

Ingersoll-Rand plc  
Form 10-Q  
October 22, 2014  
Table of Contents

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

---

FORM 10-Q

---

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended September 30, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-34400

---

INGERSOLL-RAND PUBLIC LIMITED COMPANY  
(Exact name of registrant as specified in its charter)

---

Ireland 98-0626632  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
170/175 Lakeview Dr.  
Airside Business Park  
Swords, Co. Dublin  
Ireland  
(Address of principal executive offices, including zip code)  
+(353) (0) 18707400  
(Registrant’s telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Edgar Filing: Ingersoll-Rand plc - Form 10-Q

The number of ordinary shares outstanding of Ingersoll-Rand plc as of October 10, 2014 was 265,471,878.

---

Table of Contents

INGERSOLL-RAND PLC  
FORM 10-Q  
INDEX

<u>PART I FINANCIAL INFORMATION</u>	<u>1</u>
Item 1 - <u>Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets at September 30, 2014 and December 31, 2013</u>	<u>2</u>
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	<u>3</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>4</u>
Item 2 - <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
Item 3 - <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>51</u>
Item 4 - <u>Controls and Procedures</u>	<u>51</u>
<u>PART II OTHER INFORMATION</u>	<u>53</u>
Item 1 - <u>Legal Proceedings</u>	<u>53</u>
Item 1A - <u>Risk Factors</u>	<u>55</u>
Item 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
Item 6 - <u>Exhibits</u>	<u>56</u>
<u>SIGNATURES</u>	<u>57</u>

---

Table of Contents

## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements

## INGERSOLL-RAND PLC

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

In millions, except per share amounts	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net revenues	\$3,385.0	\$3,214.2	\$9,650.9	\$9,251.6
Cost of goods sold	(2,327.0 )	(2,217.7 )	(6,721.7 )	(6,507.6 )
Selling and administrative expenses	(618.0 )	(617.0 )	(1,870.8 )	(1,857.0 )
Operating income	440.0	379.5	1,058.4	887.0
Interest expense	(52.3 )	(102.8 )	(157.3 )	(225.4 )
Other, net	9.6	6.0	20.2	4.1
Earnings before income taxes	397.3	282.7	921.3	665.7
Provision for income taxes	(94.1 )	(55.1 )	(222.5 )	(108.3 )
Earnings from continuing operations	303.2	227.6	698.8	557.4
Discontinued operations, net of tax	(7.0 )	(46.7 )	(8.6 )	42.7
Net earnings	296.2	180.9	690.2	600.1
Less: Net earnings attributable to noncontrolling interests	(4.9 )	(15.0 )	(14.0 )	(29.0 )
Net earnings attributable to Ingersoll-Rand plc	\$291.3	\$165.9	\$676.2	\$571.1
Amounts attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	\$298.3	\$222.6	\$684.8	\$542.3
Discontinued operations	(7.0 )	(56.7 )	(8.6 )	28.8
Net earnings	\$291.3	\$165.9	\$676.2	\$571.1
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:				
Basic:				
Continuing operations	\$1.11	\$0.76	\$2.52	\$1.83
Discontinued operations	(0.02 )	(0.19 )	(0.04 )	0.10
Net earnings	\$1.09	\$0.57	\$2.48	\$1.93
Diluted:				
Continuing operations	\$1.10	\$0.75	\$2.48	\$1.81
Discontinued operations	(0.03 )	(0.19 )	(0.03 )	0.10
Net earnings	\$1.07	\$0.56	\$2.45	\$1.91
Weighted-average shares outstanding:				
Basic	267.9	291.6	272.2	295.9
Diluted	271.6	295.5	275.9	299.8
Dividends declared per ordinary share	\$0.25	\$0.21	\$0.75	\$0.42
Total comprehensive income (loss)	\$78.3	\$311.6	\$442.7	\$645.2
Less: Total comprehensive (income) loss attributable to noncontrolling interests	(3.2 )	(20.1 )	(13.5 )	(26.2 )
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$75.1	\$291.5	\$429.2	\$619.0

See accompanying notes to condensed consolidated financial statements.



Table of Contents

INGERSOLL-RAND PLC  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

In millions	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$936.7	\$1,937.2
Accounts and notes receivable, net	2,302.6	2,071.5
Inventories	1,419.0	1,166.1
Deferred taxes and current tax receivable	303.0	359.5
Other current assets	208.8	182.4
Total current assets	5,170.1	5,716.7
Property, plant and equipment, net	1,465.7	1,468.4
Goodwill	5,447.0	5,540.6
Intangible assets, net	3,819.4	3,922.0
Other noncurrent assets	963.4	1,010.4
Total assets	\$16,865.6	\$17,658.1
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$1,380.5	\$1,163.0
Accrued compensation and benefits	453.9	505.2
Accrued expenses and other current liabilities	1,348.3	1,311.3
Short-term borrowings and current maturities of long-term debt	881.0	367.7
Current income taxes	66.3	61.4
Total current liabilities	4,130.0	3,408.6
Long-term debt	2,646.6	3,153.5
Postemployment and other benefit liabilities	1,220.8	1,287.8
Deferred and noncurrent income taxes	1,264.7	1,335.8
Other noncurrent liabilities	1,269.8	1,341.1
Total liabilities	10,531.9	10,526.8
Equity:		
Ingersoll-Rand plc shareholders' equity:		
Ordinary shares	265.8	282.7
Capital in excess of par value	70.8	158.4
Retained earnings	6,351.2	6,794.5
Accumulated other comprehensive income (loss)	(413.7	) (166.7
Total Ingersoll-Rand plc shareholders' equity	6,274.1	7,068.9
Noncontrolling interest	59.6	62.4
Total equity	6,333.7	7,131.3
Total liabilities and equity	\$16,865.6	\$17,658.1
See accompanying notes to condensed consolidated financial statements.		

Table of Contents

INGERSOLL-RAND PLC  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (Unaudited)

In millions	Nine months ended	
	September 30, 2014	2013
Cash flows from operating activities:		
Net earnings	\$ 690.2	\$ 600.1
(Income) loss from discontinued operations, net of tax	8.6	(42.7 )
Adjustments to arrive at net cash provided by (used in) operating activities:		
Depreciation and amortization	250.5	249.9
Stock settled share-based compensation	51.6	53.8
Changes in assets and liabilities, net	(448.8	) (146.8 )
Other, net	5.6	(52.8 )
Net cash provided by (used in) continuing operating activities	557.7	661.5
Net cash provided by (used in) discontinued operating activities	(60.1	) 220.5
Net cash provided by (used in) operating activities	497.6	882.0
Cash flows from investing activities:		
Capital expenditures	(150.7	) (175.5 )
Acquisition of businesses, net of cash acquired	(9.3	) —
Proceeds from sale of property, plant and equipment	6.6	7.2
Proceeds from business dispositions, net of cash sold	2.1	4.7
Dividends received from equity investments	30.3	—
Net cash provided by (used in) continuing investing activities	(121.0	) (163.6 )
Net cash provided by (used in) discontinued investing activities	—	13.1
Net cash provided by (used in) investing activities	(121.0	) (150.5 )
Cash flows from financing activities:		
Short-term borrowings, net	(0.3	) 12.6
Proceeds from long-term debt	12.1	1,546.2
Payments of long-term debt	(7.8	) (1,263.3 )
Net proceeds (repayments) in debt	4.0	295.5
Dividends paid to ordinary shareholders	(199.2	) (183.0 )
Dividends paid to noncontrolling interests	(16.3	) (10.7 )
Proceeds from shares issued under incentive plans	32.3	192.4
Repurchase of ordinary shares	(1,172.9	) (795.2 )
Other, net	64.1	(13.2 )
Net cash provided by (used in) continuing financing activities	(1,288.0	) (514.2 )
Net cash provided by (used in) discontinued financing activities	—	(8.1 )
Net cash provided by (used in) financing activities	(1,288.0	) (522.3 )
Effect of exchange rate changes on cash and cash equivalents	(89.1	) (7.4 )
Net increase (decrease) in cash and cash equivalents	(1,000.5	) 201.8
Cash and cash equivalents - beginning of period	1,937.2	708.4
Cash and cash equivalents - end of period	\$ 936.7	\$ 910.2

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## INGERSOLL-RAND PLC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Ingersoll-Rand plc (IR-Ireland), a public limited company incorporated in Ireland in 2009, and its consolidated subsidiaries (collectively, the Company), reflect the consolidated operations of the Company and have been prepared in accordance with United States Securities and Exchange Commission (SEC) interim reporting requirements. Accordingly, the accompanying condensed consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for full financial statements and should be read in conjunction with the consolidated financial statements included in the IR-Ireland Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, which include normal recurring adjustments, necessary to present fairly the condensed consolidated results for the interim periods presented.

## Reclassifications to Previously Issued Statement of Comprehensive Income

Certain reclassifications of amounts reported in prior periods have been made to conform to the 2014 classification. The Company made certain changes in classification of global integrated supply chain costs within Operating income. This change in classification resulted in a \$9.9 million and \$32.3 million increase to Cost of goods sold with a corresponding decrease to Selling and administrative expenses for the three and nine months ended September 30, 2013, respectively.

## Acquisition of Cameron International Corporation's Centrifugal Compression division

On August 18, 2014, the Company announced an agreement to acquire the assets of Cameron International Corporation's Centrifugal Compression division (the Division) for \$850 million, which we expect to be funded through a combination of cash and debt. The Division provides centrifugal compression equipment and aftermarket parts and services for global industrial applications, air separation, gas transmission and process. The acquisition, which is subject to regulatory approval, is expected to close in the fourth quarter of 2014.

## Revisions to Previously Issued Statements of Cash Flows

The Company has revised its December 31, 2013, 2012 and 2011 consolidated statements of cash flows, and its June 30, 2014; March 31, 2014; September 30, 2013; June 30, 2013; and March 31, 2013 condensed consolidated statements of cash flows, to correct errors in the calculation and classification of the effect of exchange rate changes on cash and cash equivalents. The impact on the aforementioned financial statements is summarized in the tables below. These adjustments were not considered to be material individually or in the aggregate to the previously issued financial statements. The adjustments had no impact on the total net increase (decrease) in cash and cash equivalents, or total cash and cash equivalents amounts in any period.

Condensed Consolidated Statement of Cash Flows	For the six months ended June 30, 2014		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	(11.4 )	(0.3 )	11.1
Net cash provided by (used in) continuing operating activities	175.9	187.0	11.1
Net cash provided by (used in) discontinued operating activities	(55.8 )	(55.8 )	—
Net cash provided by (used in) operating activities	120.1	131.2	11.1
Effect of exchange rate changes on cash and cash equivalents	(8.1 )	(19.2 )	(11.1 )
Net increase (decrease) in cash and cash equivalents	(1,007.4 )	(1,007.4 )	—





Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Condensed Consolidated Statement of Cash Flows	For the three months ended March 31, 2014		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	(14.8 )	(10.8 )	4.0
Net cash provided by (used in) continuing operating activities	(84.8 )	(80.8 )	4.0
Net cash provided by (used in) discontinued operating activities	(41.2 )	(41.2 )	—
Net cash provided by (used in) operating activities	(126.0 )	(122.0 )	4.0
Effect of exchange rate changes on cash and cash equivalents	(9.5 )	(13.5 )	(4.0 )
Net increase (decrease) in cash and cash equivalents	(1,039.3 )	(1,039.3 )	—

Consolidated Statement of Cash Flows	For the year ended 2013		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	194.3	115.4	(78.9 )
Net cash provided by (used in) continuing operating activities	877.7	798.8	(78.9 )
Net cash provided by (used in) discontinued operating activities	292.7	292.7	—
Net cash provided by (used in) operating activities	1,170.4	1,091.5	(78.9 )
Effect of exchange rate changes on cash and cash equivalents	(72.8 )	6.1	78.9
Net increase (decrease) in cash and cash equivalents	1,228.8	1,228.8	—

Condensed Consolidated Statement of Cash Flows	For the nine months ended September 30, 2013		
	As previously reported**	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	16.3	(52.8 )	(69.1 )
Net cash provided by (used in) continuing operating activities	730.6	661.5	(69.1 )
Net cash provided by (used in) discontinued operating activities	220.5	220.5	—
Net cash provided by (used in) operating activities	951.1	882.0	(69.1 )
Effect of exchange rate changes on cash and cash equivalents	(76.5 )	(7.4 )	69.1
Net increase (decrease) in cash and cash equivalents	201.8	201.8	—

\*\*The cash flows for nine months ended September 30, 2013, as previously reported, have been revised for the reclassification of Allegion plc to discontinued operations.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Condensed Consolidated Statement of Cash Flows	For the six months ended June 30, 2013		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	(34.1 )	(26.8 )	7.3
Net cash provided by (used in) continuing operating activities	313.5	320.8	7.3
Net cash provided by (used in) discontinued operating activities	115.3	115.3	—
Net cash provided by (used in) operating activities	428.8	436.1	7.3
Effect of exchange rate changes on cash and cash equivalents	(25.1 )	(32.4 )	(7.3 )
Net increase (decrease) in cash and cash equivalents	1,318.4	1,318.4	—

Condensed Consolidated Statement of Cash Flows	For the three months ended March 31, 2013		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	(22.8 )	(9.9 )	12.9
Net cash provided by (used in) continuing operating activities	(17.2 )	(4.3 )	12.9
Net cash provided by (used in) discontinued operating activities	9.2	9.2	—
Net cash provided by (used in) operating activities	(8.0 )	4.9	12.9
Effect of exchange rate changes on cash and cash equivalents	(0.6 )	(13.5 )	(12.9 )
Net increase (decrease) in cash and cash equivalents	(49.2 )	(49.2 )	—

Consolidated Statement of Cash Flows	For the year ended 2012		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	122.7	137.1	14.4
Net cash provided by (used in) continuing operating activities	868.1	882.5	14.4
Net cash provided by (used in) discontinued operating activities	312.9	312.9	—
Net cash provided by (used in) operating activities	1,181.0	1,195.4	14.4
Effect of exchange rate changes on cash and cash equivalents	(9.2 )	(23.6 )	(14.4 )
Net increase (decrease) in cash and cash equivalents	(278.6 )	(278.6 )	—

Consolidated Statement of Cash Flows	For the year ended 2011		
	As previously reported	As revised	Adjustment reported
In millions			

Edgar Filing: Ingersoll-Rand plc - Form 10-Q

Cash flows from operating activities:

Adjustments to arrive at net cash provided by (used in) operating activities:

Other, net	15.6	51.4	35.8
Net cash provided by (used in) continuing operating activities	786.3	822.1	35.8
Net cash provided by (used in) discontinued operating activities	400.5	400.5	—
Net cash provided by (used in) operating activities	1,186.8	1,222.6	35.8
Effect of exchange rate changes on cash and cash equivalents	(1.5	) (37.3	) (35.8
Net increase (decrease) in cash and cash equivalents	146.4	146.4	—

6

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Note 2 – Spin-Off Transaction

On December 1, 2013 (the Distribution Date), the Company completed the separation (the spin-off) of its commercial and residential security businesses by distributing the related ordinary shares of Allegion plc (Allegion), on a pro rata basis, to the Company's shareholders of record as of November 22, 2013 (the Record Date). After the Distribution Date, Allegion became an independent publicly traded company.

The results of our former commercial and residential security businesses are presented as a discontinued operation in the Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Statement of Cash Flows for all periods presented. The equity activity of the commercial and residential security businesses is included within the Company's equity through December 1, 2013. Except where otherwise noted, all disclosures in the related footnotes represent the results of continuing operations.

In connection with the spin-off of Allegion, the Company and Allegion entered into several agreements covering administrative and tax matters to provide or obtain services on a transitional basis, as needed, for varying periods after the spin-off. The administrative agreements cover various services such as information technology, human resources and finance. The Company expects all services to be substantially complete within one year after the spin-off.

During the three and nine months ended September 30, 2013, the Company incurred \$25.7 million and \$57.7 million, respectively, of professional service fees related to the spin-off. These costs are reported within Discontinued operations, net of tax in the Condensed Consolidated Statement of Comprehensive Income.

Note 3 – Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date." ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements where the total obligation is fixed at the reporting date, and for which no specific guidance currently exists. This new guidance became effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The revised requirements of ASU 2013-04 did not have an impact on the condensed consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." ASU 2013-05 clarifies the application of GAAP to the release of cumulative translation adjustments related to changes of ownership in or within foreign entities, including step acquisitions. This new guidance became effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The Company will apply the new guidance, as applicable, to future derecognitions of certain subsidiaries or groups of assets within a Foreign Entity or of an Investment in foreign entities.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance became effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The Company has applied the requirements of ASU 2013-11 prospectively in preparing the September 30, 2014 condensed consolidated balance sheet, which resulted in a decrease to noncurrent deferred tax assets of \$13.8 million, an increase to noncurrent deferred tax liabilities of \$125.0 million and a decrease to noncurrent reserves for uncertain tax positions of \$138.8 million. Had the Company applied the requirements of ASU 2013-11 retrospectively to the December 31, 2013 consolidated balance sheet, the impact would have been a decrease to current and noncurrent deferred tax assets of \$22.6 million and \$20.7 million, respectively, an increase to noncurrent deferred tax liabilities of

\$128.9 million and a decrease to noncurrent reserves for uncertain tax positions of \$172.2 million.

Recently Issued Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 provides new guidance related to the definition of a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This new guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within those years. Beginning in 2015, the Company will apply the new guidance, as applicable, to future disposals of components or classifications as held for sale.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-08 specifies new accounting for costs associated with obtaining or fulfilling contracts with customers and expands the required disclosures related to revenue and cash flows from contracts with customers. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. The Company is currently determining its implementation approach and assessing the impact on the condensed consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12 "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early application is permitted. Beginning in 2015, the Company will apply the new guidance to future share-based payment arrangements, as applicable.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern - Disclosures of Uncertainties about an entity's Ability to Continue as a Going Concern." ASU 2014-15 provides new guidance related to management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards and to provide related footnote disclosures. This new guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The requirements of ASU 2014-15 are not expected to have a significant impact on the condensed consolidated financial statements.

## Note 4 – Inventories

Depending on the business, U.S. inventories are stated at the lower of cost or market using the last-in, first-out (LIFO) method or the lower of cost or market using the first-in, first-out (FIFO) method. Non-U.S. inventories are primarily stated at the lower of cost or market using the FIFO method.

The major classes of inventory were as follows:

In millions	September 30, 2014	December 31, 2013
Raw materials	\$505.1	\$378.0
Work-in-process	117.1	100.7
Finished goods	868.0	760.2
	1,490.2	1,238.9
LIFO reserve	(71.2	) (72.8
Total	\$1,419.0	\$1,166.1

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Note 5 – Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2014 were as follows:

In millions	Climate	Industrial	Total
Balance as of December 31, 2013			
Goodwill (gross)	\$7,663.6	\$373.0	\$8,036.6
Accumulated impairment **	(2,496.0 )	—	(2,496.0 )
	5,167.6	373.0	5,540.6
Acquisitions and adjustments*	13.5	2.6	16.1
Currency translation	(104.2 )	(5.5 )	(109.7 )
Balance as of September 30, 2014			
Goodwill (gross)	7,572.9	370.1	7,943.0
Accumulated impairment **	(2,496.0 )	—	(2,496.0 )
	\$5,076.9	\$370.1	\$5,447.0

\* Increase is primarily related to a \$15.0 million acquisition in March of 2014 within the Climate sector and a \$3.0 million acquisition within the Industrial sector.

\*\* No impairment charges were recorded by the company in 2014 or 2013.

The Company records as goodwill the excess of the purchase price over the fair value of the net assets acquired. Once the final valuation has been performed for each acquisition, adjustments may be recorded.

## Note 6 – Intangible Assets

The gross amount of the Company's intangible assets and related accumulated amortization were as follows:

In millions	September 30, 2014			December 31, 2013		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	\$173.2	\$(142.6 )	\$30.6	\$174.1	\$(128.7 )	\$45.4
Customer relationships	1,856.3	(675.5 )	1,180.8	1,865.9	(599.5 )	1,266.4
Other	57.0	(51.0 )	6.0	60.4	(52.2 )	8.2
Total finite-lived intangible assets	2,086.5	\$(869.1 )	1,217.4	2,100.4	\$(780.4 )	1,320.0
Trademarks (indefinite-lived)	2,602.0		2,602.0	2,602.0		2,602.0
Total	\$4,688.5		\$3,819.4	\$4,702.4		\$3,922.0

Intangible asset amortization expense was \$32.2 million and \$32.2 million for the three months ended September 30, 2014 and 2013, respectively. Intangible asset amortization expense was \$96.9 million and \$96.6 million for the nine months ended September 30, 2014 and 2013, respectively.

## Note 7 – Debt and Credit Facilities

Short-term borrowings and current maturities of long-term debt consisted of the following:

In millions	September 30, 2014	December 31, 2013
Debentures with put feature	\$343.0	\$343.0
5.50% Senior notes due 2015	199.3	—
4.75% Senior notes due 2015	299.9	—
Other current maturities of long-term debt	7.8	8.0
Other short-term borrowings	31.0	16.7
Total	\$881.0	\$367.7





Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes. The Company had no commercial paper outstanding at September 30, 2014 or December 31, 2013.

## Debentures with Put Feature

At September 30, 2014 and December 31, 2013, the Company had outstanding \$343.0 million of fixed rate debentures which only require early repayment at the option of the holder. These debentures contain a put feature that the holders may exercise on each anniversary of the issuance date, subject to a notice requirement. If exercised, the Company is obligated to repay in whole or in part, at the holder's option, the outstanding principal amount (plus accrued and unpaid interest) of the debentures held by the holder. If these options are not exercised, the final maturity dates would range between 2027 and 2028.

Holders of these debentures had the option to exercise the put feature on \$37.2 million of the outstanding debentures in February 2014, subject to the notice requirement. No exercises were made.

Long-term debt, excluding current maturities, consisted of the following:

In millions	September 30, 2014	December 31, 2013
5.50% Senior notes due 2015	\$—	\$198.1
4.75% Senior notes due 2015	—	299.8
6.875% Senior notes due 2018	749.6	749.5
2.875% Senior notes due 2019	349.6	349.5
9.00% Debentures due 2021	125.0	125.0
4.250% Senior notes due 2023	698.9	698.8
7.20% Debentures due 2015-2025	75.0	82.5
6.48% Debentures due 2025	149.7	149.7
5.750% Senior notes due 2043	498.0	498.0
Other loans and notes	0.8	2.6
Total	\$2,646.6	\$3,153.5

## Senior Notes due 2019, 2023, and 2043

In June 2013, the Company issued \$1.55 billion principal amount of Senior Notes in three tranches through its wholly-owned subsidiary, Ingersoll-Rand Global Holding Company Limited (IR-Global) pursuant to Rule 144A of the U.S. Securities Act of 1933 (Securities Act). The tranches consist of \$350 million of 2.875% Senior Notes due in 2019, \$700 million of 4.250% Senior Notes due in 2023, and \$500 million of 5.750% Senior Notes due in 2043. The notes were fully and unconditionally guaranteed by each of IR-Ireland, Ingersoll-Rand Company Limited (IR-Limited) and Ingersoll-Rand International Holding Limited (IR-International). Ingersoll-Rand Company (IR-New Jersey) became a co-obligor of the notes in December 2013. Interest on the notes is paid twice a year in arrears. The Company has the option to redeem the notes in whole or in part at any time, and from time to time, prior to their stated maturity date at redemption prices set forth in the indenture agreement. The notes are subject to certain customary covenants, however, none of these covenants are considered restrictive to the Company's operations. In connection with the issuance of each series of notes, IR-Global, the Guarantors and the initial purchasers of the notes entered into a Registration Rights Agreement. Each Registration Rights Agreement requires IR-Global and the Guarantors to use their commercially reasonable efforts to execute an effective exchange offer registration statement with the SEC no later than 365 days after the closing date of the notes offering and to complete an exchange offer within 30 business days of such effective date. If a registration default occurs additional interest shall accrue on the notes. The proceeds from these notes were used to fund the July 2013 redemption of \$600 million of 6.000% Senior Notes due 2013 and \$655 million of 9.500% Senior Notes due 2014 and to fund expenses related to the spin-off of the commercial and residential security businesses, with any remaining proceeds to be used for general corporate purposes.

On April 25, 2014, the Company filed its exchange offer registration statement with the SEC, which became effective on May 13, 2014, and in June 2014, the Company completed its offer to exchange the notes for registered notes having terms identical in all material respects to the private notes, except that the registered notes do not contain terms with respect to transfer restrictions, registration rights or additional interest for failure to observe certain obligations in the applicable registration rights agreement.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Other Debt

On May 20, 2011, the Company entered into a 4-year \$1.0 billion revolving credit facility through its wholly-owned subsidiary, IR-Global (2011 Credit Agreement). On March 20, 2014, the 2011 Credit Agreement was refinanced with a 5-year, \$1.0 billion revolving credit facility maturing on March 20, 2019 and the 2011 Credit Agreement was terminated. The Company also has a 5-year, \$1.0 billion revolving credit facility maturing on March 15, 2017 through its wholly-owned subsidiary, IR-Global.

IR-Ireland, IR-Limited, IR-International, and Ingersoll-Rand Company (IR-New Jersey) have each provided an irrevocable and unconditional guarantee for these credit facilities. The total committed revolving credit facilities of \$2.0 billion were unused at September 30, 2014 and December 31, 2013, and provide support for the Company's commercial paper program, as well as other general corporate purposes.

Fair Value of Debt

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a framework that utilizes the inputs market participants use to determine the fair value of an asset or liability and establishes a fair value hierarchy to prioritize those inputs. The fair value hierarchy is comprised of three levels that are described below:

Level 1 - Inputs based on quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs based on little or no market activity and that are significant to the fair value of the assets and liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability based on the best information available under the circumstances. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The carrying value of the Company's short-term borrowings is a reasonable estimate of fair value due to the short-term nature of the instruments. The Company measures the fair value of its long-term debt instruments based upon observable market prices quoted on public exchanges for similar assets. These fair value inputs are considered Level 2 within the fair value hierarchy discussed above. The methodologies used by the Company to determine the fair value of its long-term debt instruments at September 30, 2014 are the same as those used at December 31, 2013. There have been no transfers between levels of the fair value hierarchy. The fair value of the Company's debt instruments at September 30, 2014 and December 31, 2013 was \$4.0 billion and \$3.8 billion, respectively.

Guarantees

IR-Ireland, IR-Limited and IR-International fully and unconditionally guarantee the outstanding public debt of IR-Global and IR-New Jersey. IR-Ireland, IR-Limited and IR-New Jersey fully and unconditionally guarantee the outstanding public debt of IR-International. During 2013, IR-Global and IR-International public outstanding indentures were modified to include IR-New Jersey as a co-obligor.

Note 8 – Financial Instruments

In the normal course of business, the Company may use various financial instruments, including derivative instruments, to manage the risks associated with interest rate and currency rate exposures. These financial instruments are not used for trading or speculative purposes.

On the date a derivative contract is entered into, the Company designates the derivative instrument as a cash flow hedge of a forecasted transaction, a cash flow hedge of a recognized asset or liability, or as an undesignated derivative. The Company formally documents its hedge relationships, including identification of the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivative instruments that are designated as hedges to specific assets, liabilities or forecasted transactions.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The fair market value of derivative instruments is determined through market-based valuations and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded.

The Company assesses at inception, and at least quarterly thereafter, whether the derivatives used in cash flow hedging transactions are highly effective in offsetting the changes in the cash flows of the hedged item. To the extent the derivative is deemed to be a highly effective hedge, the fair market value changes of the instrument are recorded to Accumulated other comprehensive income (loss) (AOCI).

Any ineffective portion of a derivative instrument's change in fair value is recorded in Net earnings in the period of change. If the hedging relationship ceases to be highly effective, or it becomes probable that a forecasted transaction is no longer expected to occur, the hedging relationship will be undesignated and any future gains and losses on the derivative instrument will be recorded in Net earnings.

**Currency Hedging Instruments**

The notional amount of the Company's currency derivatives was \$690.2 million and \$1,510.0 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, a loss of \$1.4 million and \$3.1 million, net of tax, respectively, was included in AOCI related to the fair value of the Company's currency derivatives designated as accounting hedges. The amount expected to be reclassified into Net earnings over the next twelve months is a loss of \$1.4 million. The actual amounts that will be reclassified to Net earnings may vary from this amount as a result of changes in market conditions. Gains and losses associated with the Company's currency derivatives not designated as hedges are recorded in Net earnings as changes in fair value occur. At September 30, 2014, the maximum term of the Company's currency derivatives was approximately twelve months.

**Other Derivative Instruments**

In February 2013, the Company entered into forward starting interest rate swaps for \$750.0 million of the forecasted issuance of \$1.2 billion of Senior Notes due in 2023 and 2043. These interest rate swaps met the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair value of the interest rate swaps were recognized in AOCI. No further gain or loss will be recognized in AOCI related to these interest rate swaps as the contracts were terminated upon the June 2013 issuance of the underlying debt. The amount of AOCI associated with these interest rate swaps at the time of termination will be recognized in Interest expense over the term of the notes. At September 30, 2014 and December 31, 2013, \$9.6 million and \$10.1 million respectively, of gains remained in AOCI related to these interest rate swaps. The amount of gain expected to be reclassified into Interest expense over the next twelve months is \$0.7 million.

The Company previously entered into interest rate locks for the forecasted issuance of approximately \$1.7 billion of Senior Notes due in 2013, 2015 and 2018. These interest rate locks met the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair value of the interest rate locks were recognized in AOCI. No further gain or loss will be recognized in AOCI related to these interest rate locks as the contracts were effectively terminated upon issuance of the underlying debt. However, the amount of AOCI associated with these interest rate locks at the time of termination are recognized into Interest expense over the term of the notes. During 2013, the Company repaid \$600.0 million due under the Senior Notes due in 2013, at which time any amounts remaining in AOCI related to such notes were reclassified into Interest expense. At September 30, 2014 and December 31, 2013, \$5.5 million and \$7.4 million, respectively, of losses remained in AOCI related to these interest rate locks. The amount of loss related to the Senior Notes is expected to be reclassified into Interest expense over the next twelve months is \$2.1 million.

The Company measures the fair value of its derivative instruments on a recurring basis based on a pricing model that uses spot rates and forward prices from actively quoted currency markets that are readily accessible and observable. These fair value inputs are considered Level 2 within the fair value hierarchy discussed in Note 7. The methodologies used by the Company to determine the fair value of its derivative instruments at September 30, 2014 are the same as

those used at December 31, 2013. There have been no transfers between levels of the fair value hierarchy.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The fair values of derivative instruments included within the Condensed Consolidated Balance Sheets were as follows:

In millions	Asset derivatives		Liability derivatives	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Derivatives designated as hedges:				
Currency derivatives	\$0.1	\$ 0.1	\$2.0	\$ 3.4
Derivatives not designated as hedges:				
Currency derivatives	0.8	3.1	9.0	13.6
Total derivatives	\$0.9	\$ 3.2	\$11.0	\$ 17.0

Asset and liability derivatives included in the table above are recorded within Other current assets and Accrued expenses and other current liabilities, respectively.

The amounts associated with derivatives designated as hedges affecting Net earnings and AOCI for the three months ended September 30 were as follows:

In millions	Amount of gain (loss) recognized in AOCI		Location of gain (loss) reclassified from AOCI and recognized into Net earnings	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings	
	2014	2013		2014	2013
Currency derivatives - continuing	\$(2.1 )	\$(0.8 )	Cost of goods sold	\$(0.4 )	\$(2.7 )
Currency derivatives - discontinued	—	(0.8 )	Discontinued operations	—	0.4
Interest rate swaps	—	—	Interest expense	0.2	0.2
Interest rate locks	—	—	Interest expense	(0.6 )	(0.6 )
Total	\$(2.1 )	\$(1.6 )		\$(0.8 )	\$(2.7 )

The amounts associated with derivatives not designated as hedges affecting Net earnings for the three months ended September 30 were as follows:

In millions	Location of gain (loss) recognized in Net earnings	Amount of gain (loss) recognized in Net earnings	
		2014	2013
Currency derivatives	Other, net	\$(12.8 )	\$12.7
Total		\$(12.8 )	\$12.7

The following table represents the amounts associated with derivatives designated as hedges affecting Net earnings and AOCI for the nine months ended September 30:

In millions	Amount of gain (loss) recognized in AOCI		Location of gain (loss) reclassified from AOCI and recognized into Net earnings	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings	
	2014	2013		2014	2013
Currency derivatives - continuing	\$(0.5 )	\$(6.9 )	Cost of goods sold	\$(2.0 )	\$(8.5 )
Currency derivatives - discontinued	—	1.1	Discontinued operations	—	0.9
Interest rate swaps	—	10.5	Interest expense	0.6	0.2
Interest rate locks	—	—	Interest expense	(1.9 )	(2.2 )
Total	\$(0.5 )	\$4.7		\$(3.3 )	\$(9.6 )





Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The following table represents the amounts associated with derivatives not designated as hedges affecting Net earnings for the nine months ended September 30:

In millions	Location of gain (loss)	Amount of gain (loss)	
	recognized in Net earnings	recognized in Net earnings	
	Other, net	2014	2013
Currency derivatives		\$(11.1 )	\$(28.3 )
Total		\$(11.1 )	\$(28.3 )

The gains and losses associated with the Company's undesignated currency derivatives are materially offset in Net earnings by changes in the fair value of the underlying transactions.

**Concentration of Credit Risk**

The counterparties to the Company's forward contracts consist of a number of investment grade major international financial institutions. The Company could be exposed to losses in the event of nonperformance by the counterparties. However, the credit ratings and the concentration of risk in these financial institutions are monitored on a continuous basis and present no significant credit risk to the Company.

**Fair Value of Other Financial Instruments**

The carrying value of cash and cash equivalents, accounts receivable and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments. See Note 7 for a discussion of the fair value measurement of the Company's debt instruments.

**Note 9 – Pensions and Postretirement Benefits Other than Pensions**

The Company sponsors several U.S. defined benefit and defined contribution plans covering substantially all of our U.S. employees. Additionally, the Company has many non-U.S. defined benefit and defined contribution plans covering eligible non-U.S. employees. Postretirement benefits other than pensions (OPEB), provide healthcare benefits, and in some instances, life insurance benefits for certain eligible retired employees.

**Pension Plans**

The noncontributory defined benefit pension plans covering non-collectively bargained U.S. employees provide benefits on an average pay formula while most plans for collectively bargained U.S. employees provide benefits on a flat dollar benefit formula. The non-U.S. pension plans generally provide benefits based on earnings and years of service. The Company also maintains additional other supplemental plans for officers and other key employees. In connection with the spin-off, the Company transferred its obligations for pension benefits for all current and former employees of the commercial and residential security businesses to Allegion. The transfer of these obligations reduced our pension liabilities by \$631.1 million, pension assets by \$543.5 million, and accumulated other comprehensive losses by \$164.8 million.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The components of the Company's net periodic pension benefit costs for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Service cost	\$16.6	\$20.2	\$51.2	\$66.3
Interest cost	36.8	39.9	110.7	118.2
Expected return on plan assets	(38.9	) (42.2	) (117.4	) (126.1
Net amortization of:				
Prior service costs	1.3	1.2	3.4	3.6
Plan net actuarial losses	9.2	17.8	27.2	48.8
Net periodic pension benefit cost	25.0	36.9	75.1	110.8
Net curtailment and settlement losses	2.8	—	6.5	—
Net periodic pension benefit cost after net curtailment and settlement losses	\$27.8	\$36.9	\$81.6	\$110.8
Amounts recorded in continuing operations	\$25.9	\$30.7	\$76.1	\$90.1
Amounts recorded in discontinued operations	1.9	6.2	5.5	20.7
Total	\$27.8	\$36.9	\$81.6	\$110.8

The Company made required and discretionary employer contributions of \$93.0 million and \$45.3 million to its defined benefit pension plans during the nine months ended September 30, 2014 and 2013, respectively. The Company currently projects that it will contribute approximately \$116.5 million to its plans worldwide in 2014.

The curtailment and settlement losses in 2014 are associated with lump sum distributions under supplemental benefit plans for officers and other key employees.

**Postretirement Benefits Other Than Pensions**

The Company sponsors several postretirement plans that provide for healthcare benefits, and in some instances, life insurance benefits that cover certain eligible retired employees. The Company funds postretirement benefit obligations principally on a pay as you go basis. Generally, postretirement health benefits are contributory with contributions adjusted annually. Life insurance plans for retirees are primarily noncontributory.

In connection with the spin-off, the Company transferred its obligations for post retirement benefits other than pensions for all current and former employees of the commercial and residential security businesses to Allegion. The transfer of these obligations reduced our post retirement plan liabilities by \$14.1 million and increased our accumulated other comprehensive income by \$5.6 million.

The components of net periodic postretirement benefit cost for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Service cost	\$1.1	\$1.6	\$3.7	\$5.0
Interest cost	6.5	6.0	21.1	19.4
Net amortization of:				
Prior service gains	(2.2	) (2.7	) (6.6	) (7.9
Net actuarial losses	—	(0.1	) —	5.3
Net periodic postretirement benefit cost	\$5.4	\$4.8	\$18.2	\$21.8
Amounts recorded in continuing operations	\$3.7	\$4.4	\$12.1	\$15.0
Amounts recorded in discontinued operations	1.7	0.4	6.1	6.8
Total	\$5.4	\$4.8	\$18.2	\$21.8



Table of Contents

## INGERSOLL-RAND PLC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Note 10 – Equity

The reconciliation of Ordinary shares is as follows:

In millions	Total
December 31, 2013	282.7
Shares issued under incentive plans, net	2.8
Repurchase of ordinary shares	(19.7 )
September 30, 2014	265.8

During the nine months ended September 30, 2014, the Company repurchased 19.7 million shares for \$1,172.9 million as a part of its share repurchase program. These repurchases were accounted for as a reduction of Ordinary shares and Capital in excess of par value, or Retained earnings to the extent Capital in excess of par value was exhausted, as they were canceled upon repurchase.

The components of Equity for the nine months ended September 30, 2014 were as follows:

In millions	IR-Ireland shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2013	\$7,068.9	\$62.4	\$7,131.3
Net earnings	676.2	14.0	690.2
Currency translation	(275.4 )	(0.5 )	(275.9 )
Change in value of derivatives qualifying as cash flow hedges, net of tax	2.4	—	2.4
Pension and OPEB adjustments, net of tax	26.0	—	26.0
Total comprehensive income	429.2	13.5	442.7
Share-based compensation	51.6	—	51.6
Dividends declared to noncontrolling interests	—	(16.3 )	(16.3 )
Dividends declared to ordinary shareholders	(201.8 )	—	(201.8 )
Shares issued under incentive plans, net	99.1	—	99.1
Repurchase of ordinary shares	(1,172.9 )	—	(1,172.9 )
Balance at September 30, 2014	\$6,274.1	\$59.6	\$6,333.7

The components of Equity for the nine months ended September 30, 2013 were as follows:

In millions	IR-Ireland shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2012	\$7,147.8	\$81.5	\$7,229.3
Net earnings	571.1	29.0	600.1
Currency translation	(2.7 )	(2.8 )	(5.5 )
Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax	18.6	—	18.6
Pension and OPEB adjustments, net of tax	32.0	—	32.0
Total comprehensive income	619.0	26.2	645.2
Share-based compensation	53.8	—	53.8
Dividends declared to noncontrolling interests	—	(15.8 )	(15.8 )
Dividends declared to ordinary shareholders	(123.0 )	—	(123.0 )
Shares issued under incentive plans, net	192.3	—	192.3
Repurchase of ordinary shares	(795.2 )	—	(795.2 )
Balance at September 30, 2013	\$7,094.7	\$91.9	\$7,186.6



Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Other Comprehensive Income (Loss)

The changes in Accumulated other comprehensive income (loss) for the nine months ended September 30, 2014 are as follows:

In millions	Cash flow hedges	Pension and OPEB Items	Foreign Currency Items	Total
December 31, 2013	\$0.4	\$(562.8 )	\$395.7	\$(166.7 )
Other comprehensive income before reclassifications	(0.5 )	6.3	(275.4 )	(269.6 )
Amounts reclassified from accumulated other comprehensive income	3.3	30.5	—	33.8
Tax (expense) benefit	(0.4 )	(10.8 )	—	(11.2 )
September 30, 2014	\$2.8	\$(536.8 )	\$120.3	\$(413.7 )

The changes in Accumulated other comprehensive income (loss) for the nine months ended September 30, 2013 are as follows:

In millions	Cash flow hedges and marketable securities	Pension and OPEB Items	Foreign Currency Items	Total
December 31, 2012	\$(1.4 )	\$(964.2 )	\$444.6	\$(521.0 )
Other comprehensive income before reclassifications	9.4	(1.1 )	(2.7 )	5.6
Amounts reclassified from accumulated other comprehensive income	9.6	49.8	—	59.4
Tax (expense) benefit	(0.3 )	(16.7 )	—	(17.0 )
September 30, 2013	\$17.3	\$(932.2 )	\$441.9	\$(473.0 )

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The reclassifications out of Accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2014 were as follows:

In millions	Amount Reclassified from Accumulated Other Comprehensive Income		Statement of Comprehensive Income Line Item
	Three months ended	Nine months ended	
Reclasses below represent (Income) loss to the Statement of Comprehensive Income			
Gains and losses on cash flow hedges:			
Interest rate locks	\$0.6	\$1.9	Interest expense
Interest rate swaps	(0.2	) (0.6	) Interest expense
Foreign exchange contracts	0.4	2.0	Cost of goods sold
	0.8	3.3	Earnings before income taxes
	0.1	(0.4	) Provision for income taxes
	0.9	2.9	Net earnings
Pension and postretirement benefit items:			
Amortization of:			
Prior-service (gains) costs	\$(0.9	) \$(3.2	) (a)
Actuarial (gains) losses	9.2	27.2	(a)
Settlements/curtailments reclassified to earnings	2.8	6.5	(a)
	11.1	30.5	Earnings before income taxes
	(4.3	) (10.8	) Provision for income taxes
	6.8	19.7	Net earnings
Total reclassifications for the period	\$7.7	\$22.6	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost and net periodic postretirement benefit cost (see Note 9 for additional details).



Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The reclassifications out of Accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2013 were as follows:

In millions	Amount Reclassified from Accumulated Other Comprehensive Income		Statement of Comprehensive Income Line Item
	Three months ended	Nine months ended	
Reclasses below represent (Income) loss to the Statement of Comprehensive Income			
Gains and losses on cash flow hedges:			
Interest rate locks	\$0.6	2.2	Interest expense
Interest rate swaps	(0.2	) (0.2	) Interest expense
Foreign exchange contracts - Continuing	2.7	\$8.5	Cost of goods sold
Foreign exchange contracts - Discontinued	(0.4	) (0.9	) Discontinued operations
	2.7	9.6	Earnings before income taxes
	(0.2	) (0.7	) Provision for income taxes
	2.5	8.9	Net earnings
Pension and Postretirement benefit items:			
Amortization of:			
Prior-service (gains) costs	\$(1.5	) \$(4.3	) (a)
Actuarial (gains) losses	17.7	54.1	(a)
	16.2	49.8	Earnings before income taxes
	(5.2	) (16.7	) Provision for income taxes
	11.0	33.1	Net earnings
Total reclassifications for the period	\$13.5	\$42.0	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost and net periodic postretirement benefit cost (see Note 9 for additional details).

## Note 11 – Share-Based Compensation

The Company records share-based compensation awards using a fair value method and recognizes compensation expense for an amount equal to the fair value of the share-based payment issued in its financial statements. The Company's share-based compensation plans include programs for stock options, stock appreciation rights (SARs), restricted stock units (RSUs), performance share units (PSUs) and deferred compensation.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Compensation Expense

Share-based compensation expense relates to continuing operations and is included in Selling and administrative expenses. The expenses recognized for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Stock options	\$3.3	\$4.3	\$13.3	\$17.5
RSUs	5.0	5.5	20.1	21.9
Performance shares	4.9	4.5	19.3	15.8
Deferred compensation	0.3	0.3	1.3	1.2
Other	(0.4	) 0.9	(0.1	) 1.7
Pre-tax expense	13.1	15.5	53.9	58.1
Tax benefit	(5.0	) (5.9	) (20.6	) (22.2
After-tax expense	\$8.1	\$9.6	\$33.3	\$35.9
Amounts recorded in continuing operations	\$8.1	\$8.5	\$33.3	\$32.4
Amounts recorded in discontinued operations	—	1.1	—	3.5
Total	\$8.1	\$9.6	\$33.3	\$35.9

## Stock Options/RSUs

Eligible participants may receive (i) stock options, (ii) RSUs or (iii) a combination of both stock options and RSUs. For the stock options and RSUs granted prior to the spin-off, the number granted and weighted average fair value in the table below reflect historical information. Grants issued during the nine months ended September 30 were as follows:

	2014		2013	
	Number granted	Weighted-average fair value per award	Number granted	Weighted-average fair value per award
Stock options	1,160,057	\$ 14.29	1,338,402	\$ 16.54
RSUs	375,273	\$ 59.83	575,176	\$ 52.92

The fair value of each of the Company's stock option and RSU awards is expensed on a straight-line basis over the required service period, which is generally the 3-year vesting period. However, for stock options and RSUs granted to retirement eligible employees, the Company recognizes expense for the fair value at the grant date. Included within the 2013 grant are 139,649 stock options and 82,833 RSUs related to Allegion employees.

The average fair value of the stock options granted is determined using the Black-Scholes option-pricing model. The following assumptions were used during the nine months ended September 30:

	2014	2013	
Dividend yield	1.67	% 1.60	%
Volatility	31.43	% 42.15	%
Risk-free rate of return	1.46	% 0.85	%
Expected life	4.9 years	5.1 years	

Expected volatility is based on the historical volatility from traded options on the Company's stock. The risk-free rate of return is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Historical data is used to estimate forfeitures within the Company's valuation model. The expected life of the Company's stock option awards is derived from historical experience and represents the period of time that awards are expected to be outstanding.



Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## PSUs

The Company has a Performance Share Program for key employees. The program provides awards in the form of PSUs based on performance against pre-established objectives. The annual target award level is expressed as a number of the Company's ordinary shares. All PSUs are settled in the form of ordinary shares. During the nine months ended September 30, 2014, the Company granted PSUs with a maximum award level of approximately 0.5 million shares.

Awards granted in 2011 are based upon the Company's relative earnings-per-share (EPS) growth as compared to the industrial group of companies in the S&P 500 Index over the three-year performance period.

Awards granted after 2011 are based 50% upon a performance condition, measured at each reporting period by relative EPS growth to the industrial group of companies in the S&P 500 Index and the fair market value of the Company's stock on the date of grant, and 50% upon a market condition, measured by the Company's relative total shareholder return (TSR) as compared to the TSR of the industrial group of companies in the S&P 500 Index over the three-year performance period. The fair value of the market condition is estimated using a Monte Carlo Simulation approach in a risk-neutral framework based upon historical volatility, risk-free rates and correlation matrix.

## Deferred Compensation

The Company allows key employees to defer a portion of their eligible compensation into a number of investment choices, including its ordinary share equivalents. Any amounts invested in ordinary share equivalents will be settled in ordinary shares of the Company at the time of distribution.

## Other Plans

The Company has not granted stock appreciation rights (SARs) since 2006 and does not anticipate additional grants in the future. As of September 30, 2014, there were 66,440 SARs outstanding, all of which are vested and expire 10 years from the date of grant. All SARs exercised are settled with the Company's ordinary shares.

The Company has issued stock grants as an incentive plan to certain key employees, with varying vesting periods. All stock grants are settled with the Company's ordinary shares.

## Note 12 – Restructuring Activities

Restructuring charges recorded during the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Climate	\$0.4	\$2.6	\$4.6	\$23.5
Industrial	0.5	0.3	3.4	5.4
Corporate and Other	0.3	6.4	2.1	9.2
Total	\$1.2	\$9.3	\$10.1	\$38.1
Cost of goods sold	\$0.5	\$0.6	\$2.4	\$12.5
Selling and administrative expenses	0.7	8.7	7.7	25.6
Total	\$1.2	\$9.3	\$10.1	\$38.1

The changes in the restructuring reserve during the nine months ended September 30, 2014 were as follows:

In millions	Climate	Industrial	Corporate and Other	Total
December 31, 2013	\$18.0	\$9.5	\$5.0	\$32.5
Additions, net of reversals	4.6	3.4	2.1	10.1
Cash and non-cash uses	(19.0)	(11.9)	(6.3)	(37.2)
Currency translation	—	—	—	—
September 30, 2014	\$3.6	\$1.0	\$0.8	\$5.4

The 2014 and 2013 charges primarily represent termination benefits to improve the Company's cost structure. As of September 30, 2014, the Company had \$5.4 million accrued for costs associated with its ongoing restructuring

actions, of which a majority will be paid within one year.

21

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Note 13 – Other, Net

The components of Other, net for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Interest income	\$3.0	\$3.6	\$9.4	\$9.5
Exchange gain (loss)	(1.0	) (3.4	) (2.4	) (10.1
Earnings (loss) from equity investments	3.3	1.0	3.7	(1.6
Other	4.3	4.8	9.5	6.3
Other, net	\$9.6	\$6.0	\$20.2	\$4.1

Earnings (loss) from equity investments for the three months ended September 30, 2014 and 2013 represents \$3.3 million and \$1.0 million of income on the Hussmann equity investment, respectively. Earnings (loss) from equity investments for the nine months ended September 30, 2014 and 2013 represents \$3.7 million of income and \$1.6 million of losses on the Hussmann equity investment, respectively. The Company's ownership percentage in Hussmann Parent, an affiliate of private equity firm Clayton Dubilier & Rice, LLC, was 37.2% as of September 30, 2014 and is recorded using the equity method of accounting. The Company's equity investment in the Hussmann Parent is reported within Other noncurrent assets.

Included within Other for the nine months ended September 30, 2014 is a \$6.0 million gain on sale of an investment. In February 2013, the government of Venezuela announced a devaluation of the Bolivar, from the pre-existing official exchange rate of 4.29 Bolivars to the U.S. dollar to 6.3 Bolivars to the U.S. dollar. As a result of the devaluation, the Company realized a foreign currency translation loss of approximately \$3.8 million, which is included in Exchange gain (loss) for the nine months ended September 30, 2013.

## Note 14 – Income Taxes

The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by the Company. In addition, tax authorities periodically review income tax returns filed by the Company and can raise issues regarding its filing positions, timing and amount of income or deductions, and the allocation of income among the jurisdictions in which the Company operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Brazil, Canada, China, France, Germany, Ireland, Italy, Mexico, Switzerland, the Netherlands and the United States. In general, the examination of the Company's material tax returns is complete for the years prior to 2001, with certain matters being resolved through appeals and litigation.

In 2007, the Company received a notice from the IRS containing proposed adjustments to the Company's tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of the Company's reincorporation in Bermuda. The IRS proposed to ignore the entities that hold the intercompany debt incurred in connection with the Company's reincorporation in Bermuda (2001 Debt) and to which the interest was paid and impose 30% withholding tax on a portion of the interest payments as if they were made directly to a company that was not eligible for reduced U.S. withholding tax under a U.S. income tax treaty. The IRS asserted that the Company owed additional taxes with respect to 2002 of approximately \$84 million plus interest. The Company strongly disagreed with the view of the IRS and filed a protest. In 2010, the Company received an amended notice from the IRS assessing penalties of 30% on the asserted underpayment of tax described above.

The Company has so far been unsuccessful in resolving this dispute and in 2013 received a Notice of Deficiency from the IRS for 2002. The Company filed a petition in the United States Tax Court in November 2013 contesting this deficiency. In its January 2014 answer to the Company's petition, the IRS asserted that the Company also owes 30%

withholding tax on the portion of 2002 interest payments made on the 2001 Debt upon which it did not previously assert withholding tax. A 30% withholding tax on this \$85.0 million interest payment would increase the total tax liability proposed for 2002 to \$109.0 million (\$84 million referred to in the paragraph above plus this additional \$25.0 million) plus 30% penalties and interest.

In 2013, the Company received notices from the IRS containing proposed adjustments to the Company's tax filings in connection with an audit of the 2003-2006 tax years. In these notices, the IRS asserts that the Company owes a total of approximately \$665 million of additional taxes, as described more fully below, in connection with the Company's interest payments on the 2001 Debt for the 2003-2006 period, plus penalties and interest on these unpaid taxes.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The IRS continues to take the position on the 2001 Debt, which was retired at the end of 2011, that it previously took for the Company's 2002 tax year and which is described above. As a result of this recharacterization, the IRS asserts that the Company owes approximately \$455.0 million of withholding tax for 2003-2006 plus 30% penalties.

The IRS also proposes to extend its position further and to treat all of the interest income from the 2001 Debt as creating earnings and profits at IR-Limited and, as a result, recharacterize the distributions made by IR-Limited during the 2002-2006 tax years as taxable dividends instead of as a return of capital. Consequently the IRS asserts that the Company owes approximately \$210.0 million of income tax on these dividends plus penalties of 20%.

Although the Company expects it to do so, the IRS has not yet proposed any similar adjustments for years subsequent to 2006, as the federal income tax audits for those years are still in process or have not yet begun. In addition, the Company does not know how the IRS will apply its position to the different facts presented in those years or whether the IRS will take a similar position in future audits with respect to intercompany debt instruments not outstanding in prior years.

The Company has vigorously contested all of these proposed adjustments and intends to continue to do so. Although the outcome of these matters cannot be predicted with certainty, based upon an analysis of the merits of the Company's position, the Company believes that it is adequately reserved under the applicable accounting standards for these matters and does not expect that the ultimate resolution will have a material adverse impact on its future results of operations, financial condition, or cash flows. As the Company moves forward to resolve these matters with the IRS, the reserves established may be adjusted. Although the Company continues to contest the IRS's position, there can be no assurance that it will be successful. If the IRS's position with respect to the 2002-2006 tax years is ultimately sustained, the Company would be required to record additional charges and the resulting liability will have a material adverse impact on its future results of operations, financial condition and cash flows.

The Company believes that it has adequately provided for any reasonably foreseeable resolution of any tax disputes, but will adjust its reserves if events so dictate in accordance with GAAP. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the Provision for income taxes. Total unrecognized tax benefits as of September 30, 2014 and December 31, 2013 were \$361.8 million and \$363.3 million, respectively.

## Note 15 – Discontinued Operations

The components of Discontinued operations, net of tax for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Net revenues	\$—	\$535.3	\$—	\$1,542.9
Pre-tax earnings (loss) from operations	\$(9.8)	\$(9.5)	\$(27.3)	\$134.3
Tax benefit (expense)	2.8	(37.2)	18.7	(91.6)
Discontinued operations, net of tax	\$(7.0)	\$(46.7)	\$(8.6)	\$42.7

Discontinued operations by business for the three and nine months ended September 30 are as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Allegion, net of tax*	\$2.8	\$(44.2)	\$15.6	\$46.9
Other discontinued operations, net of tax	(9.8)	(2.5)	(24.2)	(4.2)
Discontinued operations, net of tax	\$(7.0)	\$(46.7)	\$(8.6)	\$42.7

\* Included in Allegion, net of tax for the three and nine months ended September 30, 2013 are spin costs of \$25.7 million and \$57.7 million, respectively.

Allegion Spin Off



On December 1, 2013, the Company completed the previously announced separation of its commercial and residential security businesses by distributing the related ordinary shares of Allegion, on a pro rata basis, to the Company's shareholders of record as of November 22, 2013. After the Distribution Date, Allegion became an independent publicly traded company.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The results of the Company's commercial and residential security businesses are presented as a discontinued operation on the Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Statement of Cash Flows for all periods presented.

**Other Discontinued Operations**

Other discontinued operations, net of tax from previously sold businesses is mainly related to postretirement benefits, product liability, worker's compensation, legal costs (mostly asbestos-related), and tax effects of post-closing purchase price adjustments.

**Note 16 – Earnings Per Share (EPS)**

Basic EPS is calculated by dividing Net earnings attributable to IR-Ireland by the weighted-average number of ordinary shares outstanding for the applicable period. Diluted EPS is calculated after adjusting the denominator of the basic EPS calculation for the effect of all potentially dilutive ordinary shares, which in the Company's case, includes shares issuable under share-based compensation plans. The following table summarizes the weighted-average number of ordinary shares outstanding for basic and diluted earnings per share calculations for the three and nine months ended September 30:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Weighted-average number of basic shares	267.9	291.6	272.2	295.9
Shares issuable under incentive stock plans	3.7	3.9	3.7	3.9
Weighted-average number of diluted shares	271.6	295.5	275.9	299.8
Anti-dilutive shares	0.9	1.0	1.1	1.1

**Note 17 – Business Segment Information**

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the operating segments' results are prepared on a management basis that is consistent with the manner in which the Company disaggregates financial information for internal review and decision making. The Company largely evaluates performance based on Segment operating income and Segment operating margins. Segment operating income is the measure of profit and loss that the Company's chief operating decision maker uses to evaluate the financial performance of the business and as the basis for performance reviews, compensation and resource allocation. For these reasons, the Company believes that Segment operating income represents the most relevant measure of segment profit and loss. The Company may exclude certain charges or gains from Operating income to arrive at a Segment operating income that is a more meaningful measure of profit and loss upon which to base its operating decisions.

Our Climate segment delivers energy-efficient solutions globally and includes Trane® and American Standard® Heating & Air Conditioning which provide heating, ventilation and air conditioning (HVAC) systems, and commercial and residential building services, parts, support and controls; and Thermo King® transport temperature control solutions.

Our Industrial segment delivers products and services that enhance energy efficiency, productivity and operations. It includes Ingersoll Rand® compressed air systems and services, power tools, material handling systems, ARO® fluid management equipment, as well as Club Car® golf, utility and rough terrain vehicles.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

A summary of operations by reportable segment for the three and nine months ended September 30 was as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Net revenues				
Climate	\$2,644.0	\$2,492.3	\$7,433.8	\$7,086.5
Industrial	741.0	721.9	2,217.1	2,165.1
Total	\$3,385.0	\$3,214.2	\$9,650.9	\$9,251.6
Segment operating income				
Climate	\$377.6	\$323.7	\$897.9	\$725.4
Industrial	108.8	114.8	318.2	336.5
Total	\$486.4	\$438.5	\$1,216.1	\$1,061.9
Reconciliation to Operating income				
Unallocated corporate expense	(46.4	) (59.0	) (157.7	) (174.9
Operating income	\$440.0	\$379.5	\$1,058.4	\$887.0

## Note 18 – Commitments and Contingencies

The Company is involved in various litigations, claims and administrative proceedings, including those related to environmental, asbestos, and product liability matters. Amounts recorded for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additional information when it becomes available. Subject to the uncertainties inherent in estimating future costs for contingent liabilities, except as expressly set forth in this note, management believes that any liability which may result from these legal matters would not have a material adverse effect on the financial condition, results of operations, liquidity or cash flows of the Company.

## Environmental Matters

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

The Company is sometimes a party to environmental lawsuits and claims and has received notices of potential violations of environmental laws and regulations from the Environmental Protection Agency and similar state authorities. It has also been identified as a potentially responsible party (PRP) for cleanup costs associated with off-site waste disposal at federal Superfund and state remediation sites. For all such sites, there are other PRPs and, in most instances, the Company's involvement is minimal.

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

During the three months ended September 30, 2014 and 2013, the Company incurred \$1.8 million and \$(1.2) million of expenses, respectively, for environmental remediation at sites presently or formerly owned or leased by us. For the nine months ended September 30, 2014 and 2013, the Company incurred expenses of \$3.9 million and \$1.7 million, respectively. As of September 30, 2014 and December 31, 2013, the Company has recorded reserves for environmental matters of \$46.5 million and \$47.9 million, respectively. Of these amounts, \$40.5 million and \$42.1 million, respectively, relate to remediation of sites previously disposed by the Company. Environmental reserves are classified as Accrued expenses and other current liabilities or Other noncurrent liabilities based on their expected term. The Company's total current environmental reserve at September 30, 2014 and December 31, 2013 was \$19.8 million and \$13.5 million, respectively. Given the evolving nature of environmental laws, regulations and technology,

the ultimate cost of future compliance is uncertain.

**Asbestos-Related Matters**

Certain wholly-owned subsidiaries of the Company are named as defendants in asbestos-related lawsuits in state and federal courts. In virtually all of the suits, a large number of other companies have also been named as defendants. The vast majority of those claims have been filed against either IR-New Jersey or Trane U.S. Inc. (Trane) and generally allege injury caused by exposure to

25

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

asbestos contained in certain historical products sold by IR-New Jersey or Trane, primarily pumps, boilers and railroad brake shoes. Neither IR-New Jersey nor Trane was a producer or manufacturer of asbestos, however, some formerly manufactured products utilized asbestos-containing components such as gaskets and packings purchased from third-party suppliers.

The Company engages an outside expert to assist in calculating an estimate of the Company's total liability for pending and unasserted future asbestos-related claims and annually performs a detailed analysis with the assistance of an outside expert to update its estimated asbestos-related assets and liabilities. The methodology used to project the Company's total liability for pending and unasserted potential future asbestos-related claims relied upon and included the following factors, among others:

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

At September 30, 2014 and December 31, 2013, over 80% of the open claims against the Company are non-malignancy or non-specified claims, many of which have been placed on inactive or deferral dockets and the vast majority of which have little or no settlement value against the Company, particularly in light of recent changes in the legal and judicial treatment of such claims.

The Company's liability for asbestos-related matters and the asset for probable asbestos-related insurance recoveries were included in the following balance sheet accounts:

In millions	September 30, 2014	December 31, 2013
Accrued expenses and other current liabilities	\$69.1	\$69.1
Other noncurrent liabilities	726.9	777.1
Total asbestos-related liabilities	\$796.0	\$846.2
Other current assets	\$22.0	\$22.3
Other noncurrent assets	286.3	299.5
Total asset for probable asbestos-related insurance recoveries	\$308.3	\$321.8

The Company's asbestos insurance receivable related to IR-New Jersey and Trane was \$129.1 million and \$179.2 million at September 30, 2014, respectively, and \$137.6 million and \$184.2 million at December 31, 2013, respectively.

The (costs) income associated with the settlement and defense of asbestos-related claims after insurance recoveries for the three and nine months ended September 30 were as follows:

Three months ended	Nine months ended
--------------------	-------------------

Edgar Filing: Ingersoll-Rand plc - Form 10-Q

In millions	2014	2013	2014	2013	
Continuing operations	\$3.5	\$4.1	\$2.3	\$(3.6)	)
Discontinued operations	(4.5	) (2.5	) (18.3	) (10.4	)
Total	\$(1.0	) \$1.6	\$(16.0	) \$(14.0	)

26

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

IR-New Jersey records income and expenses associated with its asbestos liabilities and corresponding insurance recoveries within discontinued operations, as they relate to previously divested businesses, primarily Ingersoll-Dresser Pump, which was sold in 2000. Income and expenses associated with Trane's asbestos liabilities and corresponding insurance recoveries are recorded within continuing operations.

Trane has now settled claims regarding asbestos coverage with most of its insurers. The settlements collectively account for approximately 95% of its recorded asbestos-related insurance receivable as of September 30, 2014. Most of Trane's settlement agreements constitute "coverage-in-place" arrangements, in which the insurer signatories agree to reimburse Trane for specified portions of its costs for asbestos bodily injury claims and Trane agrees to certain claims-handling protocols and grants to the insurer signatories certain releases and indemnifications. Trane remains in litigation in an action that Trane filed in November 2010 in the Circuit Court for La Crosse County, Wisconsin, relating to claims for insurance coverage for a subset of Trane's historical asbestos-related liabilities.

In January 2012, IR-New Jersey filed an action in the Superior Court of New Jersey, Middlesex County, seeking a declaratory judgment and other relief regarding the Company's rights to defense and indemnity for asbestos claims. The defendants are several dozen solvent insurance companies, including companies that had been paying a portion of IR-New Jersey's asbestos claim defense and indemnity costs. The action involves IR-New Jersey's unexhausted insurance policies applicable to the asbestos claims that are not subject to any settlement agreement. The responding defendants generally challenged the Company's right to recovery, and raised various coverage defenses. In December 2013, IR-New Jersey filed a similar action in the same court against an insurer that was not a party to the 2012 action. The Company continually monitors the status of pending litigation that could impact the allocation of asbestos claims against the Company's various insurance policies. The Company has concluded that its IR-New Jersey insurance receivable is probable of recovery because of the following factors:

- a review of other companies in circumstances comparable to IR-New Jersey, including Trane, and the success of other companies in recovering under their insurance policies, including Trane's favorable settlement discussed above;
- the Company's confidence in its right to recovery under the terms of its policies and pursuant to applicable law; and
- the Company's history of receiving payments under the IR-New Jersey insurance program, including under policies that had been the subject of prior litigation.

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

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

**Warranty Liability**

Standard product warranty accruals are recorded at the time of sale and are estimated based upon product warranty terms and historical experience. The Company assesses the adequacy of its liabilities and will make adjustments as necessary based on known or anticipated warranty claims, or as new information becomes available.





Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The changes in the standard product warranty liability for the nine months ended September 30 were as follows:

In millions	2014	2013
Balance at beginning of period	\$245.7	\$253.4
Reductions for payments	(113.9)	(122.2)
Accruals for warranties issued during the current period	116.4	115.9
Changes to accruals related to preexisting warranties	10.8	(0.2)
Translation	(3.1)	0.2
Balance at end of period	\$255.9	\$247.1

Standard product warranty liabilities are classified as Accrued expenses and other current liabilities or Other noncurrent liabilities based on their expected term. The Company's total current standard product warranty reserve at September 30, 2014 and December 31, 2013 was \$130.7 million and \$127.9 million, respectively.

The Company's extended warranty liability represents the deferred revenue associated with its extended warranty contracts and is amortized into Revenue on a straight-line basis over the life of the contract, unless another method is more representative of the costs incurred. The Company assesses the adequacy of its liability by evaluating the expected costs under its existing contracts to ensure these expected costs do not exceed the extended warranty liability.

The changes in the extended warranty liability for the nine months ended September 30 were as follows:

In millions	2014	2013
Balance at beginning of period	\$359.1	\$375.1
Amortization of deferred revenue for the period	(77.6)	(78.6)
Additions for extended warranties issued during the period	59.9	66.7
Changes to accruals related to preexisting warranties	(2.4)	3.0
Translation	(1.1)	(0.2)
Balance at end of period	\$337.9	\$366.0

The extended warranty liability is classified as Accrued expenses and other current liabilities or Other noncurrent liabilities based on the timing of when the deferred revenue is expected to be amortized into Revenue. The Company's total current extended warranty liability at September 30, 2014 and December 31, 2013 was \$99.0 million and \$98.5 million, respectively. For the nine months ended September 30, 2014 and 2013, the Company incurred costs of \$50.9 million and \$48.6 million, respectively, related to extended warranties.

**Other**

Trane has commitments and performance guarantees, including energy savings guarantees, totaling \$426.9 million extending from 2014-2033. These guarantees are provided under long-term service and maintenance contracts related to its air conditioning equipment and system controls. Through September 30, 2014, the Company has experienced no significant losses under such arrangements and considers the probability of any significant future losses to be remote.

**Note 19 – Guarantor Financial Information**

Ingersoll-Rand plc, a public limited company incorporated in Ireland in 2009 (IR-Ireland), is the successor to Ingersoll-Rand Company Limited, a Bermuda company (IR-Limited), following a corporate reorganization that became effective on July 1, 2009 (the Ireland Reorganization). IR-Limited is the successor to Ingersoll-Rand Company, a New Jersey corporation (IR-New Jersey), following a corporate reorganization that occurred on December 31, 2001 (the Bermuda Reorganization).

As part of the Bermuda Reorganization, IR-New Jersey and certain of its subsidiaries held non-voting, Class B common shares of IR-Limited. In addition, IR-Limited fully and unconditionally guaranteed all of the issued public debt securities of IR-New Jersey. IR-New Jersey unconditionally guaranteed payment of the principal and interest on IR-Limited's 4.75% Senior Notes due in 2015 in the aggregate principal amount of \$300.0 million. See Note 7 for a discussion of the 2013 financing activities which included the payment in full of the 2014 and 2013 Senior Notes. The

guarantee was unsecured and provided on an unsubordinated basis. The guarantee ranked equally in right of payment with all of the existing and future unsecured and unsubordinated debt of IR-New Jersey. In the fourth quarter of 2013, the Class B common shares were redeemed.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

As part of the Ireland Reorganization, the guarantor financial statements were revised to present IR-Ireland as the ultimate parent company and Ingersoll-Rand International Holding Limited (IR-International) as a stand-alone subsidiary. In addition, the guarantee structure was updated to reflect the newly created legal structure under which (i) IR-International assumed the obligations of IR-Limited as issuer or guarantor, as the case may be, and (ii) IR-Ireland and IR-Limited fully and unconditionally guaranteed the obligations under the various indentures covering the currently outstanding public debt of IR-International, Ingersoll-Rand Global Holding Company Limited (IR-Global), and IR-New Jersey. Neither IR-Ireland nor IR-Limited has issued or intends to issue guarantees in respect of any public indebtedness incurred by Trane. Also as part of the Ireland Reorganization, IR-Limited transferred all the shares of IR-Global to IR-International in exchange for a note payable that initially approximated \$15.0 billion, which was then immediately reduced by the settlement of net intercompany payables of \$4.1 billion. In the fourth quarter of 2013, this note payable was fully repaid by IR-International.

Our current guarantor structure is as follows:

IR-Ireland, IR-Limited and IR-International fully and unconditionally guarantee the outstanding public debt of IR-Global and IR-New Jersey.

IR-Ireland, IR-Limited and IR-New Jersey fully and unconditionally guarantee the outstanding public debt of IR-International.

During 2013, IR-Global and IR-International public outstanding indentures were modified to include IR-New Jersey as a co-obligor.

The condensed consolidating financial statements present the investments of IR-Ireland, IR-Limited, IR-Global, IR-International and IR-New Jersey using the equity method of accounting. Intercompany investments in the non-voting Class B common shares are accounted for on the cost method and are reduced by intercompany dividends. In accordance with GAAP, the amounts related to the issuance of the Class B shares have been recorded as a reduction of Total equity. The Notes payable affiliate continues to be reflected on the Condensed Consolidating Balance Sheet of IR-International and is enforceable in accordance with their terms.

See Note 7 for a further discussion of public debt issuances and related guarantees

The following condensed consolidating financial information for IR-Ireland, IR-Limited, IR-Global, IR-International, and IR-New Jersey, and all their other subsidiaries is included so that separate financial statements of IR-Ireland, IR-Limited, IR-Global, IR-International and IR-New Jersey are not required to be filed with the SEC. IR-Ireland's subsidiary debt issuers and guarantors are directly or indirectly 100% owned by IR-Ireland and the guarantees are full and unconditional and joint and several.

Revisions to Previously Issued Statements of Cash Flows

As discussed in Note 1, the Company has revised its December 31, 2013, 2012 and 2011 consolidated statements of cash flows, and its June 30, 2014; March 31, 2014; September 30, 2013; June 30, 2013; and March 31, 2013 condensed consolidated statements of cash flows, to correct errors in the calculation of the effect of exchange rate changes on cash and cash equivalents. The revisions discussed in Note 1 impact only the Other subsidiaries column of the Condensed Consolidating Statement of Cash Flows for each of the periods noted above. These adjustments were not considered to be material individually or in the aggregate to the previously issued financial statements. The adjustments had no impact on the total net increase (decrease) in cash and cash equivalents, or total cash and cash equivalents amounts in any period.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the three months ended September 30, 2014

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net revenues	\$—	\$—	\$—	\$—	\$250.4	\$3,134.6	\$—	\$3,385.0
Cost of goods sold	—	—	—	—	(165.5)	(2,161.5)	—	(2,327.0)
Selling and administrative expenses	(1.8)	—	—	(0.1)	(103.7)	(512.4)	—	(618.0)
Operating income (loss)	(1.8)	—	—	(0.1)	(18.8)	460.7	—	440.0
Equity earnings (loss) in affiliates, net of tax	297.5	298.9	301.9	140.6	217.3	437.6	(1,693.8)	—
Interest expense	—	—	(4.0)	(32.0)	(12.1)	(4.2)	—	(52.3)
Intercompany interest and fees	(4.6)	(0.8)	(1.0)	0.1	(60.7)	67.0	—	—
Other, net	—	—	—	—	(0.4)	10.0	—	9.6
Earnings (loss) before income taxes	291.1	298.1	296.9	108.6	125.3	971.1	(1,693.8)	397.3
Benefit (provision) for income taxes	0.2	—	—	11.6	25.2	(131.1)	—	(94.1)
Earnings (loss) from continuing operations	291.3	298.1	296.9	120.2	150.5	840.0	(1,693.8)	303.2
Discontinued operations, net of tax	—	—	—	—	(9.6)	2.6	—	(7.0)
Net earnings (loss)	291.3	298.1	296.9	120.2	140.9	842.6	(1,693.8)	296.2
Less: Net earnings attributable to noncontrolling interests	—	—	—	—	—	(4.9)	—	(4.9)
Net earnings (loss) attributable to Ingersoll-Rand plc	\$291.3	\$298.1	\$296.9	\$120.2	\$140.9	\$837.7	\$(1,693.8)	\$291.3
Total comprehensive income (loss)	75.1	81.8	297.2	120.3	144.5	620.8	(1,261.4)	78.3
Less: Total comprehensive (income) loss attributable to noncontrolling interests	—	—	—	—	—	(3.2)	—	(3.2)
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$75.1	\$81.8	\$297.2	\$120.3	\$144.5	\$617.6	\$(1,261.4)	\$75.1

Table of Contents

## INGERSOLL-RAND PLC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the nine months ended September 30, 2014

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net revenues	\$—	\$—	\$ —	\$ —	\$726.4	\$ 8,924.5	\$ —	\$ 9,650.9
Cost of goods sold	—	—	—	—	(450.9 )	(6,270.8 )	—	(6,721.7 )
Selling and administrative expenses	(24.6 )	—	—	(0.5 )	(299.3 )	(1,546.4 )	—	(1,870.8 )
Operating income (loss)	(24.6 )	—	—	(0.5 )	(23.8 )	1,107.3	—	1,058.4
Equity earnings (loss) in affiliates, net of tax	712.8	720.0	732.3	325.2	503.7	1,032.9	(4,026.9 )	—
Interest expense	—	—	(11.9 )	(95.9 )	(36.7 )	(12.8 )	—	(157.3 )
Intercompany interest and fees	(12.7 )	(2.6 )	(8.8 )	(0.9 )	(147.7 )	172.7	—	—
Other, net	0.2	—	3.3	—	13.5	3.2	—	20.2
Earnings (loss) before income taxes	675.7	717.4	714.9	227.9	309.0	2,303.3	(4,026.9 )	921.3
Benefit (provision) for income taxes	0.5	(0.1 )	—	31.1	44.1	(298.1 )	—	(222.5 )
Earnings (loss) from continuing operations	676.2	717.3	714.9	259.0	353.1	2,005.2	(4,026.9 )	698.8
Discontinued operations, net of tax	—	—	—	—	(34.8 )	26.2	—	(8.6 )
Net earnings (loss)	676.2	717.3	714.9	259.0	318.3	2,031.4	(4,026.9 )	690.2
Less: Net earnings attributable to noncontrolling interests	—	—	—	—	—	(14.0 )	—	(14.0 )
Net earnings (loss) attributable to Ingersoll-Rand plc	\$676.2	\$717.3	\$ 714.9	\$ 259.0	\$318.3	\$ 2,017.4	\$ (4,026.9 )	\$ 676.2
Total comprehensive income (loss)	429.2	477.6	715.8	259.3	379.3	1,650.4	(3,468.9 )	442.7
Less: Total comprehensive (income) loss attributable to noncontrolling interests	—	—	—	—	—	(13.5 )	—	(13.5 )
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$429.2	\$477.6	\$ 715.8	\$ 259.3	\$379.3	\$ 1,636.9	\$ (3,468.9 )	\$ 429.2

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the three months ended September 30, 2013

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net revenues	\$—	\$—	\$ —	\$ —	\$236.3	\$ 2,977.9	\$ —	\$ 3,214.2
Cost of goods sold	—	—	—	—	(138.2 )	(2,079.5 )	—	(2,217.7 )
Selling and administrative expenses	(10.7 )	—	—	(0.2 )	(104.8 )	(501.3 )	—	(617.0 )
Operating income (loss)	(10.7 )	—	—	(0.2 )	(6.7 )	397.1	—	379.5
Equity earnings (loss) in affiliates, net of tax	177.7	177.8	192.0	280.1	9.1	166.5	(1,003.2 )	—
Interest expense	—	—	(4.0 )	(82.9 )	(12.3 )	(3.6 )	—	(102.8 )
Intercompany interest and fees	(3.6 )	—	(8.0 )	(8.1 )	(1.1 )	20.8	—	—
Other, net	0.8	—	0.5	—	27.9	(13.7 )	(9.5 )	6.0
Earnings (loss) before income taxes	164.2	177.8	180.5	188.9	16.9	567.1	(1,012.7 )	282.7
Benefit (provision) for income taxes	1.7	—	—	—	(0.9 )	(55.9 )	—	(55.1 )
Earnings (loss) from continuing operations	165.9	177.8	180.5	188.9	16.0	511.2	(1,012.7 )	227.6
Discontinued operations, net of tax	—	—	—	—	(29.9 )	(16.8 )	—	(46.7 )
Net earnings (loss)	165.9	177.8	180.5	188.9	(13.9 )	494.4	(1,012.7 )	180.9
Less: Net earnings attributable to noncontrolling interests	—	—	—	—	—	(24.5 )	9.5	(15.0 )
Net earnings (loss) attributable to Ingersoll-Rand plc	\$ 165.9	\$ 177.8	\$ 180.5	\$ 188.9	\$ (13.9 )	\$ 469.9	\$ (1,003.2 )	\$ 165.9
Total comprehensive income (loss)	291.5	303.3	180.9	189.0	(9.4 )	620.3	(1,264.0 )	311.6
Less: Total comprehensive (income) loss attributable to noncontrolling interests	—	—	—	—	—	(29.6 )	9.5	(20.1 )
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$ 291.5	\$ 303.3	\$ 180.9	\$ 189.0	\$ (9.4 )	\$ 590.7	\$ (1,254.5 )	\$ 291.5

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the nine months ended September 30, 2013

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net revenues	\$—	\$—	\$—	\$—	\$698.3	\$8,553.3	\$—	\$9,251.6
Cost of goods sold	—	—	—	—	(421.4)	(6,086.2)	—	(6,507.6)
Selling and administrative expenses	(19.0)	—	—	(0.7)	(289.6)	(1,547.7)	—	(1,857.0)
Operating income (loss)	(19.0)	—	—	(0.7)	(12.7)	919.4	—	887.0
Equity earnings (loss) in affiliates, net of tax	595.2	595.3	639.0	819.9	119.3	643.6	(3,412.3)	—
Interest expense	—	—	(11.9)	(164.3)	(37.1)	(12.1)	—	(225.4)
Intercompany interest and fees	(9.9)	—	(25.3)	(26.8)	(1.8)	63.8	—	—
Other, net	1.3	—	1.8	0.8	25.1	(0.9)	(24.0)	4.1
Earnings (loss) before income taxes	567.6	595.3	603.6	628.9	92.8	1,613.8	(3,436.3)	665.7
Benefit (provision) for income taxes	3.5	—	—	—	34.2	(146.0)	—	(108.3)
Earnings (loss) from continuing operations	571.1	595.3	603.6	628.9	127.0	1,467.8	(3,436.3)	557.4
Discontinued operations, net of tax	—	—	—	—	(87.1)	129.8	—	42.7
Net earnings (loss)	571.1	595.3	603.6	628.9	39.9	1,597.6	(3,436.3)	600.1
Less: Net earnings attributable to noncontrolling interests	—	—	—	—	—	(53.0)	24.0	(29.0)
Net earnings (loss) attributable to Ingersoll-Rand plc	\$571.1	\$595.3	\$603.6	\$628.9	\$39.9	\$1,544.6	\$(3,412.3)	\$571.1
Total comprehensive income (loss)	619.0	642.8	604.6	640.5	55.1	1,619.2	(3,536.0)	645.2
Less: Total comprehensive (income) loss attributable to noncontrolling interests	—	—	—	—	2.5	(52.7)	24.0	(26.2)
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$619.0	\$642.8	\$604.6	\$640.5	\$57.6	\$1,566.5	\$(3,512.0)	\$619.0

Table of Contents

## INGERSOLL-RAND PLC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

September 30, 2014

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
<b>Current assets:</b>								
Cash and cash equivalents	\$—	\$—	\$—	\$6.3	\$0.8	\$929.6	\$—	\$936.7
Accounts and notes receivable, net	—	—	—	—	142.4	2,160.2	—	2,302.6
Inventories	—	—	—	—	92.5	1,326.5	—	1,419.0
Other current assets	0.2	0.1	—	6.6	113.3	391.6	—	511.8
Accounts and notes receivable affiliates	82.8	310.9	8,234.1	300.0	4,706.7	20,333.4	(33,967.9 )	—
<b>Total current assets</b>	<b>83.0</b>	<b>311.0</b>	<b>8,234.1</b>	<b>312.9</b>	<b>5,055.7</b>	<b>25,141.3</b>	<b>(33,967.9 )</b>	<b>5,170.1</b>
Investment in affiliates	9,836.7	13,026.6	3,852.8	9,288.8	15,158.7	7,125.4	(58,289.0 )	—
Property, plant and equipment, net	—	—	—	—	309.7	1,156.0	—	1,465.7
Intangible assets, net	—	—	—	—	65.6	9,200.8	—	9,266.4
Other noncurrent assets	0.5	—	0.1	195.1	642.0	650.7	(525.0 )	963.4
<b>Total assets</b>	<b>\$9,920.2</b>	<b>\$13,337.6</b>	<b>\$12,087.0</b>	<b>\$9,796.8</b>	<b>\$21,231.7</b>	<b>\$43,274.2</b>	<b>\$(92,781.9)</b>	<b>\$16,865.6</b>
<b>Current liabilities:</b>								
Accounts payable and accruals	\$8.6	\$—	\$5.4	\$25.7	\$469.7	\$2,739.6	\$—	\$3,249.0
Short-term borrowings and current maturities of long-term debt	—	—	299.9	—	350.5	230.6	—	881.0
Accounts and note payable affiliates	3,637.5	749.9	696.0	409.8	14,262.9	14,211.4	(33,967.5 )	—
<b>Total current liabilities</b>	<b>3,646.1</b>	<b>749.9</b>	<b>1,001.3</b>	<b>435.5</b>	<b>15,083.1</b>	<b>17,181.6</b>	<b>(33,967.5 )</b>	<b>4,130.0</b>
Long-term debt	—	—	—	2,296.0	349.7	0.9	—	2,646.6
Other noncurrent liabilities	—	—	3.8	2.0	1,260.1	3,014.4	(525.0 )	3,755.3
<b>Total liabilities</b>	<b>3,646.1</b>	<b>749.9</b>	<b>1,005.1</b>	<b>2,733.5</b>	<b>16,692.9</b>	<b>20,196.9</b>	<b>(34,492.5 )</b>	<b>10,531.9</b>
<b>Equity:</b>								
<b>Total equity</b>	<b>6,274.1</b>	<b>12,587.7</b>	<b>11,081.9</b>	<b>7,063.3</b>	<b>4,538.8</b>	<b>23,077.3</b>	<b>(58,289.4 )</b>	<b>6,333.7</b>
<b>Total liabilities and equity</b>	<b>\$9,920.2</b>	<b>\$13,337.6</b>	<b>\$12,087.0</b>	<b>\$9,796.8</b>	<b>\$21,231.7</b>	<b>\$43,274.2</b>	<b>\$(92,781.9)</b>	<b>\$16,865.6</b>



Table of Contents

## INGERSOLL-RAND PLC

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Balance Sheet

December 31, 2013

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
<b>Current assets:</b>								
Cash and cash equivalents	\$—	\$—	\$—	\$975.3	\$59.6	\$902.3	\$—	\$1,937.2
Accounts and notes receivable, net	—	—	—	—	149.4	1,922.1	—	2,071.5
Inventories	—	—	—	—	70.5	1,095.6	—	1,166.1
Other current assets	0.1	—	—	0.2	127.6	414.0	—	541.9
Accounts and notes receivable affiliates	1,086.9	309.6	2.3	1,496.6	11,683.7	27,616.6	(42,195.7)	—
<b>Total current assets</b>	<b>1,087.0</b>	<b>309.6</b>	<b>2.3</b>	<b>2,472.1</b>	<b>12,090.8</b>	<b>31,950.6</b>	<b>(42,195.7)</b>	<b>5,716.7</b>
Investment in affiliates	8,697.8	13,696.0	11,339.0	7,144.5	15,923.4	42,714.1	(99,514.8)	—
Property, plant and equipment, net	—	—	—	—	293.3	1,175.1	—	1,468.4
Intangible assets, net	—	—	—	—	85.7	9,376.9	—	9,462.6
Other noncurrent assets	—	(4.3)	0.3	18.8	298.2	697.4	—	1,010.4
<b>Total assets</b>	<b>\$9,784.8</b>	<b>\$14,001.3</b>	<b>\$11,341.6</b>	<b>\$9,635.4</b>	<b>\$28,691.4</b>	<b>\$85,914.1</b>	<b>\$(141,710.5)</b>	<b>\$17,658.1</b>
<b>Current liabilities:</b>								
Accounts payable and accruals	\$30.6	\$—	\$12.1	\$27.5	\$440.8	\$2,529.9	\$—	\$3,040.9
Short-term borrowings and current maturities of long-term debt	—	—	—	—	350.5	17.2	—	367.7
Accounts and note payable affiliates	2,685.3	3,780.6	4,803.3	5,982.2	16,217.4	8,809.0	(42,277.8)	—
<b>Total current liabilities</b>	<b>2,715.9</b>	<b>3,780.6</b>	<b>4,815.4</b>	<b>6,009.7</b>	<b>17,008.7</b>	<b>11,356.1</b>	<b>(42,277.8)</b>	<b>3,408.6</b>
Long-term debt	—	—	299.8	2,295.7	357.2	200.8	—	3,153.5
Other noncurrent liabilities	—	—	3.8	—	877.3	3,083.6	—	3,964.7
<b>Total liabilities</b>	<b>2,715.9</b>	<b>3,780.6</b>	<b>5,119.0</b>	<b>8,305.4</b>	<b>18,243.2</b>	<b>14,640.5</b>	<b>(42,277.8)</b>	<b>10,526.8</b>
<b>Equity:</b>								
<b>Total equity</b>	<b>7,068.9</b>	<b>10,220.7</b>	<b>6,222.6</b>	<b>1,330.0</b>	<b>10,448.2</b>	<b>71,273.6</b>	<b>(99,432.7)</b>	<b>7,131.3</b>
<b>Total liabilities and equity</b>	<b>\$9,784.8</b>	<b>\$14,001.3</b>	<b>\$11,341.6</b>	<b>\$9,635.4</b>	<b>\$28,691.4</b>	<b>\$85,914.1</b>	<b>\$(141,710.5)</b>	<b>\$17,658.1</b>

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2014

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net cash provided by (used in) continuing operating activities	\$(24.3)	\$—	\$ (8.6 )	\$ (96.4 )	\$ 58.6	\$ 1,555.6	\$ (927.2 )	\$ 557.7
Net cash provided by (used in) discontinued operating activities	—	—	—	—	(74.4 )	14.3	—	(60.1 )
Net cash provided by (used in) operating activities	(24.3 )	—	(8.6 )	(96.4 )	(15.8 )	1,569.9	(927.2 )	497.6
Cash flows from investing activities:								
Capital expenditures	—	—	—	—	(60.3 )	(90.4 )	—	(150.7 )
Acquisition of businesses, net of cash acquired	—	—	—	—	—	(9.3 )	—	(9.3 )
Proceeds from sale of property, plant and equipment	—	—	—	—	1.5	5.1	—	6.6
Proceeds from business disposition, net of cash	—	—	—	—	—	2.1	—	2.1
Cash dividends from (Investment in) equity companies	—	—	—	—	—	30.3	—	30.3
Net cash provided by (used in) continuing investing activities	—	—	—	—	(58.8 )	(62.2 )	—	(121.0 )
Net cash provided by (used in) discontinued investing activities	—	—	—	—	—	—	—	—
Net cash provided by (used in) investing activities	—	—	—	—	(58.8 )	(62.2 )	—	(121.0 )
Cash flows from financing activities:								
Net proceeds (repayments) in debt	—	—	—	—	(7.5 )	11.5	—	4.0
Net inter-company proceeds (payments)	1,297.4	—	8.6	(870.0 )	757.4	(1,193.4 )	—	—
Dividends paid to ordinary shareholders	(199.2 )	—	—	—	(734.1)	(193.1 )	927.2	(199.2 )
Dividends paid to noncontrolling interests	—	—	—	—	—	(16.3 )	—	(16.3 )
Proceeds from shares issued under incentive plans	32.3	—	—	—	—	—	—	32.3
Repurchase of ordinary shares	(1,172.9)	—	—	—	—	—	—	(1,172.9 )
Other, net	66.7	—	—	(2.6 )	—	—	—	64.1
Net cash provided by (used in) continuing financing activities	24.3	—	8.6	(872.6 )	15.8	(1,391.3 )	927.2	(1,288.0 )
Net cash provided by (used in) discontinued financing activities	—	—	—	—	—	—	—	—

Edgar Filing: Ingersoll-Rand plc - Form 10-Q

Net cash provided by (used in) financing activities	24.3	—	8.6	(872.6 )	15.8	(1,391.3 )	927.2	(1,288.0 )
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—	—	(89.1 )	—	(89.1 )
Net increase (decrease) in cash and cash equivalents	—	—	—	(969.0 )	(58.8 )	27.3	—	(1,000.5 )
Cash and cash equivalents - beginning of period	—	—	—	975.3	59.6	902.3	—	1,937.2
Cash and cash equivalents - end of period	\$—	\$—	\$—	\$ 6.3	\$ 0.8	\$ 929.6	\$ —	\$ 936.7

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2013

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net cash provided by (used in) continuing operating activities	\$(17.7)	\$—	\$ (10.1 )	\$(164.2)	\$(12.5)	\$ 871.1	\$ (5.1 )	\$ 661.5
Net cash provided by (used in) discontinued operating activities	—	—	—	—	(87.2 )	307.7	—	220.5
Net cash provided by (used in) operating activities	(17.7 )	—	(10.1 )	(164.2 )	(99.7 )	1,178.8	(5.1 )	882.0
Cash flows from investing activities:								
Capital expenditures	—	—	—	—	(50.1 )	(125.4 )	—	(175.5 )
Proceeds from sale of property, plant and equipment	—	—	—	—	0.5	6.7	—	7.2
Proceeds from business disposition, net of cash sold	—	—	—	—	—	4.7	—	4.7
Net cash provided by (used in) continuing investing activities	—	—	—	—	(49.6 )	(114.0 )	—	(163.6 )
Net cash provided by (used in) discontinued investing activities	—	—	—	—	—	13.1	—	13.1
Net cash provided by (used in) investing activities	—	—	—	—	(49.6 )	(100.9 )	—	(150.5 )
Cash flows from financing activities:								
Net proceeds (repayments) in debt	—	—	—	291.2	(7.5 )	11.8	—	295.5
Debt issuance costs	—	—	—	—	—	—	—	—
Net inter-company proceeds (payments)	803.5	—	10.1	(174.9 )	196.8	(835.5 )	—	—
Dividends paid to ordinary shareholders	(183.0)	—	—	—	—	(5.1 )	5.1	(183.0 )
Dividends paid to noncontrolling interests	—	—	—	—	—	(10.7 )	—	(10.7 )
Proceeds from shares issued under incentive plans	192.4	—	—	—	—	—	—	192.4
Repurchase of ordinary shares	(795.2)	—	—	—	—	—	—	(795.2 )
Other, net	—	—	—	(13.2 )	—	—	—	(13.2 )
Net cash provided by (used in) continuing financing activities	17.7	—	10.1	103.1	189.3	(839.5 )	5.1	(514.2 )
Net cash provided by (used in) discontinued financing activities	—	—	—	—	—	(8.1 )	—	(8.1 )
Net cash provided by (used in) financing activities	17.7	—	10.1	103.1	189.3	(847.6 )	5.1	(522.3 )
	—	—	—	—	—	(7.4 )	—	(7.4 )

Edgar Filing: Ingersoll-Rand plc - Form 10-Q

Effect of exchange rate changes on  
cash and cash equivalents

Net increase (decrease) in cash and cash equivalents	—	—	—	(61.1	) 40.0	222.9	—	201.8
Cash and cash equivalents - beginning of period	—	—	—	61.9	59.1	587.4	—	708.4
Cash and cash equivalents - end of period	\$—	\$—	\$ —	\$ 0.8	\$ 99.1	\$ 810.3	\$ —	\$ 910.2

37

---

Table of Contents

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under Part II, Item 1A – Risk Factors in this Quarterly Report on Form 10-Q; and under Part I, Item 1A – Risk Factors in the Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Quarterly Report.

Overview

Organizational

Ingersoll-Rand plc (IR-Ireland), a public limited company incorporated in Ireland in 2009, and its consolidated subsidiaries (collectively, we, our, the Company) is a diversified, global company that provides products, services and solutions to enhance the quality and comfort of air in homes and buildings, transport and protect food and perishables and increase industrial productivity and efficiency. Our business segments consist of Climate and Industrial, both with strong brands and leading positions within their respective markets. We generate revenue and cash primarily through the design, manufacture, sale and service of a diverse portfolio of industrial and commercial products that include well-recognized, premium brand names such as Ingersoll-Rand®, Trane®, Thermo King®, American Standard® and Club Car®.

To achieve our mission of being a world leader in creating comfortable, sustainable and efficient environments, we continue to focus on increasing our recurring revenue stream from parts, service, used equipment and rentals; and to continuously improve the efficiencies and capabilities of the products and services of our high-potential businesses. Additional emphasis is placed on expanding market coverage in terms of geography or by taking advantage of a particular vertical market or opportunity. We also continue to focus on operational excellence strategies as a central theme to improving our earnings and cash flows.

Trends and Economic Events

We are a global corporation with worldwide operations. As a global business, our operations are affected by worldwide, regional and industry-specific economic factors, as well as political factors, wherever we operate or do business. Our geographic and industry diversity, as well as the diversity of our product sales and services, has helped mitigate the impact of any one industry or the economy of any single country on our consolidated operating results. Given the broad range of products manufactured and geographic markets served, management uses a variety of factors to predict the outlook for the Company. We monitor key competitors and customers in order to gauge relative performance and the outlook for the future. In addition, our order rates are indicative of future revenue and thus a key measure of anticipated performance. In those industry segments where we are a capital equipment provider, revenues depend on the capital expenditure budgets and spending patterns of our customers, who may delay or accelerate purchases in reaction to changes in their businesses and in the economy.

Current market conditions, including challenges in international markets, continue to impact our financial results. Uneven global commercial new construction activity is impacting the results of our commercial Heating, Ventilation and Air Conditioning (HVAC) business. However, we believe certain segments of the commercial HVAC equipment replacement and aftermarket are recovering. We have seen slower worldwide industrial equipment and aftermarket activity. While U.S. residential and consumer markets continue to be a challenge, we continue to see improvements in the U.S. new builder and replacement markets. As economic conditions stabilize, we expect moderate growth in worldwide construction markets and slow growth in industrial markets, along with benefits from productivity programs for the remainder of the year.

Despite the current market environment, we believe we have a solid foundation of global brands and leading market shares in all of our major product lines. Our growing geographic and industry diversity coupled with our large installed product base provides growth opportunities within our service, parts and replacement revenue streams. In addition, we are investing substantial resources to innovate and develop new products and services which we expect will drive our future growth.

Recent Developments

Cameron International Corporation's Centrifugal Compression Division Acquisition

On August 18, 2014, we announced an agreement to acquire the assets of Cameron International Corporation's Centrifugal Compression division (the Division) for \$850 million, which we expect to be funded through a combination of cash and debt. The Division provides centrifugal compression equipment and aftermarket parts and services for global industrial applications, air separation, gas transmission and process. The acquisition, which is subject to regulatory approval, is expected to close in the fourth quarter of 2014.

## Table of Contents

### Allegion Spin-Off

On December 1, 2013 (the Distribution Date), we completed the spin-off of our commercial and residential security businesses to our shareholders (the spin-off). After the Distribution Date, Allegion became an independent public company trading under the symbol “ALLE” on the New York Stock Exchange.

Allegion's historical financial results for periods prior to the Distribution Date are reflected in our Consolidated Financial Statements as a discontinued operation.

See “Discontinued Operations and Divestitures” within Management's Discussion and Analysis of Financial Condition and Results of Operations and also Note 15 to the condensed consolidated financial statements for a further discussion of our discontinued operations.

In connection with the spin-off of Allegion, the Company and Allegion entered into several agreements covering administrative and tax matters to provide or obtain services on a transitional basis, as needed, for varying periods after the spin-off. The administrative agreements cover various services such as information technology, human resources and finance. We expect all services to be substantially complete within one year after the spin-off.

During the three and nine months ended September 30, 2013, the Company incurred \$25.7 million and \$57.7 million, respectively, of professional service fees related to the proposed spin-off. These costs are reported in Selling and administrative expenses in the Condensed Consolidated Statements of Comprehensive Income. See Note 12 for a discussion of restructuring activities.

### IRS Exam Results

In 2007, we received a notice from the IRS containing proposed adjustments to our tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of our reincorporation in Bermuda. The IRS proposed to ignore the entities that hold the intercompany debt incurred in connection with our reincorporation in Bermuda (the “2001 Debt”) and to which the interest was paid and impose 30% withholding tax on a portion of the interest payments as if they were made directly to a company that was not eligible for reduced U.S. withholding tax under a U.S. income tax treaty. The IRS asserted that we owe additional taxes with respect to 2002 of approximately \$84.0 million plus interest. We strongly disagreed with the view of the IRS and filed a protest. In 2010, we received an amended notice from the IRS assessing penalties of 30% on the asserted underpayment of tax described above. We have so far been unsuccessful in resolving this dispute and in 2013 received a Notice of Deficiency from the IRS for 2002. We filed a petition in the United States Tax Court in November 2013 contesting this deficiency. In its January 2014 answer to our petition, the IRS asserted that we also owe 30% withholding tax on the portion of 2002 interest payments made on the 2001 Debt upon which it did not previously assert withholding tax. A 30% withholding tax on this \$85.0 million interest payment would increase the total tax liability proposed for 2002 to \$109.0 million (\$84.0 million referred to in the paragraph above plus this additional \$25.0 million) plus 30% penalties and interest. In 2013, we received notices from the IRS containing proposed adjustments to our tax filings in connection with an audit of the 2003-2006 tax years. In these notices, the IRS asserts that we owe a total of approximately \$665.0 million of additional taxes, as described more fully below, in connection with our interest payments on the 2001 Debt for the 2003-2006 period, plus penalties and interest on these unpaid taxes.

The IRS continues to take the position on the 2001 Debt, which was retired at the end of 2011, that it previously took for our 2002 tax year and which is described above. As a result of this recharacterization, the IRS asserts that we owe approximately \$455.0 million of withholding tax for 2003-2006 plus 30% penalties.

The IRS also proposes to extend its position further and to treat all of the interest income from the 2001 Debt as creating earnings and profits at IR-Limited and, as a result, recharacterize the distributions made by IR-Limited during the 2002-2006 tax years as taxable dividends instead of as a return of capital. Consequently the IRS asserts that we owe approximately \$210.0 million of income tax on these dividends plus penalties of 20%.

Although we expect it to do so, the IRS has not yet proposed any similar adjustments for years subsequent to 2006, as the federal income tax audits for those years are still in process or have not yet begun. In addition, we do not know how the IRS will apply its position to the different facts presented in those years or whether the IRS will take a similar position in future audits with respect to intercompany debt instruments not outstanding in prior years.



We have vigorously contested all of these proposed adjustments and intend to continue to do so. Although the outcome of these matters cannot be predicted with certainty, based upon an analysis of the merits of our position, we believe that we are adequately reserved under the applicable accounting standards for these matters and do not expect that the ultimate resolution will have a material adverse impact on our future results of operations, financial condition, or cash flows. As we move forward to resolve these matters with the IRS, the reserves established may be adjusted. Although we continue to contest the IRS's position, there

Table of Contents

can be no assurance that we will be successful. If the IRS's position with respect to the 2002-2006 tax years is ultimately sustained, we would be required to record additional charges and the resulting liability will have a material adverse impact on our future results of operations, financial condition and cash flows.

**2014 Dividend Increase and Share Repurchase Program**

In February 2014, we announced an increase in our quarterly share dividend from \$0.21 to \$0.25 per share beginning with our March 2014 payment.

In February 2014, our Board of Directors authorized the repurchase of up to \$1.5 billion of our ordinary shares under a new share repurchase program upon completion of the current share repurchase program. The new share repurchase program began in April 2014. Share repurchases will be made from time to time at the discretion of management subject to market conditions, regulatory requirements and other considerations. During the nine months ended September 30, 2014, we repurchased 19.7 million shares for \$1,172.9 million, of which 6.4 million shares for \$381.5 million were under the 2014 program. These repurchases were accounted for as a reduction of Ordinary shares and Capital in excess of par value, or Retained earnings to the extent Capital in excess of par value was exhausted, as they were canceled upon repurchase.

**2013 Share Repurchase Program**

In December 2012, our Board of Directors authorized the repurchase of up to \$2.0 billion of our ordinary shares under a share repurchase program. The share repurchase program was started in April 2013 and was completed in April 2014. During the year ended December 31, 2013, we repurchased 20.8 million shares for approximately \$1.2 billion. These repurchases were accounted for as a reduction of Ordinary shares and Capital in excess of par value as they were canceled upon repurchase.

**Senior Notes due 2019, 2023, and 2043**

In June 2013, we issued \$1.55 billion principal amount of Senior Notes in three tranches through our wholly-owned subsidiary, Ingersoll-Rand Global Holding Company Limited (IR-Global) pursuant to Rule 144A of the U.S. Securities Act of 1933 (Securities Act). The tranches consist of \$350 million of 2.875% Senior Notes due in 2019, \$700 million of 4.250% Senior Notes due in 2023, and \$500 million of 5.750% Senior Notes due in 2043. The notes were fully and unconditionally guaranteed by each of IR-Ireland, Ingersoll-Rand Company Limited (IR-Limited), and Ingersoll-Rand International Holding Limited (IR-International). Ingersoll-Rand Company (IR-New Jersey) became a co-obligor of the notes in December 2013. Interest on the notes is paid twice a year in arrears. We have the option to redeem the notes in whole or in part at any time, and from time to time, prior to their stated maturity date at redemption prices set forth in the indenture agreement. The notes are subject to certain customary covenants, however, none of these covenants are considered restrictive to our operations. In connection with the issuance of each series of notes, IR-Global, the Guarantors and the initial purchasers of the notes entered into a Registration Rights Agreement. Each Registration Rights Agreement requires IR-Global and the Guarantors to use their commercially reasonable efforts to execute an effective exchange offer registration statement with the SEC no later than 365 days after the closing date of the notes offering and to complete an exchange offer within 30 business days of such effective date. The proceeds from these notes were used to fund the July 2013 redemption of \$600 million of 6.000% Senior Notes due 2013 and \$655 million of 9.500% Senior Notes due 2014 and to fund expenses related to the spin-off of the commercial and residential security businesses, with any remaining proceeds to be used for general corporate purposes.

On April 25, 2014, we filed our exchange offer registration statement with the SEC, which became effective on May 13, 2014, and in June 2014, we completed our offer to exchange the notes for registered notes having terms identical in all material respects to the private notes, except that the registered notes do not contain terms with respect to transfer restrictions, registration rights or additional interest for failure to observe certain obligations in the applicable registration rights agreement.

**Venezuela Devaluation**

In February 2013, the government of Venezuela announced a devaluation of the Bolivar, from the pre-existing official exchange rate obtained through the National Center of Foreign Trade (CENCOEX, formerly CADIVI through April 2014) of 4.29 Bolivars to the U.S. dollar to 6.3 Bolivars to the U.S. dollar. We have one subsidiary with operations in Venezuela. Due to the designation of Venezuela as highly inflationary the U.S. dollar was determined to be the

functional currency for this subsidiary. As a result of the devaluation, we realized a foreign currency translation loss of approximately \$3.8 million during the nine months ended September 30, 2013.

In January 2014, the Venezuelan government significantly expanded the use of the Supplementary Foreign Currency Administration System (SICAD) I exchange market and created a third exchange market called SICAD II. These markets have exchange rates significantly less favorable than the CENCOEX rate. The Venezuelan government also indicated that the CENCOEX rate will be reserved for purchases of “essential goods and services.”

The financial position and results of our Venezuelan subsidiary as of September 30, 2014, are reflected in USD utilizing at the CENCOEX rate and not the September 30, 2014 SICAD I (12.0 Bolivars to \$1.00) or SICAD II (49.98 Bolivars to \$1.00) rates

Table of Contents

due to our belief that our imports will continue to qualify for the CENCOEX rate and our intent to continue to pursue this rate for future exchanges.

As of September 30, 2014, we had net monetary assets of approximately 239.1 million Bolivars. For 2013, annual net revenues of our Venezuela subsidiary were approximately 247.8 million Bolivars. Further devaluation of the Bolivar, or our inability to convert our net monetary assets denominated in bolivars into US Dollars at certain of the exchange rates discussed above, could negatively impact our results of operations, financial condition, or cash flows. For additional information, refer to the “Risk Factors” discussion contained in our Annual Report on Form 10-K for the period ended December 31, 2013.

Table of Contents

## Results of Operations – Three Months Ended September 30

In millions, except per share amounts	2014	% of revenues	2013	% of revenues
Net revenues	\$3,385.0		\$3,214.2	
Cost of goods sold	(2,327.0)	) 68.7	% (2,217.7)	) 69.0 %
Selling and administrative expenses	(618.0)	) 18.3	% (617.0)	) 19.2 %
Operating income	440.0	13.0	% 379.5	11.8 %
Interest expense	(52.3)	)	(102.8)	)
Other, net	9.6		6.0	
Earnings before income taxes	397.3		282.7	
Provision for income taxes	(94.1)	)	(55.1)	)
Earnings from continuing operations	303.2		227.6	
Discontinued operations, net of tax	(7.0)	)	(46.7)	)
Net earnings	296.2		180.9	
Less: Net earnings attributable to noncontrolling interests	(4.9)	)	(15.0)	)
Net earnings attributable to Ingersoll-Rand plc	\$291.3		\$165.9	
Diluted net earnings (loss) per ordinary share attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	\$1.10		\$0.75	
Discontinued operations	(0.03)	)	(0.19)	)
Net earnings	\$1.07		\$0.56	

The discussions that follow describe the significant factors contributing to the changes in our results of operations for the periods presented.

## Net Revenues

Net revenues for the three months ended September 30, 2014 increased by 5.3%, or \$170.8 million, compared with the same period in 2013, which resulted from the following:

Volume	5.1	%
Pricing	0.5	%
Currency exchange rates	(0.3)	)%
Total	5.3	%

The increase in revenues was primarily driven by higher volumes and improved pricing across both segments.

## Operating Income/Margin

Operating margin for the three months ended September 30, 2014 increased to 13.0% from 11.8% for the same period of 2013. The increase was primarily due to favorable product mix and volume (0.8%), productivity benefits in excess of other inflation (0.6%), and improved pricing net of material inflation (0.1%), partially offset by increased investment spending (0.3%).

## Interest Expense

Interest expense for the three months ended September 30, 2014 decreased \$50.5 million, compared with the same period of 2013, primarily as a result of a \$45.6 million redemption premium expense incurred during the July 2013 debt redemption.

Table of Contents

## Other, Net

The components of Other, net for the three months ended September 30 were as follows:

In millions	2014		2013	
Interest income	\$3.0		\$3.6	
Exchange gain (loss)	(1.0	)	(3.4	)
Earnings (loss) from equity investments	3.3		1.0	
Other	4.3		4.8	
Other, net	\$9.6		\$6.0	

The increase in Other, net for the three months ended September 30, 2014, resulted primarily from lower foreign currency impacts and improved Earning from equity investments.

Included within Earnings (loss) from equity investments for the three months ended September 30, 2014 and 2013 are \$3.3 million and \$1.0 million of income on the Hussmann equity investment, respectively. The Company's ownership percentage in Hussmann Parent, an affiliate of private equity firm Clayton Dubilier & Rice, LLC, was 37.2% as of September 30, 2014 and is recorded using the equity method of accounting. The Company's equity investment in the Hussmann Parent is reported within Other noncurrent assets.

## Provision for Income Taxes

For the three months ended September 30, 2014, the effective tax rate was 23.7%, which is lower than the U.S. Statutory rate of 35% primarily due to earnings in non-U.S. jurisdictions, which in aggregate, have a lower effective tax rate. For the three months ended September 30, 2013, the effective tax rate was 19.5%, which is lower than the U.S. Statutory rate of 35% primarily due to earnings in non-U.S. jurisdictions, which in aggregate, have a lower effective tax rate, and a net decrease in our liability for unrecognized tax benefits, partially offset by a noncash charge relating to the revaluation of certain net deferred tax assets as a result of legislation enacted during the period.

Revenues from non-U.S. jurisdictions account for approximately 41% of our total revenues, such that a material portion of our pretax income is earned and taxed outside the U.S. at rates ranging from 0% to 38%. When comparing the results of multiple reporting periods, among other factors, the mix of earnings between U.S. and foreign jurisdictions can cause variability on our overall effective tax rate.

## Results of Operations – nine Months Ended September 30

In millions, except per share amounts	2014	% of revenues	2013	% of revenues
Net revenues	\$9,650.9		\$9,251.6	
Cost of goods sold	(6,721.7	) 69.6	(6,507.6	) 70.3
Selling and administrative expenses	(1,870.8	) 19.4	(1,857.0	) 20.1
Operating income	1,058.4	11.0	887.0	9.6
Interest expense	(157.3	)	(225.4	)
Other, net	20.2		4.1	
Earnings before income taxes	921.3		665.7	
Provision for income taxes	(222.5	)	(108.3	)
Earnings from continuing operations	698.8		557.4	
Discontinued operations, net of tax	(8.6	)	42.7	
Net earnings	690.2		600.1	
Less: Net earnings attributable to noncontrolling interests	(14.0	)	(29.0	)
Net earnings attributable to Ingersoll-Rand plc	\$676.2		\$571.1	
Diluted net earnings (loss) per ordinary share attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	\$2.48		\$1.81	
Discontinued operations	(0.03	)	0.10	
Net earnings	\$2.45		\$1.91	



Table of Contents

The discussions that follow describe the significant factors contributing to the changes in our results of operations for the periods presented.

**Net Revenues**

Net revenues for the nine months ended September 30, 2014 increased by 4.3%, or \$399.3 million, compared with the same period in 2013, which resulted from the following:

Volume	3.9	%
Pricing	0.6	%
Currency exchange rates	(0.2)	)%
Total	4.3	%

The increase in revenues was primarily driven by higher volumes and improved pricing across both segments.

**Operating Income/Margin**

Operating margin for the nine months ended September 30, 2014 increased to 11.0% from 9.6% for the same period of 2013. The increase was primarily due to productivity benefits in excess of other inflation (0.8%), favorable product mix and volume (0.6%) and improved pricing net of material inflation (0.3%), partially offset by increased investment spending (0.3%).

**Interest Expense**

Interest expense for the nine months ended September 30, 2014 decreased \$68.1 million, compared with the same period of 2013, primarily as a result of the redemption premium expense incurred during the July 2013 debt redemption.

**Other, Net**

The components of Other, net for the nine months ended September 30 are as follows:

In millions	2014	2013
Interest income	\$9.4	\$9.5
Exchange gain (loss)	(2.4	) (10.1
Earnings (loss) from equity investments	3.7	(1.6
Other	9.5	6.3
Other, net	\$20.2	\$4.1

The increase in Other, net for the nine months ended September 30, 2014, resulted from lower foreign currency impacts, including a realized foreign currency translation loss of \$3.8 million related to the devaluation of the Venezuelan Bolivar for the nine months ended September 30, 2013. Further contributing to the increase in Other, net for the nine months ended September 30, 2013 was improved Earning from equity investments and a gain on sale of an investment included within Other.

Included within Earnings (loss) from equity investments for the nine months ended September 30, 2014 and 2013 is \$3.7 million of income and \$1.6 million of loss on the Hussmann equity investment, respectively. The Company's ownership percentage in Hussmann Parent, an affiliate of private equity firm Clayton Dubilier & Rice, LLC, was 37.2% as of September 30, 2014 and is recorded using the equity method of accounting. The Company's equity investment in the Hussmann Parent is reported within Other noncurrent assets.

**Provision for Income Taxes**

For the nine months ended September 30, 2014, the effective tax rate was 24.2%, which is lower than the U.S. Statutory rate of 35% primarily due to earnings in non-U.S. jurisdictions, which in aggregate, have a lower effective tax rate, partially offset by a net increase to our liability for unrecognized tax benefits. For the nine months ended September 30, 2013, the effective tax rate was 16.3%, which is lower than the U.S. Statutory rate of 35% primarily due to earnings in non-U.S. jurisdictions, which in aggregate, have a lower effective tax rate, the accrual of a previously unrecorded deferred tax asset related to net operating losses and the impact of the American Taxpayer Relief Act of 2012 enacted in January 2013, partially offset by a net increase in our liability for unrecognized tax benefits and a noncash charge relating to the revaluation of certain net deferred tax assets as a result of legislation enacted during the period. Revenues from non-U.S. jurisdictions account for approximately 41% of our total revenues, such that a material portion of our pretax income is earned and taxed outside the U.S. at rates ranging from 0% to 38%. When





Table of Contents

comparing the results of multiple reporting periods, among other factors, the mix of earnings between U.S. and foreign jurisdictions can cause variability on our overall effective tax rate.

## Review of Business Segments

The segment discussions that follow describe the significant factors contributing to the changes in results for each segment included in continuing operations.

Segment operating income is the measure of profit and loss that our chief operating decision maker uses to evaluate the financial performance of the business and as the basis for performance reviews, compensation and resource allocation. For these reasons, we believe that Segment operating income represents the most relevant measure of segment profit and loss. We may exclude certain charges or gains from Operating income to arrive at a Segment operating income that is a more meaningful measure of profit and loss upon which to base our operating decisions. We define Segment operating margin as Segment operating income as a percentage of Net revenues.

## Climate

Our Climate segment delivers energy-efficient solutions globally and includes Trane® and American Standard® Heating & Air Conditioning which provide heating, ventilation and air conditioning (HVAC) systems, and commercial and residential building services, parts, support and controls; and Thermo King® the leader in transport temperature control solutions.

Segment operating results for Climate for the three and nine months ended September 30 were as follows:

Dollar amounts in millions	Three months ended			Nine months ended			
	2014	2013	% change	2014	2013	% change	
Net revenues	\$2,644.0	\$2,492.3	6.1	% \$7,433.8	\$7,086.5	4.9	%
Segment operating income	377.6	323.7	16.7	% 897.9	725.4	23.8	%
Segment operating margin	14.3	% 13.0	%	12.1	% 10.2	%	

Net revenues for the three months ended September 30, 2014 increased by 6.1%, or \$151.7 million, compared with the same period of 2013, primarily related to higher volumes (5.8%) and improved pricing (0.5%), partially offset by unfavorable currency impacts (0.2%).

Segment operating margin improved to 14.3% for the three months ended September 30, 2014, compared to 13.0% for the same period of 2013. The improvement was primarily driven by favorable volume/product mix (0.8%), productivity benefits in excess of other inflation (0.6%), pricing improvements in excess of material inflation (0.2%), partially offset by increased investment spending (0.5%).

Net revenues for the nine months ended September 30, 2014 increased by 4.9%, or \$347.3 million, compared with the same period of 2013, primarily related to higher volumes (4.4%) and improved pricing (0.7%), partially offset by unfavorable currency impacts (0.2%).

Segment operating margin improved to 12.1% for the nine months ended September 30, 2014, compared to 10.2% for the same period of 2013. The improvement was primarily driven by productivity benefits in excess of other inflation (1.0%), favorable volume/product mix (0.6%) and pricing improvements in excess of material inflation (0.3%).

Trane commercial HVAC net revenues increased due to improvements in parts, services, and solutions. Trane residential HVAC net revenues increased due to volume gains in air conditioning units. Net revenues in our transport businesses increased driven by gains in all equipment categories and in aftermarket revenues.

## Industrial

Our Industrial segment delivers products and services that enhance energy efficiency, productivity and operations. It includes Ingersoll Rand® compressed air systems and services, power tools and material handling systems, ARO® fluid management equipment, as well as Club Car® golf, utility and rough terrain vehicles.

Segment operating results for Industrial for the three and nine months ended September 30 were as follows:

Dollar amounts in millions	Three months ended			Nine months ended			
	2014	2013	% change	2014	2013	% change	
Net revenues	\$741.0	\$721.9	2.6	% \$2,217.1	\$2,165.1	2.4	%
Segment operating income	108.8	114.8	(5.2)	)% 318.2	336.5	(5.4)	)%
Segment operating margin	14.7	% 15.9	%	14.4	% 15.5	%	



Table of Contents

Net revenues for the three months ended September 30, 2014 increased by 2.6%, or \$19.1 million, compared with the same period of 2013, primarily related to higher volumes (2.7%) and improved pricing (0.3%), partially offset by unfavorable currency impacts (0.4%).

Segment operating margin decreased to 14.7% for the three months ended September 30, 2014, compared to 15.9% for the same period of 2013. The decrease was primarily due to increased investment spending (1.1%) and other inflation in excess of productivity benefits (0.2%), partially offset by favorable volume/product mix (0.2%).

Net revenues for the nine months ended September 30, 2014 increased by 2.4%, or \$52.0 million, compared with the same period of 2013, primarily related to higher volumes (2.2%) and improved pricing (0.3%).

Segment operating margin decreased to 14.4% for the nine months ended September 30, 2014, compared to 15.5% for the same period of 2013. The decrease was primarily due to increased investment spending (1.1%) and other inflation in excess of productivity benefits (0.3%), partially offset by favorable volume/product mix (0.2%).

Air compressors and industrial products net revenues increased with gains in Americas and Asia. Club Car net revenues increased as sales growth in utility vehicles offset decreased activity in the North American golf market.

**Discontinued Operations**

The components of Discontinued operations, net of tax for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended		
	2014	2013	2014	2013	
Net revenues	\$—	\$535.3	\$—	\$1,542.9	
Pre-tax earnings (loss) from operations	\$(9.8	) \$(9.5	) \$(27.3	) \$134.3	
Tax benefit (expense)	2.8	(37.2	) 18.7	(91.6	)
Discontinued operations, net of tax	\$(7.0	) \$(46.7	) \$(8.6	) \$42.7	

Discontinued operations by business for the three and nine months ended September 30 are as follows:

In millions	Three months ended		Nine months ended		
	2014	2013	2014	2013	
Allegion, net of tax	\$2.8	\$(44.2	) \$15.6	\$46.9	
Other discontinued operations, net of tax	(9.8	) (2.5	) (24.2	) (4.2	)
Discontinued operations, net of tax*	\$(7.0	) \$(46.7	) \$(8.6	) \$42.7	

\* Included in Allegion, net of tax for the three and nine months ended September 30, 2013 are spin costs of \$25.7 million and \$57.7 million, respectively.

**Allegion Spin Off**

On December 1, 2013, the Company completed the previously announced separation of its commercial and residential security businesses by distributing the related ordinary shares of Allegion, on a pro rata basis, to the Company's shareholders of record as of November 22, 2013. After the Distribution Date, Allegion became an independent publicly traded company.

The results of our commercial and residential security businesses are presented as a discontinued operation on the Condensed Consolidated Statements of Comprehensive Income and Condensed Consolidated Statements of Cash Flows for all periods presented.

**Other Discontinued Operations**

Discontinued operations, net of tax from previously sold businesses is mainly related to postretirement benefits, product liability, worker's compensation, legal costs (mostly asbestos-related), and tax effects of post-closing purchase price adjustments.

**Liquidity and Capital Resources**

We earn a significant amount of our operating income in jurisdictions where it is deemed to be permanently reinvested. Our most prominent jurisdiction of operation is the U.S. We currently do not intend nor foresee a need to repatriate funds to the U.S., and no provision for U.S. income taxes has been made with respect to such earnings. We expect existing cash and cash equivalents available to the U.S., the cash generated by our U.S. operations, our committed credit lines, as well as our expected ability to access the capital and debt markets, will be sufficient to fund our U.S. operating and capital needs for at least the next twelve months and thereafter for the foreseeable future. In

addition, we expect existing non-U.S. cash and cash equivalents and the cash generated by our non-U.S. operations will be sufficient to fund our non-U.S. operating and capital needs for at least the next twelve

Table of Contents

months and thereafter for the foreseeable future. Should we require more capital in the U.S. than is generated by our U.S. operations, and we determine that repatriation of non-U.S. cash is necessary, such amounts would be subject to U.S. federal income taxes.

In February 2014, we announced an increase in our quarterly ordinary share dividend from \$0.21 to \$0.25 per share beginning with our March 2014 payment. In addition, our Board of Directors authorized the repurchase of up to \$1.5 billion of our ordinary shares under a new share repurchase program upon completion of the current share repurchase program. The new share repurchase program began in April of 2014. During the nine months ended September 30, 2014, we repurchased 19.7 million shares for \$1,172.9 million, of which 6.4 million shares for \$381.5 million were under the 2014 program. These repurchases were accounted for as a reduction of Ordinary shares and Capital in excess of par value, or Retained earnings to the extent Capital in excess of par value was exhausted, as they were canceled upon repurchase. We expect our available cash flow, committed credit lines and access to the capital markets will be sufficient to fund the increased dividend and share repurchases.

On August 18, 2014, we announced an agreement to acquire the assets of Cameron International Corporation's Centrifugal Compression division (the Division) for \$850 million, which we expect to be funded through a combination of cash and debt. The Division provides centrifugal compression equipment and aftermarket parts and services for global industrial applications, air separation, gas transmission and process. The acquisition, which is subject to regulatory approval, is expected to close in the fourth quarter of 2014.

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

In millions	September 30, 2014	December 31, 2013	
Cash and cash equivalents	\$936.7	\$1,937.2	
Short-term borrowings and current maturities of long-term debt	881.0	367.7	
Long-term debt	2,646.6	3,153.5	
Total debt	3,527.6	3,521.2	
Total Ingersoll-Rand plc shareholders' equity	6,274.1	7,068.9	
Total equity	6,333.7	7,131.3	
Debt-to-total capital ratio	35.8	% 33.1	%

Short-term borrowings and current maturities of long-term debt consisted of the following:

In millions	September 30, 2014	December 31, 2013
Debentures with put feature	\$343.0	\$343.0
5.50% Senior notes due 2015	199.3	—
4.75% Senior notes due 2015	299.9	—
Other current maturities of long-term debt	7.8	8.0
Other short-term borrowings	31.0	16.7
Total	\$881.0	\$367.7

#### Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes. We had no commercial paper outstanding at September 30, 2014 or December 31, 2013.

#### Debentures with Put Feature

At September 30, 2014 and December 31, 2013, we had \$343.0 million of fixed rate debentures outstanding, which only require early repayment at the option of the holder. These debentures contain a put feature that the holders may exercise on each anniversary of the issuance date, subject to a notice requirement. If exercised, we are obligated to repay in whole or in part, at the holder's option, the outstanding principal amount (plus accrued and unpaid interest) of the debentures held by the holder. If these options are not exercised, the final maturity dates would range between 2027 and 2028.

Holder of these debentures had the option to exercise the put feature on \$37.2 million of the outstanding debentures in February 2014, subject to the notice requirement. No exercises were made. Holders of the remaining \$305.8 million in outstanding debentures will have the option to exercise the put feature, subject to the notice requirement, in

November 2014. Based on our cash flow forecast and access to the capital markets, we believe we will have sufficient liquidity to repay any amounts exercised as a result of the put feature.

Table of Contents

## Senior Notes due 2019, 2023, and 2043

In June 2013, we issued \$1.55 billion principal amount of Senior Notes in three tranches through our wholly-owned subsidiary, IR-Global pursuant to Rule 144A of the Securities Act. The tranches consist of \$350 million of 2.875% Senior Notes due in 2019, \$700 million of 4.250% Senior Notes due in 2023, and \$500 million of 5.750% Senior Notes due in 2043. In connection with the issuance of each series of notes, IR-Global, the Guarantors and the initial purchasers of the notes entered into a Registration Rights Agreement. Each Registration Rights Agreement requires IR-Global and the Guarantors to use their commercially reasonable efforts to execute an effective exchange offer registration statement with the SEC no later than 365 days after the closing date of the notes offering and to complete an exchange offer within 30 business days of such effective date. If a registration default occurs additional interest shall accrue on the notes. The proceeds from these notes were used to fund the July 2013 redemption of \$600 million of 6.000% Senior Notes due 2013 and \$655 million of 9.500% Senior Notes due 2014 and to fund expenses related to the spin-off of the commercial and residential security businesses, with any remaining proceeds to be used for general corporate purposes.

On April 25, 2014, we filed our exchange offer registration statement with the SEC, which became effective on May 13, 2014, and in June 2014, we completed our offer to exchange the notes for registered notes having terms identical in all material respects to the private notes, except that the registered notes do not contain terms with respect to transfer restrictions, registration rights or additional interest for failure to observe certain obligations in the applicable registration rights agreement.

## Other

On May 20, 2011, the Company entered into a 4-year \$1.0 billion revolving credit facility through its wholly-owned subsidiary, IR-Global (2011 Credit Agreement). On March 20, 2014, the 2011 Credit Agreement was refinanced with a 5-year, \$1.0 billion revolving credit facility maturing on March 20, 2019 and the 2011 Credit Agreement was terminated. The Company also has a 5-year, \$1.0 billion revolving credit facility maturing on March 15, 2017 through its wholly-owned subsidiary, IR-Global.

IR-Ireland, IR-Limited, IR-International, and Ingersoll-Rand Company (IR-New Jersey) have each provided an irrevocable and unconditional guarantee for these credit facilities. The total committed revolving credit facilities of \$2.0 billion were unused at September 30, 2014 and December 31, 2013, and provide support for the Company's commercial paper program, as well as other general corporate purposes.

## Cash Flows

The following table reflects the major categories of cash flows for the nine months ended September 30. For additional details, see the Condensed Consolidated Statements of Cash Flows in the condensed consolidated financial statements.

In millions	2014	2013
Operating cash flow provided by (used in) continuing operations	\$557.7	\$661.5
Investing cash flow provided by (used in) continuing operations	(121.0)	(163.6)
Financing cash flow provided by (used in) continuing operations	(1,288.0)	(514.2)

## Operating Activities

Net cash provided by continuing operating activities during the nine months ended September 30, 2014 was \$557.7 million, compared with \$661.5 million during the comparable period in 2013. The change in operating cash flows for the nine months ended September 30, 2014 reflects increases in net working capital, partially offset by improved earnings from continuing operations.

## Investing Activities

Net cash used in continuing investing activities during the nine months ended September 30, 2014 was \$121.0 million, compared with \$163.6 million during the comparable period of 2013. The change in investing activities is primarily attributable to a decrease in capital expenditures and a \$30.3 million cash dividend received from equity investments during the nine months ended September 30, 2014.

## Financing Activities

Net cash used in continuing financing activities during the nine months ended September 30, 2014 was \$1,288.0 million, compared with \$514.2 million during the comparable period in 2013. The change in financing activities is



primarily driven by net proceeds of \$282.9 million received from the refinance of long term debt of \$1,546.2 million in 2013 and the repurchase of 19.7 million shares for approximately \$1,172.9 million during the nine months ended September 30, 2014 compared to the repurchase of 13.8 million shares for approximately \$795.2 million during the nine months ended September 30, 2013.

## Table of Contents

### Pensions

Our investment objective in managing defined benefit plan assets is to ensure that all present and future benefit obligations are met as they come due. We seek to achieve this goal while trying to mitigate volatility in plan funded status, contribution and expense by better matching the characteristics of the plan assets to that of the plan liabilities. We use a dynamic approach to asset allocation whereby a plan's allocation to fixed income assets increases progressively over time towards an ultimate target of 90% as a plan moves toward full funding. We monitor plan funded status and asset allocation regularly in addition to investment manager performance.

We monitor the impact of market conditions on our defined benefit plans on a regular basis. None of our defined benefit pension plans have experienced a significant impact on their liquidity due to the volatility in the markets. For further details on pension plan activity, see Note 9 to the condensed consolidated financial statements.

For a further discussion of Liquidity and Capital Resources, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2013.

### Commitments and Contingencies

We are involved in various litigations, claims and administrative proceedings, including those related to asbestos, environmental, and product liability matters. Amounts recorded for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additional information when it becomes available. Subject to the uncertainties inherent in estimating future costs for contingent liabilities, except as expressly set forth in Note 18 to the condensed consolidated financial statements, management believes that the liability which may result from these legal matters would not have a material adverse effect on our financial condition, results of operations, liquidity or cash flows.

### Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with those accounting principles requires management to use judgments in making estimates and assumptions based on the relevant information available at the end of each period. These estimates and assumptions have a significant effect on reported amounts of assets and liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities because they result primarily from the need to make estimates and assumptions on matters that are inherently uncertain. Actual results may differ from estimates.

Management believes there have been no significant policy changes during the nine months ended September 30, 2014, to the items that we disclosed as our critical accounting policies in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2013.

### Recent Accounting Pronouncements

#### Recently Adopted Accounting Pronouncements

In February 2013, the FASB ("Financial Accounting Standards Board") issued ASU ("Accounting Standards Update") 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date." ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements where the total obligation is fixed at the reporting date, and for which no specific guidance currently exists. This new guidance became effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The revised requirements of ASU 2013-04 did not have an impact on the condensed consolidated financial statements.

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." ASU 2013-05 clarifies the application of GAAP to the release of cumulative translation adjustments related to changes of ownership in or within foreign entities, including step acquisitions. This new guidance became effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The Company will apply the new guidance, as applicable, to future derecognitions of certain subsidiaries or groups of assets within a

Foreign Entity or of an Investment in foreign entities.

In July 2013, the FASB issued ASU 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance became effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The Company has applied the requirements of ASU 2013-11 prospectively

Table of Contents

in preparing the September 30, 2014 condensed consolidated balance sheet, which resulted in a decrease to noncurrent deferred tax assets of \$13.8 million, an increase to noncurrent deferred tax liabilities of \$125.0 million and a decrease to noncurrent reserves for uncertain tax positions of \$138.8 million. Had the Company applied the requirements of ASU 2013-11 retrospectively to the December 31, 2013 consolidated balance sheet, the impact would have been a decrease to current and noncurrent deferred tax assets of \$22.6 million and \$20.7 million, respectively, an increase to noncurrent deferred tax liabilities of \$128.9 million and a decrease to noncurrent reserves for uncertain tax positions of \$172.2 million.

Recently Issued Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 provides new guidance related to the definition of a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This new guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within those years. Beginning in 2015, the Company will apply the new guidance, as applicable, to future disposals of components or classifications as held for sale.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-08 specifies new accounting for costs associated with obtaining or fulfilling contracts with customers and expands the required disclosures related to revenue and cash flows from contracts with customers. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. The Company is currently determining its implementation approach and assessing the impact on the condensed consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12 "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early application is permitted. Beginning in 2015, the Company will apply the new guidance to future share-based payment arrangements, as applicable.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern - Disclosures of Uncertainties about an entity's Ability to Continue as a Going Concern." ASU 2014-15 provides new guidance related to management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards and to provide related footnote disclosures. This new guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The requirements of ASU 2014-15 are not expected to have a significant impact on the condensed consolidated financial statements.

Other than as discussed above, management believes there have been no significant changes during the nine months ended September 30, 2014, to the items we disclosed as our recently adopted accounting pronouncements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the period ended December 31, 2013. For a further discussion, refer to the "Recent Accounting Pronouncements" discussion contained therein.

Safe Harbor Statement

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

Forward-looking statements may relate to such matters as projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, share or debt repurchases or other financial items; any statements of the plans, strategies and objectives of management for future operations, including those relating to any statements concerning expected development, performance or market share relating to our products and services; any statements regarding future economic conditions or our

Table of Contents

performance; any statements regarding pending investigations, claims or disputes, including those relating to the Internal Revenue Service audit of our consolidated subsidiaries' tax filings; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. You are advised to review any further disclosures we make on related subjects in materials we file with or furnish to the SEC. Forward-looking statements speak only as of the date they are made and are not guarantees of future performance. They are subject to future events, risks and uncertainties - many of which are beyond our control - as well as potentially inaccurate assumptions, that could cause actual results to differ materially from our expectations and projections. We do not undertake to update any forward-looking statements.

Factors that might affect our forward-looking statements include, among other things:

- overall economic, political and business conditions in the markets in which we operate;
- the demand for our products and services;
- competitive factors in the industries in which we compete;
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- the outcome of any litigation, governmental investigations or proceedings;
- the outcome of any income tax audits or settlements;
- interest rate fluctuations and other changes in borrowing costs;
- other capital market conditions, including availability of funding sources;
- currency exchange rate fluctuations, exchange controls and currency devaluations;
- availability of and fluctuations in the prices of key commodities and the impact of higher energy prices;
- the ability to achieve cost savings in connection with our productivity programs;
- impairment of our goodwill, indefinite-lived intangible assets and/or our long-lived assets;
- the possible effects on us of future legislation in the U.S. that may limit or eliminate potential U.S. tax benefits resulting from our incorporation in a non-U.S. jurisdiction, such as Ireland, or deny U.S. government contracts to us based upon our incorporation in such non-U.S. jurisdiction; and
- our ability to timely obtain, if ever, necessary regulatory approvals of the acquisition of the assets of Cameron International Corporation's Centrifugal Compression division (the "Cameron Acquisition") and to fully realize the expected benefits of the Cameron Acquisition.

Some of the significant risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described more fully in the "Risk Factors" section of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. There may also be other factors that have not been anticipated or that are not described in our periodic filings with the SEC, generally because we did not believe them to be significant at the time, which could cause results to differ materially from our expectations.

**Item 3 – Quantitative and Qualitative Disclosures about Market Risk**

There has been no significant change in our exposure to market risk during the third quarter of 2014. For a discussion of the Company's exposure to market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

**Item 4 – Controls and Procedures**

The Company's management, including its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2014, that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this Quarterly Report on Form 10-Q has been recorded, processed, summarized and reported when required and the information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow

timely decisions regarding required disclosure.

51

---

Table of Contents

There has been no change in the Company's internal control over financial reporting that occurred during the third quarter of 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

52

---



Table of Contents

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

In the normal course of business, we are involved in a variety of lawsuits, claims and legal proceedings, including commercial and contract disputes, employment matters, product liability claims, asbestos-related claims, environmental liabilities, intellectual property disputes, and tax-related matters. In our opinion, pending legal matters are not expected to have a material adverse impact on our results of operations, financial condition, liquidity or cash flows.

Tax-Related Matters

In 2007, the Company received a notice from the IRS containing proposed adjustments to the Company's tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of the Company's reincorporation in Bermuda. The IRS proposed to ignore the entities that hold the intercompany debt incurred in connection with the Company's reincorporation in Bermuda (the "2001 Debt") and to which the interest was paid and impose 30% withholding tax on a portion of the interest payments as if they were made directly to a company that was not eligible for reduced U.S. withholding tax under a U.S. income tax treaty. The IRS asserted that the Company owed additional taxes with respect to 2002 of approximately \$84 million plus interest. The Company strongly disagreed with the view of the IRS and filed a protest. In 2010, the Company received an amended notice from the IRS assessing penalties of 30% on the asserted underpayment of tax described above.

The Company has so far been unsuccessful in resolving this dispute and in 2013 received a Notice of Deficiency from the IRS for 2002. The Company filed a petition in the United States Tax Court in November 2013 contesting this deficiency. In its January 2014 answer to the Company's petition, the IRS asserted that the Company also owes 30% withholding tax on the portion of 2002 interest payments made on the 2001 Debt upon which it did not previously assert withholding tax. A 30% withholding tax on this \$85.0 million interest payment would increase the total tax liability proposed for 2002 to \$109.0 million (\$84 million referred to in the paragraph above plus this additional \$25.0 million) plus 30% penalties and interest.

In 2013, the Company received notices from the IRS containing proposed adjustments to the Company's tax filings in connection with an audit of the 2003-2006 tax years. In these notices, the IRS asserts that the Company owes a total of approximately \$665 million of additional taxes, as described more fully below, in connection with the Company's interest payments on the 2001 Debt for the 2003-2006 period, plus penalties and interest on these unpaid taxes.

The IRS continues to take the position on the 2001 Debt, which was retired at the end of 2011, that it previously took for the Company's 2002 tax year and which is described above. As a result of this recharacterization, the IRS asserts that the Company owes approximately \$455 million of withholding tax for 2003-2006 plus 30% penalties.

The IRS also proposes to extend its position further and to treat all of the interest income from the 2001 Debt as creating earnings and profits at IR-Limited and, as a result, recharacterize the distributions made by IR-Limited during the 2002-2006 tax years as taxable dividends instead of as a return of capital. Consequently the IRS asserts that the Company owes approximately \$210 million of income tax on these dividends plus penalties of 20%.

Although the Company expects it to do so, the IRS has not yet proposed any similar adjustments for years subsequent to 2006, as the federal income tax audits for those years are still in process or have not yet begun. In addition, the Company does not know how the IRS will apply its position to the different facts presented in those years or whether the IRS will take a similar position in future audits with respect to intercompany debt instruments not outstanding in prior years.

The Company has vigorously contested all of these proposed adjustments and intends to continue to do so. Although the outcome of these matters cannot be predicted with certainty, based upon an analysis of the merits of the Company's position, the Company believes that it is adequately reserved under the applicable accounting standards for these matters and does not expect that the ultimate resolution will have a material adverse impact on its future results of operations, financial condition, or cash flows. As the Company moves forward to resolve these matters with the IRS, the reserves established may be adjusted. Although the Company continues to contest the IRS's position, there can be no assurance that it will be successful. If the IRS's position with respect to the 2002-2006 tax years is

ultimately sustained, the Company would be required to record additional charges and the resulting liability will have a material adverse impact on its future results of operations, financial condition and cash flows.

The Company believes that it has adequately provided for any reasonably foreseeable resolution of any tax disputes, but will adjust its reserves if events so dictate in accordance with GAAP. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the Provision for income taxes. For a further discussion of tax matters, see Note 14 to the condensed consolidated financial statements.

Table of Contents

Asbestos-Related Matters

Certain wholly-owned subsidiaries of the Company are named as defendants in asbestos-related lawsuits in state and federal courts. In virtually all of the suits, a large number of other companies have also been named as defendants. The vast majority of those claims have been filed against either IR-New Jersey or Trane and generally allege injury caused by exposure to asbestos contained in certain historical products sold by IR-New Jersey or Trane, primarily pumps, boilers and railroad brake shoes. Neither IR-New Jersey nor Trane was a producer or manufacturer of asbestos, however, some formerly manufactured products utilized asbestos-containing components such as gaskets and packings purchased from third-party suppliers.

See also the discussion contained in our Annual Report on Form 10-K for the period ended December 31, 2013 under Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental and Asbestos Matters and also Note 18 to the condensed consolidated financial statements in this Form 10-Q.

Table of Contents

## Item 1A – Risk Factors

There have been no material changes to our risk factors contained in our Annual Report on Form 10-K for the period ended December 31, 2013. For a further discussion of our Risk Factors, refer to the “Risk Factors” discussion contained in our Annual Report on Form 10-K for the period ended December 31, 2013.

## Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

The following table provides information with respect to purchases by the Company of its ordinary shares during the third quarter of 2014:

Period	Total number of shares purchased (000's) (a) (b)	Average price paid per share (a) (b)	Total number of shares purchased as part of program (000's) (a) (b)	Approximate dollar value of shares still available to be purchased under the program (\$000's) (b)
July 1 - July 31	2,446.2	\$62.43	2,446.2	\$1,125,890
August 1 - August 31	120.2	61.60	118.2	1,118,604
September 1 - September 30	—	—	—	1,118,604
Total	2,566.4	\$62.39	2,564.4	

(a) We may also reacquire shares outside of the repurchase program from time to time in connection with the surrender of shares to cover taxes on vesting of share based awards. In August 2014, we reacquired 2,013 shares in transactions outside the repurchase program.

(b) In February 2014, our Board of Directors authorized the repurchase of up to \$1.5 billion of our ordinary shares under a new share repurchase program upon completion of the current share repurchase program. The new share repurchase program began in April 2014. Based on market conditions, share repurchases will be made from time to time in the open market and in privately negotiated transactions at the discretion of management. The repurchase program does not have a prescribed expiration date.

Table of Contents

## Item 6 – Exhibits

## (a) Exhibits

Exhibit No.	Description	Method of Filing
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 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 Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Comprehensive Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statement of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.	Furnished herewith.

Table of Contents

INGERSOLL-RAND PLC

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INGERSOLL-RAND PLC  
(Registrant)

Date: October 22, 2014

/s/ Susan K. Carter  
Susan K. Carter, Senior Vice President  
and Chief Financial Officer  
Principal Financial Officer

Date: October 22, 2014

/s/ Richard J. Weller  
Richard J. Weller, Vice President and  
Corporate Controller  
Principal Accounting Officer