

Ingersoll-Rand plc  
Form 10-Q  
July 28, 2015  
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 June 30, 2015

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 (State or other jurisdiction of incorporation or organization) 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)	98-0626632 (I.R.S. Employer Identification No.)
---	---

---

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 July 17, 2015 was 265,352,974.

---

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 six months ended June 30, 2015 and 2014</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014</u>	<u>2</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014</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>32</u>
Item 3 - <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>44</u>
Item 4 - <u>Controls and Procedures</u>	<u>44</u>
<u>PART II OTHER INFORMATION</u>	<u>45</u>
Item 1 - <u>Legal Proceedings</u>	<u>45</u>
Item 1A - <u>Risk Factors</u>	<u>47</u>
Item 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>47</u>
Item 6 - <u>Exhibits</u>	<u>48</u>
<u>SIGNATURES</u>	<u>49</u>

---

Table of Contents

## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements

## INGERSOLL-RAND PLC

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
In millions, except per share amounts	2015	2014	2015	2014
Net revenues	\$3,600.2	\$3,542.9	\$6,488.0	\$6,265.9
Cost of goods sold	(2,494.5 )	(2,439.9 )	(4,581.2 )	(4,394.8 )
Selling and administrative expenses	(653.5 )	(639.7 )	(1,283.5 )	(1,252.8 )
Operating income	452.2	463.3	623.3	618.3
Interest expense	(55.8 )	(53.0 )	(110.9 )	(105.0 )
Other income/(expense), net	22.0	8.6	(4.4 )	10.7
Earnings before income taxes	418.4	418.9	508.0	524.0
Provision for income taxes	(331.4 )	(103.7 )	(358.3 )	(128.3 )
Earnings from continuing operations	87.0	315.2	149.7	395.7
Loss from discontinued operations, net of tax	(4.1 )	(4.6 )	(11.4 )	(1.7 )
Net earnings	82.9	310.6	138.3	394.0
Less: Net earnings attributable to noncontrolling interests	(4.0 )	(4.6 )	(8.1 )	(9.1 )
Net earnings attributable to Ingersoll-Rand plc	\$78.9	\$306.0	\$130.2	\$384.9
Amounts attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	\$83.0	\$310.6	\$141.6	\$386.6
Discontinued operations	(4.1 )	(4.6 )	(11.4 )	(1.7 )
Net earnings	\$78.9	\$306.0	\$130.2	\$384.9
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:				
Basic:				
Continuing operations	\$0.31	\$1.15	\$0.53	\$1.41
Discontinued operations	(0.02 )	(0.02 )	(0.05 )	(0.01 )
Net earnings	\$0.29	\$1.13	\$0.48	\$1.40
Diluted:				
Continuing operations	\$0.31	\$1.13	\$0.53	\$1.39
Discontinued operations	(0.02 )	(0.01 )	(0.05 )	(0.01 )
Net earnings	\$0.29	\$1.12	\$0.48	\$1.38
Weighted-average shares outstanding:				
Basic	266.5	270.4	265.9	274.4
Diluted	269.4	274.2	269.0	278.2
Dividends declared per ordinary share	\$0.29	\$0.25	\$0.58	\$0.50
Total comprehensive income (loss)	\$143.0	\$315.4	\$(81.5 )	\$364.4
Less: Total comprehensive income attributable to noncontrolling interests	(2.8 )	(4.3 )	(7.1 )	(10.3 )
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$140.2	\$311.1	\$(88.6 )	\$354.1

See accompanying notes to condensed consolidated financial statements.



Table of Contents

INGERSOLL-RAND PLC  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

In millions	June 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$779.6	\$1,705.2
Accounts and notes receivable, net	2,463.1	2,119.0
Inventories	1,634.5	1,358.9
Deferred taxes and current tax receivable	360.3	299.8
Other current assets	291.1	225.0
Total current assets	5,528.6	5,707.9
Property, plant and equipment, net	1,586.0	1,477.0
Goodwill	5,772.5	5,389.8
Intangible assets, net	4,008.6	3,783.9
Other noncurrent assets	991.1	939.9
Total assets	\$17,886.8	\$17,298.5
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$1,470.9	\$1,290.0
Accrued compensation and benefits	379.5	471.5
Accrued expenses and other current liabilities	1,947.6	1,421.9
Short-term borrowings and current maturities of long-term debt	659.7	482.7
Total current liabilities	4,457.7	3,666.1
Long-term debt	3,734.6	3,741.7
Postemployment and other benefit liabilities	1,435.0	1,438.0
Deferred and noncurrent income taxes	1,137.8	1,174.3
Other noncurrent liabilities	1,234.2	1,233.0
Total liabilities	11,999.3	11,253.1
Equity:		
Ingersoll-Rand plc shareholders' equity:		
Ordinary shares	268.7	266.3
Ordinary shares held in treasury, at cost	(202.5	) (202.5
Capital in excess of par value	176.9	97.1
Retained earnings	6,517.6	6,540.8
Accumulated other comprehensive income (loss)	(933.1	) (714.3
Total Ingersoll-Rand plc shareholders' equity	5,827.6	5,987.4
Noncontrolling interest	59.9	58.0
Total equity	5,887.5	6,045.4
Total liabilities and equity	\$17,886.8	\$17,298.5

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

In millions	Six months ended	
	June 30, 2015	2014
Cash flows from operating activities:		
Net earnings	\$138.3	\$394.0
Loss from discontinued operations, net of tax	11.4	1.7
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and amortization	180.7	168.2
Changes in assets and liabilities, net	(233.6	) (415.3
Other non-cash items, net	86.9	38.4
Net cash provided by continuing operating activities	183.7	187.0
Net cash used in discontinued operating activities	(13.7	) (55.8
Net cash provided by operating activities	170.0	131.2
Cash flows from investing activities:		
Capital expenditures	(115.3	) (92.6
Acquisition of businesses, net of cash acquired	(941.7	) (6.8
Proceeds from sale of property, plant and equipment	5.7	2.9
Proceeds from business dispositions, net of cash sold	—	2.0
Dividends received from equity investment	—	30.3
Net cash used in continuing investing activities	(1,051.3	) (64.2
Cash flows from financing activities:		
Short-term borrowings, net	184.7	38.2
Proceeds from long-term debt	—	8.6
Payments of long-term debt	(23.7	) (7.8
Net proceeds from debt	161.0	39.0
Dividends paid to ordinary shareholders	(151.3	) (132.8
Dividends paid to noncontrolling interests	(5.2	) (14.9
Repurchase of ordinary shares	—	(1,012.8
Other financing activities, net	45.3	66.3
Net cash provided by (used in) continuing financing activities	49.8	(1,055.2
Effect of exchange rate changes on cash and cash equivalents	(94.1	) (19.2
Net decrease in cash and cash equivalents	(925.6	) (1,007.4
Cash and cash equivalents - beginning of period	1,705.2	1,937.2
Cash and cash equivalents - end of period	\$779.6	\$929.8
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, 2014. 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.

Note 2 – Recent Accounting Pronouncements

Recently Adopted 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 guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within those years. The Company will apply this guidance, as applicable, to future disposals of components or classifications as held for sale.

Recently Issued Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement,” which provides guidance about whether a cloud computing arrangement includes a software license and how to account for the license under each scenario. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. A reporting entity may apply the guidance prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. The Company is currently assessing the impact on the condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which amends the current presentation of debt issuance costs in the financial statements. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, instead of as an asset. The amendments are to be applied retrospectively and are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, but early adoption is permitted. The adoption of the new guidance is not expected to have a material impact on the Company’s condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Amendments to the Consolidation Analysis,” which amends certain requirements for determining whether a variable interest entity must be consolidated. The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of the new guidance is not expected to have a material impact on the Company’s condensed consolidated financial statements.

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 July 2015, the FASB decided to defer the effective date of the standard to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early application permitted, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment



as of the date of adoption. The Company is currently determining its implementation approach and assessing the impact on the condensed consolidated financial statements.

Note 3 – 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.

4

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The major classes of inventory were as follows:

In millions	June 30, 2015	December 31, 2014
Raw materials	\$570.4	\$487.9
Work-in-process	155.9	118.2
Finished goods	969.0	823.1
	1,695.3	1,429.2
LIFO reserve	(60.8	) (70.3
Total	\$1,634.5	\$1,358.9

Note 4 – Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2015 were as follows:

In millions	Climate	Industrial	Total
Gross balance as of December 31, 2014	\$7,518.9	\$366.9	\$7,885.8
Accumulated impairment <sup>(1)</sup>	(2,496.0	) —	(2,496.0
Net balance as of December 31, 2014	5,022.9	366.9	5,389.8
Acquisitions and adjustments <sup>(2)</sup>	58.1	433.5	491.6
Currency translation	(93.5	) (15.4	) (108.9
Gross balance as of June 30, 2015	7,483.5	785.0	8,268.5
Accumulated impairment <sup>(1)</sup>	(2,496.0	) —	(2,496.0
Net balance as of June 30, 2015	\$4,987.5	\$785.0	\$5,772.5

<sup>(1)</sup> The accumulated impairment of \$2,496.0 million relates to a charge recorded in the fourth quarter of 2008.

<sup>(2)</sup> The increase in Climate segment goodwill is primarily related to the acquisition of FRIGOBLOCK in March 2015; the increase in Industrial segment goodwill is related to the acquisition of the Centrifugal Compression business in January 2015. See Note 13 for further discussion of these acquisitions.

Note 5 – Intangible Assets

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

In millions	June 30, 2015			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	\$214.6	\$(157.5	) \$57.1	\$172.2	\$(146.8	) \$25.4
Customer relationships	2,030.4	(755.4	) 1,275.0	1,850.6	(699.8	) 1,150.8
Other	65.6	(43.8	) 21.8	55.9	(50.2	) 5.7
Total finite-lived intangible assets	2,310.6	\$(956.7	) 1,353.9	2,078.7	\$(896.8	) 1,181.9
Trademarks (indefinite-lived)	2,654.7		2,654.7	2,602.0		2,602.0
Total	\$4,965.3		\$4,008.6	\$4,680.7		\$3,783.9

Intangible asset amortization expense was \$41.1 million and \$32.3 million for the three months ended June 30, 2015 and 2014, respectively. Intangible asset amortization expense was \$75.9 million and \$64.7 million for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Note 6 – Debt and Credit Facilities

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

In millions	June 30, 2015	December 31, 2014
Debentures with put feature	\$343.0	\$343.0
Commercial Paper	293.0	100.0
Other current maturities of long-term debt	7.8	23.6
Other short-term borrowings	15.9	16.1
Total	\$659.7	\$482.7

## Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes.

## Debentures with Put Feature

At June 30, 2015 and December 31, 2014, 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. 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 2015, subject to the notice requirement. No exercises were made.

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

In millions	June 30, 2015	December 31, 2014
6.875% Senior notes due 2018	\$749.7	\$749.6
2.875% Senior notes due 2019	349.6	349.6
2.625% Senior notes due 2020	299.8	299.8
9.00% Debentures due 2021	125.0	125.0
4.250% Senior notes due 2023	698.9	698.9
7.20% Debentures due 2017-2025	67.5	75.0
3.550% Senior notes due 2024	497.3	497.2
6.48% Debentures due 2025	149.7	149.7
5.750% Senior notes due 2043	498.0	498.0
4.650% Senior notes due 2044	298.2	298.2
Other loans and notes	0.9	0.7
Total	\$3,734.6	\$3,741.7

## Senior Notes due 2020, 2024, and 2044

In October 2014, the Company issued \$1.1 billion principal amount of Senior Notes in three tranches through a newly-created wholly-owned subsidiary, Ingersoll-Rand Luxembourg Finance S.A. (IR-Lux). The tranches consist of \$300 million of 2.625% Senior Notes due in 2020, \$500 million of 3.55% Senior Notes due 2024, and \$300 million of 4.65% Senior Notes due in 2044. The notes are fully and unconditionally guaranteed by each of IR-Ireland, Ingersoll-Rand Company Limited (IR-Limited), Ingersoll-Rand International Holding Limited (IR-International), Ingersoll-Rand New Jersey (IR-New Jersey) and Ingersoll-Rand Global Holding Company Limited (IR-Global). The proceeds from the notes were primarily used to fund (i) the October 2014 redemption of the \$200 million 5.50% Notes due 2015 and \$300 million 4.75% Senior Notes due 2015, and (ii) the acquisition the Centrifugal Compression business discussed further in Note 13.



Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Other Credit Facilities

The Company has two 5-year, \$1.0 billion revolving credit facilities through IR-Global and IR-Lux, one of which matures in March 2017 and the other matures in March 2019.

IR-Ireland, IR-Limited, IR-International, IR-New Jersey, IR-Global and IR-Lux have each provided irrevocable and unconditional guarantees for these credit facilities. The total committed revolving credit facilities of \$2.0 billion were unused at June 30, 2015 and December 31, 2014, 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 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 fair value of the Company's long-term debt instruments at June 30, 2015 and December 31, 2014 was \$4.7 billion. The Company measures the fair value of its long-term debt instruments for disclosure purposes 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 June 30, 2015 are the same as those used at December 31, 2014. There have been no transfers between levels of the fair value hierarchy.

Guarantees

Along with IR-Ireland, certain of our 100% directly or indirectly owned subsidiaries have fully and unconditionally guaranteed, on a joint and several basis, public debt issued by other 100% directly or indirectly owned subsidiaries. Refer to Note 17 for our current guarantor structure.

Note 7 – 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 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.

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 (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

7

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

occur, the hedging relationship will be undesignated and any future gains and losses on the derivative instrument will be recorded in Net earnings.

Currency Derivative Instruments

The notional amount of the Company's currency derivatives was \$1,251.8 million and \$776.7 million at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015 and December 31, 2014, a loss of \$1.2 million and \$1.9 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 \$1.2 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 June 30, 2015, the maximum term of the Company's currency derivatives was approximately twelve months.

Other Derivative Instruments

The Company has utilized forward-starting interest rate swaps and interest rate locks to manage interest rate exposure in periods prior to the anticipated issuance of fixed-rate debt. These instruments have been designated as cash flow hedges. Consequently, when the contracts were settled upon the issuance of the underlying debt, any realized gains or losses in the fair values of the instruments were initially deferred into Accumulated other comprehensive income. These deferred gains or losses are subsequently recognized into Interest expense over the term of the related notes. The net unrecognized gain in AOCI was \$5.4 million at June 30, 2015 and \$4.9 million at December 31, 2014. The net deferred gain at June 30, 2015 will be amortized over the term of notes with maturities ranging from 2018 to 2044. The amount expected to be amortized over the next twelve months is a net loss of \$0.5 million. There were no forward-starting interest rate swaps or interest rate lock contracts outstanding at June 30, 2015 or December 31, 2014.

Fair Value Measurements

The Company measures the fair value of its derivative instruments on a recurring basis using a pricing model that employs 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 6. The methodologies used by the Company to determine the fair value of its derivative instruments at June 30, 2015 are the same as those used at December 31, 2014. There have been no transfers between levels of the fair value hierarchy. The fair values of derivative instruments included within the Condensed Consolidated Balance Sheets were as follows:

In millions	Derivative assets		Derivative liabilities	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Currency derivatives designated as hedges	\$0.3	\$ 0.3	\$ 1.8	\$ 3.2
Currency derivatives not designated as hedges	30.5	1.3	9.0	10.1
Total derivatives	\$ 30.8	\$ 1.6	\$ 10.8	\$ 13.3

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

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

In millions	Amount of gain (loss) recognized in AOCI		Location of loss reclassified from AOCI and recognized into Net earnings	Amount of loss reclassified from AOCI and recognized into Net earnings	
	2015	2014		2015	2014

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

Currency derivatives designated as hedges	\$(1.5	) \$0.4	Cost of goods sold	\$(0.6	) \$(0.4	)
Interest rate swaps & locks	—	—	Interest expense	(0.1	) (0.4	)
Total	\$(1.5	) \$0.4		\$(0.7	) \$(0.8	)

8

---



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 three months ended June 30:

In millions	Location of gain (loss) recognized in Net earnings	Amount of gain (loss) recognized in Net earnings	
		2015	2014
Currency derivatives not designated as hedges	Other income/(expense), net	\$ (15.0	) \$ 6.9
Total		\$ (15.0	) \$ 6.9

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.

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

In millions	Amount of gain recognized in AOCI		Location of loss reclassified from AOCI and recognized into Net earnings	Amount of loss reclassified from AOCI and recognized into Net earnings	
	2015	2014		2015	2014
Currency derivatives designated as hedges	\$ 0.1	\$ 1.6	Cost of goods sold	\$ (1.3	) \$ (1.6
Interest rate swaps & locks	—	—	Interest expense	(0.3	) (0.9
Total	\$ 0.1	\$ 1.6		\$ (1.6	) \$ (2.5

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

In millions	Location of gain (loss) recognized in Net earnings	Amount of gain (loss) recognized in Net earnings	
		2015	2014
Currency derivatives not designated as hedges	Other income/(expense), net	\$ 17.3	\$ 1.6
Total		\$ 17.3	\$ 1.6

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 6 for a discussion of the fair value measurement of the Company's debt instruments.

**Note 8 – 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 employees.

**Pension Plans**

The noncontributory defined benefit pension plans covering non-collectively bargained U.S. employees provide benefits on a final average pay formula while plans for most collectively bargained U.S. employees provide benefits on a flat dollar benefit formula

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

or a percentage of pay 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 or highly compensated employees.

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

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Service cost	\$18.8	\$17.3	\$37.7	\$34.6
Interest cost	32.6	37.0	65.2	73.9
Expected return on plan assets	(39.6	) (39.3	) (79.2	) (78.5
Net amortization of:				
Prior service costs	0.8	1.0	1.6	2.1
Plan net actuarial losses	15.5	9.0	30.9	18.0
Net periodic pension benefit cost	28.1	25.0	56.2	50.1
Net curtailment and settlement losses	—	3.7	—	3.7
Net periodic pension benefit cost after net curtailment and settlement losses	\$28.1	\$28.7	\$56.2	\$53.8
Amounts recorded in continuing operations	\$25.4	\$26.9	\$50.9	\$50.2
Amounts recorded in discontinued operations	2.7	1.8	5.3	3.6
Total	\$28.1	\$28.7	\$56.2	\$53.8

The Company made required and discretionary contributions to its defined benefit pension plans of \$11.3 million and \$42.3 million during the six months ended June 30, 2015 and 2014, respectively. The Company currently projects that it will contribute approximately \$58 million to its plans worldwide in 2015.

## 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 employees. These plans are unfunded and have no plan assets, but are instead funded by the Company on a pay-as-you-go basis in the form of direct benefit payments. Generally, postretirement health benefits are contributory with contributions adjusted annually. Life insurance plans for retirees are primarily noncontributory.

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

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Service cost	\$1.1	\$1.3	\$2.1	\$2.6
Interest cost	5.9	7.3	11.9	14.6
Net amortization of:				
Prior service gains	(2.2	) (2.2	) (4.4	) (4.4
Net actuarial losses	0.1	—	0.2	—
Net periodic postretirement benefit cost	\$4.9	\$6.4	\$9.8	\$12.8
Amounts recorded in continuing operations	\$3.0	\$4.2	\$6.0	\$8.4
Amounts recorded in discontinued operations	1.9	2.2	3.8	4.4
Total	\$4.9	\$6.4	\$9.8	\$12.8

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Note 9 – Equity

Changes in ordinary shares and treasury shares for the six months ended June 30, 2015 are as follows:

In millions	Ordinary shares issued	Ordinary shares held in treasury
December 31, 2014	266.3	3.4
Shares issued under incentive plans, net	2.4	—
June 30, 2015	268.7	3.4

In February 2014, our Board of Directors authorized the repurchase of up to \$1.5 billion of our ordinary shares under a share repurchase program that began in April 2014. Share repurchases are made from time to time at the discretion of management subject to market conditions, regulatory requirements and other considerations. The Company did not repurchase shares during the six months ended June 30, 2015 and has \$0.9 billion remaining under its existing share repurchase authorization.

Shares repurchased prior to October 2014 were canceled upon repurchase and 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. Beginning in October 2014, repurchased shares were held in treasury and recognized at cost.

The components of Equity for the six months ended June 30, 2015 were as follows:

In millions	IR-Ireland shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2014	\$5,987.4	\$58.0	\$6,045.4
Net earnings	130.2	8.1	138.3
Currency translation	(243.8	) (1.0	) (244.8
Change in value of derivatives qualifying as cash flow hedges, net of tax	1.4	—	1.4
Pension and OPEB adjustments, net of tax	23.6	—	23.6
Total comprehensive income (loss)	(88.6	) 7.1	(81.5
Share-based compensation	36.9	—	36.9
Dividends declared to noncontrolling interests	—	(5.2	) (5.2
Dividends declared to ordinary shareholders	(153.4	) —	(153.4
Shares issued under incentive plans, net	45.3	—	45.3
Balance at June 30, 2015	\$5,827.6	\$59.9	\$5,887.5

Table of Contents

## INGERSOLL-RAND PLC

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

(Unaudited)

The components of Equity for the six months ended June 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	384.9	9.1	394.0
Currency translation	(44.1	) 1.1	(43.0
Change in value of derivatives qualifying as cash flow hedges, net of tax	3.6	—	3.6
Pension and OPEB adjustments, net of tax	9.8	—	9.8
Total comprehensive income	354.2	10.2	364.4
Share-based compensation	38.7	—	38.7
Dividends declared to noncontrolling interests	—	(14.8	) (14.8
Dividends declared to ordinary shareholders	(135.3	) —	(135.3
Shares issued under incentive plans, net	68.6	—	68.6
Repurchase of ordinary shares	(1,012.8	) —	(1,012.8
Balance at June 30, 2014	\$6,382.3	\$57.8	\$6,440.1

## Other Comprehensive Income (Loss)

The changes in Accumulated other comprehensive income (loss) for the six months ended June 30, 2015 are as follows:

In millions	Cash flow hedges	Pension and OPEB Items	Foreign Currency Items	Total
Balance at December 31, 2014	\$3.1	\$(665.1	) \$(52.3	) \$(714.3
Other comprehensive income before reclassifications	0.3	6.5	(243.8	) (237.0
Amounts reclassified from accumulated other comprehensive income	1.6	28.3	—	29.9
Provision for income taxes	(0.5	) (11.2	) —	(11.7
Net current period other comprehensive income (loss)	\$1.4	\$23.6	\$(243.8	) \$(218.8
Balance at June 30, 2015	\$4.5	\$(641.5	) \$(296.1	) \$(933.1

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

In millions	Cash flow hedges	Pension and OPEB Items	Foreign Currency Items	Total
Balance at December 31, 2013	\$0.4	\$(562.8	) \$395.7	\$(166.7
Other comprehensive income before reclassifications	1.6	(3.1	) (44.1	) (45.6
Amounts reclassified from accumulated other comprehensive income	2.5	19.4	—	21.9
Provision for income taxes	(0.5	) (6.5	) —	(7.0
Net current period other comprehensive income (loss)	\$3.6	\$9.8	\$(44.1	) \$(30.7
Balance at June 30, 2014	\$4.0	\$(553.0	) \$351.6	\$(197.4



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 six months ended June 30 were as follows:

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Cash flow hedges				
Reclassifications of deferred losses <sup>(1)</sup>	\$0.7	\$0.8	\$1.6	\$2.5
Provision for income taxes	—	—	—	—
Reclassifications, net of taxes	\$0.7	\$0.8	\$1.6	\$2.5
Pension and Postretirement benefits				
Amortization of service costs <sup>(2)</sup>	\$(1.4	) \$(1.2	) \$(2.8	) \$(2.3
Amortization of actuarial losses <sup>(2)</sup>	15.6	9.0	31.1	18.0
Reclassifications of settlements or curtailments <sup>(2)</sup>	—	3.7	—	3.7
Provision for income taxes	(4.7	) (4.0	) (11.2	) (6.5
Reclassifications, net of taxes	\$9.5	\$7.5	\$17.1	\$12.9
Total reclassifications, net of provision for income taxes	\$10.2	\$8.3	\$18.7	\$15.4

<sup>(1)</sup> Reclassifications of interest rate swaps and locks are reflected within interest expense; reclassifications of foreign exchange swaps are reflected in cost of goods sold.

<sup>(2)</sup> Reclassifications of pension and postretirement amounts are included in periodic pension costs and periodic benefit costs.

## Note 10 – 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, restricted stock units (RSUs), performance share units (PSUs) and deferred compensation.

## Compensation Expense

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

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Stock options	\$3.2	\$3.5	\$9.9	\$10.0
RSUs	6.7	4.9	15.7	15.1
Performance shares	4.3	4.8	11.9	14.4
Other	(0.5	) 1.3	0.7	1.3
Pre-tax expense	13.7	14.5	38.2	40.8
Tax benefit	(5.2	) (5.5	) (14.6	) (15.6
After-tax expense	\$8.5	\$9.0	\$23.6	\$25.2

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Stock Options/RSUs

Eligible participants may receive (i) stock options, (ii) RSUs or (iii) a combination of both stock options and RSUs.

Grants issued during the six months ended June 30 were as follows:

	2015		2014	
	Number granted	Weighted- average fair value per award	Number granted	Weighted- average fair value per award
Stock options	1,333,849	\$14.15	1,152,138	\$14.29
RSUs	411,968	\$66.82	375,064	\$59.83

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.

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 six months ended June 30:

	2015		2014	
Dividend yield	1.73	%	1.67	%
Volatility	28.56	%	31.43	%
Risk-free rate of return	1.24	%	1.46	%
Expected life in years	4.9		4.9	

Expected volatility -- The expected volatility is based on a weighted average of the Company's implied volatility and the most recent historical volatility of the Company's stock commensurate with the expected life.

Risk-free interest rate -- The Company applies a yield curve of continuous risk-free rates based upon the published US Treasury spot rates on the grant date.

Expected life -- The expected life of the Company's stock option awards represents the weighted-average of the actual period since the grant date for all exercised or cancelled options and an expected period for all outstanding options.

Dividend yield -- The Company determines the dividend yield based upon the expected quarterly dividend payments as of the grant date and the current fair market value of the Company's stock.

Forfeiture Rate -- The Company analyzes historical data of forfeited options to develop a reasonable expectation of the number of options to forfeit prior to vesting per year. This expected forfeiture rate is applied to the Company's ongoing compensation expense; however, all expense is adjusted to reflect actual vestings and forfeitures.

## 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 six months ended June 30, 2015, the Company granted PSUs with a maximum award level of approximately 0.4 million shares with a weighted-average fair value per award of \$79.83.

PSUs are earned 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 3-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.

## Other Plans

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.

14

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The Company has not granted stock appreciation rights (SARs) since 2006 and does not anticipate additional grants in the future. As of June 30, 2015, there were 19,270 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.

Note 11 – Other Income/(Expense), Net

The components of Other income/(expense), net for the three and six months ended June 30 were as follows:

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Interest income	\$2.4	\$3.6	\$5.3	\$6.4
Exchange gain (loss)	(0.1	) 2.8	(32.4	) (1.4
Income from equity investment	3.6	3.4	4.2	0.4
Other activity, net	16.1	(1.2	) 18.5	5.3
Other income/(expense), net	\$22.0	\$8.6	\$(4.4	) \$10.7

During the three months ended March 31, 2015, the Company recognized a loss on foreign currency exchange of \$42.6 million related to the remeasurement of net monetary assets denominated in Venezuelan bolivar, which is discussed below. This charge was partially offset by \$10.1 million of foreign currency transaction gains resulting from the remeasurement of non-functional balance sheet positions into their functional currency.

The Company recognized income from our equity investment in Hussmann, a refrigeration display case business. Our ownership interest was 36.7% and 37.2% at June 30, 2015 and 2014, respectively. The investment is accounted for using the equity method, and is reflected within Other noncurrent assets on the Condensed Consolidated Balance Sheets.

Other activity for the three months ended June 30, 2015 primarily consists of income realized from insurance settlements on asbestos-related matters. Other activity for the six months ended June 30, 2014 is primarily composed of a \$6.0 million gain on the sale of an investment.

#### Venezuela Currency Devaluation

The Company has one subsidiary with operations in Venezuela. Due to the historical designation of Venezuela as a highly inflationary economy, the U.S. dollar is the functional currency for this subsidiary. From February 2013 to March 2015 the Company utilized the official exchange rate obtained through the National Center of Foreign Trade (CENCOEX) of 6.3 bolivars to the U.S. dollar to translate the Venezuela subsidiary financial statements.

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. In January 2015, the Venezuelan government clarified the priority imports for the CENCOEX exchange and the Company's products were not listed as a priority. In February 2015, the Venezuelan government announced a new exchange market called the Marginal Currency System (SIMADI), which replaced the SICAD II exchange and allows for trading based on supply and demand. These markets have exchange rates significantly less favorable than the CENCOEX rate.

In light of the developments described above and the continued deterioration in the economic conditions of Venezuela in connection with the Company's preparation of the first quarter 2015 financial statements, the Company utilized the SIMADI rate of 192.95 bolivars to U.S. dollar to translate the financial position of our Venezuelan subsidiary as of March 31, 2015. As a result the Company recorded a pre-tax charge of \$42.6 million (within Other income/(expense), net) related to the remeasurement of net monetary assets at March 31, 2015 resulting in net monetary assets remaining of approximately 278 million bolivars, equal to \$1.4 million U.S. dollars. The Company has continued using the SIMADI rate through June 30, 2015.

#### Note 12 – 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

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

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 (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. In 2010, the Company received an amended notice from the IRS assessing penalties of 30% on the asserted underpayment of tax described above.

In 2013, the Company received a Notice of Deficiency from the IRS for 2002 and 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 owed 30% withholding tax on the portion of 2002 interest payments made on the 2001 Debt upon which it did not previously assert withholding tax. This increased the total tax liability proposed for 2002 to \$109.0 million (\$84 million referred to in the paragraph above plus an 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 asserted that the Company owed a total of approximately \$665 million of additional taxes, as described more fully in the two paragraphs 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 continued 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 asserted that the Company owed approximately \$455.0 million of withholding tax for 2003-2006 plus 30% penalties and interest.

The IRS also proposed 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, recharacterized 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 asserted that the Company owed approximately \$210.0 million of income tax on these dividends plus penalties of 20% and interest. The Company strongly disagreed with the view of the IRS and filed a protest in January 2014 for the 2003-2006 tax years.

Furthermore, a substantial amount of information was provided to the IRS in connection with its audit of our 2007-2011 tax years. We expected the IRS to propose similar adjustments with respect to the 2001 Debt, although the Company did not know how the IRS would apply its position to the different facts presented in those years or whether the IRS would take a similar position with respect to intercompany debt instruments not outstanding in prior years. During the three months ended June 30, 2015 the Company had extensive negotiations with the IRS on the terms of a settlement that was signed on July 17, 2015 to resolve all disputes described above with respect to the 2001 Debt, any similar issues related to other intercompany debt outstanding during the 2002-2011 period and all related issues including the issue of the recharacterized distributions. The resolution must be reported to the Congressional Joint Committee on Taxation (the "JCT") for review and cannot be finalized until the IRS considers the views, if any, expressed by the JCT about the matter.

This resolution covers the intercompany debt and related issues described above for the entire period from 2002-2011 and includes all aspects of the controversy before the U.S. Tax Court, the Appeals Division and the Examination Division of the IRS.

Pursuant to the agreement with the IRS, no penalties will apply with regard to any of the tax years 2002-2011, the Company will pay \$230 million in withholding tax, plus interest with respect to the 2002-2006 years and no additional tax will be owed with respect to these intercompany debt and related matters for the years 2007-2011.

In connection with this resolution, the Company recorded a charge of approximately \$227 million to income tax expense in the three months ended June 30, 2015 with the corresponding liability recorded to accrued expenses and other current liabilities. The Company expects to have a net cash outflow related to this matter in the second half of 2015 of approximately \$375 million (consisting of the \$230 million in tax and \$145 million of interest net of tax benefit). We expect our available cash flow, committed credit lines and access to the capital markets will be sufficient to fund this tax obligation.

Total unrecognized tax benefits as of June 30, 2015 and December 31, 2014 were \$493.0 million and \$343.8 million, respectively. The total amount of unrecognized tax benefits relating to the Company's tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations.

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The Company believes that it has adequately provided for any reasonably foreseeable resolution of tax matters, 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.

Note 13 – Acquisitions and Divestitures

Acquisitions

Cameron’s Centrifugal Compression Business

On January 1, 2015, the Company completed the previously announced acquisition of the assets of Cameron International Corporation’s Centrifugal Compression business for approximately \$850 million. The acquired business manufactures centrifugal compression equipment and provides aftermarket parts and services for global industrial applications, air separation, gas transmission and process gas. The acquisition was financed through a combination of cash on hand and debt.

The results of the Centrifugal Compression business have been included in our consolidated financial statements since the date of the acquisition and are reported within our Industrial segment. The aggregate value, net of cash acquired, was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

The following table summarizes our current estimate of the fair values of the identifiable assets acquired and liabilities assumed as of January 1, 2015:

In millions	January 1, 2015
Cash	\$ 10.2
Accounts receivable	37.7
Inventories	100.1
Property, plant and equipment	63.6
Intangible assets	272.2
Other assets	36.3
Accounts payable, accrued expenses and other liabilities	(110.5 )
Net identifiable assets acquired	409.6
Goodwill	433.5
Net assets acquired	\$ 843.1

The Company recorded intangible assets based on their estimate fair value, which consisted of the following:

In millions	Useful Life	January 1, 2015
Customer relationships	14 years	\$ 179.4
Trademarks	Indefinite	40.2
Completed technologies/patents	10 years	36.6
Other	2 - 5 years	16.0
Total		\$ 272.2

The excess of the purchase price over the estimated fair values of identifiable assets acquired was recorded as goodwill, and was equal to \$433.5 million. This goodwill is mainly attributable to benefits the Company expects to realize by integrating Centrifugal Compression’s products with our existing offerings and service network, by streamlining engineering and new product development efforts, and through other financial synergies.

**FRIGOBLOCK**

On March 4, 2015, the Company acquired 100% of the outstanding stock of FRIGOBLOCK for approximately \$113 million. FRIGOBLOCK manufactures and designs transport refrigeration units for trucks and trailers, which it sells primarily in Western Europe. FRIGOBLOCK’s financial results are included in our consolidated financial statements

as of the date of acquisition and reported within our Climate segment.

17

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Divestitures

In December 2013, the Company separated its commercial and residential security business, Allegion, through a distribution to shareholders. During the three and six months ended June 30, 2015 and 2014, the Company recognized gains or losses from the resolution of certain administrative matters with Allegion and other previously sold businesses, including income tax, postretirement benefits and legal-related matters. The components of Discontinued operations, net of tax for the three and six months ended June 30 were as follows:

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Net revenues	\$—	\$—	\$—	\$—
Pre-tax loss from discontinued operations	\$(9.7	) \$(18.9	) \$(18.8	) \$(17.4
Tax benefit	5.6	14.3	7.4	15.7
Discontinued operations, net of tax	\$(4.1	) \$(4.6	) \$(11.4	) \$(1.7

## Note 14 – 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 six months ended June 30:

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Weighted-average number of basic shares	266.5	270.4	265.9	274.4
Shares issuable under incentive stock plans	2.9	3.8	3.1	3.8
Weighted-average number of diluted shares	269.4	274.2	269.0	278.2
Anti-dilutive shares	1.1	1.1	1.3	1.1

## Note 15 – 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 six months ended June 30 was as follows:

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Net revenues				
Climate	\$2,815.5	\$2,748.9	\$4,974.0	\$4,789.7
Industrial	784.7	794.0	1,514.0	1,476.2
Total	\$3,600.2	\$3,542.9	\$6,488.0	\$6,265.9
Segment operating income				
Climate	\$402.4	\$389.3	\$553.3	\$520.3
Industrial	90.7	130.1	165.5	209.4
Total	\$493.1	\$519.4	\$718.8	\$729.7
Reconciliation to Operating income				
Unallocated corporate expense	(40.9	) (56.1	) (95.5	) (111.4
Operating income	\$452.2	\$463.3	\$623.3	\$618.3

## Note 16 – 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.

As of June 30, 2015 and December 31, 2014, the Company has recorded reserves for environmental matters of \$44.3 million and \$45.2 million, respectively. Of these amounts, \$35.1 million and \$36.3 million, respectively, relate to remediation of sites previously disposed of 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 June 30, 2015 and December 31, 2014 was \$11.6 million and \$17.1 million, respectively. For the three and six months ended June 30, 2015 and 2014, the impact on the Company's earnings of activity related to environmental matters was nominal. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.



Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## 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 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 to update its estimated asbestos-related liability. 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 June 30, 2015 and December 31, 2014, over 80 percent of the open claims against the Company are non-malignancy or unspecified disease 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	June 30, 2015	December 31, 2014
Accrued expenses and other current liabilities	\$66.9	\$67.6
Other noncurrent liabilities	685.0	709.0
Total asbestos-related liabilities	\$751.9	\$776.6
Other current assets	\$49.1	\$57.2
Other noncurrent assets	288.5	278.5
Total asset for probable asbestos-related insurance recoveries	\$337.6	\$335.7

The Company's asbestos insurance receivable related to IR-New Jersey and Trane was \$165.9 million and \$171.7 million at June 30, 2015, respectively, and \$176.8 million and \$158.9 million at December 31, 2014, respectively.



Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

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

In millions	Three months ended		Six months ended	
	2015	2014	2015	2014
Continuing operations	\$16.4	\$0.6	\$17.7	\$(1.1)
Discontinued operations	(4.4)	(12.5)	(5.7)	(13.8)
Total	\$12.0	\$(11.9)	\$12.0	\$(14.9)

Income and expense associated with IR-New Jersey's asbestos liabilities and corresponding insurance recoveries are recorded 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. During the three months ended June 30, 2015, the Company reached a settlement with insurance carriers related to Trane asbestos matters.

The receivable attributable to Trane for probable insurance recoveries as of June 30, 2015 is entirely supported by settlement agreements between Trane and the respective insurance carriers. Most of these 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.

In 2012 and 2013, IR-New Jersey filed actions 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 certain of 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. 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:

- IR-New Jersey has reached favorable settlements regarding asbestos coverage claims for the majority of its recorded asbestos-related insurance receivable;
- 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.

21

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

**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.

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

In millions	2015	2014
Balance at beginning of period	\$253.6	\$246.9
Reductions for payments	(68.1	) (70.9
Accruals for warranties issued during the current period	75.6	78.1
Changes to accruals related to preexisting warranties	5.6	9.6
Translation	(3.1	) (0.4
Balance at end of period	\$263.6	\$263.3

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 June 30, 2015 and December 31, 2014 was \$152.1 million and \$147.8 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 six months ended June 30 were as follows:

In millions	2015	2014
Balance at beginning of period	\$330.1	\$357.9
Amortization of deferred revenue for the period	(51.1	) (50.6
Additions for extended warranties issued during the period	42.6	40.1
Changes to accruals related to preexisting warranties	1.6	(1.9
Translation	(1.3	) (0.1
Balance at end of period	\$321.9	\$345.4

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 June 30, 2015 and December 31, 2014 was \$97.6 million and \$97.2 million, respectively. For the six months ended June 30, 2015 and 2014, the Company incurred costs of \$28.7 million and \$30.0 million, respectively, related to extended warranties.

**Other Commitments and Contingencies**

In January 2015, the Company purchased property, plant and equipment totaling approximately \$30 million, with a corresponding increase in liabilities. This represented a non-cash investing activity and, therefore, was not initially included in the Consolidated Statement of Cash Flows. The cash impact of the capital expenditure will be reflected in the Consolidated Statement of Cash Flows as the payments for the property, plant and equipment are made through 2017.

Trane has commitments and performance guarantees, including energy savings guarantees, totaling \$424.0 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 June 30, 2015, the Company has experienced no significant losses under such arrangements and considers the probability of any significant future losses to be remote. Refer to Note 12 for a discussion of income tax-related contingencies.





Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Note 17 – Guarantor Financial Information

Ingersoll-Rand plc (IR-Ireland), a public limited company incorporated in Ireland in 2009, 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-Limited fully and unconditionally guaranteed all of the issued public debt securities of IR-New Jersey.

As part of the Ireland Reorganization, IR-Ireland became the ultimate parent company and Ingersoll-Rand International Holding Limited (IR-International) became its stand-alone subsidiary. In addition, (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. 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 has since been settled. In 2013, the public outstanding indentures of IR-Global and IR-International were modified to include IR-New Jersey as a co-obligor.

In the fourth quarter of 2014, the Company issued \$1.1 billion of public debt through a newly incorporated, wholly-owned subsidiary, Ingersoll-Rand Luxembourg Finance S.A. (IR-Lux). This debt was guaranteed fully and unconditionally by each of the existing guarantors (IR-Ireland, IR-Limited, IR-International and IR-New Jersey) as well as IR-Global. Also in 2014, the public indentures of IR-Global and IR-New Jersey were modified to include IR-Lux as a guarantor.

Our current guarantor structure is as follows:

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

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

• IR-Ireland, IR-Limited, IR-International and IR-New Jersey fully and unconditionally guarantee the revolving credit facilities of IR-Global and IR-Lux (as an additional borrower), and each of IR-Global and IR-Lux guarantee any revolving credit facility borrowings of the other;

• IR-Ireland, IR-Limited, IR-International and IR-New Jersey fully and unconditionally guarantee any commercial paper borrowings of IR-Global or IR-Lux, and IR-Global guarantees any such borrowings of IR-Lux; and

• IR-New Jersey is a co-obligor of the outstanding public debt issued by IR-Global.

See Note 6 for a further discussion of public debt issuances and related guarantees.

The Condensed Consolidating Financial Statements present the investments of IR-Ireland, IR-Limited, IR-Global, IR-International, IR-New Jersey and IR-Lux and their subsidiaries using the equity method of accounting. In accordance with generally accepted accounting principles, the amounts related to the issuance of the Class B shares were 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.

The following condensed consolidating financial information for IR-Ireland, IR-Limited, IR-Global, IR-International, IR-New Jersey, IR-Lux, and all their other subsidiaries is included so that separate financial statements of IR-Ireland, IR-Limited, IR-Global, IR-International, IR-New Jersey, and IR-Lux are not required to be filed with the U.S. Securities and Exchange Commission. 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.



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 June 30, 2015

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	IR Lux	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net revenues	\$—	\$—	\$—	\$—	\$289.5	\$—	\$3,310.7	\$—	\$3,600.2
Cost of goods sold	—	—	—	—	(180.5)	—	(2,314.0)	—	(2,494.5)
Selling and administrative expenses	(3.8)	—	—	0.1	(112.4)	(0.1)	(537.3)	—	(653.5)
Operating income (loss)	(3.8)	—	—	0.1	(3.4)	(0.1)	459.4	—	452.2
Equity earnings (loss) in affiliates, net of tax	91.4	91.4	91.1	(37.4)	238.2	96.3	49.1	(620.1)	—
Interest expense	—	—	—	(32.0)	(12.2)	(10.6)	(1.0)	—	(55.8)
Intercompany interest and fees	(6.1)	(0.9)	(1.3)	(7.0)	(64.8)	(0.7)	80.8	—	—
Other income/(expense), net	(3.2)	—	—	—	20.3	—	4.9	—	22.0
Earnings (loss) before income taxes	78.3	90.5	89.8	(76.3)	178.1	84.9	593.2	(620.1)	418.4
Benefit (provision) for income taxes	0.8	—	—	14.1	(211.2)	—	(135.1)	—	(331.4)
Earnings (loss) from continuing operations	79.1	90.5	89.8	(62.2)	(33.1)	84.9	458.1	(620.1)	87.0
Earnings (loss) from discontinued operations, net of tax	—	—	—	—	(4.4)	—	0.3	—	(4.1)
Net earnings (loss)	79.1	90.5	89.8	(62.2)	(37.5)	84.9	458.4	(620.1)	82.9
Less: Net earnings attributable to noncontrolling interests	—	—	—	—	—	—	(97.0)	93.0	(4.0)
Net earnings (loss) attributable to Ingersoll-Rand plc	\$79.1	\$90.5	\$89.8	\$(62.2)	\$(37.5)	\$84.9	\$361.4	\$(527.1)	\$78.9
Total comprehensive income (loss)	140.1	152.0	89.8	(62.1)	(32.8)	85.0	514.1	(743.1)	143.0
Less: Total comprehensive (income) loss attributable to noncontrolling interests	—	—	—	—	—	—	(95.8)	93.0	(2.8)
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$140.1	\$152.0	\$89.8	\$(62.1)	\$(32.8)	\$85.0	\$418.3	\$(650.1)	\$140.2



Table of Contents

## INGERSOLL-RAND PLC

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

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the six months ended June 30, 2015

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	IR Lux	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net revenues	\$—	\$—	\$—	\$—	\$566.5	\$—	\$5,921.5	\$—	\$6,488.0
Cost of goods sold	—	—	—	—	(366.9)	—	(4,214.3)	—	(4,581.2)
Selling and administrative expenses	(5.3)	—	—	—	(228.6)	(0.4)	(1,049.2)	—	(1,283.5)
Operating income (loss)	(5.3)	—	—	—	(29.0)	(0.4)	658.0	—	623.3
Equity earnings (loss) in affiliates, net of tax	148.8	149.0	149.4	(42.8)	309.1	107.7	104.7	(925.9)	—
Interest expense	—	—	—	(63.9)	(24.3)	(20.8)	(1.9)	—	(110.9)
Intercompany interest and fees	(11.8)	(1.8)	(2.7)	(13.8)	(127.2)	(1.1)	158.4	—	—
Other income/(expense), net	(2.5)	—	—	—	31.3	—	(33.2)	—	(4.4)
Earnings (loss) before income taxes	129.2	147.2	146.7	(120.5)	159.9	85.4	886.0	(925.9)	508.0
Benefit (provision) for income taxes	1.0	—	—	28.2	(188.5)	—	(199.0)	—	(358.3)
Earnings (loss) from continuing operations	130.2	147.2	146.7	(92.3)	(28.6)	85.4	687.0	(925.9)	149.7
Earnings (loss) from discontinued operations, net of tax	—	—	—	—	(13.5)	—	2.1	—	(11.4)
Net earnings (loss)	130.2	147.2	146.7	(92.3)	(42.1)	85.4	689.1	(925.9)	138.3
Less: Net earnings attributable to noncontrolling interests	—	—	—	—	—	—	(115.8)	107.7	(8.1)
Net earnings (loss) attributable to Ingersoll-Rand plc	\$130.2	\$147.2	\$146.7	\$(92.3)	\$(42.1)	\$85.4	\$573.3	\$(818.2)	\$130.2
Total comprehensive income (loss)	(88.7)	(71.7)	146.7	(92.0)	(33.3)	85.5	460.1	(488.1)	(81.5)
Less: Total comprehensive (income) loss attributable to noncontrolling interests	—	—	—	—	—	—	(114.8)	107.7	(7.1)
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$(88.7)	\$(71.7)	\$146.7	\$(92.0)	\$(33.3)	\$85.5	\$345.3	\$(380.4)	\$(88.6)

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 June 30, 2014

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net revenues	\$—	\$—	\$—	\$—	\$246.2	\$3,296.7	\$—	\$3,542.9
Cost of goods sold	—	—	—	—	(151.9)	(2,288.0)	—	(2,439.9)
Selling and administrative expenses	(20.7)	—	—	(0.3)	(89.3)	(529.4)	—	(639.7)
Operating income (loss)	(20.7)	—	—	(0.3)	5.0	479.3	—	463.3
Equity earnings (loss) in affiliates, net of tax	330.3	335.1	339.7	204.1	277.0	537.4	(2,023.6)	—
Interest expense	—	—	(3.9)	(31.9)	(12.3)	(4.9)	—	(53.0)
Intercompany interest and fees	(4.1)	(0.9)	(2.1)	0.1	(62.2)	69.2	—	—
Other income/(expense), net	—	—	(0.4)	—	—	9.0	—	8.6
Earnings (loss) before income taxes	305.5	334.2	333.3	172.0	207.5	1,090.0	(2,023.6)	418.9
Benefit (provision) for income taxes	0.3	(0.1)	—	11.7	15.2	(130.8)	—	(103.7)
Earnings (loss) from continuing operations	305.8	334.1	333.3	183.7	222.7	959.2	(2,023.6)	315.2
Earnings (loss) from discontinued operations, net of tax	0.1	—	—	—	(18.7)	14.0	—	(4.6)
Net earnings	305.9	334.1	333.3	183.7	204.0	973.2	(2,023.6)	310.6
Less: Net earnings attributable to noncontrolling interests	—	—	—	—	—	(4.6)	—	(4.6)
Net earnings attributable to Ingersoll-Rand plc	\$305.9	\$334.1	\$333.3	\$183.7	\$204.0	\$968.6	\$(2,023.6)	\$306.0
Total comprehensive income	311.1	346.7	333.6	183.8	67.9	1,041.9	(1,969.6)	315.4
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	—	—	(4.4)	0.1	(4.3)
Total comprehensive income attributable to Ingersoll-Rand plc	\$311.1	\$346.7	\$333.6	\$183.8	\$67.9	\$1,037.5	\$(1,969.5)	\$311.1





Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Comprehensive Income

For the six months ended June 30, 2014

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net revenues	\$—	\$—	\$—	\$—	\$476.0	\$5,789.9	\$—	\$6,265.9
Cost of goods sold	—	—	—	—	(285.4)	(4,109.4)	—	(4,394.8)
Selling and administrative expenses	(22.8)	—	—	(0.4)	(195.6)	(1,034.0)	—	(1,252.8)
Operating income (loss)	(22.8)	—	—	(0.4)	(5.0)	646.5	—	618.3
Equity earnings in affiliates, net of tax	415.3	421.1	430.4	184.6	286.4	595.3	(2,333.1)	—
Interest expense	—	—	(7.9)	(63.9)	(24.6)	(8.6)	—	(105.0)
Intercompany interest and fees	(8.1)	(1.8)	(7.8)	(1.0)	(87.0)	105.7	—	—
Other income/(expense), net	0.2	—	3.3	—	13.9	(6.7)	—	10.7
Earnings (loss) before income taxes	384.6	419.3	418.0	119.3	183.7	1,332.2	(2,333.1)	524.0
Benefit (provision) for income taxes	0.3	(0.1)	—	19.5	18.9	(166.9)	—	(128.3)
Earnings (loss) from continuing operations	384.9	419.2	418.0	138.8	202.6	1,165.3	(2,333.1)	395.7
Earnings (loss) from discontinued operations, net of tax	—	—	—	—	(25.2)	23.5	—	(1.7)
Net earnings (loss)	384.9	419.2	418.0	138.8	177.4	1,188.8	(2,333.1)	394.0
Less: Net earnings attributable to noncontrolling interests	—	—	—	—	—	(9.1)	—	(9.1)
Net earnings (loss) attributable to Ingersoll-Rand plc	\$384.9	\$419.2	\$418.0	\$138.8	\$177.4	\$1,179.7	\$(2,333.1)	\$384.9
Total comprehensive income (loss)	354.1	395.8	418.6	139.0	234.8	1,029.6	(2,207.5)	364.4
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	—	—	(10.3)	—	(10.3)
Total comprehensive income attributable to Ingersoll-Rand plc	\$354.1	\$395.8	\$418.6	\$139.0	\$234.8	\$1,019.3	\$(2,207.5)	\$354.1



Table of Contents

## INGERSOLL-RAND PLC

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

(Unaudited)

## Condensed Consolidating Balance Sheet

June 30, 2015

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	IR Lux	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Current assets:									
Cash and cash equivalents	\$—	\$—	\$—	\$—	\$5.4	\$0.4	\$795.2	\$(21.4 )	\$779.6
Accounts and notes receivable, net	—	—	—	—	178.2	—	2,284.9	—	2,463.1
Inventories	—	—	—	—	213.4	—	1,421.1	—	1,634.5
Other current assets	1.1	—	—	32.3	234.8	—	383.2	—	651.4
Accounts and notes receivable affiliates	129.6	309.5	7,258.1	231.6	729.8	158.4	17,081.9	(25,898.9 )	—
Total current assets	130.7	309.5	7,258.1	263.9	1,361.6	158.8	21,966.3	(25,920.3 )	5,528.6
Investment in affiliates	9,731.3	12,843.3	4,160.5	9,290.4	15,221.7	1,927.9	7,400.9	(60,576.0 )	—
Property, plant and equipment, net	—	—	—	—	451.1	—	1,134.9	—	1,586.0
Goodwill and other intangible assets, net	—	—	—	—	416.2	—	9,364.9	—	9,781.1
Other noncurrent assets	0.2	—	—	203.3	784.3	9.3	648.4	(654.4 )	991.1
Total assets	\$9,862.2	\$13,152.8	\$11,418.6	\$9,757.6	\$18,234.9	\$2,096.0	\$40,515.4	\$(87,150.7 )	\$17,886.8
Current liabilities:									
Accounts payable and accruals	\$6.7	\$—	\$—	\$43.1	\$967.3	\$6.0	\$2,796.3	\$(21.4 )	\$3,798.0
Short-term borrowings and current maturities of long-term debt	—	—	—	—	350.5	293.0	16.2	—	659.7
Accounts and note payable affiliates	4,027.9	751.1	0.2	442.0	10,835.4	573.2	9,268.4	(25,898.2 )	—
	4,034.6	751.1	0.2	485.1	12,153.2	872.2	12,080.9	(25,919.6 )	4,457.7

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

Total current liabilities									
Long-term debt	—	—	—	2,296.2	342.1	1,095.5	0.8	—	3,734.6
Other noncurrent liabilities	—	—	3.8	3.3	1,416.3	—	3,038.0	(654.4 )	3,807.0
Total liabilities	4,034.6	751.1	4.0	2,784.6	13,911.6	1,967.7	15,119.7	(26,574.0 )	11,999.3
Equity:									
Total equity	5,827.6	12,401.7	11,414.6	6,973.0	4,323.3	128.3	25,395.7	(60,576.7 )	5,887.5
Total liabilities and equity	\$9,862.2	\$13,152.8	\$11,418.6	\$9,757.6	\$18,234.9	\$2,096.0	\$40,515.4	\$(87,150.7)	\$17,886.8

28

---

Table of Contents

## INGERSOLL-RAND PLC

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

(Unaudited)

## Condensed Consolidating Balance Sheet

December 31, 2014

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	IR Lux	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Current assets:									
Cash and cash equivalents	\$—	\$—	\$—	\$—	\$425.4	\$—	\$1,279.8	\$—	\$1,705.2
Accounts and notes receivable, net	—	—	—	—	147.0	—	1,972.0	—	2,119.0
Inventories	—	—	—	—	106.1	—	1,252.8	—	1,358.9
Other current assets	0.1	—	—	31.0	126.9	—	366.8	—	524.8
Accounts and notes receivable affiliates	48.6	309.5	8,227.0	306.0	4,788.2	50.7	21,832.6	(35,562.6 )	—
Total current assets	48.7	309.5	8,227.0	337.0	5,593.6	50.7	26,704.0	(35,562.6 )	5,707.9
Investment in affiliates	9,738.8	12,913.2	4,011.0	9,333.0	15,028.4	1,699.9	8,645.5	(61,369.8 )	—
Property, plant and equipment, net	—	—	—	—	324.7	—	1,152.3	—	1,477.0
Goodwill and other intangible assets, net	—	—	—	—	66.6	—	9,107.1	—	9,173.7
Other noncurrent assets	0.2	—	—	176.7	731.7	9.6	595.4	(573.7 )	939.9
Total assets	\$9,787.7	\$13,222.7	\$12,238.0	\$9,846.7	\$21,745.0	\$1,760.2	\$46,204.3	\$(97,506.1 )	\$17,298.5
Current liabilities:									
Accounts payable and accruals	\$7.9	\$—	\$—	\$26.6	\$495.8	\$8.1	\$2,645.0	\$—	\$3,183.4
Short-term borrowings and current maturities of long-term debt	—	—	—	—	350.5	100.0	32.2	—	482.7
Accounts and note payable affiliates	3,792.4	749.2	966.4	441.3	14,779.8	514.1	14,319.5	(35,562.7 )	—
	3,800.3	749.2	966.4	467.9	15,626.1	622.2	16,996.7	(35,562.7 )	3,666.1

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

Total current liabilities									
Long-term debt	—	—	—	2,296.1	349.6	1,095.1	0.9	—	3,741.7
Other noncurrent liabilities	—	—	3.8	2.7	1,471.6	—	2,940.9	(573.7 )	3,845.3
Total liabilities	3,800.3	749.2	970.2	2,766.7	17,447.3	1,717.3	19,938.5	(36,136.4 )	11,253.1
Equity:									
Total equity	5,987.4	12,473.5	11,267.8	7,080.0	4,297.7	42.9	26,265.8	(61,369.7 )	6,045.4
Total liabilities and equity	\$9,787.7	\$13,222.7	\$12,238.0	\$9,846.7	\$21,745.0	\$1,760.2	\$46,204.3	\$(97,506.1)	\$17,298.5

29

---

Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2015

In millions	IR Ireland	IR Limited	IR International	IR Global	IR New Jersey	IR Lux	Other Subsidiaries	Consolidating Adjustments	IR Ireland Consolidated
Net cash provided by (used in) continuing operating activities	\$(7.8 )	\$ —	\$ —	\$(63.9 )	\$(188.0 )	\$(21.2 )	\$ 501.8	\$ (37.2 )	\$ 183.7
Net cash used in discontinued operating activities	—	—	—	—	(13.5 )	—	(0.2 )	—	(13.7 )
Net cash provided by (used in) operating activities	(7.8 )	—	—	(63.9 )	(201.5 )	(21.2 )	501.6	(37.2 )	170.0
Cash flows from investing activities:									
Capital expenditures	—	—	—	—	(58.2 )	—	(57.1 )	—	(115.3 )
Acquisition of businesses, net of cash acquired	—	—	—	—	(448.1 )	—	(493.6 )	—	(941.7 )
Proceeds from sale of property, plant and equipment	—	—	—	—	—	—	5.7	—	5.7
Net cash used in continuing investing activities	—	—	—	—	(506.3 )	—	(545.0 )	—	(1,051.3 )
Cash flows from financing activities:									
Net proceeds (repayments) in debt	—	—	—	—	(7.5 )	184.7	(16.2 )	—	161.0
Net inter-company proceeds (payments)	113.8	—	—	63.9	295.3	(163.1)	(309.9 )	—	—
Dividends paid to ordinary shareholders	(151.3)	—	—	—	—	—	(15.8 )	15.8	(151.3 )
Dividends paid to noncontrolling interests	—	—	—	—	—	—	(5.2 )	—	(5.2 )
Other financing activities, net	45.3	—	—	—	—	—	—	—	45.3
Net cash provided by (used in) continuing financing activities	7.8	—	—	63.9	287.8	21.6	(347.1 )	15.8	49.8
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—	—	—	(94.1 )	—	(94.1 )
Net increase (decrease) in cash and cash equivalents	—	—	—	—	(420.0 )	0.4	(484.6 )	(21.4 )	(925.6 )
Cash and cash equivalents - beginning of period	—	—	—	—	425.4	—	1,279.8	—	1,705.2

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

Cash and cash equivalents - end of period    \$—    \$—    \$—    \$—    \$5.4    \$0.4    \$ 795.2    \$ (21.4 )    \$ 779.6

30

---



Table of Contents

INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed Consolidating Statement of Cash Flows

For the six months ended June 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	\$(22.6 )	\$—	\$ (4.6 )	\$ (64.3 )	\$146.1	\$ 1,058.5	\$ (926.1 )	\$ 187.0
Net cash provided by (used in) discontinued operating activities	—	—	—	—	(64.8 )	9.0	—	(55.8 )
Net cash provided by (used in) operating activities	(22.6 )	—	(4.6 )	(64.3 )	81.3	1,067.5	(926.1 )	131.2
Cash flows from investing activities:								
Capital expenditures	—	—	—	—	(38.9 )	(53.7 )	—	(92.6 )
Acquisition of businesses, net of cash acquired	—	—	—	—	—	(6.8 )	—	(6.8 )
Proceeds from sale of property, plant and equipment	—	—	—	—	0.9	2.0	—	2.9
Proceeds from business disposition, net of cash sold	—	—	—	—	—	2.0	—	2.0
Dividends received from equity investment	—	—	—	—	—	30.3	—	30.3
Net cash provided by (used in) continuing investing activities	—	—	—	—	(38.0 )	(26.2 )	—	(64.2 )
Cash flows from financing activities:								
Net proceeds (repayments) in debt	—	—	—	38.5	(7.5 )	8.0	—	39.0
Net inter-company proceeds (payments)	1,099.5	—	4.6	(947.0 )	746.0	(903.1 )	—	—
Dividends paid to ordinary shareholders	(132.8 )	—	—	—	(734.1 )	(192.0 )	926.1	(132.8 )
Dividends paid to noncontrolling interests	—	—	—	—	—	(14.9 )	—	(14.9 )
Proceeds from shares issued under incentive plans	—	—	—	—	—	—	—	—
Repurchase of ordinary shares	(1,012.8 )	—	—	—	—	—	—	(1,012.8 )
Other financing activities, net	68.7	—	—	(2.4 )	—	—	—	66.3
Net cash provided by (used in) continuing financing activities	22.6	—	4.6	(910.9 )	4.4	(1,102.0 )	926.1	(1,055.2 )
Effect of exchange rate changes on cash and cash equivalents	—	—	—	—	—	(19.2 )	—	(19.2 )
Net increase (decrease) in cash and cash equivalents	—	—	—	(975.2 )	47.7	(79.9 )	—	(1,007.4 )

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

Cash and cash equivalents - beginning of period	—	—	—	975.3	59.6	902.3	—	1,937.2
Cash and cash equivalents - end of period	\$—	\$—	\$—	\$ 0.1	\$107.3	\$ 822.4	\$ —	\$ 929.8

31

---

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, 2014. 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

We are 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, and the breadth of our product and services portfolios, have 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. We regularly perform detailed evaluations of the different market segments we are serving to proactively detect trends and to adapt our strategies accordingly. In addition, we believe 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 remain challenging across different international markets. Residential and Commercial new construction activity are recovering in the United States. This is impacting the results of our commercial Heating, Ventilation and Air Conditioning (HVAC) business. Non-residential new construction is growing slowly in Europe and is mixed in Asia. However, HVAC equipment replacement and aftermarket continue to experience steady growth. We have seen slower worldwide industrial equipment and aftermarket activity. 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

IRS Agreement

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. In 2010, the Company received an amended notice from the IRS assessing penalties of 30% on the asserted underpayment of tax described above.

Table of Contents

In 2013, the Company received a Notice of Deficiency from the IRS for 2002 and 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 owed 30% withholding tax on the portion of 2002 interest payments made on the 2001 Debt upon which it did not previously assert withholding tax. This increased the total tax liability proposed for 2002 to \$109.0 million (\$84 million referred to in the paragraph above plus an 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 asserted that the Company owed a total of approximately \$665 million of additional taxes, as described more fully in the two paragraphs 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 continued 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 asserted that the Company owed approximately \$455.0 million of withholding tax for 2003-2006 plus 30% penalties and interest.

The IRS also proposed 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, recharacterized 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 asserted that the Company owed approximately \$210.0 million of income tax on these dividends plus penalties of 20% and interest. The Company strongly disagreed with the view of the IRS and filed a protest in January 2014 for the 2003-2006 tax years.

Furthermore, a substantial amount of information was provided to the IRS in connection with its audit of our 2007-2011 tax years. We expected the IRS to propose similar adjustments with respect to the 2001 Debt, although the Company did not know how the IRS would apply its position to the different facts presented in those years or whether the IRS would take a similar position with respect to intercompany debt instruments not outstanding in prior years. During the three months ended June 30, 2015 the Company had extensive negotiations with the IRS on the terms of a settlement that was signed on July 17, 2015 to resolve all disputes described above with respect to the 2001 Debt, any similar issues related to other intercompany debt outstanding during the 2002-2011 period and all related issues including the issue of the recharacterized distributions. The resolution must be reported to the Congressional Joint Committee on Taxation (the "JCT") for review and cannot be finalized until the IRS considers the views, if any, expressed by the JCT about the matter.

This resolution covers the intercompany debt and related issues described above for the entire period from 2002-2011 and includes all aspects of the controversy before the U.S. Tax Court, the Appeals Division and the Examination Division of the IRS.

Pursuant to the agreement with the IRS, no penalties will apply with regard to any of the tax years 2002-2011, the Company will pay \$230 million in withholding tax, plus interest with respect to the 2002-2006 years and no additional tax will be owed with respect to these intercompany debt and related matters for the years 2007-2011.

In connection with this resolution, the Company recorded a charge of approximately \$227 million to income tax expense in the three months ended June 30, 2015 with the corresponding liability recorded to accrued expenses and other current liabilities. The Company expects to have a net cash outflow related to this matter in the second half of 2015 of approximately \$375 million (consisting of the \$230 million in tax and \$145 million of interest net of tax benefit). We expect our available cash flow, committed credit lines and access to the capital markets will be sufficient to fund this tax obligation.

Acquisition of Centrifugal Compression Business from Cameron International Corporation

On January 1, 2015, we completed the previously announced acquisition of the assets of Cameron International Corporation's Centrifugal Compression business for approximately \$850 million. The acquired business manufactures centrifugal compression equipment and provides aftermarket parts and services for global industrial applications, air separation, gas transmission and process gas. The acquisition was financed through a combination of cash on hand and debt. The results of the Centrifugal Compression business have been included in our consolidated financial statements

since the date of the acquisition and are reported within our Industrial segment.

#### 2015 Dividend Increase and Share Repurchase Program

In February 2015, we announced an increase in our quarterly share dividend of 16% from \$0.25 to \$0.29 per share beginning with our March 2015 payment.

In February 2014, our Board of Directors authorized the repurchase of up to \$1.5 billion of our ordinary shares under a share repurchase program that began in April 2014. Share repurchases are made from time to time at the discretion of management subject to market conditions, regulatory requirements and other considerations. The Company did not purchase shares during the six months ended June 30, 2015 and has \$0.9 billion remaining on the authorized plan.

Table of Contents

Venezuela Currency Devaluation

The Company has one subsidiary with operations in Venezuela. Due to the historical designation of Venezuela as a highly inflationary economy, the U.S. dollar is the functional currency for this subsidiary. From February 2013 to March 2015 the Company utilized the official exchange rate obtained through the National Center of Foreign Trade (CENCOEX) of 6.3 bolivars to the U.S. dollar to translate the Venezuela subsidiary financial statements.

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. In January 2015, the Venezuelan government clarified the priority imports for the CENCOEX exchange and the Company's products were not listed as a priority. In February 2015, the Venezuelan government announced a new exchange market called the Marginal Currency System (SIMADI), which replaced the SICAD II exchange and allows for trading based on supply and demand. These markets have exchange rates significantly less favorable than the CENCOEX rate.

In light of the developments described above and the continued deterioration in the economic conditions of Venezuela, it was determined the CENCOEX rate is no longer available to us. The Company utilized the SIMADI rate of 192.95 bolivars to U.S. dollar to translate the financial position of our Venezuelan subsidiary as of March 31, 2015. As a result the Company recorded a pre-tax charge of \$42.6 million (within Other income/(expense), net) related to the remeasurement of net monetary assets at March 31, 2015 resulting in net monetary assets remaining of approximately 278 million bolivars, equal to \$1.4 million U.S. dollars. The Company has continued using the SIMADI rate through June 30, 2015.

Issuance of Senior Notes due 2020, 2024, and 2044

In October 2014, we issued \$1.1 billion principal amount of Senior Notes in three tranches through a newly-created wholly-owned subsidiary, Ingersoll-Rand Luxembourg Finance S.A. (IR-Lux). The tranches consist of \$300 million of 2.625% Senior Notes due in 2020, \$500 million of 3.55% Senior Notes due 2024, and \$300 million of 4.65% Senior Notes due in 2044. The notes are fully and unconditionally guaranteed by Ingersoll-Rand Plc (IR-Ireland) and certain of our wholly-owned subsidiaries.

The proceeds from the notes were primarily used to fund (i) the October 2014 redemption of the \$200 million of 5.50% Notes due 2015 and \$300 million 4.75% Senior Notes due 2015, and (ii) the acquisition the Centrifugal Compression business discussed above. Related to the redemption, the Company recognized \$10.2 million of premium expense in Interest expense.

For additional information regarding the terms of the notes and the related guarantees, see Notes 6 and 17 to the Consolidated Financial Statements.

Table of Contents

## Results of Operations – Three Months Ended June 30

In millions, except per share amounts	2015	% of revenues	2014	% of revenues
Net revenues	\$3,600.2		\$3,542.9	
Cost of goods sold	(2,494.5)	) 69.3	% (2,439.9)	) 68.9 %
Selling and administrative expenses	(653.5)	) 18.2	% (639.7)	) 18.1 %
Operating income	452.2	12.6	% 463.3	13.1 %
Interest expense	(55.8)	)	(53.0)	)
Other, net	22.0		8.6	
Earnings before income taxes	418.4		418.9	
Provision for income taxes	(331.4)	)	(103.7)	)
Earnings from continuing operations	87.0		315.2	
Discontinued operations, net of tax	(4.1)	)	(4.6)	)
Net earnings	82.9		310.6	
Less: Net earnings attributable to noncontrolling interests	(4.0)	)	(4.6)	)
Net earnings attributable to Ingersoll-Rand plc	\$78.9		\$306.0	
Diluted net earnings (loss) per ordinary share attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	\$0.31		\$1.13	
Discontinued operations	(0.02)	)	(0.01)	)
Net earnings	\$0.29		\$1.12	

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 June 30, 2015 increased by 1.6%, or \$57.3 million, compared with the same period in 2014, which resulted from the following:

Volume	2.6	%
Acquisitions	2.3	%
Pricing	0.4	%
Currency exchange rates	(3.7)	)%
Total	1.6	%

The increase in revenues was primarily driven by higher volumes and contributions from the acquisition of the Centrifugal Compression and FRIGOBLOCK businesses, partially offset by unfavorable currency impacts, primarily from the Euro.

## Operating Income/Margin

Operating margin decreased from 13.1% for the three months ended June 30, 2014 to 12.6% for the same period in 2015. The decrease was primarily the result of the inclusion of the Centrifugal Compression business and related step-up amortization (0.5%), unfavorable currency impacts (0.4%), increased investment spending (0.3%) and unfavorable volume/product mix (0.3%), partially offset by productivity benefits in excess of other inflation (0.9%) and pricing improvements in excess of material inflation (0.2%).



Table of Contents

## Interest Expense

Interest expense for the three months ended June 30, 2015 increased \$2.8 million, compared with the same period of 2014, primarily as a result of higher average debt balances for the three months ended June 30, 2015.

## Other Income/(Expense), Net

The components of Other income/(expense), net for the three months ended June 30 were as follows:

In millions	2015	2014	
Interest income	\$2.4	\$3.6	
Exchange gain (loss)	(0.1	) 2.8	
Income from equity investment	3.6	3.4	
Other	16.1	(1.2	)
Other income/(expense), net	\$22.0	\$8.6	

The Company recognized income from our equity investment in Hussmann, a refrigeration display case business, of \$3.6 million and \$3.4 million for the three months ended June 30, 2015 and 2014, respectively. Our ownership interest was 36.7% and 37.2% at June 30, 2015 and 2014, respectively.

Other activity for the three months ended June 30, 2015 primarily consists of income realized from insurance settlements on asbestos-related matters.

## Provision for Income Taxes

For the three months ended June 30, 2015, the effective tax rate was 79.2% which is higher than the U.S. Statutory rate of 35% due to the increase in our liability for unrecognized tax benefits related to the dispute with the IRS referenced in Footnote 12, partially offset by earnings in non-U.S. jurisdictions, which in aggregate, have a lower effective tax rate. The increase in our liability for unrecognized tax benefits related to the IRS dispute increased our effective tax rate by 54.1%. For the three months ended June 30, 2014, the effective tax rate was 24.8%, 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 and the tax costs of certain legal entity restructurings. 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.

Table of Contents

## Results of Operations – Six Months Ended June 30

In millions, except per share amounts	2015	% of revenues	2014	% of revenues
Net revenues	\$6,488.0		\$6,265.9	
Cost of goods sold	(4,581.2)	) 70.6	% (4,394.8)	) 70.1
Selling and administrative expenses	(1,283.5)	) 19.8	% (1,252.8)	) 20.0
Operating income	623.3	9.6	% 618.3	9.9
Interest expense	(110.9)	)	(105.0)	)
Other income/(expense), net	(4.4)	)	10.7	)
Earnings before income taxes	508.0		524.0	
Provision for income taxes	(358.3)	)	(128.3)	)
Earnings from continuing operations	149.7		395.7	
Discontinued operations, net of tax	(11.4)	)	(1.7)	)
Net earnings	138.3		394.0	
Less: Net earnings attributable to noncontrolling interests	(8.1)	)	(9.1)	)
Net earnings attributable to Ingersoll-Rand plc	\$130.2		\$384.9	
Diluted net earnings (loss) per ordinary share attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	\$0.53		\$1.39	
Discontinued operations	(0.05)	)	(0.01)	)
Net earnings	\$0.48		\$1.38	

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 six months ended June 30, 2015 increased by 3.5%, or \$222.1 million, compared with the same period in 2014, which resulted from the following:

Volume	4.8	%
Acquisitions	2.3	%
Pricing	0.2	%
Currency exchange rates	(3.8)	)%
Total	3.5	%

The increase in revenues was primarily driven by higher volumes and contributions from the acquisition of the Centrifugal Compression and FRIGOBLOCK businesses, partially offset by unfavorable currency impacts, primarily from the Euro.

## Operating Income/Margin

Operating margin for the six months ended June 30, 2015 decreased to 9.6% from 9.9% in the same period of 2014.

The decrease was the primarily the result of the inclusion of the Centrifugal Compression business and related step-up amortization (0.5%), unfavorable currency impacts (0.5%) and increased investment spending (0.4%), partially offset by productivity benefits in excess of other inflation (0.9%).

Table of Contents

## Interest Expense

Interest expense for the six months ended June 30, 2015 increased \$5.9 million, compared with the same period of 2014, primarily as a result of higher average debt balances for the six months ended June 30, 2015.

## Other Income/(Expense), Net

The components of Other income/(expense), net for the six months ended June 30 were as follows:

In millions	2015	2014
Interest income	\$5.3	\$6.4
Exchange gain (loss)	(32.4	) (1.4
Income from equity investment	4.2	0.4
Other activity, net	18.5	5.3
Other income/(expense), net	\$(4.4	) \$10.7

The Company recognized a loss on foreign currency exchange of \$32.4 million for the six months ended June 30, 2015. This loss is comprised of a \$42.6 million pre-tax charge recorded in the first quarter related to the remeasurement of net monetary assets denominated in Venezuelan bolivar, partially offset by \$10.1 million of foreign currency transaction gains resulting from the remeasurement of non-functional balance sheet positions into their functional currency.

The Company recognized income from our equity investment in Hussmann, a refrigeration display case business, of \$4.2 million and \$0.4 million for the six months ended June 30, 2015 and 2014, respectively. Our ownership interest was 36.7% and 37.2% at June 30, 2015 and 2014, respectively.

Other activity for the three months ended June 30, 2015 primarily consists of income realized from insurance settlements on asbestos-related matters. Other activity for the six months ended June 30, 2014 is primarily composed of a \$6.0 million gain on the sale of an investment.

## Provision for Income Taxes

For the six months ended June 30, 2015, the effective tax rate was 70.5% which is higher than the U.S. Statutory rate of 35% primarily due to the increase in our liability for unrecognized tax benefits related to the dispute with the IRS referenced in Footnote 12, partially offset by earnings in non-U.S. jurisdictions, which in aggregate, have a lower effective tax rate. The increase in our liability for unrecognized tax benefits related to the IRS dispute increased our effective tax rate by 44.6%. For the six months ended June 30, 2014, the effective tax rate was 24.5%, 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, partially offset by a net increase to our liability for unrecognized tax benefits. 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.

## 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 and 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.



Table of Contents

Segment operating results for Climate for the three and six months ended June 30 were as follows:

Dollar amounts in millions	Three months ended			Six months ended		
	2015	2014	% change	2015	2014	% change
Net revenues	\$2,815.5	\$2,748.9	2.4 %	\$4,974.0	\$4,789.7	3.8 %
Segment operating income	402.4	389.3	3.4 %	553.3	520.3	6.3 %
Segment operating margin	14.3 %	14.2 %		11.1 %	10.9 %	

Net revenues for the three months ended June 30, 2015 increased by 2.4%, or \$66.6 million, compared with the same period of 2014. The improvement was primarily related to higher volumes (4.7%), contributions from the acquisition of FRIGOBLOCK (0.5%) and improved pricing (0.3%), partially offset by unfavorable currency impacts, primarily the Euro (3.1%).

Segment operating margin improved to 14.3% for the three months ended June 30, 2015, compared to 14.2% for the same period of 2014. The improvement was primarily driven by productivity benefits in excess of other inflation (0.4%) and higher volumes/product mix (0.2%), partially offset by increased investment spending (0.3%) and unfavorable currency impacts (0.2%).

Net revenues for the six months ended June 30, 2015 increased by 3.8%, or \$184.3 million, compared with the same period of 2014. The improvement was primarily related to higher volumes (6.5%), contributions from the acquisition of FRIGOBLOCK (0.4%) and improved pricing (0.2%), partially offset by unfavorable currency impacts, primarily the Euro (3.2%).

Segment operating margin improved to 11.1% for the six months ended June 30, 2015, compared to 10.9% for the same period of 2014. The improvement was primarily driven by productivity benefits in excess of other inflation (0.5%), and favorable volume/product mix (0.4%), partially offset by increased investment spending (0.4%) and unfavorable currency impacts (0.2%).

HVAC revenues increased as gains in the Americas, Europe and Middle East offset declines in Asia. Residential HVAC revenues to owned-distribution increased double digits while revenue to independent distribution decreased double digits due to timing of inventory re-stocking. Thermo King refrigeration transport revenues increased through organic growth in North America and Europe.

#### 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 six months ended June 30 were as follows:

Dollar amounts in millions	Three months ended			Six months ended		
	2015	2014	% change	2015	2014	% change
Net revenues	\$784.7	\$794.0	(1.2)%	\$1,514.0	\$1,476.2	2.6%
Segment operating income	90.7	130.1	(30.3)%	165.5	209.4	(21.0)%
Segment operating margin	11.6 %	16.4 %		10.9 %	14.2 %	

Net revenues for the three months ended June 30, 2015 decreased by 1.2%, or \$9.3 million, compared with the same period of 2014, primarily related to unfavorable currency impacts, primarily from the Euro (5.7%) and lower volumes (4.7%), partially offset by contributions from the acquisition of the Centrifugal Compression business (8.8%) and improved pricing (0.5%).

Segment operating margin decreased to 11.6% for the three months ended June 30, 2015, compared to 16.4% for the same period of 2014. The decrease was primarily due to the inclusion of the Centrifugal Compression business and related step-up amortization (2.3%), lower volume/product mix (2.2%), increased investment spending (0.8%) and unfavorable currency impacts (1.0%), partially offset by productivity benefits in excess of other inflation (1.2%) and pricing improvements in excess of material inflation (0.6%).

Net revenues for the six months ended June 30, 2015 increased by 2.6%, or \$37.8 million, compared with the same period of 2014, primarily related to contributions from the acquisition of the Centrifugal Compression business (8.7%) and improved pricing (0.6%), partially offset by unfavorable currency impacts, primarily from the Euro (5.8%) and lower volumes (0.8%).

Segment operating margin decreased to 10.9% for the six months ended June 30, 2015, compared to 14.2% for the same period of 2014. The decrease was primarily due to the inclusion of the Centrifugal Compression business and related step-up amortization(2.4%), unfavorable volume/product mix (1.1%), unfavorable currency impacts (1.1%) and increased investment spending (0.6%), partially offset by productivity benefits in excess of other inflation (1.4%), and pricing improvements in excess of material inflation (0.5%).

Table of Contents

Air compressors and industrial products revenues declined as gains from acquisitions in Americas were largely offset by negative comparisons in overseas markets.

Unallocated Corporate Expenses

Unallocated corporate expense for the three and six months ended June 30, 2015 decreased by 27% (\$15.2 million) and 14% (\$15.9 million), compared with the same period of 2014, respectively. This decline is primarily related to the timing of professional expenses and adjustments to estimates of compensation and benefits.

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 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 2015, we announced an increase in our quarterly share dividend of 16% from \$0.25 to \$0.29 per share beginning with our March 2015 payment. In February 2014, our Board of Directors authorized the repurchase of up to \$1.5 billion of our ordinary shares under a share repurchase program that began in April 2014. The Company did not repurchase shares during the six months ended June 30, 2015 and has \$0.9 billion remaining under the share repurchase authorization. In connection with the July 17, 2015 IRS resolution, the Company expects to have a net cash outflow in the second half of 2015 of approximately \$375 million. We expect our available cash flow, committed credit lines and access to the capital markets will be sufficient to fund the increased dividend, share repurchases, and tax obligations.

Liquidity

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

In millions	June 30, 2015	December 31, 2014		
Cash and cash equivalents	\$779.6	\$1,705.2		
Short-term borrowings and current maturities of long-term debt	659.7	482.7		
Long-term debt	3,734.6	3,741.7		
Total debt	4,394.3	4,224.4		
Total Ingersoll-Rand plc shareholders' equity	5,827.6	5,987.4		
Total equity	5,887.5	6,045.4		
Debt-to-total capital ratio	42.7	% 41.1		%

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

In millions	June 30, 2015	December 31, 2014
Debentures with put feature	\$343.0	\$343.0
Commercial Paper	293.0	100.0
Other current maturities of long-term debt	7.8	23.6
Other short-term borrowings	15.9	16.1
Total	\$659.7	\$482.7

Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes.

Table of Contents

## Debentures with Put Feature

At June 30, 2015 and December 31, 2014, 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. 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.

Holder of these debentures had the option to exercise the put feature on \$37.2 million of the outstanding debentures in February 2015, subject to the notice requirement. No exercises were made.

## Senior Notes due 2020, 2024, and 2044

In October 2014, we issued \$1.1 billion principal amount of Senior Notes in three tranches through a newly-created wholly-owned subsidiary, Ingersoll-Rand Luxembourg Finance S.A. (IR-Lux). The tranches consist of \$300 million of 2.625% Senior Notes due in 2020, \$500 million of 3.55% Senior Notes due 2024, and \$300 million of 4.65% Senior Notes due in 2044. The notes are fully and unconditionally guaranteed by IR-Ireland and certain of our wholly-owned subsidiaries.

The proceeds from the notes were primarily used to fund (i) the October 2014 redemption of the \$200 million 5.50% Notes due 2015 and \$300 million 4.75% Senior Notes due 2015, and (ii) the acquisition of the Centrifugal Compression business.

For additional information regarding the terms of the notes and the related guarantees, see Notes 6 and 17 to the Consolidated Financial Statements.

## Other Credit Facilities

We have two 5-year, \$1.0 billion revolving credit facilities through IR-Global and IR-Lux, one of which matures in March 2017 and the other matures in March 2019.

IR-Ireland, IR-Limited, IR-International, IR-New Jersey, IR-Global and IR-Lux have each provided irrevocable and unconditional guarantees for these credit facilities. The total committed revolving credit facilities of \$2.0 billion were unused at June 30, 2015 and December 31, 2014, and provide support for our commercial paper program, as well as other general corporate purposes.

## Cash Flows

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

In millions	2015	2014
Operating cash flow provided by continuing operations	\$183.7	\$187.0
Investing cash flow used in continuing operations	(1,051.3	) (64.2
Financing cash flow provided by (used in) continuing operations	49.8	(1,055.2

## Operating Activities

Net cash provided by continuing operating activities during the six months ended June 30, 2015 was \$183.7 million, which is comparable with \$187.0 million of net cash provided during the comparable period in 2014. After adjusting for the \$227 million tax charge related to the IRS Exam resolution, a non-cash expense for the six months ended June 30, 2015, net earnings and the adjustments to arrive at net cash flow provided by operations were largely consistent with the same period of the prior year.

## Investing Activities

Net cash used in continuing investing activities during the six months ended June 30, 2015 was \$1,051.3 million, compared with \$64.2 million during the comparable period of 2014. The change in investing activities is primarily attributable to the previously mentioned acquisition of the Centrifugal Compression business in January 2015 for approximately \$850 million and the acquisition of FRIGOBLOCK in March 2015 for approximately \$113 million.

## Financing Activities

Net cash provided by continuing financing activities during the six months ended June 30, 2015 was \$49.8 million, compared to net cash used in continuing financing activities of \$1,055.2 million during the comparable period in 2014. The change in financing activities is primarily driven by the Company repurchasing 17.0 million shares for approximately \$1,012.8 million during the six months ended June 30, 2014 as compared to the Company repurchasing



no shares during the six months ended June 30, 2015. Further contributing to the change in financing activities was net proceeds from short term borrowings of \$146.5 million during

41

---

Table of Contents

the six months ended June 30, 2015, primarily from commercial paper with no comparable borrowings during the six months ended June 30, 2014.

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 as the plan's funded status improves. 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 8 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, 2014.

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 16 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 six months ended June 30, 2015, 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, 2014.

Recent Accounting Pronouncements

Recently Adopted 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 guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within those years. The Company will apply this guidance, as applicable, to future disposals of components or classifications as held for sale.

Recently Issued Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement," which provides guidance about whether a cloud computing arrangement includes a software license and how to account for the license under each scenario. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. A reporting entity may apply the guidance

prospectively to all arrangements entered into or materially modified after the effective date, or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. The Company is currently assessing the impact on the condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which amends the current presentation of debt issuance costs in the financial statements. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with

Table of Contents

debt discounts, instead of as an asset. The amendments are to be applied retrospectively and are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, but early adoption is permitted. The adoption of the new guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, "Amendments to the Consolidation Analysis," which amends certain requirements for determining whether a variable interest entity must be consolidated. The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of the new guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

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 July 2015, the FASB decided to defer the effective date of the standard to be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early application permitted, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently determining its implementation approach and assessing the impact on the condensed consolidated financial statements.

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 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 statement regarding the resolution of tax disputes, the financial impact of such resolution and expectations of cash outflows related to the resolution; 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;
- the review by the JCT of our tax matters resolution and the IRS consideration of the views expressed by the JCT;

- 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;

Table of Contents

• impairment of our goodwill, indefinite-lived intangible assets and/or our long-lived assets;

• climate change, changes in weather patterns and seasonal fluctuations;

- the impact of potential information technology or data security breaches;

- the strategic acquisition of businesses, product lines and joint ventures;

and

• 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.

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, 2014. 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

See Note 11 for an update related to the Company's Venezuelan currency exposure. 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, 2014. There has been no significant change in our exposure to market risk as of the second quarter of 2015.

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 June 30, 2015, 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.

There has been no change in the Company's internal control over financial reporting that occurred during the second quarter of 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

## IRS Agreement

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. In 2010, the Company received an amended notice from the IRS assessing penalties of 30% on the asserted underpayment of tax described above.

In 2013, the Company received a Notice of Deficiency from the IRS for 2002 and 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 owed 30% withholding tax on the portion of 2002 interest payments made on the 2001 Debt upon which it did not previously assert withholding tax. This increased the total tax liability proposed for 2002 to \$109.0 million (\$84 million referred to in the paragraph above plus an 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 asserted that the Company owed a total of approximately \$665 million of additional taxes, as described more fully in the two paragraphs 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 continued 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 asserted that the Company owed approximately \$455.0 million of withholding tax for 2003-2006 plus 30% penalties and interest.

The IRS also proposed 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, recharacterized 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 asserted that the Company owed approximately \$210.0 million of income tax on these dividends plus penalties of 20% and interest. The Company strongly disagreed with the view of the IRS and filed a protest in January 2014 for the 2003-2006 tax years.

Furthermore, a substantial amount of information was provided to the IRS in connection with its audit of our 2007-2011 tax years. We expected the IRS to propose similar adjustments with respect to the 2001 Debt, although the Company did not know how the IRS would apply its position to the different facts presented in those years or whether the IRS would take a similar position with respect to intercompany debt instruments not outstanding in prior years. During the three months ended June 30, 2015 the Company had extensive negotiations with the IRS on the terms of a settlement that was signed on July 17, 2015 to resolve all disputes described above with respect to the 2001 Debt, any similar issues related to other intercompany debt outstanding during the 2002-2011 period and all related issues including the issue of the recharacterized distributions. The resolution must be reported to the Congressional Joint Committee on Taxation (the "JCT") for review and cannot be finalized until the IRS considers the views, if any, expressed by the JCT about the matter.

This resolution covers the intercompany debt and related issues described above for the entire period from 2002-2011 and includes all aspects of the controversy before the U.S. Tax Court, the Appeals Division and the Examination Division of the IRS.

Pursuant to the agreement with the IRS, no penalties will apply with regard to any of the tax years 2002-2011, the Company will pay \$230 million in withholding tax, plus interest with respect to the 2002-2006 years and no additional tax will be owed with respect to these intercompany debt and related matters for the years 2007-2011.

In connection with this resolution, the Company recorded a charge of approximately \$227 million to income tax expense in the three months ended June 30, 2015 with the corresponding liability recorded to accrued expenses and other current liabilities. The Company expects to have a net cash outflow related to this matter in the second half of 2015 of approximately \$375 million



Table of Contents

(consisting of the \$230 million in tax and \$145 million of interest net of tax benefit). We expect our available cash flow, committed credit lines and access to the capital markets will be sufficient to fund this tax obligation. See Note 12 to the condensed consolidated financial statements for further discussion of tax matters.

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 has 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, 2014 under Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental and Asbestos Matters and also Note 16 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, 2014. 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, 2014.

## 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 second quarter of 2015:

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)	Approximate dollar value of shares still available to be purchased under the program (\$000's) (a)
April 1 - April 30	0.3	\$67.23	—	\$916,639
May 1 - May 31	—	—	—	916,639
June 1 - June 30	1.1	68.93	—	916,639
Total	1.4	\$68.61	—	

(a) In February 2014, our Board of Directors authorized the repurchase of up to \$1.5 billion of our ordinary shares under a share repurchase program, which began in April 2014. Based on market conditions, share repurchases are 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.

(b) 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. We reacquired 253 shares in April and 1,098 shares in June in transactions outside the repurchase programs.

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 June 30, 2015, 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.	Filed 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: July 28, 2015

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

Date: July 28, 2015

/s/ Christopher J. Kuehn  
Christopher J. Kuehn, Vice President and  
Controller  
Principal Accounting Officer