PENTAIR plc
Form 10-Q
July 25, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017
OR

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

Commission file number 001-11625
Pentair plc

(Exact name of Registrant as specified in its charter)

Ireland	98-1141328
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification number)

43 London Wall, London, EC2M 5TF, United Kingdom
(Address of principal executive offices)
Registrant’s telephone number, including area code: 44-207-347-8925
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o	Emerging growth company o
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
On June 30, 2017, 181,479,171 shares of Registrant’s common stock were outstanding.

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Pentair plc and Subsidiaries

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
Pentair plc and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

In millions, except per-share data	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net sales	$1,265.3	$1,301.2	$2,448.8	$2,491.2
Cost of goods sold	782.1	819.4	1,543.3	1,578.1
Gross profit	483.2	481.8	905.5	913.1
Selling, general and administrative	241.7	249.7	495.6	499.8
Research and development	28.7	28.7	58.7	57.2
Operating income	212.8	203.4	351.2	356.1
Other (income) expense:				
Equity income of unconsolidated subsidiaries	(0.4)	(1.1)	(0.6)	(1.5)
Loss on early extinguishment of debt	101.4	—	101.4	—
Net interest expense	25.3	35.4	60.3	71.6
Income from continuing operations before income taxes	86.5	169.1	190.1	286.0
Provision for income taxes	18.2	36.4	41.1	61.5
Net income from continuing operations	68.3	132.7	149.0	224.5
(Loss) income from discontinued operations, net of tax	(5.2)	10.1	1.9	25.7
Gain from sale of discontinued operations, net of tax	200.6	—	200.6	—
Net income	$263.7	$142.8	$351.5	$250.2
Comprehensive income, net of tax				
Net income	$263.7	$142.8	$351.5	$250.2
Changes in cumulative translation adjustment (inclusive of divestiture of business reclassified to gain from sale of $374.2 for the three and six months ended June 30, 2017)	392.6	(25.8)	468.3	2.2
Changes in market value of derivative financial instruments, net of tax	(0.9)	10.9	0.7	(3.8)
Comprehensive income	$655.4	$127.9	$820.5	$248.6
Earnings per ordinary share				
Basic				
Continuing operations	$0.37	$0.73	$0.82	$1.24
Discontinued operations	1.08	0.06	1.11	0.14
Basic earnings per ordinary share	$1.45	$0.79	$1.93	$1.38
Diluted				
Continuing operations	$0.37	$0.73	0.81	1.23
Discontinued operations	1.06	0.05	1.10	0.14
Diluted earnings per ordinary share	$1.43	$0.78	$1.91	$1.37
Weighted average ordinary shares outstanding				
Basic	181.7	180.9	181.9	180.8
Diluted	183.8	183.0	183.9	182.8
Cash dividends paid per ordinary share	$0.345	$0.33	$0.69	$0.66

See accompanying notes to condensed consolidated financial statements.

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Pentair plc and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per-share data	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$177.8	$ 238.5
Accounts and notes receivable, net of allowances of $28.0 and $25.6, respectively	764.5	764.0
Inventories	565.4	524.2
Other current assets	247.1	253.4
Current assets held for sale	—	891.9
Total current assets	1,754.8	2,672.0
Property, plant and equipment, net	550.9	538.6
Other assets		
Goodwill	4,314.2	4,217.4
Intangibles, net	1,624.3	1,631.8
Other non-current assets	424.9	182.1
Non-current assets held for sale	—	2,292.9
Total other assets	6,363.4	8,324.2
Total assets	$8,669.1	$ 11,534.8
Liabilities and Equity		
Current liabilities		
Current maturities of long-term debt and short-term borrowings	$0.3	$ 0.8
Accounts payable	407.8	436.6
Employee compensation and benefits	143.8	166.1
Other current liabilities	496.5	511.5
Current liabilities held for sale	—	356.2
Total current liabilities	1,048.4	1,471.2
Other liabilities		
Long-term debt	1,698.9	4,278.4
Pension and other post-retirement compensation and benefits	268.4	253.4
Deferred tax liabilities	546.5	609.5
Other non-current liabilities	203.4	162.0
Non-current liabilities held for sale	—	505.9
Total liabilities	3,765.6	7,280.4
Equity		
Ordinary shares $0.01 par value, 426.0 authorized, 181.5 and 181.8 issued at June 30, 2017 and December 31, 2016, respectively	1.8	1.8
Additional paid-in capital	2,876.3	2,920.8
Retained earnings	2,292.7	2,068.1
Accumulated other comprehensive loss	(267.3)	(736.3)
Total equity	4,903.5	4,254.4
Total liabilities and equity	$8,669.1	$ 11,534.8

See accompanying notes to condensed consolidated financial statements.

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Pentair plc and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Six months ended June 30, 2017	June 30, 2016
Operating activities		
Net income	$351.5	$250.2
Income from discontinued operations, net of tax	(1.9)	(25.7)
Gain from sale of discontinued operations, net of tax	(200.6)	—
Adjustments to reconcile net income from continuing operations to net cash provided by (used for) operating activities of continuing operations		
Equity income of unconsolidated subsidiaries	(0.6)	(1.5)
Depreciation	42.0	43.5
Amortization	48.6	48.5
Deferred income taxes	(16.7)	(26.3)
Share-based compensation	26.0	22.3
Loss on early extinguishment of debt	101.4	—
Excess tax benefits from share-based compensation	—	(3.2)
Gain on sale of assets	—	(0.7)
Changes in assets and liabilities, net of effects of business acquisitions		
Accounts and notes receivable	28.5	78.1
Inventories	(21.3)	8.9
Other current assets	(10.2)	(68.0)
Accounts payable	(46.8)	(31.5)
Employee compensation and benefits	(30.7)	(12.1)
Other current liabilities	(49.5)	50.7
Other non-current assets and liabilities	(8.8)	(12.3)
Net cash provided by (used for) operating activities of continuing operations	210.9	320.9
Net cash provided by (used for) operating activities of discontinued operations	(55.6)	48.6
Net cash provided by (used for) operating activities	155.3	369.5
Investing activities		
Capital expenditures	(37.6)	(64.0)
Proceeds from sale of property and equipment	3.8	7.6
Proceeds from sale of businesses, net	2,765.6	—
Acquisitions, net of cash acquired	(59.5)	—
Other	—	(3.7)
Net cash provided by (used for) investing activities of continuing operations	2,672.3	(60.1)
Net cash provided by (used for) investing activities of discontinued operations	(6.5)	(8.0)
Net cash provided by (used for) investing activities	2,665.8	(68.1)
Financing activities		
Net repayments of short-term borrowings	(0.5)	—
Net repayments of commercial paper and revolving long-term debt	(975.5)	(139.8)
Repayments of long-term debt	(1,659.3)	(0.7)
Premium paid on early extinguishment of debt	(94.9)	—
Excess tax benefits from share-based compensation	—	3.2
Shares issued to employees, net of shares withheld	29.5	8.3
Repurchases of ordinary shares	(100.0)	—
Dividends paid	(126.1)	(119.7)

Net cash provided by (used for) financing activities	(2,926.8)	(248.7)
Effect of exchange rate changes on cash and cash equivalents	45.0	(5.7)
Change in cash and cash equivalents	(60.7)	47.0
Cash and cash equivalents, beginning of period	238.5	126.3
Cash and cash equivalents, end of period	$177.8	$173.3

See accompanying notes to condensed consolidated financial statements.

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Pentair plc and Subsidiaries
Condensed Consolidated Statements of Changes in Equity (Unaudited)

In millions	Ordinary shares Number	Ordinary shares Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance - December 31, 2016	181.8	$ 1.8	$2,920.8	$2,068.1	$ (736.3)	$4,254.4
Net income	—	—	—	351.5	—	351.5
Other comprehensive income, net of tax	—	—	—	—	469.0	469.0
Dividends declared	—	—	—	(126.9)	—	(126.9)
Share repurchase	(1.5)	—	(100.0)	—	—	(100.0)
Exercise of options, net of shares tendered for payment	1.0	—	36.5	—	—	36.5
Issuance of restricted shares, net of cancellations	0.3	—	—	—	—	—
Shares surrendered by employees to pay taxes	(0.1)	—	(7.0)	—	—	(7.0)
Share-based compensation	—	—	26.0	—	—	26.0
Balance - June 30, 2017	181.5	$ 1.8	$2,876.3	$2,292.7	$ (267.3)	$4,903.5

In millions	Ordinary shares Number	Ordinary shares Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance - December 31, 2015	180.5	$ 1.8	$2,860.3	$1,791.7	$ (645.0)	$4,008.8
Net income	—	—	—	250.2	—	250.2
Other comprehensive loss, net of tax	—	—	—	—	(1.6)	(1.6)
Dividends declared	—	—	—	(121.7)	—	(121.7)
Exercise of options, net of shares tendered for payment	0.4	—	13.8	—	—	13.8
Issuance of restricted shares, net of cancellations	0.3	—	—	—	—	—
Shares surrendered by employees to pay taxes	(0.1)	—	(5.5)	—	—	(5.5)
Share-based compensation	—	—	22.3	—	—	22.3
Balance - June 30, 2016	181.1	$ 1.8	$2,890.9	$1,920.2	$ (646.6)	$4,166.3

See accompanying notes to condensed consolidated financial statements.

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Pentair plc and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

1.Basis of Presentation and Responsibility for Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements of Pentair plc (formerly Pentair Ltd.) and its subsidiaries ("we," "us," "our," "Pentair," or "the Company") have been prepared following the requirements of the U.S. Securities and Exchange Commission ("SEC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America can be condensed or omitted.

We are responsible for the unaudited condensed consolidated financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto, which are included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Revenues, expenses, cash flows, assets and liabilities can and do vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be indicative of those for a full year.

Our fiscal year ends on December 31. We report our interim quarterly periods on a calendar quarter basis.

Proposed Separation

On May 9, 2017, we announced that our Board of Directors approved a plan to separate our Water business and Electrical business into two independent, publicly-traded companies (the "Proposed Separation"). The Proposed Separation is expected to occur through a tax-free spin-off of the Electrical business to Pentair shareholders.

Completion of the Proposed Separation is subject to certain customary conditions, including, among other things, final approval of the transaction by Pentair's Board of Directors, receipt of tax opinions and rulings and effectiveness of appropriate filings with the SEC. Upon completion of the Proposed Separation, it is anticipated that Electrical's jurisdiction of organization will be Ireland, but that it will manage its affairs so that it will be centrally managed and controlled in the United Kingdom (the "U.K.") and therefore will have its tax residency in the U.K.

The disclosures and financial statements within these condensed consolidated financial statements include the results of operations, financial condition and cash flows of the Electrical business as continuing operations.

We expect to complete the Proposed Separation in the second quarter of 2018; however, there can be no assurance regarding the ultimate timing of the Proposed Separation or that the Proposed Separation will be completed.

New accounting standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued a new accounting standard for share-based payments. The guidance simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of excess tax benefits in the Condensed Consolidated Statements of Cash Flows. We adopted the new standard in the first quarter of 2017. The impact of the adoption resulted in the following:

- All excess tax benefits and deficiencies arising from employee share-based payment awards, and dividends on those awards, will be recognized within income taxes in the period in which they occur rather than within additional paid-in-capital. Our adoption of this requirement under the new standard had no material impact for the three and six months ended June 30, 2017.
- The Company no longer presents excess tax benefits within cash flows from financing activities in the Condensed Consolidated Statements of Cash Flows; instead these are now reflected within cash flows from operating activities. The Company elected to apply this change prospectively.
- The Company elected not to change its policy on accounting for forfeitures and continues to estimate the total number of awards for which the requisite service period will not be rendered.
- The Company excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the three and six months ended June 30, 2017. This increased diluted weighted average common shares outstanding by less than 350,000 shares for the three and six months ended

June 30, 2017.

Pentair plc and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

In February 2016, the FASB issued new accounting requirements regarding accounting for leases, which require an entity to recognize both assets and liabilities arising from financing and operating leases, along with additional qualitative and quantitative disclosures. The requirements are effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and early adoption is permitted. We have not yet determined the potential effects on our financial condition or results of operations.
In May 2014, the FASB issued new accounting requirements for the recognition of revenue from contracts with customers. The new requirements also include additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The requirements are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company intends to adopt the new revenue guidance as of January 1, 2018 and expects to utilize the modified retrospective transition method of adoption, with adjustment to beginning retained earnings for the cumulative effect of the change. In preparation for adoption of the new guidance, the Company has reviewed representative samples of contracts and other forms of agreements with customers globally and is in the process of quantifying the impact of adopting the new revenue standard. Based on its procedures to date, the Company does not believe the adoption of the new standard will have a material impact on its results of operations, financial condition or cash flows. The new standard will result in enhanced disclosures in the footnotes to our consolidated financial statements to provide additional quantitative and qualitative information related to disaggregation of revenue, changes in contract assets and liabilities and remaining performance obligations. Adoption of this standard will require changes to our business processes, systems and controls to support the additional required disclosures. We are in the process of identifying such changes.
2.Discontinued Operations
On April 28, 2017, we completed the sale of the Valves & Controls business to Emerson Electric Co. for $3.15 billion, subject to final working capital adjustments. The sale resulted in a gain, net of tax, of $200.6 million.

The results of the Valves & Controls business have been presented as discontinued operations and the related assets and liabilities have been classified as held for sale for all periods presented. The Valves & Controls business was previously disclosed as a stand-alone reporting segment. Transaction costs of $42.5 million and $53.7 million related to the sale of Valves & Controls were incurred during the three and six months ended June 30, 2017, respectively, and were recorded within Gain from sale of discontinued operations before income taxes presented below.

Results of discontinued operations are summarized below:

In millions	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net sales	$93.8	$ 433.6	$450.3	$ 820.6
Cost of goods sold	71.8	316.3	339.7	599.1
Gross profit	22.0	117.3	110.6	221.5
Selling, general and administrative	23.8	98.8	103.3	180.3
Research and development	1.5	5.1	5.7	9.9
Operating (loss) income	$(3.3)	$ 13.4	$1.6	$ 31.3
(Loss) income from discontinued operations before income taxes	$(3.2)	$ 13.3	$2.5	$ 31.5
Provision for income taxes	2.0	3.2	0.6	5.8
(Loss) income from discontinued operations, net of tax	$(5.2)	$ 10.1	$1.9	$ 25.7

Gain from sale of discontinued operations before income taxes	$203.0	$ —	$203.0	$ —
Provision for income taxes	2.4	—	2.4	—
Gain from sale of discontinued operations, net of tax	$200.6	$ —	$200.6	$ —

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The carrying amounts of major classes of assets and liabilities that were classified as held for sale on the Condensed Consolidated Balance Sheets were as follows:

In millions	June 30, 2017	December 31, 2016
Accounts and notes receivable, net	$ —	$ 365.4
Inventories	—	491.5
Other current assets	—	35.0
Current assets held for sale	$ —	$ 891.9
Property, plant and equipment, net	$ —	$ 361.5
Goodwill	—	996.4
Intangibles, net	—	703.5
Asbestos-related insurance receivable	—	108.5
Other non-current assets	—	123.0
Non-current assets held for sale	$ —	$ 2,292.9
Accounts payable	$ —	$ 151.4
Employee compensation and benefits	—	61.5
Other current liabilities	—	143.3
Current liabilities held for sale	$ —	$ 356.2
Pension and other post-retirement compensation and benefits	$ —	$ 32.2
Deferred tax liabilities	—	162.8
Asbestos-related liabilities	—	228.3
Other non-current liabilities	—	82.6
Non-current liabilities held for sale	$ —	$ 505.9

3. Share Plans

Total share-based compensation expense for the three and six months ended June 30, 2017 and 2016 was as follows:

	Three months ended		Six months ended	
In millions	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Restricted stock units	$ 5.5	$ 3.6	$ 11.3	$ 10.6
Stock options	2.0	1.8	6.5	7.2
Performance share units	2.1	0.8	8.2	4.5
Total share-based compensation expense	$ 9.6	$ 6.2	$ 26.0	$ 22.3

In the first quarter of 2017, we issued our annual share-based compensation grants under the Pentair plc 2012 Stock and Incentive Plan to eligible employees. The total number of awards issued was approximately 1.4 million, of which 0.3 million were restricted stock units, 0.9 million were stock options and 0.2 million were performance share units. The weighted-average grant date fair value of the restricted stock units, stock options and performance share units issued was $58.93, $12.57 and $58.41, respectively.

We estimated the fair value of each stock option award issued in the annual share-based compensation grant using a Black-Scholes option pricing model, modified for dividends and using the following assumptions:

	2017 Annual Grant
Risk-free interest rate	1.61 %
Expected dividend yield	2.38 %
Expected share price volatility	26.9 %
Expected term (years)	6.3

These estimates require us to make assumptions based on historical results, observance of trends in our share price, changes in option exercise behavior, future expectations and other relevant factors. If other assumptions had been used, share-based compensation expense, as calculated and recorded under the accounting guidance, could have been affected.

We based the expected life assumption on historical experience as well as the terms and vesting periods of the options granted. For purposes of determining expected share price volatility, we considered a rolling average of historical volatility measured over a period approximately equal to the expected option term. The risk-free interest rate for periods that coincide with the expected life of the options is based on the U.S. Treasury Department yield curve in effect at the time of grant.

4. Restructuring

During the six months ended June 30, 2017 and the year ended December 31, 2016, we continued execution of certain business restructuring initiatives aimed at reducing our fixed cost structure and realigning our business. Initiatives during the six months ended June 30, 2017 included the reduction in hourly and salaried headcount of approximately 300 employees, consisting of approximately 150 in Water and 150 in Electrical. Initiatives during the year ended December 31, 2016 included the reduction in hourly and salaried headcount of approximately 650 employees, consisting of approximately 300 in Water and 350 in Electrical.

Restructuring related costs included in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) included costs for severance and other restructuring costs as follows:

In millions	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Severance and related costs	$ 12.8	$ 11.3	$ 33.4	$ 11.9
Other	—	0.8	0.3	0.7
Total restructuring costs	$ 12.8	$ 12.1	$ 33.7	$ 12.6

Other restructuring costs primarily consist of asset impairment and various contract termination costs.

Restructuring costs by reportable segment were as follows:

In millions	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Water	$ 5.8	$ 7.5	$ 12.9	$ 6.9
Electrical	3.7	3.7	13.0	3.9
Other	3.3	0.9	7.8	1.8
Consolidated	$ 12.8	$ 12.1	$ 33.7	$ 12.6

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Notes to condensed consolidated financial statements (unaudited)

Activity related to accrued severance and related costs recorded in Other current liabilities in the Condensed Consolidated Balance Sheets is summarized as follows for the six months ended June 30, 2017:

In millions	June 30, 2017
Beginning balance	$ 25.4
Costs incurred	33.4
Cash payments and other	(23.1)
Ending balance	$ 35.7

5. Earnings Per Share

Basic and diluted earnings per share were calculated as follows:

	Three months ended		Six months ended	
In millions, except per-share data	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	$ 263.7	$ 142.8	$ 351.5	$ 250.2
Net income from continuing operations	$ 68.3	$ 132.7	$ 149.0	$ 224.5
Weighted average ordinary shares outstanding				
Basic	181.7	180.9	181.9	180.8
Dilutive impact of stock options, restricted stock units and performance share units	2.1	2.1	2.0	2.0
Diluted	183.8	183.0	183.9	182.8
Earnings per ordinary share				
Basic				
Continuing operations	$ 0.37	$ 0.73	$ 0.82	$ 1.24
Discontinued operations	1.08	0.06	1.11	0.14
Basic earnings per ordinary share	$ 1.45	$ 0.79	$ 1.93	$ 1.38
Diluted				
Continuing operations	$ 0.37	$ 0.73	$ 0.81	$ 1.23
Discontinued operations	1.06	0.05	1.10	0.14
Diluted earnings per ordinary share	$ 1.43	$ 0.78	$ 1.91	$ 1.37
Anti-dilutive stock options excluded from the calculation of diluted earnings per share	1.7	1.2	1.9	2.0

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6. Supplemental Balance Sheet Information

In millions	June 30, 2017	December 31, 2016
Inventories		
Raw materials and supplies	$ 240.0	$ 223.5
Work-in-process	76.9	67.3
Finished goods	248.5	233.4
Total inventories	$ 565.4	$ 524.2
Other current assets		
Cost in excess of billings	$ 113.6	$ 107.7
Prepaid expenses	93.6	68.7
Prepaid income taxes	31.9	67.2
Other current assets	8.0	9.8
Total other current assets	$ 247.1	$ 253.4
Property, plant and equipment, net		
Land and land improvements	$ 69.6	$ 66.2
Buildings and leasehold improvements	348.1	335.0
Machinery and equipment	984.2	932.5
Construction in progress	44.3	68.6
Total property, plant and equipment	1,446.2	1,402.3
Accumulated depreciation and amortization	895.3	863.7
Total property, plant and equipment, net	$ 550.9	$ 538.6
Other non-current assets		
Deferred income taxes	$ 37.3	$ 39.0
Prepaid income taxes	252.2	—
Deferred compensation plan assets	46.3	47.9
Other non-current assets	89.1	95.2
Total other non-current assets	$ 424.9	$ 182.1
Other current liabilities		
Dividends payable	$ 62.6	$ 61.8
Accrued warranty	41.0	38.9
Accrued rebates	88.2	78.2
Billings in excess of cost	35.3	22.5
Income taxes payable	—	87.3
Accrued restructuring	35.7	25.4
Other current liabilities	233.7	197.4
Total other current liabilities	$ 496.5	$ 511.5
Other non-current liabilities		
Income taxes payable	$ 35.2	$ 36.1
Self-insurance liabilities	49.8	49.8
Deferred compensation plan liabilities	46.3	47.9
Other non-current liabilities	72.1	28.2
Total other non-current liabilities	$ 203.4	$ 162.0

Pentair plc and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

7. Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill by segment were as follows:

In millions	December 31, 2016	Acquisitions/divestitures	Foreign currency translation/other	June 30, 2017
Water	$ 1,994.6	$ 27.7	$ 58.2	$2,080.5
Electrical	2,222.8	5.3	5.6	2,233.7
Total goodwill	$ 4,217.4	$ 33.0	$ 63.8	$4,314.2

Identifiable intangible assets consisted of the following:

In millions	June 30, 2017 Cost	Accumulated amortization	Net	December 31, 2016 Cost	Accumulated amortization	Net
Finite-life intangibles						
Customer relationships	$1,507.6	$ (392.2)	$1,115.4	$1,478.0	$ (346.7)	$1,131.3
Trade names	1.9	(1.5)	0.4	1.8	(1.4)	0.4
Proprietary technology and patents	142.8	(100.0)	42.8	141.3	(100.3)	41.0
Total finite-life intangibles	1,652.3	(493.7)	1,158.6	1,621.1	(448.4)	1,172.7
Indefinite-life intangibles						
Trade names	465.7	—	465.7	459.1	—	459.1
Total intangibles, net	$2,118.0	$ (493.7)	$1,624.3	$2,080.2	$ (448.4)	$1,631.8

Intangible asset amortization expense was $24.6 million and $24.3 million for the three months ended June 30, 2017 and 2016, respectively, and $48.6 million and $48.5 million for the six months ended June 30, 2017 and 2016, respectively.

Estimated future amortization expense for identifiable intangible assets during the remainder of 2017 and the next five years is as follows:

In millions	Q3-Q4 2017	2018	2019	2020	2021	2022
Estimated amortization expense	$ 48.7	$95.4	$88.5	$83.4	$77.1	$70.0

During the first six months of 2017, we completed acquisitions with purchase prices totaling $59.5 million in cash, net of cash acquired. Identifiable intangible assets acquired included $19.1 million of definite-lived customer relationships with an estimated useful life of 11 years. The pro-forma impact of these acquisitions was not material

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8. Debt
Debt and the average interest rates on debt outstanding were as follows:

In millions	Average interest rate at June 30, 2017	Maturity Year	June 30, 2017	December 31, 2016
Commercial paper	—	2019	$—	$ 398.7
Revolving credit facilities	—	2019	—	576.8
Senior notes - fixed rate [1]	1.875%	2017	350.0	350.0
Senior notes - fixed rate [1]	2.900%	2018	255.3	500.0
Senior notes - fixed rate [1]	2.650%	2019	250.0	250.0
Senior notes - fixed rate - Euro [1]	2.450%	2019	567.0	520.7
Senior notes - fixed rate [1]	3.625%	2020	74.0	400.0
Senior notes - fixed rate [1]	5.000%	2021	103.8	500.0
Senior notes - fixed rate [1]	3.150%	2022	88.3	550.0
Senior notes - fixed rate [1]	4.650%	2025	19.3	250.0
Other	N/A	N/A	0.3	0.8
Unamortized debt issuance costs and discounts	N/A	N/A	(8.8)	(17.8)
Total debt			1,699.2	4,279.2
Less: Current maturities and short-term borrowings			(0.3)	(0.8)
Long-term debt			$1,698.9	$ 4,278.4

(1) Senior notes are guaranteed as to payment by Pentair plc and PISG

In October 2014, Pentair plc, Pentair Investments Switzerland GmbH ("PISG"), Pentair Finance S.à r.l. ("PFSA") and Pentair, Inc. entered into an amended and restated credit agreement (the "Credit Facility"), with Pentair plc and PISG as guarantors and PFSA and Pentair, Inc. as borrowers. The Credit Facility had a maximum aggregate availability of $2,100.0 million and a maturity date of October 3, 2019. Borrowings under the Credit Facility generally bear interest at a variable rate equal to the London Interbank Offered Rate ("LIBOR") plus a specified margin based upon PFSA's credit ratings. PFSA must pay a facility fee ranging from 9.0 to 25.0 basis points per annum (based upon PFSA's credit ratings) on the amount of each lender's commitment and letter of credit fee for each letter of credit issued and outstanding under the Credit Facility.

In August 2015, Pentair plc, PISG and PFSA entered into a First Amendment to the Credit Facility (the "First Amendment"), which, among other things, increased the Leverage Ratio (as defined below). In September 2015, Pentair plc, PISG and PFSA entered into a Second Amendment to the Credit Facility (the "Second Amendment"), which, among other things, increased the maximum aggregate availability to $2,500.0 million. Additionally, in September 2016, Pentair plc, PISG and PFSA entered into a Third Amendment to the Credit Facility (the "Third Amendment," and collectively with the First Amendment and the Second Amendment, the "Amendments"), which, among other things, increased the Leverage Ratio to the amounts specified below, and amended the definition of EBITDA to include earnings from discontinued operations for operations subject to a sale agreement until such disposition actually occurs.

In May 2017, we repurchased aggregate principal of certain series of outstanding notes totaling $1,659.3 million. All costs associated with the repurchases were recorded as Loss on early extinguishment of debt, including $6.5 million of unamortized deferred financing costs.

PFSA is authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. PFSA uses the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. PFSA had no commercial paper outstanding as of June 30, 2017 and $398.7 million as of December 31, 2016, all of which was classified as long-term debt as we have the intent and the ability to refinance such obligations on a long-term basis under the Credit Facility.

Our debt agreements contain certain financial covenants, the most restrictive of which are in the Credit Facility (as updated for the Amendments), including that we may not permit (i) the ratio of our consolidated debt plus synthetic lease obligations to our consolidated net income (excluding, among other things, non-cash gains and losses) before interest, taxes, depreciation, amortization, non-cash share-based compensation expense, and up to a lifetime maximum $25.0 million of costs, fees and expenses incurred in connection with certain acquisitions, investments, dispositions and the issuance, repayment or refinancing of debt, ("EBITDA") for the four consecutive fiscal quarters then ended (the "Leverage Ratio") to exceed (a) 4.00 to 1.00 as of the last day of the period of four consecutive fiscal quarters ending on June 30, 2017; and (b) 3.50 to 1.00 as of the last day of any period of four consecutive fiscal quarters ending thereafter, and (ii) the ratio of our EBITDA for the four consecutive fiscal quarters then ended to our consolidated interest expense, including consolidated yield or discount accrued as to outstanding securitization obligations (if any), for the same period to be less than 3.00 to 1.00 as of the end of each fiscal quarter. For purposes of the Leverage Ratio, the Credit Facility provides for the calculation of EBITDA giving pro forma effect to certain acquisitions, divestitures and liquidations during the period to which such calculation relates. As of June 30, 2017, we were in compliance with all financial covenants in our debt agreements.

Total availability under the Credit Facility was $2,500.0 million as of June 30, 2017, which was limited to $2,070.4 million by the maximum Leverage Ratio in the Credit Facility's credit agreement.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of $35.1 million, of which there were no outstanding borrowings at June 30, 2017. Borrowings under these credit facilities bear interest at variable rates.

We have $350.0 million of fixed rate senior notes maturing in September 2017. We classified this debt as long-term as of June 30, 2017 as we have the intent and ability to refinance such obligation on a long-term basis under the Credit Facility.

Debt outstanding, excluding unamortized issuance costs and discounts, at June 30, 2017 matures on a calendar year basis as follows:

In millions	Q3-Q4 2017	2018	2019	2020	2021	2022	Thereafter	Total
Contractual debt obligation maturities	$ 0.3	$255.3	$1,167.0	$74.0	$103.8	$88.3	$ 19.3	$1,708.0

9. Derivatives and Financial Instruments

Derivative financial instruments

We are exposed to market risk related to changes in foreign currency exchange rates. To manage the volatility related to this exposure, we periodically enter into a variety of derivative financial instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates. The derivative contracts contain credit risk to the extent that our bank counterparties may be unable to meet the terms of the agreements. The amount of such credit risk is generally limited to the unrealized gains, if any, in such contracts. Such risk is minimized by limiting those counterparties to major financial institutions of high credit quality.

Foreign currency contracts

We conduct business in various locations throughout the world and are subject to market risk due to changes in the value of foreign currencies in relation to our reporting currency, the U.S. dollar. We manage our economic and transaction exposure to certain market-based risks through the use of foreign currency derivative financial instruments. Our objective in holding these derivatives is to reduce the volatility of net earnings and cash flows associated with changes in foreign currency exchange rates. The majority of our foreign currency contracts have an original maturity date of less than one year.

At June 30, 2017 and December 31, 2016, we had outstanding foreign currency derivative contracts with gross notional U.S. dollar equivalent amounts of $377.9 million and $475.6 million, respectively. The impact of these contracts on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) is not material for any period presented.

Gains or losses on foreign currency contracts designated as hedges are reclassified out of Accumulated Other Comprehensive Loss ("AOCI") and into Selling, general and administrative expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) upon settlement. Such reclassifications during the three and six months ended June 30, 2017 and 2016 were not material.

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Net investment hedge
We have net investments in foreign subsidiaries that are subject to changes in the foreign currency exchange rate. In September 2015, we designated the €500 million 2.45% Senior Notes due 2019 (the "2019 Euro Notes") as a net investment hedge for a portion of our net investment in our Euro denominated subsidiaries. The gains/losses on the 2019 Euro Notes have been included as a component of the cumulative translation adjustment account within AOCI. As of June 30, 2017 and December 31, 2016, we had a deferred foreign currency loss of $2.2 million and a gain of $44.2 million, respectively, in AOCI associated with the net investment hedge activity.
Fair value measurements
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

Level 1:	Valuation is based on observable inputs such as quoted market prices (unadjusted) for identical assets or liabilities in active markets.
Level 2:	Valuation is based on inputs such as quoted market prices for similar assets or liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3:	Valuation is based upon other unobservable inputs that are significant to the fair value measurement.

In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.
Fair value of financial instruments
The following methods were used to estimate the fair values of each class of financial instruments:

- short-term financial instruments (cash and cash equivalents, accounts and notes receivable, accounts and notes payable and variable-rate debt) — recorded amount approximates fair value because of the short maturity period;
- long-term fixed-rate debt, including current maturities — fair value is based on market quotes available for issuance of debt with similar terms, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance; and
- foreign currency contract agreements — fair values are determined through the use of models that consider various assumptions, including time value, yield curves, as well as other relevant economic measures, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance.

The recorded amounts and estimated fair values of total debt, excluding unamortized issuance costs and discounts, were as follows:

In millions	June 30, 2017		December 31, 2016	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Variable rate debt	$0.3	$0.3	$976.3	$976.3
Fixed rate debt	1,707.7	1,735.0	3,320.7	3,427.1
Total debt	$1,708.0	$1,735.3	$4,297.0	$4,403.4

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Financial assets and liabilities measured at fair value on a recurring and nonrecurring basis were as follows:

	June 30, 2017			
In millions	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Foreign currency contract liabilities	$—	$(29.1)	$—	$(29.1)
Deferred compensation plan assets (1)	40.5	5.8	—	46.3
Total recurring fair value measurements	$40.5	$(23.3)	$—	$17.2

	December 31, 2016			
In millions	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Foreign currency contract assets	$—	$ 5.5	$—	$5.5
Foreign currency contract liabilities	—	(5.4)	—	(5.4)
Deferred compensation plan assets (1)	41.6	6.3	—	47.9
Total recurring fair value measurements	$41.6	$ 6.4	$—	$48.0
Nonrecurring fair value measurements (2)				

(1) Deferred compensation plan assets include mutual funds, common/collective trusts and cash equivalents for payment of certain non-qualified benefits for retired, terminated and active employees. The fair value of mutual funds and cash equivalents were based on quoted market prices in active markets. The underlying investments in the common/collective trusts primarily include intermediate and long-term debt securities, corporate debt securities, equity securities and fixed income securities. The overall fair value of the common/collective trusts are based on observable inputs.

(2) During the fourth quarter of 2016, we completed our annual intangible assets impairment review. As a result, we recorded a pre-tax non-cash impairment charge of $13.3 million for a trade name intangible in 2016. The impairment charge reduced the carrying value of the impacted trade name intangible to $0. The fair value of trade names is measured using the relief-from-royalty method. This method assumes the trade name has value to the extent that the owner is relieved of the obligation to pay royalties for the benefits received from them. This method requires us to estimate the future revenue for the related brands, the appropriate royalty rate and the weighted average cost of capital.

10. Income Taxes

We manage our affairs so that we are centrally managed and controlled in the U.K. and therefore have our tax residency in the U.K. The provision for income taxes consists of provisions for U.K. and international income taxes. We operate in an international environment with operations in various locations outside the U.K. Accordingly, the consolidated income tax rate is a composite rate reflecting the earnings in the various locations and the applicable rates.

The effective income tax rate for the six months ended June 30, 2017 was 21.6%, compared to 21.5% for 2016. We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

The liability for uncertain tax positions was $37.8 million and $71.1 million at June 30, 2017 and December 31, 2016, respectively. The $33.3 million reduction in uncertain tax positions between December 31, 2016 and June 30, 2017 is primarily due to the settlement of tax controversies with the Internal Revenue Service and the payment of resulting tax liabilities. We record penalties and interest related to unrecognized tax benefits in Provision for income taxes and Net interest expense, respectively, on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), which is consistent with our past practices.

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11. Benefit Plans

Components of net periodic benefit cost for our pension plans for the three and six months ended June 30, 2017 and 2016 were as follows:

	U.S. pension plans			
	Three months ended		Six months ended	
In millions	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Service cost	$2.6	$ 2.8	$5.2	$ 5.6
Interest cost	4.1	4.1	8.2	8.2
Expected return on plan assets	(2.9)	(2.9)	(5.8)	(5.8)
Net periodic benefit cost	$3.8	$ 4.0	$7.6	$ 8.0

	Non-U.S. pension plans		Non-U.S. pension plans	
	Three months ended		Six months ended	
In millions	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Service cost	$ 1.8	$ 2.1	$3.6	$ 4.2
Interest cost	0.9	1.1	1.8	2.2
Expected return on plan assets	(0.3)	(0.4)	(0.6)	(0.8)
Net periodic benefit cost	$ 2.4	$ 2.8	$4.8	$ 5.6

Components of net periodic benefit cost for our other post-retirement plans for the three and six months ended June 30, 2017 and 2016 were not material.

12. Shareholders' Equity

Share repurchases

In December 2014, the Board of Directors authorized the repurchase of our ordinary shares up to a maximum dollar limit of $1.0 billion. The authorization expires on December 31, 2019. During the six months ended June 30, 2017, we repurchased 1.5 million of our shares for $100.0 million pursuant to this authorization. As of June 30, 2017, we had $700.0 million available for share repurchases under this authorization.

Dividends payable

On December 6, 2016, the Board of Directors approved a plan to increase the 2017 annual cash dividend to $1.38, which is intended to be paid in four equal quarterly installments. Additionally, on May 9, 2017 the Board of Directors declared a quarterly cash dividend of $0.345 payable on August 4, 2017 to shareholders of record at the close of business on July 21, 2017. As a result, the balance of dividends payable included in Other current liabilities on our Consolidated Balance Sheets was $62.6 million and $61.8 million at June 30, 2017 and December 31, 2016, respectively.

13. Segment Information

During the first quarter of 2017, we reorganized our business segments to reflect a new operating structure, resulting in a change to our reporting segments in 2017. The prior period information was recast to be comparable to the current year presentation.

We evaluate performance based on net sales and segment income (loss) and use a variety of ratios to measure performance of our reporting segments. These results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented. Segment income (loss) represents equity income of unconsolidated subsidiaries and operating income exclusive of intangible amortization, certain acquisition related expenses, costs of restructuring activities, "mark-to-market" gain/loss for pension and other post-retirement plans, impairments and other unusual non-operating items.

Financial information by reportable segment is as follows:

In millions	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net sales				
Water	$753.7	$761.7	$1,436.6	$1,427.4
Electrical	513.2	540.6	1,015.4	1,065.2
Other	(1.6)	(1.1)	(3.2)	(1.4)
Consolidated	$1,265.3	$1,301.2	$2,448.8	$2,491.2
Segment income (loss)				
Water	$161.0	$153.6	$277.0	$254.8
Electrical	112.8	111.6	216.3	224.4
Other	(18.6)	(24.2)	(54.6)	(60.3)
Consolidated	$255.2	$241.0	$438.7	$418.9

The following table presents a reconciliation of consolidated segment income to consolidated income from continuing operations before income taxes:

In millions	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Segment income	$255.2	$241.0	$438.7	$418.9
Restructuring and other	(17.4)	(12.2)	(38.3)	(12.8)
Intangible amortization	(24.6)	(24.3)	(48.6)	(48.5)
Loss of early extinguishment of debt	(101.4)	—	(101.4)	—
Net interest expense	(25.3)	(35.4)	(60.3)	(71.6)
Income from continuing operations before income taxes	$86.5	$169.1	$190.1	$286.0

14. Commitments and Contingencies

Warranties and guarantees

In connection with the disposition of our businesses or product lines, we may agree to indemnify purchasers for various potential liabilities relating to the sold business, such as pre-closing tax, product liability, warranty, environmental, or other obligations. The subject matter, amounts and duration of any such indemnification obligations vary for each type of liability indemnified and may vary widely from transaction to transaction. Generally, the maximum obligation under such indemnifications is not explicitly stated and as a result, the overall amount of these obligations cannot be reasonably estimated. Historically, we have not made significant payments for these indemnifications. We believe that if we were to incur a loss in any of these matters, the loss would not have a material effect on our financial condition or results of operations.

We recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. In connection with the disposition of the Valves & Controls business, we agreed to indemnify Emerson Electric Co. for certain pre-closing tax liabilities. During the second quarter of 2017, we recorded a liability representing the fair value of our expected future obligation for this matter.

We provide service and warranty policies on our products. Liability under service and warranty policies is based upon a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience warrant.

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The changes in the carrying amount of service and product warranties of continuing operations for the six months ended June 30, 2017 were as follows:

In millions	June 30, 2017
Beginning balance	$ 38.9
Service and product warranty provision	28.3
Payments	(28.3)
Acquisitions	1.6
Foreign currency translation	0.5
Ending balance	$ 41.0

Stand-by letters of credit, bank guarantees and bonds

In certain situations, Tyco International Ltd., Pentair Ltd.'s former parent company ("Tyco"), guaranteed performance by the flow control business of Pentair Ltd. ("Flow Control") to third parties or provided financial guarantees for financial commitments of Pentair Ltd. In situations where Flow Control and Tyco were unable to obtain a release from these guarantees in connection with the spin-off of Pentair Ltd., we will indemnify Tyco for any losses it suffers as a result of such guarantees.

In disposing of assets or businesses, we often provide representations, warranties and indemnities to cover various risks including unknown damage to the assets, environmental risks involved in the sale of real estate, liability to investigate and remediate environmental contamination at waste disposal sites and manufacturing facilities and unidentified tax liabilities and legal fees related to periods prior to disposition. We do not have the ability to reasonably estimate the potential liability due to the inchoate and unknown nature of these potential liabilities. However, we have no reason to believe that these uncertainties would have a material adverse effect on our financial position, results of operations or cash flows.

In the ordinary course of business, we are required to commit to bonds, letters of credit and bank guarantees that require payments to our customers for any non-performance. The outstanding face value of these instruments fluctuates with the value of our projects in process and in our backlog. In addition, we issue financial stand-by letters of credit primarily to secure our performance to third parties under self-insurance programs.

As of June 30, 2017 and December 31, 2016, the outstanding value of bonds, letters of credit and bank guarantees totaled $210.4 million and $331.0 million, respectively.

15. Supplemental Guarantor Information

Pentair plc (the "Parent Company Guarantor") and PISG (the "Subsidiary Guarantor"), fully and unconditionally, guarantee the Notes of PFSA (the "Subsidiary Issuer"). The Subsidiary Guarantor is a Switzerland limited liability company and 100 percent-owned subsidiary of the Parent Company Guarantor. The Subsidiary Issuer is a Luxembourg private limited liability company and 100 percent-owned subsidiary of the Subsidiary Guarantor. The guarantees provided by the Parent Company Guarantor and Subsidiary Guarantor are joint and several.

The following supplemental financial information sets forth the Company’s Condensed Consolidating Statement of Operations and Comprehensive Income (Loss), Condensed Consolidating Balance Sheets and Condensed Consolidating Statement of Cash Flows by relevant group within the Company: Pentair plc and PISG as the guarantors, PFSA as issuer of the debt and all other non-guarantor subsidiaries. Condensed consolidating financial information for Pentair plc, PISG and PFSA on a stand-alone basis is presented using the equity method of accounting for subsidiaries.

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
Three months ended June 30, 2017

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ —	$ —	$ —	$ 1,265.3	$ —	$ 1,265.3
Cost of goods sold	—	—	—	782.1	—	782.1
Gross profit	—	—	—	483.2	—	483.2
Selling, general and administrative	4.3	0.1	0.1	237.2	—	241.7
Research and development	—	—	—	28.7	—	28.7
Operating income (loss)	(4.3)	(0.1)	(0.1)	217.3	—	212.8
Loss (earnings) from continuing operations of investment in subsidiaries	(72.6)	(72.7)	(210.9)	—	356.2	—
Other (income) expense:						
Equity income of unconsolidated subsidiaries	—	—	—	(0.4)	—	(0.4)
Loss on early extinguishment of debt	—	—	91.0	10.4	—	101.4
Net interest expense	—	—	21.9	3.4	—	25.3
Income (loss) from continuing operations before income taxes	68.3	72.6	97.9	203.9	(356.2)	86.5
Provision for income taxes	—	—	—	18.2	—	18.2
Net income (loss) from continuing operations	68.3	72.6	97.9	185.7	(356.2)	68.3
Loss from discontinued operations, net of tax	—	—	—	(5.2)	—	(5.2)
Gain from sale of discontinued operations, net of tax	—	—	—	200.6	—	200.6
Earnings (loss) from discontinued operations of investment in subsidiaries	195.4	195.4	195.4	—	(586.2)	—
Net income (loss)	$ 263.7	$ 268.0	$ 293.3	$ 381.1	$ (942.4)	$ 263.7
Comprehensive income (loss), net of tax						
Net income (loss)	$ 263.7	$ 268.0	$ 293.3	$ 381.1	$ (942.4)	$ 263.7
Changes in cumulative translation adjustment	392.6	392.6	392.6	392.6	(1,177.8)	392.6
Changes in market value of derivative financial instruments, net of tax	(0.9)	(0.9)	(0.9)	(0.9)	2.7	(0.9)
Comprehensive income (loss)	$ 655.4	$ 659.7	$ 685.0	$ 772.8	$ (2,117.5)	$ 655.4

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Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
Six months ended June 30, 2017

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ —	$ —	$ —	$ 2,448.8	$ —	$ 2,448.8
Cost of goods sold	—	—	—	1,543.3	—	1,543.3
Gross profit	—	—	—	905.5	—	905.5
Selling, general and administrative	(3.8)	0.2	0.4	498.8	—	495.6
Research and development	—	—	—	58.7	—	58.7
Operating income (loss)	3.8	(0.2)	(0.4)	348.0	—	351.2
Loss (earnings) from continuing operations of investment in subsidiaries	(145.2)	(145.4)	(312.3)	—	602.9	—
Other (income) expense:						
Equity income of unconsolidated subsidiaries	—	—	—	(0.6)	—	(0.6)
Loss on early extinguishment of debt	—	—	91.0	10.4	—	101.4
Net interest expense	—	—	50.3	10.0	—	60.3
Income (loss) from continuing operations before income taxes	149.0	145.2	170.6	328.2	(602.9)	190.1
Provision for income taxes	—	—	—	41.1	—	41.1
Net income (loss) from continuing operations	149.0	145.2	170.6	287.1	(602.9)	149.0
Loss from discontinued operations, net of tax	—	—	—	1.9	—	1.9
Gain from sale of discontinued operations, net of tax	—	—	—	200.6	—	200.6
Earnings (loss) from discontinued operations of investment in subsidiaries	202.5	202.5	202.5	—	(607.5)	—
Net income (loss)	$ 351.5	$ 347.7	$ 373.1	$ 489.6	$ (1,210.4)	$ 351.5
Comprehensive income (loss), net of tax						
Net income (loss)	$ 351.5	$ 347.7	$ 373.1	$ 489.6	$ (1,210.4)	$ 351.5
Changes in cumulative translation adjustment	468.3	468.3	468.3	468.3	(1,404.9)	468.3
Changes in market value of derivative financial instruments, net of tax	0.7	0.7	0.7	0.7	(2.1)	0.7
Comprehensive income (loss)	$ 820.5	$ 816.7	$ 842.1	$ 958.6	$ (2,617.4)	$ 820.5

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Pentair plc and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

Condensed Consolidating Balance Sheet
June 30, 2017

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Assets						
Current assets						
Cash and cash equivalents	$ 0.1	$ —	$ 51.0	$ 126.7	$ —	$ 177.8
Accounts and notes receivable, net	3.4	—	—	761.1	—	764.5
Inventories	—	—	—	565.4	—	565.4
Other current assets	2.3	1.9	—	239.9	3.0	247.1
Total current assets	5.8	1.9	51.0	1,693.1	3.0	1,754.8
Property, plant and equipment, net	—	—	—	550.9	—	550.9
Other assets						
Investments in subsidiaries	4,821.0	4,819.2	7,078.4	—	(16,718.6)	—
Goodwill	—	—	—	4,314.2	—	4,314.2
Intangibles, net	—	—	—	1,624.3	—	1,624.3
Other non-current assets	195.4	1.2	570.6	985.8	(1,328.1)	424.9
Total other assets	5,016.4	4,820.4	7,649.0	6,924.3	(18,046.7)	6,363.4
Total assets	$ 5,022.2	$ 4,822.3	$ 7,700.0	$ 9,168.3	$ (18,043.7)	$ 8,669.1
Liabilities and Equity						
Current liabilities						
Current maturities of long-term debt and short-term borrowings	$ —	$ —	$ —	$ 0.3	$ —	$ 0.3
Accounts payable	0.3	—	—	407.5	—	407.8
Employee compensation and benefits	0.1	—	—	143.7	—	143.8
Other current liabilities	83.4	1.3	21.4	387.4	3.0	496.5
Total current liabilities	83.8	1.3	21.4	938.9	3.0	1,048.4
Other liabilities						
Long-term debt	—	—	2,834.0	193.0	(1,328.1)	1,698.9
Pension and other post-retirement compensation and benefits	—	—	—	268.4	—	268.4
Deferred tax liabilities	—	—	—	546.5	—	546.5
Other non-current liabilities	34.9	—	—	168.5	—	203.4
Total liabilities	118.7	1.3	2,855.4	2,115.3	(1,325.1)	3,765.6
Equity	4,903.5	4,821.0	4,844.6	7,053.0	(16,718.6)	4,903.5
Total liabilities and equity	$ 5,022.2	$ 4,822.3	$ 7,700.0	$ 9,168.3	$ (18,043.7)	$ 8,669.1

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Pentair plc and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

Condensed Consolidating Statement of Cash Flows
Six months ended June 30, 2017

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Operating activities						
Net cash provided by (used for) operating activities	$ 165.8	$ 347.1	$ 378.1	$ 474.7	$ (1,210.4)	$ 155.3
Investing activities						
Capital expenditures	—	—	—	(37.6)	—	(37.6)
Proceeds from sale of property and equipment	—	—	—	3.8	—	3.8
Proceeds from sale of businesses, net	—	—	2,765.6	—	—	2,765.6
Acquisitions, net of cash acquired	—	—	—	(59.5)	—	(59.5)
Net intercompany loan activity	—	—	170.1	256.2	(426.3)	—
Net cash provided by (used for) investing activities of continuing operations	—	—	2,935.7	162.9	(426.3)	2,672.3
Net cash provided by (used for) investing activities of discontinued operations	—	—	—	(6.5)	—	(6.5)
Net cash provided by (used for) investing activities	—	—	2,935.7	156.4	(426.3)	2,665.8
Financing activities						
Net repayments of short-term borrowings	—	—	—	(0.5)	—	(0.5)
Net repayments of commercial paper and revolving long-term debt	—	—	(298.7)	(676.8)	—	(975.5)
Repayments of long-term debt	—	—	(1,567.8)	(91.5)	—	(1,659.3)
Premium paid on early extinguishment of debt	—	—	(86.0)	(8.9)	—	(94.9)
Net change in advances to subsidiaries	(5.7)	(347.1)	(1,356.7)	72.8	1,636.7	—
Shares issued to employees, net of shares withheld	2.8	—	—	26.7	—	29.5
Repurchases of ordinary shares	(100.0)	—	—	—	—	(100.0)
Dividends paid	(62.8)	—	—	(63.3)	—	(126.1)
Net cash provided by (used for) financing activities	(165.7)	(347.1)	(3,309.2)	(741.5)	1,636.7	(2,926.8)
Effect of exchange rate changes on cash and cash equivalents	—	—	46.4	(1.4)	—	45.0
Change in cash and cash equivalents	0.1	—	51.0	(111.8)	—	(60.7)
Cash and cash equivalents, beginning of period	—	—	—	238.5	—	238.5
Cash and cash equivalents, end of period	$ 0.1	$ —	$ 51.0	$ 126.7	$ —	$ 177.8

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Pentair plc and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
Three months ended June 30, 2016

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ —	$ —	$ —	$ 1,301.2	$ —	$ 1,301.2
Cost of goods sold	—	—	—	819.4	—	819.4
Gross profit	—	—	—	481.8	—	481.8
Selling, general and administrative	—	—	—	249.7	—	249.7
Research and development	—	—	—	28.7	—	28.7
Operating income				203.4	—	203.4
Loss (earnings) from continuing operations of investment in subsidiaries	(132.6)	(132.6)	(161.4)	—	426.6	—
Other (income) expense:						
Equity income of unconsolidated subsidiaries	—	—	—	(1.1)	—	(1.1)
Net interest expense	—	—	28.8	6.6	—	35.4
Income (loss) from continuing operations before income taxes	132.6	132.6	132.6	197.9	(426.6)	169.1
Provision (benefit) for income taxes	(0.1)	—	—	36.5	—	36.4
Net income (loss) from continuing operations	132.7	132.6	132.6	161.4	(426.6)	132.7
Income from discontinued operations, net of tax	—	—	—	10.1	—	10.1
Earnings (loss) from discontinued operations of investment in subsidiaries	10.1	10.1	10.1	—	(30.3)	—
Net income (loss)	$ 142.8	$ 142.7	$ 142.7	$ 171.5	$ (456.9)	$ 142.8
Comprehensive income (loss), net of tax						
Net income (loss)	$ 142.8	$ 142.7	$ 142.7	$ 171.5	$ (456.9)	$ 142.8
Changes in cumulative translation adjustment	(25.8)	(25.8)	(25.8)	(25.8)	77.4	(25.8)
Changes in market value of derivative financial instruments, net of tax	10.9	10.9	10.9	10.9	(32.7)	10.9
Comprehensive income (loss)	$ 127.9	$ 127.8	$ 127.8	$ 156.6	$ (412.2)	$ 127.9

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Pentair plc and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
Six months ended June 30, 2016

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ —	$ —	$ —	$ 2,491.2	$ —	$ 2,491.2
Cost of goods sold	—	—	—	1,578.1	—	1,578.1
Gross profit	—	—	—	913.1	—	913.1
Selling, general and administrative	7.1	—	0.9	491.8	—	499.8
Research and development	—	—	—	57.2	—	57.2
Operating income (loss)	(7.1)	—	(0.9)	364.1	—	356.1
Loss (earnings) from continuing operations of investment in subsidiaries	(231.5)	(231.5)	(288.6)	—	751.6	—
Other (income) expense:						
Equity income of unconsolidated subsidiaries	—	—	—	(1.5)	—	(1.5)
Net interest expense	—	—	56.2	15.4	—	71.6
Income (loss) from continuing operations before income taxes	224.4	231.5	231.5	350.2	(751.6)	286.0
Provision (benefit) for income taxes	(0.1)	—	—	61.6	—	61.5
Net income (loss) from continuing operations	224.5	231.5	231.5	288.6	(751.6)	224.5
Income from discontinued operations, net of tax	—	—	—	25.7	—	25.7
Earnings (loss) from discontinued operations of investment in subsidiaries	25.7	25.7	25.7	—	(77.1)	—
Net income (loss)	$ 250.2	$ 257.2	$ 257.2	$ 314.3	$ (828.7)	$ 250.2
Comprehensive income (loss), net of tax						
Net income (loss)	$ 250.2	$ 257.2	$ 257.2	$ 314.3	$ (828.7)	$ 250.2
Changes in cumulative translation adjustment	2.2	2.2	2.2	2.2	(6.6)	2.2
Changes in market value of derivative financial instruments, net of tax	(3.8)	(3.8)	(3.8)	(3.8)	11.4	(3.8)
Comprehensive income (loss)	$ 248.6	$ 255.6	$ 255.6	$ 312.7	$ (823.9)	$ 248.6

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Pentair plc and Subsidiaries
Notes to condensed consolidated financial statements (unaudited)

Condensed Consolidating Balance Sheet
December 31, 2016

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Assets						
Current assets						
Cash and cash equivalents	$—	$—	$—	$ 238.5	$—	$ 238.5
Accounts and notes receivable, net	0.1	—	—	763.9	—	764.0
Inventories	—	—	—	524.2	—	524.2
Other current assets	1.2	4.1	1.1	237.8	9.2	253.4
Current assets held for sale	—	—	—	891.9	—	891.9
Total current assets	1.3	4.1	1.1	2,656.3	9.2	2,672.0
Property, plant and equipment, net	—	—	—	538.6	—	538.6
Other assets						
Investments in subsidiaries	4,509.5	4,471.4	9,295.5	—	(18,276.4)	—
Goodwill	—	—	—	4,217.4	—	4,217.4
Intangibles, net	—	—	—	1,631.8	—	1,631.8
Other non-current assets	2.2	35.2	717.8	1,568.9	(2,142.0)	182.1
Non-current assets held for sale	—	—	—	2,292.9	—	2,292.9
Total other assets	4,511.7	4,506.6	10,013.3	9,711.0	(20,418.4)	8,324.2
Total assets	$ 4,513.0	$ 4,510.7	$ 10,014.4	$ 12,905.9	$ (20,409.2)	$ 11,534.8
Liabilities and Equity						
Current liabilities						
Current maturities of long-term debt and short-term borrowings	$—	$—	$—	$ 0.8	$—	$ 0.8
Accounts payable	0.7	—	0.1	435.8	—	436.6
Employee compensation and benefits	0.8	—	—	165.3	—	166.1
Other current liabilities	95.2	1.2	26.7	379.2	9.2	511.5
Current liabilities held for sale	—	—	—	356.2	—	356.2
Total current liabilities	96.7	1.2	26.8	1,337.3	9.2	1,471.2
Other liabilities						
Long-term debt	148.1	—	5,515.9	756.4	(2,142.0)	4,278.4
Pension and other post-retirement compensation and benefits	—	—	—	253.4	—	253.4
Deferred tax liabilities	—	—	—	609.5	—	609.5
Other non-current liabilities	13.8	—	—	148.2	—	162.0
Non-current liabilities held for sale	—	—	—	505.9	—	505.9
Total liabilities	258.6	1.2	5,542.7	3,610.7	(2,132.8)	7,280.4
Equity	4,254.4	4,509.5	4,471.7	9,295.2	(18,276.4)	4,254.4
Total liabilities and equity	$ 4,513.0	$ 4,510.7	$ 10,014.4	$ 12,905.9	$ (20,409.2)	$ 11,534.8

Condensed Consolidating Statement of Cash Flows
Six months ended June 30, 2016

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Operating activities						
Net cash provided by (used for) operating activities	$ 269.2	$ 241.3	$ 268.6	$ 419.2	$ (828.8)	$ 369.5
Investing activities						
Capital expenditures	—	—	—	(64.0)	—	(64.0)
Proceeds from sale of property and equipment	—	—	—	7.6	—	7.6
Net intercompany loan activity	—	—	431.2	(65.4)	(365.8)	—
Other	—	—	—	(3.7)	—	(3.7)
Net cash provided by (used for) investing activities of continuing operations	—	—	431.2	(125.5)	(365.8)	(60.1)
Net cash provided by (used for) investing activities of discontinued operations	—	—	—	(8.0)	—	(8.0)
Net cash provided by (used for) investing activities	—	—	431.2	(133.5)	(365.8)	(68.1)
Financing activities						
Net repayments of commercial paper and revolving long-term debt	—	—	(123.1)	(16.7)	—	(139.8)
Repayments of long-term debt	—	—	—	(0.7)	—	(0.7)
Net change in advances to subsidiaries	(157.8)	(241.3)	(579.5)	(215.9)	1,194.5	—
Excess tax benefits from share-based compensation	—	—	—	3.2	—	3.2
Shares issued to employees, net of shares withheld	8.3	—	—	—	—	8.3
Dividends paid	(119.7)	—	—	—	—	(119.7)
Net cash provided by (used for) financing activities	(269.2)	(241.3)	(702.6)	(230.1)	1,194.5	(248.7)
Effect of exchange rate changes on cash and cash equivalents	—	—	2.8	(8.5)	—	(5.7)
Change in cash and cash equivalents	—	—	—	47.1	(0.1)	47.0
Cash and cash equivalents, beginning of period	—	—	0.1	126.2	—	126.3
Cash and cash equivalents, end of period	$ —	$ —	$ 0.1	$ 173.3	$ (0.1)	$ 173.3

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

This report contains statements that we believe to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact are forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets," "plans," "believes," "expects," "intends," "will," "likely," "may," "anticipates," "estimates," "projects," "should," "would," "positioned," "strategy," "future" or words, phrases or terms of similar substance or the negative thereof, are forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond our control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include the ability to satisfy the necessary conditions to consummate the Proposed Separation on a timely basis or at all; the ability to successfully separate the Water and Electrical businesses and realize the anticipated benefits from the Proposed Separation; adverse effects on the Water and Electrical business operations or financial results and the market price of our shares as a result of the announcement or consummation of the Proposed Separation; unanticipated transaction expenses, such as litigation or legal settlement expenses; failure to obtain tax rulings or changes in tax laws; changes in capital market conditions; the impact of the Proposed Separation on our employees, customers and suppliers; overall global economic and business conditions impacting the Water and Electrical businesses; future opportunities that our board may determine present greater potential to increase shareholder value; the ability of the Water and Electrical businesses to operate independently following the Proposed Separation; the ability to achieve the benefits of our restructuring plans; the ability to successfully identify, finance, complete and integrate acquisitions; competition and pricing pressures in the markets we serve; the strength of housing and related markets; volatility in currency exchange rates and commodity prices; inability to generate savings from excellence in operations initiatives consisting of lean enterprise, supply management and cash flow practices; increased risks associated with operating foreign businesses; the ability to deliver backlog and win future project work; failure of markets to accept new product introductions and enhancements; the impact of changes in laws and regulations, including those that limit U.S. tax benefits; the outcome of litigation and governmental proceedings; and the ability to achieve our long-term strategic operating goals. Additional information concerning these and other factors is contained in our filings with the SEC, including this Quarterly Report on Form 10-Q. All forward-looking statements speak only as of the date of this report. Pentair plc assumes no obligation, and disclaims any obligation, to update the information contained in this report.

Overview

The terms "us," "we" "our" or "Pentair" refer to Pentair plc and its consolidated subsidiaries. We are a focused diversified industrial manufacturing company comprising two reporting segments: Water and Electrical. For the first six months of 2017, the Water segment and the Electrical segment represented approximately 59% and 41% of total revenues, respectively. We classify our operations into business segments based primarily on types of products offered and markets served:

- Water — The Water segment designs, manufactures and services innovative products and solutions to meet filtration, separation, flow and water management challenges in agriculture, aquaculture, foodservice, food and beverage processing, swimming pools, water supply and disposal and a variety of industrial applications.
- Electrical — The Electrical segment designs, manufactures and services products that protect some of the world's most sensitive equipment, as well as heat management solutions designed to provide thermal protection to temperature sensitive fluid applications and engineered electrical and fastening products for electrical, mechanical and civil applications.

On April 28, 2017, we completed the sale of our Valves & Controls business to Emerson Electric Co. ("Emerson") for $3.15 billion, subject to customary working capital adjustments. The sale resulted in a gain, net of tax, of $200.6 million. The results of the Valves & Controls business have been presented as discontinued operations and the related assets and liabilities have been reclassified as held for sale for all periods presented. The Valves & Controls business was previously disclosed as a stand-alone reporting segment.

On May 9, 2017, we announced that our Board of Directors approved a plan to separate our Water business and Electrical business into two independent, publicly-traded companies (the "Proposed Separation"). The Proposed Separation is expected to occur through a tax-free spin-off of the Electrical business to Pentair shareholders.

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Completion of the Proposed Separation is subject to certain customary conditions, including, among other things, final approval of the transaction by Pentair's Board of Directors, receipt of tax opinions and rulings and effectiveness of appropriate filings with the SEC. Upon completion of the Proposed Separation, it is anticipated that Electrical's jurisdiction of organization will be Ireland, but that it will manage its affairs so that it will be centrally managed and controlled in the United Kingdom (the "U.K.") and therefore will have its tax residency in the U.K.

We expect to complete the Proposed Separation in the second quarter of 2018; however, there can be no assurance regarding the ultimate timing of the Proposed Separation or that the Proposed Separation will be completed.

The disclosures within this Management's Discussion and Analysis of Financial Condition and Results of Operations do not reflect the Proposed Separation of the Electrical business.

Key Trends and Uncertainties Regarding Our Existing Business

The following trends and uncertainties affected our financial performance in 2016 and the first six months of 2017 and will likely impact our results in the future:

- Despite the favorable long-term outlook for our end-markets, we experience differing levels of volatility depending on the end-market and may continue to do so over the medium and longer term. During 2016 and the first six months of 2017, our core sales have been challenged by broad-based industrial capital expenditure and maintenance deferrals. Although we saw early signs of recovery in the first six months of 2017, we expect this challenge to continue throughout 2017.
- We continue to experience declines in project orders, particularly within the energy and infrastructure businesses. We expect headwinds in the energy and infrastructure businesses to continue throughout 2017.
- We continued execution of certain business restructuring initiatives aimed at reducing our fixed cost structure and realigning our business to offset the negative earnings impact of core revenue decline and foreign exchange. We expect these actions will contribute to margin growth in 2017.
- Our results were negatively impacted due to unfavorable foreign currency effects in 2016 and continuing in the first six months of 2017. We expect this trend to continue throughout 2017.
- We have identified specific product and geographic market opportunities that we find attractive and continue to pursue, both within and outside the United States. We are reinforcing our businesses to more effectively address these opportunities through research and development and additional sales and marketing resources. Unless we successfully penetrate these markets, our core sales growth will likely be limited or may decline.
- We have experienced material and other cost inflation. We strive for productivity improvements, and we implement increases in selling prices to help mitigate this inflation. We expect the current economic environment will result in continuing price volatility for many of our raw materials, and we are uncertain as to the timing and impact of these market changes.

In 2017, our operating objectives include the following:

- Reducing long-term debt and overall leverage through improved cash flow performance;
- Driving operating excellence through lean enterprise initiatives, with specific focus on sourcing and supply management, cash flow management and lean operations;
- Achieving differentiated revenue growth through new products and global and market expansion;
- Optimizing our technological capabilities to increasingly generate innovative new products; and
- Focusing on developing global talent in light of our global presence.

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CONSOLIDATED RESULTS OF OPERATIONS

The consolidated results of operations for the three months ended June 30, 2017 and 2016 were as follows:

In millions	Three months ended June 30, 2017	June 30, 2016	$ change	% / point change
Net sales	$1,265.3	$1,301.2	$(35.9)	(2.8)%
Cost of goods sold	782.1	819.4	(37.3)	(4.6)%
Gross profit	483.2	481.8	1.4	0.3 %
% of net sales	38.2 %	37.0 %		1.2 pts
Selling, general and administrative	241.7	249.7	(8.0)	(3.2)%
% of net sales	19.1 %	19.2 %		(0.1) pts
Research and development	28.7	28.7	—	—
% of net sales	2.3 %	2.2 %		0.1 pts
Operating income	212.8	203.4	9.4	4.6 %
% of net sales	16.8 %	15.6 %		1.2 pts
Loss on early extinguishment of debt	101.4	—	101.4	N.M.
Net interest expense	25.3	35.4	(10.1)	(28.5)%
Income from continuing operations before income taxes	86.5	169.1	(82.6)	(48.8)%
Provision for income taxes	18.2	36.4	(18.2)	(50.0)%
Effective tax rate	21.0 %	21.5 %		(0.5) pts

N.M. Not Meaningful

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The consolidated results of operations for the six months ended June 30, 2017 and June 30, 2016 were as follows:

In millions	Six months ended June 30, 2017	June 30, 2016	$ change	% / point change
Net sales	$2,448.8	$2,491.2	$(42.4)	(1.7)%
Cost of goods sold	1,543.3	1,578.1	(34.8)	(2.2)%
Gross profit	905.5	913.1	(7.6)	(0.8)%
% of net sales	37.0 %	36.7 %		0.3 pts
Selling, general and administrative	495.6	499.8	(4.2)	(0.8)%
% of net sales	20.2 %	20.1 %		0.1 pts
Research and development	58.7	57.2	1.5	2.6 %
% of net sales	2.4 %	2.3 %		0.1 pts
Operating income	351.2	356.1	(4.9)	(1.4)%
% of net sales	14.3 %	14.3 %		—%
Loss on early extinguishment of debt	101.4	—	101.4	N.M
Net interest expense	60.3	71.6	(11.3)	(15.8)%
Income from continuing operations before income taxes	190.1	286.0	(95.9)	(33.5)%
Provision for income taxes	41.1	61.5	(20.4)	(33.2)%
Effective tax rate	21.6 %	21.5 %		0.1 pts

N.M. Not Meaningful

Net sales

The components of the consolidated net sales change from the prior period were as follows:

	Three months ended June 30, 2017 over the prior year period	Six months ended June 30, 2017 over the prior year period
Volume	(3.6)%	(2.7)%
Price	0.5	0.8
Core growth	(3.1)	(1.9)
Acquisition	1.1	0.8
Currency	(0.8)	(0.6)
Total	(2.8)%	(1.7)%

The 2.8 and 1.7 percentage point decreases in net sales in the second quarter and first half, respectively, of 2017 from 2016 were primarily driven by:

- continued slowdown in capital spending, particularly in the energy and infrastructure businesses, driving lower project core sales volume;
- large job adjustments to net sales of $9.7 million in the first half of 2017; and

- unfavorable foreign currency effects for the three and six months ended June 30, 2017.

These decreases were partially offset by:

- core sales growth in our residential & commercial business, primarily as a result of increased volumes in the U.S.;
- selective increases in selling prices to mitigate inflationary cost increases; and

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- increased sales related to business acquisitions that occurred in the fourth quarter of 2016 and the first quarter of 2017.

Gross profit

The 1.2 and 0.3 percentage point increases in gross profit as a percentage of sales in the second quarter and first half, respectively, of 2017 from 2016 were primarily driven by:

- higher contribution margin as a result of savings generated from our Pentair Integrated Management System ("PIMS") initiatives including lean and supply management practices;
- selective increases in selling prices to mitigate inflationary cost increases; and
- favorable mix as a result of the decline in lower margin project sales in the second quarter and first half of 2017, compared to the second quarter and first half of 2016.

These increases were partially offset by:

- lower project core sales volumes in the Electrical segment, which resulted in decreased leverage on fixed expenses included in cost of goods sold; and
- large job adjustments negatively impacting gross profit by $16.4 million in the first half of 2017.

Selling, general and administrative ("SG&A")

The 0.1 percentage point decrease in SG&A expense as a percentage of sales in the second quarter of 2017 from 2016 was primarily driven by:

- cost control and savings generated from back-office consolidation, reduction in personnel and other lean initiatives.

The decrease was partially offset by:

- increased investment in sales and marketing to drive growth.

The 0.1 percentage point increase in SG&A expense as a percentage of sales in the first six months of 2017 from 2016 was primarily driven by:

- restructuring costs of $33.7 million in the first six months of 2017, compared to $12.6 million in the first six months of 2016; and
- increased investment in sales and marketing to drive growth.

The increase was partially offset by:

- benefit from the reversal of a $13.3 million indemnification liability in the first quarter of 2017 related to our 2012 transaction with Tyco (now known as Johnson Controls International plc); and
- cost control and savings generated from back-office consolidation, reduction in personnel and other lean initiatives.

Net interest expense

The 28.5 and 15.8 percent decreases in net interest expense in the second quarter and first half, respectively, of 2017 from 2016 were primarily driven by:

- the impact of lower debt levels during the second quarter and first half of 2017, compared to the second quarter and first half of 2016. In May 2017, the proceeds from the sale of the Valves & Controls business were utilized to repay all commercial paper and revolving long term debt and for the early extinguishment of $1,659.3 million of certain series of fixed rate debt.

These decreases were partially offset by:

- increased overall interest rates in effect on our outstanding debt during the second quarter and first half of 2017, compared to the second quarter and first half of 2016.

Loss on early extinguishment of debt

In May 2017, we repurchased aggregate principal of certain series of outstanding fixed rate debt totaling $1,659.3 million. All costs associated with the repurchases were recorded as Loss on early extinguishment of debt.

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Provision for income taxes

The 0.5 percentage point decrease in the effective tax rate in the second quarter of 2017 from 2016 was primarily driven by:

- mix of global earnings toward lower tax jurisdictions; and
- the income tax effects of vesting and exercise of share-based awards.

The decrease was partially offset by:

- the tax impact and timing of losses incurred during the second quarter of 2017, compared to the second quarter of 2016.

The 0.1 percentage point increase in the effective tax rate in the first six months of 2017 from 2016 was primarily driven by:

- non-recurring benefits related to resolution of tax disputes and expiration of statutes of limitations during the first half of 2016 that did not recur in the first half of 2017; and
- the tax impact and timing of losses incurred during the first half of 2017, compared to the first half of 2016.

The increase was partially offset by:

- mix of global earnings toward lower tax jurisdictions; and
- the income tax effects of vesting and exercise of share-based awards.

SEGMENT RESULTS OF OPERATIONS

The summary that follows provides a discussion of the results of operations of each of our two reportable segments (Water and Electrical). Each of these segments is comprised of various product offerings that serve multiple end users.

We evaluate the performance of our two reportable segments based on net sales and segment income and use a variety of ratios to measure performance. Segment income represents equity income of unconsolidated subsidiaries and operating income exclusive of intangible amortization, certain acquisition related expenses, costs of restructuring activities, "mark-to-market" gain/loss for pension and other post-retirement plans, impairments and other unusual non-operating items.

Water

The net sales and segment income for the Water segment for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three months ended			Six months ended		
In millions	June 30, 2017	June 30, 2016	% / point change	June 30, 2017	June 30, 2016	% / point change
Net sales	$753.7	$761.7	(1.1)%	$1,436.6	$1,427.4	0.6 %
Segment income	161.0	153.6	4.8 %	277.0	254.8	8.7 %
% of net sales	21.4 %	20.2 %	1.2 pts	19.3 %	17.9 %	1.4 pts

Net sales

The components of the change in Water net sales from the prior period were as follows:

	Three months ended June 30, 2017 over the prior year	Six months ended June 30, 2017 over the prior year

	period	period
Volume	(2.8)%	(1.0)%
Price	0.9	1.1
Core growth	(1.9)	0.1
Acquisition	1.3	0.9
Currency	(0.5)	(0.4)
Total	(1.1)%	0.6 %

The 1.1 percent decrease in net sales for Water in the second quarter of 2017 from 2016 was primarily driven by:

- core sales declines in our food & beverage vertical due to customer delays in capital spending; and

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- unfavorable foreign currency effects during the three months ended June 30, 2017.

The decrease was partially offset by:

- core sales growth in our residential & commercial business, primarily as a result of increased volumes in the U.S.;
- selective increases in selling prices to mitigate inflationary cost increases; and
- increased sales related to business acquisitions that occurred in the fourth quarter of 2016 and the first quarter of 2017.

The 0.6 percentage point increase in net sales for Water in the first six months of 2017 from 2016 was primarily driven by:

- core sales growth in our residential & commercial business, primarily as a result of increased volumes in the U.S.;
- selective increases in selling prices to mitigate inflationary cost increases; and
- increased sales related to business acquisitions that occurred in the fourth quarter of 2016 and the first quarter of 2017.

The increase was partially offset by:

- core sales declines in our industrial and food & beverage verticals due to customer delays in capital spending;
- unfavorable foreign currency effects during the six months ended June 30, 2017; and
- large job adjustments to net sales of $9.7 million in the first half of 2017.

Segment income

The components of the change in the Water segment income from the prior period were as follows:

	Three months ended June 30, 2017 over the prior year period	Six months ended June 30, 2017 over the prior year period
Growth	(0.6) pts	(0.7) pts
Acquisition	(0.1)	(0.1)
Inflation	(1.0)	(1.2)
Productivity/Price	2.9	3.4
Total	1.2 pts	1.4 pts

The 1.2 and 1.4 percentage point increases in segment income for Water as a percentage of net sales in the second quarter and first half, respectively, of 2017 from 2016 were primarily driven by:

- savings generated from our PIMS initiatives including lean and supply management practices;
- cost control and savings generated from back-office consolidation, reduction in personnel and other lean initiatives; and
- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- lower core sales volume in our industrial and food & beverage verticals, which resulted in decreased leverage on operating expenses.

Electrical

The net sales and segment income for the Electrical segment for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three months ended			Six months ended		
In millions	June 30, 2017	June 30, 2016	% / point change	June 30, 2017	June 30, 2016	% / point change
Net sales	$513.2	$540.6	(5.1)%	$1,015.4	$1,065.2	(4.7)%
Segment income	112.8	111.6	1.1 %	216.3	224.4	(3.6)%
% of net sales	22.0 %	20.6 %	1.4 pts	21.3 %	21.1 %	0.2 pts

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Net sales

The components of the change in the Electrical segment net sales from the prior period were as follows:

	Three months ended June 30, 2017 over the prior year period	Six months ended June 30, 2017 over the prior year period
Volume	(4.7)%	(4.8)%
Price	—	0.2
Core growth	(4.7)	(4.6)
Acquisition	0.8	0.7
Currency	(1.2)	(0.8)
Total	(5.1)%	(4.7)%

The 5.1 and 4.7 percent decreases in net sales for Electrical in the second quarter and first half, respectively, of 2017 from 2016 were primarily driven by:

- core sales declines in the energy and infrastructure businesses, driven by lower project core sales volume for the three and six months ended June 30, 2017; and
- unfavorable foreign currency effects during the three and six months ended June 30, 2017.

These decreases were partially offset by:

- core sales growth in our industrial and residential & commercial businesses; and
- increased sales related to a business acquisition that occurred in the first quarter of 2017.

Segment income

The components of the change in the Electrical segment income from the prior period were as follows:

	Three months ended June 30, 2017 over the prior year period	Six months ended June 30, 2017 over the prior year period
Growth	1.1 pts	(0.3) pts
Inflation	(1.9)	(1.9)
Productivity/Price	2.2	2.4
Total	1.4 pts	0.2 pts

The 1.4 and 0.2 percentage point increases in segment income for Electrical as a percentage of net sales in the second quarter and first half, respectively, of 2017 from 2016 were primarily driven by:

- savings generated from our PIMS initiatives including lean and supply management practices;
- favorable mix as a result of the decline in lower margin project sales in the second quarter and first half of 2017, compared to the second quarter and first half of 2016;
- cost control and savings generated from back-office consolidation, reduction in personnel and other lean initiatives; and
- higher core sales in our industrial and residential & commercial businesses during the three and six months ended June 30, 2017, which resulted in increased leverage on operating expenses.

These increases were partially offset by:

- inflationary increases related to labor costs and certain raw materials; and
- lower core sales volumes in our energy and infrastructure businesses, which resulted in decreased leverage on operating expenses.

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LIQUIDITY AND CAPITAL RESOURCES

We generally fund cash requirements for working capital, capital expenditures, equity investments, acquisitions, debt repayments, dividend payments and share repurchases from cash generated from operations, availability under existing committed revolving credit facilities and in certain instances, public and private debt and equity offerings. Our primary revolving credit facilities have generally been adequate for these purposes, although we have negotiated additional credit facilities or completed debt and equity offerings as needed to allow us to complete acquisitions. We intend to issue commercial paper to fund our financing needs on a short-term basis and to use our revolving credit facility as back-up liquidity to support commercial paper.

We are focusing on increasing our cash flow and repaying existing debt, while continuing to fund our research and development, marketing and capital investment initiatives. Our intent is to maintain investment grade credit ratings and a solid liquidity position.

We experience seasonal cash flows primarily due to seasonal demand in a number of markets within both our Water and Electrical segments. We generally borrow in the first quarter of our fiscal year for operational purposes, which usage reverses in the second quarter as the seasonality of our businesses peaks. End-user demand for pool and certain pumping equipment follows warm weather trends and is at seasonal highs from April to August. The magnitude of the sales spike is partially mitigated by employing some advance sale "early buy" programs (generally including extended payment terms and/or additional discounts). Demand for residential and agricultural water systems is also impacted by weather patterns, particularly by heavy flooding and droughts. Additionally, Electrical generally experiences increased demand for thermal protection products and services during the fall and winter months in the Northern Hemisphere and increased demand for electrical fastening products during the spring and summer months in the Northern Hemisphere.

Operating activities

Cash provided by operating activities of continuing operations was $210.9 million in the first six months of 2017, compared to $320.9 million in the same period of 2016.

The $210.9 million in net cash provided by operating activities of continuing operations in the first six months of 2017 primarily reflects net income from continuing operations of $341.0 million, net of non-cash depreciation and amortization and the loss on early extinguishment of debt, offset by a negative impact by $130.0 million as a result of changes in net working capital.

The $320.9 million in net cash provided by operating activities of continuing operations in the first six months of 2016 primarily reflects net income from continuing operations, net of non-cash depreciation and amortization of $316.5 million and a positive impact of $26.1 million as a result of changes in net working capital.

Investing activities

Cash provided by investing activities of continuing operations was $2,672.3 million in the first six months of 2017, compared to $60.1 million of cash used for investing activities in the same period of 2016. Net cash provided by investing activities of continuing operations in the first six months of 2017 primarily reflects cash received from the sale of the Valves & Controls business, offset by capital expenditures of $37.6 million and cash paid for acquisitions (net of cash acquired) of $59.5 million. Net cash used for investing activities of continuing operations in the first six months of 2016 relates primarily relates to capital expenditures of $64.0 million, partially offset by $7.6 million of proceeds from the sale of property and equipment.

We anticipate capital expenditures for fiscal 2017 to be approximately $90 million, primarily for capacity expansions of manufacturing facilities, developing new products and general maintenance.

Financing activities

Net cash used for financing activities was $2,926.8 million in the first six months of 2017, compared with net cash used for financing activities of $248.7 million in the prior year period. As described further below, we utilized the proceeds from the sale of the Valves & Controls business to repay our commercial paper and revolving long term debt and for the early extinguishment of certain series of fixed rate debt. Additionally, we repurchased $100 million of shares during the first six months of 2017. Net cash used for financing activities in the first six months 2016 primarily relates to payment of dividends and net repayments of commercial paper and revolving long-term debt.

In October 2014, Pentair plc, Pentair Investment Switzerland GmbH ("PISG"), Pentair Finance S.à r.l. ("PFSA") and Pentair, Inc. entered into an amended and restated credit agreement (the "Credit Facility"), with Pentair plc and PISG as guarantors and PFSA and Pentair, Inc. as borrowers. The Credit Facility had a maximum aggregate availability of $2,100.0 million and a maturity date of October 3, 2019. Borrowings under the Credit Facility generally bear interest at a variable rate equal to the London Interbank Offered Rate ("LIBOR") plus a specified margin based upon PFSA's credit ratings. PFSA must pay a facility fee ranging from 9.0 to 25.0 basis points per annum (based upon PFSA's credit ratings) on the amount of each lender's commitment and letter of credit fee for each letter of credit issued and outstanding under the Credit Facility.

In August 2015, Pentair plc, PISG and PFSA entered into a First Amendment to the Credit Facility (the "First Amendment"), which, among other things, increased the Leverage Ratio (as defined below). In September 2015, Pentair plc, PISG and PFSA entered into a Second Amendment to the Credit Facility (the "Second Amendment,"), which, among other things, increased the maximum aggregate availability to $2,500.0 million. Additionally, in September 2016, Pentair plc, PISG and PFSA entered into a Third Amendment to the Credit Facility (the "Third Amendment," and collectively with the First Amendment and the Second Amendment, the "Amendments"), which, among other things, increased the Leverage Ratio to the amounts specified below, and amended the definition of EBITDA to include earnings from discontinued operations for operations subject to a sale agreement until such disposition actually occurs.

In May 2017, we repurchased aggregate principal of certain series of the respective outstanding notes totaling $1,659.3 million. All costs associated with the repurchases were recorded as Loss on early extinguishment of debt, including $6.5 million of unamortized deferred financing costs.

PFSA is authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. PFSA uses the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. PFSA had no commercial paper outstanding as of June 30, 2017 and $398.7 million as of December 31, 2016, all of which was classified as long-term debt as we have the intent and the ability to refinance such obligations on a long-term basis under the Credit Facility.

Our debt agreements contain certain financial covenants, the most restrictive of which are in the Credit Facility (as updated for the Amendments), including that we may not permit (i) the ratio of our consolidated debt plus synthetic lease obligations to our consolidated net income (excluding, among other things, non-cash gains and losses) before interest, taxes, depreciation, amortization, non-cash share-based compensation expense, up to a lifetime maximum $25.0 million of costs, fees and expenses incurred in connection with certain acquisitions, investments, dispositions and the issuance, repayment or refinancing of debt, ("EBITDA") for the four consecutive fiscal quarters then ended (the "Leverage Ratio") to exceed (a) 4.00 to 1.00 as of the last day of any period of four consecutive fiscal quarters ending on June 30, 2017; and (b) 3.50 to 1.00 as of the last day of the period of four consecutive fiscal quarters ending thereafter, and (ii) the ratio of our EBITDA for the four consecutive fiscal quarters then ended to our consolidated interest expense, including consolidated yield or discount accrued as to outstanding securitization obligations (if any), for the same period to be less than 3.00 to 1.00 as of the end of each fiscal quarter. For purposes of the Leverage Ratio, the Credit Facility provides for the calculation of EBITDA giving pro forma effect to certain acquisitions, divestitures and liquidations during the period to which such calculation relates. As of June 30, 2017, we were in compliance with all financial covenants in our debt agreements.

Total availability under the Credit Facility was $2,500.0 million as of June 30, 2017, which was limited to $2,070.4 million by the maximum Leverage Ratio in the Credit Facility’s credit agreement.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of $35.1 million, of which there were no outstanding borrowings at June 30, 2017. Borrowings under these credit facilities bear interest at variable rates.

As of June 30, 2017, we have $63.2 million of cash held in certain countries in which the ability to repatriate is limited due to local regulations or significant potential tax consequences.

We expect to continue to have cash requirements to support working capital needs and capital expenditures, to pay interest and service debt and to pay dividends to shareholders quarterly. We believe we have the ability and sufficient capacity to meet these cash requirements by using available cash and internally generated funds and to borrow under our committed and uncommitted credit facilities.

Share repurchases

In December 2014, the Board of Directors authorized the repurchase of our ordinary shares up to a maximum dollar limit of $1.0 billion. The authorization expires on December 31, 2019. During the six months ended June 30, 2017, we repurchased 1.5 million of our shares for $100.0 million pursuant to this authorization. As of June 30, 2017, we had $700.0 million remaining available for share repurchases under this authorization.

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Dividends

On December 6, 2016, the Board of Directors approved a plan to increase the 2017 annual cash dividend to $1.38, which is intended to be paid in four quarterly installments. Additionally, on May 9, 2017 the Board of Directors declared a quarterly cash dividend of $0.345 payable on August 4, 2017 to shareholders of record at the close of business on July 21, 2017. As a result, the balance of dividends payable included in Other current liabilities on our Consolidated Balance Sheets was $62.6 million and $61.8 million at June 30, 2017 and December 31, 2016, respectively.

We paid dividends in the first six months of 2017 of $126.1 million, or $0.69 per ordinary share, compared with $119.7 million, or $0.66 per ordinary share, in the prior year period.

Under Irish law, the payment of future cash dividends and redemptions and repurchases of shares may be paid only out of Pentair plc's "distributable reserves" on its statutory balance sheet. Pentair plc is not permitted to pay dividends out of share capital, which includes share premiums. Distributable reserves may be created through the earnings of the Irish parent company and through a reduction in share capital approved by the Irish High Court. Distributable reserves are not linked to a U.S. Generally Accepted Accounting Principles ("GAAP") reported amount (e.g., retained earnings). As of December 31, 2016, our distributable reserve balance was $9.4 billion.

Contractual obligations

The following summarizes our significant contractual debt and fixed-rate interest obligations that impact our liquidity. There have been no other material changes from the significant contractual obligations previously disclosed in Item 7 of our 2016 Annual Report on Form 10-K.

In millions	Q3-Q4 2017	2018	2019	2020	2021	2022