Allegion plc

Directors' Report and Financial Statements
For the Year Ended 31 December 2013

ALLEGION PLC

TABLE OF CONTENTS

	Page
Directors' Report	3
Directors' Responsibilities Statement	30
Independent Auditors' Report (Group)	31
Consolidated Profit and Loss Account	33
Consolidated Balance Sheet	34
Consolidated Reconciliation of Movements in Shareholders' Funds	35
Consolidated Statement of Cash Flows	36
Notes to the Consolidated Financial Statements	37
Independent Auditors' Report (Company)	83
Company Balance Sheet	85
Notes to the Company Financial Statements	86

Directors' report for the year ended 31 December 2013

The directors present their report and audited consolidated financial statements for the fiscal year ended 31 December 2013.

Principal Activities

Allegion plc ("Allegion," "we," "us", "the Group" or "the Company") is a leading global provider of security products and solutions that keep people safe, secure and productive. We make the world safer as a company of experts, securing the places where people thrive and we create peace of mind by pioneering safety and security. We offer an extensive and versatile portfolio of mechanical and electronic security products across a range of market-leading brands. Our experts across the globe deliver high-quality security products, services and systems and we use our deep expertise to serve as trusted partners to end-users who seek customized solutions to their security needs.

We sell a wide range of security products and solutions for end-users in commercial, institutional and residential facilities worldwide, including into the education, healthcare, government, commercial office and single and multi-family residential markets. Our strategic brands are Schlage, Von Duprin, LCN, CISA and Interflex. We believe Schlage, Von Duprin and LCN hold the No. 1 position in their primary product categories in North America and CISA and Interflex hold the No.1 or No. 2 position in their primary product categories in certain European markets.

For the year ended 31 December 2013, we generated turnover of $2,093.5 million and operating profit of $228.1 million.

History and Developments

Allegion plc was incorporated in Ireland on 9 May 2013, to hold Ingersoll Rand's commercial and residential security businesses. On 1 December 2013, Allegion became a stand-alone public company after Ingersoll Rand completed the separation of these businesses from the rest of Ingersoll Rand via the transfer of these businesses from Ingersoll Rand to Allegion and the issuance by Allegion of ordinary shares directly to Ingersoll Rand's shareholders (the "Spin-off"). Our security businesses have long and distinguished operating histories.

Several of our brands were established more than 75 years ago, and many of our brands originally created their categories:

- Von Duprin, established in 1908, was awarded the first exit device patent;
- Schlage, established in 1920, was awarded the first patents granted for the cylindrical lock and the push button lock;
- LCN, established in 1926, created the first door closure;
- CISA, established in 1926, devised the first electronically controlled lock; and
- Steelcraft Doors, established in 1927, developed the first mass-produced hollow metal door in 1942.

We have built upon these founding legacies since our entry into the security products market through the acquisition of Schlage, Von Duprin and LCN in 1974. Today, we continue to develop and introduce innovative and market-leading products. Recent examples include: Schlage Touchscreen Deadbolt, a residential lock; CISA eSigno, a hotel locking platform; eVayo, a European electronics security platform (winner, 2012 reddot product design award); Von Duprin Concealed Vertical Cable System that significantly reduces total installation time and ongoing maintenance requirements; aptiQ, a versatile and multi-technology card reader platform; and Schlage's AD/CO, an electronic locking platform that allows end-users to add additional features without lock replacement.

Review of Business Segments

We manufacture and sell mechanical and electronic security products and solutions in approximately 130 countries, with our top 20 countries accounting for about 97% of our $2,093.5 million in 2013 turnover. We report our operating results through three reporting segments: Americas, EMEIA and Asia Pacific.

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

The segment discussions that follow describe the significant factors contributing to the changes in results for each segment included in continuing operations. Effective 1 January 2013, we transferred a product line from our Asia Pacific segment to our Americas segment. This transfer is reflected in the historical segment results for each of the fiscal years in the two year period ended 31 December 2013.

Our business segments are as follows:

Americas
Our Americas segment is a leading provider of security products and solutions in approximately 30 countries throughout North America and parts of South America. The segment sells a broad range of products and solutions including, locks, locksets, key systems, door closers, exit devices, doors and door frames, electronic product and access control systems to end-users in commercial, institutional and residential facilities, including into the education, healthcare, government, commercial office and single- and multi-family residential markets. This segment's strategic brands are Schlage, Von Duprin and LCN.

Segment results for the years ended 31 December were as follows:

Dollar amounts in millions	2013	% change	2012
Net turnover	$ 1,514.7	2.9%	$ 1,471.9
Segment operating profit	390.0	3.4%	377.2
Segment operating margin	25.7 %		25.6 %

Net turnover for the year ended 31 December 2013 increased by 2.9%, or $42.8 million, compared to the same period in 2012 due to the following:

Pricing	2.1 %
Volume/product mix	3.9 %
Currency exchange rates/other	(1.3) %
Impact of consolidated joint venture order flow change	(1.8) %
Total	2.9 %

The increase in turnover was primarily due to increased volume due to stronger demand in both the commercial and residential markets as well as new products, particularly from our electronics portfolio, and price increases in Venezuela. These increases were partially offset by unfavorable currency impacts and the impact of the change in order flow through our consolidated joint venture discussed below in the "Significant events in 2013" section.

Segment operating margin for the year ended 31 December 2013 improved to 25.7% from 25.6% compared to the same period in 2012. The increase was primarily due to favorable volume leverage (0.6%), pricing movements in excess of material inflation (0.8%) partially offset by unfavorable product/channel mix (0.4%), incremental investment spending (0.5%), other inflation in excess of productivity (0.2%) and unfavorable currency impacts (0.2%).

EMEIA
Our EMEIA segment provides security products and solutions in approximately 85 countries throughout Europe, the Middle East, India and Africa. The segment offers end-users a broad range of products, services and solutions including, locks, locksets, key systems, door closers, exit devices, doors and door frames, electronic product and access control systems, as well as time and attendance and workforce productivity solutions. This segment's strategic brands are CISA and Interflex. This segment also resells Schlage, Von Duprin and LCN products, primarily in the Middle East.

During the year ended 31 December 2013, the Group recorded a non-cash pre-tax goodwill impairment charge of $137.6 million, which has been excluded from these results.

Segment results for the years ended 31 December were as follows:

Dollar amounts in millions	2013	% change	2012
Net turnover	$ 425.3	(0.7)%	$ 428.3
Segment operating profit	(3.1)	(137.8)%	8.2
Segment operating margin	(0.7) %		1.9 %

Net turnover for the year ended 31 December 2013 decreased by 0.7% or $3.0 million, compared to the same period in 2012 due to the following:

Pricing	0.9 %
Volume/product mix	(3.7) %
Currency exchange rates	2.1 %
Total	(0.7) %

The decrease in turnover was primarily driven by decreased volumes due to economic weakness in most major markets partially offset by favorable currency impacts and improved pricing.

Segment operating margin for the year ended 31 December 2013 decreased to (0.7)% from 1.9% compared to the same period in 2012. The decrease was primarily due to increased restructuring and non-recurring separation costs (0.4%), unfavorable volume leverage (1.9%), unfavorable mix (0.9%) and increased investment spending and non-operating costs (1.4%), partially offset by pricing movements in excess of material inflation (0.6%), productivity benefits in excess of other inflation (1.4%) and favorable foreign currency movements (0.2%).

Asia Pacific

Our Asia Pacific segment provides security products and solutions in approximately 14 countries throughout the Asia Pacific region. The segment offers end-users a broad range of products, services and solutions including, locks, locksets, key systems, door closers, exit devices, electronic product and access control systems, and as well as video analytics solutions. This segment's strategic brands are Schlage, CISA, Von Duprin and LCN.

Segment results for the years ended 31 December were as follows:

Dollar amounts in millions	2013	% change	2012
Net turnover	$ 153.5	4.8%	$ 146.4
Segment operating profit	25.4	122.8%	11.4
Segment operating margin	16.5 %		7.8 %

Net turnover for the year ended 31 December 2013 increased by 4.8% or $7.1 million, compared to the same period in 2012 due to the following:

Pricing	0.5 %
Volume/product mix	3.5 %
Currency exchange rates	0.8 %
Total	4.8 %

The increase in turnover was mainly due to favorable volume/product mix and favorable foreign currency impacts.

Segment operating margin for the year ended 31 December 2013 increased to 16.5% from 7.8% compared with the same period in 2012. The increase was primarily due to the $21.5 million gain on sale of a property in China (14.7%). Excluding the gain

on sale of property, operating margin decreased to 2.6% from 7.8% in 2013. The decrease was primarily due to unfavorable volume leverage and mix (2.8%), a non-recurring favorable item in 2012 (1.9%) and increased investment spending (0.7%).

Trends and Economic Events

Current market conditions, including challenges in international markets, continue to impact our financial results. Uneven global commercial new construction activity is negatively impacting our results, however U.S. residential and consumer markets have begun to improve, and we are seeing improvements in the U.S. new builder and replacement markets.

Based on information derived from third party sources, we estimate that the size of the global markets we serve was more than $30 billion in turnover in 2013, comprised of $25 billion for mechanical hardware products and more than $5 billion for time, attendance, and workforce productivity systems and systems integration. We believe that the security products industry will benefit from several global macroeconomic and long-term demographic trends, which include heightened awareness of security requirements, increased global urbanization and the shift to a digital, interconnected environment. In the more established economies of North America and Europe, where the security product industry's compound annual growth rate was 1 to 2% per year during the challenging economy experienced over the past three years, we believe our markets are poised for a cyclical recovery driven in part by accelerating growth in the underlying commercial and residential construction markets. Annual turnover growth for the security products market in emerging economies, which represented approximately 14.6% of our net turnover for the year ended 31 December 2013, exceeded 5% over the past 3 years. Additionally, we expect growth in the global electronic product categories we serve to continue to outperform the industry as end-users adopt newer technologies in their facilities.

Our business may be negatively impacted if, among other things, market conditions in North America and Europe worsen or do not improve as we expect them to, developing economies in which we do business decline or do not continue to grow at recent rates or we are unable to capitalize on the growth in electronic product categories. A number of other challenges and uncertainties that could affect our business are described under "Principal Risks."

Key Performance Indicators

Net Turnover

Net turnover for the year ended 31 December 2013 increased by 2.3%, or $46.9 million, compared with the same period of 2012 due to the following:

Pricing	1.7	%
Volume/product mix	2.3	%
Impact of consolidated Asia joint venture order flow change	(1.3)	%
Currency exchange rates / other	(0.4)	%
Total	2.3	%

The increase in turnover was primarily driven by improved pricing across all segments as well as increased volumes in the Americas segment due to stronger demand in both the commercial and residential markets as well as new products, particularly from our electronics portfolio. These increases were partially offset by unfavorable currency impacts, lower volume in EMEIA due to weak markets and the impact of the change in order flow through our consolidated joint venture in Asia discussed below in the "Significant events in 2013" section.

Costs of Goods Sold

For the year ended 31 December 2013, cost of goods sold as a percentage of turnover decreased to 58.9% from 59.6%. Costs of goods sold as a percentage of turnover for the year ended 31 December 2013 was favorably impacted by a $21.5 million gain on a property sale in China (1.0%) and negatively impacted by $3.8 million of restructuring charges and non-recurring separation costs incurred in connection with the Spin-off (0.2%). Cost of goods sold as a percentage of turnover for the year ended 31 December 2012 was negatively impacted by $3.7 million of restructuring charges and other costs (0.2%). Excluding the impact of these items, cost of goods sold as a percentage for the year ended 31 December 2013 increased to 59.8% from 59.5% primarily due to inflation (1.9%) and unfavorable channel/region mix (0.5%), partially offset by productivity benefits and other items (2.1%).

Distribution and Administrative Expenses

For the year ended 31 December 2013, distribution and administrative expenses as a percentage of turnover increased to 23.2% from 22.3%. Distribution and administrative expenses as a percentage of turnover for the year ended 31 December 2013 was negatively impacted by $2.7 million of restructuring charges (0.1%) and $5.0 million of non-recurring separation costs incurred in connection with the Spin-off (0.2%). Distribution and administrative expenses as a percentage of turnover for the year ended 31 December 2012 was negatively impacted by $4.5 million of restructuring charges and other costs (0.2%). Excluding the impact of these items, distribution and administrative expenses as a percentage of turnover increased to 22.9% from 22.1%, primarily due to non-material inflation (1.2%) and increased investment spending (0.5%) partially offset by productivity benefits (0.5%) and other items (0.4%).

Operating Margin

Operating margin for the year ended 31 December 2013 decreased to 10.9% from 17.9% for the same period in 2012. Operating margin for the year ended 31 December 2013 was negatively impacted by the non-cash goodwill impairment charge (6.6%) and favorably impacted by the gain on a property sale in China (1.1%). Excluding the impact of these items, operating margin for the year ended 31 December 2013 was 16.4%. The decrease was primarily due to incremental investment spending associated with new product development (0.6%), unfavorable product mix (0.5%), restructuring charges and non-recurring separation costs (0.2%) and foreign exchange loss (0.3%), partially offset by favorable volume leverage (0.2%). Price increases (1.4%) and productivity benefits (2.4%) offset inflation, higher corporate expense allocations and other items (3.8%, collectively) for the year ended 31 December 2013.

Interest payable

Interest payable for the year ended 31 December 2013 increased $8.7 million compared to the same period in 2012 as a result of entering into the $1,000 million total Senior Secured Credit Facilities and issuing $300 million of senior notes in the fourth quarter of 2013 in conjunction with the spin-off from Ingersoll Rand. Had this debt been outstanding as of the beginning of 2013, our interest expense would have been approximately $53 million for the year ended 31 December 2013.

Provision for taxation

For the year ended 31 December 2013, our effective tax rate of 79.7% compared to 37.3% for the year ended 31 December 2012. The effective tax rate for the year ended 31 December 2013 included the impact of a non-cash pre-tax goodwill impairment charge of $137.6 million ($131.2 million after-tax). Additionally, the effective tax rate included $44.8 million of discrete tax adjustments consisting of $31.5 million of expense related to valuation allowances on deferred tax assets that are no longer expected to be utilized and $13.3 million of net tax expense resulting primarily from transactions occurring to effect the Spin-off. Excluding these items, the effective tax rate was 36.4%. Our tax rate was above the U.S. statutory rate of 35.0% primarily due to U.S. state and local taxes and net increases in our liability for unrecognized tax benefits partially offset by earnings in non-U.S. jurisdictions, which, in aggregate, had a lower effective rate.

See Note 9 to the consolidated financial statements for further discussion of tax matters.

Discontinued Operations

Discontinued operations recognized a loss for the year ended 31 December 2013 primarily due to lease expense and other miscellaneous expenses from previously sold businesses.

See Note 10 to the consolidated financial statements for further discussion.

Competitive Conditions

The security products markets are highly competitive and fragmented throughout the world, with a number of large multi-national companies and thousands of smaller regional and local companies. This high fragmentation primarily reflects local regulatory requirements and highly variable end-user needs. We believe our principal global competitors are Assa Abloy AB, DORMA Holding GmbH, Kaba Holding AG, and Stanley Black & Decker Inc. We also face competition in various markets and product categories throughout the world, including from Spectrum Brands Holdings, Inc. in the North American residential

market. As we move into more technologically-advanced product categories, we may also compete against smaller, more specialized competitors.

Customers

We sell most of our products and solutions through distribution and retail channels, ranging from specialty distribution to wholesalers. We have built a network of more than 7,000 channel partners that help our customers choose the right solution to meet their security needs. Our channel partners that sell to commercial and institutional end-users helped fulfill and install orders to more than 30,000 end-users in 2013. We also sell through a variety of retail channels, ranging from large do-it-yourself home improvement centers to small, specialty showroom outlets. We work with our retail partners on developing marketing and merchandising strategies to maximize their sales per square foot of shelf space.

Through our Interflex and China-based video and systems integration businesses, we provide products and solutions directly to end-users.

Our 10 largest customers represented approximately 25% of our combined turnover in 2013. No single customer represented 10% or more of our combined turnover in 2013.

Sales and Marketing

In markets where we sell through commercial and institutional distribution channels, we employ sales professionals around the world who work with a combination of end-users, security professionals, architects, contractors, engineers and distribution partners to develop specific custom-configured solutions for our end-users' needs. Our field sales professionals are assisted by specification writers who work with architects, engineers and consultants to help design door openings and security systems to meet end-users' functional, aesthetic and regulatory requirements. Both groups are supported by dedicated customer care and technical sales-support specialists worldwide. We also support our sales efforts with a variety of marketing efforts, including trade-specific advertising, cooperative distributor merchandising, digital marketing, and marketing at a variety of industry trade shows.

In markets in which we sell through retail and home-builder distribution channels, we have teams of sales, merchandising and marketing professionals who help drive brand and product awareness through our channel partners and to consumers. We utilize a variety of advertising and marketing strategies, including traditional consumer media, retail merchandising, digital marketing, retail promotions, and builder and consumer trade shows, to support these teams.

Production and Distribution

We manufacture our products in our geographic markets around the world. We operate 19 production facilities, including 10 in the Americas region, 7 in EMEIA and 2 in Asia Pacific. We own 10 of these facilities and lease the others. Our strategy is to produce in the region of use, wherever appropriate, to allow us to be closer to the end-user and increase efficiency and more timely product delivery.

In managing our network of production facilities, we focus on eliminating excess capacity, reducing cycle time through productivity, and harmonizing production practices and safety procedures.

We distribute our products through a broad network of channel partners. In addition, third-party logistics providers perform storage and distribution services for us to support certain parts of our distribution network.

Raw Materials

We support our region-of-use production strategy with corresponding region-of-use supplier partners, where available. Our global and regional commodity teams work with production leadership, product management and materials management teams to ensure adequate materials are available for production at the lowest possible cost.

We purchase a wide range of raw materials, including steel, zinc, brass and other non-ferrous metals, to support our production facilities. Where appropriate, we may enter into long-term supply arrangements or fixed-cost contracts to lower overall costs. We do not believe the loss of any particular supplier would be material to our business.

Seasonality

Our business experiences seasonality that varies by product line. Because more construction and do-it-yourself projects occur during the second- and third-calendar quarters of each year in the Northern Hemisphere, our security product sales, typically, are higher in those quarters than in the first- and fourth-calendar quarters. However, our Interflex and Asia Pacific video and systems integration businesses typically experience higher sales in the fourth calendar quarter due to project timing. Turnover by quarter for the years ended 31 December 2013 and 31 December 2012 are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2013	23%	25%	26%	26%
2012	23%	25%	25%	27%

Research and Development

We are committed to investing in highly productive research and development capabilities, particularly in electro-mechanical systems. Our research and development ("R&D") expenditures were approximately $39.6 million and $38.2 million for the years ended 31 December 2013 and 31 December 2012, respectively.

We concentrate on developing technology innovations that will deliver growth through the introduction of new products and solutions, and also on driving continuous improvements in product cost, quality, safety and sustainability.

We manage our R&D team as a global group with an emphasis on a global collaborative approach to identify and develop new technologies and worldwide product platforms. We are organized on a regional basis to leverage expertise in local standards and configurations. In addition to regional engineering centers in each geographic region, we also operate a global engineering center of excellence in Bangalore, India.

Intellectual Property

Intellectual property, inclusive of certain patents, trademarks, copyrights, know-how, trade secrets and other proprietary rights, is important to our business. We create, protect and enforce our intellectual property investments in a variety of ways. We work actively in the U.S. and internationally to try to ensure the protection and enforcement of our intellectual property rights. We use trademarks on nearly all of our products and believe that such distinctive marks are an important factor in creating a market for our goods, in identifying us and in distinguishing our products from others. We consider our Schlage, Von Duprin, CISA and other associated trademarks to be among our most valuable assets, and we have registered these trademarks in a number of countries. Although certain proprietary intellectual property rights are important to our success, we do not believe we are materially dependent on any particular patent or license, or any particular group of patents or licenses.

Facilities

We operate through a broad network of sales offices, 19 production facilities and several distribution centers throughout the world. Our active properties represent about 5.1 million square feet, of which approximately 49% is leased.

Liquidity and Capital Resources

Sources and uses of liquidity

Our primary source of liquidity is cash provided by operating activities. Cash provided by operating activities is used to invest in new product development, fund capital expenditures and fund working capital requirements and is expected to be adequate to service any future debt, pay any declared dividends and potentially fund acquisitions and share repurchases. Our ability to fund these capital needs depends on our ongoing ability to generate cash provided by operating activities and to access our borrowing facilities (including unused availability under our Revolver) and capital markets. We believe that our future cash

provided by operating activities, together with our access to funds on hand and capital markets, will provide adequate resources to fund our operating and financing needs.

The following table reflects the major categories of cash flows for the years ended 31 December, respectively. For additional details, please see the consolidated statements of cash flows.

In millions	2013	2012
Cash provided by operating activities	$ 223.9	$ 269.2
Cash used in investing activities	(18.7)	(17.5)
Cash used in financing activities	(292.4)	(317.9)

Operating activities

Cash flow provided by operating activities for the year ended 31 December 2013 decreased $45.3 million compared to the same period in the prior year. Operating cash flows for 2013 reflect lower earnings from continuing operations and an increase in working capital compared to the same period in the prior year.

Investing activities

Cash flow used in investing activities for the year ended 31 December 2013 increased $1.2 million compared to the same period in the prior year. Cash used in investing activities for the year ended 31 December 2013 included $20.2 million of capital expenditures, $40.2 million of cash classified as restricted as it is pledged as collateral against a short-term note payable and $41.7 million of proceeds from the sale of property, plant and equipment primarily related to proceeds from the sale of property in China.

Capital expenditures were $20.2 million and $19.6 million for 2013 and 2012 respectively. In 2014, we expect capital expenditures to be approximately $40.0 million as we invest in information technology systems, new product development and manufacturing plant related capital to support our growth initiatives.

Financing activities

Cash flow used in financing activities for the year ended 31 December 2013 decreased $25.5 million compared to the same period in the prior year. Net transfers to Ingersoll Rand increased $1,286.7 million as the $1,274.4 million proceeds from the issuance of the Senior Notes and the Senior Secured Credit Facilities were distributed to Ingersoll Rand, net of debt issuance costs.

Capitalization

Borrowings at 31 December consisted of the following:

In millions	2013	2012
Term Loan A Facility due 2018	$ 500.0	$ —
Term Loan B Facility due 2020	500.0	—
5.75% Senior notes due 2021	300.0	—
Other debt, including capital leases, maturing in various amounts through 2016	2.8	2.8
Other short-term borrowings	41.1	2.2
Total long-term debt	$ 1,343.9	$ 5.0
Less current portion of long term debt	71.9	2.2
	$ 1,272.0	$ 2.8

The Term Loan A Facility amortizes in quarterly installments, with the first such installment due at the end of the first quarter of 2014, at the following rates per year: 5% in year one; 5% in year two and 10% in each year thereafter, with the final installment due on September 27, 2018. The Term Loan B Facility amortizes in quarterly installments, with the first such installment due at the end of the first quarter of 2014, in an amount equal to 1.00% per annum, with the balance due on 27 September 2020. The Senior Notes are due in full on 1 October 2021.

At 31 December 2013, we did not have any borrowings outstanding under the Revolver and had $24.6 million of letters of credit outstanding, which reduce availability under the Revolver.

Included in the other short-term borrowings is a $40.2 million short-term note payable due in March 2014. The $40.2 million of restricted cash presented on the consolidated balance sheet at 31 December 2013 was pledged as collateral for the short-term note payable.

We are required to comply with certain covenants under our Senior Secured Credit Facilities. We are required to comply with a maximum leverage ratio of 4.00 (based on a ratio of total consolidated indebtedness, net of unrestricted cash up to $100 million, to consolidated EBITDA) and a minimum interest expense coverage ratio of 3.50 (based on a ratio of consolidated EBITDA to consolidated interest expense, net of interest income). As of 31 December 2013, we were in compliance with these covenants. Additionally, the indenture to our Senior Notes and the Senior Secured Credit Facilities contain affirmative and negative covenants that, among other things, limit or restrict our ability to enter into certain transactions. For further details on these covenants, see Note 22 to the consolidated financial statements.

The majority of non-US earnings are considered to be permanently reinvested in non-US jurisdictions where the Group has made, and intends to continue to make, substantial investments to support the ongoing development and growth of our global operations. Accordingly, applicable income taxes have not been accrued on the portion of our earnings that is considered to be permanently reinvested. However, in the fourth quarter of 2013 we recorded $7.5 million of tax expense related to certain undistributed earnings of a non-U.S. subsidiary no longer deemed to be permanently reinvested. At 31 December 2013, we had unrestricted cash and cash equivalents of $227.4 million. Approximately 65.3% of our cash and cash equivalents was located outside the U.S., including approximately $6.9 million in Venezuela. We do not intend, nor do we foresee a need, to repatriate these funds; however, repatriation of these funds would expose us to additional taxes.

Pension Plans

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

We monitor the impact of market conditions on our defined benefit plans on a regular basis. During 2013, none of our defined benefit pension plans have experienced a significant impact on their liquidity due to the volatility in the markets. For further details on pension plan activity, see Note 24 to the consolidated financial statements.

Contractual Obligations

The following table summarizes our contractual cash obligations by required payment periods, in millions:

	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
Short-term debt	$ 41.9	$ —	$ —	$ —	$ 41.9
Long-term debt	30.0	87.0	410.0	775.0	1,302.0
Interest payments on long-term debt	44.3	86.2	78.6	70.4	279.5
Purchase obligations	124.7	—	—	—	124.7
Operating leases	15.9	18.8	5.5	0.2	40.4
Total contractual cash obligations	$ 256.8	$ 192.0	$ 494.1	$ 845.6	$ 1,788.5

Future expected obligations under our pension and postretirement benefit plans, income taxes, environmental and product liability matters have not been included in the contractual cash obligations table above.

Pensions

At 31 December 2013, we had net obligations of $83.1 million, which consist of noncurrent pension assets of $546.1 million and current and non-current pension benefit liabilities of $629.2 million. It is our objective to contribute to the pension plans to ensure adequate funds are available in the plans to make benefit payments to plan participants and beneficiaries when required. We currently project that we will contribute approximately $17.0 million to our plans worldwide in 2014. Because the timing

and amounts of long-term funding requirements for pension obligations are uncertain, they have been excluded from the preceding table. See Note 24 to the consolidated financial statements for additional information.

Postretirement Benefits Other than Pensions

At 31 December 2013, we had postretirement benefit obligations of $14.2 million. We fund postretirement benefit costs principally on a pay-as-you-go basis as medical costs are incurred by covered retiree populations. Benefit payments, which are net of expected plan participant contributions and Medicare Part D subsidy, are expected to be approximately $1.1 million in 2014. Because the timing and amounts of long-term funding requirements for postretirement obligations are uncertain, they have been excluded from the preceding table. See Note 24 to the consolidated financial statements for additional information.

Income Taxes

At 31 December 2013, we have total unrecognized tax benefits for uncertain tax positions of $40.6 million and $11.5 million of related accrued interest and penalties, net of tax. The liability has been excluded from the preceding table as we are unable to reasonably estimate the amount and period in which these liabilities might be paid. See Note 9 to the consolidated financial statements for additional information regarding matters relating to income taxes, including unrecognized tax benefits and Internal Revenue Service (IRS) tax disputes.

Contingent Liabilities

We are involved in various litigations, claims and administrative proceedings, including those related to environmental and product liability matters. We believe that these liabilities are subject to the uncertainties inherent in estimating future costs for contingent liabilities, and will likely be resolved over an extended period of time. Because the timing and amounts of potential future cash flows are uncertain, they have been excluded from the preceding table. See Note 27 to the consolidated financial statements for additional information.

Environmental Matters

We are dedicated to an environmental program intended to reduce the utilization and generation of hazardous materials during the manufacturing process as well as to remediate identified environmental concerns. As to the latter, we are currently engaged in site investigations and remediation activities to address environmental cleanup from past operations at current and former manufacturing facilities.

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

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

We incurred $2.1 million and $2.9 million of expenses during the years ended 31 December 2013 and 31 December 2012, respectively, for environmental remediation at sites presently or formerly owned or leased by us. As of 31 December 2013 and 31 December 2012, we have recorded reserves for environmental matters of $10.8 million and $11.8 million, respectively. Of these amounts $2.9 million and $2.5 million, respectively, relate to remediation of sites previously disposed by us. Our total current environmental reserve at 31 December 2013 and 31 December 2012 was $4.2 million and $2.3 million, respectively. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

Principal Risks

Risks Relating to Our Businesses

The following are certain risk factors that could affect our business, financial condition, results of operations, and cash flows. The risk factors below are not the only risks faced by the Group.

Our global operations subject us to economic risks.

We are incorporated in Ireland and operate in countries worldwide. Our global operations depend on products manufactured, purchased and sold in the U.S. and internationally, including in Europe, China, Australia, Mexico, Venezuela and Turkey. Accordingly, we are subject to risks that are inherent in operating globally, including:

- changes in laws and regulations or imposition of currency restrictions and other restraints in various jurisdictions;
- limitation of ownership rights, including expropriation of assets by a local government, and limitation on the ability to repatriate earnings;
- sovereign debt crises and currency instability in developed and developing countries;
- imposition of burdensome tariffs and quotas;
- difficulty in staffing and managing global operations;
- difficulty in enforcing agreements, collecting receivables and protecting assets through non-U.S. legal systems;
- national and international conflict, including war, civil disturbances and terrorist acts; and
- economic downturns and social and political instability.

These risks could increase our cost of doing business internationally, increase our counterparty risk, disrupt our operations, disrupt the ability of suppliers and customers to fulfill their obligations and limit our ability to sell products in certain markets.

Our business relies on the commercial and residential construction and remodeling markets.

We primarily rely on the commercial and residential construction and remodeling markets, which are marked by cyclicality based on overall economic conditions. Weakness or instability in these markets may cause current and potential customers to delay or choose not to make purchases, which could negatively impact the demand for our products and services.

Our growth is dependent, in part, on the development, commercialization and acceptance of new products and services.

We must develop and commercialize new products and services in order to remain competitive in our current and future markets and in order to continue to grow our business. We cannot provide any assurance that any new product or service will be successfully commercialized in a timely manner, if ever, or, if commercialized, will result in returns greater than our investment. Investment in a product or service could divert our attention and resources from other projects that become more commercially viable in the market. We also cannot provide any assurance that any new product or service will be accepted by the market.

Changes in customer preferences and the inability to maintain beneficial relationships with large customers could adversely affect our business.

We have significant customers, particularly major retailers, although no one customer represented more than 10% of combined net sales in 2013 or 2012. The loss or material reduction of business, the lack of success of sales initiatives or changes in customer preferences or loyalties, for our products related to any such significant customer could have a material adverse impact on our business. In addition, major customers who are volume purchasers are much larger than us and have strong bargaining power with suppliers. This limits our ability to recover cost increases through higher selling prices. Furthermore, unanticipated stock adjustments by these customers can have a negative impact on sales.

Our brands are important assets of our businesses and violation of our trademark rights by imitators could negatively impact turnover and brand reputation.

Our brands and trademarks enjoy a reputation for quality and value and are important to our success and competitive position. Unauthorized use of our trademarks may not only erode sales of our products, but may also cause significant damage to our brand name and reputation, interfere with relationships with our customers and increase litigation costs. There can be no assurance that our on-going effort to protect our brand and trademark rights will prevent all violations.

Currency exchange rate fluctuations may adversely affect our results.

We are exposed to a variety of market risks, including the effects of changes in currency exchange rates. Approximately 36% of our 2013 net turnover was derived outside the U.S., and we expect sales to non-U.S. customers to continue to represent a significant portion of our consolidated net turnover. Although we may enter into currency exchange contracts to reduce our risk related to currency exchange fluctuations, changes in the relative fair values of currencies occur from time to time and may, in

some instances, have a material impact on our results of operations. Because we do not hedge against all of our currency exposure, our business will continue to be susceptible to currency fluctuations.

We also translate assets, liabilities, turnover and expenses denominated in non-U.S. dollar currencies into U.S. dollars for our consolidated financial statements based on applicable exchange rates. Consequently, fluctuations in the value of the U.S. dollar compared to other currencies will have a material impact on the value of these items in our consolidated financial statements, even if their value has not changed in their original currency.

Our business strategy includes making acquisitions and investments that complement our existing business. These acquisitions and investments could be unsuccessful or consume significant resources, which could adversely affect our operating results.

We will continue to analyze and evaluate the acquisition of strategic businesses or product lines with the potential to strengthen our industry position or enhance our existing set of products and services offerings. We cannot assure you that we will identify or successfully complete transactions with suitable acquisition candidates in the future, nor can we assure you that completed acquisitions will be successful.

Acquisitions and investments may involve significant cash expenditures, debt incurrence, operating losses and expenses. Acquisitions involve numerous other risks, including:

- diversion of management time and attention from daily operations;
- difficulties integrating acquired businesses, technologies and personnel into our business;
- difficulties in obtaining and verifying the financial statements and other business information of acquired businesses;
- inability to obtain regulatory approvals and/or required financing on favorable terms;
- potential loss of key employees, key contractual relationships or key customers of acquired companies or of us;
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies; and
- dilution of interests of holders of our ordinary shares through the issuance of equity securities or equity-linked securities.

We may also expand through acquisitions or investments into international markets in which we may have limited experience or are required to rely on business partners. In addition to the risks outlined above, expansion into international markets may require us to compete with local businesses with greater knowledge of the market, including the tastes and preferences of customers, and businesses with dominant market shares.

It may be difficult for us to complete transactions quickly, integrate acquired operations efficiently into our current business operations or effectively compete in new markets we enter. Any acquisitions or investments may ultimately harm our business or financial condition, as such acquisitions may not be successful and may ultimately result in impairment charges.

Our operational excellence efforts may not achieve the improvements we expect.

We utilize a number of tools to improve operational efficiency and productivity. Implementation of new processes to our operations could cause disruptions and there is no assurance that all of our planned operational excellence projects will be fully implemented, or if implemented will realize the expected improvements.

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

We are currently and may in the future become involved in legal proceedings and disputes incidental to the operation of our business. Our business may be adversely affected by the outcome of these proceedings and other contingencies (including, without limitation, environmental matters) that cannot be predicted with certainty. As required by U.S. generally accepted accounting principles ("GAAP"), we establish reserves based on our assessment of contingencies. Subsequent developments in legal proceedings and other contingencies may affect our assessment and estimates of the loss contingency recorded as a reserve and we may be required to make additional material payments.

Allegations that we have infringed the intellectual property rights of third parties could negatively affect us.

We may be subject to claims of infringement of intellectual property rights by third parties. In particular, we often compete in areas having extensive intellectual property rights owned by others and we have become subject to claims alleging infringement of intellectual property rights of others. In general, if it is determined that one or more of our technologies, products or services infringes the intellectual property rights owned by others, we may be required to cease marketing those services, to obtain licenses from the holders of the intellectual property at a material cost or to take other actions to avoid infringing the intellectual

property rights. The litigation process is costly and subject to inherent uncertainties, and we may not prevail in litigation matters regardless of the merits of our position. Adverse intellectual property litigation or claims of infringement against us may become extremely disruptive if the plaintiffs succeed in blocking the trade of our products and services and may have a material adverse effect on our business.

Our reputation, ability to do business and results of operations could be impaired by improper conduct by any of our employees, agents or business partners.

We are subject to regulation under a variety of U.S. federal and state and non-U.S. laws, regulations and policies including laws related to anti-corruption, export and import compliance, anti-trust and money laundering, due to our global operations. We cannot provide assurance our internal controls will always protect us from the improper conduct of our employees, agents and business partners. Any improper conduct could damage our reputation and subject us to, among other things, civil and criminal penalties, material fines, equitable remedies (including profit disgorgement and injunctions on future conduct), securities litigation and a general loss of investor confidence.

We may be subject to risks relating to our information technology systems.

We rely extensively on information technology systems to manage and operate our business. If these systems cease to function properly or if these systems do not provide the anticipated benefits, our ability to manage our operations could be impaired.

We currently rely on a single vendor for many of the critical elements of our global information technology infrastructure and its failure to provide effective support for such infrastructure could negatively impact our business and financial results.

We have outsourced many of the critical elements of our global information technology infrastructure to a third-party service provider in order to achieve efficiencies. If the service provider does not perform or does not perform effectively, we may not be able to achieve the expected efficiencies and may have to incur additional costs to address failures in providing service by the service provider. Depending on the function involved, such non-performance, ineffective performance or failures of service may lead to business disruptions, processing inefficiencies or security breaches.

Our information technology infrastructure is important to our business and data security breaches or disruptions of such infrastructure could negatively impact our business and financial results.

Our information technology infrastructure is subject to cyber-attacks and unauthorized security intrusions. Despite instituting security policies and business continuity plans, our systems and networks may be vulnerable to system damage, malicious attacks from hackers, employee errors or misconduct, viruses, power and utility outages, and other catastrophic events that could cause significant harm to our business by negatively impacting our business operations, compromising the security of our proprietary information and exposing us to litigation that could adversely affect our reputation.

Commodity shortages and price increases could negatively affect our financial results.

We rely on suppliers to secure commodities, including steel, zinc, brass and other non-ferrous metals, required for the manufacture of our products. A disruption of deliveries from our suppliers or decreased availability of commodities could have an adverse effect on our ability to meet our commitments to customers or increase our operating costs. We believe that available sources of supply will generally be sufficient for our needs for the foreseeable future. Nonetheless, the unavailability of some commodities could have a material adverse impact on our business.

Volatility in the prices of these commodities could increase the costs of our products and services, and we may not be able to pass on these costs to our customers. We do not currently hedge against this volatility. The pricing of some commodities we use is based on market prices. To mitigate this exposure, we may use annual and multi-year fixed price contracts to minimize the impact of inflation and to benefit from deflation.

We may be required to recognize impairment charges for our goodwill and other indefinite-lived intangible assets.

At 31 December 2013, the net carrying value of our goodwill and other indefinite-lived intangible assets totaled approximately $505 million and $9 million, respectively. In accordance with U.S. GAAP, we periodically assess these assets to determine whether they are impaired. Negative industry or economic trends, disruptions to our business, unexpected changes or planned changes in use of assets, divestitures and market capitalization declines may result in recognition of impairment charges. In particular, our Asia Pacific - Other reporting unit had $57 million of goodwill and an estimated fair value that exceeded its carrying value by 7% at 31 December 2013.

Successful sales and marketing efforts depend on our ability to recruit and retain qualified employees.

Our ability to successfully grow our business depends on the contributions and abilities of key executives, our sales force and other personnel, including the ability of our sales force to adapt to any changes made in the sales organization and achieve adequate customer coverage. We must therefore continue to recruit, retain and motivate management, sales and other personnel sufficiently to maintain our current business and support our projected growth. A shortage of these key employees might jeopardize our ability to grow and expand our business.

Our operations are subject to regulatory risks.

Our U.S. and non-U.S. operations are subject to a number of laws and regulations, including fire and building codes and standards, environmental and health and safety. We have incurred, and will be required to continue to incur, significant expenditures to comply with these laws and regulations. Changes to, or changes in interpretations of, current laws and regulations could require us to increase our compliance expenditures, cause us to significantly alter or discontinue offering existing products and services or cause us to develop new products and services. Altering current products and services or developing new products and services to comply with changes in the applicable laws and regulations could require significant research and development investments, increase the cost of providing the products and services and adversely affect the demand for our products and services.

We may not have been, or we may not at all times be, in full compliance with these laws and regulations. In the event a regulatory authority concludes that we are not or have not at all times been in full compliance with these laws, we could be fined, criminally charged or otherwise sanctioned.

Certain environmental laws assess liability on current or previous owners of real property or operators of manufacturing facilities for the costs of investigation, removal or remediation of hazardous substances or materials at such properties or at properties at which parties have disposed of hazardous substances. Liability for investigative, removal and remedial costs under certain U.S. federal and state laws and certain non-U.S. laws are retroactive, strict and joint and several. In addition to cleanup actions brought by governmental authorities, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances. We have received notification from U.S. and non-U.S. governmental agencies, including the U.S. Environmental Protection Agency (the "EPA") and similar state environmental agencies, that conditions at a number of current and formerly owned sites where we and others have disposed of hazardous substances require investigation, cleanup and other possible remedial action. These agencies may require that we reimburse the government for its costs incurred at these sites or otherwise pay for the costs of investigation and cleanup of these sites, including by providing compensation for natural resource damage claims from such sites.

While we have planned for future capital and operating expenditures to maintain compliance with environmental laws and have accrued for costs related to current remedial efforts, our costs of compliance, or our liabilities arising from past or future releases of, or exposures to, hazardous substances may exceed our estimates. We may also be subject to additional environmental claims for personal injury or cost recovery actions for remediation of facilities in the future based on our past, present or future business activities.

The capital and credit markets are important to our business.

Instability in U.S. and global capital and credit markets, including market disruptions, limited liquidity and interest rate volatility, or reductions in the credit ratings assigned to us by independent ratings agencies could reduce our access to capital markets or increase the cost of funding our short and long term credit requirements. In particular, if we are unable to access capital and credit markets on terms that are acceptable to us, we may not be able to make certain investments or fully execute our business plans and strategy.

Our suppliers and customers are also dependent upon the capital and credit markets. Limitations on the ability of customers, suppliers or financial counterparties to access credit could lead to insolvencies of key suppliers and customers, limit or prevent customers from obtaining credit to finance purchases of our products and services and cause delays in the delivery of key products from suppliers.

Our operations in Venezuela expose us to several risks.

Venezuela is currently experiencing significant political and civil unrest and economic instability, and in February 2013 the Venezuelan government devalued its currency and the official exchange rate changed from 4.3 to 6.3 Venezuelan Bolivares Fuertes (VEF) to 1 U.S. Dollar. We recognized a $6.2 million realized foreign currency loss related to the devaluation in the first quarter of 2013. When the government devalued the VEF in February, 2013, it established a new auction-based exchange rate market program, referred to as SICAD. The amount of transactions that have run through the SICAD and restrictions around participation have limited our access to any foreign exchange rate other than the official rate to pay for imported goods and

manage our local monetary asset balances. Accordingly, all of our net monetary assets are measured at the official 6.3 exchange rate at 31 December 2013.

In late January 2014, the Venezuelan government made several announcements affecting currency exchange and other controls. Although the official exchange rate remains at 6.3, the government announced that the exchange rate for certain foreign investments will move to the rate available on the SICAD currency market, which in the last auction was 11.7 VEF to 1 U.S. Dollar. The impact to us of a devaluation from the official exchange rate to the SICAD market exchange rate would be a charge of approximately $10 million based on net financial asset balances as of 31 December 2013, however the charge could be higher if the SICAD market exchange rate moves higher. There is considerable uncertainty as to the nature of transactions that will flow through SICAD and how SICAD will operate in the future, however we believe there is considerable risk that the official rate will be devalued further. Further devaluation could have a material impact on our financial condition, results of operations or cash flow.

This current state of affairs could lead to further devaluation of its currency, volatility of exchange rates, and disruption of the economy. If the current unrest and instability continues, our ability to acquire necessary goods from suppliers could be limited, our customers may not be able to fulfill their obligations, our ability to manufacture and sell products could be disrupted and our Venezuelan operations could be adversely affected.

Risks Related to Our Indebtedness

Our substantial leverage could harm our business by limiting our available cash and our access to additional capital and, to the extent of our variable rate indebtedness, exposing us to interest rate risk.

We have approximately $1.3 billion of outstanding indebtedness at 31 December 2013. In addition, we have a senior secured revolving credit facility permitting borrowings of up to $500 million. This amount of indebtedness substantially increases our cash interest expense in future years compared to prior years and may limit our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions, restructuring and general corporate or other purposes, limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared to our less leveraged competitors. Further volatility in the credit markets would adversely impact our ability to obtain favorable terms on financing in the future. In addition, a substantial portion of our cash flows from operations is dedicated to the payment of principal and interest on our indebtedness and will not be available for other purposes, including our operations, capital expenditures, payment of dividends, share repurchase programs and future business opportunities. We may be more vulnerable than a less leveraged company to a downturn in the general economic conditions or in our business, or we may be unable to carry out capital spending that is important to our growth. We may be vulnerable to interest rate increases, as certain of our borrowings, including those under our senior secured credit facilities, are at variable rates.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which actions may not be successful.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a level of cash flow from operating activities sufficient to permit us to pay the principal and interest on our indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, reduce or eliminate the payment of dividends, sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to sell material assets or operations to attempt to meet our debt service and other obligations. The terms of the credit agreement governing our senior secured credit facilities and the indenture governing our senior notes contain customary financial covenants that may restrict our ability to use the proceeds from asset sales. We may not be able to consummate those asset sales to raise capital or sell assets at prices we believe are fair, and proceeds that we do receive may not be adequate to meet any debt service obligations then due.

Despite our levels of indebtedness, we may still be able to incur substantially more debt, which could further exacerbate the risks associated with our substantial leverage.

We may be able to incur substantial additional indebtedness in the future. Although the terms of the credit agreement governing our senior secured credit facilities and the indenture governing our senior notes contain customary restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. In addition, our senior secured revolving credit facility permits

borrowings of up to $500 million. If we incur additional debt above the levels we currently have, the risks associated with our leverage, including those described above, would increase.

The terms of our debt covenants could limit how we conduct our business and our ability to raise additional funds.

The terms of the credit agreement governing our senior secured credit facilities and the indenture governing our senior notes restrict us from taking certain actions that we may think are in the best interests of our shareholders. A breach of the covenants or restrictions could result in a default under the applicable indebtedness. As a result of these restrictions, we may be:

- limited in how we conduct our business;
- limited in our ability to pay dividends or make other distributions to our shareholders;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our plans.

These covenants and restrictions could affect our ability to operate our business, and may limit our ability to react to market conditions or take advantage of potential business opportunities as they arise. Additionally, our ability to comply with these covenants may be affected by events beyond our control, including general economic and credit conditions and industry downturns, and the other factors described in these "principal risks."

Our variable rate indebtedness may expose us to interest rate risk, which could cause our debt costs to increase significantly.

A portion of our borrowings at 31 December 2013 are term loans with variable rates of interest which expose us to interest rate risks. We are exposed to the risk of rising interest rates to the extent that we fund our operations with short-term or variable-rate borrowings. At 31 December 2013, we have approximately $1.3 billion of aggregate debt outstanding, and that this amount includes $1.0 billion of floating-rate term loans and $300 million of our fixed-rate senior notes. We have the ability to incur up to $500 million of additional floating-rate debt under our senior secured revolving credit facility. Based on the amount of floating-rate debt outstanding at 31 December 2013, a 100 basis point increase in LIBOR would result in an incremental annual interest expense of approximately $7.1 million. If the LIBOR or other applicable base rates under our senior secured credit facilities increase in the future then the floating-rate debt could have a material effect on our interest expense.

Risks Relating to Our Spin-off

We may be unable to achieve some or all of the benefits that we expect to achieve from our spin-off from Ingersoll Rand.

As an independent, publicly-traded group, we believe that our business will benefit from, among other things, allowing us to better focus our financial and operational resources on our specific business, allowing our Board of Directors and management to design and implement corporate strategies and policies that are based primarily on the characteristics of our business, allowing us to more effectively respond to industry dynamics and allowing the creation of effective incentives for our management and employees that are more closely tied to our business performance. However, we may not be able to achieve some or all of the benefits that we expect to achieve as an independent group in the time we expect, if at all.

Our accounting and other management systems may not be adequately prepared to meet the financial reporting and other requirements to which we will be subject following the Spin-off.

Our financial results were previously included within the consolidated results of Ingersoll Rand, and we believe that our financial reporting and internal controls were appropriate for those of subsidiaries of a public company. However, we were not directly subject to the reporting and other requirements of the Securities Exchange Act, as amended (the "Exchange Act"). In connection with the Spin-off, we are directly subject to reporting and other obligations under the Exchange Act. Beginning with our Annual Report on Form 10-K for fiscal year 2014, we will be required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") which requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm addressing these assessments. These reporting and other obligations may place significant demands on our management, administrative and operational resources, including accounting systems and resources.

The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. Under the Sarbanes-Oxley Act, we are required to maintain effective disclosure controls and procedures and internal controls over financial reporting. Any failure to achieve and maintain effective internal controls could have a material adverse effect on our financial condition, results of operations or cash flows.

We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent group, and we may experience increased costs.

We have historically operated as part of Ingersoll Rand's corporate organization, and Ingersoll Rand has assisted us by providing certain corporate functions. Ingersoll Rand is obligated contractually to provide to us only those transition services specified in agreements we entered into with Ingersoll Rand. We may be unable to replace in a timely manner or on comparable terms the services or other benefits that Ingersoll Rand previously provided to us that are not specified in any transition services agreement. Upon expiration of any transition services agreement, each of the services that are covered in the agreement will have to be provided internally or by third parties and we may be unable to replace those services in a timely manner or on comparable terms. In addition, if Ingersoll Rand does not continue to perform transition services and the other services that are called for under any transition services agreement, we may not be able to operate our business as effectively.

Our historical combined financial data are not necessarily representative of the results we would have achieved as an independent, publicly-traded group and may not be a reliable indicator of our future results.

The historical data we present herein may not reflect what our business, financial condition, results of operations and cash flows would have been had we been an independent, publicly-traded group during the periods presented or what our business, financial condition, results of operations and cash flows will be in the future when we are an independent group. This is primarily because:

- Ingersoll Rand, or one of its affiliates, performed significant corporate functions for us, including tax and treasury administration and certain governance functions, including internal audit and external reporting. Our historical statements reflect allocations of corporate expenses from Ingersoll Rand for these functions and may not reflect the costs we will incur for similar services in the future as an independent group. Furthermore, we are responsible for the additional costs associated with being an independent, publicly-traded group, including costs related to corporate governance and external reporting.
- Our working capital requirements and capital for our general corporate purposes, including acquisitions and capital expenditures, historically have been satisfied as part of the group-wide cash management practices of Ingersoll Rand. While our businesses have historically generated sufficient cash to finance our working capital and other cash requirements, we no longer have access to Ingersoll Rand's cash pool. Without the opportunity to obtain financing from Ingersoll Rand, we may need to obtain additional financing from banks, through public offerings or private placements of debt or equity securities or other arrangements.
- Other significant changes may occur in cost structure, management, financing and business operations as a result of our operating as a group separate from Ingersoll Rand.

Our historical financial data does not include an allocation of interest expense comparable to the on-going interest expense we will incur as part of the financing of the Spin-off. After giving pro-forma effect to the Spin-off, our interest expense would have been approximately $53 million for the year ended 31 December 2013 (compared to $10.2 million reflected in our historical financial statements).

As an independent, publicly-traded group, we may not enjoy the same benefits that we did as a part of Ingersoll Rand.

There is a risk that, by separating from Ingersoll Rand, we may become more susceptible to market fluctuations and other adverse events than we would have been if we were still part of Ingersoll Rand. As part of Ingersoll Rand, we were able to enjoy certain benefits from Ingersoll Rand's operating diversity, purchasing power and opportunities to pursue integrated strategies with Ingersoll Rand's other businesses. As an independent, publicly-traded group, we do not have similar diversity or integration opportunities and may not have similar purchasing power or access to capital markets.

As an independent, publicly-traded group, our capital structure and sources of liquidity changed significantly from our historical capital structure.

We have $1.0 billion outstanding under our senior secured term loan facilities and $300 million of fixed rate senior notes, among other borrowings. The net proceeds of the senior notes and the senior secured credit facilities were distributed to Ingersoll Rand. As an independent, publicly-traded group, we will no longer participate in cash management and funding arrangements with Ingersoll Rand. Instead, our ability to fund our capital needs depends on our ongoing ability to generate cash from operations,

and to access our borrowing facilities and capital markets, which is subject to general economic, financial, competitive, regulatory and other factors that are beyond our control.

The ownership by our executive officers of ordinary shares, stock options or other stock-based awards of Ingersoll Rand may create, or may create the appearance of, conflicts of interest.

Substantially all of our executive officers own ordinary shares of Ingersoll Rand, stock options to purchase ordinary shares of Ingersoll Rand or other Ingersoll Rand stock-based awards because of their former positions with Ingersoll Rand. The individual holdings of ordinary shares, stock options to purchase ordinary shares or other stock-based awards of Ingersoll Rand may be significant for some of these persons compared to their total assets. These equity interests may create, or appear to create, conflicts of interest when these officers are faced with decisions that could benefit or affect the officers, as equity holders of Ingersoll Rand, in ways that do not benefit or affect us or our shareholders in the same manner.

The one-time and ongoing costs of the spin-off may be greater than we expected.

We have incurred and will continue to incur costs in connection with being a stand-alone public group that relate primarily to accounting, tax, legal and other professional costs; financing costs in connection with obtaining our financing as a stand-alone group; compensation, such as modifications to certain incentive awards upon completion of the spin-off; recruiting and relocation costs associated with hiring our senior management personnel; and costs to separate assets and information systems. These costs may be greater than anticipated.

We may not be able to achieve a competitive worldwide effective corporate tax rate.

We cannot give any assurance as to what our effective tax rate will be in future years, because of, among other things, uncertainty regarding the geographic mix of income and the tax policies of the jurisdictions where we operate. Our actual effective tax rate may vary from our expectation and that variance may be material. Additionally, the tax laws of Ireland and other jurisdictions could change in the future, and such changes could cause a material change in our effective tax rate.

We may have been able to receive better terms from unaffiliated third parties than the terms we receive in our agreements related to the spin-off.

The agreements related to the spin-off, including the Separation and Distribution Agreement, Employee Matters Agreement, Tax Matters Agreement, Transition Services Agreement, agreements with respect to real estate and intellectual property matters and any other agreements, were negotiated in the context of the Spin-off from Ingersoll Rand while we were still part of Ingersoll Rand. Accordingly, these agreements may not reflect terms that would have resulted from arm's-length negotiations among unaffiliated third parties. The terms of the agreements in the context of the Spin-off are related to, among other things, allocations of assets, liabilities, rights, indemnifications and other obligations among Ingersoll Rand and us. We might have received better terms under the agreements relating to the Spin-off had they been negotiated with disinterested third parties who competed with each other to win our business than we received from Ingersoll Rand.

In connection with the Spin-off, Ingersoll Rand indemnified us for certain liabilities and we indemnified Ingersoll Rand for certain liabilities. If we are required to act on these indemnities to Ingersoll Rand, we may need to divert cash to meet those obligations and our financial results could be negatively impacted. The Ingersoll Rand indemnity may not be sufficient to insure us against the full amount of liabilities for which it will be allocated responsibility, and Ingersoll Rand may not be able to satisfy its indemnification obligations in the future.

Pursuant to the Separation and Distribution Agreement, the Employee Matters Agreement and the Tax Matters Agreement with Ingersoll Rand, Ingersoll Rand agreed to indemnify us for certain liabilities, and we agreed to indemnify Ingersoll Rand for certain liabilities, in each case for uncapped amounts. Such indemnities may be significant and could negatively impact our business, particularly indemnities relating to our actions that could impact the tax-free nature of the Spin-off. Third parties could also seek to hold us responsible for any of the liabilities that Ingersoll Rand retained. Further, the indemnity from Ingersoll Rand may not be sufficient to protect us against the full amount of such liabilities, and Ingersoll Rand may not be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Ingersoll Rand any amounts for which we are held liable, we may be temporarily required to bear these losses ourselves.

If the distribution or certain internal transactions undertaken in anticipation of the spin-off are determined to be taxable for U.S. federal income tax purposes, we, our shareholders that are subject to U.S. federal income tax and/or Ingersoll Rand could incur significant U.S. federal income tax liabilities and, in certain circumstances, we could be required to indemnify Ingersoll Rand for material taxes pursuant to indemnification obligations under the Tax Matters Agreement.

Ingersoll Rand has received an IRS ruling substantially to the effect that, among other things, the distribution of our ordinary shares, together with certain related transactions, qualify under Sections 355 and 368(a) of the Internal Revenue Code ("the Code"), with the result that Ingersoll Rand and Ingersoll Rand's shareholders will not recognize any taxable income, gain or loss for U.S. federal income tax purposes as a result of the Spin-off, except to the extent of cash received in lieu of fractional shares (the "IRS Ruling"). The IRS Ruling also provided that certain internal transactions undertaken in anticipation of the distribution qualify for favorable treatment under the Code. In addition to obtaining the IRS Ruling, Ingersoll Rand received opinions from the law firm of Simpson Thacher & Bartlett LLP substantially to the effect that certain requirements, including certain requirements that the IRS did not rule on, necessary to obtain tax-free treatment have been satisfied, such that the distribution for U.S. federal income tax purposes and certain other matters relating to the distribution, including certain internal transactions undertaken in anticipation of the distribution, received tax-free treatment under Section 355 of the Code. The receipt and effectiveness of the IRS Ruling and the opinions were conditions to the distribution that were satisfied or waived by Ingersoll Rand. The IRS Ruling and the opinions rely on certain facts and assumptions and certain representations and undertakings from us and Ingersoll Rand regarding the past and future conduct of our respective businesses and other matters. Notwithstanding the IRS Ruling and the opinions, the IRS could determine on audit that the distribution or the internal transactions should be treated as taxable transactions if it determines that any of these facts, assumptions, representations or undertakings is not correct or has been violated, or that the distribution or the internal transactions should be taxable for other reasons, including as a result of significant changes in shares or asset ownership after the distribution. A legal opinion represents the tax adviser's best legal judgment, is not binding on the IRS or the courts, and the IRS or the courts may not agree with the opinion. In addition, the opinion will be based on current law, and cannot be relied upon if current law changes with retroactive effect. If the distribution is determined to be taxable, the distribution could be treated as a taxable dividend or capital gain for U.S. federal income tax purposes, and our shareholders could incur significant U.S. federal income tax liabilities. In addition, we or Ingersoll Rand could incur significant U.S. federal income tax liabilities if it is ultimately determined that certain internal transactions undertaken in anticipation of the distribution are taxable.

In addition, under the terms of the Tax Matters Agreement, in the event the distribution or the internal transactions were determined to be taxable as a result of actions taken after the distribution by us or Ingersoll Rand, the party responsible for such failure would be responsible for all taxes imposed on us or Ingersoll Rand as a result thereof. If such failure is not the result of actions taken after the distribution by us or Ingersoll Rand, then we would be responsible for any taxes imposed on us or Ingersoll Rand as a result of such determination. Such tax amounts could be significant.

In addition, the amount of our shares that we can issue may be limited because the issuance of our shares may cause the distribution to be a taxable event for Ingersoll Rand under Section 355(e) of the Code, and under the Tax Matters Agreement, we could be required to indemnify Ingersoll Rand for that tax.

We might not be able to engage in desirable strategic transactions and equity issuances following the distribution because of restrictions relating to U.S. federal income tax requirements for tax-free distributions.

Our ability to engage in significant equity transactions could be limited or restricted after the distribution in order to preserve, for U.S. federal income tax purposes, the tax-free nature of the distribution by Ingersoll Rand. Even if the distribution otherwise qualifies for tax-free treatment under Section 355 of the Code, it may result in a corporate-level taxable gain to Ingersoll Rand and certain of its affiliates under Section 355(e) of the Code if 50% or more, by vote or value, of our shares or Ingersoll Rand's shares are acquired or issued as part of a plan or series of related transactions that includes the distribution. Any acquisitions or issuances of our shares or Ingersoll Rand's shares within two years after the distribution will generally be presumed to be part of such a plan, although we or Ingersoll Rand may be able to rebut that presumption.

To preserve the tax-free treatment to Ingersoll Rand of the distribution, under the Tax Matters Agreement, we are prohibited from taking or failing to take any action that prevents the distribution and related transactions from being tax-free. Further, for the two-year period following the distribution, without obtaining the consent of Ingersoll Rand, a private letter ruling from the IRS or an unqualified opinion from a nationally recognized law firm or accounting firm, we are prohibited from, among other things:

- approving or allowing any transaction that results in a change in ownership of more than 50% of our ordinary shares when combined with any other changes in ownership of our shares,
- redeeming or repurchasing certain amounts of equity securities,
- selling or otherwise disposing of substantially all of our assets, or
- engaging in certain internal transactions.

These restrictions may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize the value of our business. Moreover, the Tax Matters Agreement provides that we are responsible for any taxes imposed on Ingersoll Rand or any of its affiliates as a result of the failure of the distribution or the internal transactions to qualify for

favorable treatment under the Code unless such failure is attributable to certain actions taken after the distribution by Ingersoll Rand.

In February 2014, our Board of Directors authorized the repurchase of up to $200 million of our ordinary shares. Due to these restrictions, we may not engage in privately negotiated transactions or acquire more than 20% of our outstanding shares within two years after the Distribution. We believe that we will be able to execute the authorized share repurchases and preserve the tax-free treatment of the distribution. However, if we are unable to preserve the tax-free treatment, any taxes imposed on us could be significant.

If the distribution is determined to be taxable for Irish tax purposes, significant Irish tax liabilities may arise.

Ingersoll Rand has received an opinion of the Irish Revenue regarding the Irish tax consequences of the distribution to the effect that certain reliefs and exemptions for corporate reorganizations apply. In addition to obtaining the opinion from the Irish Revenue, Ingersoll Rand received an opinion from the law firm of Arthur Cox confirming the applicability of the relevant exemptions and reliefs to the distribution and that certain internal transactions will not trigger tax costs. These opinions rely on certain facts and assumptions and certain representations and undertakings from us and Ingersoll Rand regarding the past and future conduct of our respective businesses and other matters. Notwithstanding the opinions, the Irish Revenue could determine on audit that the distribution or the internal transactions do not qualify for the relevant exemptions or reliefs if it determines that any of these facts, assumptions, representations or undertakings is not correct or has been violated. A legal opinion represents the tax adviser's best legal judgment, is not binding on the Irish Revenue or the courts and the Irish Revenue or the courts may not agree with the legal opinion. In addition, the legal opinion was based on current law, and cannot be relied upon if current law changes with retroactive effect. If the distribution ultimately is determined not to fall within certain exemptions or reliefs, the distribution could result in our shareholders having an Irish tax liability as a result of the distribution (if a shareholder is an Irish resident or holds shares in Ingersoll Rand in an Irish branch or agency), or we or Ingersoll Rand could incur Irish tax liabilities.

In addition, under the terms of the Tax Matters Agreement, in the event the distribution does not qualify for certain reliefs or exemptions, then we would be responsible for any taxes imposed on us or Ingersoll Rand as a result of such determination. Such tax amounts could be significant.

Risks Relating to Our Ordinary Shares

Our share price may fluctuate significantly.

Our ordinary shares are listed on NYSE under the ticker symbol "ALLE." The market price of our ordinary shares may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

- actual or anticipated fluctuations in our operating results due to factors related to our business;
- success or failure of our business strategy;
- our quarterly or annual earnings, or those of other companies in our industry;
- our ability to obtain third-party financing as needed;
- announcements by us or our competitors of significant acquisitions or dispositions;
- changes in accounting standards, policies, guidance, interpretations or principles;
- the failure of securities analysts to cover our ordinary shares;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- the operating and share price performance of other comparable companies;
- investor perception of our group;
- natural or other disasters that investors believe may affect us;
- overall market fluctuations;
- results from any material litigation or government investigations;
- changes in laws or regulations affecting our business; and
- general economic conditions and other external factors.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular group. These broad market fluctuations could adversely affect the trading price of our ordinary shares.

In addition, when the market price of a company's shares drops significantly, shareholders often institute securities class action lawsuits against the company. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of management and other resources.

We cannot assure you that we will continue to pay dividends on our ordinary shares, and our indebtedness could limit our ability to pay dividends on our ordinary shares.

On 11 February 2014, our Board of Directors declared a $0.08 per ordinary share dividend payable on 31 March 2014 to shareholders of record at 17 March 2014. Whether our Board of Directors continues to exercise its discretion to propose any dividends to holders of our ordinary shares will depend on many factors, including our financial condition, earnings, future prospects and capital requirements of our business, covenants associated with certain of our debt obligations, legal requirements, regulatory constraints, income tax consequences, industry practice and other factors that our Board of Directors deems relevant.

There can be no assurance that we will continue to pay a dividend. If we cannot generate sufficient cash flow from operations to meet our debt-payment obligations, then our ability to pay dividends, if so determined by the Board of Directors, may be impaired and we may be required to attempt to restructure or refinance our debt, raise additional capital or take other actions such as selling assets, reducing or delaying capital expenditures or reducing our dividend. There can be no assurance, however, that any such actions could be effected on satisfactory terms, if at all.

Your percentage ownership in us may be diluted in the future.

Your percentage ownership in us may be diluted in the future because of additional equity issuances for acquisitions, strategic investments, capital markets transactions or otherwise, including equity awards that we expect to grant to our directors, officers and employees in the future. Such issuances may have a dilutive effect on our earnings per share, which could materially adversely affect the market price of our ordinary shares. In addition, some Ingersoll Rand equity awards held by our employees were converted into Allegion equity awards in connection with the Spin-off. We established equity incentive plans that provide for the grant of ordinary share-based equity awards to our directors, officers and other employees. Under our incentive stock plan, the total number of ordinary shares authorized is 8.0 million, of which 5.0 million remains available as of 31 December 2013 for future incentive awards.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our ordinary shares depends, to some extent, on the research and reports that securities or industry analysts publish about us and our business. We do not have any control over these analysts and the reports they issue. If our financial performance fails to meet analyst estimates or one or more of the analysts who cover us downgrade our shares or negatively change their opinion of our shares, our share price would likely decline. If one or more analysts cease coverage of our group or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Risks Related to Our Incorporation in Ireland

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

The United States currently does not have a treaty with Ireland providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As such, there is some uncertainty as to whether the courts of Ireland would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on U.S. federal or state civil liability laws, including the civil liability provisions of the U.S. federal or state securities laws, or hear actions against us or those persons based on those laws.

As an Irish company, we are governed by the Irish Companies Act, which differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions and shareholder lawsuits. Likewise, the duties of directors and officers of an Irish company generally are owed to the company only. Shareholders of Irish companies generally do not have a personal right of action against directors or officers of the company and may exercise such rights of action on behalf of the company only in limited circumstances. Accordingly,

holders of our securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the United States.

In addition, Irish law allows shareholders to authorize share capital which then can be issued by a board of directors without shareholder approval. Also, subject to specified exceptions, Irish law grants statutory preemptive rights to existing shareholders to subscribe for new issuances of shares for cash. However, we have opted out of these preemption rights in our Articles of Association as permitted under Irish company law. Irish law provides that this opt-out expires after five years unless renewed by a special resolution of the shareholders. These authorizations must be renewed by the shareholders every five years and we cannot guarantee that these authorizations will always be approved.

Changes in tax laws, regulations or treaties, changes in our status under the tax laws of many jurisdictions or adverse determinations by taxing authorities could increase our tax burden or otherwise affect our financial condition or operating results, as well as subject our shareholders to additional taxes.

The realization of any tax benefit related to our incorporation and tax residence in Ireland could be impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof by the tax authorities of many jurisdictions. From time to time, proposals have been made and/or legislation has been introduced to change the tax laws of various jurisdictions or limit tax treaty benefits that if enacted could materially increase our tax burden and/or effective tax rate. For instance, recent U.S. legislative proposals would broaden the circumstances under which we would be considered a U.S. resident for U.S. tax purposes, which would significantly diminish the realization of any tax benefit related to our incorporation in Ireland. There are other recent U.S. legislative proposals that could modify or eliminate the tax deductibility of various currently deductible payments, which could materially and adversely affect our effective tax rate and cash tax position. Moreover, other U.S. legislative proposals could have a material adverse impact on us by overriding certain tax treaties and limiting the treaty benefits on certain payments by our U.S. subsidiaries to our non-U.S. affiliates, which could increase our tax liability. We cannot predict the outcome of any specific legislation in any jurisdiction.

While we monitor proposals that would materially impact our tax burden and/or effective tax rate and investigate our options, we could still be subject to increased taxation on a going forward basis no matter what action we undertake if certain legislative proposals are enacted, certain tax treaties are amended and/or our interpretation of applicable tax law is challenged and determined to be incorrect. In particular, any changes and/or differing interpretations of applicable tax law that have the effect of disregarding our incorporation in Ireland, limiting our ability to take advantage of tax treaties between jurisdictions, modifying or eliminating the deductibility of various currently deductible payments, or increasing the tax burden of operating or being resident in a particular country, could subject us to increased taxation.

Dividends received by our shareholders may be subject to Irish dividend withholding tax.

In certain circumstances, we are required to deduct Irish dividend withholding tax (currently at the rate of 20%) from dividends paid to our shareholders. In the majority of cases, shareholders resident in the United States will not be subject to Irish withholding tax, and shareholders resident in a number of other countries will not be subject to Irish withholding tax provided that they complete certain Irish dividend withholding tax forms. However, some shareholders may be subject to withholding tax, which could discourage the investment in our stock and adversely impact on the price of our shares.

Dividends received by our shareholders could be subject to Irish income tax.

Dividends paid in respect of our shares generally are not subject to Irish income tax where the beneficial owner of these dividends is exempt from Irish dividend withholding tax, unless the beneficial owner of the dividend has some connection with Ireland other than his or her shareholding in Allegion.

Our shareholders who receive their dividends subject to Irish dividend withholding tax will generally have no further liability to Irish income tax on the dividends unless the beneficial owner of the dividend has some connection with Ireland other than his or her shareholding in Allegion.

Certain provisions in our Articles of Association, among other things, could prevent or delay an acquisition of us, which could decrease the trading price of our ordinary shares.

Our Memorandum and Articles of Association contain provisions deter takeover practices, inadequate takeover bids and unsolicited offers. These provisions include, amongst others:

- a provision of our Articles of Association which generally prohibits us from engaging in a business combination with an interested shareholder (being (i) the beneficial owner of the relevant percentage of our voting shares or (ii) an affiliate or

associate of us that has at any time within the last five years been the beneficial owner of the relevant percentage of our voting shares), subject to certain exceptions;

- rules regarding how shareholders may present proposals or nominate directors for election at shareholder meetings;
- the right of our Board of Directors to issue preferred shares without shareholder approval in certain circumstances, subject to applicable law; and
- the ability of our Board of Directors to fill vacancies on our Board of Directors in certain circumstances.

We believe these provisions will provide some protection to our shareholders from coercive or otherwise unfair takeover tactics. These provisions are not intended to make us immune from takeovers. However, these provisions will apply even if the offer may be considered beneficial by some shareholders and could delay or prevent an acquisition that our Board of Directors determines is in our best interests and our shareholders. These provisions may also prevent or discourage attempts to remove and replace incumbent directors.

In addition, several mandatory provisions of Irish law could prevent or delay an acquisition of us. For example, Irish law does not permit shareholders of an Irish public limited company to take action by written consent with less than unanimous consent. We also will be subject to various provisions of Irish law relating to mandatory bids, voluntary bids, requirements to make a cash offer and minimum price requirements, as well as substantial acquisition rules and rules requiring the disclosure of interests in our shares in certain circumstances. Also, Irish companies, including us, may alter their Memorandum of Association and Articles of Association only with the approval of at least 75% of the votes of the company's shareholders cast in person or by proxy at a general meeting of the company.

The agreements that we entered into with Ingersoll Rand in connection with the spin-off generally require Ingersoll Rand's consent to any assignment by us of our rights and obligations under the agreements. The consent and termination rights set forth in these agreements might discourage, delay or prevent a change of control that shareholders may consider favorable.

Moreover, an acquisition or further issuance of our ordinary shares after the spin-off could trigger the application of Section 355(e) of the Code, even if the distribution and certain related transactions undertaken in connection therewith otherwise qualify for tax-free treatment. Under Section 355(e) of the Code, we and/or Ingersoll Rand could incur tax upon certain transactions undertaken in anticipation of the distribution if 50% or more, by vote or value, of our ordinary shares or Ingersoll Rand ordinary shares are acquired or issued as part of a plan or series of related transactions that include the spin-off. The process for determining whether an acquisition or issuance triggering these provisions has occurred is complex, inherently factual and subject to interpretation. Any acquisitions or issuances of our ordinary shares or Ingersoll Rand ordinary shares within two years after the distribution are presumed to be part of such a plan, although we or Ingersoll Rand, as applicable, may be able to rebut that presumption. Moreover, under the Tax Matters Agreement that we entered into with Ingersoll Rand, we are restricted from engaging in certain transactions within two years of the distribution which potentially could trigger application of Section 355 (e) of the Code. During such period, these restrictions may limit the ability that we, or a potential acquirer of Allegion, have to pursue certain strategic transactions that might increase the value of our ordinary shares.

Significant events in 2013

Spin-Off Transaction

On 1 December 2013, Allegion became a stand-alone public company after Ingersoll-Rand plc ("Ingersoll Rand") completed the separation of its commercial and residential security businesses (the "Business") from the rest of Ingersoll Rand, via the transfer of the Business from Ingersoll Rand to Allegion and the issuance by Allegion of ordinary shares directly to Ingersoll Rand's shareholders (the "Spin-off"). As part of the Spin-off, Allegion issued one ordinary share for every three ordinary shares of Ingersoll Rand held of record as of 5:00 p.m., New York City time on 22 November 2013. Allegion ordinary shares trade under the symbol "ALLE" on the New York Stock Exchange. Allegion issued a total of approximately 96.0 million ordinary shares in the Spin-off. We incurred approximately $5.9 million of non-recurring separation costs in 2013 related to the Spin-off.

Indebtedness

In conjunction with the Spin-off, we issued $1,300 million of indebtedness comprised of (i) $300 million of 5.75% senior secured notes due in 2021 and (ii) a credit agreement providing for (a) $1.0 billion of Senior Secured Term Loan Facilities, consisting of a $500 million "tranche A" Term Loan Facility due in 2018 (the "Term Loan A Facility") and a $500 million "tranche B" Term Loan Facility due in 2020 (the "Term Loan B Facility," and together with the Term Loan A Facility, the "Term Facilities"), and (b) a $500 million Senior Secured Revolving Credit Facility (the "Revolver") maturing in 2018. These credit facilities are referred to as the "Senior Secured Credit Facilities." The net proceeds of this indebtedness (approximately $1,274.4 million) were distributed to Ingersoll Rand in connection with the Spin-off.

Goodwill and Indefinite-lived Intangibles

See "2013 Impairment Test" below for further discussion.

Joint Venture Order Flow Change

In late 2013, we signed a revised joint venture operating agreement for our consolidated joint venture in Asia. Previously, the joint venture acted as a pass-through to the end customer. The consolidated joint venture will no longer recognize the turnover and cost of goods sold on these products. Going forward, products are shipped direct to the end customer with the joint venture receiving a royalty in an amount that approximates the lost margin. We recognized turnover of approximately $52 million and $78 million related to this business in our Americas segment for the years ended 31 December 2013 and 2012. The change is not expected to have a material impact on operating profit or on cash flows in future periods.

Venezuela Devaluation

Venezuela is a highly inflationary economy under U.S. GAAP. As a result, the U.S. dollar is the functional currency for our consolidated joint venture in Venezuela. Any currency remeasurement adjustments for non-U.S. dollar denominated monetary assets and liabilities and other transactional foreign exchange gains and losses are reflected in earnings.

In February 2013, the Venezuelan government devalued its currency and the official exchange rate changed from 4.3 to 6.3 Venezuelan Bolivares Fuertes (VEF) to 1 U.S. Dollar. We recognized a $6.2 million realized foreign currency loss related to the devaluation in the first quarter of 2013. When the government devalued the VEF in February, 2013, it established a new auction-based exchange rate market program, referred to as SICAD. The amount of transactions that have run through the SICAD and restrictions around participation have limited our access to any foreign exchange rate other than the official rate to pay for imported goods and manage our local monetary asset balances. Accordingly, all of our net monetary assets are measured at the official 6.3 exchange rate at 31 December 2013.

In late January 2014, the Venezuelan government made several announcements affecting currency exchange and other controls. Although the official exchange rate remains at 6.3, the government announced that the exchange rate for certain foreign investments will move to the rate available on the SICAD currency market, which in the last auction was 11.7 VEF to 1 U.S. Dollar. The impact to us of a devaluation from the official exchange rate to the SICAD market exchange rate would approximate $10 million based on net financial asset balances as of 31 December 2013. There is considerable uncertainty as to the nature of transactions that will flow through SICAD and how SICAD will operate in the future, however we believe there is considerable risk that the official rate will be devalued further. Further devaluation could have a material impact on our financial condition, results of operations or cash flow.

2013 Impairment Test

For our annual impairment testing we concluded it was necessary to calculate the fair value for each of the reporting units and indefinite-lived intangibles.

The estimated fair value of our EMEIA reporting unit exceeded its carrying value by 2.5% as of 1 October 2012. We continued to monitor the close proximity of the reporting unit's carrying value compared to its fair value and determined that we were required to complete the first step of the two-step impairment test in the third quarter of 2013. Under the income approach we assumed a discount rate of 11.0%, near term growth rates ranging from 2.5% to 4.6% and a terminal growth rate of 2.5%. Under the market approach, we assumed a weighted average multiple of 8.9 and 8.0 times projected 2013 and 2014 EBITDA, respectively, and a multiple of 0.7 and 0.6 times projected 2013 and 2014 turnover, respectively, based on industry market data. The results of our impairment test indicated that the estimated fair value of our EMEIA reporting unit was less than its carrying value; consequently, we performed the second step of the impairment test to quantify the amount of the non-cash, goodwill impairment charge. In the third quarter of 2013 we recorded a non-cash pre-tax goodwill impairment charge of $137.6 million ($131.2 million after-tax). This charge had no impact on our cash flows or our compliance with debt covenants. Immediately after the impairment charge, our EMEIA reporting unit fair value exceeded its carrying value by 21.4% on a step one basis as of 1 July 2013. For our annual goodwill impairment test performed during the fourth quarter of 2013, the fair value of our EMEIA reporting unit exceeded its carrying value by approximately 24%.

During 2013, we renegotiated a significant joint venture contract within our Asia Pacific - Other reporting unit and moved the related product line to our Americas segment. As a result of these business changes, we completed the first step of the two-step impairment test. This reporting unit has goodwill of approximately $57 million.

Our Asia Pacific - Other reporting unit exceeded its carrying value by approximately 7% as of 1 October 2013. We have provided below key assumptions and a sensitivity analysis. Under the income approach we assumed a weighted average discount rate of 13.0%, near term growth rates ranging from (1.3%) to 15.9% and a terminal growth rate of 4.0%. Under the market approach, we assumed a weighted average implied multiple of 0.9 and 10.5 times projected 2012 turnover and earnings before interest,

taxes, depreciation and amortization (EBITDA), respectively, based on industry market data. Holding other assumptions constant, a 1.0% increase in the discount rate would result in a $7.8 million decrease in the estimated fair value of the reporting unit, a 1.0% decrease in the long-term growth rate would result in a $5.5 million decrease in the estimated fair value of the reporting unit. Either of these scenarios individually would result in the reporting unit failing step 1, which would lead to any or all of the reporting unit's $57 million of goodwill to be impaired.

Other Indefinite-lived intangible assets - In testing our other indefinite-lived intangible assets for impairment, we assumed forecasted turnover for a period of five years with a discount rate of 11.0%, a terminal growth rate of 2.5%, and a royalty rate of 5.0%. All indefinite-lived intangible assets had a fair value that exceeded their carrying value by more than 15%.

Dividends paid and proposed

No dividends were paid or proposed in 2013.

Results for the year and proposed transfer to reserves

The results for the year are set out in the Group consolidated profit and loss account on page 33. The balance to be transferred to reserves is $0.4 million.

Future Developments

We intend to achieve sustained, profitable growth in the markets we serve today and in adjacent product categories by being the preferred, trusted security partners to our end-users.

Company Books of Account

The directors are responsible for ensuring that the Company keeps proper books of accounting records and appropriate accounting systems. To achieve this, the directors have appointed a Chief Financial Officer who makes regular reports to the Board of Directors and ensures compliance with the requirements of Section 202 of the Companies Act, 1990. The Chief Financial Officer makes regular reports to the Audit and Finance Committee of the Board of Directors. In addition, the head of the Company's internal audit department makes regular reports to the Audit and Finance Committee regarding fraud and other financial-related irregularities. The Audit and Finance Committee, in turn, briefs the full Board of Directors on significant financial matters arising from reports of the Chief Financial Officer, the head of internal audit and the external auditor.

The measures taken by the directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at Block D, Iveagh Court, Harcourt Road, Dublin 2, Republic of Ireland.

Events Since Year End

Dividends declared

On 11 February 2014, the Group's Board of Directors (the Board) declared a quarterly dividend of $0.08 cents per ordinary share. The dividend was paid on 31 March 2014 to shareholders of record on 17 March 2014, a total of 96,495,361 shares and a total divided amount of $7.7 million.

Share repurchases

On 11 February 2014, the Board authorized the repurchase of up to $200 million of the Company's ordinary shares. Based on market conditions, share repurchases will be made from time to time in the open market and in privately negotiated transactions at the discretion of management. To preserve the tax-free treatment to Ingersoll Rand of the Spin-off, under the Tax Matters Agreement, we are prohibited from taking or failing to take any action that prevents the Spin-off and related transactions from being tax-free. We may not engage in privately negotiated transactions or acquire more than 20% of our outstanding shares within two years after the Spin-off. We believe that we will be able to execute the authorized share repurchases and preserve the tax-free treatment of the Spin-off. However, if we are unable to preserve the tax-free treatment, any taxes imposed on us could be significant.

Acquisition of Schlage Lock de Colombia S.A

On 2 January 2014, the Group's wholly-owned subsidiary Allegion de Colombia completed the acquisition of certain assets of Schlage Lock de Colombia S.A., the second largest mechanical lock manufacturer in that country. The acquisition of certain assets of the privately-owned company, which has distribution in other South and Central American countries, will enable Allegion to leverage its branded residential and commercial product lines to grow its presence in the Spanish-speaking South American security market. Allegion now operates a 45,000-square-foot integrated plant in Bogota, Colombia and will continue to sell product under the Schlage brand, as well as the Inafer and Segurex brands. Allegion de Colombia has approximately 350 employees.

Directors and Secretary

The names of the persons who were directors or secretary at any time during the year ended 31 December 2013 are set out below.

David Petratis (Appointed 01 December 2013)
Kirk Hachigian (Appointed 17 November 2013)
Michael Chesser (Appointed 01 December 2013)
Martin E. Welch III (Appointed 01 December 2013)
Carla Cico (Appointed 01 December 2013)
Patrick Shannon (Appointed 15 May 2013 and resigned 01 December 2013)
Barbara A. Santoro (Appointed 15 May 2013 and resigned 01 December 2013)
Christopher Donohoe (Appointed 15 May 2013 and resigned 01 December 2013)
Maura McLaughlin (Appointed 09 May 2013 and resigned 15 May 2013)
Michael Coyle (Appointed 09 May 2013 and resigned 15 May 2013)

Barbara A. Santoro - Company Secretary (Appointed 01 December 2013)
Samuel W. Sheek - Assistant Secretary (Appointed 01 October 2013)
Bradwell Limited - Company Secretary (Appointed 09 May 2013 and resigned 01 December 2013)

Directors' and Secretary's Interests in Shares

No director, the secretary or any member of their immediate family had any interest in shares or debentures of any subsidiary. Directors' remuneration is set forth in Note 8 to the consolidated financial statements. The interests of the directors and secretaries in office at the 31 December 2013 (or date of appointment if later) in the ordinary share capital of Allegion plc are shown in the table below:

	At 31 December 2013 (or date of appointment if later)		At 31 December 2012	
Directors	Shares	Options and Awards	Shares	Options and Awards
David Petratis	—	85,542	—	—
Kirk Hachigian	—	1,193	—	—
Michael Chesser	—	1,193	—	—
Martin E. Welch III	—	1,193	—	—
Carla Cico	—	1,193	—	—
Secretaries				
Barbara A. Santoro (Company Secretary)	2,074	51,280	—	—
Samuel W. Sheek (Assistant Secretary)	231	12,963		

Political Donations

The Electoral (Amendment) (Political Funding) Act 2012 requires companies to disclose all political donations over €200 in aggregate made during the financial year. The Directors, on enquiry, have satisfied themselves that no such donations have been made by the Company during the financial year.

Subsidiary Companies and Associates

Information regarding subsidiary undertakings and associates are provided in Note 35 to the consolidated financial statements.

Going Concern

The board has formed a judgment at the time of approving the financial statements that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion the board has taken account of current and anticipated trading performance, together with the current and anticipated levels of net debt and the availability of the committed borrowing facilities. For this reason, the going concern basis continues to be adopted in the preparation of the Group and the Company financial statements.

AGM

The Annual General Meeting of the Group will take place at Druids Glen Resort, Newtownmountkennedy, County Wicklow, Ireland on Wednesday, 11 June 2014. The notice of meeting and a description of the business to be transacted is available on the Group's website at www.allegion.com.

Auditors

PricewaterhouseCoopers (PwC) were appointed as auditors during the year and have expressed their willingness to continue in office in accordance with Section 160 (2) of the Companies Act, 1963.

On behalf of the Directors

David Petratis	*Martin E. Welch III*
David Petratis	Martin E. Welch III
Director	Director

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable Irish law and regulations.

Irish company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the consolidated financial statements in accordance with applicable Irish law and accounting principles generally accepted in the United States of America (U.S. GAAP), as defined in Section 1(1) of the Companies (Miscellaneous Provisions) Act 2009, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of the Companies Acts or of any regulations made thereunder. The directors have elected to prepare the Company financial statements in accordance with Generally Accepted Accounting Principles in Ireland (Irish GAAP), comprising the financial reporting standards issued by the Accounting Standards Board (ASB) and published by the Institute of Chartered Accountants in Ireland (ICAI) together with the Companies Acts, 1963 to 2013. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the Group financial statements comply with U.S. GAAP to the extent that it does not contravene Irish Company Law and that the Company financial statements comply with the accounting standards issued by the Accounting Standards Board and Irish GAAP.
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Irish Companies Acts, 1963 to 2013 and the European Communities (Companies: Group Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLEGION PLC

We have audited the group financial statements of Allegion plc for the year ended 31 December 2013 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Consolidated Reconciliation of Movements in Shareholders' Funds, the Consolidated Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and accounting principles generally accepted in the United States of America (US GAAP), as defined in Section 1(1) of the Companies (Miscellaneous Provisions) Act 2009, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of the Companies Acts or of any regulations made thereunder.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the directors are responsible for the preparation of the group financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view in accordance with US GAAP, as defined in Section 1(1) of the Companies (Miscellaneous Provisions) Act 2009, to the extent that the use of those principles in the preparation of the group financial statements does not contravene any provision of the Companies Acts or of any regulations made thereunder, of the state of the group's affairs as at 31 December 2013 and of the group's profit and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the information given in the Directors' Report is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Other matter

We have reported separately on the parent company financial statements of Allegion plc for the period from 9 May 2013 (date of incorporation) to 31 December 2013.

Kevin Egan
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
10 April 2014

Allegion plc
Consolidated profit and loss account
For the year ended 31 December

	Note	2013	2012
		$m	$m
Turnover	3	2,093.5	2,046.6
Cost of sales		(1,233.9)	(1,220.6)
Gross profit		859.6	826.0
Distribution costs		(266.8)	(260.5)
Administrative expenses (excluding asset impairment)		(219.4)	(196.9)
Asset impairment	14	(137.6)	—
Other operating expenses	4	(7.7)	(3.3)
		(631.5)	(460.7)
Operating profit		228.1	365.3
Interest receivable and similar income	5	0.6	0.1
Interest payable and similar charges	6	(10.2)	(1.5)
Profit on ordinary activities before taxation	7	218.5	363.9
Taxation	9	(174.2)	(135.9)
Profit on ordinary activities after taxation		44.3	228.0
Discontinued operations, net of taxation	10	(0.8)	(2.7)
Profit after taxation		43.5	225.3
Minority interests in subsidiary undertaking	31	(12.5)	(5.7)
Profit for the financial year		31.0	219.6
Earnings (loss) per share attributable to Allegion plc ordinary shareholders:			
Basic:	12		
Continuing operations		$ 0.33	$ 2.32
Discontinued operations		(0.01)	(0.03)
Net earnings		$ 0.32	$ 2.29
Diluted:	12		
Continuing operations		$ 0.33	$ 2.32
Discontinued operations		(0.01)	(0.03)
Net earnings		$ 0.32	$ 2.29

Approved by the Board of Directors on 9 April 2014 and signed on its behalf by:

David Petratis
David Petratis
Director

Martin E. Welch III
Martin E. Welch III
Director

Allegion plc
Consolidated balance sheet
At 31 December

	Note	2013	2012
		$m	$m
Fixed assets			
Intangible assets	14	651.0	788.4
Tangible assets	15	203.0	232.0
Financial assets	13	30.1	26.4
		884.1	1,046.8
Current Assets			
Stock	16	155.8	166.4
Debtors	17	499.7	425.9
Cash at bank and in hand	18	227.4	317.5
Restricted cash	18	40.2	—
		923.1	909.8
Debtors (amounts falling due after more than one year)	19	172.5	27.0
Creditors (amounts falling due within one year)	20	(465.9)	(361.8)
Net current assets		457.2	548.0
Total assets less current liabilities		1,513.8	1,621.8
Creditors (amounts falling due after more than one year)	21	(1,272.0)	(2.8)
Net assets excluding provisions for liabilities and charges		241.8	1,619.0
Provisions for liabilities and charges	26	(297.5)	(252.8)
Net (liabilities) assets including provisions for liabilities and charges		(55.7)	1,366.2
Capital and reserves			
Called up share capital	29	1.0	—
Share premium account	30	7.6	—
Other reserves	30	(95.8)	(7.7)
Parent company investment	30	—	1,350.9
Profit and loss account	30	0.4	—
Equity shareholders' funds		(86.8)	1,343.2
Minority interests	31	31.1	23.0
		(55.7)	1,366.2

Approved by the Board of Directors on 9 April 2014 and signed on its behalf by:

David Petratis	*Martin E. Welch III*
David Petratis	Martin E. Welch III
Director	Director

Allegion plc
Consolidated Reconciliation of Movements in Shareholders' Funds

	Total Shareholders' Equity	Called up Share Capital		Share Premium Account	Parent Company Investment	Profit and Loss Account	Other Reserves	Minority Interest
		Amount	Shares					
	$m	$m	Number	$m	$m	$m	$m	$m
Balance at 31 December 2011	1,435.8	—	—	—	1,442.9	—	(29.1)	22.0
Net earnings	225.3	—	—	—	219.6	—	—	5.7
Other comprehensive income (loss)	21.9	—	—	—	—	—	21.4	0.5
Dividends declared to minority interests	(5.2)	—	—	—	—	—	—	(5.2)
Distribution/contribution to/from Parent company	(311.6)	—	—	—	(311.6)	—	—	
Balance at 31 December 2012	1,366.2	—	—	—	1,350.9	—	(7.7)	23.0
Net earnings	43.5	—	—	—	26.3	4.7	—	12.5
Other comprehensive income (loss)	(88.1)	—	—	—	—	—	(88.9)	0.8
Shares issued under incentive stock plans	1.3	—	—	1.3	—	—	—	—
Share-based compensation	5.5	—	—	—	4.7	—	0.8	—
Dividends declared to minority interests	(5.2)	—	—	—	—	—	—	(5.2)
Change in Parent Company investment	(1,378.9)				(1,378.9)			
Conversion of Parent Company investment	—	1.0	96.0	6.3	(3.0)	(4.3)	—	—
Balance at 31 December 2013	(55.7)	1.0	96.0	7.6	—	0.4	(95.8)	31.1

Allegion plc
Consolidated Statements of Cash Flows
For the year ended 31 December

	2013 $m	2012 $m
Cash flows from operating activities:		
Profit after taxation	43.5	225.3
Loss from discontinued operations, net of tax	0.8	2.7
Adjustments to arrive at net cash provided by operating activities:		
Goodwill impairment charge	137.6	—
Depreciation and amortization	46.1	43.8
(Gain) loss on sale of tangible fixed assets	(21.8)	0.1
Deferred income taxes	16.8	(3.9)
Other Items	(29.3)	12.8
Changes in other assets and liabilities		
(Increase) decrease in:		
Debtors	26.8	1.9
Stock	5.4	(0.6)
Other current and noncurrent assets	79.4	(14.6)
Increase (decrease) in:		
Creditors	(16.7)	8.0
Other current and noncurrent liabilities	(63.9)	(3.6)
Net cash provided by continuing operating activities	224.7	271.9
Net cash used in discontinued operating activities	(0.8)	(2.7)
Net cash provided by operating activities	223.9	269.2
Cash flows from investing activities:		
Capital expenditures	(20.2)	(19.6)
Restricted cash	(40.2)	—
Proceeds from sale of tangible fixed assets	41.7	2.1
Net cash used in investing activities	(18.7)	(17.5)
Cash flows from financing activities:		
Short-term borrowings, net	38.9	(1.0)
Proceeds from long-term debt	1,300.0	—
Payments of long-term debt	—	(0.1)
Net proceeds (repayments) in debt	1,338.9	(1.1)
Debt issuance costs	(29.1)	—
Dividends paid to minority interests	(5.2)	(5.2)
Net transfers to Parent and affiliates	(1,598.3)	(311.6)
Proceeds from shares issued under incentive plans	1.3	—
Net cash (used in) provided by continuing financing activities	(292.4)	(317.9)
Effect of exchange rate changes on cash and cash equivalents	(2.9)	6.9
Net decrease in cash and cash equivalents	(90.1)	(59.3)
Cash at bank and in hand – beginning of period	317.5	376.8
Cash at bank and in hand – end of period	227.4	317.5

See accompanying notes to the consolidated financial statements.

1. BASIS OF PREPARATION

The directors have elected to prepare the consolidated financial statements of Allegion plc (Allegion or the Company) and its consolidated subsidiaries (collectively referred to as the Group) in accordance with applicable Irish law and accounting principles generally accepted in the United States of America (U.S. GAAP), as defined in Section 1(1) of the Companies (Miscellaneous Provisions) Act 2009, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of the Companies Acts or of any regulations made thereunder. The separate financial statements of the Company have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2013. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Financial Reporting Council.

On 1 December 2013, Allegion became a stand-alone Group after Ingersoll-Rand plc ("Ingersoll Rand") completed the separation of its commercial and residential security businesses ("the Business") from the rest of Ingersoll Rand, via the transfer of the Business from Ingersoll Rand to Allegion and the issuance by Allegion of ordinary shares directly to Ingersoll Rand's shareholders (the "Spinoff"). As part of the Spinoff, Allegion issued one ordinary share for every three ordinary shares of Ingersoll Rand held of record as of 5:00 p.m., New York City time on 22 November 2013 in return for the entire share capital of the subsidiaries which owned all the assets and liabilities of the Business. Allegion ordinary shares trade under the symbol "ALLE" on the New York Stock Exchange. Allegion issued a total of approximately 96.0 million ordinary shares in the Spin-off. Under Irish Company Law, this transaction has been accounted for using the merger method of accounting in the consolidated financial statements.

For the period prior to 1 December 2013, the financial information presented in these financial statements has been derived from the consolidated financial statements and accounting records of Ingersoll Rand and included allocations for direct costs and indirect costs attributable to the operations of the Allegion Group ("the Group"). The Group's financial statements as of 31 December 2012 and for the year ended 31 December 2012 are presented as carve-out financial statements as the Group was not a separate consolidated Group prior to the Spin-off. Subsequent to the Spin-off, the Group's financial statements as of and for the year ended 31 December 2013 are presented on a consolidated basis as the Group became a separate consolidated group.

The Group's consolidated profit and loss account for the years ended 31 December 2013 and 2012 include allocations for 11 and 12 months, respectively, of general corporate expenses for certain support functions that were provided on a centralized basis by Ingersoll Rand, such as expenses related to finance, human resources, information technology, facilities, and legal, among others. The Group used certain underlying activity drivers as a basis of allocation including revenue, assets, head-count utilization and other factors. Note 34 provides information regarding general overhead allocations. The Group believes such allocations are reasonable, however these consolidated financial statements do not purport to reflect what the results of operations, profit (loss), financial position, equity or cash flows would have been had the Group operated as a stand-alone public company for all periods presented.

The loss attributable to equity shareholders dealt within the financial statements of the Company in 2013 was $0.7 million (2012: $nil). In accordance with Section 148(8) of the Companies Act, 1963 and Section 7(1A) of the Companies Amendment Act, 1986, the Company is availing of the exemption from presenting its individual profit and loss account to the Annual General Meeting and from filing it with the Registrar of Companies.

The financial statements are presented in U.S. dollars.

2. SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies used in the preparation of the accompanying consolidated financial statements follows:

Accounting Convention: These financial statements are prepared under the historical cost convention.

Basis of Consolidation: The consolidated financial statements include all majority-owned subsidiaries of the Group. A minority interest in a subsidiary is considered an ownership interest in a majority-owned subsidiary that is not attributable to the parent. The Group includes minority interest as a component of total equity in the consolidated balance sheet and the net earnings attributable to minority interests are presented as an adjustment from profit after taxation used to arrive at net earnings attributable to Allegion plc in the consolidated profit and loss account.

Partially-owned equity affiliates represent 20-50% ownership interests in investments where we demonstrate significant influence, but do not have a controlling financial interest. Partially-owned equity affiliates are accounted for under the equity method. The Group is also required to consolidate variable interest entities in which it bears a majority of the risk to the entities' potential losses or stands to gain from a majority of the entities' expected returns. Intercompany accounts and transactions have been eliminated. Transactions between the Group and Ingersoll Rand and its affiliates are herein referred to as "related party"

or "affiliated" transactions. The assets, liabilities, results of operations and cash flows of all discontinued operations have been separately reported as discontinued operations.

Turnover Recognition: Turnover is recognized and earned when all of the following criteria are satisfied: (a) persuasive evidence of a sales arrangement exists; (b) the price is fixed or determinable; (c) collectability is reasonably assured; and (d) delivery has occurred or service has been rendered. Delivery generally occurs when the title and the risks and rewards of ownership have substantially transferred to the customer. Both the persuasive evidence of a sales arrangement and fixed or determinable price criteria are deemed to be satisfied upon receipt of an executed and legally binding sales agreement or contract that clearly defines the terms and conditions of the transaction including the respective obligations of the parties. If the defined terms and conditions allow variability in all or a component of the price, turnover is not recognized until such time that the price becomes fixed or determinable. At the point of sale, the Group validates the existence of an enforceable claim that requires payment within a reasonable amount of time and assesses the collectability of that claim. If collectability is not deemed to be reasonably assured, then turnover recognition is deferred until such time that collectability becomes probable or cash is received. Delivery is not considered to have occurred until the customer has taken title and assumed the risks and rewards of ownership. Service and installation turnover are recognized when earned. In some instances, customer acceptance provisions are included in sales arrangements to give the buyer the ability to ensure the delivered product or service meets the criteria established in the order. In these instances, turnover recognition is deferred until the acceptance terms specified in the arrangement are fulfilled through customer acceptance or a demonstration that established criteria have been satisfied. If uncertainty exists about customer acceptance, turnover is not recognized until acceptance has occurred.

The Group offers various sales incentive programs to our customers, dealers, and distributors. Sales incentive programs do not preclude turnover recognition, but do require an accrual for the Group's best estimate of expected activity. Examples of the sales incentives that are accrued for as a contra receivable and sales deduction at the point of sale include, but are not limited to, discounts (i.e. net 30 type), coupons, and rebates where the customer does not have to provide any additional requirements to receive the discount. Sales returns and customer disputes involving a question of quantity or price are also accounted for as a reduction in turnover and a contra receivable. At 31 December 2013 and 2012, the Group had a customer claim accrual (contra receivable) of $21.9 million and $20.8 million, respectively. All other incentives or incentive programs where the customer is required to reach a certain level of purchases, remain a customer for a certain period, provide a rebate form or is subject to additional requirements are accounted for as a reduction of turnover and establishment of a liability. At 31 December 2013 and 2012, the Group had a sales incentive accrual of $21.0 million and $20.2 million, respectively. Each of these accruals represents the Group's best estimate it expects to pay related to previously sold units based on historical claim experience. These estimates are reviewed regularly for accuracy. If updated information or actual amounts are different from previous estimates, the revisions are included in the Group's results for the period in which they become known. Historically, the aggregate differences, if any, between the Group's estimates and actual amounts in any year have not had a material impact on the financial statements.

The Group provides equipment, integrated solutions, and installation designed to customer specifications through construction-type contracts. The term of these types of contracts is typically less than one year, but can be as long as three years. Turnover related to these contracts are recognized using the percentage-of-completion method in accordance with GAAP. This measure of progress toward completion, utilized to recognize sales and profits, is based on the proportion of actual cost incurred to date as compared to the total estimate of contract costs at completion. The timing of turnover recognition often differs from the invoicing schedule to the customer with turnover recognition in advance of customer invoicing recorded to unbilled debtors and invoicing in advance of turnover recognition recorded to deferred turnover. At 31 December 2013, all recorded receivables (billed and unbilled) are due within one year. The Group re-evaluates its contract estimates periodically and reflects changes in estimates in the current period using the cumulative catch-up method. These periodic reviews have not historically resulted in significant adjustments. If estimated contract costs are in excess of contract turnover, then the excess costs are accrued and losses are recognized in current earnings.

The Group enters into sales arrangements that contain multiple elements, such as equipment, installation and service turnover. For multiple element arrangements, each element is evaluated to determine the separate units of accounting. The total arrangement consideration is then allocated to the separate units of accounting based on their relative selling price at the inception of the arrangement. The relative selling price is determined using vendor specific objective evidence ("VSOE") of selling price, if it exists; otherwise, third-party evidence ("TPE") of selling price is used. If neither VSOE nor TPE of selling price exists for a deliverable, a best estimate of the selling price is developed for that deliverable. The Group primarily utilizes VSOE to determine its relative selling price. The Group recognizes turnover for delivered elements when the delivered item has stand-alone value to the customer, the basic turnover recognition criteria have been met, and only customary refund or return rights related to the delivered elements exist.

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of turnover and expenses during the reporting period. Estimates are based on several factors including the facts and circumstances available at the time the estimates are made, historical experience, risk of loss, general economic conditions and trends, and the assessment of the probable future outcome. Some of

the more significant estimates include accounting for doubtful accounts, useful lives of property, plant and equipment and intangible assets, purchase price allocations of acquired businesses, valuation of assets including goodwill and other intangible assets, product warranties, sales allowances, pension plans, post-retirement benefits other than pensions, taxes, environmental costs, product liability and other contingencies. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of changes, if any, are reflected in the statement of operations in the period that they are determined.

Currency Translation: Assets and liabilities of non-U.S. subsidiaries, where the functional currency is not the U.S. dollar, have been translated at year-end exchange rates, and income and expenses accounts have been translated using average exchange rates throughout the year. Adjustments resulting from the process of translating an entity's financial statements into the U.S. dollar have been recorded in the equity section of the balance sheet within other reserves. Transactions that are denominated in a currency other than an entity's functional currency are subject to changes in exchange rates with the resulting gains and losses recorded within profit on ordinary activities before taxation.

Cash at Bank and in Hand: Cash at bank and in hand include cash on hand, demand deposits and all highly liquid investments with original maturities at the time of purchase of three months or less.

Marketable Securities: The Group has classified its marketable securities as available-for-sale in accordance with U.S. GAAP. Available-for-sale marketable securities are accounted for at fair value, with the unrealized gain or loss, less applicable deferred income taxes, recorded within other reserves. If any of the Group's marketable securities experience other than temporary declines in value as defined by U.S. GAAP, a loss is recorded in the consolidated profit and loss account.

Stock: Depending on the business, U.S. stocks 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. At 31 December 2013 and 2012, approximately 46% and 49%, respectively, of all stock utilized the LIFO method.

Allowance for Doubtful Accounts: The Group has provided an allowance for doubtful accounts reserve which represents the best estimate of probable loss inherent in the Group's debtors portfolio. Changes in the financial condition of customers or other unanticipated events, which may affect their ability to make payments, could result in charges for additional allowances exceeding the Group's estimates. The Group's estimates are influenced by the following considerations: a continuing credit evaluation of our customers' financial condition; debtors aging; and historical loss experience. The Group reserved $5.5 million and $4.4 million for doubtful accounts as of 31 December 2013 and 2012, respectively.

Tangible Fixed Assets: Tangible fixed assets are stated at cost, less accumulated depreciation. Assets placed in service are recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset except for leasehold improvements, which are depreciated over the shorter of their economic useful life or their lease term. The range of useful lives used to depreciate tangible fixed assets is as follows:

Buildings	10	to	50	years
Machinery and equipment	2	to	12	years
Vehicles	3	to	6	years
Fixtures and Fittings	5	to	10	years
Software	2	to	7	years

Repair and maintenance costs that do not extend the useful life of the asset are charged against earnings as incurred. Major replacements and significant improvements that increase asset values and extend useful lives are capitalized.

The Group assesses the recoverability of the carrying value of its tangible fixed assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to the future net undiscounted cash flows expected to be generated by the asset. If the undiscounted cash flows are less than the carrying amount of the asset, an impairment loss is recognized for the amount by which the carrying value of the asset exceeds the fair value of the assets.

Goodwill and Intangible Assets: The Group 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.

Irish company law requires goodwill and other fixed assets to be written off over a time period which does not exceed their useful life. Consistent with US GAAP, the Group does not amortize goodwill and certain intangibles over an arbitrary period as they are considered to have an indefinite life. In accordance with U.S. GAAP, goodwill and other 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 is more likely than not less than the carrying amount of the asset.

Recoverability of goodwill is measured at the reporting unit level and begins with a qualitative assessment to determine if it is more likely than not that the fair value of each reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test included in U.S. GAAP. For those reporting units where it is required, the first step compares the carrying amount of the reporting unit to its estimated fair value. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. To the extent that the carrying value of the reporting unit exceeds its estimated fair value, a second step is performed, wherein the reporting unit's carrying value of goodwill is compared to the implied fair value of goodwill. To the extent that the carrying value exceeds the implied fair value, impairment exists and must be recognized.

The calculation of estimated fair value is based on two valuation techniques, a discounted cash flow model (income approach) and a market adjusted multiple of earnings and turnover (market approach), with each method being equally weighted in the calculation. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The estimated fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit, as determined in the first step of the goodwill impairment test, was the price paid to acquire that reporting unit.

Recoverability of other intangible assets with indefinite useful lives (i.e. Tradenames) is first assessed using a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. This assessment is used as a basis for determining whether it is necessary to calculate the fair value of an indefinite-lived intangible asset. For those indefinite-lived assets where it is required, a fair value is determined on a relief from royalty methodology (income approach) which is based on the implied royalty paid, at an appropriate discount rate, to license the use of an asset rather than owning the asset. The present value of the after-tax cost savings (i.e. royalty relief) indicates the estimated fair value of the asset. Any excess of the carrying value over the estimated fair value is recognized as an impairment loss equal to that excess.

Intangible assets such as patents, customer-related intangible assets and other intangible assets with finite useful lives are amortized on a straight-line basis over their estimated economic lives. The weighted-average useful lives approximate the following:

Customer relationships	25	years
Trademarks	25	years
Completed technology/patents	10	years
Other	25	years

Recoverability of intangible assets with finite useful lives is assessed in the same manner as tangible fixed assets as described above.

Taxation: For the purposes of the Group's consolidated financial statements for periods prior to the Spin-off, the income tax expense has been recorded as if the Group filed tax returns on a stand-alone basis separate from Ingersoll Rand. This separate return methodology applies the accounting guidance for income taxes to the stand-alone financial statements as if the Group was a stand-alone enterprise for the periods prior to the Spin-off. Therefore, cash tax payments and items of current and deferred taxes may not be reflective of the Group's actual tax balances prior to or subsequent to the Spin-off. Cash paid for income taxes for the year ended 31 December 2013 was approximately $13.0 million.

The income tax accounts reflected in the consolidated balance sheets as of 31 December 2013 include income taxes payable and deferred taxes allocated to the Group at the time of the Spin-off. The calculation of the Group's income taxes involves considerable judgment and the use of both estimates and allocations.

Deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The Group recognizes future tax benefits, such as net operating losses and non-U.S. tax credits, to the extent that realizing these benefits is considered in its judgment to be more likely than not. The Group regularly reviews the recoverability of its deferred tax assets considering its historic profitability, projected future taxable income, timing of the reversals of existing temporary differences and the feasibility of its tax planning strategies. Where appropriate, the Group records a valuation allowance with respect to a future tax benefit.

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

Environmental Costs: The Group is subject to laws and regulations relating to protecting the environment. Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to existing conditions

caused by past operations, which do not contribute to current or future turnover, are expensed. Liabilities for remediation costs are recorded when they are probable and can be reasonably estimated, generally no later than the completion of feasibility studies or the Group's commitment to a plan of action. The assessment of this liability, which is calculated based on existing technology, does not reflect any offset for possible recoveries from insurance companies, and is not discounted. Refer to Note 27 for further details of environmental matters.

Research and Development Costs: The Group conducts research and development activities for the purpose of developing and improving new products and services. These expenditures are expensed when incurred. For the years ended 31 December 2013 and 2012, these expenditures amounted to approximately $39.6 million and $38.2 million, respectively and consist of salaries, wages, benefits, building costs and other overhead expenses.

Software Costs: The Group capitalizes certain qualified internal-use software costs during the application development stage and subsequently amortizes those costs over the software's useful life, which ranges from 2 to 7 years. Refer to Note 15 for further details on software.

Employee Benefit Plans: The Group provides a range of benefits, including pensions, post-retirement and post-employment benefits to eligible current and former employees. Determining the cost associated with such benefits is dependent on various actuarial assumptions, including discount rates, expected return on plan assets, compensation increases, employee mortality, turnover rates, and healthcare cost trend rates. Actuaries perform the required calculations to determine expense in accordance with U.S. GAAP. Actual results may differ from the actuarial assumptions and are generally accumulated into other reserves and amortized into the profit and loss over future periods. The Group reviews its actuarial assumptions at each measurement date and makes modifications to the assumptions based on current rates and trends, if appropriate. Refer to Note 24 for further details on employee benefit plans.

Provisions: Provisions are recorded for various contingencies arising in the normal course of business, including litigation and administrative proceedings, environmental matters, product liability, product warranty, worker's compensation and other claims. The Group has recorded reserves in the financial statements related to these matters, which are developed using inputs derived from actuarial estimates and historical and anticipated experience data depending on the nature of the reserve and, in certain instances, with consultation of legal counsel, internal and external consultants and engineers. Subject to the uncertainties inherent in estimating future costs for these types of liabilities, the Group believes its estimated reserves are reasonable and does not believe the final determination of the liabilities with respect to these matters would have a material effect on the financial condition, results of operations, liquidity or cash flows of the Group for any year. Refer to Note 26 for further details on provisions.

Derivative Instruments: The Group periodically enters into cash flow and other derivative transactions to specifically hedge exposure to various risks related to currency rates. The Group recognizes all derivatives on the consolidated balance sheet at their fair value as either assets or liabilities. For cash flow designated hedges, the effective portion of the changes in fair value of the derivative contract are recorded in other reserves, net of taxes, and are recognized in the profit and loss account at the time earnings are affected by the hedged transaction. For other derivative transactions, the changes in the fair value of the derivative contract are immediately recognized in the consolidated profit and loss account. Refer to Note 25 for further details on derivative instruments.

Dividends: Dividend income is recognized when the right to receive the payment is established. Interim dividends on ordinary shares to the Group's external shareholders are recognized in the financial statements when they are paid. In accordance with U.S. GAAP, interim dividends to Minority Interests are recognized as a liability in the period in which they are declared.

Recently Adopted Accounting Pronouncements:

In December 2011, the FASB issued 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 1 January 2013 and subsequent interim periods. The requirements of ASU 2011-11 did not have a significant impact on the 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 1 January 2013 and subsequent interim periods. The revised requirements of ASU 2013-01 did not have a significant impact on the consolidated financial statements.

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 15 December 2013 and subsequent interim periods. The requirements of ASU 2013-04 are not expected to have a significant impact on the 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 US 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 15 December 2013 and subsequent interim periods. The requirements of ASU 2013-04 are not expected to have a significant impact on the consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-10 Derivatives and Hedging (Topic 815), "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate." ASU 2013-10 permits the use of the Fed Funds Effective Swap Rate as a benchmark interest rate for hedge accounting in addition to interest rates on direct Treasury obligation of the United States government and the LIBOR. In addition, the guidance removes the restriction on using different benchmark rates for similar hedges. The amendments in ASU 2013-10 are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after 17 July 2013. The requirements of ASU 2013-10 are not expected to have a significant impact on the consolidated financial statements.

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 Income Taxes (Topic 740), "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists." With certain exceptions, ASU 2013-11 requires entities to present an unrecognized tax benefit, or portion of an unrecognized tax benefit, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. The guidance is effective for interim and annual periods beginning after 15 December 2013 on either a prospective or retrospective basis with early adoption permitted. The requirements of ASU 2013-11 are not expected to have a significant impact on the consolidated financial statements.

3. BUSINESS SEGMENT INFORMATION

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the operating segments' results are prepared on a management basis that is consistent with the manner in which the Group disaggregates financial information for internal review and decision making. The Group largely evaluates performance based on Segment operating profit and Segment operating margins.

Segment operating profit is the measure of profit and loss that the Group's chief operating decision maker uses to evaluate the financial performance of the business and as the basis for performance reviews, compensation and resource allocation. For these reasons, the Group believes that Segment operating profit represents the most relevant measure of segment profit and loss. The Group's chief operating decision maker may exclude certain charges or gains, such as corporate charges and other special charges, from operating profit to arrive at a Segment operating profit that is a more meaningful measure of profit and loss upon which to base its operating decisions. The Group defines Segment operating margin as Segment operating profit as a percentage of Net turnover.

Each reportable segment is based primarily on the geography in which it operates. The operating segments have been aggregated as required by GAAP. A description of the Group's reportable segments is as follows:

The Americas segment provides security products and solutions in approximately 30 countries throughout North America and parts of South America. The segment sells a broad range of products and solutions including, locks, locksets, key systems, door closers, exit devices, doors and door frames, electronic product and access control systems to end-users in commercial, institutional and residential facilities, including into the education, healthcare, government, commercial office and single- and multi-family residential markets. This segment's strategic brands are Schlage, Von Duprin and LCN.

The EMEIA segment provides security products and solutions throughout Europe, the Middle East, India and Africa in approximately 85 countries. The segment offers customers the same portfolio of products as the Americas segment, as well as time and attendance and workforce productivity solutions. This segment's strategic brands are CISA and Interflex. This segment also resells Schlage, Von Duprin and LCN products, primarily in the Middle East.

The Asia Pacific segment provides security products and solutions throughout Asia Pacific in approximately 14 countries. The segment offers customers the same portfolio of products as the Americas segment, as well as video analytics solutions. This segment's strategic brands are Schlage, CISA, Von Duprin and LCN.

Effective 1 January 2013, a product line was transferred from the Asia Pacific segment to the Americas segment. This transfer is reflected in the historical segment results for the year ended 31 December 2012.

A summary of operations and balance sheet information by reportable segments for the years ended 31 December were as follows:

	2013 $m	2012 $m
Americas		
Turnover	1,514.7	1,471.9
Operating profit	390.0	377.2
Operating profit as a percentage of turnover	25.7 %	25.6%
Depreciation and amortization	26.5	23.3
Capital expenditures	10.5	16.9
Total segment assets	856.6	883.3
EMEIA		
Turnover	425.3	428.3
Operating profit (loss) **	(3.1)	8.2
Operating profit (loss) as a percentage of turnover	(0.7)%	1.9%
Depreciation and amortization	18.2	18.3
Capital expenditures	5.6	1.7
Total segment assets	525.6	724.4
Asia Pacific		
Turnover	153.5	146.4
Operating profit *	25.4	11.4
Operating profit as a percentage of turnover	16.5 %	7.8%
Depreciation and amortization	0.9	2.2
Capital expenditures	0.8	1.0
Total segment assets	403.3	310.9
Total net turnover	2,093.5	2,046.6
Reconciliation to Operating Profit		
Operating profit from reportable segments	412.3	396.8
Asset impairment**	(137.6)	—
Unallocated corporate expense	(38.9)	(28.2)
Other operating expenses	(7.7)	(3.3)
Total operating profit	228.1	365.3
Total operating profit as a percentage of turnover	10.9 %	17.8%
Depreciation and amortization from reportable segments	45.6	43.8
Unallocated depreciation and amortization	0.5	—
Total depreciation and amortization	46.1	43.8
Capital expenditures from reportable segments	16.9	19.6
Corporate capital expenditures	3.3	—
Total capital expenditures	20.2	19.6
Assets from reportable segments	1,785.5	1,918.6
Unallocated assets ***	194.4	65.2
Total assets	1,979.9	1,983.8

* Results for the year ended 31 December 2013, include a $21.5 million gain on a property sale in China.

** During the year ended 31 December 2013, the Group recorded a non-cash pre-tax goodwill impairment charge of $137.6 million. This amount has been excluded from Segment operating profit of the EMEIA segment as management excludes these charges from Operating profit when making operating decisions about the business.
*** Unallocated assets consists of debt issuance costs, deferred income tax balances, and cash.

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

	2013	2012
	$m	$m
Turnover		
United States	1,331.5	1,299.3
Non-U.S.	762.0	747.3
Total	2,093.5	2,046.6

	2013	2012
	$m	$m
Long-lived assets		
United States	103.1	148.1
Non-U.S.	237.0	225.4
Total	340.1	373.5

4. OTHER OPERATING EXPENSES

	2013	2012
	$m	$m
Net foreign exchange loss	(7.9)	(3.3)
Other miscellaneous income	0.2	—
	(7.7)	(3.3)

Included within Net foreign exchange loss for the year ended 31 December 2013 is a $6.2 million realized foreign currency loss related to the devaluation of the Venezuelan Bolivar from the pre-existing exchange rate of 4.3 bolivars to the U.S. dollar to 6.3 Bolivars to the U.S. dollar.

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013	2012
	$m	$m
Interest on investments	0.6	0.1
	0.6	0.1

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2013	2012
	$m	$m
Interest on bank debt	(4.9)	(1.4)
Interest on Senior notes	(4.4)	—
Amortization of Debt issuance cost	(0.4)	—
Other	(0.5)	(0.1)
	(10.2)	(1.5)

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2013	2012
	$m	$m
Profit on ordinary activities before taxation has been arrived at after charging:		
Staff costs		
Wages & salaries	416.3	393.5
Social welfare	107.8	98.7
Other pension costs	13.3	21.7
Depreciation (Note 15)	36.2	34.3
Amortization of intangible assets (Note 14)	9.5	9.5
Auditors' remuneration	2.5	—
Restructuring costs (Note 11)	5.8	7.5
Research and development	39.6	38.2

Auditors Remuneration

	2013	2012
	$m	$m
Audit of the group and statutory accounts	2.5	—
Other assurance services	—	—
Tax	—	—
Other non-audit	—	—
	2.5	—

8. EMPLOYEE COSTS

The average number of persons employed in the Group, including executive directors, during the year was as follows:

	2013	2012
Business segment	Number	Number
Americas	4,858	4,897
EMEIA	2,498	2,596
Asia Pacific	1,125	1,788
	8,481	9,281

Employee costs	2013 $m	2012 $m
Wages & salaries	416.3	393.5
Social welfare & other pension costs	121.1	120.4
	537.4	513.9

Directors' remuneration	2013 $m	2012 $m
Fees for services as directors	—	—
Remuneration and benefit in kind	0.5	—
Bonus	1.3	—
	1.8	—

9. TAXATION

The Group, prior to the Spin-off, was included in Ingersoll Rand's income tax returns in certain taxing jurisdictions. In preparing the consolidated financial statements, the Group has determined the tax provision for those jurisdictions on a separate return basis.

Profit/(loss) on ordinary activities before taxation for the years ended 31 December were taxed within the following jurisdictions:

	2013 $m	2012 $m
United States	318.0	317.0
Non-U.S.	(99.5)	46.9
Total	218.5	363.9

The taxation components for income taxes for the years ended 31 December were as follows:

	2013 $m	2012 $m
Current tax expense (benefit):		
United States	118.5	121.3
Non-U.S.	37.6	18.6
Total:	156.1	139.9
Deferred tax expense (benefit):		
United States	6.9	(4.0)
Non-U.S.	11.2	—
Total:	18.1	(4.0)
Total tax expense (benefit):		
United States	125.4	117.3
Non-U.S.	48.8	18.6
Total	174.2	135.9

The provision for income tax differs from the amount of income taxes determined by applying the applicable U.S. statutory income tax rate to pretax income, as a result of the following differences:

	Percent of pretax income	
	2013	2012
Statutory U.S. rate	35.0%	35.0%
Increase (decrease) in rates resulting from:		
Non-U.S. tax rate differential	(2.6)	(0.5)
State and local income taxes (1)	5.6	2.8
Valuation allowances	16.4	0.5
Goodwill impairment charge	18.6	—
Reserves for uncertain tax positions	4.5	0.6
Tax on unremitted earnings	3.4	—
Production incentives	(2.3)	—
Other adjustments	1.1	(1.1)
Effective tax rate	79.7%	37.3%

(1) Net of changes in valuation allowances

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

	2013	2012
	$m	$m
Deferred tax assets:		
Stock and Debtors	5.6	7.0
Fixed assets and intangibles	116.4	1.5
Post-employment and other benefit liabilities	17.5	12.7
Other reserves and accruals	3.7	10.3
Net operating losses and credit carryforwards	35.0	25.3
Investment and other asset basis differences	—	7.3
Other	0.3	1.2
Gross deferred tax assets	178.5	65.3
Less: deferred tax valuation allowances	(46.9)	(5.8)
Deferred tax assets net of valuation allowances	131.6	59.5
Deferred tax liabilities:		
Fixed assets and intangibles	(33.4)	(46.3)
Unremitted earnings of foreign subsidiaries	(7.5)	—
Other reserves and accruals	(0.5)	(1.8)
Other	(1.5)	(0.7)
Gross deferred tax liabilities	(42.9)	(48.8)
Net deferred tax assets (liabilities)	88.7	10.7

Deferred tax account balances from 2012 were recast to conform to current year presentation. The material changes in deferred tax account balances result from the tax write-up of certain US fixed assets and intangible assets immediately prior to the Spin-off and the write-down of certain intangible assets in EMEIA.

At 31 December 2013, $7.5 million of deferred tax was recorded for certain undistributed earnings of foreign subsidiaries. No deferred taxes have been provided for any portion of the remaining undistributed earnings of the Group's subsidiaries since these earnings have been and under certain plans will continue to be, permanently reinvested in these subsidiaries. The Group and Ingersoll Rand have not finalized the allocation of undistributed earnings for certain subsidiaries that were not wholly transferred to Allegion during the Spin-off. Because of this and other factors, including the number of legal entities and jurisdictions involved, the complexity of the Group's legal entity structure, the complexity of tax laws in the relevant jurisdictions, including, but not limited to, the rules pertaining to the utilization of foreign tax credits in the United States and the impact of projections of income

for future years to any calculations, the Group believes it is not practicable to estimate, within any reasonable range, the amount of additional taxes which may be payable upon the distribution of earnings.

At 31 December 2013, the Group had the following operating loss and tax credit carry forwards available to offset taxable income in prior and future years:

	Amount $m	Expiration Period
U.S. Federal net operating loss carryforwards	15.0	2026 & 2027
U.S. Federal credit carryforwards	0.3	2024-Unlimited
U.S. State net operating loss carryforwards	7.9	2014-2032
Non-U.S. net operating loss carryforwards	100.0	2014-Unlimited
Non-U.S. credit carryforwards	9.9	Unlimited

The U.S. state net operating loss carryforwards were incurred in various jurisdictions. The non-U.S. net operating loss carryforwards were incurred in various jurisdictions, predominantly in Germany, Spain, Turkey and the United Kingdom.

The Group evaluates its deferred income tax assets to determine if valuation allowances are required or should be adjusted. U.S. GAAP requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers the nature, frequency, and amount of recent losses, the duration of statutory carryforward periods, and tax planning strategies. In making such judgments, significant weight is given to evidence that can be objectively verified.

Activity associated with the Group's valuation allowance is as follows:

	2013 $m	2012 $m
Beginning balance	5.8	9.7
Increase to valuation allowance	44.9	1.8
Decrease to valuation allowance	(0.5)	(0.1)
Net equity with parent	(4.0)	(5.9)
Translation and accumulated other comprehensive income (loss)	0.7	0.3
Ending balance	46.9	5.8

During 2013, the valuation allowance increased by $41.1 million. This increase is the result of changes in jurisdictional profitability and changes in judgment and facts regarding the realizability of deferred tax assets.

The Group has total unrecognized tax benefits of $40.6 million and $63.6 million as of 31 December 2013 and 2012, respectively. The amount of unrecognized tax benefits that, if recognized, would affect the continuing operations effective tax rate are $40.6 million as of 31 December 2013. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	2013 $m	2012 $m
Beginning balance	63.6	63.0
Additions based on tax positions related to the current year	9.0	1.7
Net equity adjustment with former parent	(25.4)	—
Additions based on tax positions related to prior years	0.5	4.3
Reductions based on tax positions related to prior years	(6.9)	(3.7)
Reductions related to settlements with tax authorities	—	(1.6)
Reductions related to lapses of statute of limitations	(0.7)	—
Translation (gain)/loss	0.5	(0.1)
Ending balance	40.6	63.6

The Group records interest and penalties associated with the uncertain tax positions within its Taxation expense. The Group had provisions associated with interest and penalties, net of tax, of $11.5 million and $18.2 million at 31 December 2013 and 2012, respectively. For the year ended 31 December 2013, the Group recognized a $15.2 million reduction in the reserve related to interest and penalties, net of tax, through Parent Company Investment. For the years ended 31 December 2013 and 2012, the Group recognized $4.3 million and $1.6 million, respectively, in interest and penalties net of tax in continuing operations related to these uncertain tax positions.

The total amount of unrecognized tax benefits relating to the Group's tax positions is subject to change based on future events including, but not limited to, the settlements of ongoing audits and/or the expiration of applicable statutes of limitations. Although the outcomes and timing of such events are highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits, excluding interest and penalties, could potentially be reduced by up to approximately $5.9 million during the next 12 months.

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

In connection with the Spin-off, the Group and Ingersoll Rand entered into a Tax Matters Agreement for the allocation of taxes. As of 31 December 2013, the Group has agreed to indemnify Ingersoll Rand $4.1 million for various tax matters, exclusive of interest and penalties of $2.6 million, which is reflected as an Other Noncurrent Liability. In addition, the Group has recorded a $47.2 million indemnity payable to Ingersoll Rand related to a filing for competent authority relief, which is reflected as an Other Noncurrent Liability. As part of this competent authority filing, the Group has also recorded a $47.2 million as an Other Noncurrent Asset. The $47.2 million is exclusive of interest in the amount of $6.6 million. The Group also has an indemnity receivable from Ingersoll Rand in the amount of $9.4 million, exclusive of $0.2 million of interest, reflected as an Other Noncurrent Asset. The indemnity receivable is primarily related to additional competent authority relief filings.

In September 2013, the Internal Revenue Service released final tangible personal property regulations regarding the deduction and capitalization of expenditures related to tangible property. The new rules will become effective for taxable years beginning on or after 1 January 2014. While the Group is still finalizing its analysis, the Group does not believe that these regulations will have a material impact on its consolidated financial statements.

10. DIVESTURES AND DISCONTINUED OPERATIONS

Integrated Systems and Services Divestiture

On 30 December 2011, the Group completed the divestiture of its security installation and service business, which was sold under the Integrated Systems and Services brand in the United States and Canada, to Kratos Public Safety & Security Solutions, Inc. This business, which was previously reported as part of the Americas segment, designs, installs and services security systems. The Group reported this business as a discontinued operation for all periods presented. During 2011, the Group recorded a pre-tax loss on sale of $6.7 million ($1.5 million after-tax) within discontinued operations.

Net turnover and after-tax earnings of the Integrated Systems and Services business for the year ended December 31 were as follows:

	2013	2012
	$m	$m
Net turnover	—	—
After-tax earnings (loss) from operations	(0.3)	(0.5)
Gain (loss) on sale, net of tax	—	(1.5)
Discontinued operations, net of tax	(0.3)	(2.0)

Other divestitures

Other discontinued operations recognized a loss of $0.5 million and $0.7 million for the years ended 31 December 2013 and 2012, respectively, and was mainly related to lease expense and other miscellaneous expenses from previously sold businesses.

11. RESTRUCTURING ACTIVITIES AND SEPARATION COSTS

Restructuring

During 2013 and 2012 the Group incurred costs of $5.8 million and $7.5 million respectively, associated with ongoing restructuring actions. These actions included workforce reductions as well as the closure and consolidation of manufacturing facilities in an effort to increase efficiencies across multiple lines of business. As of 31 December 2013, the Group had $2.8 million accrued for costs associated with its ongoing restructuring actions, of which a majority is expected to be paid within one year.

Restructuring charges recorded during the years ended 31 December:

	2013	2012
	$m	$m
Americas	0.1	1.7
EMEIA	5.7	5.8
Total	5.8	7.5
Cost of sales	3.1	3.0
Distribution and administrative expenses	2.7	4.5
Total	5.8	7.5

The changes in the restructuring reserve were as follows:

	Americas	EMEIA	Total
	$m	$m	$m
31 December 2012	—	3.0	3.0
Additions, net of reversals	0.1	5.7	5.8
Cash and non-cash uses	(0.1)	(6.1)	(6.2)
Currency translation	—	0.2	0.2
31 December 2013	—	2.8	2.8

Separation

The Group incurred $5.9 million of separation costs during 2013 associated with the Spin-off. The components of separation costs incurred is presented below (in millions):

	$m
IT related	1.5
HR related	1.9
Finance related	0.7
Marketing and rebranding	0.6
Other	1.2
	5.9

Included in the above separation costs are $0.5 million of costs paid under a Transition Services Agreement with Ingersoll Rand, under which Ingersoll Rand provides certain services for a limited time after the Spin-off to help ensure an orderly transition following the distribution. See Note 34 for more information about the Transition Services Agreement.

12. EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing profit for the financial year attributable to Allegion plc by the weighted-average number of ordinary shares outstanding for the applicable period. Diluted EPS is calculated after adjusting the denominator of the basic EPS calculation for the effect of all potentially dilutive ordinary shares, which in the Group's case, includes shares issuable under share-based compensation plans.

Basic and Diluted EPS for all periods prior to the Spin-off reflect the number of distributed shares on 1 December 2013, or 96.0 million shares. For 2013 year to date calculations, these shares are treated as issued and outstanding from 1 January 2013 for purposes of calculating historical basic EPS. At the time of the Spin-off, stock options and restricted stock awards were converted to awards of Allegion, and therefore there were no dilutive securities outstanding for historical periods. For 2013, the Group determined its weighted average dilutive share outstanding assuming that the date of our separation from Ingersoll Rand was the beginning of the period. The following table summarizes the weighted-average number of ordinary shares outstanding for basic and diluted earnings per share calculations:

	2013	2012
	$m	$m
Weighted-average number of basic shares	96.0	96.0
Shares issuable under incentive stock plans	0.1	—
Weighted-average number of diluted shares	96.1	96.0

13. FINANCIAL ASSETS

The Group's financial assets were comprised of

	2013	2012
	$m	$m
Investment in associates	1.3	1.3
Capital investments	25.0	21.3
Deposits	0.1	0.1
Long term other investments	2.4	2.7
Long term notes receivable	1.3	1.0
At 31 December	30.1	26.4

At 31 December long term marketable securities included within Financial Assets in the consolidated balance sheet were as follows:

	2013			2012		
	Amortized cost or cost	Unrealized gains	Fair value	Amortized cost or cost	Unrealized gains	Fair value
	$m	$m	$m	$m	$m	$m
Equity securities	4.0	16.2	20.2	5.5	11.2	16.7

14. INTANGIBLE ASSETS

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

	Goodwill	Trademarks & Tradenames	Customer Relationships	Patents	Other	Total
Cost						
At 1 January 2013	699.7	106.4	103.7	24.1	15.8	949.7
Additions	—	—	—	1.7	—	1.7
Exchange differences	5.9	4.0	4.1	0.6	0.8	15.4
Other	(0.2)	—	—	—	(3.2)	(3.4)
At 31 December 2013	705.4	110.4	107.8	26.4	13.4	963.4
Accumulated amortization						
At 1 January 2013	61.8	31.5	32.9	21.7	13.4	161.3
Charge for the year	137.6	3.9	4.1	1.4	0.1	147.1
Exchange differences	1.1	1.4	2.1	0.5	(0.2)	4.9
Other	—	—	(1.0)	—	0.1	(0.9)
At 31 December 2013	200.5	36.8	38.1	23.6	13.4	312.4
Net book amount						
At 31 December 2012	637.9	74.9	70.8	2.4	2.4	788.4
At 31 December 2013	504.9	73.6	69.7	2.8	—	651.0

The Group amortizes intangible assets with finite useful lives on a straight-line basis over their estimated economic lives in accordance with U.S. GAAP. Indefinite-lived intangible assets are not subject to amortization, but instead, are tested for impairment at least annually (more frequently if certain indicators are present).

Intangible asset (excluding Goodwill) amortization expense for 2013 and 2012 was $9.5 million and $9.5 million respectively. Future estimated amortization expense on existing intangible assets in each of the next five years amounts to approximately $10 million for 2014, $8 million for 2015, $8 million for 2016, $8 million for 2017, and $8 million for 2018.

The Group 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.

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

In millions	Americas	EMEIA	Asia Pacific	Total
31 December 2012 (gross)	339.0	536.7	110.1	985.8
Acquisitions and adjustments *	23.8	—	(23.8)	—
Currency translation	—	3.3	1.3	4.6
31 December 2013 (gross)	362.8	540.0	87.6	990.4
Accumulated impairment **	—	(478.6)	(6.9)	(485.5)
Goodwill (net)	$ 362.8	$ 61.4	$ 80.7	$ 504.9

* During 2013, the Group reclassified goodwill related to a product line transfer from the Asia Pacific segment to the Americas segment.

** Accumulated impairment consists of charges of $137.6 million (EMEIA), $341.0 million (EMEIA) and $6.9 million (Asia Pacific) recorded in 2013, 2008 and 2007, respectively, as a result of the Group's impairment testing. During the third quarter of 2013 the Group performed an interim impairment test on goodwill of its EMEIA reporting unit. In relation to the 2012 annual impairment test, the Group disclosed that the fair value of its EMEIA reporting unit exceeded its carrying value by 2.5% as of 1 October 2012. The Group continued to monitor the close proximity of the reporting unit's carrying value compared to its fair value and, in the third quarter of 2013, determined it was required to complete the first step of a two-step interim impairment test, as defined under U.S. GAAP. The results of the third quarter 2013 interim impairment test indicated that the estimated fair value of the EMEIA reporting unit was less than its carrying value; consequently, the Group completed the second step of the

interim impairment test, which resulted in a $137.6 million non-cash pre-tax goodwill impairment charge. Under Irish company law, administrative expenses is normally stated after taking into account diminutions in the value of assets. However, the directors have chosen to disclose the goodwill impairment charge as a separate line item in order to facilitate an assessment of the performance of the group for the year ended 31 December 2013.

During 2013, the Group renegotiated a significant joint venture contract within its Asia Pacific - Other reporting unit and moved the related product line to its Americas segment. As a result of these business changes, the Group completed the first step of the two-step impairment test. This reporting unit has goodwill of approximately $57 million.

The Asia Pacific - Other reporting unit exceeded its carrying value by 6.8% as of 1 October 2013. Below are key assumptions and a sensitivity analysis. Under the income approach the Group assumed a weighted average discount rate of 13.0%, near term growth rates ranging from (1.3%) to 15.9% and a terminal growth rate of 4.0%. Under the market approach, the Group assumed a weighted average implied multiple of 0.9 and 10.5 times projected 2012 turnover and earnings before interest, taxes, depreciation and amortization (EBITDA), respectively, based on industry market data. Holding other assumptions constant, a 1.0% increase in the discount rate would result in a $7.8 million decrease in the estimated fair value of the reporting unit, a 1.0% decrease in the long-term growth rate would result in a $5.5 million decrease in the estimated fair value of the reporting unit. Either of these scenarios individually would result in the reporting unit failing step 1, which would lead to any or all of the reporting unit's $57 million of goodwill to be impaired.

15. TANGIBLE ASSETS

At 31 December the major classes of tangible assets were as follows:

	Land and Buildings	Machinery and Equipment	Vehicles	Fixtures and Fittings	Software	Construction In Progress	Total
	$m	$m	$m	$m	$m	$m	$m
Cost or valuation							
At 1 January 2013	149.0	299.6	1.2	44.0	81.2	11.8	586.8
Additions at cost	0.7	13.5	0.3	0.7	8.9	18.0	42.1
Transfers	4.1	3.9	—	(4.3)	3.0	(19.1)	(12.4)
Exchange differences	1.1	0.7	—	0.7	0.6	0.1	3.2
Disposals	(7.3)	(25.7)	—	(1.5)	(5.2)	—	(39.7)
Other	(4.8)	(0.5)	—	(0.1)	(6.5)	1.1	(10.8)
At 31 December 2013	142.8	291.5	1.5	39.5	82.0	11.9	569.2
Accumulated depreciation							
At 1 January 2013	68.2	219.5	1.0	38.7	27.4	—	354.8
Charge for the year	4.6	19.2	0.1	1.5	10.8	—	36.2
Transfers	1.6	1.7	—	(3.8)	1.0	—	0.5
Exchange differences	0.5	0.6	—	0.6	0.5	—	2.2
Disposals	(1.8)	(19.2)	—	(1.2)	(3.3)	—	(25.5)
Other	(1.6)	(0.2)	—	(0.1)	(0.1)	—	(2.0)
At 31 December 2013	71.5	221.6	1.1	35.7	36.3	—	366.2
Net book amount							
At 31 December 2012	80.8	80.1	0.2	5.3	53.8	11.8	232.0
At 31 December 2013	71.3	69.9	0.4	3.8	45.7	11.9	203.0

16. STOCK

At 31 December the major classes of stock were as follows:

	2013 $m	2012 $m
Raw materials	68.3	80.4
Work-in-process	34.5	22.2
Finished goods	86.8	95.5
	189.6	198.1
LIFO reserve	(33.8)	(31.7)
At 31 December	155.8	166.4

The estimated replacement cost of stocks did not differ significantly from the figures shown above.

17. DEBTORS

	2013 $m	2012 $m
Amounts falling due within one year:		
Trade debtors	269.5	295.0
Less: Provision for impairment of receivables	(5.5)	(4.4)
Less: Reserve for customer claims	(21.9)	(20.8)
Trade debtors - net	242.1	269.8
Trade notes receivable	1.3	2.5
Other debtors	22.8	15.9
Prepayments and accrued income	182.4	100.5
Income tax receivables	5.9	—
Deferred tax asset	45.2	37.2
At 31 December	499.7	425.9

18. CASH AT BANK AND IN HAND

	2013 $m	2012 $m
Restricted cash	40.2	—
Cash at bank and in hand	227.4	317.5
At 31 December	267.6	317.5

The $40.2 million of restricted cash presented on the consolidated balance sheet at 31 December 2013 was pledged as collateral for the short-term note payable.

19. DEBTORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2013 $m	2012 $m
Other debtors	65.3	3.8
Deferred tax asset	78.5	23.2
Debt issue costs	28.7	—
At 31 December	172.5	27.0

20. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 $m	2012 $m
Loans and overdrafts (Note 22)	71.9	2.2
Payments received on account	6.4	4.9
Trade creditors	211.3	227.2
Other creditors	74.5	62.1
Corporation tax	23.5	—
Other taxes	6.1	6.0
Value added tax	13.5	8.5
Income taxes	5.1	4.2
Derivatives payable (Note 25)	2.7	0.3
Excise Duty	7.1	5.6
Accruals and deferred income	43.8	40.8
At 31 December	465.9	361.8

Other creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade creditors approximates their fair value.

21. CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2013 $m	2012 $m
Long term debt (Note 22)	1,272.0	2.8
At 31 December	1,272.0	2.8

22. DEBT AND CREDIT FACILITIES

At 31 December short-term borrowings and current maturities of long-term debt consisted of the following:

	2013 $m	2012 $m
Term Loan A Facility due 2018	500.0	—
Term Loan B Facility due 2020	500.0	—
5.75% Senior notes due 2021	300.0	—
Other debt, including capital leases, maturing in various amounts through 2016	2.8	2.8
Other short-term borrowings	41.1	2.2
Total long term debt	1,343.9	5.0
Less current portion of long term debt	71.9	2.2
At 31 December	1,272.0	2.8

Senior Secured Credit Facilities

In November 2013, the Group entered into a credit agreement providing for (i) $1.0 billion of Senior Secured Term Loan Facilities, consisting of a $500 million "tranche A" Term Loan Facility due in 2018 (the "Term Loan A Facility") and a $500 million "tranche B" Term Loan Facility due in 2020 (the "Term Loan B Facility," and together with the Term Loan A Facility, the "Term Facilities"), and (ii) a $500 million Senior Secured Revolving Credit Facility (the "Revolver") maturing in 2018. The Group refers to these credit facilities as its "Senior Secured Credit Facilities." The net proceeds of the Term Facilities were distributed to Ingersoll Rand in connection with the Spin-off.

Term Facilities. The Term Loan A Facility amortizes in quarterly installments, with the first such installment due at the end of the first quarter of 2014, at the following rates per year: 5% in year one; 5% in year two and 10% in each year thereafter, with the final installment due on 27 September 2018. The Term Loan B Facility amortizes in quarterly installments, with the first such installment due at the end of the first quarter of 2014, in an amount equal to 1.00% per annum, with the balance due on 27 September 2020.

Revolver. The five-year Senior Secured Revolving Credit Facility permits borrowings of up to $500 million. The Revolver is comprised of two tranches: a $400 million tranche available in U.S. Dollars and a multi-currency tranche capped at $100 million. The Revolver also includes $100.0 million available for the issuance of letters of credit, however outstanding letters of credit reduce availability under the Revolver. The Revolver matures and the commitments thereunder will terminate on 27 September 2018. The Group pays certain fees with respect to the Revolver, including a commitment fee on the undrawn portion of the Revolver of 0.30% per year. At 31 December 2013, the Group did not have any borrowings outstanding under the Revolver and had $24.6 million of letters of credit outstanding.

Guarantees and Collateral. The indebtedness, obligations and liabilities under the Senior Secured Credit Facilities are unconditionally guaranteed jointly and severally on a senior secured basis by Allegion plc and certain of its restricted subsidiaries, and will be secured, subject to permitted liens and other exceptions and exclusions, by a first-priority lien on substantially all tangible and intangible assets of Borrower and each domestic guarantor (including (i) a perfected pledge of all of the capital stock of the "Borrower" and each direct, wholly-owned material restricted subsidiary held by the Borrower or any guarantor (subject to certain limitations with respect to foreign subsidiaries) and (ii) perfected security interests in, and mortgages on, accounts, stock, equipment, general intangibles, commercial tort claims, investment property, intellectual property, material fee-owned real property, letter-of-credit rights, intercompany notes and proceeds of the foregoing, except for certain excluded assets.

Mandatory Prepayments. In accordance with the Senior Secured Credit Facility, net cash proceeds of non-recourse asset sales and proceeds received from certain additional indebtedness will require prepayment of the Term Loans with proceeds received. In addition, starting with the year ended 31 December 2014 the Group may be required to apply between 0%-50% of its annual excess cash flow (as defined in the Senior Secured Credit Facility) to the prepayment of the Senior Secured Credit Facility. However, this percentage reduces to certain levels and eventually to zero upon achievement certain leverage ratios.

Voluntary Prepayments. The Group may voluntarily prepay outstanding Term Facilities in whole or in part at any time without premium or penalty (other than a 1.00% premium payable during the six months following the funding of the Senior Secured Credit Facilities (the "funding date") on certain amount of loans under the Term Loan B Facility subject to the payment of customary breakage costs in the case of LIBOR loans. Optional prepayments of the Term Facilities will be applied to the remaining installments at the direction of the borrower.

Commitments under the Revolver may be reduced in whole or in part at any time without premium or penalty.

Covenants. The Senior Secured Credit Facilities contain certain customary covenants that, among other things, limit or restrict (subject to certain exceptions) the Group's ability to incur certain indebtedness, grant certain liens, make certain investments, declare or pay certain dividends or redeem or repurchase capital stock.

In addition, the Senior Secured Credit Facilities contain certain financial covenants, which include a maximum leverage ratio and an interest expense coverage ratio. As of 31 December 2013, the Group is required to comply with a maximum leverage ratio of 4.00 to 1.00 based on a ratio of total consolidated indebtedness, net of unrestricted cash up to $100 million, to consolidated EBITDA. The ratio declines to 3.75 to 1.00 in the first quarter of 2015. In addition, as of 31 December 2013, the Group is required to have a minimum interest expense coverage ratio of 3.50 to 1.00 based on a ratio of consolidated EBITDA to consolidated interest expense, net of interest income. This ratio increases to 4.00 to 1.00 in the first quarter of 2015.

As of 31 December 2013 the Group was in compliance with all of these covenants.

Interest Rates and Fees. Outstanding borrowings under the Senior Secured Credit Facilities accrue interest, at the option of the borrower, at a per annum rate of (i) LIBOR plus the applicable margin or (ii) a base rate plus the applicable margin. As of 31 December 2013, the Group elected to borrow utilizing LIBOR. The applicable margin for borrowings under the Term Loan B Facility is 2.25% with respect to LIBOR borrowings (with an additional step-down based on certain leverage targets), with LIBOR for the Term Loan B Facility to be subject to a floor of 0.75% per annum. The applicable margin for borrowings under

the senior secured revolving credit facility and the Term Loan A Facility is subject to a credit facility rating-based pricing grid with the LIBOR ranging from 1.75% to 2.25%. The margin for Term Loan A Facility borrowings was 2.00% as of 31 December 2013.

Senior Notes

In October 2013, Allegion US Holding Company Inc., the Group's wholly-owned subsidiary (the "Borrower"), issued $300 million of 5.75% senior notes due 2021 (the "Senior Notes"). The Senior Notes have not been registered under the Securities Act of 1933, as amended. The Senior Notes accrue interest at the rate of 5.75% per annum, payable semi-annually on 1 April and 1 October of each year, commencing on 1 April 2014. The Senior Notes mature on 1 October 2021. The terms of the indenture governing the Senior Notes (the "Indenture") provide that, among other things, the Senior Notes rank equally in right of payment to all of the issuer's and Allegion plc's existing and future senior unsecured indebtedness and effectively junior to all of the issuer's and the guarantors' existing and future secured indebtedness (including indebtedness with respect to the Senior Secured Credit Facilities) to the extent of the value of the assets securing such indebtedness. The Senior Notes are structurally subordinated to all of the existing and future liabilities of the Group's subsidiaries that do not guarantee the Senior Notes. The net proceeds of this indebtedness were distributed to Ingersoll Rand in connection with the Spin-off.

Guarantees. Allegion plc and certain of its subsidiaries joint and severally guarantee the issuer's obligations under the Senior Notes on a senior unsecured basis.

Covenants. The Senior Notes contain certain customary covenants that, among other things, limit or restrict (subject to certain exceptions) the Group's ability to incur certain indebtedness, grant certain liens, make certain investments, declare or pay certain dividends or redeem or repurchase capital stock.

At 31 December 2013, future retirements for the amounts outstanding under the Senior Secured Credit Facilities and the Senior Notes are as follows:

	$m
2014	30.0
2015	30.0
2016	55.0
2017	55.0
2018	355.0
Thereafter	775.0
Total	1,300.0

At 31 December 2013, the weighted-average interest rate for borrowings was 2.6% under the Senior Secured Credit Facilities and 5.75% under the Senior Notes. Cash paid for interest for the year ended 31 December 2013 was approximately $1.1 million.

Other borrowings

The Group had $43.9 million of other borrowings outstanding at 31 December 2013 consisting of a $40.2 million short-term note payable due in March 2014 and $2.7 million of capital leases at a weighted average interest rate of 1.6% maturing in various amounts to 2016. The $40.2 million of restricted cash presented on the consolidated balance sheet at 31 December 2013 was pledged as collateral for the short-term note payable.

23. FINANCIAL INSTRUMENTS

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

On the date a derivative contract is entered into, the Group 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 Group 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 Group 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 other reserves.

Any ineffective portion of a derivative instrument's change in fair value is recorded in the profit and loss account 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 the profit and loss account.

Currency Hedging Instruments

The notional amount of the Group's currency derivatives were $147.7 million and $41.2 million at 31 December 2013 and 2012, respectively. At 31 December 2013 and 2012, losses of $0.5 million and $0.2 million, net of tax, respectively, were included in other reserves related to the fair value of the Group's currency derivatives designated as accounting hedges. The amount expected to be reclassified into the profit and loss account over the next twelve months is a loss of $0.5 million. The actual amounts that will be reclassified to the profit and loss account may vary from this amount as a result of changes in market conditions. Gains and losses associated with the Group's currency derivatives not designated as hedges are recorded in the profit and loss account as changes in fair value occur. At 31 December 2013, the maximum term of the Group's currency derivatives was approximately 11 months.

The fair values of derivative instruments included within the consolidated balance sheet as of 31 December were as follows:

	Asset derivatives		Liability derivatives	
In millions	2013	2012	2013	2012
Derivatives designated as hedges:				
Currency derivatives	$ 0.7	$ 0.1	$ —	$ —
Derivatives not designated as hedges:				
Currency derivatives	—	—	2.7	0.3
Total derivatives	$ 0.7	$ 0.1	$ 2.7	$ 0.3

Asset and liability derivatives included in the table above are recorded within debtors and creditors respectively.

The amounts associated with derivatives designated as hedges affecting the consolidated profit and loss account and other reserves for the years ended 31 December were as follows:

	Amount of gain (loss) recognized in other reserves		Location of gain (loss) reclassified from other reserves and recognized into earnings	Amount of gain (loss) reclassified from other reserves and recognized into earnings	
In millions	2013	2012		2013	2012
Currency derivatives	$ 0.5	$ (1.1)	Cost of sales	$ (1.3)	$ (0.2)

Concentration of Credit Risk

The counterparties to the Group's forward contracts consist of a number of investment grade major international financial institutions. The Group 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 regular basis and present no significant credit risk to the Group.

24. PENSIONS AND POST-RETIREMENT BENEFITS OTHER THAN PENSIONS

The Group sponsors several U.S. defined benefit and defined contribution plans covering substantially all of our U.S. employees. Additionally, the Group has 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 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 Group also maintains additional other supplemental plans for officers and other key employees.

On 1 December 2013, in connection with the Spin-off, various defined benefit plans were established for both U.S. and non-U.S. based employees. All plans were re-measured as of 1 December 2013 in connection with the Spin-off. The Schlage Lock Company LLC Pension Plan ("Schlage plan") was established to provide retirement benefits to Allegion employees and former Allegion employees who were participants in certain Ingersoll Rand pension plans (the “Parent Pension Plans”). The Schlage plan assumed all liabilities under the Parent Pension Plans related to Allegion participants- active and former. Assets were transferred to the Schlage plan in accordance with Section 414(l) of the Internal Revenue Code ("the Code").

The Schlage Lock Company LLC NQ Pension plans ("Schlage NQ plans") were established in connection with the Spin-off to provide retirement benefits to Allegion employees and former Allegion employees who were participants in the certain Ingersoll Rand non-qualified pension plans (collectively, the “Parent NQ Pension Plans”). The Schlage NQ plans assumed all liabilities under the Parent NQ Pension Plans related to Schlage NQ plans participants. These are unfunded plans.

The Schlage Lock Company LLC Other Postemployment Benefits Plan ("Schlage OPEB plan") was established in connection with the Spin-off. The Schlage OPEB plan provides other postemployment benefits to Allegion employees and former Allegion employees who were participants in certain Ingersoll Rand Other Postemployment Benefits Plans (collectively, the “Parent OPEB Plans”). The Schlage OPEB plan assumed all liabilities under the Parent OPEB Plans related to Schlage plan participants. This is an unfunded plan.

The Allegion UK Pension Plan ("Allegion UK Plan") was also established in connection with the Spin-off to provide retirement benefits to Allegion employees, former Allegion employees and those members for whom Ingersoll Rand Security Technologies Ltd. was legally responsible who were participants in the Ingersoll Rand UK Pension Plan. The Allegion UK plan assumed all liabilities under the Ingersoll Rand UK Pension Plan. Assets were transferred to the Allegion UK plan in accordance with a Transfer Agreement. All liabilities and corresponding plan assets related to remaining non-U.S. plans were transferred at the time of the Spin-off.

In June 2012, Ingersoll Rand's Board of Directors approved amendments to the retirement plans in which the Group had previously participated for certain U.S. and Puerto Rico non-bargained employees. Eligible non-bargained employees hired prior to 1 July 2012 were given a choice of remaining in their respective defined benefit plan until the plan freezes on 31 December 2022 or freezing their accrued benefits in their respective defined benefit plan as of 31 December 2012 and receiving an additional 2% non-matching Group contribution into the Group's applicable defined contribution plan. Eligible employees hired or rehired on or after 1 July 2012 automatically received the 2% non-matching Group contribution into the applicable defined contribution plan in lieu of participating in the defined benefit plan. Beginning 1 January 2023, all eligible employees received the 2% non-matching contribution into the applicable defined contribution plan. As a result of these changes, the Group's projected benefit obligations for the amended plans were remeasured as of 8 June 2012, which included updating the discount rate assumption to 4.00% from the 4.25% assumed at 31 December 2011. The amendments resulted in a 2012 curtailment loss of $2.4 million. The amendment and remeasurement resulted in an increase of $2.1 million to the projected benefit obligation, an increase of $4.0 million to the plan assets, an actuarial gain of $1.9 million and a credit of $2.4 million to prior service cost during 2012.

The following table details information regarding the Group's pension plans at December 31:

In millions	U.S. 2013	U.S. 2012	NON-U.S. 2013	NON-U.S. 2012
Change in benefit obligations:				
Benefit obligation at beginning of year	$ 276.9	$ 273.5	$ 235.9	$ 198.6
Service cost	7.8	9.6	3.5	3.1
Interest cost	10.1	11.0	10.7	10.3
Employee contributions	—	—	0.3	0.2
Amendments	2.3	0.2	—	—
Actuarial (gains) losses	(58.5)	9.6	8.0	25.2
Benefits paid	(14.8)	(15.0)	(9.0)	(8.4)
Currency translation	—	—	8.2	9.8
Curtailments and settlements	—	(8.6)	(1.2)	(2.2)
Transfers	—	(2.0)	—	—
Liabilities assumed from Spin-off	8.3	—	133.4 (a)	—
Other, including expenses paid	(0.8)	(1.4)	8.1	(0.7)
Benefit obligation at end of year	$ 231.3	$ 276.9	$ 397.9	$ 235.9
Change in plan assets:				
Fair value at beginning of year	$ 230.9	$ 226.1	$ 183.4	$ 166.9
Actual return on assets	1.6	17.1	17.6	10.5
Group contributions	—	3.2	11.6	9.5
Employee contributions	—	—	0.3	0.2
Benefits paid	(14.8)	(15.0)	(9.0)	(8.4)
Currency translation	—	—	7.6	8.1
Settlements	—	—	(1.1)	(2.1)
Assets received from Spin-off	10.2	—	121.6 (a)	—
Other, including expenses paid	(19.4) (b)	(0.5)	5.6	(1.3)
Fair value of assets end of year	$ 208.5	$ 230.9	$ 337.6	$ 183.4
Funded status:				
Plan assets less than the benefit obligations	$ (22.8)	$ (46.0)	$ (60.3)	$ (52.5)
Amounts included in the balance sheet:				
Accrued compensation and benefits	—	—	(1.2)	(0.9)
Postemployment and other benefit liabilities	(22.8)	(46.0)	(59.1)	(51.6)
Net amount recognized	$ (22.8)	$ (46.0)	$ (60.3)	$ (52.5)

(a) Represents the benefit obligation and plan assets transferred to the Allegion UK plan as a result of the combination of plans related to Allegion employees, former Allegion employees and those members for whom Ingersoll Rand Security Technologies Ltd. was legally responsible.

(b) Consists of the difference between the preliminary assets allocated to Allegion for the combined financial statements as of 31 December 2012 and 2011 (which were allocated based on relative accumulated benefit obligations) and the actual assets allocated in the Spin-off in accordance with the agreed upon methodology between Allegion and Ingersoll Rand (based on the provisions of Section 414(l) of the Code).

It is the Group's objective to contribute to the pension plans to ensure adequate funds are available in the plans to make benefit payments to plan participants and beneficiaries when required. However, certain plans are not funded due to either legal, accounting, or tax requirements in certain jurisdictions. As of 31 December 2013, approximately 4% of our projected benefit obligation relates to plans that are not funded of which the majority are Non-U.S. plans.

The pretax amounts recognized in other reserves were as follows:

	U.S.		
In millions	Prior service cost	Net actuarial losses	Total
	$	$	$
31 December 2012	(2.0)	(81.1)	(83.1)
Current year changes recorded to other reserves	(2.3)	30.8	28.5
Amortization reclassified to earnings	0.6	3.8	4.4
Net loss resulting from Spin-off	—	(1.7)	(1.7)
Other	(0.5)	2.0	1.5
31 December 2013	(4.2)	(46.2))	(50.4))

	NON-U.S.		
In millions	Prior service cost	Net actuarial losses	Total
	$	$	$
31 December 2012	(0.5)	(69.0)	(69.5)
Current year changes recorded to other reserves	—	(0.3)	(0.3)
Amortization reclassified to earnings	0.1	1.8	1.9
Settlements/curtailments reclassified to earnings	—	(0.1)	(0.1)
Net loss resulting from Spin-off	—	(39.6)	(39.6)
Currency translation and other	0.1	(2.0)	(1.9)
31 December 2013	(0.3)	(109.2)	(109.5)

Weighted-average assumptions used:

Benefit obligations at 31 December:	2013	2012
Discount rate:		
U.S. plans	5.00 %	3.75 %
Non-U.S. plans	4.50 %	4.50 %
Rate of compensation increase:		
U.S. plans	3.50 %	4.00 %
Non-U.S. plans	4.75 %	4.25 %

The accumulated benefit obligation for all U.S. defined benefit pension plans was $217.2 million and $248.4 million at 31 December 2013 and 2012, respectively. The accumulated benefit obligation for all Non-U.S. defined benefit pension plans was $382.5 million and $225.6 million at 31 December 2013 and 2012, respectively.

Information regarding pension plans with accumulated benefit obligations more than plan assets were:

	U.S.		NON-U.S.	
In millions	2013	2012	2013	2012
	$	$	$	$
Projected benefit obligation	231.3	276.9	397.9	234.6
Accumulated benefit obligation	217.2	248.4	382.5	224.7
Fair value of plan assets	208.5	230.9	337.6	182.4

Future pension benefit payments are expected to be paid as follows:

In millions	U.S.	NON-U.S.
	$	$
2014	13.5	15.8
2015	13.6	15.4
2016	12.9	15.9
2017	13.8	16.7
2018	15.1	17.1
2019 - 2023	90.4	98.6

The components of the Group's net periodic pension benefit costs for the years ended 31 December include the following:

	U.S.	
In millions	2013	2012
Service cost	$ 7.8	$ 9.6
Interest cost	10.1	11.0
Expected return on plan assets	(10.6)	(11.7)
Net amortization of:		
Prior service costs	0.6	1.0
Plan net actuarial losses	3.8	4.1
Net periodic pension benefit cost	11.7	14.0
Net curtailment and settlement (gains) losses	—	2.4
Net periodic pension benefit cost after net curtailment and settlement (gains) losses	$ 11.7	$ 16.4
Amounts recorded in continuing operations	$ 11.7	$ 16.4

	NON-U.S.	
In millions	2013	2012
Service cost	$ 3.5	$ 3.1
Interest cost	10.7	10.3
Expected return on plan assets	(10.0)	(9.7)
Other adjustments	2.1	—
Net amortization of:		
Prior service costs	0.1	—
Plan net actuarial losses	1.8	1.7
Net periodic pension benefit cost	8.2	5.4
Net curtailment and settlement (gains) losses	(0.2)	0.3
Net periodic pension benefit cost after net curtailment and settlement (gains) losses	$ 8.0	$ 5.7
Amounts recorded in continuing operations	$ 8.0	$ 5.7

The curtailment and settlement losses in 2013 are related to the creation of the Allegion UK Plan in connection with the Spin-off. The curtailment and settlement losses in 2012 are associated with amendments to the pension plans and lump sum distributions under the supplemental benefit plans for officers and other key employees.

Pension expense for 2014 is projected to be approximately $17.6 million, utilizing the assumptions for calculating the pension benefit obligations at the end of 2013. The amounts expected to be recognized in net periodic pension cost during the year ended 31 December 2014 for prior service cost and plan net actuarial losses are $0.8 million and $4.8 million, respectively.

Weighted-average assumptions used:

Net periodic pension cost for the year ended December 31,	2013	2012
Discount rate:		
U.S. plans		
For the period January 1 to June 7	3.75%	4.25%
For the period June 8 to November 30	3.75%	4.00%
For the period December 1 to December 31	4.75%	4.00%
Non-U.S. plans	4.50%	5.00%
Rate of compensation increase:		
U.S. plans	4.00%	4.00%
Non-U.S. plans	4.25%	4.00%
Expected return on plan assets:		
U.S. plans	4.75%	5.75%
Non-U.S. plans	5.25%	5.75%

The expected long-term rate of return on plan assets reflects the average rate of returns expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. The expected long-term rate of return on plan assets is based on what is achievable given the plan's investment policy, the types of assets held and target asset allocations. The expected long-term rate of return is determined as of the measurement date. Each plan is reviewed and its historical returns and target asset allocations to determine the appropriate expected long-term rate of return on plan assets to be used.

The overall objective in managing defined benefit plan assets is to ensure that all present and future benefit obligations are met as they come due. The goal is to achieve this while trying to mitigate volatility in plan funded status, contribution, and expense by better matching the characteristics of the plan assets to that of the plan liabilities. Each plan's funded status and asset allocation is monitored regularly in addition to investment manager performance.

The fair values of the Group's U.S. pension plan assets at 31 December 2013 by asset category are as follows:

	Fair value measurements			
In millions	Level 1	Level 2	Level 3	Total fair value
Cash and cash equivalents	$ —	$ 1.5	$ —	$ 1.5
Equity mutual funds	—	42.1	—	42.1
Fixed income investments:				
U.S. government and agency obligations	—	74.9	—	74.9
Corporate and non-U.S. bonds[(a)]	—	68.2	—	68.2
	—	143.1	—	143.1
Total assets at fair value	$ —	$ 186.7	$	$ 186.7
Receivables and payables, net [(b)]				21.8
Net assets available for benefits				$ 208.5

(a) This includes state and municipal bonds.

(b) Includes a $20 million receivable from Ingersoll Rand in accordance with the terms of the Employee Matters Agreement.

The fair values of the Group's U.S. pension plan assets at 31 December 2012 by asset category are as follows:

In millions	Fair value measurements			Total
	Level 1	Level 2	Level 3	fair value
Cash and cash equivalents	$ —	$ 2.4	$ —	$ 2.4
Commingled funds - equity specialty[(a)]	—	43.4	—	43.4
Fixed income investments:				
U.S. government and agency obligations	—	83.9	—	83.9
Corporate and non-U.S. bonds[(b)]	—	92.3	—	92.3
Asset-backed and mortgage-backed securities	—	4.5	—	4.5
Other fixed income[(c)]	—	0	0.3	0.3
	—	180.7	0.3	181.0
Real estate[(d)]	—	—	2.7	2.7
Total assets at fair value	$ —	$ 226.5	$ 3.0	$ 229.5
Receivables and payables, net				1.4
Net assets available for benefits				$ 230.9

(a) This includes commingled and registered mutual funds that focus on equity investments. It includes both indexed and actively managed funds.

(b) This includes state and municipal bonds.

(c) This includes group annuity and guaranteed interest contracts as well as other miscellaneous fixed income securities.

(d) This includes several private equity funds that invest in real estate. It includes both direct investment funds and funds-of-funds.

The fair values of the Group's Non-U.S. pension plan assets at 31 December 2013 by asset category are as follows:

In millions	Fair value measurements			Total
	Level 1	Level 2	Level 3	fair value
Cash and cash equivalents	$ —	$ 10.2	$ —	$ 10.2
Equity mutual funds	—	134.2	—	134.2
Corporate and non-U.S. bonds	—	185.6	—	185.6
Real estate[(a)]	—	—	0.7	0.7
Other[(b)]	—	—	2.6	2.6
Total assets at fair value	$ —	$ 330.0	$ 3.3	$ 333.3
Receivables and payables, net				4.3
Net assets available for benefits				$ 337.6

(a) This includes several private equity funds that invest in real estate. It includes both direct investment funds and funds-of-funds.

(b) This primarily includes insurance contracts.

The fair values of the Group's Non-U.S. pension plan assets at 31 December 2012 by asset category are as follows:

In millions	Fair value measurements			Total
	Level 1	Level 2	Level 3	fair value
Cash and cash equivalents	$ 1.5	$ 0.8	$ —	$ 2.3
Commingled funds - equity specialty[a]	—	68.4	—	68.4
Commingled funds - fixed income specialty[b]	—	113.2	—	113.2
Real estate[c]	—	—	1.6	1.6
Total assets at fair value	$ 1.5	$ 182.4	$ 1.6	$ 185.5
Receivables and payables, net				(2.1)
Net assets available for benefits				$ 183.4

(a) This includes commingled and registered mutual funds that focus on equity investments. It includes both indexed and actively managed funds.

(b) This comprises commingled and registered mutual funds that focus on fixed income securities.

(c) This includes several private equity funds that invest in real estate. It includes both direct investment funds and funds-of-funds.

Cash equivalents are valued using a market approach with inputs including quoted market prices for either identical or similar instruments. Fixed income securities are valued through a market approach with inputs including, but not limited to, benchmark yields, reported trades, broker quotes and issuer spreads. Commingled funds are valued at their daily net asset value (NAV) per share or the equivalent. NAV per share or the equivalent is used for fair value purposes as a practical expedient. NAVs are calculated by the investment manager or sponsor of the fund. Private real estate fund values are reported by the fund manager and are based on valuation or appraisal of the underlying investments.

See Note 25 for additional information related to the fair value hierarchy defined by ASC 820, Fair Value Measurement.

The Group did not make any contributions to the U.S. pension plans in 2013 and made required and discretionary contributions to its U.S. pension plans of $3.2 million in 2012, and $0.1 million in 2011 and to the Non-U.S. pension plans of $11.6 million in 2013, $9.5 million in 2012, and $2.5 million in 2011. The Group currently projects that approximately $17.0 million will be contributed primarily to its Non-U.S. plans in 2014. The Group's policy allows it to fund an amount, which could be in excess of or less than the pension cost expensed, subject to the limitations imposed by current tax regulations. The Group anticipates funding the plans in 2014 in accordance with contributions required by funding regulations or the laws of each jurisdiction.

Most of the Group's U.S. employees are covered by defined contribution plans. Employer contributions are determined based on criteria specific to the individual plans and amounted to approximately $14.5 million, $7.6 million, and $6.4 million in 2013, 2012 and 2011, respectively. The Group's contributions relating to non-U.S. defined contribution plans and other non-U.S. benefit plans were $4.7 million, $5.4 million and $4.8 million in 2013, 2012 and 2011, respectively.

Deferred Compensation Plan

The Group maintains an Executive Deferred Compensation Plan ("EDCP"), which is an unfunded, nonqualified plan that permits certain employees to defer receipt of up to 50% of their annual salary and up to 100% of their annual bonus awards, performance share plan awards, and restricted stock units received upon commencement of employment. On 1 December 2013 the Group assumed a liability of $12.0 million related to Allegion employees and former Allegion employees. As of 31 December 2013 the deferred compensation liability balance was $11.9 million.

Postretirement Benefits Other Than Pensions

The Group sponsors a postretirement plan that provides for healthcare benefits, and in some instances, life insurance benefits that cover certain eligible employees. The Group 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.

On 1 December 2013 the Schlage Lock Company LLC Postretirement other than Pensions Plan ("Schlage Postretirement Plan") was established in connection with the Spin-off. The Schlage Postretirement Plan provides postretirement benefits other than pensions to Allegion employees and former Allegion employees who were participants in certain Ingersoll Rand Postretirement

Benefits Other than Pension Plans. The Schlage Postretirement Plan assumed all liabilities related to Schlage Postretirement Plan participants and no assets were transferred to the Schlage Postretirement plan.

The Ingersoll Rand Board of Directors approved amendments in February 2012 to its postretirement medical plan with respect to post-65 retiree medical coverage. Effective 1 January 2013, Ingersoll Rand discontinued offering company-sponsored retiree medical coverage for certain individuals age 65 and older. Ingersoll Rand 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 who purchase individual Medicare supplemental coverage through Ingersoll Rand's third-party Medicare coordinator that can be used towards reducing premiums and other qualified medical expenses.

As a result of these changes, the Group's projected benefit obligations were remeasured as of 1 February 2012, which included updating the discount rate assumption to 3.75% from the 4.00% assumed at 31 December 2011. The remeasurement resulted in a decrease of $13.4 million to the projected benefit obligation, an actuarial loss of $0.6 million and a credit of $14.0 million to prior service cost.

The following table details information regarding the Group's postretirement plans at 31 December:

In millions	2013	2012
Change in benefit obligations:		
Benefit obligation at beginning of year	$ 18.0	$ 28.9
Service cost	0.3	0.3
Interest cost	0.5	0.7
Plan participants' contributions	—	0.3
Actuarial (gains) losses	(3.6)	3.1
Benefits paid, net of Medicare Part D subsidy	(1.0)	(1.3)
Amendments	0	(14.0)
Benefit obligations at end of year	$ 14.2	$ 18.0

	2013	2012
Funded status:		
Plan assets less than benefit obligations	$ (14.2)	$ (18.0)
Amounts included in the balance sheet:		
Accrued compensation and benefits	$ (1.1)	$ (1.0)
Postemployment and other benefit liabilities	(13.1)	(17.0)
Total	$ (14.2)	$ (18.0)

The pretax amounts recognized in other reserves were as follows:

In millions	Prior service gains	Net actuarial losses	Total
Balance at 31 December 2012	$ 12.1	$ (6.6)	$ 5.5
Current year changes recorded to other reserves	—	3.6	3.6
Amortization reclassified to earnings	(2.2)	0.1	(2.1)
Net gain / (loss) resulting from Spin-off	(2.8)	1.2	(1.6)
Balance at 31 December 2013	$ 7.1	$ (1.7)	$ 5.4

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

In millions	2013	2012
Service cost	$ 0.3	$ 0.3
Interest cost	0.5	0.7
Net amortization of:		
Prior service gains	(2.2)	(2.0)
Net actuarial losses	0.1	0.2
Net periodic postretirement benefit cost (income)	$ (1.3)	$ (0.8)

Postretirement income for 2014 is projected to be $0.9 million. Amounts expected to be recognized in net periodic postretirement benefits cost in 2014 for prior service gains and plan net actuarial losses are $1.6 million and less than $0.1 million, respectively.

Assumptions:	2013	2012
Weighted-average discount rate assumption to determine:		
Benefit obligations at 31 December	4.00%	3.25%
Net periodic benefit cost		
For the period 1 January to 31 January	3.25%	4.00%
For the period 1 February to 30 November	3.25%	3.75%
For the period 1 December to 31 December	4.00%	3.75%
Assumed health-care cost trend rates at 31 December:		
Current year medical inflation	7.65%	8.05%
Ultimate inflation rate	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2021	2021

A 1% change in the medical trend rate assumed for postretirement benefits would have the following effects at 31 December 2013:

In millions	1% Increase	1% Decrease
Effect on postretirement benefit obligation	$ 0.1	$ (0.1)

Benefit payments for postretirement benefits, which are net of expected plan participant contributions and Medicare Part D subsidy, are expected to be paid as follows:

In millions	$m
2014	1.1
2015	1.2
2016	1.2
2017	1.2
2018	1.3
2019 - 2023	5.9

25. FAIR VALUE MEASUREMENTS

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 31 December 2013 are as follows:

	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**
	$m	**$m**	**$m**	**$m**
Recurring fair value measurements				
Assets:				
Marketable securities	20.2	—	—	20.2
Derivative instruments	—	0.7	—	0.7
Total asset recurring fair value measurements	20.2	0.7	—	20.9
Liabilities:				
Derivative instruments	—	2.7	—	2.7
Total liability recurring fair value measurements	—	2.7	—	2.7
Financial instruments not carried at fair value:				
Total debt	—	1,312.6	—	1,312.6
Total financial instruments not carried at fair value	—	1,312.6	—	1,312.6

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

	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**
	$m	**$m**	**$m**	**$m**
Recurring fair value measurements				
Assets:				
Marketable securities	16.7	—	—	16.7
Derivative instruments	—	0.1	—	0.1
Total asset recurring fair value measurements	16.7	0.1	—	16.8
Liabilities:				
Derivative instruments	—	0.3	—	0.3
Total liability recurring fair value measurements	—	0.3	—	0.3

The Group 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 Group. The fair value is obtained for the securities based on observable market prices quoted on public stock exchanges.
- *Derivative instruments* - These 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.
- *Debt* - These securities are recorded at cost and include senior notes and borrowings under the Group's senior secured credit facility. The fair value of the long-term debt instruments is obtained based on observable market prices quoted on public exchanges for similar assets.

The carrying values of cash and cash equivalents, restricted cash, debtors and creditors are a reasonable estimate of their fair value due to the short-term nature of these instruments.

The methodology used by the Group to determine the fair value of its financial assets and liabilities at 31 December 2013 are the same as those used at 31 December 2012. There have been no significant transfers between Level 1 and Level 2 categories.

26. PROVISIONS FOR LIABILITIES AND CHARGES

	2013	**2012**
	$m	**$m**
Pensions & similar obligations	115.1	124.3
Taxation including deferred taxation	87.1	92.1
Other provisions	95.3	36.4
At 31 December	297.5	252.8

The movement on other provisions is as follows:

	Warranty	Environmental	Restructuring	Other	Total
	$m	$m	$m	$m	$m
1 January 2013	9.6	11.8	3.0	12.0	36.4
Arising during the year	5.0	2.1	5.8	64.8	77.7
Utilised in the year	(5.7)	(3.1)	(6.2)	(5.0)	(20.0)
Changes in pre-existing accruals	1.0	—	—	—	1.0
Divestitures	—	—	—	—	—
Currency translation	—	—	0.2	—	0.2
31 December 2013	9.9	10.8	2.8	71.8	95.3
					—
Current	9.9	4.2	2.8	1.7	18.6
Non-current	—	6.6	—	70.1	76.7
31 December 2013	9.9	10.8	2.8	71.8	95.3

Refer to Note 9, Note 11 and Note 27 for a detailed description of these provisions.

27. COMMITMENTS AND CONTINGENCIES

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

Environmental Matters

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

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

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

The Group incurred $2.1 million and $2.9 million of expenses during the years ended 31 December 2013 and 2012, respectively, for environmental remediation at sites presently or formerly owned or leased by us. As of 31 December 2013 and 2012, the Group has recorded reserves for environmental matters of $10.8 million and $11.8 million, respectively. Of these amounts $2.9 million and $2.5 million, respectively, relate to remediation of sites previously disposed by the Group. Environmental reserves are classified as provisions and other current liabilities, or other noncurrent liabilities based on their expected term. The Group's total current environmental reserve at 31 December 2013 and 2012 was $4.2 million and $2.3 million, respectively, and the remainder is classified as noncurrent. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

Warranty Liability

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

Other Commitments and Contingencies

Certain office and warehouse facilities, transportation vehicles and data processing equipment are leased by the Group. Total rental expense was $35.3 million in 2013 and $35.5 million in 2012. Minimum lease payments required under non-cancelable operating leases with terms in excess of one year for the next five years are as follows: $15.9 million in 2014, $11.3 million in 2015, $7.5 million in 2016, $3.7 million in 2017, and $1.8 million in 2018.

28. SHARE-BASED COMPENSATION

Prior to the Spin-off, the Group's employees participated in Ingersoll Rand's share-based compensation plans pursuant to which they were granted share-based awards of Ingersoll Rand stock. Ingersoll Rand's share-based compensation plans include programs for stock options, restricted stock units ("RSUs"), performance share units ("PSUs"), stock appreciation rights ("SARs") and deferred compensation. The equity-based payment expense recorded by the Group prior to the Spin-off includes the expense associated with the employees historically attributable to the Group's operations, as well as an allocation of equity-based compensation expense for Ingersoll Rand corporate employees who provided certain centralized support functions. The Compensation Committee of Ingersoll Rand's Board of Directors determined the recipients, type of awards to be granted and amounts of awards granted under the plans.

In connection with the Spin-off, stock options awarded under the plans that were vested and exercisable at the time of the Spin-off were converted into vested and exercisable stock options of the Group using a formula designed to preserve the intrinsic value of the awards immediately prior to separation. Additionally, holders of Ingersoll Rand vested stock options and SARs awards received one stock option of Allegion for every three Ingersoll Rand vested and exercisable stock options held. Stock options awarded under the plans that were unvested at the time of the Spin-off were converted to unvested stock options of the Group. In connection with the Spin-off, RSUs that vested on or after 1 December 2013 were converted into new equity awards of the Group, using a formula designed to preserve the intrinsic value of the awards immediately prior to separation. In general, PSUs held at the time of separation remain with Ingersoll Rand, and were not converted to PSUs of the Group.

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

Under the Group's incentive stock plan, the total number of ordinary shares authorized by the shareholders is 8.0 million, of which 5.0 million remains available as of 31 December 2013 for future incentive awards.

Compensation Expense

Share-based compensation expense related to continuing operations is included in administrative expenses. The following table summarizes the expenses recognized for the years ended 31 December:

In millions	2013	2012
Stock options	$ 2.4	$ 1.7
RSUs	3.3	2.6
PSUs	1.0	1.5
Deferred compensation	1.7	0.5
Pre-tax expense	8.4	6.3
Tax benefit	(3.2)	(2.4)
Total	$ 5.2	$ 3.9

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 Group'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 Group recognizes expense for the fair value at the grant date.

The average fair value of the stock options granted for the year ended 31 December 2013 and 2012 was estimated to be $15.98 per share and $13.67 per share, respectively, using the Black-Scholes option-pricing model. The weighted average assumptions used were the following:

	2013	2012
Dividend yield	1.27 %	1.33 %
Volatility	39.22 %	43.62 %
Risk-free rate of return	1.53 %	0.92 %
Expected life	5.9 years	5.1 years

For grants issued prior to 1 December 2013, expected volatility is based on the historical volatility from traded options on Ingersoll Rand's stock. The risk-free rate of return is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Historical data is used to estimate forfeitures within Ingersoll Rand's valuation model. The expected life of Ingersoll Rand's stock option awards is derived from historical experience and represents the period of time that awards are expected to be outstanding.

For grants issued on or after 1 December 2013, expected volatility is based on the weighted average of the implied volatility of a group of the Group's peers. The risk-free rate of return is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Historical peer data is used to estimate forfeitures within the Group's valuation model. The expected life of the Group's stock option awards granted post separation is derived from the simplified approach based on the weighted average time to vest and the remaining contractual term, and represents the period of time that awards are expected to be outstanding.

Changes in options outstanding under the plans for the years ended 31 December 2013 and 2012 are as follows:

	Shares subject to option	Weighted-average exercise price (a)	Aggregate intrinsic value (millions)	Weighted-average remaining life (years)
31 December 2011	1,279,557	35.49		
Granted	144,051	40.63		
Exercised	(194,860)	26.18		
Cancelled	(13,159)	42.65		
Transferred, net	(113,460)	35.00		
31 December 2012	1,102,129	37.77		
Granted	321,808	47.35		
Exercised	(611,792)	33.78		
Impact of spin-off	1,669,911	$ —		
Outstanding 31 December 2013	2,482,056	$ 25.21	$ 47.1	5.1
Exercisable 31 December 2013	1,829,827	$ 22.54	$ 39.6	4.2

(a) The weighted average exercise price for periods ending prior to 1 December 2013 represents the exercise price of awards prior to conversion to awards of the Group. The weighted average exercise price of awards on or after 1 December 2013 represents the exercise price of the awards on the grant date converted to ordinary shares of the Group.

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

Range of exercise price			Options outstanding			Options exercisable		
			Number outstanding at 31 December 2013	Weighted-average remaining life (years)	Weighted-average exercise price	Number outstanding at 31 December 2013	Weighted-average remaining life (years)	Weighted-average exercise price
10.01	-	20.00	610,645	4.4	15.90	589,110	4.3	15.80
20.01	-	30.00	1,425,513	4.7	25.61	1,196,973	4.2	25.5
30.01	-	40.00	267,480	8.2	32.3	43,744	4.0	32.22
40.01	-	50.00	178,418	6.5	43.27	—	—	—
			2,482,056	5.1	$ 25.21	1,829,827	4.2	$ 22.54

At 31 December 2013, there was $4.6 million of total unrecognized compensation cost from stock option arrangements granted under the plan, which is primarily related to unvested shares of non-retirement eligible employees. The aggregate intrinsic value of the Group's options exercised during the year ended 31 December 2013 and 2012 was $1.2 million and $3.8 million, respectively. Generally, stock options expire ten years from their date of grant.

The following table summarizes RSU activity for the years ended 31 December 2013 and 2012:

	RSUs	Weighted-average grant date fair value (a)
Outstanding and unvested at 31 December 2011	166,069	$ 35.11
Granted	68,429	40.70
Vested	(72,300)	29.99
Cancelled	(7,931)	41.47
Transfers, net	(10,214)	34.73
Outstanding and unvested at 31 December 2012	144,053	$ 40.02
Granted	195,590	48.42
Vested	(71,776)	38.94
Impact of spin-off	110,350	—
Outstanding and unvested at 31 December 2013	378,217	$ 33.59

(a) The weighted average grant date fair value for periods ending prior to 1 December 2013 represents the fair value of awards granted with respect to Ingersoll Rand ordinary shares, prior to conversion to awards of the Group. The weighted average grant date fair value of awards on or after 1 December 2013 represents the fair value of the awards on the grant date converted to ordinary shares of the Group.

At 31 December 2013, there was $8.4 million of total unrecognized compensation cost from RSU arrangements granted under the plan, which is related to unvested shares of non-retirement eligible employees.

Performance Shares

The Group has a Performance Share Program (PSP) for key employees. The program provides awards in the form of Performance Share Units based on performance against pre-established objectives. The annual target award level is expressed as a number of the Group's ordinary shares. All PSUs are settled in the form of ordinary shares unless deferred.

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

In 2011, the Compensation Committee of Ingersoll Rand's Board of Directors (the "Ingersoll Rand Compensation Committee") approved certain changes to Ingersoll Rand's PSP to be implemented beginning with the 2012 grant year. Under these changes, PSUs were based 50% upon a performance condition, measured at each reporting period by relative EPS growth to the industrial group of companies in the S&P 500 Index and the fair market value of Ingersoll Rand's stock on the date of grant, and 50% upon a market condition, measured by Ingersoll Rand's relative total shareholder return (TSR) as compared to the TSR of the industrial group of companies in the S&P 500 Index over the three-year performance period. The fair value of the market condition was estimated using a Monte Carlo Simulation approach in a risk-neutral framework based upon historical volatility, risk-free rates and correlation matrix.

In 2012, the Ingersoll Rand Compensation Committee approved a change to fix the measurement of EPS for all outstanding 2011 PSUs effective 31 January 2012. This change results in fixed accounting being applied as of the date of change. The fair value of Ingersoll Rand's stock price used to fix the remaining amount of expense to be recorded over the life of the awards was $34.94.

In December 2013, the Group's Compensation Committee issued PSUs that are earned based upon the TSR of the Group's share performance compared to the TSR of the 41 companies currently comprising the S&P 400 Capital Goods Index over the three-year performance period based on the change in the 30 day average price for the index from December 2013 to the 30 day average price for the index in December 2016. The fair value of the market condition is estimated using a Monte Carlo simulation approach in a risk-neutral framework to model future stock price movements based upon the risk-free rate of return, the volatility of each entity, and the pair-wise correlations between each entity. The model utilizes a peer group of 41 members.

The following table summarizes PSU activity for the maximum number of shares that may be issued for the years ended 31 December 2013 and 2012:

	PSUs	Weighted-average grant date fair value (a)
Outstanding and unvested at 31 December 2011	254,122	$ 27.10
Granted	37,746	50.75
Forfeited	(126,982)	17.80
Transfers, net	(22,430)	39.13
Outstanding and unvested at 31 December 2012	142,456	$ 39.13
Granted	75,172	34.90
Vested	(34,701)	34.94
Impact of spin-off	(120,044)	—
Outstanding and unvested at 31 December 2013	62,883	$ 29.27

(a) The weighted average grant date fair value for periods ending prior to 1 December 2013 represents the fair value of awards granted with respect to Ingersoll Rand ordinary shares, prior to conversion to awards of the Group. The weighted average grant date fair value of awards on or after 1 December 2013 represents the fair value of the awards on the grant date converted to ordinary shares of the Group.

At 31 December 2013, there was $1.7 million of total unrecognized compensation cost from the PSP based on current performance, which is related to unvested shares. This compensation will be recognized over the required service period, which is generally the three-year vesting period.

Deferred Compensation

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

29. SHARE CAPITAL

The authorized share capital of Allegion is as follows;

	2013	2012
	$m	$m
Authorized:		
40,000 ordinary shares of €1 par value	—	—
400,000,000 ordinary shares of $0.01 par value	4.0	—
10,000,000 preference shares of $0.001 par value	—	—
At 31 December	4.0	—

No preference shares were outstanding at 31 December 2013 or 2012.

At 31 December 2013, a reconciliation of ordinary shares is as follows:

Allotted, called up and fully paid equity:		2013
Ordinary shares of $0.01 each	Number	$m
At date of incorporation	—	—
Shares issued as part of the spin off	95,973,649	1.0
Issuance of ordinary shares in respect of share based payment plans	54,919	—
At 31 December 2013	96,028,568	1.0

Forty thousand ordinary shares of €1 par value, that were allotted for €1 per share in cash on incorporation, were later redeemed by the Company for nil consideration and cancelled.

30. MOVEMENT ON RESERVES

	Share Premium	Parent Company Investment	Other Reserves	Profit and Loss Account	Total
	$m	$m	$m	$m	$m
At 31 December 2011	—	1,442.9	(29.1)	—	1,413.8
Profit for the period	—	219.6	—	—	219.6
Pension and OPEB items	—	—	(5.2)	—	(5.2)
Foreign Currency items	—	—	20.9	—	20.9
Cash flow hedges and marketable securities	—	—	5.7	—	5.7
Distribution/Contribution to/from Parent company	—	(311.6)	—	—	(311.6)
At 31 December 2012	—	1,350.9	(7.7)	—	1,343.2
Profit for the period	—	26.3	—	4.7	31.0
Pension and OPEB items	—	—	(35.5)	—	(35.5)
Foreign Currency items	—	—	(59.2)	—	(59.2)
Cash flow hedges and marketable securities	—	—	5.8	—	5.8
Shares issued under incentive stock plans	1.3	—	—	—	1.3
Share-based compensation	—	4.7	0.8	—	5.5
Change in Parent Company investment	—	(1,378.9)	—	—	(1,378.9)
Conversion of Parent Company investment	6.3	(3.0)	—	(4.3)	(1.0)
At 31 December 2013	7.6	—	(95.8)	0.4	(87.8)

No dividends were paid and/or proposed to shareholders in the year ended 31 December 2013.

31. MINORITY INTERESTS

	2013 $m	2012 $m
At 1 January	23.0	22.0
Share of profit for the financial year	12.5	5.7
Dividends to minorities	(5.2)	(5.2)
Other	0.8	0.5
At 31 December	31.1	23.0

32. LOANS TO DIRECTORS

Under Section 31, Companies Act 1990 the Company is prohibited from making a loan or quasi-loan to a director of the Company. The directors confirm that they are in compliance with the legislation.

33. CAPITAL EXPENDITURE COMMITMENTS

	2013 $m	2012 $m
Capital expenditure that has been authorised by the Directors but not yet been contracted	9.3	5.3

34. RELATED PARTY DISCLOSURES

Ingersoll Rand provided the Group's subsidiaries with certain centrally managed services and corporate function support in the areas of finance, information technology, employee benefits, legal, human resources, integrated supply chain and marketing through 30 November 2013. In addition, as discussed in Note 24, certain employees of the Group's subsidiaries were eligible to participate in certain Ingersoll Rand employee benefit plans that were sponsored and administered by Ingersoll Rand or its affiliates.

The Group's subsidiaries use of these services and its participation in these employee benefit plans generate both direct and indirect costs. These direct and indirect costs and benefits relating to the services and benefit plans are charged to the Group's subsidiaries and are included in cost of sales and distribution and administrative expenses.

Costs associated with centrally managed services have been billed to the Group's subsidiaries on the basis of direct usage. Historically, Ingersoll Rand corporate allocations have been generally allocated to the Group's subsidiaries on the basis of turnover, assets, payroll expense, and distribution and administrative expenses. Incremental corporate costs have been allocated to the Group's subsidiaries on a similar basis. Costs are allocated to the Group's subsidiaries using allocation methods that management believes are reasonable.

The consolidated financial statements reflect these direct and indirect costs through a corporate overhead allocation. For the years ended 31 December, these allocated Ingersoll Rand costs amount to:

In millions	2013	2012
Centrally managed service costs	$ 104.6	$ 94.8
Historical Ingersoll Rand corporate overhead allocations	36.6	53.5
Incremental corporate costs not previously allocated to businesses	33.3	28.4
Total	$ 174.5	$ 176.7

Ingersoll Rand provided centralized treasury functions for the Group's subsidiaries, whereby, Ingersoll Rand regularly transferred cash both to and from the Group's subsidiaries, as necessary. Loans receivable/payable from/to related parties have been included in Parent company investment in the financial statements for the year ended 31 December 2012. Intercompany receivables/payables from/to related parties arising from the corporate overhead activity described above have been included in Parent company investment in the financial statements for the year ended 31 December 2012.

The Group entered into a Transition Services Agreement with Ingersoll Rand, under which Ingersoll Rand provides certain services for a limited time after the Spin-off to help ensure an orderly transition. Under the Transition Services Agreement, the Group receives certain services, including services for information technology, human resources and labor and finance and accounting support as well as other corporate support services, from Ingersoll Rand and/or third party providers at specified prices. These services are planned to extend for a period of up to twenty-four months in most circumstances. The Group paid $0.5 million in the fourth quarter of 2013 to Ingersoll Rand for services provided under transition services agreements.

The other principal related party relationships requiring disclosure in the consolidated financial statements pertain to the existence of subsidiaries and associates and transactions with these entities entered into by the Group and the identification of key management personnel as addressed in greater detail below.

Subsidiaries and Associates

The consolidated financial statements include the results of operations, financial positions and cash flows of the Group and its subsidiaries and associates over which the Group has control or otherwise qualify for consolidation or equity accounting. A listing of the principal subsidiaries and associates is provided in Note 35. Associates not consolidated or equity accounted are included in Note 13 to the consolidated financial statements.

Compensation of Key Management Personnel of the Group

Key management personnel are the Group's executive and non-executive directors and the following is the aggregate compensation of these directors.

	2013 $m	2012 $m
Fees for services as directors	—	—
Remuneration and benefit in kind	0.5	—
Bonus	1.3	—
At 31 December	1.8	—

35. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

The principal subsidiary and associate undertakings at 31 December 2013, all of which are included in the consolidated financial statements, are listed below:

Name	Nature of business	Registered office	Country of Incorporation	Percentage of ownership
A.B.S. - R.I.C.A.	Trading company	1, Rue Paul-Henri Spaak, Saint Thibault de Vignes, 77463	France	100%
Administradora Lockey CA	Manufacturing & Distribution	Callejon Los Pinos, Zona Industr, Los Teques	Venezuela	100%
Allegion A/S	Manufacturing & Distribution	3, Mirabellevej, Randers, 8900	Denmark	100%
Allegion B.V.	Manufacturing & Distribution	Witboom 1, Vianen, 4131PL	Netherlands	100%
Allegion LLC	Holding Company	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	US	100%
Allegion NV	Manufacturing & Distribution	Pontbeekstraat 2, 1702 Groot-Bijgaarden	Belgium	100%
Allegion SA	Non-Operating	Av. Principal de Boleita con calle Maraima,Galpon Trane Nros. S/N, Urb. Boleita Norte, Municipo Sucre del Estado Miranda	Venezuela	100%
Allegion (Australia) Pty Limited	Trading Company	16-20 Third Avenue, Sunshine, Victoria 3020	Australia	100%

Allegion Canada Inc.	Trading Company	2900-550 Burrard Street, Vancouver, BC, V6C 0A3	Canada	100%
Allegion Chile SpA	Manufacturing & Distribution	Calle Huerfanos 770, Piso 4, Comuna de Santiago	Chile	100%
Allegion Colombia S.A.S.	Holding Company	Avenida 82 No. 10-50, Bogota D.C.	Colombia	100%
Allegion de Mexico, S. de R.L. de C.V.	Manufacturing & Distribution	Los Olivos 698 S/N, Chavez Tecate, 21440	Mexico	100%
Allegion Deutsche Holding GmbH	Holding Company	Schwarzwaldstrasse 15, 77871 Renchen	Germany	100%
Allegion EMEA BVBA	Holding Company	Lenneke Marelaan 8, 1932, Sint-Stevens-Woluwe	Belgium	100%
Allegion Emniyet ve Guvenlik Sistemleri Sanayi AS	Manufacturing & Distribution	No: 45 Kar Plaza Kat 12, Kayisdagi Cad. Karaman Ciftlik Yolu, Icerenkoy, Istanbul, 34752	Turkey	100%
Allegion Fu Hsing Limited	Trading company	29th Floor, Fortis Tower, No. 77-79, Gloucester Road, Wanchai	Hong Kong	49%
Allegion Fu Hsing Holdings Limited	Holding Company	Codan Managements (BVI) Ltd., Romasco Place, Wichams Cay 1, Box 3140, Road Town, Tortola	BVI	51%
Allegion (Gibraltar) Holding Limited	Holding Company	57/63, Line Wall Road	Gibraltar	100%
Allegion (Hong Kong) Limited	Trading company	29th Floor, Fortis Tower, No. 77-79 Gloucester Road, Wanchai	Hong Kong	100%
Allegion Immobilien GmbH	Trading company	Interflex Datensysteme GmbH, Zettachring 16, D-70567, Stuttgart	Germany	100%
Allegion India Private Limited	Trading company	Unit No. 31, Kalpataru Square, Andheri-Kurla Road, Andheri (East), Mumbai 400 059	India	100%
Allegion International AG	Manufacturing & Distribution	Tafernhof, Mellingerstrasse 207, Baden-Dattwil, CH-5405	Switzerland	100%
Allegion International AG (Spółka Akcyjna) Oddział w Polsce	Non-Operating	ul. PLAC PIŁSUDSKIEGO, nr 1, lok., miejsc. WARSZAWA, kod 00-078, poczta WARSZAWA, WARSZAWA	Poland	100%
Allegion Investments (UK) Limited	Holding Company	Sefton House, Northgate Close, Middlebrook Business Park, Bolton, BL6 6PQ	United Kingdom	100%
Allegion Irish Holding Company Limited	Holding Company	Block D, Iveagh Court, Harcourt Road, Dublin 2	Ireland	100%
Allegion Luxembourg Holding and Financing S.à r.l.	Holding Company	16, Avenue Pasteur, Grand Duchy of Luxembourg, L2311	Luxembourg	100%
Allegion Lux Financing I S.à r.l	Holding Company	16, Avenue Pasteur, Grand Duchy of Luxembourg, L2311	Luxembourg	100%
Allegion Lux Financing II S.à r.l.	Holding Company	16, Avenue Pasteur, Grand Duchy of Luxembourg, L2311	Luxembourg	100%
Allegion (New Zealand) Limited	Manufacturing & Distribution	437 Rosebank Road, Avondale Box 19034, Avondale, Auckland	New Zealand	100%

Allegion Panama, S. de R.L.	Trading company	Avenida Samuel Lewis y Calle 54 St, Edificio AFRA, Panamá, República de Panamá	Panama	100%
Allegion S&S Holding Company Inc.	Holding Company	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	US	100%
Allegion S&S Lock Holding Company Inc.	Holding Company	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	US	100%
Allegion Security Technologies (China) Co. Ltd.	Manufacturing & Distribution	Building No.10, No. 8158, Tingwei Road, Jinshan Industrial Zone, Shanghai	China	100%
Allegion (UK) Limited	Trading Company	Bescot Crescent1, Walsall, West Midlands, WS1 4DL	United Kingdom	100%
Allegion US Holding Company Inc.	Holding Company	c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801	US	100%
Beijing Bocom Video Communication Systems Co., Ltd.	Trading Company	F Zone, Builing J, Jingxin Yuan, No.25, Beiwucun Road, Haidian District, Beijing	China	100%
Beijing Metal Door Co., Ltd.	Manufacturing & Distribution	No. 6, Caiyuan Road, Nancai Town, Shunyi District, Beijing	China	17%
Bricard S.A.	Manufacturing & Distribution	1, Rue Paul-Henri Spaak, Saint Thibault de Vignes, 77463	France	100%
CISA Cerraduras S.A.	Manufacturing & Distribution	Poligono Industrial La Charluca, Calle F, parcela M16-17, 50300 Calatayud, Zaragoza	Spain	100%
CISA SpA	Manufacturing & Distribution	no 42, Via Oberdan, Faenza, 48018	Italy	100%
D. Purdue & Sons Ltd.	Trading Company	Elsies River, 7490	South Africa	100%
Dor-O-Matic (Illinois) LLC	Non-Operating	C T Corporation System, 208 S. LaSalle Street, Chicago, IL, 60604	US	100%
Dor-o-Matic of Mid Atlantic States, Inc.	Trading Company	6505 S. Crescent Blvd., PennsaEnglanden, New Jersey, 08110	US	100%
Electronic Technologies Corporation USA	Trading Company	11819 North Pennsylvania Street, Carmel, Indiana, 46032	US	100%
Fu Hsing Industrial (Shanghai) Co., Ltd.	Manufacturing & Distribution	No.420 Xiwang Road, Malu Town, Jiading, Shanghai	China	100%
Fu Jia Hardware Products (Shanghai) Co., Ltd.	Trading Company	No.420 Xiwang Road, Malu Town, Jiading, Shanghai	China	100%
Fu Yang Investment Company Limited	Holding Company	2F, 336 Chang Sheng Road, Gao Xiong	Taiwan	100%
Harrow Industries LLC	Manufacturing & Distribution	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%

Harrow Products (Delaware) LLC	Trading Company	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%
Harrow Products, LLC	Trading Company	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%
Interflex Datensysteme GesmbH	Manufacturing & Distribution	Geisselbergstrasse 19/3/6, Vienna, 1110	Austria	100%
Interflex Datensysteme GmbH & Co KG	Manufacturing & Distribution	Interflex Datensysteme GmbH, Zettachring 16, D-70567, Stuttgart	Germany	100%
Inversora Lockey Ltda.	Manufacturing & Distribution	Edificio Bachue, Interior 137, Carrera 10 127-27 of 807, Bogota	Colombia	100%
Inversora Lockey CA	Trading Company	Callejon Los Pinos, Zona Industr, Los Teques	Venezuela	56%
Lockey Corp.	Trading Company	717 Ponce de Leon Blvd., Coral Gables, Florida, 33134	US	100%
Newman Tonks (Overseas Holdings) Limited	Holding Company	Bescot Crescent1, Walsall, West Midlands, WS1 4DL	United Kingdom	100%
Normbau Beschlage und Ausstattungs GmbH	Manufacturing & Distribution	Schwarzwaldstrasse 15, Postfach 1261, Renchen, D-77871	Germany	100%
Normbau France SAS	Manufacturing & Distribution	1 RUE DE L'ARTISANAT, 67240, BISCHWILLER	France	100%
NT Group Properties Limited	Non-Operating	Bescot Crescent1, Walsall, West Midlands, WS1 4DL	United Kingdom	100%
NT Leamington Limited	Non-Operating	Bescot Crescent1, Walsall, West Midlands, WS1 4DL	United Kingdom	100%
Recognition Systems LLC	Manufacturing & Distribution	CT Corporation System, 818 West Seventh Street, Los Angeles, CA, 90017	US	100%
Schlage de Mexico SA de CV	Non-Operating	Los Naranjos No. 648, Col. El Encanto, Baja California, 21440 Tecate	Mexico	100%
Schlage Lock Company LLC	Manufacturing & Distribution	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%
Shanghai Bocom Video Communication System Co. Ltd.	Trading Company	Room 1007, No. 1027, Changning Road, Changning District, Shanghai	China	100%
Shenzhen Bocom System Engineering Company Ltd	Trading Company	Unit B, 9th Floor, Bldg C, Qinghua Tongfang Information Center, 11 Langshan Road, North High Tech Industrial Zone, Shenzhen	China	100%
Taiwan Fu Hsing Industrial Company	Manufacturing & Distribution	55-10 Been Chou Road, Kangshan, Kaohsiung Hsien	Taiwan	10%
Tratamaq CA	Manufacturing & Distribution	Callejon Los Pinos, Zona Industr, Los Teques	Venezuela	100%

XceedID Corporation	Manufacturing & Distribution	c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle, DE, 19801	US	100%
Von Duprin LLC	Non-Operating	36, Suite 700, South Pennsylvania Street, c/o CT Corporation, Indianapolis, IN, 46204	US	100%

36. EVENTS SINCE YEAR END

Distributable reserves

On 17 January 2014, the Irish High Court approved the creation of distributable reserves of Allegion plc through the reduction of the share premium account, so as to enable the directors declare potential distributions. The court order authorizing the creation of distributable reserves was filed with the Registrar of Companies in Ireland and became effective on 17 January 2014.

Dividends declared

On 11 February 2014, the Group's Board of Directors (the Board) declared a quarterly dividend of $0.08 cents per ordinary share. The dividend was paid on 31 March 2014 to shareholders of record on 17 March 2014, a total of 96,495,361 shares and a total divided amount of $7.7 million.

Share repurchases

On 11 February 2014, the Board authorized the repurchase of up to $200 million of the Group's ordinary shares. Based on market conditions, share repurchases will be made from time to time in the open market and in privately negotiated transactions at the discretion of management.

Acquisition of Schlage Lock de Colombia S.A

On 2 January 2014, the Group's wholly-owned subsidiary Allegion de Colombia completed the acquisition of certain assets of Schlage Lock de Colombia S.A., the second largest mechanical lock manufacturer in that country. The acquisition of certain assets of the privately-owned company, which has distribution in other South and Central American countries, will enable Allegion to leverage its branded residential and commercial product lines to grow its presence in the Spanish-speaking South American security market. Allegion now operates a 45,000-square-foot integrated plant in Bogota, Colombia and will continue to sell product under the Schlage brand, as well as the Inafer and Segurex brands. Allegion de Colombia has approximately 350 employees.

37. GENERAL INFORMATION

Allegion plc is a public limited company which is listed on the New York Stock Exchange and is incorporated and domiciled in the Republic of Ireland.

Registered office and registered number

Block D
Iveagh Court
Harcourt Road
Dublin 2
Ireland

Registered Number 527370

Solicitors

Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

Independent Auditors

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

38. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors of the Group on 9 April 2014.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLEGON PLC

We have audited the parent company financial statements of Allegion plc for the period from 9 May 2013 (date of incorporation) to 31 December 2013 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Section 193 of the Companies Act, 1990 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the parent Company Balance Sheet gives a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland of the state of the company's affairs as at 31 December 2013; and
- it has been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the company.
- The financial statements are in agreement with the books of account.
- In our opinion the information given in the Directors' Report is consistent with the financial statements.
- The net assets of the company, as stated in the Balance Sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Other matters

We have reported separately on the group financial statements of Allegion plc for the year ended 31 December 2013.

Kevin Egan
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
10 April 2014

Allegion plc
Company Balance Sheet
At 31 December 2013

	Note	2013
		$m
Fixed assets		
Financial assets	5	4,214.1
		4,214.1
Current Assets		
Debtors	6	0.2
Cash at bank and in hand		1.4
		1.6
Creditors (amounts falling due within one year)	7	(1.3)
Net current assets		0.3
Net assets		4,214.4
Capital and reserves		
Share capital	8	1.0
Share premium	9	4,213.3
Other reserves	9	0.8
Profit and loss account	9	(0.7)
Shareholders' funds		4,214.4

Approved by the Board of Directors on 9 April 2014 and signed on its behalf by:

David Petratis
David Petratis
Director

Martin E. Welch III
Martin E. Welch III
Director

1. BASIS OF PREPARATION

The separate financial statements of Allegion plc ("the Company") have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2013. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The financial statements of Allegion plc present the balance sheet on a stand-alone basis, including related party transactions.

2. SIGNIFICANT ACCOUNTING POLICIES

Accounting convention: The financial statements have been prepared on a going concern basis under the historical cost convention.

Functional currencies: Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in United States dollars, which is the Company's functional and presentation currency.

Financial assets: Allegion plc's investments in its subsidiaries are stated at cost less provision for any impairment in value. Cost represents the fair value on 1 December 2013, the date of the spin off, based on the Company's market capitalization at that time. The Company reviews investments for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Company assesses whether such indicators exist at each reporting date. Where the recoverable amount of the investment is less than the carrying amount, an impairment is recognized.

Dividends: Dividends on ordinary shares payable are recognized in the financial statements of the Company when they are paid. Dividends received from subsidiary undertakings are recognized in the period in which they are received.

Foreign currencies: Transactions during the period denominated in foreign currencies have been translated at the rates of exchange ruling at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated to United States dollars at the rates of exchange at the balance sheet date. The resulting profits or losses are dealt with in the profit and loss account.

Taxation: Corporation tax is provided on taxable profits at current rates. Deferred taxation is accounted for in respect of all timing differences at tax rates enacted or substantially enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computation in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognized when it is more likely than not the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be recovered.

Cash flow statement: The Company has utilized the exemption from preparing a cash flow statement under the provision of Financial Reporting Standard No. 1 'Cash Flow Statements'(Revised) and has not presented a cash flow statement. A consolidated cash flow statement has been presented in the Group consolidated financial statements of Allegion plc.

Share-based payments: The Company and its subsidiaries operate various equity-settled share based compensation plans. The fair value of the employee services received in exchange for the grant of performance stock units has been valued using the Monte Carlo simulation based on the grant’s performance criteria. The fair value of the employee services received in exchange for the grant of restricted stock units has been valued using the fair value of Allegion plc ordinary shares on the date of grant. The fair value of the employee services received in exchange for the grant of options has been valued using the Black-Scholes option-pricing model. In accordance with FRS 20 'Share-based Payments', the resulting cost for the employees is charged to the profit and loss account over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of awards vesting. The cost for awards granted to the Company's subsidiaries' employees represents additional capital contributions by the Company to its subsidiaries. An additional investment in subsidiaries has been recorded in respect of those awards granted to the Company's subsidiaries' employees, with a corresponding increase in the Company's shareholders' equity. The additional capital contribution is based on the fair value at the grant date of the awards issued, allocated over the life of the underlying grant's vesting period. Proceeds received from employees, if any, for the exercise of share based instruments increase the share capital and share premium accounts of the Company. The difference between the proceeds received on issue of shares and the nominal

value of the shares is credited to the share premium account. Note 28 of the consolidated financial statements provides additional details of the Group share-based compensation plans.

Contingencies: The Company has guaranteed certain liabilities and credit arrangements of the group. The Company reviews the status of these guarantees at each reporting date and considers whether it is required to make a provision for payment on those guarantees based on the probability of the commitment being called.

3. LOSS FOR THE FINANCIAL YEAR

A loss of $0.7 million for the period has been dealt with in the profit and loss account of Allegion plc, which as permitted by section 3(2) of the Companies (amendment) Act, 1986, is not presented in these financial statements.

4. AUDITORS' REMUNERATION

	2013
	$m
Audit of the company's individual accounts	0.4
Other assurance services	—
Tax advisory services	—
Other non-audit	—
	0.4

Note 7 of the consolidated financial statements provide additional details of fees paid by the Group.

5. FINANCIAL ASSETS - SHARES IN GROUP UNDERTAKINGS

	2013
	$m
At date of incorporation	—
Arising from spin off on 1 December 2013	4,213.2
Capital contribution relating to share-based payments	0.9
At 31 December 2013	4,214.1

During the period, the Company acquired 100% of the ordinary share capital of Allegion Irish Holding Company Limited, a company incorporated in Ireland, and 100% of the ordinary share capital of Allegion US Holding Company Inc., a company incorporated in the United States and in consideration issued shares to the shareholders of Ingersoll-Rand plc. The principal activity of both Allegion Irish Holding Company Limited and Allegion US Holding Company Inc. is investment holding. The Company's investment was recorded at fair value on the date of the spin off based on the Company's market capitalization at that date. This initial valuation became the Company's cost basis in Allegion Irish Holding Company Limited and Allegion US Holding Company Inc. The Company indirectly owns all other subsidiaries in the Allegion group.

Subsidiaries

Details of the Company's direct subsidiaries as at 31 December 2013 are as follows:

Subsidiary company and registered office	Country of Incorporation	Principal Activity	Holding %
Allegion Irish Holding Company Limited Iveagh Court, Harcourt Road, Dublin 2, Ireland	Ireland	Holding Company	100%
Allegion US Holding Company Inc. 11819 North Pennsylvania Street, Carmel, IN 46032, U.S.A	U.S.A	Holding Company	100%

Details of indirect subsidiaries can be found in Note 35 of the Group financial statements.

6. DEBTORS

	2013 $m
Amounts falling due within one year:	
Amounts owed by subsidiary undertakings	0.1
Prepayments	0.1
At 31 December 2013	0.2

Amounts owed by group undertakings are interest free and repayable upon demand. The directors consider that the carrying amount of debtors approximates their fair value.

Deferred tax

The Company has unrecognized deferred tax assets of $0.1 million related to unused tax losses as of 31 December 2013. No deferred tax asset has been recognized in respect of these amounts due to the unpredictability of future taxable profit streams.

7. CREDITORS –AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 $m
Amounts due to subsidiary undertakings	0.3
Trade creditors	1.0
At 31 December 2013	1.3

Amounts due to group undertakings falling due within one year are unsecured and are repayable on demand.

Trade creditors principally comprise amounts outstanding for day to day purchases and ongoing costs. The directors consider that the carrying amount of trade creditors approximates to their fair value.

8. CALLED UP SHARE CAPITAL

	2013 $m
Authorized:	
40,000 ordinary shares of €1 par value	—
400,000,000 ordinary shares of $0.01 par value	4.0
10,000,000 preference shares of $0.001 par value	—
At 31 December 2013	4.0

Allotted, called up and fully paid equity: **Ordinary shares of $0.01 each**	2013 Number	$m
At date of incorporation	—	—
Shares issued as part of the spin off	95,973,649	1.0
Issuance of ordinary shares in respect of share based payment plans	54,919	—
At 31 December 2013	96,028,568	1.0

Forty thousand ordinary shares of €1 par value, that were allotted for €1 per share in cash on incorporation, were later redeemed by the Company for nil consideration and cancelled.

9. RESERVES

	Share Premium $m	Other Reserves $m	Profit and Loss Account $m	Total $m
At date of incorporation	—	—	—	—
Shares issued as part of the spin off	4,212.3	—	—	4,212.3
Issuance of ordinary shares in respect of share based payment plans	1.0	—	—	1.0
Share based payment charge for the period	—	0.8	—	0.8
Loss for the period	—	—	(0.7)	(0.7)
At 31 December 2013	4,213.3	0.8	(0.7)	4,213.4

The Company's share premium and other reserves are not available for distribution.

10. FINANCIAL INSTRUMENTS

The Company does not undertake hedging activities on behalf of itself of any other companies within the Group.

11. GUARANTEES

On 4 October 2013, Allegion US Holding Company Inc. completed the offering of 5.75% senior notes in the aggregate principal amount of $300.0 million maturing in 2021 (the Notes). On 26 November 2013, Allegion US Holding Company Inc. entered into a Credit Agreement providing for $1,500.0 million in senior secured financing, consisting of a $500.0 million term loan A facility maturing in 2018, a $500.0 million term loan B facility maturing in 2020 (the Term Facilities) and a $500.0 million senior secured revolving credit facility maturing in 2018 (the Revolver).

The full amount of the Term Facilities was borrowed in a single drawing on 26 November 2013. As of 31 December 2013, the full balance of $1,000.0 million remains outstanding.

The Revolver includes up to $100.0 million available for the issuance of letters of credit. As of 31 December 2013, letters of credit to a value of $24.6 million have been issued.

Allegion plc has guaranteed the above borrowings and letters of credit of group undertakings, and the amounts total $1,324.6 million as of 31 December 2013.

12. RELATED PARTY TRANSACTIONS

The profit and loss account includes $0.02 million of share based directors fees for the period ending 31 December 2013.

The Company has not disclosed any other related party transactions as it has availed of the exemption available under the provisions of FRS 8 'Related Party Disclosures' 3(c) which exempts disclosure of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by a member of that group.

13. SUBSEQUENT EVENTS

On 17 January 2014, the Irish High Court approved the creation of distributable reserves of Allegion plc through the reduction of the share premium account, so as to enable the directors declare potential distributions. The court order authorizing the creation of distributable reserves was filed with the Registrar of Companies in Ireland and became effective on 17 January 2014.

On 11 February 2014, the Group's Board of Directors (the Board) declared a quarterly dividend of $0.08 cents per ordinary share. The dividend was paid on 31 March 2014 to shareholders of record on 17 March 2014, a total of 96,495,361 shares and a total divided amount of $7.7 million.

On 11 February 2014, the Board of Directors of the Company authorized the repurchase of up to $200 million of ordinary shares under a new share repurchase program. Based on market conditions, share repurchases will be made from time to time in the open market and in privately negotiated transactions at the discretion of management.

14. APPROVAL OF FINANCIAL STATEMENTS

The Company financial statements were approved by the Board of Directors of the Company on 9 April 2014.