Ingersoll-Rand plc
Form 10-Q
July 26, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from to

Commission File Number 001-34400

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

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

170/175 Lakeview Dr.
Airside Business Park
Swords, Co. Dublin
Ireland
(Address of principal executive offices, including zip code)
+(353) (0) 18707400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of ordinary shares outstanding of Ingersoll-Rand plc as of July 14, 2017 was 253,667,886.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INGERSOLL-RAND PLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
In millions, except per share amounts	2017	2016	2017	2016
Net revenues	$3,908.4	$3,688.2	$6,909.0	$6,582.3
Cost of goods sold	(2,653.1)	(2,506.5)	(4,779.2)	(4,547.7)
Selling and administrative expenses	(697.7)	(668.4)	(1,357.2)	(1,295.9)
Operating income	557.6	513.3	772.6	738.7
Interest expense	(54.1)	(56.5)	(108.1)	(113.2)
Other income/(expense), net	(11.5)	394.9	(16.2)	396.8
Earnings before income taxes	492.0	851.7	648.3	1,022.3
Provision for income taxes	(138.1)	(92.5)	(166.8)	(134.4)
Earnings from continuing operations	353.9	759.2	481.5	887.9
Discontinued operations, net of tax	8.3	(6.8)	1.8	20.1
Net earnings	362.2	752.4	483.3	908.0
Less: Net earnings attributable to noncontrolling interests	(3.6)	(4.8)	(7.6)	(8.0)
Net earnings attributable to Ingersoll-Rand plc	$358.6	$747.6	$475.7	$900.0
Amounts attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	$350.3	$754.4	$473.9	$879.9
Discontinued operations	8.3	(6.8)	1.8	20.1
Net earnings	$358.6	$747.6	$475.7	$900.0
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:				
Basic:				
Continuing operations	$1.37	$2.91	$1.84	$3.39
Discontinued operations	0.03	(0.03)	—	0.08
Net earnings	$1.40	$2.88	$1.84	$3.47
Diluted:				
Continuing operations	$1.35	$2.88	$1.82	$3.37
Discontinued operations	0.03	(0.02)	—	0.07
Net earnings	$1.38	$2.86	$1.82	$3.44
Weighted-average shares outstanding:				
Basic	256.4	259.2	257.9	259.3
Diluted	259.7	261.6	261.1	261.4
Dividends declared per ordinary share	$0.40	$0.32	$0.80	$0.64
Total comprehensive income (loss)	$539.1	$676.3	$779.3	$974.8
Less: Total comprehensive income (loss) attributable to noncontrolling interests	4.3	3.7	6.8	7.8
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	$534.8	$672.6	$772.5	$967.0

See accompanying notes to Condensed Consolidated Financial Statements.

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INGERSOLL-RAND PLC
CONDENSED CONSOLIDATED BALANCE SHEETS

In millions	(Unaudited) June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,310.1	$ 1,714.7
Accounts and notes receivable, net	2,596.5	2,223.0
Inventories, net	1,604.5	1,385.8
Other current assets	343.9	255.8
Total current assets	5,855.0	5,579.3
Property, plant and equipment, net	1,509.6	1,511.0
Goodwill	5,779.4	5,658.4
Intangible assets, net	3,750.6	3,785.1
Other noncurrent assets	878.9	863.6
Total assets	$ 17,773.5	$ 17,397.4
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 1,599.2	$ 1,334.0
Accrued compensation and benefits	409.5	469.8
Accrued expenses and other current liabilities	1,533.5	1,425.7
Short-term borrowings and current maturities of long-term debt	361.3	360.8
Total current liabilities	3,903.5	3,590.3
Long-term debt	3,704.5	3,709.4
Postemployment and other benefit liabilities	1,362.9	1,356.5
Deferred and noncurrent income taxes	884.4	884.9
Other noncurrent liabilities	1,124.2	1,138.0
Total liabilities	10,979.5	10,679.1
Equity:		
Ingersoll-Rand plc shareholders' equity:		
Ordinary shares	273.6	271.7
Ordinary shares held in treasury, at cost	(1,277.9)	(702.7)
Capital in excess of par value	416.4	346.5
Retained earnings	8,303.2	8,018.8
Accumulated other comprehensive income (loss)	(993.7)	(1,290.5)
Total Ingersoll-Rand plc shareholders' equity	6,721.6	6,643.8
Noncontrolling interests	72.4	74.5
Total equity	6,794.0	6,718.3
Total liabilities and equity	$ 17,773.5	$ 17,397.4

See accompanying notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30,	
In millions	2017	2016
Cash flows from operating activities:		
Net earnings	$483.3	$908.0
Discontinued operations, net of tax	(1.8)	(20.1)
Adjustments for non-cash transactions:		
Asset impairment	8.4	—
Depreciation and amortization	174.1	176.0
Gain on sale of Hussmann equity investment	—	(397.8)
Changes in assets and liabilities, net	(323.3)	(314.8)
Other non-cash items, net	81.6	51.6
Net cash provided by (used in) continuing operating activities	422.3	402.9
Net cash provided by (used in) discontinued operating activities	(16.8)	25.2
Net cash provided by (used in) operating activities	405.5	428.1
Cash flows from investing activities:		
Capital expenditures	(79.5)	(83.0)
Acquisition of businesses, net of cash acquired	(39.9)	(9.2)
Proceeds from sale of property, plant and equipment	0.5	2.4
Proceeds from sale of Hussmann equity investment	—	422.5
Net cash provided by (used in) continuing investing activities	(118.9)	332.7
Cash flows from financing activities:		
Short-term borrowings (payments), net	(7.6)	(150.6)
Debt issuance costs	(0.2)	(2.1)
Dividends paid to ordinary shareholders	(204.8)	(162.5)
Dividends paid to noncontrolling interests	(7.0)	(6.7)
Acquisition of noncontrolling interest	(6.8)	—
Repurchase of ordinary shares	(575.2)	(250.1)
Other financing activities, net	34.7	0.8
Net cash provided by (used in) continuing financing activities	(766.9)	(571.2)
Effect of exchange rate changes on cash and cash equivalents	75.7	2.4
Net increase (decrease) in cash and cash equivalents	(404.6)	192.0
Cash and cash equivalents - beginning of period	1,714.7	736.8
Cash and cash equivalents - end of period	$1,310.1	$928.8

See accompanying notes to Condensed Consolidated Financial Statements.

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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 (Plc or Parent Company), 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 Ingersoll-Rand plc Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, which include only normal recurring adjustments, necessary to fairly state the condensed consolidated results for the interim periods presented. Certain reclassifications of amounts reported in prior periods have been made to conform with the current period presentation.

Note 2. Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) Accounting Standards Codification is the sole source of authoritative GAAP other than SEC issued rules and regulations that apply only to SEC registrants. The FASB issues an Accounting Standards Update (ASU) to communicate changes to the codification. The Company considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are not expected to have a material impact on the consolidated financial statements.

Recently Adopted Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09) which simplifies several aspects of the accounting for employee share-based payment transactions. The standard makes several modifications to the accounting for forfeitures, employer tax withholding on share-based compensation and the financial statement presentation of excess tax benefits or deficiencies. In addition, ASU 2016-09 clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016. The Company adopted this standard on January 1, 2017 and prospectively presented any excess tax benefits or deficiencies in the income statement as a component of Provision for income taxes rather than in the Equity section of the Balance Sheet. As part of the adoption, the Company reclassified $15.1 million of excess tax benefits previously unrecognized on a modified retrospective basis through a cumulative-effect adjustment to increase Retained earnings as of January 1, 2017. In addition, the statement of cash flows for the six months ended June 30, 2016 was retrospectively adjusted to present $8.4 million of excess tax benefits as an operating activity rather than a financing activity.

In January 2017, the FASB issued ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (ASU 2017-04) which simplifies the accounting for goodwill impairment by eliminating Step 2 of the current goodwill impairment test which requires a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, a company will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value. ASU 2017-04 does not change the guidance on completing Step 1 of the goodwill impairment test and still allows a company to perform the optional qualitative goodwill impairment assessment before determining whether to proceed to Step 1. The standard is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted for any impairment test performed on testing dates after January 1, 2017. The Company adopted this standard on January 1, 2017 and will apply its guidance on future impairment assessments.

In March 2017, the FASB issued ASU 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07) which changes the way employers that sponsor defined benefit pension and/or postretirement benefit plans reflect net periodic benefit costs in the income statement. Under the current standard, the multiple components of net periodic

benefit costs are aggregated and reported within the operating section of the income statement or capitalized into assets when appropriate. The new standard requires a company to present the service cost component of net periodic benefit cost in the same income statement line as other employee compensation costs with the remaining components of net periodic benefit cost presented separately from the service cost component and outside of any subtotal of operating income, if one is presented. In addition, only the service cost component will be eligible for capitalization in assets. ASU 2017-07 is effective for fiscal years beginning after December 15, 2017 with early adoption permitted as of the beginning of an annual period. The Company adopted this standard on January 1, 2017 applying the presentation requirements retrospectively. Refer to Note 9, "Pensions and Postretirement Benefits Other than Pensions" and Note 13, "Other Income/ (Expense), net" for additional information.

Recently Issued Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" (ASU 2016-18). This standard requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the statements of cash flows. In addition, the standard requires disclosure of the nature of restrictions on cash balances and how the statement of cash flows reconciles to the balance sheet in any situation in which the balance sheet includes more that one line item of cash, cash equivalents and restricted cash. ASU 2016-18 is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory” (ASU 2016-16) which removes the prohibition in Topic 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual periods, with early adoption permitted. The amendments are to be applied on a modified retrospective basis through a cumulative-effect adjustment directly to Retained earnings as of the beginning of the period of adoption. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (ASU 2016-15). This standard clarifies how certain cash receipts and cash payments are classified on the statement of cash flows. The following eight specific cash flow issues are addressed: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions and separately identifiable cash flows. In addition, the standard clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. ASU 2016-15 is effective for annual reporting periods beginning after December 15, 2017 with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases" (ASU 2016-02) which requires the lease rights and obligations arising from lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet. The standard also requires additional disclosures by lessees and contains targeted changes to accounting by lessors. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. The standard is required to be adopted at the earliest period presented using a modified retrospective approach. The Company is currently assessing the impact of the ASU on its financial statements but anticipates the adoption to have a material impact on its assets and liabilities due to the recognition of lease rights and obligations to the Balance Sheet. However, the Company does not expect the adoption on January 1, 2019 to have a material impact to its Statements of Cash Flows or Statements of Comprehensive Income.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (ASC 606), which creates a comprehensive, five-step model for revenue recognition that requires a company to recognize revenue to depict the transfer of promised goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Under the new standard, a company will be required to use more judgment and make more estimates when considering contract terms as well as relevant facts and circumstances when identifying performance obligations, estimating the amount of variable consideration in the transaction price and allocating the transaction price to each separate performance obligation. In addition, ASC 606 enhances disclosures

about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements. ASC 606 is effective for annual reporting periods beginning after December 15, 2017 and is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. Early adoption is permitted, but not before the original effective date of the standard.

In 2014, the Company began to assess the impact of adopting ASC 606 on its revenue recognition practices. Utilizing working sessions and document reviews with each of its reporting units as well as with appropriate functions such as legal and tax, the Company identified potential differences that would result from applying the requirements of the new standard on the Company's revenue contracts. During 2015, the Company drafted preliminary accounting positions addressing identified potential differences and later determined that certain highly engineered products sold to customers within the Industrial segment and which revenue is currently recognized at a point in time, will meet the criteria of a performance obligation satisfied over time under the new standard. Total applicable revenues represent approximately 4% of the Industrial segment revenue and less than 1% of total

Company revenue. While the Company is still in the process of assessing the impact to the financial statements, management believes the adoption of ASC 606 will not have a material impact to Net revenues, Operating income or the Balance Sheet. In addition, the Company intends to apply the guidance by recognizing the cumulative effect of initially applying the standard as an opening balance sheet adjustment to equity in the period of initial adoption.

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.

The major classes of inventory were as follows:

In millions	June 30, 2017	December 31, 2016
Raw materials	$503.3	$ 448.5
Work-in-process	176.7	154.0
Finished goods	986.6	845.6
	1,666.6	1,448.1
LIFO reserve	(62.1)	(62.3)
Total	$1,604.5	$ 1,385.8

The Company performs periodic assessments to determine the existence of obsolete, slow-moving and non-saleable inventories and records necessary provisions to reduce such inventories to net realizable value. Reserve balances, primarily related to obsolete and slow-moving inventories, were $120.3 million and $111.7 million at June 30, 2017 and December 31, 2016, respectively.

Note 4. Goodwill

The Company records as goodwill the excess of the purchase price over the fair value of the net assets acquired. Once the final valuation has been performed for each acquisition, adjustments may be recorded. Goodwill is tested and reviewed annually for impairment during the fourth quarter or whenever there is a significant change in events or circumstances that indicate that the fair value of a reporting unit may be less than the carrying amount of the reporting unit.

The changes in the carrying amount of goodwill for the six months ended June 30, 2017 were as follows:

In millions	Climate	Industrial	Total
Net balance as of December 31, 2016	$4,879.1	$ 779.3	$5,658.4
Acquisitions	2.6	—	2.6
Currency translation	99.0	19.4	118.4
Net balance as of June 30, 2017	$4,980.7	$ 798.7	$5,779.4

The net goodwill balances at June 30, 2017 and December 31, 2016 include $2,496.0 million of accumulated impairment. The accumulated impairment relates entirely to a charge in the fourth quarter of 2008 associated with the Climate segment.

During 2017, the Company acquired several businesses, including channel acquisitions, that complement existing products and services. These acquisitions were recorded using the acquisition method of accounting in accordance with the accounting guidance for business combinations. As a result, the aggregate purchase price has been allocated to assets acquired and liabilities assumed based on the estimate of fair market value of such assets and liabilities at the date of acquisition. Intangible assets associated with these acquisitions primarily relate to technology, trademarks and/or customer relationships. Any excess of the purchase price is recognized as goodwill.

Note 5. Intangible Assets

Indefinite-lived intangible assets are tested and reviewed annually for impairment during the fourth quarter or whenever there is a significant change in events or circumstances that indicate that the fair value of the asset may be

less than the carrying amount of the asset. All other intangible assets with finite useful lives are being amortized on a straight-line basis over their estimated useful lives.

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

In millions	June 30, 2017 Gross carrying amount	June 30, 2017 Accumulated amortization	June 30, 2017 Net carrying amount	December 31, 2016 Gross carrying amount	December 31, 2016 Accumulated amortization	December 31, 2016 Net carrying amount
Completed technologies/patents	$207.1	$ (171.9)	$35.2	$203.0	$ (165.6)	$37.4
Customer relationships	2,038.4	(992.2)	1,046.2	2,008.9	(926.1)	1,082.8
Other	64.4	(50.9)	13.5	61.1	(48.5)	12.6
Total finite-lived intangible assets	2,309.9	(1,215.0)	1,094.9	2,273.0	(1,140.2)	1,132.8
Trademarks (indefinite-lived)	2,655.7	—	2,655.7	2,652.3	—	2,652.3
Total	$4,965.6	$ (1,215.0)	$3,750.6	$4,925.3	$ (1,140.2)	$3,785.1

Intangible asset amortization expense was $32.5 million and $33.2 million for the three months ended June 30, 2017 and 2016, respectively. Intangible asset amortization expense was $64.7 million and $66.1 million for the six months ended June 30, 2017 and 2016, respectively.

Note 6. Debt and Credit Facilities

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

In millions	June 30, 2017	December 31, 2016
Debentures with put feature	$ 343.0	$ 343.0
Other current maturities of long-term debt	7.7	7.7
Short-term borrowings	10.6	10.1
Total	$ 361.3	$ 360.8

Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes. The maximum aggregate amount of unsecured commercial paper notes available to be issued, on a private placement basis, under the commercial paper program is $2.0 billion as of June 30, 2017.

Debentures with Put Feature

At June 30, 2017 and December 31, 2016, the Company had $343.0 million of fixed rate debentures outstanding which 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 of the debentures plus accrued interest. If these options are not exercised, the final contractual 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 2017, subject to the notice requirement. No material exercises were made.

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(Unaudited)

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

In millions	June 30, 2017	December 31, 2016
6.875% Senior notes due 2018	$749.0	$ 748.6
2.875% Senior notes due 2019	349.1	348.6
2.625% Senior notes due 2020	298.7	298.5
9.000% Debentures due 2021	124.8	124.8
4.250% Senior notes due 2023	696.2	695.6
7.200% Debentures due 2018-2025	52.3	59.7
3.550% Senior notes due 2024	494.9	494.5
6.480% Debentures due 2025	149.7	149.7
5.750% Senior notes due 2043	493.9	493.6
4.650% Senior notes due 2044	295.5	295.4
Other loans and notes	0.4	0.4
Total	$3,704.5	$ 3,709.4

Other Credit Facilities
The Company maintains two 5-year, $1.0 billion revolving credit facilities (the Facilities) through its wholly-owned subsidiaries, Ingersoll-Rand Global Holding Company Limited and Ingersoll-Rand Luxembourg Finance S.A. (collectively, the Borrowers). Each senior unsecured credit facility, one of which matures in March 2019 and the other in March 2021, provides support for the Company's commercial paper program and can be used for working capital and other general corporate purposes. Ingersoll-Rand plc, Ingersoll-Rand Irish Holdings Unlimited Company, Ingersoll-Rand Lux International Holding Company S.à.r.l. and Ingersoll-Rand Company each provide irrevocable and unconditional guarantees for these Facilities. In addition, each Borrower will guarantee the obligations under the Facilities of the other Borrower. Total commitments of $2.0 billion were unused at June 30, 2017 and December 31, 2016.
Fair Value of Debt
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 debt instruments at June 30, 2017 and December 31, 2016 was $4.5 billion and $4.4 billion, respectively. 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. The methodologies used by the Company to determine the fair value of its long-term debt instruments at June 30, 2017 are the same as those used at December 31, 2016.
Note 7. Financial Instruments
In the normal course of business, the Company is exposed to certain risks arising from business operations and economic factors. These fluctuations can increase the cost of financing, investing and operating the 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 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 in 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 occur, the hedging relationship will be undesignated and any future gains and losses on the derivative instrument will be recorded in Net earnings.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

In millions	Derivative assets		Derivative liabilities	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Derivatives designated as hedges:				
Currency derivatives designated as hedges	$—	$ 0.3	$2.5	$ 2.9
Derivatives not designated as hedges:				
Currency derivatives not designated as hedges	10.2	0.3	1.7	17.9
Total derivatives	$10.2	$ 0.6	$4.2	$ 20.8

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

Currency Derivative Instruments

The notional amount of the Company's currency derivatives was $0.8 billion and $1.1 billion at June 30, 2017 and December 31, 2016, respectively. At June 30, 2017 and December 31, 2016, a net loss of $2.2 million and net gain of $2.4 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 $2.2 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, 2017, the maximum term of the Company's currency derivatives was approximately 12 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 were designated as cash flow hedges and had a notional amount of $1.3 billion. 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 deferred into AOCI. These deferred gains or losses are subsequently recognized in Interest expense over the term of the related notes. The net unrecognized gain in AOCI was $6.3 million at June 30, 2017 and $6.0 million at December 31, 2016. The net deferred gain at June 30, 2017 will continue to 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. The Company has no forward-starting interest rate swaps or interest rate lock contracts outstanding at June 30, 2017 or December 31, 2016.

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 gain (loss) reclassified from AOCI and recognized into Net earnings	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings	
	2017	2016		2017	2016
Currency derivatives designated as hedges	$ (1.8)	$ 4.6	Cost of goods sold	$ (0.4)	$ 1.3
Interest rate swaps & locks	—	—	Interest expense	(0.2)	(0.2)
Total	$ (1.8)	$ 4.6		$ (0.6)	$ 1.1

The following table represents the amounts associated with derivatives not designated as hedges affecting Other income/(expense), net for the for the three months ended June 30:

	Amount of gain (loss) recognized in Net earnings	
In millions	2017	2016
Currency derivatives not designated as hedges	$ 13.8	$ (14.8)
Total	$ 13.8	$ (14.8)

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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 (loss) recognized in AOCI 2017	2016	Location of gain (loss) reclassified from AOCI and recognized into Net earnings	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings 2017	2016
Currency derivatives designated as hedges	$ (0.6)	$ 6.6	Cost of goods sold	$ (0.7)	$ 2.0
Interest rate swaps & locks	—	—	Interest expense	(0.3)	(0.3)
Total	$ (0.6)	$ 6.6		$ (1.0)	$ 1.7

The following table represents the amounts associated with derivatives not designated as hedges affecting Other income/(expense), net for the six months ended June 30:

In millions	Amount of gain (loss) recognized in Net earnings 2017	2016
Currency derivatives not designated as hedges	$ 33.8	$ 11.4
Total	$ 33.8	$ 11.4

The gains and losses associated with the Company’s undesignated currency derivatives are materially offset in Other income/(expense), net 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.

Note 8. Fair Value Measurements
ASC 820, "Fair Value Measurement," (ASC 820) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The following table presents the Company’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

In Millions	Fair Value	Fair value measurements

		Level 1	Level 2	Level 3
Assets:				
Derivative instruments	$ 10.2	$ —	$ 10.2	$ —
Liabilities:				
Derivative instruments	$ 4.2	$ —	$ 4.2	$ —

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The following table presents the Company’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

In Millions	Fair Value	Fair value measurements		
		Level 1	Level 2	Level 3
Assets:				
Derivative instruments	$ 0.6	$ —	$ 0.6	$ —
Liabilities:				
Derivative instruments	$ 20.8	$ —	$ 20.8	$ —

Derivative instruments include forward foreign currency contracts and instruments related to non-functional currency balance sheet exposures. The fair value of the derivative instruments are determined based on a pricing model that uses spot rates and forward prices from actively quoted currency markets that are readily accessible and observable.
The carrying values 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. These methodologies used by the Company to determine the fair value of its financial assets and liabilities at June 30, 2017 are the same as those used at December 31, 2016. There have been no transfers between levels of the fair value hierarchy.

Note 9. Pensions and Postretirement Benefits Other than Pensions

The Company sponsors several U.S. defined benefit and defined contribution plans covering substantially all of the Company's 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.
On January 1, 2017, the Company adopted ASU 2017-07 which requires a company to present the service cost component of net periodic benefit cost in the same income statement line as other employee compensation costs with the remaining components of net periodic benefit cost presented separately from the service cost component and outside of any subtotal of operating income, if one is presented. The Company applied the presentation requirements retrospectively.

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 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.

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

	Three months ended		Six months ended	
In millions	2017	2016	2017	2016
Service cost	$17.9	$18.3	$35.7	$36.5
Interest cost	27.0	28.5	54.0	56.9
Expected return on plan assets	(35.2)	(36.1)	(70.4)	(72.2)
Net amortization of:				
Prior service costs	0.9	1.2	1.9	2.4
Net actuarial losses	13.5	15.1	27.1	30.3
Net periodic pension benefit cost	$24.1	$27.0	$48.3	$53.9
Net curtailment loss	—	—	2.3	—
Net periodic pension benefit cost after net curtailment and settlement (gains) losses	$24.1	$27.0	$50.6	$53.9
Amounts recorded in continuing operations:				
Operating income	17.2	17.6	$34.3	35.1
Other income/(expense), net	4.5	6.9	11.5	13.8
Amounts recorded in discontinued operations	2.4	2.5	4.8	5.0
Total	$24.1	$27.0	$50.6	$53.9

During the three months ended March 31, 2017, the Company recognized a curtailment loss associated with certain defined benefit plan freezes that is effective January 1, 2022. As a result, projected benefit obligations for these plans were remeasured as of January 31, 2017.

The Company made contributions to its defined benefit pension plans of $14.6 million and $11.6 million during the six months ended June 30, 2017 and 2016, respectively. The Company currently projects that it will contribute approximately $98 million to its plans worldwide in 2017.

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:

	Three months ended		Six months ended	
In millions	2017	2016	2017	2016
Service cost	$0.7	$1.0	$1.5	$1.9
Interest cost	4.2	4.5	8.5	9.0
Net amortization of:				
Prior service gains	(2.1)	(2.2)	(4.3)	(4.4)
Net actuarial losses	—	—	—	—
Net periodic postretirement benefit cost	$2.8	$3.3	$5.7	$6.5
Amounts recorded in continuing operations:				
Operating income	0.7	1.0	$1.5	$1.9

Other income/(expense), net	1.7	1.2	2.9	2.4
Amounts recorded in discontinued operations	0.4	1.1	1.3	2.2
Total	$2.8	$3.3	$5.7	$6.5

Note 10. Equity

The authorized share capital of Ingersoll-Rand plc is 1,185,040,000 shares, consisting of (1) 1,175,000,000 ordinary shares, par value $1.00 per share, (2) 40,000 ordinary shares, par value EUR 1.00 and (3) 10,000,000 preference shares, par value $0.001 per share. There were no Euro-denominated ordinary shares or preference shares outstanding at June 30, 2017 or December 31, 2016.

Changes in ordinary shares and treasury shares for the six months ended June 30, 2017 are as follows:

In millions	Ordinary shares issued	Ordinary shares held in treasury
December 31, 2016	271.7	12.7
Shares issued under incentive plans, net	1.9	—
Repurchase of ordinary shares	—	6.9
June 30, 2017	273.6	19.6

Share repurchases are made from time to time in accordance with management's capital allocation strategy, subject to market conditions and regulatory requirements. In February 2014, the Company's Board of Directors authorized the repurchase of up to $1.5 billion of its ordinary shares under a share repurchase program that began in April 2014. 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. Ordinary shares held in treasury are presented separately on the balance sheet as a reduction to Equity. This repurchase program was completed in the second quarter of 2017. In February 2017, the Company's Board of Directors authorized the repurchase of up to $1.5 billion of its ordinary shares under a new share repurchase program upon completion of the prior authorized share repurchase program. Repurchases under this program began in May 2017 and total approximately $159 million at June 30, 2017. As a result, the Company has approximately $1.3 billion remaining under the newly authorized program. Combined, the Company repurchased $575.2 million of its ordinary shares during the six months ended June 30, 2017.

The components of Equity for the six months ended June 30, 2017 were as follows:

In millions	Shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2016	$ 6,643.8	$ 74.5	$ 6,718.3
Net earnings	475.7	7.6	483.3
Currency translation	288.9	(0.8)	288.1
Derivatives qualifying as cash flow hedges, net of tax	0.6	—	0.6
Pension and OPEB adjustments, net of tax	7.3	—	7.3
Total comprehensive income (loss)	772.5	6.8	779.3
Share-based compensation	40.1	—	40.1
Adoption of ASU 2016-09 (See Note 2)	15.1	—	15.1
Acquisition of noncontrolling interest	(4.9)	(1.9)	(6.8)
Dividends declared to noncontrolling interests	—	(7.0)	(7.0)
Dividends declared to ordinary shareholders	(204.8)	—	(204.8)
Shares issued under incentive plans, net of tax benefit	35.0	—	35.0
Repurchase of ordinary shares	(575.2)	—	(575.2)
Balance at June 30, 2017	$ 6,721.6	$ 72.4	$ 6,794.0

The components of Equity for the six months ended June 30, 2016 were as follows:

In millions	Shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2015	$ 5,816.7	$ 62.5	$ 5,879.2
Net earnings	900.0	8.0	908.0
Currency translation	34.1	(0.2)	33.9
Derivatives qualifying as cash flow hedges, net of tax	4.4	—	4.4
Pension and OPEB adjustments, net of tax	28.5	—	28.5
Total comprehensive income (loss)	967.0	7.8	974.8
Share-based compensation	36.8	—	36.8
Dividends declared to noncontrolling interests	—	(6.7)	(6.7)
Dividends declared to ordinary shareholders	(164.8)	—	(164.8)
Shares issued under incentive plans, net of tax benefit	9.2	—	9.2
Repurchase of ordinary shares	(250.1)	—	(250.1)
Other	(0.4)	—	(0.4)
Balance at June 30, 2016	$ 6,414.4	$ 63.6	$ 6,478.0

Accumulated Other Comprehensive Income (Loss)

The changes in Accumulated other comprehensive income (loss) for the six months ended June 30, 2017 are as follows:

In millions	Derivative Instruments	Pension and OPEB	Foreign Currency Translation	Total
Balance at December 31, 2016	$ 2.9	$ (554.4)	$ (739.0)	$ (1,290.5)
Other comprehensive income (loss) before reclassifications	(0.6)	(8.7)	288.9	279.6
Amounts reclassified from AOCI	1.0	24.7	—	25.7
Provision for income taxes	0.2	(8.7)	—	(8.5)
Net current period other comprehensive income (loss)	$ 0.6	$ 7.3	$ 288.9	$ 296.8
Balance at June 30, 2017	$ 3.5	$ (547.1)	$ (450.1)	$ (993.7)

The changes in Accumulated other comprehensive income (loss) for the six months ended June 30, 2016 are as follows:

In millions	Derivative Instruments	Pension and OPEB	Foreign Currency Translation	Total
Balance at December 31, 2015	$ 5.1	$ (630.4)	$ (495.6)	$ (1,120.9)
Other comprehensive income (loss) before reclassifications	6.6	9.8	34.1	50.5
Amounts reclassified from AOCI	(1.7)	28.3	—	26.6
Provision for income taxes	(0.5)	(9.6)	—	(10.1)
Net current period other comprehensive income (loss)	$ 4.4	$ 28.5	$ 34.1	$ 67.0
Balance at June 30, 2016	$ 9.5	$ (601.9)	$ (461.5)	$ (1,053.9)

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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 2017	Three months ended 2016	Six months ended 2017	Six months ended 2016
Derivative Instruments				
Reclassifications of deferred (gains) losses [1]	$0.6	$(1.1)	$1.0	$(1.7)
Provision (benefit) for income taxes	0.3	0.2	0.2	0.2
Reclassifications, net of taxes	$0.9	$(0.9)	$1.2	$(1.5)
Pension and Postretirement benefits				
Amortization of service costs [2]	$(1.2)	$(1.0)	$(2.4)	$(2.0)
Amortization of actuarial losses [2]	13.5	15.1	27.1	30.3
Provision for (benefit from) for income taxes	(3.7)	(5.1)	(8.7)	(9.6)
Reclassifications, net of taxes	$8.6	$9.0	$16.0	$18.7
Total reclassifications, net of taxes	$9.5	$8.1	$17.2	$17.2

(1) Reclassifications of interest rate swaps and locks are reflected within Interest expense; reclassifications of currency derivatives designated as hedges are reflected in Cost of goods sold.
(2) Reclassifications of the service cost component of pension and postretirement benefit costs are reflected within Operating income; the remaining components are included within Other income/(expense), net.

Note 11. Share-Based Compensation

The Company accounts for stock-based compensation plans in accordance with ASC 718, "Compensation - Stock Compensation" (ASC 718), which requires a fair-value based method for measuring the value of stock-based compensation. Fair value is measured once at the date of grant and is not adjusted for subsequent changes. 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 2017	Three months ended 2016	Six months ended 2017	Six months ended 2016
Stock options	$4.0	$3.9	$12.7	$11.4
RSUs	6.6	6.9	16.9	16.4
Performance shares	6.8	5.0	11.2	9.5
Other	1.7	0.9	3.1	2.7
Pre-tax expense	19.1	16.7	43.9	40.0
Tax benefit	(7.3)	(6.4)	(16.8)	(15.3)
After-tax expense	$11.8	$10.3	$27.1	$24.7

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Stock Options / RSUs

Eligible participants may receive (i) stock options, (ii) RSUs or (iii) a combination of both stock options and RSUs. 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 an expense for the entire fair value at the grant date. Grants issued during the six months ended June 30 were as follows:

2017	2016
Number granted	