beginning of period		25.5		207.1	
Cash and cash equivalents - end of period	$	1.7	$	81.6	$

Condensed Consolidating Statement of Cash Flows
For the year ended December 31, 2005

In millions		IR Limited		IR New Jersey	
Net cash (used in) provided by continuing operating activities	$	(32.0)	$	(475.7)	$
Net cash (used in) provided by discontinued operating activities		-		(18.5)	
Cash flows from investing activities:					
Capital expenditures		-		(49.4)	
Proceeds from sale of property, plant and equipment		-		2.2	
Acquisitions, net of cash		-		-	
Proceeds from business dispositions		-		3.7	
Purchase of marketable securities		-		-	
Cash provided by equity companies		-		-	
Net cash (used in) provided by continuing investing activities		-		(43.5)	
Net cash (used in) provided by discontinued investing activities		-		-	
Cash flows from financing activities:					
Net change in debt		297.4		(87.3)	
Net inter-company (payments) proceeds		(134.8)		(25.2)	
Proceeds from the exercise of stock options		90.9		-	
Dividends (paid) received		(359.2)		13.2	
Redemption of preferred stock of subsidiary		(73.6)		-	
Repurchase of common shares by subsidiary		-		-	
Net cash (used in) provided by continuing financing activities		(179.3)		(99.3)	
Net cash (used in) provided by discontinued financing activities		-		-	
Effect of exchange rate changes on cash and cash equivalents		-		-	
Net (decrease) increase in cash and cash equivalents		(211.3)		(637.0)	
Cash and cash equivalents - beginning of period		236.8		844.1	
Cash and cash equivalents - end of period	$	25.5	$	207.1	$

Condensed Consolidating Statement of Cash Flows
For the year ended December 31, 2004

In millions	IR Limited	IR New Jersey
Net cash (used in) provided by continuing operating activities	$ (14.5)	$ (574.2) $
Net cash (used in) provided by discontinued operating activities	-	(13.5)
Cash flows from investing activities:		
Capital expenditures	-	(42.1)
Proceeds from sale of property, plant and equipment	-	17.7
Acquisitions, net of cash	-	-
Proceeds from the sale of marketable securities	-	-
Proceeds from business dispositions	-	189.0
Cash provided by equity companies	-	-
Net cash (used in) provided by continuing investing activities	-	164.6
Net cash (used in) provided by discontinued investing activities	-	-
Cash flows from financing activities:		
Net change in debt	-	(409.5)
Net inter-company (payments) proceeds	191.4	1,562.4
Proceeds from the exercise of stock options	170.7	-
Dividends (paid) received	(271.3)	10.2
Repurchase of common shares by subsidiary	-	-
Net cash (used in) provided by continuing financing activities	90.8	1,163.1
Net cash (used in) provided by discontinued financing activities	-	-
Effect of change in fiscal year end of business	-	-
Effect of exchange rate changes on cash and cash equivalents	-	-
Net increase in cash and cash equivalents	76.3	740.0
Cash and cash equivalents - beginning of period	160.5	104.1
Cash and cash equivalents - end of period	$ 236.8	$ 844.1 $

NOTE 18- SUBSEQUENT EVENTS (UNAUDITED)

On February 27, 2007, the Company agreed to sell its Road Development business unit to AB Volvo (publ) for
subject to post closing adjustments. The sale, which is subject to government regulatory approvals and other custom
the second quarter of 2007. The Company's Road Development business unit manufactures and sells asphalt pavi
machines, and construction-related material handling equipment and has been reported as part of the Company's Co

The Road Development business unit had net revenues of approximately $700 million for the year ended Decembe
gain on the transaction when the sale is consummated.

INGERSOLL RAND COMPANY LIMITED
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 200
(Amounts in millions)

Allowances for Doubtful Accounts:
Balance December 31, 2003
Additions charged to costs and expenses
Deductions *
Business acquisitions and divestitures, net
Currency translation
Balance December 31, 2004
Net reductions in costs and expenses
Deductions *
Business acquisitions and divestitures, net
Currency translation
Balance December 31, 2005
Net reductions in costs and expenses
Deductions *
Business acquisitions and divestitures, net
Currency translation
Balance December 31, 2006

(*) "Deductions" include accounts and advances written off, less recoveries.

INGERSOLL RAND COMPANY LIMITED
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 200
(Amounts in millions)

Reserve for LIFO:
Balance December 31, 2003
Additions
Reductions
Balance December 31, 2004
Additions
Reductions
Balance December 31, 2005
Additions
Reductions
Balance December 31, 2006