Ingersoll-Rand plc
Form 10-Q
July 24, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013
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	¨

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 12, 2013 was 291,028,149.

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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	2013	2012	2013	2012
Net revenues	$3,932.7	$3,821.3	$7,045.1	$6,972.0
Cost of goods sold	(2,678.8)	(2,644.0)	(4,870.9)	(4,893.4)
Selling and administrative expenses	(770.9)	(703.6)	(1,497.7)	(1,393.2)
Gain (loss) on sale/asset impairment	—	4.2	—	4.5
Operating income	483.0	477.9	676.5	689.9
Interest expense	(62.4)	(62.1)	(123.4)	(131.5)
Other, net	(1.7)	4.1	(8.8)	3.9
Earnings before income taxes	418.9	419.9	544.3	562.3
Provision for income taxes	(99.8)	(54.8)	(123.4)	(92.8)
Earnings from continuing operations	319.1	365.1	420.9	469.5
Discontinued operations, net of tax	5.6	7.8	(1.6)	5.6
Net earnings	324.7	372.9	419.3	475.1
Less: Net earnings attributable to noncontrolling interests	(7.5)	(7.1)	(14.1)	(13.7)
Net earnings attributable to Ingersoll-Rand plc	$317.2	$365.8	$405.2	$461.4
Amounts attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	$311.6	$358.0	$406.8	$455.8
Discontinued operations	5.6	7.8	(1.6)	5.6
Net earnings	$317.2	$365.8	$405.2	$461.4
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:				
Basic:				
Continuing operations	$1.05	$1.16	$1.36	$1.50
Discontinued operations	0.02	0.02	—	0.02
Net earnings	$1.07	$1.18	$1.36	$1.52
Diluted:				
Continuing operations	$1.03	$1.14	$1.35	$1.45
Discontinued operations	0.02	0.02	(0.01)	0.02
Net earnings	$1.05	$1.16	$1.34	$1.47
Weighted-average shares outstanding				
Basic	297.5	309.2	298.1	304.2
Diluted	301.2	314.4	301.9	313.5
Dividends declared per ordinary share	$0.21	$0.16	$0.21	$0.16
Total comprehensive income (loss)	$324.2	$159.6	$333.8	$426.8
Less: Total comprehensive (income) loss attributable to noncontrolling interests	1.6	(7.1)	(6.2)	(13.7)
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	$325.8	$152.5	$327.6	$413.1

See accompanying notes to condensed consolidated financial statements.

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INGERSOLL-RAND PLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

In millions	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$2,200.5	$882.1
Accounts and notes receivable, net	2,571.3	2,157.5
Inventories	1,435.0	1,308.8
Other current assets	621.7	594.3
Total current assets	6,828.5	4,942.7
Property, plant and equipment, net	1,663.0	1,652.6
Goodwill	6,112.6	6,138.9
Intangible assets, net	4,127.7	4,200.9
Other noncurrent assets	1,541.9	1,557.8
Total assets	$20,273.7	$18,492.9
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$1,475.0	$1,230.2
Accrued compensation and benefits	482.0	506.8
Accrued expenses and other current liabilities	1,563.2	1,460.6
Short-term borrowings and current maturities of long-term debt	1,626.7	963.7
Total current liabilities	5,146.9	4,161.3
Long-term debt	3,155.1	2,269.3
Postemployment and other benefit liabilities	1,820.3	1,823.2
Deferred and noncurrent income taxes	1,607.9	1,592.8
Other noncurrent liabilities	1,367.3	1,417.0
Total liabilities	13,097.5	11,263.6
Equity:		
Ingersoll-Rand plc shareholders' equity:		
Ordinary shares	291.9	295.6
Capital in excess of par value	699.3	1,014.5
Retained earnings	6,701.5	6,358.7
Accumulated other comprehensive income (loss)	(598.6)	(521.0)
Total Ingersoll-Rand plc shareholders' equity	7,094.1	7,147.8
Noncontrolling interest	82.1	81.5
Total equity	7,176.2	7,229.3
Total liabilities and equity	$20,273.7	$18,492.9

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	2013	2012
Cash flows from operating activities:		
Net earnings	$419.3	$475.1
(Income) loss from discontinued operations, net of tax	1.6	(5.6)
Adjustments to arrive at net cash provided by (used in) operating activities:		
(Gain) loss on sale/asset impairment	—	(4.5)
Depreciation and amortization	188.6	193.1
Stock settled share-based compensation	40.1	19.3
Changes in other assets and liabilities, net	(244.7)	(305.6)
Other, net	25.6	7.7
Net cash provided by (used in) continuing operating activities	430.5	379.5
Net cash provided by (used in) discontinued operating activities	(1.7)	(73.9)
Net cash provided by (used in) operating activities	428.8	305.6
Cash flows from investing activities:		
Capital expenditures	(139.2)	(113.8)
Proceeds from sale of property, plant and equipment	4.3	12.0
Proceeds from business dispositions, net of cash sold	4.4	—
Net cash provided by (used in) continuing investing activities	(130.5)	(101.8)
Net cash provided by (used in) discontinued investing activities	—	36.0
Net cash provided by (used in) investing activities	(130.5)	(65.8)
Cash flows from financing activities:		
Short-term borrowings, net	11.7	1.5
Proceeds from long-term debt	1,546.2	—
Payments of long-term debt	(8.5)	(354.4)
Net proceeds (repayments) in debt	1,549.4	(352.9)
Debt issuance costs	(13.2)	(2.5)
Dividends paid to ordinary shareholders	(124.4)	(96.4)
Dividends paid to noncontrolling interests	(7.6)	(13.5)
Proceeds from shares issued under incentive plans	118.6	24.9
Repurchase of ordinary shares	(477.6)	(35.0)
Other, net	—	(4.9)
Net cash provided by (used in) continuing financing activities	1,045.2	(480.3)
Effect of exchange rate changes on cash and cash equivalents	(25.1)	(16.8)
Net increase (decrease) in cash and cash equivalents	1,318.4	(257.3)
Cash and cash equivalents - beginning of period	882.1	1,160.7
Cash and cash equivalents - end of period	$2,200.5	$903.4

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 (IR-Ireland), an Irish public limited company, 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, 2012. 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. Certain reclassifications of amounts reported in prior years have been made to conform to the 2013 classification.

Note 2 – Proposed Spin-Off Transaction

In December 2012, the Company's Board of Directors announced a plan to spin off the commercial and residential security businesses. The separation will result in two stand-alone companies: Ingersoll-Rand plc; and Allegion plc, a leading global provider of electronic and mechanical security products and services, delivering comprehensive solutions to commercial and residential customers. This new company’s portfolio of brands will include Schlage, Von Duprin®, LCN®, CISA®, and Interflex®.

The completion of the spin-off is subject to certain customary conditions, unless waived by Ingersoll Rand, including receipt of regulatory approvals; the receipt of a private letter ruling from the U.S. Internal Revenue Service (IRS) and opinions of tax counsel confirming that the distribution and certain transactions entered into in connection with the distribution generally will be tax-free to Ingersoll Rand and its shareholders for U.S. federal income tax purposes, except for cash received in lieu of fractional shares; execution of intercompany agreements; effectiveness of appropriate filings with the SEC; and final approval of the transactions contemplated by the spin-off, as may be required under Irish law. There can be no assurance that any separation transaction will ultimately occur, or, if one does occur, its terms or timing. The disclosures and financial statements within these condensed consolidated financial statements include the results of operations, financial position, and cash flows of the commercial and residential security businesses as continuing operations.

Upon completion of the spin-off, Allegion plc will hold the commercial and residential security businesses and will become an independent publicly traded company. Allegion plc is an Irish public limited company.

During the three and six months ended June 30, 2013, the Company incurred $21.0 million and $32.0 million of professional service fees related to the proposed spin-off, respectively. These costs are reported in Selling and administrative expenses in the Condensed Consolidated Statements of Comprehensive Income.

Note 3 – Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-11, "Disclosures about Offsetting Assets and Liabilities." ASU 2011-11 requires enhanced disclosures including both gross and net information about financial and derivative instruments eligible for offset or subject to an enforceable master netting arrangement or similar agreement. This new guidance is effective for annual reporting periods beginning on or after January 1, 2013 and subsequent interim periods. The requirements of ASU 2011-11 did not have an impact on the condensed consolidated financial statements.

In January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." ASU 2013-01 clarifies the scope of ASU 2011-11 to apply to derivative instruments that are offset or subject to an enforceable master netting arrangement or similar agreement. This clarified guidance is effective for annual reporting periods beginning on or after January 1, 2013 and subsequent interim periods. The revised requirements of ASU 2013-01 did not have an impact on the condensed consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" (AOCI). ASU 2013-02 requires a rollforward of changes in AOCI by component and information about significant reclassifications from AOCI to Net earnings to be presented in one location, either on the face of the financial statements or in the notes. This new guidance is effective for fiscal years beginning after December 15, 2012 and subsequent interim periods. The requirements of ASU 2013-02 did not have a material impact on the Company's condensed consolidated financial statements. The revised disclosure requirements are reflected in Note 11.

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date." ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements where the total obligation is fixed at the reporting date, and for which no specific guidance currently exists. This new guidance is effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The Company is currently assessing the impact, if any, on the condensed consolidated financial statements.

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

In July 2013, the FASB issued ASU 2013-10, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes." ASU 2013-10 allows the Fed Funds Effective Swap Rate (OIS) to be designated as a U.S. benchmark interest rate for hedge accounting purposes, in addition to interest rates on direct Treasury obligations of the U.S. government and the London Interbank Offered Rate. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company does not anticipate the requirements of ASU 2013-10 will have a material impact on the condensed consolidated financial statements.

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

Note 4 – Inventories

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

The major classes of inventory were as follows:

In millions	June 30, 2013	December 31, 2012
Raw materials	$507.2	$501.9
Work-in-process	147.6	109.6
Finished goods	881.6	800.2
	1,536.4	1,411.7
LIFO reserve	(101.4)	(102.9)
Total	$1,435.0	$1,308.8

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INGERSOLL-RAND PLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)

Note 5 – Goodwill
The changes in the carrying amount of goodwill for the six months ended June 30, 2013 were as follows:

In millions	Climate Solutions	Residential Solutions	Industrial Technologies	Security Technologies	Total
December 31, 2012 (gross)	$5,370.6	$2,317.1	$368.7	$922.5	$8,978.9
Acquisitions and adjustments *	(1.4)	10.3	1.1	(10.0)	—
Currency translation	(19.9)	—	(1.4)	(5.0)	(26.3)
June 30, 2013 (gross)	5,349.3	2,327.4	368.4	907.5	8,952.6
Accumulated impairment **	(839.8)	(1,656.2)	—	(344.0)	(2,840.0)
Goodwill (net)	$4,509.5	$671.2	$368.4	$563.5	$6,112.6

* During 2013, the Company made reclassifications to goodwill across all segments, including a reclassification of goodwill related to a product line transfer from the Security Technologies segment to the Residential Solutions segment.
** No impairment charges were recorded by the Company in 2013 or 2012.

Note 6 – Intangible Assets
The gross amount of the Company's intangible assets and related accumulated amortization were as follows:

	June 30, 2013			December 31, 2012		
In millions	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	$199.1	$(141.0)	$58.1	$203.2	$(134.4)	$68.8
Customer relationships	1,962.6	(577.8)	1,384.8	1,966.8	(523.6)	1,443.2
Trademarks (finite-lived)	96.3	(33.4)	62.9	98.0	(32.1)	65.9
Other	73.1	(62.2)	10.9	71.4	(59.4)	12.0
Total finite-lived intangible assets	2,331.1	$(814.4)	1,516.7	2,339.4	$(749.5)	1,589.9
Trademarks (indefinite-lived)	2,611.0		2,611.0	2,611.0		2,611.0
Total	$4,942.1		$4,127.7	$4,950.4		$4,200.9

Intangible asset amortization expense was $34.2 million and $35.1 million for the three months ended June 30, 2013 and 2012, respectively. Intangible asset amortization expense was $69.3 million and $70.2 million for the six months ended June 30, 2013 and 2012, respectively.

Note 7 – Debt and Credit Facilities
Short-term borrowings and current maturities of long-term debt consisted of the following:

In millions	June 30, 2013	December 31, 2012
Debentures with put feature	$343.0	$343.0
6.000% Senior notes due 2013	600.0	600.0
9.500% Senior notes due 2014	655.0	—
Other current maturities of long-term debt	8.7	10.8
Other short-term borrowings	20.0	9.9
Total	$1,626.7	$963.7

Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes. The Company had no commercial paper outstanding at June 30, 2013 or December 31, 2012.

Debentures with Put Feature

At June 30, 2013 and December 31, 2012, the Company had $343.0 million of fixed rate debentures outstanding, which only require early repayment at the option of the holder. These debentures contain a put feature that the holders may exercise on each anniversary of the issuance date. 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.

On February 15, 2013, holders of these debentures had the option to exercise the put feature on $37.2 million of the outstanding debentures. No holder chose to exercise the put feature at that date.

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

In millions	June 30, 2013	December 31, 2012
9.500% Senior notes due 2014	—	655.0
5.50% Senior notes due 2015	198.8	196.4
4.75% Senior notes due 2015	299.7	299.7
6.875% Senior notes due 2018	749.5	749.4
2.875% Senior notes due 2019	349.5	—
9.00% Debentures due 2021	125.0	125.0
4.250% Senior notes due 2023	698.7	—
7.20% Debentures due 2014-2025	82.5	90.0
6.48% Debentures due 2025	149.7	149.7
5.750% Senior notes due 2043	498.0	—
Other loans and notes	3.7	4.1
Total	$3,155.1	$2,269.3

Senior Notes due 2019, 2023, and 2043

In June 2013, the Company issued $1.55 billion principal amount of Senior Notes in three tranches through its wholly-owned subsidiary, Ingersoll-Rand Global Holding Company Limited (IR-Global) pursuant to Rule 144A of the U.S. Securities Act of 1933 (“Securities Act”). The tranches consist of $350 million of 2.875% Senior Notes due in 2019, $700 million of 4.250% Senior Notes due in 2023, and $500 million of 5.750% Senior Notes due in 2043. The notes are fully and unconditionally guaranteed by each of IR-Ireland, Ingersoll-Rand Company Limited (IR-Limited), and Ingersoll-Rand International Holding Limited (IR-International). Interest on the notes will be paid twice a year in arrears. The Company has the option to redeem the notes in whole or in part at any time, and from time to time, prior to their stated maturity date at redemption prices set forth in the indenture agreement. The notes are subject to certain customary covenants, however, none of these covenants are considered restrictive to the Company’s operations. In connection with the issuance of each series of notes, IR-Global, the Guarantors and the initial purchasers of the notes entered into a Registration Rights Agreement dated June 20, 2013. Each Registration Rights Agreement requires IR-Global and the Guarantors to use their commercially reasonable efforts to execute an effective exchange offer registration statement with the SEC no later than 365 days after the closing date of the notes offering and to complete an exchange offer within 30 business days of such effective date. If a registration default occurs additional interest shall accrue on the notes. The proceeds from these notes were used to fund the July 2013 redemption of $600 million of 6.000% Senior Notes due 2013 and $655 million of 9.500% Senior Notes due 2014 and to fund expenses related to the spin-off of the commercial and residential security businesses, with any remaining proceeds to be used for general corporate purposes.

On July 17, 2013, the Company fully redeemed the outstanding principal amount of $600 million of its 6.000% Senior Notes due 2013 and $655 million of its 9.500% Senior Notes due 2014, resulting in $45.6 million of redemption premium expense, which will be recorded in the third quarter of 2013 in Interest expense.

Credit Facilities

As of June 30, 2013, the Company has a 5-year, $1.0 billion revolving credit facility maturing on March 15, 2017, and a 4-year, $1.0 billion revolving credit facility maturing on May 20, 2015, through its wholly-owned subsidiary, IR-Global.

IR-Ireland, IR-Limited, and IR-International have each provided an irrevocable and unconditional guarantee for these credit facilities. The total committed revolving credit facilities of $2.0 billion are unused and provide support for the Company's commercial paper program, as well as other general corporate purposes.

Note 8 – Financial Instruments

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

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

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 AOCI.

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

Currency Hedging Instruments

The notional amount of the Company’s currency derivatives was $1,601.2 million and $1,656.7 million at June 30, 2013 and December 31, 2012, respectively. At June 30, 2013 and December 31, 2012, a loss of $3.0 million and $4.0 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 $3.0 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, 2013, the maximum term of the Company’s currency derivatives was approximately 12 months.

Other Derivative Instruments

In February 2013, the Company entered into forward starting interest rate swaps for $750 million of the forecasted issuance of $1.2 billion of Senior Notes due in 2023 and 2043. These interest rate swaps met the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair value of the interest rate swaps were recognized in AOCI. No further gain or loss will be recognized in AOCI related to these interest rate swaps as the contracts were terminated upon the June 2013 issuance of the underlying debt. The amount of AOCI associated with these interest rate swaps at the time of termination will be recognized in Interest expense over the term of the notes. At June 30, 2013, $10.5 million of gains remained in AOCI related to these interest rate swaps. The amount expected to be reclassified into Interest expense over the next twelve months is $0.7 million.

During the third quarter of 2008, the Company entered into interest rate locks for the forecasted issuance of approximately $1.4 billion of Senior Notes due in 2013 and 2018. These interest rate locks met the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair value of the interest rate locks were recognized in AOCI. No further gain or loss will be recognized in AOCI related to these interest rate locks as the contracts were effectively terminated upon issuance of the underlying debt. However, the amount of AOCI associated with these interest rate locks at the time of termination will be

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recognized into Interest expense over the term of the notes. At June 30, 2013 and December 31, 2012, $6.2 million and $7.2 million, respectively, of losses remained in AOCI related to these interest rate locks. The amount related to the Senior Notes due in 2018 expected to be reclassified into Interest expense over the next twelve months is $1.2 million.

In March 2005, the Company entered into interest rate locks for the forecasted issuance of $300 million of Senior Notes due 2015. These interest rate locks met the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair value of the interest rate locks were recognized in AOCI. No further gain or loss will be recognized in AOCI related to these interest rate locks as the contracts were effectively terminated upon issuance of the underlying debt. However, the amount of AOCI associated with these interest rate locks at the time of termination will be recognized into Interest expense over the term of the notes. At June 30, 2013 and December 31, 2012, $2.4 million and $3.1 million, respectively, of losses remained in AOCI related to these interest rate locks. The amount expected to be reclassified into Interest expense over the next twelve months is $1.3 million.

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

In millions	Asset derivatives June 30, 2013	Asset derivatives December 31, 2012	Liability derivatives June 30, 2013	Liability derivatives December 31, 2012
Derivatives designated as hedges:				
Currency derivatives	$1.7	$0.1	$5.0	$4.6
Derivatives not designated as hedges:				
Currency derivatives	3.4	4.6	34.0	7.1
Total derivatives	$5.1	$4.7	$39.0	$11.7

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

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

In millions	Amount of gain (loss) recognized in AOCI 2013	Amount of gain (loss) recognized in AOCI 2012	Location of gain (loss) reclassified from AOCI and recognized into Net earnings	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings 2013	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings 2012
Currency derivatives	$(1.0)	$4.7	Cost of goods sold	$(3.0)	$0.5
Interest rate swaps	20.4	—	Interest expense	—	—
Interest rate locks	—	—	Interest expense	(0.8)	(0.7)
Total	$19.4	$4.7		$(3.8)	$(0.2)

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

In millions	Location of gain (loss) recognized in Net earnings	Amount of gain (loss) recognized in Net earnings 2013	Amount of gain (loss) recognized in Net earnings 2012
Currency derivatives	Other, net	$(26.7)	$(14.5)
Total		$(26.7)	$(14.5)

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.

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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:

	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	
In millions	2013	2012		2013	2012
Currency derivatives	$(4.1)	$(0.2)	Cost of goods sold	$(5.2)	$0.9
Interest rate swaps	10.5	—	Interest expense	—	—
Interest rate locks	—	—	Interest expense	(1.7)	(1.5)
Total	$6.4	$(0.2)		$(6.9)	$(0.6)

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 2013	2012
Currency derivatives	Other, net	$(41.0)	$8.1
Total		$(41.0)	$8.1

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 9 – Pensions and Postretirement Benefits Other than Pensions
The Company sponsors several U.S. defined benefit and defined contribution plans covering substantially all of our U.S. employees. Additionally, the Company has many non-U.S. defined benefit and defined contribution plans covering eligible non-U.S. employees. Postretirement benefits, other than pensions, provide healthcare benefits, and in some instances, life insurance benefits for certain eligible retired employees.
Pension Plans
The noncontributory defined benefit pension plans covering non-collectively bargained U.S. employees provide benefits on an average pay formula while most plans for collectively bargained U.S. employees provide benefits on a flat dollar benefit formula. The non-U.S. pension plans generally provide benefits based on earnings and years of service. The Company also maintains additional other supplemental plans for officers and other key employees.
In June 2012, the Board of Directors approved amendments to the Company's retirement plans for certain U.S. and Puerto Rico non-bargained employees. Eligible non-bargained employees hired prior to July 1, 2012 were given a choice of remaining in their respective defined benefit plan until the plan freezes on December 31, 2022 or freezing their accrued benefits in their respective defined benefit plan as of December 31, 2012 and receiving an additional 2% non-matching Company contribution into the Company's applicable defined contribution plan. Eligible employees hired or rehired on or after July 1, 2012 automatically receive the 2% non-matching Company contribution into the applicable defined contribution plan in lieu of participating in the defined benefit plan. Beginning January 1, 2023, all eligible employees will receive the 2% non-matching contribution into the applicable defined contribution plan. As a result of these changes, the Company's projected benefit obligations for the amended plans were remeasured in June 2012, which included updating the discount rate assumption to 4.00% from the 4.25% assumed at December 31, 2011.

The amendments resulted in a 2012 curtailment loss of $4.0 million. The amendment and remeasurement resulted in an increase of $1.0 million to the projected benefit obligation, an increase of $29.4 million to the plan assets, an actuarial gain of $28.4 million and a credit of $4.0 million to prior service cost during 2012.

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

	Three months ended		Six months ended	
In millions	2013	2012	2013	2012
Service cost	$23.0	$24.2	$46.1	$49.5
Interest cost	39.1	40.1	78.3	81.4
Expected return on plan assets	(41.9)	(42.3)	(83.9)	(85.6)
Net amortization of:				
Prior service costs	1.2	1.3	2.4	2.7
Plan net actuarial losses	15.5	14.4	31.0	29.3
Net periodic pension benefit cost	36.9	37.7	73.9	77.3
Net curtailment and settlement losses	—	4.0	—	4.1
Net periodic pension benefit cost after net curtailment and settlement losses	$36.9	$41.7	$73.9	$81.4
Amounts recorded in continuing operations	$34.6	$38.8	$69.3	$75.6
Amounts recorded in discontinued operations	2.3	2.9	4.6	5.8
Total	$36.9	$41.7	$73.9	$81.4

The Company made required and discretionary employer contributions of $16.8 million and $21.7 million to its defined benefit pension plans during the six months ended June 30, 2013 and 2012, respectively.
The curtailment and settlement losses in 2012 are associated with lump sum distributions under supplemental benefit plans for officers and other key employees.
Postretirement Benefits Other Than Pensions
The Company sponsors several postretirement plans that provide for healthcare benefits, and in some instances, life insurance benefits that cover certain eligible retired employees. The Company funds postretirement benefit obligations principally on a pay as you go basis. Generally, postretirement health benefits are contributory with contributions adjusted annually. Life insurance plans for retirees are primarily noncontributory.
In February 2012, the Board of Directors approved amendments to its postretirement medical plan with respect to post-65 retiree medical coverage. Effective January 1, 2013, the Company discontinued offering company-sponsored retiree medical coverage for certain individuals age 65 and older. The Company transitioned affected individuals to coverage through the individual Medicare market and will provide a tax-advantaged subsidy to those retirees eligible for subsidized company coverage that can be used toward reimbursing premiums and other qualified medical expenses for individual Medicare supplemental coverage that is purchased through our third-party Medicare coordinator. As a result of these changes, the Company's projected benefit obligations were remeasured in February 2012, which included updating the discount rate assumption to 3.75% from the 4.00% assumed at December 31, 2011. The remeasurement resulted in a decrease of $40.5 million to the projected benefit obligation, an actuarial loss of $21.3 million and a credit of $61.8 million to prior service cost.

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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	2013	2012	2013	2012
Service cost	$1.7	$1.9	$3.4	$3.9
Interest cost	6.7	8.1	13.4	16.2
Net amortization of:				
Prior service gains	(2.6)	(2.9)	(5.2)	(4.9)
Net actuarial losses	2.7	2.8	5.4	5.3
Net periodic postretirement benefit cost	$8.5	$9.9	$17.0	$20.5
Amounts recorded in continuing operations	$5.4	$6.4	$10.8	$13.1
Amounts recorded in discontinued operations	3.1	3.5	6.2	7.4
Total	$8.5	$9.9	$17.0	$20.5

Note 10 – Fair Value Measurement

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

- Level 1 – Inputs based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 – Unobservable inputs based on little or no market activity and that are significant to the fair value of the assets and liabilities.

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

Assets and liabilities measured at fair value at June 30, 2013 were as follows:

In millions	Fair value measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total fair value
Recurring fair value measurements				
Assets:				
Marketable securities	$17.2	$—	$ —	$17.2
Derivative instruments	—	5.1	—	5.1
Total asset recurring fair value measurements	$17.2	$5.1	$ —	$22.3
Liabilities:				
Derivative instruments	$—	$39.0	$ —	$39.0
Total liability recurring fair value measurements	$—	$39.0	$ —	$39.0
Financial instruments not carried at fair value				
Total debt	$—	$5,037.2	$ —	$5,037.2
Total financial instruments not carried at fair value	$—	$5,037.2	$ —	$5,037.2

Assets and liabilities measured at fair value at December 31, 2012 were as follows:

In millions	Fair value measurements Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total fair value
Recurring fair value measurements				
Assets:				
Marketable securities	$16.7	$—	$ —	$16.7
Derivative instruments	—	4.7	—	4.7
Total asset recurring fair value measurements	$16.7	$4.7	$ —	$21.4
Liabilities:				
Derivative instruments	$—	$11.7	$ —	$11.7
Total liability recurring fair value measurements	$—	$11.7	$ —	$11.7
Financial instruments not carried at fair value				
Total debt	$—	$3,663.1	$ —	$3,663.1
Total financial instruments not carried at fair value	$—	$3,663.1	$ —	$3,663.1

The Company determines the fair value of its financial assets and liabilities using the following methodologies:

- Marketable securities – These securities include investments in publicly traded stock of non-U.S. companies held by non-U.S. subsidiaries of the Company. The fair value is obtained for the securities based on observable market prices quoted on public stock exchanges.
- Derivative instruments – These instruments include forward contracts related to non-U.S. currencies and forward starting interest rate swaps. The fair value of the derivative instruments are determined based on a pricing model that uses inputs from actively quoted currency markets that are readily accessible and observable.

- Debt – These securities are recorded at cost and include fixed-rate debentures, with a put feature, maturing in 2027 and 2028, which only require early prepayment at the option of the holder; and other fixed-rate debentures and senior notes maturing through 2043. The fair value of the long-term debt instruments is obtained based on observable market prices quoted on public exchanges for similar instruments.

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The carrying values of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings 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, 2013 are the same as those used at December 31, 2012. There have been no significant transfers between Level 1 and Level 2 categories.

Note 11 – Equity

The reconciliation of Ordinary shares is as follows:

In millions	Total
December 31, 2012	295.6
Shares issued under incentive plans, net	4.8
Repurchase of ordinary shares	(8.5)
June 30, 2013	291.9

During the six months ended June 30, 2013, the Company repurchased 8.5 million shares for approximately $477.6 million as a part of its share repurchase programs. These repurchases were accounted for as a reduction of Ordinary shares and Capital in excess of par value as they were canceled upon repurchase.

The components of Equity for the six months ended June 30, 2013 were as follows:

In millions	IR-Ireland shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2012	$7,147.8	$81.5	$7,229.3
Net earnings			