

Edgar Filing: PENTAIR plc - Form 10-K

PENTAIR plc  
Form 10-K  
February 24, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

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

(State or other jurisdiction of  
incorporation or organization)

98-1141328

(I.R.S. Employer  
Identification number)

P.O. Box 471, Sharp Street, Walkden, Manchester, M28 8BU United Kingdom

(Address of principal executive offices)

Registrant's telephone number, including area code: 44-161-703-1885

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Ordinary Shares, nominal value \$0.01 per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in PART III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Edgar Filing: PENTAIR plc - Form 10-K

Aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of \$72.76 per share as reported on the New York Stock Exchange on June 27, 2014 (the last business day of Registrant's most recently completed second quarter): \$13,741,728,602

The number of shares outstanding of Registrant's only class of common stock on December 31, 2014 was 182,442,197.

**DOCUMENTS INCORPORATED BY REFERENCE**

Parts of the Registrant's definitive proxy statement for its annual meeting to be held on May 5, 2015, are incorporated by reference in this Form 10-K in response to Part III, ITEM 10, 11, 12, 13 and 14.

---

Pentair plc  
 Annual Report on Form 10-K  
 For the Year Ended December 31, 2014

	Page
PART I	
ITEM 1. <u>Business</u>	1
ITEM 1A. <u>Risk Factors</u>	6
ITEM 1B. <u>Unresolved Staff Comments</u>	18
ITEM 2. <u>Properties</u>	18
ITEM 3. <u>Legal Proceedings</u>	18
ITEM 4. <u>Mine Safety Disclosures</u>	20
PART II	
ITEM 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	22
ITEM 6. <u>Selected Financial Data</u>	25
ITEM 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
ITEM 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	47
ITEM 8. <u>Financial Statements and Supplementary Data</u>	48
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	100
ITEM 9A. <u>Controls and Procedures</u>	100
ITEM 9B. <u>Other Information</u>	100
PART III	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	101
ITEM 11. <u>Executive Compensation</u>	101
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	102

Edgar Filing: PENTAIR plc - Form 10-K

ITEM 13.	<u>Certain Relationships and Related Transactions and Director Independence</u>	<u>102</u>
ITEM 14.	<u>Principal Accounting Fees and Services</u>	<u>102</u>
PART IV		
ITEM 15.	<u>Exhibits, Financial Statement Schedules</u>	<u>103</u>
	<u>Signatures</u>	<u>104</u>

---

## PART I

### ITEM 1. BUSINESS

#### GENERAL

Pentair plc is a focused diversified industrial manufacturing company comprising four reporting segments: Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions. Valves & Controls designs, manufactures, markets and services valves, fittings, automation and controls and actuators. Process Technologies designs, manufactures, markets and services innovative water system products and solutions to meet filtration, separation and fluid process management challenges in food and beverage, water, wastewater, swimming pools and aquaculture applications. Flow Technologies designs, manufactures and markets products and services designed for the transfer and flow of clean water, wastewater and a variety of industrial applications. Technical Solutions designs, manufactures, markets and services products that guard and protect some of the world's most sensitive electronics and electronic equipment, as well as heat management solutions designed to provide thermal protection to temperature sensitive fluid applications.

#### Pentair Strategy

Our strategy is to drive sustainable, profitable growth and return on invested capital improvements through:

- building operational excellence through the Pentair Integrated Management System ("PIMS") consisting of lean enterprise, growth and talent management;
- driving long-term growth in sales, operating income and cash flows, through growth and productivity initiatives along with acquisitions;
- developing new products and enhancing existing products;
- penetrating attractive growth markets, particularly outside of the United States;
- expanding multi-channel distribution; and
- proactively managing our business portfolio for optimal value creation, including consideration of new business platforms.

Unless the context otherwise indicates, references herein to "Pentair," the "Company," and such words as "we," "us," and "our" include Pentair plc and its consolidated subsidiaries. We are an Irish corporation limited by shares that was formed in 2014. We are the successor to Pentair Ltd., a Swiss corporation formed in 2012, and Pentair, Inc., a Minnesota corporation formed in 1966 and our wholly-owned subsidiary, under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

#### HISTORY AND DEVELOPMENT

In December 2013, the Company's Board of Directors approved changing the Company's jurisdiction of organization from Switzerland to Ireland. At an extraordinary meeting of shareholders on May 20, 2014, Pentair Ltd. shareholders voted in favor of a reorganization proposal pursuant to which Pentair Ltd. would merge into Pentair plc and all Pentair Ltd. common shares would be cancelled and all holders of such shares would receive ordinary shares of Pentair plc on a one-to-one basis. The reorganization transaction was completed on June 3, 2014, at which time Pentair plc replaced Pentair Ltd. as the ultimate parent company (the "Redomicile"). Shares of Pentair plc began trading on the New York Stock Exchange ("NYSE") on June 3, 2014 under the symbol "PNR," the same symbol under which Pentair Ltd. shares were previously traded.

Although our jurisdiction of organization is Ireland, we manage our affairs so that we are centrally managed and controlled in the United Kingdom (the "U.K.") and therefore have our tax residency in the U.K. We expect that having our publicly-traded parent company incorporated in Ireland and tax resident in the U.K. will provide us the following benefits:

Incorporation of our publicly-traded parent company in Ireland enables us to benefit by being subject to a legal and regulatory structure in a jurisdiction with a well-developed legal system and corporate law with established standards of corporate governance.

• The U.K. has a developed, stable and internationally competitive tax system.

• The legal requirements we are now subject to as a company incorporated in Ireland, listed on the NYSE and subject to U.S. Securities and Exchange Commission ("SEC") disclosure and shareholder voting requirements strike the right

balance between robust external governance oversight and regulation of our executive and director pay practices and the ability of our compensation committee consisting of independent directors to determine executive compensation to provide incentives to our executive management and to offer competitive salaries and benefits.

1

---

Our former parent company, Pentair Ltd., took its form on September 28, 2012 as a result of a reverse acquisition (the "Merger") involving Pentair, Inc. and an indirect, wholly-owned subsidiary of Flow Control (defined below), with Pentair, Inc. surviving as an indirect, wholly-owned subsidiary of ours. "Flow Control" refers to Pentair Ltd. prior the Merger. Prior to the Merger, Tyco International Ltd. ("Tyco") engaged in an internal restructuring whereby it transferred to Flow Control certain assets related to the flow control business of Tyco, and Flow Control assumed from Tyco certain liabilities related to the flow control business of Tyco. On September 28, 2012 prior to the Merger, Tyco effected a spin-off of Flow Control through the pro-rata distribution of 100% of the outstanding ordinary shares of Flow Control to Tyco's shareholders (the "Distribution"), resulting in the distribution of approximately 110.9 million of our ordinary shares to Tyco's shareholders. The Merger was accounted for as a reverse acquisition under the purchase method of accounting with Pentair, Inc. treated as the acquirer.

Our registered principal office is located at P.O. Box 471, Sharp Street, Walkden, Manchester, M28 8BU United Kingdom. Our management office in the United States ("U.S.") is located at 5500 Wayzata Boulevard, Suite 800, Minneapolis, Minnesota.

#### BUSINESS AND PRODUCTS

Reporting segment and geographical financial information is contained in ITEM 8, Note 16 of the Notes to Consolidated Financial Statements, included in this Form 10-K. On July 28, 2014, our Board of Directors approved a decision to exit our Water Transport business in Australia, previously part of our Flow Technologies reporting segment. We expect to dispose of the Water Transport business by mid-2015. The following is a brief description of each of the Company's reportable segments and business activities.

#### VALVES & CONTROLS

The Valves & Controls segment designs, manufactures, markets and services valves, fittings, automation and controls and actuators for the energy and industrial verticals and operates as a stand-alone Global Business Unit ("GBU"). Valve products include a broad range of industrial valves, including on-off valves, safety relief valves and other specialty valves. Actuation products include pneumatic, hydraulic and electric actuators. Control products include limit switches, valve positioners, network systems and accessories.

Valves & Controls products are used in many applications including chemical, petrochemical, oil and gas, power generation, mining, food and beverage, pulp and paper and wastewater. Valves & Controls also provides engineering, design, inspection, maintenance and repair services for its valves and related products. The product line is sold under many trade names, including Biffi, Keystone, Vanessa, Anderson Greenwood and Crosby, globally via its internal sales force and in some cases through independent distributors.

#### Customers

Valves & Controls customers include businesses engaged in a wide range of applications within the energy and industrial verticals. Customers include end-users as well as engineering, procurement and construction companies, contractors, original equipment manufacturers and distributors.

#### Seasonality

Valves & Controls is not significantly affected by seasonal demand fluctuations.

#### Competition

The flow control industry is highly fragmented, consisting of many local and regional companies and a few global competitors. We compete against a number of international, national and local manufacturers of industrial valves, as well as against specialized manufacturers on the basis of product capability, product quality, breadth of product line, delivery, service capability and price. Our major competitors vary by region and by industry.

#### PROCESS TECHNOLOGIES

The Process Technologies segment designs, manufactures, markets and services innovative water system products and solutions to meet filtration, separation and fluid process management challenges in food and beverage, water, wastewater, swimming pools and aquaculture applications. The Filtration & Process and Water Quality Systems GBUs comprise this segment.

Process Technologies offers a comprehensive product suite that ranges from energy-efficient pumps and point-of-use filtration to automated controls and CO2 recovery systems. Process Technologies primarily sells water systems, consisting of pumps, valves and filters used in the manufacturing of water softeners, filtration and deionization

systems and commercial and residential water filtration applications. Process Technologies also produces a broad line of leading edge equipment, accessories and water technology solutions, including pumps, filtration equipment, thermal products, automated controls, lights, automatic cleaners, water purification and treatment technology and water features.

2

---



Applications for Process Technologies' products include oil and gas, residential, power generation, chemical, food and beverage, pharmaceutical, foodservice, medical and municipal and industrial desalination, water and wastewater treatment. Brand names for Process Technologies include Pentair, Everpure, Sta-Rite, X-Flow, Haffmans and Südmo. Customers

Process Technologies customers include businesses engaged in wholesale and retail distribution in the residential & commercial, food & beverage, industrial, infrastructure and energy verticals. Customers in the residential & commercial vertical also include end-users and consumers.

#### Seasonality

We experience seasonal demand with several end customers and end-users within Process Technologies. End-user demand for pool equipment follows warm weather trends and is at seasonal highs from April to August. The magnitude of the sales increase is partially mitigated by employing some advance sale "early buy" programs (generally including extended payment terms and/or additional discounts).

#### Competition

Process Technologies faces numerous domestic and international competitors, some of which have substantially greater resources directed to the verticals in which we compete. Competition in our Filtration & Process GBU focuses on product performance and design, quality, delivery and price. For our Water Quality Systems GBU, competition focuses on brand names, product performance (including energy-efficient offerings), quality and price. We compete by offering a wide variety of innovative and high-quality products, which are competitively priced. We believe our distribution channels and reputation for quality also provide us a competitive advantage.

#### FLOW TECHNOLOGIES

The Flow Technologies segment designs, manufactures and markets products and services designed for the transfer and flow of clean water, wastewater and a variety of industrial applications. The Flow Technologies segment operates as a stand-alone GBU.

Flow Technologies is involved in the entire fluid system from transmission and distribution, process and control, to pumps, fittings and couplings. From product selection to installation, maintenance and servicing, Flow Technologies supports a broad range of products and services specifically tailored to address customers' needs for reliable and efficient movement and control of fluids.

Applications for Flow Technologies' products include agriculture, along with pumps for residential and municipal wells, flood control, water treatment, wastewater solids handling, pressure boosting, engine cooling, fluid delivery, circulation and transfer and energy. Brand names for Flow Technologies products include Aurora, Berkeley, Fairbanks-Nijhuis, Hydromatic Hypro and Sta-Rite.

#### Customers

Flow Technologies customers include businesses engaged in wholesale and retail distribution in the residential & commercial, infrastructure, food & beverage, industrial and energy verticals. Customers also include end-users and consumers in the residential & commercial vertical.

#### Seasonality

We experience demand for residential water supply products, infrastructure and agricultural products following warm weather trends, which are at seasonal highs from April to August. The magnitude of the sales increase is partially mitigated by employing some advance sale "early buy" programs (generally including extended payment terms and/or additional discounts). Seasonal effects may vary from year to year and are impacted by weather patterns, particularly by temperatures, heavy flooding and droughts.

#### Competition

Flow Technologies faces numerous domestic and international competitors, some of which have substantially greater resources directed to the verticals in which we compete. Competition in Flow Technologies focuses on brand names, product performance (including energy-efficient offerings and required specifications), quality, service and price. We compete by offering a wide variety of innovative and high-quality products, which are competitively priced.

#### TECHNICAL SOLUTIONS

The Technical Solutions segment designs, manufactures, markets and services products that guard and protect some of the world's most sensitive electronics and electronic equipment, as well as heat management solutions designed to

provide thermal protection to temperature sensitive fluid applications. The Technical Solutions segment operates as a stand-alone GBU.

3

---

Technical Solutions products include mild steel, stainless steel, aluminum and non-metallic enclosures, cabinets, cases, subracks, backplanes and thermal management systems including heat tracing, snow melting/de-icing and temperature management equipment. Technical Solutions products are produced globally.

The portfolio of products serves a range of industries, including use in industrial, energy, residential & commercial and infrastructure verticals. Brand names for Technical Solutions offerings include Hoffman, Schroff, Raychem and Tracer. Technical Solutions products are highly engineered and are sold largely through independent distributors and on a project basis, via a network of sales and service professionals.

#### Customers

Technical Solutions customers include electrical distributors, data center contractors, original equipment manufacturers, contractors mainly of greenfield developments and maintenance contractors. Technical Solutions has a global installed base of customers.

#### Seasonality

Technical Solutions generally experiences increased demand for thermal protection products and services during the fall and winter months in the Northern Hemisphere.

#### Competition

Within Technical Solutions, the equipment protection business faces significant competition in the verticals it serves, particularly within the communications industry, where product design, prototyping, global supply, price competition and customer service are significant factors. The industries and verticals served by the thermal management business are highly fragmented, comprising local markets and niches.

#### NEW SEGMENTATION

During the first quarter of 2015, we reorganized our business segments to reflect a new operating structure and management of our GBUs, resulting in a change to our reporting segments in 2015. As part of this reorganization, the legacy Filtration & Process GBU was combined with the legacy Flow Technologies GBU to form the Flow & Filtration Solutions reporting segment and now operates as a stand-alone GBU and the Water Quality Systems reporting segment now operates as a stand-alone GBU. All segment information presented throughout this Annual Report on Form 10-K, with the exception of the table below, was prepared based on the reporting segments in place during 2014.

The below table presents sales and segment income under the revised reporting segments (Valves & Controls, Technical Solutions, Flow & Filtration Solutions and Water Quality Systems) for the years ended December 31, 2014, 2013 and 2012.

In millions	December 31		
	2014	2013	2012
Net sales			
Valves & Controls	\$2,377.3	\$2,451.7	\$540.3
Flow & Filtration Solutions	1,603.1	1,651.8	1,451.5
Water Quality Systems	1,356.4	1,269.3	1,108.1
Technical Solutions	1,728.1	1,663.4	1,233.9
Other	(25.9)	)(36.5	)(27.0
Consolidated	\$7,039.0	\$6,999.7	\$4,306.8
Segment income (loss)			
Valves & Controls	\$345.1	\$297.5	\$40.7
Flow & Filtration Solutions	169.2	170.7	113.4
Water Quality Systems	242.9	220.1	174.8
Technical Solutions	358.2	322.4	232.2
Other	(93.7)	)(108.4	)(77.6
Consolidated	\$1,021.7	\$902.3	\$483.5

## INFORMATION REGARDING ALL REPORTABLE SEGMENTS

## Backlog of orders by segment

In millions	December 31			
	2014	2013	\$ change	% change
Valves & Controls	\$1,234.4	\$1,353.2	\$(118.8)	(8.8)%
Process Technologies	315.2	298.7	16.5	5.5
Flow Technologies	166.3	170.2	(3.9)	(2.3)
Technical Solutions	281.0	218.7	62.3	28.5
Total	\$1,996.9	\$2,040.8	\$(43.9)	(2.2)%

Backlog from Valves & Controls consists of business in the energy and industrial verticals. Generally, backlog from Valves & Controls has a longer manufacturing cycle and products typically ship within six to twelve months of the date on which a customer places an order. Backlog from Process Technologies, Flow Technologies and Technical Solutions typically has a shorter manufacturing cycle and products generally ship within 90 days of the date on which a customer places an order. A substantial portion of our revenues, however, result from orders received and product delivered in the same month. We record as part of our backlog all orders from external customers, which represent firm commitments, and are supported by a purchase order or other legitimate contract. We expect the majority of our backlog from all segments at December 31, 2014 will be filled in 2015.

## Research and development

We conduct research and development activities primarily in our own facilities. These efforts consist primarily of the development of new products, product applications and manufacturing processes. Research and development expenditures during 2014, 2013 and 2012 were \$117.3 million, \$122.8 million and \$92.3 million, respectively.

## Environmental

Environmental matters are discussed in ITEM 3, ITEM 7 and ITEM 8, Note 17 of the Notes to Consolidated Financial Statements, included in this Form 10-K.

## Raw materials

The principal materials we use in manufacturing our products are electric motors, mild steel, stainless steel, electronic components, plastics (resins, fiberglass, epoxies), copper and paint (powder and liquid). In addition to the purchase of raw materials, we purchase some finished goods for distribution through our sales channels.

We purchase the materials we use in various manufacturing processes on the open market and the majority is available through multiple sources which are in adequate supply. We have not experienced any significant work stoppages to date due to shortages of materials. We have certain long-term commitments, principally price commitments, for the purchase of various component parts and raw materials and believe that it is unlikely that any of these agreements would be terminated prematurely. Alternate sources of supply at competitive prices are available for most materials for which long-term commitments exist and we believe that the termination of any of these commitments would not have a material adverse effect on our financial position, results of operations or cash flows.

Certain commodities, such as metals and resin, are subject to market and duty-driven price fluctuations. We manage these fluctuations through several mechanisms, including long-term agreements with price adjustment clauses for significant commodity market movements in certain circumstances. Prices for raw materials, such as metals and resins, may trend higher in the future.

## Intellectual property

Patents, non-compete agreements, proprietary technologies, customer relationships, trademarks, trade names and brand names are important to our business. However, we do not regard our business as being materially dependent upon any single patent, non-compete agreement, proprietary technology, customer relationship, trademark, trade name or brand name.

Patents, patent applications and license agreements will expire or terminate over time by operation of law, in accordance with their terms or otherwise. We do not expect the termination of patents, patent applications or license agreements to have a material adverse effect on our financial position, results of operations or cash flows.



## Employees

As of December 31, 2014, we employed 28,400 people worldwide, of which 9,200 were in the U.S. and 10,000 were covered by collective bargaining agreements or works councils. We believe that our relations with the labor unions have generally been good.

## Captive insurance subsidiary

We insure certain general and product liability, property, workers' compensation and automobile liability risks through our regulated wholly-owned captive insurance subsidiary, Penwald Insurance Company ("Penwald"). Reserves for policy claims are established based on actuarial projections of ultimate losses. Accruals with respect to liabilities insured by third parties, such as liabilities arising from acquired businesses, pre-Penwald liabilities and those of certain non-U.S. operations are established.

Matters pertaining to Penwald are discussed in ITEM 3 and ITEM 8, Note 1 of the Notes to Consolidated Financial Statements – Insurance Subsidiary, included in this Form 10-K.

## Available information

We make available free of charge (other than an investor's own Internet access charges) through our Internet website (<http://www.pentair.com>) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Reports of beneficial ownership filed by our directors and executive officers pursuant to Section 16(a) of the Exchange Act are also available on our website. We are not including the information contained on our website as part of or incorporating it by reference into, this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

You should carefully consider all of the information in this document and the following risk factors before making an investment decision regarding our securities. Any of the following risks could materially and adversely affect our business, financial condition, results of operations, cash flows and the actual outcome of matters as to which forward-looking statements are made in this document.

### Risks Relating to Our Business

General global economic and business conditions affect demand for our products.

We compete in various geographic regions and product markets around the world. Among these, the most significant are global industrial markets and residential markets. Many of our businesses have experienced periodic economic downturns. Important factors for our businesses and the businesses of our customers include the overall strength of the economy and our customers' confidence in the economy, industrial and governmental capital spending, the strength of the residential and commercial real estate markets, unemployment rates, availability of consumer and commercial financing, interest rates, and energy and commodity prices. The businesses of many of our industrial customers, particularly oil and gas companies, chemical and petrochemical companies, mining and general industrial companies, are to varying degrees cyclical and have experienced periodic downturns. During such economic downturns, customers in these industries historically have tended to delay major capital projects, including expensive maintenance projects and upgrades. Additionally, demand for our products and services may be affected by volatility in energy and commodity prices and fluctuating demand forecasts, as our customers may be more conservative in their capital planning, which may reduce demand for our products and services.

While we attempt to minimize our exposure to economic or market fluctuations by serving a balanced mix of end markets and geographic regions, any of the above factors, individually or in the aggregate, or a significant or sustained downturn in a specific end market or geographic region could materially and adversely affect our business, financial condition, results of operations and cash flows.

We compete in attractive markets with a high level of competition, which may result in pressure on our profit margins and limit our ability to maintain or increase the market share of our products.

The markets for our products and services are geographically diverse and highly competitive. We compete against large and well-established national and global companies, as well as regional and local companies and lower cost manufacturers. We compete based on technical expertise, reputation for quality and reliability, timeliness of delivery, previous installation history, contractual terms and price. Some of our competitors, in particular smaller companies,

attempt to compete based primarily on price, localized expertise and local relationships, especially with respect to products and applications that do not require a great deal of engineering or technical expertise. In addition, during economic downturns average selling prices tend to decrease as market participants compete more aggressively on price. If we are unable to continue to differentiate our products, services and

6

---

solutions, or if we are forced to cut prices or to incur additional costs to remain competitive, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Our future growth is dependent upon our ability to continue to adapt our products, services and organization to meet the demands of local markets in both developed and emerging economies and by developing or acquiring new technologies that achieve market acceptance with acceptable margins.

We operate in global markets that are characterized by customer demand that is often global in scope but localized in delivery. We compete with thousands of smaller regional and local companies that may be positioned to offer products produced at lower cost than ours, or to capitalize on highly localized relationships and knowledge that are difficult for us to replicate. Also, in several emerging markets potential customers prefer local suppliers, in some cases because of existing relationships and in other cases because of local legal restrictions or incentives that favor local businesses. Accordingly, our future success depends upon a number of factors, including our ability to adapt our products, services, organization, workforce and sales strategies to fit localities throughout the world, particularly in high growth emerging markets; identify emerging technological and other trends in our target end-markets; and develop or acquire competitive products and services and bring them to market quickly and cost-effectively. We have chosen to focus our growth initiatives in specific end markets and geographies, but we cannot provide assurance that these growth initiatives will be sufficient to offset revenue declines in other markets. The failure to effectively adapt our products or services could materially and adversely affect our business, financial condition, results of operations and cash flows.

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

We continue to analyze and evaluate the acquisition of strategic businesses or product lines with the potential to strengthen our industry position or enhance our existing set of product and services offerings. There can be no assurance that we will identify or successfully complete transactions with suitable acquisition candidates in the future or that completed acquisitions will be successful. Acquisitions and investments may involve significant cash expenditures, debt incurrence, operating losses and expenses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. Acquisitions involve numerous other risks, including:

- diversion of management time and attention from daily operations;
- difficulties integrating acquired businesses, technologies and personnel into our business;
- difficulties in obtaining and verifying the financial statements and other business information of acquired businesses;
- inability to obtain required regulatory approvals and/or required financing on favorable terms;
- potential loss of key employees, key contractual relationships or key customers of acquired companies or of ours;
- assumption of the liabilities and exposure to unforeseen liabilities of acquired companies, including risks related to the U.S. Foreign Corrupt Practices Act (the "FCPA"); and
- dilution of interests of holders of our shares through the issuance of equity securities or equity-linked securities.

It may be difficult for us to complete transactions quickly and to integrate acquired operations efficiently into our business operations. Any acquisitions or investments may ultimately harm our business, financial condition, results of operations and cash flows, as such acquisitions may not be successful and may ultimately result in impairment charges.

We are exposed to political, regulatory, economic and other risks that arise from operating a multinational business. Sales outside of the U.S. for the year ended December 31, 2014 accounted for 50 percent of our net sales. Further, most of our businesses obtain some products, components and raw materials from non-U.S. suppliers. Accordingly, our business is subject to the political, regulatory, economic and other risks that are inherent in operating in numerous countries. These risks include:

- changes in general economic and political conditions in countries where we operate, particularly in emerging markets;
- relatively more severe economic conditions in some international markets than in the United States;
- the difficulty of enforcing agreements and collecting receivables through foreign legal systems;
- the difficulty of communicating and monitoring standards and directives across our global network of after-market service centers and manufacturing facilities;



trade protection measures and import or export licensing requirements and restrictions;

7

---

- the possibility of terrorist action affecting us or our operations;
- the threat of nationalization and expropriation;
- the imposition of tariffs, exchange controls or other trade restrictions;
- difficulty in staffing and managing widespread operations in non-U.S. labor markets;
- changes in tax treaties, laws or rulings that could have an adverse impact on our effective tax rate;
- limitations on repatriation of earnings;
- the difficulty of protecting intellectual property in non-U.S. countries; and
- changes in and required compliance with a variety of non-U.S. laws and regulations.

Our success depends in part on our ability to anticipate and effectively manage these and other risks. We cannot assure you that these and other factors will not have a material adverse effect on our international operations or on our business as a whole.

Volatility in currency exchange rates may adversely affect our financial condition, results of operations and cash flows.

Sales outside of the U.S. for the year ended December 31, 2014 accounted for 50 percent of our net sales. Our financial statements reflect translation of items denominated in non-U.S. currencies to U.S. dollars. Therefore, if the U.S. dollar strengthens in relation to the principle non-U.S. currencies from which we derive revenue as compared to a prior period, our U.S. dollar reported revenue and income will effectively be decreased to the extent of the change in currency valuations, and vice-versa. Changes in the relative values of currencies occur regularly and in some instances, may have a significant effect on our financial condition, results of operations and cash flows.

Our future revenue depends in part on the existence of and our ability to win new contracts for major capital projects. A significant portion of our revenue in Technical Solutions is derived from major capital projects. The number of such projects we may win in any year fluctuates, and is dependent upon the general availability of such projects and our ability to bid successfully for them. If negative market conditions arise, fewer such projects may be available, and if we fail to secure adequate financial arrangements or required governmental approvals we may not be able to pursue particular projects. Either condition could materially and adversely affect our business, financial condition, results of operations and cash flows.

We maintain a sizable backlog and the timing of our conversion of revenue out of backlog is uncertain. Our inability to convert backlog into revenue, whether due to factors that are within or outside of our control, could adversely affect our revenue and profitability.

The timing of our conversion of revenue out of backlog is subject to a variety of factors that may cause delays, many of which, including fluctuations in our customers' delivery schedules, are beyond our control. This is especially true with respect to major global capital projects, where the extended timeline for project completion and invoice satisfaction increases the likelihood for delays in the conversion of backlog related to modifications and order cancellations. Such delays may lead to significant fluctuations in results of operations and cash flows from quarter to quarter, making it difficult to predict our financial performance on a quarterly basis. Further, while we believe that historical order cancellations have not been significant, if we were to experience a significant amount of cancellations of or reductions in orders, it would reduce our backlog and, consequently, our future sales and results of operations. Material cost and other inflation have adversely affected and could continue to affect our results of operations. In the past, we have experienced material cost and other inflation in a number of our businesses. We strive for productivity improvements and implement increases in selling prices to help mitigate cost increases in raw materials (especially metals and resins), energy and other costs such as pension, health care and insurance. We continue to implement operational initiatives in order to mitigate the impacts of this inflation and continuously reduce our costs. We cannot provide assurance, however, that these actions will be successful in managing our costs or increasing our productivity. Continued cost inflation or failure of our initiatives to generate cost savings or improve productivity would likely negatively impact our results of operations.

We are exposed to liquidated damages in many of our customer contracts.

Many of our customer contracts contain liquidated damages provisions in the event that we fail to perform our obligations thereunder in a timely manner or in accordance with agreed terms, conditions and standards. Liquidated damages provisions typically provide for a payment to be made by us to the customer if we fail to deliver a product or

service on time. We generally try to limit our exposure to a maximum penalty within a contract. However, because our products are often components of large and complex systems or capital projects, if we incur liquidated damages they may materially and adversely affect our business, financial condition, results of operations and cash flows.

8

---

Certain of our products require certifications by regulators or standards organizations, and our failure to obtain or maintain such certifications could negatively impact our business.

In certain industries and for certain applications, in particular with respect to our pressure relief valves and valves used in the nuclear power generation industry, we must obtain certifications for our products or installations by regulators or standards organizations. As we expand our products offering into emerging markets, we will need to comply with additional and potentially different certification requirements. If we fail to obtain required certifications for our products, or if we fail to maintain such certifications on our products after they have been certified, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

Intellectual property challenges may hinder our ability to develop, engineer and market our products.

Patents, non-compete agreements, proprietary technologies, customer relationships, trademarks, trade names and brand names are important to our business. Intellectual property protection, however, may not preclude competitors from developing products similar to ours or from challenging our names or products. Our pending patent applications, and our pending copyright and trademark registration applications, may not be allowed or competitors may challenge the validity or scope of our patents, copyrights or trademarks. In addition, our patents, copyrights, trademarks and other intellectual property rights may not provide us a significant competitive advantage. Over the past few years, we have noticed an increasing tendency for participants in our markets to use conflicts over and challenges to intellectual property as a means to compete. Patent and trademark challenges increase our costs to develop, engineer and market our products. We may need to spend significant resources monitoring our intellectual property rights and we may or may not be able to detect infringement by third parties. If we fail to successfully enforce our intellectual property rights or register new patents, our competitive position could suffer, which could harm our business, financial condition, results of operations and cash flows.

We have significant goodwill and intangible assets and future impairment of our goodwill and intangible assets could have a material negative impact on our financial results.

We test goodwill and indefinite-lived intangible assets for impairment on an annual basis, by comparing the estimated fair value of each of our reporting units to their respective carrying values on their balance sheets. As of December 31, 2014 our goodwill and intangible assets were \$6,350.0 million and represented 60% of our total assets. Long-term declines in projected future cash flows could result in future goodwill and intangible asset impairments. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could have a material adverse effect on our financial results.

During 2014, we recognized an impairment charge related to allocated amounts of goodwill, intangible assets, property, plant & equipment and other non-current assets totaling \$380.1 million, net of a \$12.3 million tax benefit, representing our estimated loss on disposal of the Water Transport business in Australia. The impairment charge is included in Loss from sale / impairment of discontinued operations, net of tax in our Consolidated Statements of Operations and Comprehensive Income (Loss).

We may be adversely affected by work stoppages, union negotiations, labor disputes and other matters associated with our labor force.

As of December 31, 2014, approximately 10,000 of our employees were covered by collective bargaining agreements or works councils. Although we believe that our relations with the labor unions and work councils that represent our employees are generally good and we have experienced no material strikes and only minor work stoppages recently, no assurances can be made that we will not experience in the future these and other types of conflicts with labor unions, works councils, other groups representing employees or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in our cost of labor.

Seasonality of sales and weather conditions may adversely affect our financial results.

We experience seasonal demand in a number of markets within Process Technologies, Flow Technologies and Technical Solutions. In Process Technologies, end-user demand for pool equipment in our primary markets follows warm weather trends and is at seasonal highs from April to August. In Flow Technologies, demand for residential water supply products, infrastructure and agricultural products follows warm weather trends and is at seasonal highs from April to August. The magnitude of the sales increase in both Process Technologies and Flow Technologies is partially mitigated by employing some advance sale or “early buy” programs (generally including extended payment

terms and/or additional discounts). Seasonal effects may vary from year to year and are impacted by weather patterns, particularly by temperatures, heavy flooding and droughts. Technical Solutions generally experiences increased demand for thermal protection products and services during the fall and winter months in the Northern Hemisphere. We cannot provide assurance that seasonality and weather conditions will not have a material adverse effect on our results of operations.

Our share price may fluctuate significantly.

We cannot predict the prices at which our shares may trade. The market price of our shares may fluctuate widely, depending on many factors, some of which may be beyond our control, including:

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

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

#### Risks Relating to Legal, Regulatory and Compliance Matters

Our subsidiaries are party to asbestos-related product litigation that could adversely affect our financial condition, results of operations and cash flows.

Our subsidiaries, along with numerous other companies, are named as defendants in a substantial number of lawsuits based on alleged exposure to asbestos-containing materials. These cases typically involve product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were attached to or used with asbestos-containing components manufactured by third parties. Each case typically names between dozens to hundreds of corporate defendants. Historically, our subsidiaries have been identified as defendants in asbestos-related claims. We have experienced an increase in the number of asbestos-related lawsuits over the past several years, including lawsuits by plaintiffs with mesothelioma-related claims. A large percentage of these suits have not presented viable legal claims and, as a result, have been dismissed or withdrawn. Our strategy has been, and continues to be, to mount a vigorous defense aimed at having unsubstantiated suits dismissed, and, only where appropriate, settling claims before trial. As of December 31, 2014, there were approximately 3,400 claims pending against our subsidiaries. We cannot predict with certainty the extent to which we will be successful in litigating or otherwise resolving lawsuits in the future and we continue to evaluate different strategies related to asbestos claims filed against us including entity restructuring and judicial relief. Unfavorable rulings, judgments or settlement terms could have a material adverse impact on our business and financial condition, results of operations and cash flows.

We currently record an estimated liability related to pending claims and future claims, including related defense costs, based on a number of key assumptions and estimation methodologies. These assumptions are derived from historical claims experience and reflect our expectations about future claim activities. These assumptions about the future may or may not prove accurate, and accordingly, we may incur additional liabilities in the future. A change in one or more of the inputs or the methodology that we use to estimate the asbestos liability could materially change the estimated liability and associated cash flows for pending and future claims. Although it is possible that we will incur additional costs for asbestos claims filed beyond what we have currently recorded, we do not believe there is a reasonable basis for estimating those costs at this time. On an annual basis, we review, and update as appropriate, such estimated asbestos liabilities and assets and the underlying assumptions. Such an update could result in a material change in such estimated assets and liabilities.

We also record an asset that represents our best estimate of probable recoveries from insurers or other responsible parties for the estimated asbestos liabilities. There are significant assumptions made in developing estimates of asbestos-related recoveries, such as policy triggers, policy or contract interpretation, success in litigation in certain cases, the methodology for allocating claims to policies and the continued solvency of the insurers or other responsible parties. The assumptions underlying the recorded asset may not prove accurate, and as a result, actual performance by our insurers and other responsible parties could result in lower receivables and cash flows expected to reduce our asbestos costs. We believe it is possible that the cost of asbestos claims filed beyond our estimation period, net of expected recoveries, could have a material adverse effect on our financial condition, results of operations and cash flows.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar anti-corruption laws outside the United States.

The FCPA and similar anti-corruption laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials or other persons for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity, with more frequent and aggressive investigations and enforcement proceedings by both the U.S. Department of Justice (“DOJ”) and the SEC, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with these anti-bribery laws. We operate in many parts of the world that are recognized as having governmental and commercial corruption and in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. Because many of our customers and end users are involved in infrastructure construction and energy production, they are often subject to increased scrutiny by regulators. We cannot assure you that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees or third-party intermediaries. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in criminal or civil sanctions, which could disrupt our business and result in a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

Prior to the Merger, the Flow Control business was subject to investigations by the DOJ and the SEC related to allegations that improper payments were made by the Flow Control business and other Tyco subsidiaries and third-party intermediaries in recent years in violation of the FCPA. Tyco reported to the DOJ and the SEC the remedial measures that it had taken in response to the allegations and Tyco’s own internal investigations. As a result of discussions with the DOJ and SEC aimed at resolving these matters, on September 24, 2012, Tyco entered into a settlement with the SEC and a non-prosecution agreement with the DOJ, pursuant to which the Flow Control business is for a three year period subject to yearly reporting to the DOJ concerning its continuing compliance efforts. As a result, the Flow Control business may be subject to investigations in other jurisdictions or suffer other criminal or civil penalties or adverse impacts, including being subject to lawsuits brought by private litigants, each of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our failure to satisfy international trade compliance regulations may adversely affect us.

Our global operations require importing and exporting goods and technology across international borders on a regular basis. Certain of the products we manufacture are “dual use” products, which are products that may have both civil and military applications, or may otherwise be involved in weapons proliferation, and are often subject to more stringent export controls. From time to time, we obtain or receive information alleging improper activity in connection with imports or exports. Our policy mandates strict compliance with U.S. and non-U.S. trade laws applicable to our products. However, even when we are in strict compliance with law and our policies, we may suffer reputational damage if certain of our products are sold through various intermediaries to entities operating in sanctioned countries. When we receive information alleging improper activity, our policy is to investigate that information and respond appropriately, including, if warranted, reporting our findings to relevant governmental authorities. Nonetheless, we cannot provide assurance that our policies and procedures will always protect us from actions that would violate U.S. and/or non-U.S. laws. Any improper actions could subject us to civil or criminal



penalties, including material monetary fines, or other adverse actions including denial of import or export privileges, and could damage our reputation and business prospects.

We are exposed to potential environmental and other laws, liabilities and litigation.

We are subject to U.S. federal, state, local and Non-U.S. laws and regulations governing our environmental practices, public and worker health and safety, and the indoor and outdoor environment. Compliance with these environmental, health and safety regulations could require us to satisfy environmental liabilities, increase the cost of manufacturing our products or otherwise adversely affect our business, financial condition and results of operations. Any violations of these laws by us could cause us to incur unanticipated liabilities that could harm our operating results and cause our business to suffer. We are also required to comply with various environmental laws and maintain permits, some of which are subject to discretionary renewal from time to time, for many of our businesses and we could suffer if we are unable to renew existing permits or to obtain any additional permits that we may require. Compliance with environmental requirements also could require significant operating or capital expenditures or result in significant operational restrictions. We cannot assure you that we have been or will be at all times in compliance with environmental and health and safety laws. If we violate these laws, we could be fined, criminally charged or otherwise sanctioned by regulators.

We have been named as defendant, target or a potentially responsible party (“PRP”) in a number of environmental clean-ups relating to our current or former business units. We have disposed of a number of businesses in recent years and in certain cases, we have retained responsibility and potential liability for certain environmental obligations. We have received claims for indemnification from certain purchasers. We may be named as a PRP at other sites in the future for existing business units, as well as both divested and acquired businesses. In addition to cleanup actions brought by governmental authorities, private parties could bring personal injury or other claims due to the presence of, or exposure to, hazardous substances.

Certain environmental laws impose liability on current or previous owners or operators of real property for the cost of removal or remediation of hazardous substances at their properties or at properties at which they have disposed of hazardous substances. We have projects underway at several current and former manufacturing facilities to investigate and remediate environmental contamination resulting from our past operations or by other businesses that previously owned or used the properties. The cost of cleanup and other environmental liabilities can be difficult to accurately predict. In addition, environmental requirements change and tend to become more stringent over time. Thus, we cannot provide assurance that our eventual environmental clean-up costs and liabilities will not exceed the amount of our current reserves.

We are exposed to potential regulatory, financial and reputational risks related to certain “conflict minerals.” In 2012, the SEC adopted disclosure requirements related to certain minerals sourced from the Democratic Republic of Congo or adjoining countries, as required by Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The final rules impose inquiry, diligence and disclosure obligations with respect to “conflict minerals,” defined as tin, tantalum, tungsten and gold, that are necessary to the functionality of a product manufactured, or contracted to be manufactured, by an SEC reporting company. Certain of these minerals are used extensively in components manufactured by our suppliers (or in components incorporated by our suppliers into components supplied to us) for use in our products. Under the final rules, an SEC reporting company must conduct a country of origin inquiry that is reasonably designed to determine whether any of the “conflict minerals” that are necessary to the functionality of a product manufactured, or contracted to be manufactured, by the company originated in the Democratic Republic of the Congo or an adjoining country. If any such “conflict minerals” originated in the Democratic Republic of Congo or an adjoining country, the final rules require the issuer to exercise due diligence on the source of such “conflict minerals” and their chain of custody with the ultimate objective of determining whether the “conflict minerals” directly or indirectly financed or benefited armed groups in the Democratic Republic of the Congo or an adjoining country. The issuer must then prepare and file with the SEC a report regarding its diligence efforts, which we did on June 2, 2014. We have incurred, and expect to continue to incur, significant costs to conduct country of origin inquiries and to exercise such due diligence.

We have a very large number of suppliers and our supply chain is very complex and multifaceted. While we have no intention to use minerals sourced from the Democratic Republic of Congo or adjoining countries that are not “conflict

free” (meaning that they do not contain “conflict minerals” that directly or indirectly finance or benefit armed groups in the Democratic Republic of the Congo or an adjoining country), a significant number of our suppliers are small businesses, and those small businesses have limited or no resources to track their sources of minerals. As a result, we have experienced, and expect to continue to experience, ongoing significant difficulty in determining the country of origin or the source and chain of custody for all “conflict minerals” used in our products and disclosing that our products are “conflict free.” We may face reputational challenges if we are unable to verify the country of origin or the source and chain of custody for all “conflict minerals” used in our products or if we continue to be unable to disclose that our products are “conflict free.” The ongoing implementation of these rules may also affect the sourcing and availability of some minerals necessary to the manufacture of our products and may affect the availability and price of “conflict minerals” capable of certification as “conflict free.” Accordingly, we have

incurred, and expect to continue to incur, significant costs as a consequence of these rules, which may adversely affect our business, financial condition or results of operations.

We are exposed to certain regulatory and financial risks related to climate change.

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators and others attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions. The U.S. Congress and federal and state regulatory agencies have been considering legislation and regulatory proposals that would regulate and limit greenhouse gas emissions. It is uncertain whether, when and in what form a federal mandatory carbon dioxide emissions reduction program may be adopted. Similarly, certain countries have adopted the Kyoto Protocol and this and other existing international initiatives or those under consideration could affect our international operations. To the extent our customers, particularly those involved in the oil and gas, power generation, petrochemical processing or petroleum refining industries, are subject to any of these or other similar proposed or newly enacted laws and regulations, we are exposed to risks that the additional costs by customers to comply with such laws and regulations could impact their ability or desire to continue to operate at similar levels in certain jurisdictions as historically seen or as currently anticipated, which could negatively impact their demand for our products and services. In addition, new laws and regulations that might favor the increased use of non-fossil fuels, including nuclear, wind, solar and bio-fuels or that are designed to increase energy efficiency, could dampen demand for oil and gas production or power generation resulting in lower spending by customers for our products and services. These actions could also increase costs associated with our operations, including costs for raw materials and transportation. Because it is uncertain what laws will be enacted, we cannot predict the potential impact of such laws on our future financial condition, results of operations and cash flows.

Increased information technology security threats and more sophisticated computer crime pose a risk to our systems, networks, products and services. We are exposed to potential regulatory, financial and reputational risks relating to the protection of our data.

We rely upon information technology systems and networks in connection with a variety of business activities, some of which are managed by third parties. Additionally, we collect and store data that is sensitive to Pentair and its employees, customers, dealers and suppliers. The secure operation of these information technology systems and networks, and the processing and maintenance of this data is critical to our business operations and strategy. Information technology security threats -- from user error to attacks designed to gain unauthorized access to our systems, networks and data -- are increasing in frequency and sophistication. Attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crime and advanced persistent threats. These threats pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of the data we process and maintain. Establishing systems and processes to address these threats and changes in legal requirements relating to data collection and storage may increase our costs. We have identified attempts to gain unauthorized access to our information technology systems and networks. To our knowledge, no such attack was ultimately successful in exporting sensitive data or controlling sensitive systems or networks. Should such an attack succeed it could expose us and our employees, customers, dealers and suppliers to misuse of information or systems, the compromising of confidential information, theft of assets, manipulation and destruction of data, defective products, production downtimes and operations disruptions, and breach of privacy, which may require notification under data privacy and other applicable laws. The occurrence of any of these events could adversely affect our reputation, competitive position, business and results of operations. In addition, such breaches in security could result in litigation, regulatory action and potential liability and the costs and operational consequences of implementing further data protection measures.

Our results of operations may be negatively impacted by litigation.

Our businesses expose us to potential litigation, such as product liability claims relating to the design, manufacture and sale of our products. While we currently maintain what we believe to be suitable product liability insurance, we cannot provide assurance that we will be able to maintain this insurance on acceptable terms or that this insurance will provide adequate protection against potential or previously existing liabilities. In addition, we self-insure a portion of product liability claims. Successful claims against us for significant amounts could materially and adversely affect our

product reputation, financial condition, results of operations and cash flows.

**Risks Relating to the Distribution and the Merger**

We share responsibility for certain income tax liabilities for tax periods prior to and including the date of the Distribution.

In connection with the Distribution, we entered into a tax sharing agreement (the “2012 Tax Sharing Agreement”) with Tyco and The ADT Corporation (“ADT”), which governs the rights and obligations of ADT, Tyco and us for certain pre-Distribution tax liabilities, including Tyco’s obligations under a separate tax sharing agreement (the “2007 Tax Sharing Agreement”) entered into by Tyco, Covidien Ltd. (“Covidien”) and TE Connectivity Ltd. (“TE Connectivity”) in connection with the 2007 distributions of Covidien and TE Connectivity by Tyco (the “2007 Separation”).

The 2007 Tax Sharing Agreement governs the rights and obligations of Tyco, Covidien and TE Connectivity with respect to certain pre-2007 Separation tax liabilities and certain tax liabilities arising in connection with the 2007 Separation. More specifically, Tyco, Covidien and TE Connectivity share 27%, 42% and 31%, respectively, of income tax liabilities that arise from adjustments made by tax authorities to Tyco's, Covidien's and TE Connectivity's U.S. and certain non-U.S. 2007 and prior income tax returns. In addition, in the event that the 2007 Separation or certain related transactions are determined to be taxable as a result of actions taken after the 2007 Separation by Tyco, Covidien or TE Connectivity, the party responsible for such failure would be responsible for all taxes imposed on Tyco, Covidien or TE Connectivity as a result thereof. If none of the companies is responsible for such failure, then Tyco, Covidien and TE Connectivity would be responsible for such taxes, in the same manner and in the same proportions as other shared tax liabilities under the 2007 Tax Sharing Agreement. Costs and expenses associated with the management of these shared tax liabilities are generally shared equally among the parties.

The 2012 Tax Sharing Agreement provides that we, Tyco and ADT will share (i) certain pre-Distribution income tax liabilities that arise from adjustments made by tax authorities to our, Tyco's and ADT's U.S. income tax returns, and (ii) payments required to be made by Tyco with respect to the 2007 Tax Sharing Agreement (the liabilities in clauses (i) and (ii) collectively, "Shared Tax Liabilities"). Tyco is responsible for the first \$500 million of Shared Tax Liabilities. As of December 31, 2014, Tyco has paid \$52.0 million of Shared Tax Liabilities. We and ADT will share 42% and 58%, respectively, of the next \$225 million of Shared Tax Liabilities. We, ADT and Tyco will share 20%, 27.5% and 52.5%, respectively, of Shared Tax Liabilities above \$725 million. Costs and expenses associated with the management of Shared Tax Liabilities will generally be shared 20% by us, 27.5% by ADT and 52.5% by Tyco. With respect to years prior to and including the 2007 Separation, tax authorities have raised issues and proposed tax adjustments that are generally subject to the sharing provisions of the 2007 Tax Sharing Agreement and which may require Tyco to make a payment to a taxing authority, Covidien or TE Connectivity. With respect to adjustments raised by the IRS, although Tyco has resolved a substantial number of these adjustments, a few significant items remain open with respect to the audit of the 1997 through 2004 years. As of the date hereof, Tyco has not been able to resolve certain open items, which primarily involve the treatment of certain intercompany debt issued during the period, through the IRS appeals process. The ultimate resolution of these matters is uncertain and could result in Tyco being responsible for a greater amount than it expects under the 2007 Tax Sharing Agreement.

On July 1, 2013, Tyco announced that the Internal Revenue Service ("IRS") issued Notices of Deficiency ("Tyco IRS Notices") to Tyco asserting that several of Tyco's former U.S. subsidiaries collectively owe additional taxes in the aggregate amount of \$883.3 million plus penalties of \$154 million based on audits of the 1997 through 2000 tax years of Tyco and its subsidiaries as they existed at that time. These amounts exclude interest and do not reflect the impact on subsequent periods if the IRS challenge to Tyco's tax filings as described below is ultimately successful. If the IRS should successfully assert its position, our share of the collective liability, if any, would be determined pursuant to the 2007 Tax Sharing Agreement and the 2012 Tax Sharing Agreement. Tyco has filed petitions with the U.S. Tax Court to contest the IRS assessments.

As we have previously disclosed, in connection with U.S. federal tax audits of Tyco and its subsidiaries, the IRS has previously raised issues and proposed tax adjustments for periods beginning with the 1997 tax year. The adjustments now asserted by the IRS under the Tyco IRS Notices primarily relate to the treatment of certain intercompany debt transactions. The IRS has asserted in the Tyco IRS Notices that substantially all of the intercompany debt originated during the 1997 - 2000 period should not be treated as debt for U.S. federal income tax purposes, and has therefore disallowed interest and related deductions recognized associated with that intercompany debt on the U.S. income tax returns for those periods totaling approximately \$2.9 billion. If the IRS is successful in asserting its claim, it would have an adverse impact on interest deductions related to the same Tyco intercompany debt in subsequent time periods, totaling approximately \$6.6 billion, which Tyco has advised us that it expects the IRS to disallow. Under the 2012 Tax Sharing Agreement, Tyco has the right to administer, control, and settle all U.S. income tax audits for periods prior to and including the Distribution. As mentioned above, Tyco has filed petitions with the U.S. Tax Court to contest the IRS assessments.

Any payment that Tyco is required to make under the 2007 Tax Sharing Agreement, including if the IRS were to prevail with respect to the matter set forth above, could result in a material liability for us under the 2012 Tax Sharing

Agreement. To the extent we are responsible for any liability under the 2012 Tax Sharing Agreement, and indirectly the 2007 Tax Sharing Agreement, there could be a material adverse impact on our financial condition, results of operations, cash flows or our effective tax rate in future reporting periods.

If the Merger, Distribution or certain internal transactions undertaken in anticipation of the Distribution are determined to be taxable for U.S. federal income tax purposes, we, our shareholders or Tyco could incur significant U.S. federal income tax liabilities.

Pentair, Inc. and Tyco received private letter rulings from the IRS in connection with the Distribution and the Merger regarding the U.S. federal income tax consequences of the Distribution and the Merger to the effect that, for U.S. federal income tax purposes: the Distribution will qualify as tax-free under Sections 355 and 361 of the Internal Revenue Code of 1986, as amended (the "Code"), except for cash received in lieu of fractional shares; certain internal transactions undertaken in anticipation of the Distribution will qualify for favorable treatment under the Code; the Merger will qualify as a reorganization under Section 368(a) of the Code; certain anticipated post-closing transactions will not prevent the tax-free treatment of the Distribution or the Merger; and Section 367(a)(1) of the Code will not cause the Merger to be taxable to Pentair, Inc. shareholders (except for a U.S. shareholder who is or will be a "five-percent transferee shareholder" within the meaning of applicable Treasury Regulations but who does not enter into a "gain recognition agreement" with the IRS). In addition, Tyco received a legal opinion confirming the tax-free status of the Distribution for U.S. federal income tax purposes and Tyco and Pentair, Inc. received legal opinions to the effect that the Merger will qualify as a reorganization under section 368(a) of the Code and that Section 367(a)(1) of the Code will not cause the Merger to be taxable to Pentair, Inc. shareholders (except for a U.S. shareholder who is or will be a "five-percent transferee shareholder" within the meaning of applicable Treasury Regulations but who does not enter into a "gain recognition agreement" with the IRS).

The private letter rulings and opinions relied on certain facts and assumptions, and certain representations and undertakings, from us, Tyco and Pentair, Inc. Notwithstanding the private letter rulings and the opinions, the IRS could determine on audit that the Distribution, the internal transactions or the Merger should be treated as taxable transactions if it determines that any of these facts, assumptions, representations or undertakings is not correct or has been violated, or that the Distribution, the internal transactions or the Merger should be taxable for other reasons, including as a result of significant changes in share or asset ownership after the Merger.

If the Distribution ultimately is determined to be taxable, the Distribution could be treated as a taxable dividend or capital gain to Tyco shareholders for U.S. federal income tax purposes, and Tyco shareholders could incur significant U.S. federal income tax liabilities. In addition, Tyco would recognize a gain in an amount equal to the excess of the fair market value of Pentair Ltd.'s ordinary shares distributed to Tyco shareholders on the Distribution date over Tyco's tax basis in such ordinary shares, but such gain, if recognized, generally would not be subject to U.S. federal income tax. However, Tyco could incur significant U.S. federal income tax liabilities if it is ultimately determined that certain internal transactions undertaken in anticipation of the Distribution are taxable. If the Merger ultimately is determined to be taxable, Pentair, Inc. shareholders would recognize taxable gain or loss on their disposition of Pentair, Inc. ordinary shares in the Merger.

Under the terms of the 2012 Tax Sharing Agreement, in the event the Distribution, the ADT distribution, the internal transactions or the Merger were determined to be taxable as a result of actions taken after the Distribution by us, ADT or Tyco, the party responsible for such failure would be responsible for all taxes imposed as a result thereof. If such failure is not the result of actions taken after the Distribution by us, ADT or Tyco, then we, ADT and Tyco would be responsible for any taxes imposed as a result of such determination in the same manner and in the same proportions as we, ADT and Tyco are responsible for Shared Tax Liabilities. Such tax amounts could be significant. In the event that any party to the 2012 Tax Sharing Agreement defaults in its obligation to pay certain taxes to another party that arise as a result of no party's fault, each non-defaulting party would be responsible for an equal amount of the defaulting party's obligation to make a payment to another party in respect of such other party's taxes. In addition, if another party to the 2012 Tax Sharing Agreement that is responsible for all or a portion of an income tax liability were to default in its payment of such liability to a taxing authority, we could be legally liable under applicable tax law for such liabilities and required to make additional tax payments. Accordingly, under certain circumstances, we may be obligated to pay amounts in excess of our agreed-upon share of our, Tyco's and ADT's tax liabilities.

If the Distribution or the Merger is determined to be taxable for Swiss withholding or other tax purposes, we could incur significant Swiss withholding tax or other tax liabilities.

Generally, Swiss withholding tax of 35% is due on dividends and similar distributions to Tyco's shareholders, regardless of the place of residency of the shareholder. As of January 1, 2011, distributions to shareholders out of qualifying contributed surplus (Kapitaleinlage) accumulated on or after January 1, 1997 are exempt from Swiss withholding tax if certain conditions are met (Kapitaleinlageprinzip). Tyco has obtained a ruling from the Swiss Federal Tax Administration confirming that the Distribution qualifies as payment out of such qualifying contributed surplus and no amount will be withheld by Tyco when making the Distribution.

As a condition to closing of the Merger, Tyco obtained rulings from the Swiss Federal Tax Administration confirming: (i) that the Merger will be a transaction that is generally tax-free for Swiss federal, cantonal, and communal tax purposes (including with respect to Swiss stamp tax and Swiss withholding tax); (ii) the relevant Swiss tax base of an acquisition subsidiary of ours



for Swiss tax (including federal and cantonal and communal) purposes; (iii) the relevant amount of capital contribution reserves (Kapitaleinlageprinzip) which will be exempt from Swiss withholding tax in the event of a distribution to our shareholders after the Merger; and (iv) that no Swiss stamp tax will be levied on certain post-Merger restructuring transactions.

These tax rulings rely on certain facts and assumptions, and certain representations and undertakings, from Tyco. Notwithstanding these tax rulings, the Swiss Federal Tax Administration could determine on audit that the Distribution or the Merger or certain internal transactions undertaken in anticipation of the Distribution should be treated as a taxable transaction for withholding tax or other tax purposes if it determines that any of these facts, assumptions, representations or undertakings is not correct or has been violated. If the Distribution or the Merger or certain internal transactions undertaken in anticipation of the Distribution ultimately are determined to be taxable for withholding tax or other tax purposes, we and Tyco could incur material Swiss withholding tax or other tax liabilities that could significantly detract from, or eliminate, the benefits of the Distribution and the Merger. In addition, we could become liable to indemnify Tyco for part of any Swiss withholding tax liabilities to the extent provided under the 2012 Tax Sharing Agreement.

#### Risks Relating to Our Liquidity

Disruptions in the financial markets could adversely affect us, our customers and our suppliers by increasing funding costs or reducing availability of credit.

In the normal course of our business, we may access credit markets for general corporate purposes, which may include repayment of indebtedness, acquisitions, additions to working capital, repurchase of shares, capital expenditures and investments in our subsidiaries. Although we expect to have sufficient liquidity to meet our foreseeable needs, our access to and the cost of capital could be negatively impacted by disruptions in the credit markets, which have occurred in the past and made financing terms for borrowers unattractive or unavailable. These factors may make it more difficult or expensive for us to access credit markets if the need arises. In addition, these factors may make it more difficult for our suppliers to meet demand for their products or for prospective customers to commence new projects, as customers and suppliers may experience increased costs of debt financing or difficulties in obtaining debt financing. Disruptions in the financial markets have had adverse effects on other areas of the economy and have led to a slowdown in general economic activity that may continue to adversely affect our businesses. These disruptions may have other unknown adverse effects. One or more of these factors could adversely affect our business, financial condition, results of operations or cash flows.

Covenants in our debt instruments may adversely affect us.

Our credit agreements and indentures contain customary financial covenants. Our ability to meet the financial covenants can be affected by events beyond our control, and we cannot provide assurance that we will meet those tests. A breach of any of these covenants could result in a default under our credit agreements or indentures. Upon the occurrence of an event of default under any of our credit facilities or indentures, the lenders or trustees could elect to declare all amounts outstanding thereunder to be immediately due and payable and, in the case of credit facility lenders, terminate all commitments to extend further credit. If the lenders or trustees accelerate the repayment of borrowings, we cannot provide assurance that we will have sufficient assets to repay our credit facilities and our other indebtedness. Furthermore, acceleration of any obligation under any of our material debt instruments will permit the holders of our other material debt to accelerate their obligations, which could have a material adverse effect on our financial condition.

We may increase our debt or raise additional capital in the future, which could affect our financial condition, and may decrease our profitability.

As of December 31, 2014, we had \$3.0 billion of total debt outstanding. We may increase our debt or raise additional capital in the future, subject to restrictions in our debt agreements. If our cash flow from operations is less than we anticipate, or if our cash requirements are more than we expect, we may require more financing. However, debt or equity financing may not be available to us on acceptable terms, if at all. If we incur additional debt or raise equity through the issuance of additional capital shares, the terms of the debt or capital shares issued may give the holders rights, preferences and privileges senior to those of holders of our ordinary shares, particularly in the event of liquidation. The terms of the debt may also impose additional and more stringent restrictions on our operations than

we currently have. If we raise funds through the issuance of additional equity, the percentage ownership of existing shareholders in our company would decline. If we are unable to raise additional capital when needed, our financial condition could be adversely affected.

Our leverage could have a material adverse effect on our business, financial condition or results of operations.

Our ability to make payments on and to refinance our indebtedness, including our existing debt as well as any future debt that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are not able to repay or refinance our debt as it becomes due, we may be forced to sell assets or take other disadvantageous actions, including (i) reducing financing in the future for working capital, capital expenditures and general corporate purposes or (ii) dedicating an unsustainable level of our cash flow from operations to the payment of principal and

interest on our indebtedness. The lenders who hold such debt could also accelerate amounts due, which could potentially trigger a default or acceleration of any of our other debt.

#### Risks Relating to Our Jurisdiction of Incorporation in Ireland and Tax Residency in the United Kingdom

We are subject to changes in law and other factors that may not allow us to maintain a worldwide effective corporate tax rate that is competitive in our industry.

While we believe that we should be able to maintain a worldwide effective corporate tax rate that is competitive in our industry, we cannot give any assurance as to what our effective tax rate will be in the future because of, among other things, uncertainty regarding tax policies of the jurisdictions where we operate. Also, the tax laws of the U.S., the U.K., Ireland and other jurisdictions could change in the future, and such changes could cause a material change in our worldwide effective corporate tax rate. In particular, legislative action could be taken by the U.S., the U.K., Ireland or the European Union which could override tax treaties or modify tax statutes or regulations upon which we expect to rely and adversely affect our effective tax rate. We cannot predict the outcome of any specific legislative proposals. If proposals were enacted that had the effect of disregarding our incorporation in Ireland or limiting our ability as an Irish company to maintain tax residency in the U.K. and take advantage of the tax treaties among the U.S., the U.K. and Ireland, we could be subject to increased taxation, which could materially adversely affect our financial condition, results of operations, cash flows or our effective tax rate in future reporting periods.

A change in our tax residency could have a negative effect on our future profitability and taxes on dividends.

Under current Irish legislation, a company is regarded as resident for tax purposes in Ireland if it is centrally managed and controlled in Ireland, or, in certain circumstances, if it is incorporated in Ireland. Under current U.K. legislation, a company that is centrally managed and controlled in the U.K. is regarded as resident in the U.K. for taxation purposes. Where a company is treated as tax resident under the domestic laws of both the U.K. and Ireland then the provisions of article 4(3) of the Double Tax Convention between Ireland and the U.K. provide that such enterprise shall be treated as resident only in the jurisdiction in which its place of effective management is situated. We have managed, and we intend to continue to manage, our affairs so that we are centrally managed and controlled in the U.K. and therefore have our tax residency only in the U.K. However, we cannot provide assurance that we will continue to be resident only in the U.K. for tax purposes. It is possible that in the future, whether as a result of a change in law or the practice of any relevant tax authority or as a result of any change in the conduct of its affairs, we could become, or be regarded as having become resident in a jurisdiction other than the U.K. If we were considered to be a tax resident of Ireland, we could become liable for Irish corporation tax and any dividends paid by us could be subject to Irish dividend withholding tax.

Irish law differs from the laws in effect in the United States and may afford less protection to holders of our securities. It may not be possible to enforce court judgments obtained in the U.S. against us in Ireland based on the civil liability provisions of the U.S. federal or state securities laws. In addition, there is some uncertainty as to whether the courts of Ireland would recognize or enforce judgments of U.S. courts obtained against us or our directors or officers based on the civil liabilities provisions of the U.S. federal or state securities laws or hear actions against us or those persons based on those laws. We have been advised that the United States currently does not have a treaty with Ireland providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Ireland.

As an Irish company, we are governed by the Irish Companies Acts, which differ in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions and shareholder lawsuits. Likewise, the duties of directors and officers of an Irish company generally are owed to the company only. Shareholders of Irish companies generally do not have a personal right of action against directors or officers of the company and may exercise such rights of action on behalf of the company only in limited circumstances. Accordingly, holders of our securities may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the U.S.

Transfers of our ordinary shares may be subject to Irish stamp duty.

Transfers of our ordinary shares effected by means of the transfer of book entry interests in the Depository Trust Company ("DTC") will not be subject to Irish stamp duty. However, if you hold your ordinary shares directly rather

than beneficially through DTC, any transfer of your ordinary shares could be subject to Irish stamp duty (currently at the rate of 1% of the higher of the price paid or the market value of the shares acquired). Payment of Irish stamp duty is generally a legal obligation of the transferee.

We currently intend to pay, or cause one of our affiliates to pay, stamp duty in connection with share transfers made in the ordinary course of trading by a seller who holds shares directly to a buyer who holds the acquired shares beneficially. In other

cases we may, in our absolute discretion, pay or cause one of our affiliates to pay any stamp duty. Our articles of association provide that, in the event of any such payment, we (i) may seek reimbursement from the buyer, (ii) will have a lien against the shares acquired by such buyer and any dividends paid on such shares and (iii) may set-off the amount of the stamp duty against future dividends on such shares. Parties to a share transfer may assume that any stamp duty arising in respect of a transaction in our shares has been paid unless one or both of such parties is otherwise notified by us.

Our ordinary shares, received by means of a gift or inheritance could be subject to Irish capital acquisitions tax. Irish capital acquisitions tax (“CAT”) could apply to a gift or inheritance of our ordinary shares irrespective of the place of residence, ordinary residence or domicile of the parties. This is because our shares will be regarded as property situated in Ireland. The person who receives the gift or inheritance has primary liability for CAT. Gifts and inheritances passing between spouses are exempt from CAT. Children have a tax-free threshold of €225,000 per lifetime in respect of taxable gifts or inheritances received from their parents.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

Our principal office is located in leased premises in Manchester, United Kingdom, and our management office in the United States is located in leased premises in Minneapolis, Minnesota. Our operations are conducted in facilities throughout the world. These facilities house manufacturing and distribution operations, as well as sales and marketing, engineering and administrative offices.

We carry out our Valves & Controls manufacturing operations at 8 plants located throughout the United States and at 37 plants located in 16 other countries. In addition, Valves & Controls has 27 distribution facilities, 58 sales offices and 52 service centers located in numerous countries throughout the world.

We carry out our Process Technologies manufacturing operations at 17 plants located throughout the United States and at 14 plants located in 9 other countries. In addition, Process Technologies has 21 distribution facilities, 24 sales offices and 2 service centers located in numerous countries throughout the world.

We carry out our Flow Technologies manufacturing operations at 6 plants located throughout the United States and at 5 plants located in 5 other countries. In addition, Flow Technologies has 13 distribution facilities, 7 sales offices and 12 service centers located in numerous countries throughout the world.

We carry out our Technical Solutions manufacturing operations at 7 plants located throughout the United States and at 10 plants located in 8 other countries. In addition, Technical Solutions has 12 distribution facilities, 48 sales offices and 3 service centers located in numerous countries throughout the world.

We believe that our production facilities are suitable for their purpose and are adequate to support our businesses.

#### ITEM 3. LEGAL PROCEEDINGS

We have been made parties to a number of actions filed or have been given notice of potential claims relating to the conduct of our business, including those pertaining to commercial disputes, product liability, asbestos, environmental, safety and health, patent infringement and employment matters.

While we believe that a material impact on our consolidated financial position, results of operations or cash flows from any such future claims or potential claims is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future adverse ruling or unfavorable development could result in future charges that could have a material impact. We do and will continue to periodically reexamine our estimates of probable liabilities and any associated expenses and receivables and make appropriate adjustments to such estimates based on experience and developments in litigation. As a result, the current estimates of the potential impact on our consolidated financial position, results of operations and cash flows for the proceedings and claims described in the notes to our consolidated financial statements could change in the future.

##### Asbestos Matters

Our subsidiaries and numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. These cases typically involve product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were attached to or used with asbestos-



containing components manufactured by third-parties. Each case typically names between dozens to hundreds of corporate defendants. While we have observed an increase in the number of these lawsuits over the past several years, including lawsuits by plaintiffs with mesothelioma-related claims, a large percentage of these suits have not presented viable legal claims and, as a result, have been dismissed by the courts. Our historical strategy has been to mount a vigorous defense aimed at having unsubstantiated suits dismissed, and, where appropriate, settling suits before trial. Although a large percentage of litigated suits have been dismissed, we cannot predict the extent to which we will be successful in resolving lawsuits in the future.

As of December 31, 2014, there were approximately 3,400 claims outstanding against our subsidiaries. This amount is not adjusted for claims that are not actively being prosecuted, identified incorrect defendants, or duplicated other actions, which would ultimately reflect our current estimate of the number of viable claims made against us, our affiliates, or entities for which we assumed responsibility in connection with acquisitions or divestitures. In addition, the amount does not include certain claims pending against third parties for which we have been provided an indemnification.

Our estimated liability for asbestos-related claims was \$249.1 million and \$254.7 million as of December 31, 2014 and 2013, respectively, and was recorded in Other non-current liabilities in the Consolidated Balance Sheets for pending and future claims and related defense costs. Our estimated receivable for insurance recoveries was \$115.8 million and \$119.6 million at December 31, 2014 and 2013, all of which was acquired in the Merger, and was recorded in Other non-current assets in the Consolidated Balance Sheets.

#### Environmental Matters

We are involved in or have retained responsibility and potential liability for environmental obligations and legal proceedings related to our current business and, including pursuant to certain indemnification obligations, related to certain formerly owned businesses. We are responsible, or alleged to be responsible, for ongoing environmental investigation and/or remediation of sites in several countries. These sites are in various stages of investigation and/or remediation and at some of these sites our liability is considered de minimis. We received notification from the U.S. Environmental Protection Agency and from similar state and non-U.S. environmental agencies that several sites formerly or currently owned and/or operated by us, and other properties or water supplies that may be or may have been impacted from those operations, contain disposed or recycled materials or waste and require environmental investigation and/or remediation. Those sites include instances where we have been identified as a potentially responsible party under U.S. federal, state and/or non-U.S. environmental laws and regulations. For several formerly owned businesses, we have also received claims for indemnification from purchasers of these businesses.

Our accruals for environmental matters are recorded on a site-by-site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. It can be difficult to estimate reliably the final costs of investigation and remediation due to various factors. In our opinion, the amounts accrued are appropriate based on facts and circumstances as currently known. Based upon our experience, current information regarding known contingencies and applicable laws, we have recorded reserves for these environmental matters of \$31.4 million and \$34.8 million as of December 31, 2014 and 2013, respectively. We do not anticipate these environmental conditions will have a material adverse effect on our financial position, results of operations or cash flows. However, unknown conditions, new details about existing conditions or changes in environmental requirements may give rise to environmental liabilities that will exceed the amount of our current reserves and could have a material adverse effect in the future.

#### Product liability claims

We are subject to various product liability lawsuits and personal injury claims. A substantial number of these lawsuits and claims are insured and accrued for by Penwald, our captive insurance subsidiary. See discussion in ITEM 1 and ITEM 8, Note 1 of the Notes to Consolidated Financial Statements — Insurance subsidiary. Penwald records a liability for these claims based on actuarial projections of ultimate losses. For all other claims, accruals covering the claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. In 2004, we disposed of the Tools Group and we retained responsibility for certain product claims. We have not experienced significant unfavorable trends in either the severity or frequency of

product liability lawsuits or personal injury claims.

#### Compliance Matters

Prior to the Merger, the Flow Control business was subject to investigations by the DOJ and the SEC related to allegations that improper payments were made by the Flow Control business and other Tyco subsidiaries and third-party intermediaries in recent years in violation of the Foreign Corrupt Practices Act. Tyco reported to the DOJ and the SEC the remedial measures that it had taken in response to the allegations and Tyco's own internal investigations. As a result of discussions with the DOJ and SEC aimed at resolving these matters, on September 24, 2012, Tyco entered into a settlement with the SEC and a non-prosecution agreement with the DOJ, pursuant to which the Flow Control business is for a three year period subject to yearly reporting to the DOJ concerning its continuing compliance efforts.



ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

20

---

## EXECUTIVE OFFICERS OF THE REGISTRANT

Current executive officers of Pentair plc, their ages, current position and their business experience during at least the past five years are as follows:

Name	Age	Current Position and Business Experience
Randall J. Hogan	59	Chief Executive Officer since 2001 and Chairman of the Board since 2002; President and Chief Operating Officer, 1999 — 2000; Executive Vice President and President of Pentair's Electrical and Electronic Enclosures Group, 1998 — 1999; United Technologies Carrier Transicold President, 1995 — 1997; Pratt & Whitney Industrial Turbines Vice President and General Manager, 1994 — 1995; General Electric various executive positions, 1988 — 1994; McKinsey & Company consultant, 1981 — 1987. Executive Vice President and Chief Financial Officer since 2007; Chief Financial Officer of the Automation and Control Systems unit of Honeywell International Inc., 2005 — 2007; Vice President, Finance and Chief Financial Officer of the Sensing and Controls unit of Honeywell International Inc., 2004 — 2005; Vice President, Finance and Chief Financial Officer of the Automation & Control Products unit of Honeywell International Inc., 2002 — 2004; Chief Financial Officer and IT Director of PerkinElmer Optoelectronics, a unit of PerkinElmer, Inc., 2000 — 2002; Various executive, investor relations and managerial finance positions with Honeywell International Inc. and its predecessor AlliedSignal Inc., 1994 — 2000.
John L. Stauch	50	Senior Vice President, Human Resources since 2003; Vice President of Human Resources at Limited Brands, 2000 — 2003; PepsiCo, Inc., various executive positions, 1985 — 2000.
Frederick S. Koury	54	Senior Vice President, General Counsel and Secretary since 2010; Assistant General Counsel, 2002 — 2010; Shareholder and Officer of the law firm of Henson & Efron, P.A., 2000 — 2002; Associate Attorney in the law firm of Henson & Efron, P.A. 1996 — 2000 and in the law firm of Felhaber Larson Fenlon & Vogt, P.A., 1992 — 1996.
Angela D. Lageson	46	Chief Accounting Officer since 2008 and Treasurer since 2015; Partner in the audit practice of the public accounting firm KPMG LLP, 2000 — 2008; Various positions in the audit practice of KPMG LLP, 1989 — 2000.
Mark C. Borin	47	President, Water Quality Systems Global Business Unit since 2007; President of Aquatic Systems' National Pool Tile group, 1998— 2007; Vice President of Operations for American Products, 1995— 1998; Vice President of Anthony Pools, 1990 — 1995; Vice President of Poolsaver, 1988 — 1990.
Karl R. Frykman	54	President, Technical Solutions Global Business Unit since 2014; President, Thermal Management business, 2012 — 2014; President, Water Purification business, 2011 — 2012; President, Residential Filtration business, 2008 — 2011; General Manager of the Residential & Commercial water business at General Electric Corporation, 2006 — 2008; Manager Corporate Initiatives, General Electric Corporation, 2004 — 2006; Various executive positions with McKinsey & Company, 2000 — 2004.
Alok Maskara	43	President, Flow & Filtration Solutions Global Business Unit since 2015; President, Flow Technologies Global Business Unit, 2014; President, Equipment Protection business, 2010 - 2014; Various executive positions within Whirlpool Corporation, including Business Strategy, North America Refrigeration, President, Whirlpool Greater China, 1999 — 2010; Various executive positions at TRW, Inc., Electrospace, and E-Systems, (divisions of Raytheon Company) 1987 — 1999.
Phil Pejovich	49	President, Valves & Controls Global Business Unit since 2014; Vice President of Product Management & Marketing, Valves & Controls business, 2012 — 2014; General Manager of Global Mining for Tyco International's Flow Control business, 2009 — 2012; Vice President of Strategy & Global Marketing for Tyco International's Flow Control business, 2007 — 2009; Director, Strategy & Business Planning, Tyco Engineered Products &
Christopher Stevens	47	

Services, 2005 — 2006; Vice President of Worldwide Strategic Sourcing at Fisher Scientific International, 2002 — 2005; Various business positions with McKinsey & Company, CSC Index and Westinghouse Electric, 1990 — 2002.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our ordinary shares are listed for trading on the New York Stock Exchange and trade under the symbol "PNR." As of December 31, 2014, there were 21,273 shareholders of record.

The high, low and closing sales price for our ordinary shares and the dividends paid for each of the quarterly periods for 2014 and 2013 were as follows:

	2014				2013			
	First	Second	Third	Fourth	First	Second	Third	Fourth
High	\$83.37	\$81.04	\$73.36	\$69.37	\$54.20	\$60.14	\$66.49	\$77.97
Low	71.29	71.96	62.91	59.09	49.39	49.67	57.38	62.80
Close	77.66	72.76	67.41	66.42	52.75	57.69	65.52	77.67
Dividends paid	0.25	0.25	0.30	0.30	0.23	0.23	0.25	0.25

Pentair has paid 156 consecutive quarterly dividends. The Board of Directors has approved a plan to increase the dividend for the remainder of 2015, which will mark the 39<sup>th</sup> consecutive year we have increased dividends.

Future dividends on our ordinary shares or reductions of share capital for distribution to shareholders, if any, must be approved by our board of directors for payment out of distributable reserves on our statutory balance sheet. We are 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). On July 22, 2014, the Irish High Court approved Pentair plc's conversion of approximately \$14.4 billion of share premium to distributable reserves. On July 29, 2014, following the approval of the Irish High Court, we made the required filing of Pentair plc's initial accounts with the Irish Companies Registration Office, which completed the process to allow us to pay future cash dividends and redeem and repurchase shares out of Pentair plc's "distributable reserves." As of December 31, 2014, our distributable reserve balance was \$12.1 billion.

The timing, declaration and payment of future dividends to holders of our ordinary shares will depend upon many factors, including our financial condition and results of operations, the capital requirements of our businesses, industry practice and any other relevant factors.

#### United Kingdom Tax Considerations

Although our jurisdiction of organization is Ireland, 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.

As a result of its U.K. tax status, dividend distributions by Pentair plc to its shareholders are not subject to withholding tax, as the U.K. currently does not levy a withholding tax on dividend distributions.

See the discussion of "Dividends" under "Liquidity and Capital Resources—Financing Activities" in ITEM 7 of this annual report on Form 10-K for additional information required by this item.

## Share Performance Graph

The following information under the caption "Share Performance Graph" in this ITEM 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or to the liabilities of Section 18 of the Exchange Act and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent we specifically incorporate it by reference into such a filing. The following graph sets forth the cumulative total shareholder return on our ordinary shares for the last five years, assuming the investment of \$100 on December 31, 2009 and the reinvestment of all dividends since that date to December 31, 2014. The graph also contains for comparison purposes the S&P 500 Index and the S&P 500 Industrials Index, assuming the same investment level and reinvestment of dividends.

By virtue of our market capitalization, we are a component of the S&P 500 Index. On the basis of our size and diversity of businesses, we believe the S&P 500 Industrials Index is an appropriate published industry index for comparison purposes.

Company / Index	Base Period	INDEXED RETURNS				
	December 2009	Years ended December 31				
	2009	2010	2011	2012	2013	2014
Pentair plc	100	115.62	107.67	162.46	261.07	226.71
S&P 500 Index	100	115.06	117.49	136.30	180.44	205.14
S&P 500 Industrials Index	100	126.73	125.98	145.32	204.43	224.51

## Purchases of Equity Securities

The following table provides information with respect to purchases we made of our ordinary shares during the fourth quarter of 2014:

	(a)	(b)	(c)	(d)
	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Dollar value of shares that may yet be purchased under the plans or programs
September 28 – October 25, 2014	4,510,220	\$64.06	4,482,910	\$13,823,462
October 26 – November 22, 2014	208,644	66.48	208,533	104
November 23 – December 31, 2014	4,463	62.78	—	1,000,000,104
Total	4,723,327		4,691,443	

The purchases in this column include 27,310 shares for the period September 28 – October 25, 2014, 111 shares for the period October 26 – November 22, 2014, and 4,463 shares for the period November 23 – December 31, 2014 (a)deemed surrendered to us by participants in our 2012 Stock and Incentive Plan (the “2012 Plan”) and earlier stock incentive plans that are now outstanding under the 2012 Plan (collectively the “Plans”) to satisfy the exercise price or withholding of tax obligations related to the exercise of stock options and vesting of restricted shares.

The average price paid in this column includes shares repurchased as part of our publicly announced plans and (b)shares deemed surrendered to us by participants in the Plans to satisfy the exercise price of stock options and withholding tax obligations due upon stock option exercises and vesting of restricted shares.

(c) The number of shares in this column represents the number of shares repurchased as part of our publicly announced plans to repurchase our ordinary shares up to a maximum dollar limit of \$3.2 billion.

In December 2013, the Board of Directors authorized the repurchase of our ordinary shares up to a maximum dollar limit of \$1.0 billion. There was no remaining availability under this authorization as of December 31, 2014.

(d)In December 2014, our Board of Directors authorized the repurchase of our ordinary shares up to a maximum dollar limit of \$1.0 billion. This authorization expires on December 31, 2019 and is in addition to the 2013 share repurchase authorization.

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical financial data for the five years ended December 31, 2014. All periods presented have been revised, as applicable, to present the results of the Water Transport business as discontinued operations and to reclassify the assets and liabilities of the Water Transport business as held for sale. See ITEM 8, Note 3 of the Notes to Consolidated Financial Statements for additional information.

In millions, except per-share data	2014	Years ended December 31			
		2013	2012	2011	2010
Consolidated statements of operations and comprehensive income (loss) data					
Net sales	\$7,039.0	\$6,999.7	\$4,306.8	\$3,456.7	\$3,030.8
Operating income (loss)	851.9	742.6	(4.8	) 100.2	313.0
Net income (loss) from continuing operations attributable to Pentair plc	607.0	511.7	(81.5	) (7.5	) 185.5
Per-share data					
Basic:					
Earnings (loss) per ordinary share from continuing operations attributable to Pentair plc	\$3.19	\$2.54	\$(0.64	) \$(0.08	) \$1.89
Weighted average shares	190.6	201.1	127.4	98.2	98.0
Diluted:					
Earnings (loss) per ordinary share from continuing operations attributable to Pentair plc	\$3.14	\$2.50	\$(0.64	) \$(0.08	) \$1.87
Weighted average shares	193.7	204.6	127.4	98.2	99.3
Cash dividends declared and paid per ordinary share	\$1.10	\$0.96	\$0.88	\$0.80	\$0.76
Cash dividends declared and unpaid per ordinary share	0.64	0.50	0.46	—	—
Consolidated balance sheets data					
Total assets	\$10,655.2	\$11,743.3	\$11,882.7	\$4,586.3	\$3,973.5
Total debt	3,004.1	2,550.4	2,451.6	1,309.1	707.5
Total equity	4,663.8	6,217.7	6,487.5	2,047.4	2,205.0

## Factors Affecting Comparability of our Selected Financial Data

For periods prior to 2012, the Consolidated Statements of Operations and Comprehensive Income (Loss) include the historical results of Pentair, Inc. Following the consummation of the Merger on September 28, 2012, the consolidated financial statements include the results of Flow Control.

In May 2011, we acquired as part of Process Technologies, the Clean Process Technologies division of privately held Norit Holding B.V. In the fourth quarter of 2011, we recorded a pre-tax non-cash goodwill impairment charge of \$200.5 million.

## ITEM 7. 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" 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 successfully complete the disposition of our Water Transport business on anticipated terms and timetable; overall global economic and business conditions; 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 ability to successfully identify, complete and integrate acquisitions; 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 U.S. Securities and Exchange Commission, including in Item 1A of this Annual Report on Form 10-K. 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

Pentair plc is a focused diversified industrial manufacturing company comprising four reporting segments: Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions. We classify our operations into business segments based primarily on types of products offered and markets served. For the year ended December 31, 2014, Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions accounted for 34 percent, 25 percent, 16 percent and 25 percent of total revenues, respectively.

In December 2013, the Company's Board of Directors approved changing the Company's jurisdiction of organization from Switzerland to Ireland. At an extraordinary meeting of shareholders on May 20, 2014, Pentair Ltd. shareholders voted in favor of a reorganization proposal pursuant to which Pentair Ltd. would merge into Pentair plc and all Pentair Ltd. common shares would be cancelled and all holders of such shares would receive ordinary shares of Pentair plc on a one-to-one basis. The reorganization transaction was completed on June 3, 2014, at which time Pentair plc replaced Pentair Ltd. as the ultimate parent company (the "Redomicile"). Shares of Pentair plc began trading on the New York Stock Exchange ("NYSE") on June 3, 2014 under the symbol "PNR", the same symbol under which Pentair Ltd. shares were previously traded.

Although our jurisdiction of organization is Ireland, we manage our affairs so that we are centrally managed and controlled in the United Kingdom (the "U.K.") and therefore have our tax residency in the U.K. We expect that having our publicly-traded parent company incorporated in Ireland and tax resident in the U.K. will provide us the following benefits:

Incorporation of our publicly-traded parent company in Ireland enables us to benefit by being subject to a legal and regulatory structure in a jurisdiction with a well-developed legal system and corporate law with established standards of corporate governance.

• The U.K. has a developed, stable and internationally competitive tax system.

• The legal requirements we are now subject to as a company incorporated in Ireland, listed on the NYSE and subject to U.S. Securities and Exchange Commission ("SEC") disclosure and shareholder voting requirements strike the right balance between robust external governance oversight and regulation of our executive and director pay practices and the ability of our compensation committee consisting of independent directors to determine executive compensation to



provide incentives to our executive management and to offer competitive salaries and benefits.

Our former parent company, Pentair Ltd., took its form on September 28, 2012 as a result of a reverse acquisition (the "Merger") involving Pentair, Inc. and an indirect, wholly-owned subsidiary of Flow Control (defined below), with Pentair, Inc. surviving as an indirect, wholly-owned subsidiary of Pentair Ltd. "Flow Control" refers to Pentair Ltd. prior the Merger. Prior to the Merger, Tyco International Ltd. ("Tyco") engaged in an internal restructuring whereby it transferred to Flow Control certain assets related to the flow control business of Tyco, and Flow Control assumed from Tyco certain liabilities related to the flow control business of Tyco. On September 28, 2012 prior to the Merger, Tyco effected a spin-off of Flow Control through

the pro-rata distribution of 100% of the outstanding ordinary shares of Flow Control to Tyco's shareholders (the "Distribution"), resulting in the distribution of approximately 110.9 million of our ordinary shares to Tyco's shareholders. The Merger was accounted for as a reverse acquisition under the purchase method of accounting with Pentair, Inc. treated as the acquirer.

On January 30, 2014, we acquired, as part of Process Technologies, the remaining 19.9 percent ownership interest in two entities, a U.S. entity and an international entity (collectively, Pentair Residential Filtration or "PRF"), from GE Water & Process Technologies (a unit of General Electric Company) ("GE") for \$134.3 million in cash. Prior to the acquisition, we held a 80.1 percent ownership equity interest in PRF, representing our and GE's respective global water softener and residential water filtration businesses.

On July 28, 2014, our Board of Directors approved a decision to exit our Water Transport business in Australia. The results of the Water Transport business have been presented as discontinued operations and the assets and liabilities of the Water Transport business have been reclassified as held for sale for all periods presented. During 2014, we recognized an impairment charge related to allocated amounts of goodwill, intangible assets, property, plant & equipment and other non-current assets totaling \$380.1 million, net of tax, representing our estimated loss on disposal of the Water Transport business. The sale of a portion of the Water Transport business was completed in January 2015. The remaining portions are expected to be disposed of by mid-2015.

#### Key Trends and Uncertainties Regarding Our Existing Business

The following trends and uncertainties affected our financial performance in 2014 and 2013, and will likely impact our results in the future:

We identified specific 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 product and geographic markets, our organic growth would likely be limited.

Despite the overall strength of 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. While we believe the general trends are favorable, factors specific to each of our major end-markets may negatively affect the capital spending plans of our customers and lead to lower sales volumes for us.

In 2014, our results were negatively impacted by changes in foreign exchange rates, most significantly related to fluctuations in the Euro, and we expect this trend to continue in 2015.

Through 2013 and 2014, we 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. Commodity prices have begun to moderate, but we are uncertain as to the timing and impact of these market changes.

We have a long-term goal to consistently generate free cash flow that equals or exceeds 100 percent of our net income. We define free cash flow as cash flow from operating activities of continuing operations less capital expenditures plus proceeds from sale of property and equipment. Our free cash flow for the full year 2014 was \$888.5 million, exceeding our goal of 100 percent net income conversion. We expect to generate free cash flow that exceeds 100 percent of our net income from continuing operations in 2015. We are continuing to target reductions in working capital and particularly inventory as a percentage of sales. See the discussion of "Other financial measures" under "Liquidity and Capital Resources—Other financial measures" in this report for a reconciliation of our free cash flow.

In 2015, our operating objectives include the following:

Increasing our presence in both fast growth and developed regions and vertical focus to grow in those markets in which we have competitive advantages;

Focusing on developing global talent in light of our increased global presence;

Optimizing our technological capabilities to increasingly generate innovative new products; and

Driving operating excellence through lean enterprise initiatives, with specific focus on sourcing and supply management, cash flow management and lean operations.



We may seek to meet our objectives of expanding our geographic reach internationally and expanding our presence in our various channels to market by acquiring technologies and products to broaden our businesses' capabilities to serve additional markets and through acquisitions. We may also consider the divestiture of discrete business units to further focus our businesses on our most attractive markets.

#### Change in Warranty Reserve

Subsequent to our February 3, 2015 earnings announcement for the quarter and year ended December 31, 2014, we became aware of a potential warranty issue related to certain product sold by Process Technologies. As a result, we recorded a \$13.0 million charge to Cost of goods sold and adjusted the fourth quarter and full year 2014 financial results from Net income from continuing operations before noncontrolling interest of \$137.8 million and \$615.0 million, respectively, and Diluted earnings per share from continuing operations of \$0.74 and \$3.18, respectively, to Net income from continuing operations before noncontrolling interest of \$129.8 million and \$607.0 million, respectively, and to Diluted earnings per share from continuing operations of \$0.70 and \$3.14, respectively. See ITEM 8, Note 17 of the Notes to Consolidated Financial Statements for additional information.

## CONSOLIDATED RESULTS OF OPERATIONS

The consolidated results of operations were as follows:

In millions	Years ended December 31			% / point change		
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	
Net sales	\$7,039.0	\$6,999.7	\$4,306.8	0.6	% 62.5	%
Cost of goods sold	4,576.0	4,629.6	3,040.9	(1.2)	)% 52.2	%
Gross profit	2,463.0	2,370.1	1,265.9	3.9	% 87.2	%
% of net sales	35.0	% 33.9	% 29.4	% 1.1	4.5	
Selling, general and administrative	1,493.8	1,493.7	1,117.7	—	% 33.6	%
% of net sales	21.3	% 21.3	% 26.0	% —	(4.7)	)
Research and development	117.3	122.8	92.3	(4.5)	)% 33.0	%
% of net sales	1.7	% 1.8	% 2.1	% (0.1)	) (0.3)	)
Impairment of trade names	—	11.0	60.7	(100.0)	)% (81.9)	)%
% of net sales	—	% 0.2	% 1.4	% (0.2)	) (1.2)	)
Operating income (loss)	851.9	742.6	(4.8)	) 14.7	% N.M.	
% of net sales	12.1	% 10.6	% (0.1)	)% 1.5	10.7	
Loss (gain) on sale of businesses, net	0.2	(20.8)	) —	(101.0)	)% N.M.	
Loss on early extinguishment of debt	—	—	75.4	—	% (100.0)	)%
Net interest expense	68.6	70.9	68.2	(3.2)	)% 4.0	%
Net income (loss) from continuing operations before income taxes and noncontrolling interest	784.3	694.5	(146.1)	) 12.9	% N.M.	
Provision (benefit) for income taxes	177.3	177.0	(67.2)	) 0.2	% N.M.	
Effective tax rate	22.6	% 25.5	% 46.0	% (2.9)	) (20.5)	)

N.M. Not Meaningful

Net sales

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

	2014 vs. 2013	2013 vs. 2012	
Volume	1.0	% 7.3	%
Price	0.9	1.4	
Core growth	1.9	8.7	
Acquisition (divestiture)	(0.2)	) 55.2	
Currency	(1.1)	) (1.4)	)
Total	0.6	% 62.5	%

The 0.6 percent increase in consolidated net sales in 2014 from 2013 was primarily the result of:

• core sales growth in Technical Solutions, primarily as the result of increased volume in the United States, China and Canada;

• core sales growth in Process Technologies due to higher sales of certain pool products serving North American residential housing and increased demand for global food & beverage solutions; and

• selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- unfavorable foreign currency effects;
- decreases in sales of energy products in Valves & Controls and sales declines in residential retail product sales and infrastructure businesses in Flow Technologies; and
- loss of revenue related to the 2013 divestitures of businesses in Technical Solutions and Flow Technologies.

The 62.5 percent increase in consolidated net sales in 2013 from 2012 was primarily the result of:

- sales volume of the Flow Control businesses of \$3,244.1 million in 2013, compared to \$771.1 million in 2012;
- organic sales growth in Process Technologies and Flow Technologies due to higher sales of certain pool products serving North American residential housing and increased demand for global food & beverage solutions;
- growth in developed regions led by strength in the United States and Western Europe;
- growth in emerging regions of the Middle East, Africa and Eastern Europe; and
- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- lower sales in our infrastructure business; and
- unfavorable foreign currency effects.

Gross profit

The 1.1 percentage point increase in gross profit as a percentage of sales in 2014 from 2013 was primarily the result of:

- a decrease in cost of goods sold of \$86.6 million in 2014 compared to 2013 as a result of inventory fair value step-up and customer backlog recorded as part of the Merger purchase accounting in 2013, which did not recur in 2014;
- higher contribution margin as a result of savings generated from our Pentair Integrated Management System ("PIMS") initiatives including lean and supply management practices; and
- selective increases in selling prices across all business segments to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary increases related to raw materials and labor costs.

The 4.5 percentage point increase in gross profit as a percentage of sales in 2013 from 2012 was primarily the result of:

- lower cost of goods sold as a result of inventory fair value step-up and customer backlog recorded as part of the Merger purchase accounting, which decreased from \$157.7 million in 2012 to \$86.6 million in 2013;
- savings generated from our PIMS initiatives including lean and supply management practices and synergies from the combined operations subsequent to the Merger; and
- selective increases in selling prices across all business segments to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary increases related to raw materials and labor costs.

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

SG&A expense as a percentage of sales remained consistent in 2014 from 2013 and was favorably impacted by the following:

- restructuring costs of \$88.3 million in 2014, compared to \$103.2 million in 2013;
- savings generated from back-office consolidation, reduction in personnel and other lean initiatives; and
- higher sales volume and the resultant gain of leverage on fixed operating expenses.

These fluctuations were offset by the following:

- "mark-to-market" actuarial losses related to pension and other post-retirement benefit plans of \$49.9 million in 2014, compared to "mark-to-market" actuarial gains of \$63.2 million in 2013; and
- costs of \$10.3 million incurred in 2014, compared to \$5.4 million in 2013, as a result of the redomicile of the Company from Switzerland to Ireland.

The 4.7 percentage point decrease in SG&A expense as a percentage of sales in 2013 from 2012 was primarily the result of:

- "mark-to-market" actuarial gains related to pension and other post-retirement benefit plans of \$63.2 million in 2013, compared to "mark-to-market" actuarial losses of \$146.2 million in 2012;
- costs associated with the Merger in 2012 that did not reoccur in 2013, including \$23.2 million in transaction advisory fees, \$21.8 million of change of control costs and \$34.1 million of other transaction costs;
- sales volume of the Flow Control businesses subsequent to the Merger, which resulted in increased leverage on our fixed operating expenses; and
- savings generated from back-office consolidation, reduction in personnel and other lean initiatives.

These decreases were partially offset by:

- restructuring costs of \$103.2 million in 2013, compared to \$48.7 million in 2012;
- certain increases for labor and related costs; and
- intangible asset amortization associated with the Merger.

Gain on sale of businesses, net

During 2013, we sold businesses that were part of Technical Solutions and Flow Technologies for a cash purchase price of \$30.1 million and \$13.4 million, respectively, net of transaction costs, resulting in a gain of \$16.8 million and \$4.0 million, respectively.

Loss on early extinguishment of debt

In October 2012, we redeemed the remaining outstanding aggregate principal of our 5.65% fixed rate senior notes due 2013-2017 totaling \$400.0 million and our 1.05% floating rate senior notes due 2013 totaling \$100.0 million (the "Fixed/Floating Rate Notes"). The redemptions included make-whole premiums of \$65.8 million. Concurrent with the redemption of the Fixed/Floating Rate Notes, we terminated a related interest rate swap that was designated as a cash flow hedge, which resulted in the reclassification of \$3.4 million of previously unrecognized variable to fixed swap losses from Accumulated Other Comprehensive Income (Loss) ("AOCI") to earnings in October 2012. All costs associated with the redemption were recorded as a Loss on the early extinguishment of debt including \$0.6 million of unamortized deferred financing costs.

In December 2012, Pentair Finance S.A. ("PFSA"), completed an exchange offer pursuant to which it exchanged \$373.0 million in aggregate principal amount of 5.00% Senior Notes due 2021 of Pentair, Inc. a wholly-owned, indirect subsidiary of the Company for a like amount of new 5.00% Senior Notes due 2021 of PFSA, plus \$5.6 million in transaction-related costs which were recorded as a Loss on the early extinguishment of debt.

Net interest expense

The 3.2 percent decrease in net interest expense in 2014 from 2013 was primarily the result of:

- reduced overall interest rates in effect on our outstanding debt; and
- additional interest expense of \$2.1 million in the second quarter of 2013 for a working capital and net indebtedness adjustment related to the Merger that did not recur in 2014.

These decreases were partially offset by:

- the impact of higher debt levels during 2014 compared to 2013.

The 4.0 percent increase in net interest expense in 2013 from 2012 was primarily the result of:

- the impact of higher debt levels following the Merger; and

additional interest expense of \$2.1 million in the second quarter of 2013 for the working capital and net indebtedness adjustment related to the Merger.

These increases were partially offset by:

- reduced overall interest rates in effect on our outstanding debt in 2013 compared to 2012; and
- the impact of higher cash balances following the Merger.

Provision (benefit) for income taxes

The 2.9 percentage point decrease in the effective tax rate in 2014 from 2013 was primarily due to:

- the mix of global earnings toward lower tax jurisdictions.

The decrease was partially offset by:

- increase in withholding taxes that are non-recurring.

The 20.5 percentage point decrease in the effective tax rate in 2013 from 2012 was primarily due to:

- the mix of global earnings, including the impact of the Merger; and
- the decrease in non-deductible transaction costs during 2013 compared to 2012.

The decreases were partially offset by:

- the favorable tax impact related to the 2012 exchange offer that did not occur in 2013; and
- the favorable resolution of U.S. federal and state tax audits in 2012 that did not occur in 2013.

#### SEGMENT RESULTS OF OPERATIONS

This summary that follows provides a discussion of the results of operations of each of our four reportable segments that were in place during 2014 (Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions). Each of these segments comprises various product offerings that serve multiple end markets. During the first quarter of 2015, we reorganized our business segments to reflect a new operating structure and management of our GBUs, which will result in a change to our reporting segments in 2015.

We evaluate performance based on sales and segment income and use a variety of ratios to measure performance of our reporting segments. Segment income represents operating income (loss) from continuing operations exclusive of certain acquisition related expenses, costs of restructuring activities, impairments and other unusual non-operating items.

#### Valves & Controls

The net sales and segment income for Valves & Controls were as follows:

In millions	Years ended December 31			% / point change		
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	
Net sales	\$2,394.8	\$2,469.2	\$548.6	(3.0)	%)350.1	%
Segment income	350.8	302.8	41.8	15.9	% N.M.	
% of net sales	14.6	% 12.3	% 7.6	% 2.3	4.7	



Net sales

The components of the change in Valves & Controls net sales were as follows:

	2014 vs. 2013		2013 vs. 2012	
Volume	(2.2	)%	20.7	%
Price	0.5		1.7	
Core growth	(1.7	)	22.4	
Acquisition	—		331.3	
Currency	(1.3	)	(3.6	)
Total	(3.0	)%	350.1	%

The 3.0 percentage point decrease in Valves & Controls net sales in 2014 from 2013 was primarily the result of:

- decreased sales volume related to lower shipments for our energy products, particularly in the mining industry; and
- unfavorable foreign currency effects.

These decreases were partially offset by:

- increased sales volume for our industrial products; and
- selective increases in selling prices to mitigate inflationary cost increases.

The 350.1 percent increase in Valves & Controls net sales in 2013 from 2012 was primarily the result of:

- a full year of sales volume in 2013, compared to one quarter in 2012; and
- continued sales growth in the Middle East and the oil & gas industry.

These increases were partially offset by:

- unfavorable foreign currency effects.

Segment income

The 2.3 percentage point increase in segment income for Valves & Controls as a percentage of net sales in 2014 from 2013 was primarily the result of:

- selective increases in selling price to mitigate inflationary cost increases related to raw materials and labor costs;
- favorable project mix due to higher margin projects in 2014; and
- savings generated from our PIMS initiatives, including lean and supply management practices.

These increases was partially offset by:

- costs related to the operating model transformation investment in 2014.

The 4.7 percentage point increase in segment income for Valves & Controls as a percentage of net sales in 2013 from 2012 was primarily the result of:

- higher volume related to the acquisition of Flow Control, which resulted in increased leverage of our fixed cost base; and
- savings generated from our PIMS initiatives, including lean and supply management practices.

These increases were partially offset by:

- post-acquisition costs related to the Merger, including integration and standardization;
- low margin on large projects and unfavorable project mix; and
- inflationary increases related to raw materials and labor costs.

Process Technologies

The net sales and segment income for Process Technologies were as follows:

In millions	Years ended December 31			% / point change		
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	
Net sales	\$1,833.2	\$1,765.9	\$1,521.1	3.8	% 16.1	%
Segment income	267.2	253.2	181.1	5.5	% 39.8	%
% of net sales	14.6	% 14.2	% 11.9	% 0.4	2.3	

The components of the change in Process Technologies net sales were as follows:

	2014 vs. 2013	2013 vs. 2012	
Volume	3.7	% 8.2	%
Price	1.0	1.7	
Core growth	4.7	9.9	
Acquisition	—	6.3	
Currency	(0.9 )	(0.1 )	)
Total	3.8	% 16.1	%

The 3.8 percent increase in Process Technologies sales in 2014 from 2013 was primarily the result of:

- core sales growth related to higher sales of certain pool products primarily serving North American residential housing;

- increased demand for global food & beverage solutions in 2014;

- growth in developed regions led by strength in the U.S. and Western Europe; and

- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- sales declines in our industrial and infrastructure businesses;

- unfavorable foreign currency effects; and

- decreased sales in the fast growth regions of Eastern Europe, Africa and the Middle East.

The 16.1 percent increase in Process Technologies sales in 2013 from 2012 was primarily the result of:

- organic sales growth related to higher sales of certain pool products serving the North American residential housing market and increased demand for global food & beverage solutions;

- higher sales volume related to the Merger and other acquisitions in the second half of 2012;

- growth in developed regions led by strength in U.S. and Western Europe; and

- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- lower sales in India and Eastern Europe.

Segment income

The 0.4 percentage point increase in segment income for Process Technologies as a percentage of net sales in 2014 from 2013 was primarily the result of:

- selective increases in selling prices to mitigate inflationary cost increases; and

core sales growth in our residential & commercial and food & beverage businesses, which resulted in increased leverage on operating expenses.

These increases were partially offset by:

- inflationary increases related to certain raw materials; and

- lower sales volumes in our industrial and infrastructure businesses, which resulted in decreased leverage on operating expenses.

The 2.3 percentage point increase in segment income for Process Technologies as a percentage of net sales in 2013 from 2012 was primarily the result of:

- higher sales volume, which resulted in increased leverage on operating expenses;

- savings generated from our PIMS initiatives including lean and supply management practices;

- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary costs related to raw materials and labors costs.

#### Flow Technologies

The net sales and segment income for Flow Technologies were as follows:

In millions	Years ended December 31			% / point change		
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	
Net sales	\$1,106.6	\$1,131.6	\$1,025.5	(2.2)	)% 10.3	%
Segment income	138.5	132.3	104.7	4.7	% 26.4	%
% of net sales	12.5	% 11.7	% 10.2	% 0.8	1.5	

#### Net sales

The components of the change in Flow Technologies net sales were as follows:

	2014 vs. 2013	2013 vs. 2012	
Volume	(1.6)	)% 10.0	%
Price	0.9	0.8	
Core growth	(0.7)	) 10.8	
Acquisition (divestiture)	(0.9)	) 3.3	
Currency	(0.6)	) (3.8)	)
Total	(2.2)	)% 10.3	%

The 2.2 percent decrease in Flow Technologies sales in 2014 from 2013 was primarily the result of:

- decreased sales volume related to the loss of a customer in the residential retail business and sales declines in the infrastructure business;

- loss of revenue related to the divestiture of a business at the end of the fourth quarter of 2013; and

- unfavorable foreign currency effects.

These decreases were partially offset by:

- selective increases in selling prices to mitigate inflationary cost increases.

The 10.3 percent increase in Flow Technologies sales in 2013 from 2012 was primarily the result of:

- selective increases in selling prices to mitigate inflationary cost increases;

- organic growth in agriculture sales due to strong new product results and international expansion;

sales growth in developed markets of the U.S. and Western Europe; and  
 continued sales growth in fast growth regions, including the Middle East and Southeast Asia.

These increases were partially offset by:

- unfavorable foreign currency effects.

#### Segment income

The 0.8 percentage point increase in segment income for Flow Technologies as a percentage of net sales in 2014 from 2013 was primarily the result of:

- selective increases in selling prices to mitigate inflationary cost increases; and
- savings generated from our PIMS initiatives including lean and supply management practices.

These increases were partially offset by:

- inflationary increases related to labor and certain raw materials.

The 1.5 percentage point increase in segment income for Flow Technologies as a percentage of net sales in 2013 from 2012 was primarily the result of:

- savings generated from our PIMS initiatives including lean and supply management practices; and
- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary increases for certain raw materials and labor; and
- unfavorable foreign currency effects.

#### Technical Solutions

The net sales and segment income for Technical Solutions were as follows:

In millions	Years ended December 31			% / point change		
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	
Net sales	\$1,728.1	\$1,663.4	\$1,236.4	3.9	% 34.5	%
Segment income	358.8	322.4	232.1	11.3	% 38.9	%
% of net sales	20.8	% 19.4	% 18.8	% 1.4	0.6	

#### Net sales

The components of the change in Technical Solutions net sales were as follows:

	2014 vs. 2013	2013 vs. 2012	
Volume	4.2	% (2.9	)%
Price	1.3	1.4	
Core growth	5.5	(1.5	)
Acquisition (divestiture)	(0.4	)	36.0
Currency	(1.2	)	—
Total	3.9	% 34.5	%

The 3.9 percent increase in Technical Solutions sales in 2014 from 2013 was primarily the result of:

- higher sales volume in the U.S., China and Canada;

- increased sales in our industrial, infrastructure and residential & commercial businesses; and

- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- unfavorable foreign currency effects; and

- loss of revenue related to the divestiture of a business at the end of the first quarter of 2013.

The 34.5 percent increase in Technical Solutions sales in 2013 from 2012 was primarily the result of:

- sales volume of the Flow Control business of \$656.5 million in 2013, compared to \$195.7 million in 2012; and

- selective increases in selling prices to mitigate inflationary cost increases.

Segment income

The 1.4 percentage point increase in segment income for Technical Solutions as a percentage of net sales in 2014 from 2013 was primarily the result of:

- higher sales volume in our industrial, infrastructure and residential & commercial businesses, which resulted in

- increased leverage on operating expenses; and

- selective increases in selling prices to mitigate inflationary cost increases.

These increases were partially offset by:

- inflationary increases related to labor costs and certain raw materials.

The 0.6 percentage point increase in segment income for Technical Solutions as a percentage of sales in 2013 from 2012 was primarily the result of:

- higher volume related to the acquisition of Flow Control, which resulted in increased leverage of our fixed cost base;

- selective increases in selling prices to mitigate inflationary cost increases; and

- savings generated from our PIMS initiatives including lean and supply management practices.

These increases were offset by:

- lower margin from higher costs related to the Merger; including integration and standardization;

- intangible asset amortization associated with the Merger; and

- inflationary increases related to labor costs and certain raw materials.

#### 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. We have grown our businesses in significant part in the past through acquisitions financed by credit provided under our revolving credit facilities and from time to time, by private or public debt issuance. Our primary revolving credit facilities have generally been adequate for these purposes, although we have negotiated additional credit facilities 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 ratings and a solid liquidity position.

We experience seasonal cash flows primarily due to seasonal demand in a number of markets within Process Technologies and Flow Technologies. 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, Technical Solutions generally experiences increased demand for thermal protection products and services during the fall and winter months in the Northern Hemisphere.

#### Operating activities

Cash provided by operating activities of continuing operations was \$1,005.0 million in 2014, or \$73.7 million higher than in 2013. The increase in cash provided by operating activities from continuing operations was due primarily to a \$184.3 million increase in Net income (loss) from continuing operations before noncontrolling interest, net of the following non-cash items: depreciation and amortization, loss (gain) on sale of businesses, trade name impairment and pension and other post-retirement expense (income).

Cash provided by operating activities from continuing operations was \$931.3 million in 2013, or \$865.4 million higher than in 2012. The increase in cash provided by operating activities from continuing operations was due primarily to a \$442.4 million increase in Net income (loss) before noncontrolling interest, net of the following non-cash items: depreciation and amortization, goodwill and trade name impairment and pension and other post-retirement expense. Also attributing to the increase were accelerated contributions of pension and other post-retirement obligations in 2012 that reduced the need for ongoing contributions in 2013.

#### Investing activities

Net cash used for investing activities was \$128.3 million in 2014. Net cash used for investing activities was \$211.2 million in 2013. Net cash provided by investing activities was \$375.6 million in 2012.

#### Acquisitions

In December 2014, we paid cash of \$7.5 million and \$4.8 million to acquire businesses as part of Process Technologies and Technical Solutions, respectively.

In June 2013, \$84.4 million of cash was paid to Tyco in settlement of a working capital and net indebtedness adjustment related to the Merger. In addition, in December 2013 we acquired a business as part of Process Technologies for cash consideration of \$8.0 million, net of cash acquired.

In September 2012, we acquired \$691.7 million of cash in conjunction with the Merger. In October 2012, we acquired, as part of Valves & Controls, the remaining 25 percent equity interest in Pentair Middle East Holding S.a.R.L. ("KEF") for \$100.0 million in cash. Additionally, during 2012, we completed other small acquisitions in Process Technologies with purchase prices totaling \$121.2 million in cash, net of cash acquired.

#### Divestitures

During 2013, we sold businesses that were part of Technical Solutions and Flow Technologies for a cash purchase price of \$30.1 million and \$13.4 million, respectively, net of transaction costs, resulting in a gain of \$16.8 million and \$4.0 million, respectively.

#### Capital expenditures

Capital expenditures in 2014, 2013 and 2012 were \$129.6 million, \$170.0 million and \$94.5 million, respectively. We anticipate capital expenditures for fiscal 2015 to be approximately \$150 million, primarily for capacity expansions of manufacturing facilities located in our low-cost countries, developing new products and general maintenance.

#### Financing activities

Net cash used for financing activities was \$995.1 million in 2014. Cash used for financing activities in 2014 included share repurchases, payments of dividends and the purchase of the remaining noncontrolling interest in a business, partially offset by net receipts of commercial paper and revolving long-term debt to fund our operations in the normal course of business.

Net cash used for financing activities was \$719.1 million in 2013. Cash used for financing activities in 2013 included share repurchases and payments of dividends, partially offset by net receipts of commercial paper and revolving long-term debt to fund our operations in the normal course of business and cash received from shares issued to employees.

Net cash used for financing activities was \$232.3 million in 2012. Cash provided by financing activities in 2012 included net repayments of long-term debt, as further described below, payments of dividends, early debt termination fees and share repurchases, partially offset by net receipts of commercial paper and revolving long-term debt.

In December 2012, PFSA completed an exchange offer (the "Exchange Offer") pursuant to which it exchanged \$373.0 million in aggregate principal amount of 5.00% Senior Notes due 2021 of Pentair, Inc., a wholly-owned, indirect

subsidiary of the Company (the “2021 Notes”) for a like amount of new 5.00% Senior Notes due 2021 of PFSA (the “New 2021 Notes”) plus \$5.6 million in transaction-related costs. Upon completion of the Exchange Offer, \$127.0 million in aggregate principal amount

of 2021 Notes remained outstanding. The remaining 2021 Notes and New 2021 Notes are guaranteed as to payment by Pentair plc.

In November 2012, PFSA completed a private offering of \$350.0 million aggregate principal amount of 1.35% Senior Notes due 2015 (the "2015 Notes") and \$250.0 million aggregate principal amount of 2.65% Senior Notes due 2019 (the "2019 Notes" and, collectively, the "2015/2019 Notes"), which are guaranteed as to payment by Pentair plc. In certain circumstances, PFSA may be required to pay additional interest on the 2015/2019 Notes. We used the net proceeds from the sale of the 2015/2019 Notes to repay commercial paper and for general corporate purposes. We classified the outstanding amount on the 2015 Notes maturing in 2015 as long-term as of December 31, 2014 as we have the intent and ability to refinance such obligation on a long-term basis under the Amended Credit Facility (defined below).

In October 2012, we redeemed the remaining outstanding aggregate principal of our 5.65% fixed rate senior notes due 2013-2017 totaling \$400.0 million and our 1.05% floating rate senior notes due 2013 totaling \$100.0 million (the "Fixed/Floating Rate Notes"). The redemptions included make-whole premiums of \$65.8 million. Concurrent with the redemption of the Fixed/Floating Rate Notes, we terminated a related interest rate swap that was designated as a cash flow hedge, which resulted in the reclassification of \$3.4 million of previously unrecognized variable to fixed swap losses from AOCI to earnings in October 2012. All costs associated with the redemption were recorded as a Loss on the early extinguishment of debt including \$0.6 million of unamortized deferred financing costs.

In September 2012, PFSA, completed a private offering of \$550.0 million aggregate principal amount of 3.15% Senior Notes due 2022 (the "2022 Notes") and \$350 million aggregate principal amount of 1.875% Senior Notes due 2017 (the "2017 Notes" and, collectively, the "2017/2022 Notes"), which are guaranteed as to payment by Pentair Ltd. In certain circumstances, PFSA may be required to pay additional interest on the 2017/2022 Notes. The 2017/2022 Notes remained outstanding after the Merger. A portion of the net proceeds from the 2017/2022 Notes offering were used to repay \$435.0 million to Tyco in conjunction with the Distribution and the Merger.

In September 2012, Pentair, Inc. entered into a credit agreement providing for an unsecured, committed revolving credit facility, originally set to mature in September 2017 (the "Prior Credit Facility"). Upon the completion of the Merger, Pentair Ltd. became the guarantor under the Prior Credit Facility and PFSA and certain other of our subsidiaries became affiliate borrowers under the Prior Credit Facility. In October 2014, Pentair plc, Pentair Investments Switzerland GmbH ("PISG"), PFSA and Pentair, Inc. entered into an amended and restated credit agreement related to the Prior Credit Facility (the "Amended Credit Facility"), with Pentair plc and PISG as guarantors and PFSA and Pentair, Inc. as borrowers. The Amended Credit Facility increased the maximum aggregate availability to \$2,100.0 million and extended the maturity date to October 3, 2019. Borrowings under the Amended 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 Amended Credit Facility.

PFSA is authorized to sell short-term commercial paper notes to the extent availability exists under the Amended Credit Facility. PFSA uses the Amended Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. As of December 31, 2014 and 2013, we had \$987.6 million and \$528.9 million, respectively, of commercial paper outstanding, all of which was classified as long-term as we have the intent and the ability to refinance such obligations on a long-term basis under the Amended Credit Facility.

Total availability under the Amended Credit Facility was \$1,102.6 million, which was not limited by any covenants contained in the Amended Credit Facility's credit agreement. Subsequent to the Merger, we used the remaining proceeds from the 2017/2022 Notes offering and issuances of commercial paper to redeem the Fixed/Floating Rate Notes as discussed above, to repurchase shares in conjunction with our share repurchase as discussed in ITEM 8, Note 14 of the Notes to the Consolidated Financial Statements and to purchase the remaining 25 percent interest in KEF for \$100.0 million as discussed in ITEM 8, Note 2 of the Notes to the Consolidated Financial Statements.

Our debt agreements contain certain financial covenants, the most restrictive of which are in the Amended Credit Facility, 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 arising out of Permitted Acquisitions, ("EBITDA") for the four consecutive fiscal quarters then ended (the "Leverage Ratio") to exceed 3.50 to 1.00 on the last day of each fiscal quarter, 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 Amended 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 December 31, 2014, we were in compliance with all financial covenants in our debt agreements.

In addition to the Amended Credit Facility, we have various other credit facilities with an aggregate availability of \$78.3 million, of which none was outstanding at December 31, 2014. Borrowings under these credit facilities bear interest at variable rates. Additionally, as part of 2012 and 2011 acquisitions, we assumed certain capital leases with an outstanding balance of \$6.7 million and \$21.5 million at December 31, 2014 and 2013, respectively.

As of December 31, 2014, we had \$49.4 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.

#### Dividends

We paid dividends in 2014 of \$211.4 million, or \$1.10 per ordinary share, compared with \$194.2 million, or \$0.96 per ordinary share, in 2013 and \$112.4 million, or \$0.88 per ordinary share in 2012. At our 2014 annual meeting of shareholders held on May 20, 2014, our shareholders approved a proposal to pay quarterly cash dividends through the second quarter of 2015. The authorization provided that dividends of \$1.20 per share be made in quarterly installments of \$0.30 for each of the third and fourth quarters of 2014 and first and second quarters of 2015 and we expect to continue paying dividends on a quarterly basis. In December 2014, the Board of Directors approved an increase of \$0.02 per share for the remaining dividends to be paid in the first and second quarters of 2015, bringing the total quarterly dividend for those quarters to \$0.32 per share. The Board of Directors also approved a plan to increase the dividend for the remainder of 2015, which will mark the 39<sup>th</sup> consecutive year we have increased dividends.

Under Irish law, the payment of future cash dividends after those approved at our 2014 annual meeting of shareholders and redemptions and repurchases of shares following the Redomicile 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). On July 22, 2014, the Irish High Court approved Pentair plc's conversion of approximately \$14.4 billion of share premium to distributable reserves. On July 29, 2014, following the approval of the Irish High Court, we made the required filing of Pentair plc's initial accounts with the Irish Companies Registration Office, which completed the process to allow us to pay future cash dividends and redeem and repurchase shares out of Pentair plc's "distributable reserves." As of December 31, 2014, our distributable reserve balance was \$12.1 billion.

#### Authorized shares

Our authorized share capital consists of 426.0 million ordinary shares with a par value of \$0.01 per share.

#### Share repurchases

Prior to the closing of the Merger, our board of directors, and Tyco as our sole shareholder, authorized the repurchase of our ordinary shares with a maximum aggregate value of \$400.0 million following the closing of the Merger. This authorization does not have an expiration date. In October 2012, our board of directors authorized the repurchase of our ordinary shares with a maximum aggregate value of \$800.0 million. This authorization expires on December 31, 2015 and is in addition to the \$400.0 million share repurchase authorization. There is no remaining availability under these 2012 authorizations.

In December 2013, the Board of Directors authorized the repurchase of shares of our ordinary shares up to a maximum dollar limit of \$1.0 billion. This authorization expires on December 31, 2016 and is in addition to the combined \$1.2 billion prior share repurchase authorizations.

In December 2014, the Board of Directors authorized the repurchase of our ordinary shares up to a maximum dollar limit of \$1.0 billion. This authorization is in addition to the 2012 and 2013 share repurchase authorizations. The authorization expires on December 31, 2019 and there were no repurchases made in 2014 under this authorization.

During the year ended December 31, 2014, we repurchased 16.4 million of our ordinary shares for \$1.2 billion pursuant to these authorizations and had no remaining availability for repurchases under the 2013 authorization.

## Contractual obligations

The following summarizes our significant contractual obligations that impact our liquidity:

In millions	Years ended December 31						Total
	2015	2016	2017	2018	2019	Thereafter	
Debt obligations	\$—	\$—	\$350.0	\$—	\$1,597.4	\$1,050.0	\$2,997.4
Capital lease obligations	6.7	—	—	—	—	—	6.7
Interest obligations on fixed-rate debt	60.2	55.5	55.5	49.0	49.0	89.5	358.7
Operating lease obligations, net of sublease rentals	51.9	39.7	30.8	19.3	15.3	19.1	176.1
Purchase obligations	53.3	5.8	—	—	—	—	59.1
Pension and other post-retirement plan contributions	22.6	21.3	30.0	16.6	16.5	205.6	312.6
Total contractual obligations, net	\$194.7	\$122.3	\$466.3	\$84.9	\$1,678.2	\$1,364.2	\$3,910.6

The \$350.0 million of principal outstanding on the 2015 Notes matures in December 2015. As discussed above, we classified this debt as long-term as of December 31, 2014 as we have the intent and ability to refinance such obligation on a long-term basis under the Amended Credit Facility. As such, this obligation is included in the 2019 obligations in the table above, the year in which the Amended Credit Facility expires.

The majority of the purchase obligations represent commitments for raw materials to be utilized in the normal course of business. For purposes of the above table, arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction.

In addition to the summary of significant contractual obligations, we will incur annual interest expense on outstanding variable rate debt. As of December 31, 2014, variable interest rate debt was \$997.4 million at a weighted average interest rate of 0.69%.

The total gross liability for uncertain tax positions at December 31, 2014 was estimated to be \$62.1 million. We record penalties and interest related to unrecognized tax benefits in Provision for income taxes and Interest expense, respectively, which is consistent with our past practices. As of December 31, 2014, we had recorded \$1.2 million for the possible payment of penalties and \$9.8 million related to the possible payment of interest.

## Other financial measures

In addition to measuring our cash flow generation or usage based upon operating, investing and financing classifications included in the Consolidated Statements of Cash Flows, we also measure our free cash flow. We have a long-term goal to consistently generate free cash flow that equals or exceeds 100 percent conversion of net income. Free cash flow is a non-GAAP financial measure that we use to assess our cash flow performance. We believe free cash flow is an important measure of operating performance because it provides us and our investors a measurement of cash generated from operations that is available to pay dividends, make acquisitions, repay debt and repurchase shares. In addition, free cash flow is used as a criterion to measure and pay compensation-based incentives. Our measure of free cash flow may not be comparable to similarly titled measures reported by other companies. The following table is a reconciliation of free cash flow:

In millions	Years ended December 31		
	2014	2013	2012
Net cash provided by operating activities of continuing operations	\$1,005.0	\$931.3	\$65.9
Capital expenditures	(129.6)	(170.0)	(94.5)
Proceeds from sale of property and equipment	13.1	6.0	5.5
Free cash flow	\$888.5	\$767.3	\$(23.1)

## Off-balance sheet arrangements

At December 31, 2014, we had no off-balance sheet financing arrangements.

## COMMITMENTS AND CONTINGENCIES

We have been made parties to a number of actions filed or have been given notice of potential claims relating to the conduct of our business, including those pertaining to commercial disputes, product liability, asbestos, environmental, safety and health, patent infringement and employment matters.

While we believe that a material impact on our consolidated financial position, results of operations or cash flows from any such future claims or potential claims is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future adverse ruling or unfavorable development could result in future charges that could have a material impact. We do and will continue to periodically reexamine our estimates of probable liabilities and any associated expenses and receivables and make appropriate adjustments to such estimates based on experience and developments in litigation. As a result, the current estimates of the potential impact on our consolidated financial position, results of operations and cash flows for the proceedings and claims described in ITEM 8, Note 17 of the Notes to Consolidated Financial Statements could change in the future.

### Asbestos Matters

Our subsidiaries and numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. These cases typically involve product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were attached to or used with asbestos-containing components manufactured by third-parties. Each case typically names between dozens to hundreds of corporate defendants. While we have observed an increase in the number of these lawsuits over the past several years, including lawsuits by plaintiffs with mesothelioma-related claims, a large percentage of these suits have not presented viable legal claims and, as a result, have been dismissed by the courts. Our historical strategy has been to mount a vigorous defense aimed at having unsubstantiated suits dismissed, and, where appropriate, settling suits before trial. Although a large percentage of litigated suits have been dismissed, we cannot predict the extent to which we will be successful in resolving lawsuits in the future.

As of December 31, 2014, there were approximately 3,400 claims outstanding against our subsidiaries. This amount is not adjusted for claims that are not actively being prosecuted, identified incorrect defendants, or duplicated other actions, which would ultimately reflect our current estimate of the number of viable claims made against us, our affiliates, or entities for which we assumed responsibility in connection with acquisitions or divestitures. In addition, the amount does not include certain claims pending against third parties for which we have been provided an indemnification.

Our estimated liability for asbestos-related claims was \$249.1 million and \$254.7 million as of December 31, 2014 and 2013, respectively, and was recorded in Other non-current liabilities in the Consolidated Balance Sheets for pending and future claims and related defense costs. Our estimated receivable for insurance recoveries was \$115.8 million and \$119.6 million at December 31, 2014 and 2013, respectively, and was recorded in Other non-current assets in the Consolidated Balance Sheets.

### Environmental Matters

We are involved in or have retained responsibility and potential liability for environmental obligations and legal proceedings related to our current business and, including pursuant to certain indemnification obligations, related to certain formerly owned businesses. We are responsible, or alleged to be responsible, for ongoing environmental investigation and/or remediation of sites in several countries. These sites are in various stages of investigation and/or remediation and at some of these sites our liability is considered de minimis. We received notification from the U.S. Environmental Protection Agency and from similar state and non-U.S. environmental agencies, that several sites formerly or currently owned and/or operated by us, and other properties or water supplies that may be or may have been impacted from those operations, contain disposed or recycled materials or waste and require environmental investigation and/or remediation. Those sites include instances where we have been identified as a potentially responsible party under U.S. federal, state and/or non-U.S. environmental laws and regulations. For several formerly owned businesses, we have also received claims for indemnification from purchasers of these businesses.

Our accruals for environmental matters are recorded on a site-by-site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. It can be difficult to estimate reliably the final costs of investigation and remediation due to various factors. In our

opinion, the amounts accrued are appropriate based on facts and circumstances as currently known. Based upon our experience, current information regarding known contingencies and applicable laws, we have recorded reserves for these environmental matters of \$31.4 million and \$34.8 million as of December 31, 2014 and 2013, respectively. We do not anticipate these environmental conditions will have a material adverse effect on our financial position, results of operations or cash flows. However, unknown conditions, new details about existing conditions or changes in environmental requirements may give rise to environmental liabilities that will exceed the amount of our current reserves and could have a material adverse effect in the future.

**Product liability claims**

We are subject to various product liability lawsuits and personal injury claims. A substantial number of these lawsuits and claims are insured and accrued for by Penwald, our captive insurance subsidiary. See discussion in ITEM 1 and ITEM 8, Note 1

of the Notes to Consolidated Financial Statements — Insurance subsidiary. Penwald records a liability for these claims based on actuarial projections of ultimate losses. For all other claims, accruals covering the claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. In 2004, we disposed of the Tools Group and we retained responsibility for certain product claims. We have not experienced significant unfavorable trends in either the severity or frequency of product liability lawsuits or personal injury claims.

#### Compliance Matters

Prior to the Merger, the Flow Control business was subject to investigations by the U.S. Department of Justice (“DOJ”) and the SEC related to allegations that improper payments were made by the Flow Control business and other Tyco subsidiaries and third-party intermediaries in recent years in violation of the Foreign Corrupt Practices Act. Tyco reported to the DOJ and the SEC the remedial measures that it had taken in response to the allegations and Tyco’s own internal investigations. As a result of discussions with the DOJ and SEC aimed at resolving these matters, on September 24, 2012, Tyco entered into a settlement with the SEC and a non-prosecution agreement with the DOJ, pursuant to which the Flow Control business is for a three year period subject to yearly reporting to the DOJ concerning its continuing compliance efforts.

#### Stand-by Letters of Credit, Bank Guarantees and Bonds

In certain situations, Tyco guaranteed Flow Control’s performance to third parties or provided financial guarantees for financial commitments of Flow Control. In situations where Flow Control and Tyco were unable to obtain a release from these guarantees in connection with the spin-off, 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 December 31, 2014 and 2013, the outstanding value of bonds, letters of credit and bank guarantees totaled \$370.1 million and \$484.0 million, respectively, of which \$32.4 million and \$25.3 million, respectively, relate to the Water Transport business.

#### NEW ACCOUNTING STANDARDS

See ITEM 8, Note 1 of the Notes to Consolidated Financial Statements, included in this Form 10-K, for information pertaining to recently adopted accounting standards or accounting standards to be adopted in the future.

#### CRITICAL ACCOUNTING POLICIES

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with GAAP. Our significant accounting policies are more fully described in ITEM 8, Note 1 of the Notes to Consolidated Financial Statements. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry and information available from other outside sources, as appropriate. We consider an accounting estimate to be critical if:

- it requires us to make assumptions about matters that were uncertain at the time we were making the estimate; and
- changes in the estimate or different estimates that we could have selected would have had a material impact on our financial condition or results of operations.





Our critical accounting estimates include the following:

Impairment of goodwill and indefinite-lived intangibles

Goodwill

Goodwill represents the excess of the cost of acquired businesses over the net of the fair value of identifiable tangible net assets and identifiable intangible assets purchased and liabilities assumed.

Goodwill is tested at least annually for impairment and is tested for impairment more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is performed using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. If the estimated fair value is less than the carrying amount of the reporting unit there is an indication that goodwill impairment exists and a second step must be completed in order to determine the amount of the goodwill impairment, if any that should be recorded. In the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation.

The fair value of each reporting unit is determined using a discounted cash flow analysis and market approach.

Projecting discounted future cash flows requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate. Use of the market approach consists of comparisons to comparable publicly-traded companies that are similar in size and industry. Actual results may differ from those used in our valuations.

In developing our discounted cash flow analysis, assumptions about future revenues and expenses, capital expenditures and changes in working capital are based on our annual operating plan and long-term business plan for each of our reporting units. These plans take into consideration numerous factors including historical experience, anticipated future economic conditions, changes in raw material prices and growth expectations for the industries and end markets we participate in. These assumptions are determined over a six year long-term planning period. The six year growth rates for revenues and operating profits vary for each reporting unit being evaluated. Revenues and operating profit beyond 2020 are projected to grow at a perpetual growth rate of 3.0%.

Discount rate assumptions for each reporting unit take into consideration our assessment of risks inherent in the future cash flows of the respective reporting unit and our weighted-average cost of capital. We utilized discount rates ranging from 11.0% to 12.0% in determining the discounted cash flows in our fair value analysis.

In estimating fair value using the market approach, we identify a group of comparable publicly-traded companies for each reporting unit that are similar in terms of size and product offering. These groups of comparable companies are used to develop multiples based on total market-based invested capital as a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"). We determine our estimated values by applying these comparable EBITDA multiples to the operating results of our reporting units. The ultimate fair value of each reporting unit is determined considering the results of both valuation methods.

During 2014, we recognized an impairment charge related to allocated amounts of goodwill, intangible assets, property, plant & equipment and other non-current assets totaling \$380.1 million, net of a \$12.3 million tax benefit, representing our estimated loss on disposal of the Water Transport business in Australia. The impairment charge is included in Loss from sale / impairment of discontinued operations, net of tax in our Consolidated Statements of Operations and Comprehensive Income (Loss).

We completed step one of our annual goodwill impairment evaluation as of the first day of the fourth quarter of 2014, 2013 and 2012 with each reporting unit's fair value substantially in excess of its carrying value. Accordingly, step two of the impairment analysis was not required for 2014, 2013 or 2012.

Identifiable intangible assets

Our primary identifiable intangible assets include: customer relationships, trade names and trademarks, proprietary technology, backlog and patents. Identifiable intangibles with finite lives are amortized and those identifiable intangibles with indefinite lives are not amortized. Identifiable intangible assets that are subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Identifiable intangible assets not subject to amortization are tested for impairment annually or more

frequently if events warrant. We complete our annual impairment test during the fourth quarter each year for those identifiable assets not subject to amortization. There was no impairment charge recorded in 2014 for identifiable intangible assets. Impairment charges of \$11.0 million and \$60.7 million were recorded in 2013 and 2012, respectively, related to trade names. These charges were recorded in Impairment of trade names in our Consolidated Statements of Operations and Comprehensive Income (Loss).

The impairment test consists of a comparison of the fair value of the trade name with its carrying value. Fair value 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. The impairment charges recorded in 2013 and 2012 were the result of a rebranding strategies implemented in the fourth quarters of 2013 and 2012, respectively.

#### Impairment of long-lived assets

We review the recoverability of long-lived assets to be held and used, such as property, plant and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets. The measurement of impairment requires us to estimate future cash flows and the fair value of long-lived assets. During 2014 and 2013, we recorded impairment charges of \$20.9 million and \$16.6 million, respectively, in conjunction with restructuring activities. There were no material impairment charges recorded related to long-lived assets in 2012.

#### Percentage of completion revenue recognition

Revenue from certain long-term contracts is recognized over the contractual period under the percentage of completion method of accounting. Under this method, sales and gross profit are recognized as work is performed either based on the relationship between the actual costs incurred and the total estimated costs at completion ("the cost-to-cost method") or based on efforts expended for measuring progress towards completion in situations in which this approach is more representative of the progress on the contract than the cost-to-cost method. Changes to the original estimates may be required during the life of the contract and such estimates are reviewed on a regular basis. Sales and gross profit are adjusted using the cumulative catch-up method for revisions in estimated total contract costs and contract values. These reviews have not resulted in adjustments that were significant to our results of operations. Estimated losses are recorded when identified. Claims against customers are recognized as revenue upon settlement.

#### Pension and other post-retirement plans

We sponsor U.S. and Non-U.S. defined-benefit pension and other post-retirement plans. The amounts recognized in our consolidated financial statements related to our defined-benefit pension and other post-retirement plans are determined from actuarial valuations. Inherent in these valuations are assumptions, including: expected return on plan assets, discount rates, rate of increase in future compensation levels and health care cost trend rates. These assumptions are updated annually and are disclosed in ITEM 8, Note 13 to the Notes to Consolidated Financial Statements. Differences in actual experience or changes in assumptions may affect our pension and other post-retirement obligations and future expense.

We recognize changes in the fair value of plan assets and net actuarial gains or losses for pension and other post-retirement benefits annually in the fourth quarter each year ("mark-to-market adjustment") and, if applicable, in any quarter in which an interim remeasurement is triggered. Net actuarial gains and losses occur when the actual experience differs from any of the various assumptions used to value our pension and other post-retirement plans or when assumptions change as they may each year. The primary factors contributing to actuarial gains and losses each year are (1) changes in the discount rate used to value pension and other post-retirement benefit obligations as of the measurement date and (2) differences between the expected and the actual return on plan assets. This accounting method also results in the potential for volatile and difficult to forecast mark-to-market adjustments. Mark-to-market adjustments resulted in a pre-tax charge of \$49.9 million in 2014, pre-tax income of \$63.2 million in 2013 and a pre-tax charge of \$146.2 million in 2012. The remaining components of pension expense, primarily service and interest costs and the expected return on plan assets, are recorded on a quarterly basis as ongoing pension expense.

#### Discount rate

The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year based on our December 31 measurement date. The discount rate was determined by matching our expected

benefit payments to payments from a stream of bonds available in the marketplace rated AA or higher, adjusted to eliminate the effects of call provisions. This produced a weighted-average discount rate for our U.S. plans of 3.63% in 2014, 4.51% in 2013 and 3.67% in 2012. The discount rates on our Non-U.S. plans ranged from 0.50% to 4.25% in 2014, 0.50% to 5.00% in 2013 and 0.50% to 4.50% in 2012. There are no known or anticipated changes in our discount rate assumption that will impact our pension expense in 2015.

Expected rate of return

Our expected rate of return on plan assets for our U.S. plans was 4.56% for 2014, 3.75% in 2013 and 7.50% in 2012. The expected rate of return on our Non-U.S. plans ranged from 1.00% to 6.40% in 2014, 1.00% to 6.50% in 2013 and 1.00% to

4.60% in 2012. The expected rate of return is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns. In developing the expected long-term rate of return, we considered our historical returns, with consideration given to forecasted economic conditions, our asset allocations, input from external consultants and broader longer-term market indices.

During 2012, we adopted an investment strategy for our U.S. pension plans with a primary objective of preserving the funded status of the U.S. plans. This was achieved through investments in fixed interest instruments with interest rate sensitivity characteristics closely reflecting the interest rate sensitivity of our benefit obligations. The shifting of allocations away from equities to liability hedging fixed income investments, by reinvesting in fixed income instruments as equity investments were redeemed, was completed during 2013. As of December 31, 2014, the U.S. pension plans have an approximately 97 percent allocation to fixed income investments. As a result of the adoption of this investment strategy, we anticipate the expected rate of return on our U.S. funded pension plans will continue to be consistent with the discount rate.

See ITEM 8, Note 13 of the Notes to Consolidated Financial Statements for further information regarding pension and other post-retirement plans.

#### Loss contingencies

Accruals are recorded for various contingencies including legal proceedings, self-insurance and other claims that arise in the normal course of business. The accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of internal and/or external legal counsel and actuarially determined estimates.

Additionally, we record receivables from third party insurers when recovery has been determined to be probable.

We recognize asbestos-related liabilities on an undiscounted basis when a loss is probable and can be reasonably estimated. Certain of these liabilities are subject to insurance coverage. Our subsidiaries and numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. These cases typically involve product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were attached to or used with asbestos-containing components manufactured by third-parties. The process of estimating asbestos-related liabilities and the corresponding insurance recoveries receivable is complex and dependent primarily on our historical claim experience, estimates of potential future claims, our legal strategy for resolving these claims, the availability of insurance coverage, and the solvency and creditworthiness of insurers.

See ITEM 8, Note 17 of the Notes to Consolidated Financial Statements for further information regarding loss contingencies.

#### Income taxes

In determining taxable income for financial statement purposes, we must make certain estimates and judgments. These estimates and judgments affect the calculation of certain tax liabilities and the determination of the recoverability of certain of the deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in the most recent years and our forecast of future taxable income. In estimating future taxable income, we develop assumptions including the amount of future pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses.

We currently have recorded valuation allowances that we will maintain until when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Our income tax expense recorded in the future may be reduced to the extent of decreases in our valuation allowances. The realization of our remaining deferred tax assets is primarily dependent on future taxable income in the appropriate jurisdiction. Any reduction in future taxable income including but not limited to any future restructuring activities may require that we record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance could result in additional income tax expense in such period and could have a significant impact on our future earnings.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management records the effect of a tax rate or law change on the Company's deferred tax assets and liabilities in the period of enactment. Future tax rate or law changes could have a material effect on the Company's financial condition, results of operations or cash flows.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions across our global operations. We perform reviews of our income tax positions on a quarterly basis and accrue for uncertain tax positions. We recognize potential liabilities and record tax liabilities for anticipated tax audit issues in the tax jurisdictions in which we operate based on our estimate of whether, and the extent to which, additional taxes will be due. These tax liabilities are reflected net of related tax loss carryforwards. As events change or resolution occurs, these

liabilities are adjusted, such as in the case of audit settlements with taxing authorities. The ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. If our estimate of tax liabilities proves to be less than the ultimate assessment, an additional charge to expense would result. If payment of these amounts ultimately proves to be less than the recorded amounts, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential economic loss that may result from adverse changes in the fair value of financial instruments. We are exposed to various market risks, including changes in interest rates and foreign currency rates. Periodically, we use derivative financial instruments to manage or reduce the impact of changes in interest rates. Counterparties to all derivative contracts are major financial institutions. All instruments are entered into for other than trading purposes. The major accounting policies and utilization of these instruments is described more fully in ITEM 8, Note 1 of the Notes to Consolidated Financial Statements.

##### Interest rate risk

Our debt portfolio as of December 31, 2014, was comprised of debt predominantly denominated in U.S. dollars. This debt portfolio is comprised of 67% fixed-rate debt and 33% variable-rate debt. Changes in interest rates have different impacts on the fixed and variable-rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the fair value but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows but does not impact the net financial instrument position.

Based on the fixed-rate debt included in our debt portfolio, as of December 31, 2014, a 100 basis point increase or decrease in interest rates would result in a \$92.5 million decrease or a \$98.7 million increase in fair value, respectively.

Based on the variable-rate debt included in our debt portfolio as of December 31, 2014, a 100 basis point increase in interest rates would result in a \$10.0 million increase in interest incurred. A decrease in our interest rates on our variable-rate debt of 68.6 basis points (to zero) would result in a decrease in interest incurred of \$6.8 million.

##### Foreign currency risk

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. Periodically, we use derivative financial instruments to manage these risks. The functional currencies of our foreign operating locations are the local currency in the country of domicile. We manage these operating activities at the local level and revenues, costs, assets and liabilities are generally denominated in local currencies, thereby mitigating the risk associated with changes in foreign exchange. However, our results of operations and assets and liabilities are reported in U.S. dollars and thus will fluctuate with changes in exchange rates between such local currencies and the U.S. dollar.

From time to time, we may enter into short duration foreign currency contracts to hedge foreign currency risks. As the majority of our foreign currency contracts have an original maturity date of less than one year, there is no material foreign currency risk. Changes in the fair value of all derivatives are recognized immediately in income unless the derivative qualifies as a hedge of future cash flows. Gains and losses related to a hedge are deferred and recorded in the Consolidated Balance Sheets as a component of AOCI and subsequently recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) when the hedged item affects earnings.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Pentair plc and its subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria for effective internal control over financial reporting described in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2014, the Company's internal control over financial reporting was effective based on those criteria.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2014. That attestation report is set forth immediately following this management report.

Randall J. Hogan  
Chairman and Chief Executive Officer

John L. Stauch  
Executive Vice President and Chief Financial Officer



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Pentair plc

Manchester, United Kingdom

We have audited the internal control over financial reporting of Pentair plc and subsidiaries (the “Company”) as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule listed in the Index at Item 15 as of and for the year ended December 31, 2014 of the Company and our report dated February 24, 2015 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP  
Minneapolis, Minnesota  
February 24, 2015



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of  
Pentair plc  
Manchester, United Kingdom

We have audited the accompanying consolidated balance sheets of Pentair plc and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pentair plc and subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP  
Minneapolis, Minnesota  
February 24, 2015

Pentair plc and Subsidiaries  
Consolidated Statements of Operations and Comprehensive Income (Loss)

In millions, except per-share data	Years ended December 31		
	2014	2013	2012
Net sales	\$7,039.0	\$6,999.7	\$4,306.8
Cost of goods sold	4,576.0	4,629.6	3,040.9
Gross profit	2,463.0	2,370.1	1,265.9
Selling, general and administrative	1,493.8	1,493.7	1,117.7
Research and development	117.3	122.8	92.3
Impairment of trade names	—	11.0	60.7
Operating income (loss)	851.9	742.6	(4.8)
Other (income) expense			
Loss (gain) on sale of businesses, net	0.2	(20.8)	)—
Loss on early extinguishment of debt	—	—	75.4
Equity income of unconsolidated subsidiaries	(1.2)	) (2.0)	) (2.3)
Interest income	(3.7)	) (4.4)	) (2.0)
Interest expense	72.3	75.3	70.2
Income (loss) from continuing operations before income taxes and noncontrolling interest	784.3	694.5	(146.1)
Provision (benefit) for income taxes	177.3	177.0	(67.2)
Net income (loss) from continuing operations before noncontrolling interest	607.0	517.5	(78.9)
Income (loss) from discontinued operations, net of tax	(6.4)	) 25.9	(25.7)
Loss from sale / impairment of discontinued operations, net of tax	(385.7)	) (0.8)	) —
Net income (loss) before noncontrolling interest	214.9	542.6	(104.6)
Noncontrolling interest	—	5.8	2.6
Net income (loss) attributable to Pentair plc	\$214.9	\$536.8	\$(107.2)
Net income (loss) from continuing operations attributable to Pentair plc	\$607.0	\$511.7	\$(81.5)
Comprehensive income (loss), net of tax			
Net income (loss) before noncontrolling interest	\$214.9	\$542.6	\$(104.6)
Changes in cumulative translation adjustment	(336.3)	) (29.1)	) 31.4
Amortization of pension and other post-retirement prior service cost, net of \$0, \$0.2 and \$0.2 tax, respectively	—	(0.4)	) (0.3)
Changes in market value of derivative financial instruments, net of \$1.1, \$0.7 and \$3.7 tax, respectively	(0.4)	) (0.3)	) (3.6)
Total comprehensive income (loss)	(121.8)	) 512.8	(77.1)
Less: Comprehensive income attributable to noncontrolling interest	—	8.0	4.0
Comprehensive income (loss) attributable to Pentair plc	\$(121.8)	) \$504.8	\$(81.1)
Earnings (loss) per ordinary share attributable to Pentair plc			
Basic			
Continuing operations	\$3.19	\$2.54	\$(0.64)
Discontinued operations	(2.06)	) 0.13	(0.20)
Basic earnings (loss) per ordinary share attributable to Pentair plc	\$1.13	\$2.67	\$(0.84)
Diluted			
Continuing operations	\$3.14	\$2.50	\$(0.64)
Discontinued operations	(2.03)	) 0.12	(0.20)
Diluted earnings (loss) per ordinary share attributable to Pentair plc	\$1.11	\$2.62	\$(0.84)
Weighted average ordinary shares outstanding			

Basic	190.6	201.1	127.4
Diluted	193.7	204.6	127.4

See accompanying notes to consolidated financial statements.

51

---

Pentair plc and Subsidiaries  
Consolidated Balance Sheets

In millions, except per-share data	December 31	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 110.4	\$ 256.0
Accounts and notes receivable, net of allowances of \$96.5 and \$112.4, respectively	1,205.9	1,285.0
Inventories	1,130.4	1,195.1
Other current assets	366.8	361.6
Current assets held for sale	80.6	134.4
Total current assets	2,894.1	3,232.1
Property, plant and equipment, net	950.0	1,044.3
Other assets		
Goodwill	4,741.9	4,860.7
Intangibles, net	1,608.1	1,749.9
Other non-current assets	436.2	390.0
Non-current assets held for sale	24.9	466.3
Total other assets	6,811.1	7,466.9
Total assets	\$ 10,655.2	\$ 11,743.3
Liabilities and Equity		
Current liabilities		
Current maturities of long-term debt and short-term borrowings	\$ 6.7	\$ 2.5
Accounts payable	583.1	576.9
Employee compensation and benefits	305.5	312.4
Other current liabilities	709.1	645.9
Current liabilities held for sale	35.1	72.5
Total current liabilities	1,639.5	1,610.2
Other liabilities		
Long-term debt	2,997.4	2,547.9
Pension and other post-retirement compensation and benefits	322.0	320.2
Deferred tax liabilities	528.3	557.0
Other non-current liabilities	497.7	456.4
Non-current liabilities held for sale	6.5	33.9
Total liabilities	5,991.4	5,525.6
Equity		
Ordinary shares \$0.01 and CHF 0.50 par value, 426.0 and 213.0 authorized, 202.4 and 213.0 issued at December 31, 2014 and December 31, 2013, respectively	2.0	113.5
Ordinary shares held in treasury, 19.9 and 15.6 shares at December 31, 2014 and December 31, 2013, respectively	(1,251.9	)(875.1
Additional paid-in capital	4,250.0	5,071.4
Retained earnings	2,044.0	1,829.1
Accumulated other comprehensive loss	(380.3	)(43.6
Shareholders' equity attributable to Pentair plc	4,663.8	6,095.3
Noncontrolling interest	—	122.4
Total equity	4,663.8	6,217.7
Total liabilities and equity	\$ 10,655.2	\$ 11,743.3
See accompanying notes to consolidated financial statements.		



Pentair plc and Subsidiaries  
Consolidated Statements of Cash Flows

In millions	Years ended December 31		
	2014	2013	2012
<b>Operating activities</b>			
Net income (loss) before noncontrolling interest	\$214.9	\$542.6	\$(104.6)
(Income) loss from discontinued operations, net of tax	6.4	(25.9)	)25.7
Loss from sale / impairment of discontinued operations, net of tax	385.7	0.8	—
Adjustments to reconcile net income (loss) from continuing operations before noncontrolling interest to net cash provided by (used for) operating activities of continuing operations			
Equity income of unconsolidated subsidiaries	(1.2)	)(2.0	)(2.3)
Depreciation	138.7	141.3	85.2
Amortization	114.0	134.1	74.9
Loss (gain) on sale of businesses, net	0.2	(20.8)	)—
Deferred income taxes	2.0	54.0	(138.9)
Share-based compensation	33.6	31.1	35.8
Impairment of trade names	—	11.0	60.7
Loss on early extinguishment of debt	—	—	75.4
Excess tax benefits from share-based compensation	(12.6)	)(16.8	)(5.0)
Pension and other post-retirement expense (income)	76.2	(31.3)	)167.5
Pension and other post-retirement contributions	(27.7)	)(34.0	)(238.0)
Loss (gain) on sale of assets	(1.5)	)3.9	(2.4)
Changes in assets and liabilities, net of effects of business acquisitions			
Accounts and notes receivable	9.0	(106.3)	)31.2
Inventories	(3.7)	)58.1	108.3
Other current assets	(22.0)	)(5.7	)(0.2)
Accounts payable	34.5	41.1	(53.8)
Employee compensation and benefits	13.2	66.3	(91.9)
Other current liabilities	58.5	41.2	69.2
Other non-current assets and liabilities	(13.2)	)48.6	(30.9)
Net cash provided by (used for) operating activities of continuing operations	1,005.0	931.3	65.9
Net cash provided by (used for) operating activities of discontinued operations	3.4	(3.4)	)(22.2)
Net cash provided by (used for) operating activities	1,008.4	927.9	43.7
<b>Investing activities</b>			
Capital expenditures	(129.6)	)(170.0	)(94.5)
Proceeds from sale of property and equipment	13.1	6.0	5.5
Proceeds from sale of businesses, net	0.3	43.5	—
Acquisitions, net of cash acquired	(12.3)	)(92.4	)470.5
Other	0.2	1.7	(5.9)
Net cash provided by (used for) investing activities	(128.3)	)(211.2	)375.6
<b>Financing activities</b>			
Net receipts (repayments) of short-term borrowings	0.5	—	(3.7)
Net receipts of commercial paper and revolving long-term debt	468.6	104.2	253.8
Proceeds from long-term debt	2.2	0.7	594.3
Repayment of long-term debt	(16.8)	)(7.4	)(617.2)
Debt issuance costs	(3.1)	)(1.4	)(9.7)
Debt extinguishment costs	—	—	(74.8)
Excess tax benefits from share-based compensation	12.6	16.8	5.0



Edgar Filing: PENTAIR plc - Form 10-K

Shares issued to employees, net of shares withheld	37.0	80.0	68.2	
Repurchases of ordinary shares	(1,150.0)	(715.8)	(334.2)	)
Dividends paid	(211.4)	(194.2)	(112.4)	)
Purchase of / distribution to noncontrolling interest	(134.7)	(2.0)	(1.6)	)
Net cash provided by (used for) financing activities	(995.1)	(719.1)	(232.3)	)
Effect of exchange rate changes on cash and cash equivalents	(30.6)	21.0	0.3	
Change in cash and cash equivalents	(145.6)	18.6	187.3	
Cash and cash equivalents, beginning of year	256.0	237.4	50.1	
Cash and cash equivalents, end of year	\$110.4	\$256.0	\$237.4	
See accompanying notes to consolidated financial statements.				

53

---

## Pentair plc and Subsidiaries

## Consolidated Statements of Changes in Equity

In millions	Ordinary shares		Treasury shares		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair plc	Non-controlling interest	Total
	Number	Amount	Number	Amount						
Balance - December 31, 2011	98.6	\$47.5	—	\$—	\$457.8	\$1,465.8	\$ (37.7 )	\$1,933.4	\$ 114.0	\$2,047.4
Net income (loss)	—	—	—	—	—	(107.2 )	—	(107.2 )	2.6	(104.6 )
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	26.1	26.1	1.4	27.5
Tax benefit of share-based compensation	—	—	—	—	5.6	—	—	5.6	—	5.6
Dividends declared	—	—	—	—	(141.1 )	(66.3 )	—	(207.4 )	—	(207.4 )
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(1.6 )	(1.6 )
Issuance of shares related to the Merger	113.6	65.5	(2.7 )	(119.6 )	4,985.8	—	—	4,931.7	—	4,931.7
Share repurchase	—	—	(7.3 )	(334.2 )	—	—	—	(334.2 )	—	(334.2 )
Exercise of options, net of shares tendered for payment	0.7	0.4	2.3	97.6	(7.8 )	—	—	90.2	—	90.2
Issuance of restricted shares, net of cancellations	0.2	0.1	1.2	59.8	(40.9 )	—	—	19.0	—	19.0
Shares surrendered by employees to pay taxes	(0.1 )	—	(0.4 )	(19.1 )	(2.8 )	—	—	(21.9 )	—	(21.9 )
Share-based compensation	—	—	—	—	35.8	—	—	35.8	—	35.8
Balance - December 31, 2012	213.0	\$113.5	(6.9 )	\$(315.5 )	\$5,292.4	\$1,292.3	\$ (11.6 )	\$6,371.1	\$ 116.4	\$6,487.5
Net income	—	—	—	—	—	536.8	—	536.8	5.8	542.6
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(32.0 )	(32.0 )	2.2	(29.8 )

Edgar Filing: PENTAIR plc - Form 10-K

Tax benefit of share-based compensation	—	—	—	—	22.6	—	—	22.6	—	22.6
Dividends declared	—	—	—	—	(198.5)	—	—	(198.5)	—	(198.5)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(2.0)	(2.0)
Share repurchase	—	—	(12.3)	(715.8)	—	—	—	(715.8)	—	(715.8)
Exercise of options, net of shares tendered for payment	—	—	3.0	131.8	(35.6)	—	—	96.2	—	96.2
Issuance of restricted shares, net of cancellations	—	—	0.9	37.0	(37.0)	—	—	—	—	—
Shares surrendered by employees to pay taxes	—	—	(0.3)	(12.6)	(3.6)	—	—	(16.2)	—	(16.2)
Share-based compensation	—	—	—	—	31.1	—	—	31.1	—	31.1
Balance - December 31, 2013	213.0	\$113.5	(15.6)	\$(875.1)	\$5,071.4	\$1,829.1	\$(43.6)	\$6,095.3	\$122.4	\$6,217.7
Net income	—	—	—	—	—	214.9	—	214.9	—	214.9
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(336.7)	(336.7)	—	(336.7)
Tax benefit of share-based compensation	—	—	—	—	11.4	—	—	11.4	—	11.4
Conversion of Pentair Ltd. common shares to Pentair plc ordinary shares	—	(111.4)	—	—	111.4	—	—	—	—	—
Dividends declared	—	—	—	—	(229.5)	—	—	(229.5)	—	(229.5)
Purchase of noncontrolling interest	—	—	—	—	(12.3)	—	—	(12.3)	(122.4)	(134.7)
Share repurchase	(10.6)	(0.1)	(5.8)	(450.7)	(699.2)	—	—	(1,150.0)	—	(1,150.0)
Exercise of options, net of shares tendered for payment	—	—	1.3	60.9	(14.4)	—	—	46.5	—	46.5
Issuance of restricted shares,	—	—	0.3	19.3	(19.3)	—	—	—	—	—

net of cancellations Shares surrendered by employees to pay taxes	—	—	(0.1 )	(6.3 )	(3.1 )	—	—	(9.4 )	—	(9.4 )
Share-based compensation	—	—	—	—	33.6	—	—	33.6	—	33.6
Balance - December 31, 2014	202.4	\$2.0	(19.9 )	\$(1,251.9)	\$4,250.0	\$2,044.0	\$ (380.3 )	\$4,663.8	\$ —	\$4,663.8

See accompanying notes to consolidated financial statements.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

1. Basis of Presentation and Summary of Significant Accounting Policies

Business

Pentair plc and its consolidated subsidiaries (the "Company" or "Pentair") is a focused diversified industrial manufacturing company comprising four reporting segments: Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions.

In December 2013, the Company's Board of Directors approved changing the Company's jurisdiction of organization from Switzerland to Ireland. At an extraordinary meeting of shareholders on May 20, 2014, Pentair Ltd. shareholders voted in favor of a reorganization proposal pursuant to which Pentair Ltd. would merge into Pentair plc, an Irish company, and all Pentair Ltd. CHF 0.50 par value common shares would be canceled and all holders of such shares would receive \$0.01 par value ordinary shares of Pentair plc on a one-for-one basis. The reorganization transaction was completed on June 3, 2014, at which time Pentair plc replaced Pentair Ltd. as our ultimate parent company (the "Redomicile"). Shares of Pentair plc began trading on the New York Stock Exchange on June 3, 2014 under the symbol "PNR," the same symbol under which Pentair Ltd. shares were previously traded. Although our jurisdiction of organization is Ireland, we manage our affairs so that we are centrally managed and controlled in the United Kingdom (the "U.K.") and therefore have our tax residency in the U.K.

Basis of presentation

The accompanying consolidated financial statements include the accounts of Pentair and all subsidiaries, both the United States ("U.S.") and non-U.S., which we control. Intercompany accounts and transactions have been eliminated. Investments in companies of which we own 20% to 50% of the voting stock or have the ability to exercise significant influence over operating and financial policies of the investee are accounted for using the equity method of accounting and as a result, our share of the earnings or losses of such equity affiliates is included in the Consolidated Statements of Operations and Comprehensive Income (Loss).

The consolidated financial statements have been prepared in U.S. dollars ("USD") and in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Fiscal year

Our fiscal year ends on December 31. We report our interim quarterly periods on a 13-week basis ending on a Saturday.

Use of estimates

The preparation of our consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include our accounting for valuation of goodwill and indefinite lived intangible assets, estimated losses on accounts receivable, estimated realizable value on excess and obsolete inventory, percentage of completion revenue recognition, assets acquired and liabilities assumed in acquisitions, estimated selling proceeds from assets held for sale, contingent liabilities, income taxes and pension and other post-retirement benefits. Actual results could differ from our estimates.

Revenue recognition

We recognize revenue when it is realized or realizable and has been earned. Revenue is recognized when persuasive evidence of an arrangement exists, shipment or delivery has occurred (depending on the terms of the sale), our price to the buyer is fixed or determinable, and collectability is reasonably assured.

Generally, there is no post-shipment obligation on product sold other than warranty obligations in the normal and ordinary course of business. In the event significant post-shipment obligations were to exist, revenue recognition would be deferred until substantially all obligations were satisfied.

Percentage of completion

Revenue from certain long-term contracts is recognized over the contractual period under the percentage of completion method of accounting. Under this method, sales and gross profit are recognized as work is performed

either based on the relationship between the actual costs incurred and the total estimated costs at completion (“the cost-to-cost method”) or based on efforts for measuring progress towards completion in situations in which this approach is more representative of the progress on the contract than the cost-to-cost method. Changes to the original estimates may be required during the life of the contract and such estimates are reviewed on a regular basis. Sales and gross profit are adjusted using the cumulative catch-up method for revisions in estimated total contract costs. These reviews have not resulted in adjustments that were significant to our results of operations. Estimated losses are recorded when identified. Claims against customers are recognized as revenue upon settlement.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

We record costs and earnings in excess of billings on uncompleted contracts within Other current assets and billings in excess of costs and earnings on uncompleted contracts within Other current liabilities in the Consolidated Balance Sheets. Amounts included in Other current assets related to these contracts were \$103.5 million and \$91.6 million at December 31, 2014 and 2013, respectively. Amounts included in Other current liabilities related to these contracts were \$41.4 million and \$35.4 million at December 31, 2014 and 2013, respectively.

Sales returns

The right of return may exist explicitly or implicitly with our customers. Generally, our return policy allows for customer returns only upon our authorization. Goods returned must be product we continue to market and must be in salable condition. Returns of custom or modified goods are normally not allowed. At the time of sale, we reduce revenue for the estimated effect of returns. Estimated sales returns include consideration of historical sales levels, the timing and magnitude of historical sales return levels as a percent of sales, type of product, type of customer and a projection of this experience into the future.

Pricing and sales incentives

We record estimated reductions to revenue for customer programs and incentive offerings including pricing arrangements, promotions and other volume-based incentives at the later of the date revenue is recognized or the incentive is offered. Sales incentives given to our customers are recorded as a reduction of revenue unless we (1) receive an identifiable benefit for the goods or services in exchange for the consideration and (2) we can reasonably estimate the fair value of the benefit received.

Pricing is established at or prior to the time of sale with our customers and we record sales at the agreed-upon net selling price. However, one of our businesses allows customers to apply for a refund of a percentage of the original purchase price if they can demonstrate sales to a qualifying end customer. At the time of sale, we estimate the anticipated refund to be paid based on historical experience and reduce sales for the probable cost of the discount. The cost of these refunds is recorded as a reduction in gross sales.

Volume-based incentives involve rebates that are negotiated at or prior to the time of sale with the customer and are redeemable only if the customer achieves a specified cumulative level of sales or sales increase. Under these incentive programs, at the time of sale, we reforecast the anticipated rebate to be paid based on forecasted sales levels. These forecasts are updated at least quarterly for each customer and sales are reduced for the anticipated cost of the rebate. If the forecasted sales for a customer changes, the accrual for rebates is adjusted to reflect the new amount of rebates expected to be earned by the customer.

Shipping and handling costs

Amounts billed to customers for shipping and handling are recorded in Net sales in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss). Shipping and handling costs incurred by Pentair for the delivery of goods to customers are included in Cost of goods sold in the accompanying Consolidated Statements of Operations and Comprehensive Income (Loss).

Research and development

We conduct research and development (“R&D”) activities in our own facilities, which consist primarily of the development of new products, product applications and manufacturing processes. We expense R&D costs as incurred. R&D expenditures during 2014, 2013 and 2012 were \$117.3 million, \$122.8 million and \$92.3 million, respectively.

Cash equivalents

We consider highly liquid investments with original maturities of three months or less to be cash equivalents.

Trade receivables and concentration of credit risk

We record an allowance for doubtful accounts, reducing our receivables balance to an amount we estimate is collectible from our customers. Estimates used in determining the allowance for doubtful accounts are based on current trends, aging of accounts receivable, periodic credit evaluations of our customers’ financial condition, and historical collection experience. We generally do not require collateral. No customer receivable balances exceeded 10% of total net receivable balances as of December 31, 2014 or December 31, 2013.

Inventories

Inventories are stated at the lower of cost or market with substantially all inventories recorded using the first-in, first-out (“FIFO”) cost method and with an insignificant amount of inventories located outside the United States recorded using a moving average cost method which approximates FIFO.



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Property, plant and equipment, net

Property, plant and equipment is stated at historical cost. We compute depreciation by the straight-line method based on the following estimated useful lives:

	Years
Land improvements	5 to 20
Buildings and leasehold improvements	5 to 50
Machinery and equipment	3 to 15

Significant improvements that add to productive capacity or extend the lives of properties are capitalized. Costs for repairs and maintenance are charged to expense as incurred. When property is retired or otherwise disposed of, the recorded cost of the assets and their related accumulated depreciation are removed from the Consolidated Balance Sheets and any related gains or losses are included in income.

We review the recoverability of long-lived assets to be held and used, such as property, plant and equipment, when events or changes in circumstances occur that indicate the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset or asset group, an impairment loss is recognized for the difference between estimated fair value and carrying value. Impairment losses on long-lived assets held for sale are determined in a similar manner, except that fair values are reduced for the cost to dispose of the assets. The measurement of impairment requires us to estimate future cash flows and the fair value of long-lived assets. During 2014 and 2013, we recorded impairment charges of \$20.9 million and \$16.6 million, respectively, in conjunction with restructuring activities. There were no material impairment charges recorded related to long-lived assets in 2012.

Goodwill and identifiable intangible assets

Goodwill

Goodwill represents the excess of the cost of acquired businesses over the net of the fair value of identifiable tangible net assets and identifiable intangible assets purchased and liabilities assumed.

Goodwill is tested annually for impairment and is tested for impairment more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is performed using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. If the estimated fair value is less than the carrying amount of the reporting unit there is an indication that goodwill impairment exists and a second step must be completed in order to determine the amount of the goodwill impairment, if any, that should be recorded. In the second step, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation.

The fair value of each reporting unit is determined using a discounted cash flow analysis and market approach. Projecting discounted future cash flows requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital and the appropriate discount rate. Use of the market approach consists of comparisons to comparable publicly-traded companies that are similar in size and industry. Actual results may differ from those used in our valuations. This non-recurring fair value measurement is a "Level 3" measurement under the fair value hierarchy described below.

In developing our discounted cash flow analysis, assumptions about future revenues and expenses, capital expenditures and changes in working capital, are based on our annual operating plan and long-term business plan for each of our reporting units. These plans take into consideration numerous factors including historical experience, anticipated future economic conditions, changes in raw material prices and growth expectations for the industries and end markets we participate in. These assumptions are determined over a six year long-term planning period. The six year growth rates for revenues and operating profits vary for each reporting unit being evaluated. Revenues and

operating profit beyond 2020 are projected to grow at a perpetual growth rate of 3.0%.

Discount rate assumptions for each reporting unit take into consideration our assessment of risks inherent in the future cash flows of the respective reporting unit and our weighted-average cost of capital. We utilized discount rates ranging from 11.0% to 12.0% in determining the discounted cash flows in our fair value analysis.

In estimating fair value using the market approach, we identify a group of comparable publicly-traded companies for each reporting unit that are similar in terms of size and product offering. These groups of comparable companies are used to develop

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

multiples based on total market-based invested capital as a multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"). We determine our estimated values by applying these comparable EBITDA multiples to the operating results of our reporting units. The ultimate fair value of each reporting unit is determined considering the results of both valuation methods.

We completed step one of our annual goodwill impairment evaluation during the fourth quarter of 2014, 2013 and 2012 with each reporting unit's fair value exceeding its carrying value. Accordingly, step two of the impairment analysis was not required for 2014, 2013 or 2012.

Identifiable intangible assets

Our primary identifiable intangible assets include: customer relationships, trade names, proprietary technology, patents and backlog. Identifiable intangibles with finite lives are amortized and those identifiable intangibles with indefinite lives are not amortized. Identifiable intangible assets that are subject to amortization are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Identifiable intangible assets not subject to amortization are tested for impairment annually or more frequently if events warrant.

The impairment test for trade names consists of a comparison of the fair value of the trade name with its carrying value. Fair value 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. The non-recurring fair value measurement is a "Level 3" measurement under the fair value hierarchy described below. The impairment charges recorded in 2013 and 2012 were the result of rebranding strategies implemented in the fourth quarters of 2013 and 2012, respectively.

At December 31, 2014 our goodwill and intangible assets were \$6,350.0 million and represented 60% of our total assets. If we experience future declines in sales and operating profit or do not meet our operating forecasts, we may be subject to future impairments. Additionally, changes in assumptions regarding the future performance of our businesses, increases in the discount rate used to determine the discounted cash flows of our businesses or significant declines in our share price or the market as a whole could result in additional impairment indicators. Because of the significance of our goodwill and intangible assets, any future impairment of these assets could have a material adverse effect on our financial results.

Equity and cost method investments

We have investments that are accounted for using the equity method. Our proportionate share of income or losses from investments accounted for under the equity method is recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss). We write down or write off an investment and recognize a loss when events or circumstances indicate there is impairment in the investment that is other-than-temporary. This requires significant judgment, including assessment of the investees' financial condition and in certain cases the possibility of subsequent rounds of financing, as well as the investees' historical and projected results of operations and cash flows. If the actual outcomes for the investees are significantly different from projections, we may incur future charges for the impairment of these investments. Our investment in and loans to equity method investees was \$12.9 million and \$12.2 million at December 31, 2014 and December 31, 2013, respectively, net of our proportionate share of the results of their operations.

Investments for which we do not have significant influence are accounted for under the cost method. The aggregate balance of these investments was \$8.6 million and \$8.3 million at December 31, 2014 and December 31, 2013.

Income taxes

We use the asset and liability approach to account for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the carrying amounts of assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is

recognized in income in the period when the change is enacted. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Changes in valuation allowances from period to period are included in our tax provision in the period of change. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pension and other post-retirement plans

We sponsor U.S. and Non-U.S. defined-benefit pension and other post-retirement plans. The pension and other post-retirement benefit costs for company-sponsored benefit plans are determined from actuarial assumptions and methodologies, including discount rates, expected returns on plan assets and health care cost trend rates. These assumptions are updated annually and are disclosed in Note 13.

We recognize changes in the fair value of plan assets and net actuarial gains or losses for pension and other post-retirement benefits annually in the fourth quarter each year ("mark-to-market adjustment") and, if applicable, in any quarter in which an interim remeasurement is triggered. Net actuarial gains and losses occur when the actual experience differs from any of the various assumptions used to value our pension and other post-retirement plans or when assumptions change, as they may each year. The remaining components of pension expense, primarily service and interest costs and estimated return on plan assets, are recorded on a quarterly basis.

Environmental

We recognize environmental clean-up liabilities on an undiscounted basis when a loss is probable and can be reasonably estimated. Such liabilities generally are not subject to insurance coverage. The cost of each environmental clean-up is estimated by engineering, financial and legal specialists based on current law. Such estimates are based primarily upon the estimated cost of investigation and remediation required and the likelihood that, where applicable, other potentially responsible parties ("PRPs") will be able to fulfill their commitments at the sites where Pentair may be jointly and severally liable. The process of estimating environmental clean-up liabilities is complex and dependent primarily on the nature and extent of historical information and physical data relating to a contaminated site, the complexity of the site, the uncertainty as to what remedy and technology will be required and the outcome of discussions with regulatory agencies and other PRPs at multi-party sites. In future periods, new laws or regulations, advances in clean-up technologies and additional information about the ultimate clean-up remedy that is used could significantly change our estimates. Accruals for environmental liabilities are included in Other current liabilities and Other non-current liabilities in the Consolidated Balance Sheets.

Asbestos Matters

We recognize asbestos-related liabilities on an undiscounted basis when a loss is probable and can be reasonably estimated. Certain of these liabilities are subject to insurance coverage. Our subsidiaries and numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. These cases typically involve product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were attached to or used with asbestos-containing components manufactured by third-parties. The process of estimating asbestos-related liabilities and the corresponding insurance recoveries receivable is complex and dependent primarily on our historical claim experience, estimates of potential future claims, our legal strategy for resolving these claims, the availability of insurance coverage, and the solvency and creditworthiness of insurers. On an annual basis, we review, and update as appropriate, such estimated asbestos liabilities and assets and the underlying assumptions.

Accruals for asbestos-related liabilities are included in Other non-current liabilities and the estimated receivable for insurance recoveries are recorded in Other non-current assets in the Consolidated Balance Sheets.

Insurance subsidiary

We insure certain general and product liability, property, workers' compensation and automobile liability risks through our regulated wholly-owned captive insurance subsidiary, Penwald Insurance Company ("Penwald"). Reserves for policy claims are established based on actuarial projections of ultimate losses. As of December 31, 2014 and 2013, reserves for policy claims were \$58.1 million (\$13.2 million included in Other current liabilities and \$44.9 million included in Other non-current liabilities) and \$51.1 million (\$13.2 million included in Other current liabilities and \$37.9 million included in Other non-current liabilities), respectively.

Share-based compensation

We account for share-based compensation awards on a fair value basis. The estimated grant date fair value of each option award is recognized in income on an accelerated basis over the requisite service period (generally the vesting

period). The estimated fair value of each option award is calculated using the Black-Scholes option-pricing model. From time to time, we have elected to modify the terms of the original grant. These modified grants are accounted for as a new award and measured using the fair value method, resulting in the inclusion of additional compensation expense in our Consolidated Statements of Operations and Comprehensive Income (Loss). Restricted share awards and units are recorded as compensation cost on an accelerated basis over the requisite service periods based on the market value on the date of grant.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Earnings (loss) per ordinary share

Basic earnings (loss) per share are computed by dividing net income (loss) attributable to Pentair plc by the weighted-average number of ordinary shares outstanding. Diluted earnings (loss) per share are computed by dividing net income (loss) attributable to Pentair plc by the weighted-average number of ordinary shares outstanding including the dilutive effects of ordinary share equivalents.

Derivative financial instruments

We recognize all derivatives, including those embedded in other contracts, as either assets or liabilities at fair value in our Consolidated Balance Sheets. If the derivative is designated and is effective as a cash-flow hedge, changes in the fair value of the derivative are recorded in Accumulated other comprehensive income (loss) ("AOCI") as a separate component of equity in the Consolidated Balance Sheets and is recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) when the hedged item affects earnings. If the underlying hedged transaction ceases to exist or if the hedge becomes ineffective, all changes in fair value of the related derivatives that have not been settled are recognized in current earnings. For a derivative that is not designated as or does not qualify as a hedge, changes in fair value are reported in earnings immediately.

We use derivative instruments for the purpose of hedging interest rate and currency exposures, which exist as part of ongoing business operations. We do not hold or issue derivative financial instruments for trading or speculative purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of and have been designated as, normal purchases or sales. Our policy is not to enter into contracts with terms that cannot be designated as normal purchases or sales. From time to time, we may enter into short duration foreign currency contracts to hedge foreign currency risks.

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.

Foreign currency translation

The financial statements of subsidiaries located outside of the U.S. are generally measured using the local currency as the functional currency, except for certain corporate entities outside of the U.S. which are measured using USD. Assets and liabilities of these subsidiaries are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average monthly rates of exchange. The resultant translation adjustments are included in AOCI, a separate component of equity.

New accounting standards

In May 2014, the Financial Accounting Standards Board 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, 2016, including interim periods within that reporting period, with earlier adoption not permitted. We have not yet determined the potential effects on

our financial condition or results of operations.

60

---



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

## 2. Acquisitions

### Material acquisitions

Our former parent, Pentair Ltd., took its form on September 28, 2012 as a result of a reverse acquisition (the "Merger") involving Pentair, Inc. and an indirect, wholly-owned subsidiary of Flow Control (defined below), with Pentair, Inc. surviving as an indirect, wholly-owned subsidiary of Pentair Ltd. "Flow Control" refers to Pentair Ltd. prior the Merger. Prior to the Merger, Tyco International Ltd. ("Tyco") engaged in an internal restructuring whereby it transferred to Flow Control certain assets related to the flow control business of Tyco, and Flow Control assumed from Tyco certain liabilities related to the flow control business of Tyco. On September 28, 2012 prior to the Merger, Tyco effected a spin-off of Flow Control through the pro-rata distribution of 100% of the outstanding ordinary shares of Flow Control to Tyco's shareholders (the "Distribution"), resulting in the distribution of approximately 110.9 million of our ordinary shares to Tyco's shareholders. The Merger was accounted for as a reverse acquisition under the purchase method of accounting with Pentair, Inc. treated as the acquirer.

### Pro forma results of material acquisitions

The following unaudited pro forma condensed consolidated financial results of operations are presented as if the Merger had been completed on January 1, 2011:

In millions, except per-share data	Year ended December 31
	2012
Pro forma net sales	\$6,846.6
Pro forma net income from continuing operations attributable to Pentair plc	183.3
Diluted earnings from continuing operations per ordinary share attributable to Pentair plc	0.87

The 2012 unaudited pro forma net income excludes the impact of \$57.3 million of transaction related costs, \$21.8 million of change of control costs and \$156.2 million of non-recurring items related to acquisition date fair value adjustments to inventory and customer backlog associated with the Merger.

The pro forma consolidated financial information was prepared for comparative purposes only and includes certain adjustments, as noted above. The adjustments are estimates based on currently available information and actual amounts may have differed materially from these estimates. They do not reflect the effect of costs or synergies that would have been expected to result from the integration of Flow Control. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the business combination occurred at the beginning of the period presented or of future results of the consolidated entities.

### Other acquisitions

On January 30, 2014, we acquired, as part of Process Technologies, the remaining 19.9 percent ownership interest in two entities, a U.S. entity and an international entity (collectively, Pentair Residential Filtration or "PRF"), from GE Water & Process Technologies (a unit of General Electric Company) ("GE") for \$134.3 million in cash. Prior to the acquisition, we held a 80.1 percent ownership equity interest in PRF, representing our and GE's respective global water softener and residential water filtration businesses. There was no material pro forma impact from this acquisition as the results of PRF were consolidated into our financial statements prior to acquiring the remaining interest.

On October 4, 2012, we acquired, as part of Valves & Controls, the remaining 25 percent equity interest in Pentair Middle East Holding S.a.r.l. ("KEF"), a privately held company, for \$100.0 million in cash. Prior to the acquisition, we held a 75 percent equity interest in KEF, a vertically integrated valve manufacturer in the Middle East. There was no pro forma impact from this acquisition as the results of KEF were consolidated into Flow Control's financial statements prior to acquiring the remaining 25 percent interest in KEF.

Additionally, during the year ended December 31, 2012, we completed other small acquisitions as part of Process Technologies with purchase prices totaling \$121.2 million in cash, net of cash acquired. Total goodwill recorded as part of the purchase price allocations was \$80.9 million, \$67.1 million of which is tax deductible. The pro forma impact of these acquisitions was not material.

Total transaction costs related to acquisition activities in 2013 and 2012 were \$8.2 million and \$57.3 million, respectively, and were expensed as incurred and recorded in Selling, general and administrative in our Consolidated Statements of Operations and Comprehensive Income (Loss).

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

### 3. Discontinued Operations and Divestitures

#### Discontinued Operations

On July 28, 2014, our Board of Directors approved a decision to exit our Water Transport business in Australia. The results of the Water Transport business have been presented as discontinued operations and the assets and liabilities of the Water Transport business have been reclassified as held for sale for all periods presented.

During the third quarter of 2014, we recognized an impairment charge related to allocated amounts of goodwill, intangible assets, property, plant & equipment and other non-current assets totaling \$380.1 million, net of a \$12.3 million tax benefit, representing our estimated loss on disposal of the Water Transport business. The impairment charge was determined using significant unobservable inputs ("Level 3" fair value measurements). In addition, during the first quarter of 2014 and fourth quarter of 2013, we sold portions of our Water Transport business in Australia and New Zealand, respectively, resulting in losses of \$5.6 million, net of a \$2.4 million tax benefit, and \$0.8 million, net of a \$0.3 million tax benefit, respectively.

The sale of a portion of the Water Transport business was completed in January 2015. The remaining portions are expected to be disposed of by mid-2015.

Operating results of discontinued operations are summarized below:

In millions	Years ended December 31		
	2014	2013	2012
Net sales	\$295.8	\$490.1	\$112.1
Income (loss) from discontinued operations before income taxes	\$1.5	\$33.0	\$(37.9)
Income tax benefit (provision)	(7.9)	(7.1)	12.2
Income (loss) from discontinued operations, net of tax	\$(6.4)	\$25.9	\$(25.7)
Loss from sale / impairment of discontinued operations before income taxes	\$(400.4)	\$(1.1)	\$—
Income tax benefit	14.7	0.3	—
Loss from sale / impairment of discontinued operations, net of tax	\$(385.7)	\$(0.8)	\$—

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

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

In millions	December 31	
	2014	2013
Cash and cash equivalents	\$7.0	\$9.1
Accounts and notes receivable, net	28.8	49.3
Inventories	30.1	48.2
Other current assets	14.7	27.8
Current assets held for sale	\$80.6	\$134.4
Property, plant and equipment, net	\$18.5	\$125.7
Goodwill	—	273.5
Intangibles, net	—	26.2
Other non-current assets	6.4	40.9
Non-current assets held for sale	\$24.9	\$466.3
Accounts payable	\$12.2	\$19.7
Employee compensation and benefits	11.3	34.7
Other current liabilities	11.6	18.1
Current liabilities held for sale	\$35.1	\$72.5
Long-term debt	\$4.0	\$4.7
Pension and other post-retirement compensation and benefits	2.5	4.6
Deferred tax liabilities	—	23.6
Other non-current liabilities	—	1.0
Non-current liabilities held for sale	\$6.5	\$33.9

Divestitures

During 2013, we sold businesses that were part of Technical Solutions and Flow Technologies for a cash purchase price of \$30.1 million and \$13.4 million, respectively, net of transaction costs, resulting in a gain of \$16.8 million and \$4.0 million, respectively. Goodwill of \$5.3 million and \$5.7 million was included in the assets of the business sold for Technical Solutions and Flow Technologies, respectively.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

#### 4. Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share were calculated as follows:

In millions, except per share data	Years ended December 31		
	2014	2013	2012
Net income (loss) attributable to Pentair plc	\$214.9	\$536.8	\$(107.2)
Net income (loss) from continuing operations attributable to Pentair plc	\$607.0	\$511.7	\$(81.5)
Weighted average ordinary shares outstanding			
Basic	190.6	201.1	127.4
Dilutive impact of stock options and restricted stock awards	3.1	3.5	—
Diluted	193.7	204.6	127.4
Earnings (loss) per ordinary share attributable to Pentair plc			
Basic			
Continuing operations	\$3.19	\$2.54	\$(0.64)
Discontinued operations	(2.06)	)0.13	(0.20)
Basic earnings (loss) per ordinary share attributable to Pentair plc	\$1.13	\$2.67	\$(0.84)
Diluted			
Continuing operations	\$3.14	\$2.50	\$(0.64)
Discontinued operations	(2.03)	)0.12	(0.20)
Diluted earnings (loss) per ordinary share attributable to Pentair plc	\$1.11	\$2.62	\$(0.84)
Anti-dilutive stock options excluded from the calculation of diluted earnings per share	0.5	0.2	16.0

#### 5. Restructuring

During 2014, 2013 and 2012, we initiated and continued execution of certain business restructuring initiatives aimed at reducing our fixed cost structure and realigning our business. The 2014 initiatives included a reduction in hourly and salaried headcount of approximately 1,150 employees, which included 600 in Valves & Controls, 100 in Process Technologies, 300 in Flow Technologies and 150 in Technical Solutions. The 2013 initiatives included the reduction in hourly and salaried headcount of approximately 1,100 employees, which included 500 in Valves & Controls, 150 in Process Technologies, 150 in Flow Technologies and 300 in Technical Solutions. The 2012 initiatives included the reduction in hourly and salaried headcount of approximately 800 employees, which included 300 in Valves & Controls, 200 in Process Technologies, 100 in Flow Technologies and 200 in Technical Solutions.

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

In millions	Years ended December 31		
	2014	2013	2012
Severance and related costs	\$58.9	\$81.5	\$43.4
Other	29.4	21.7	5.3
Total restructuring costs	\$88.3	\$103.2	\$48.7

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

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Restructuring costs by reportable segment were as follows:

In millions	Years ended December 31		
	2014	2013	2012
Valves & Controls	\$48.8	\$51.0	\$5.1
Process Technologies	18.6	9.4	25.2
Flow Technologies	10.6	13.4	5.7
Technical Solutions	4.3	19.4	12.7
Other	6.0	10.0	—
Consolidated	\$88.3	\$103.2	\$48.7

Activity in the restructuring accrual recorded in Other current liabilities and Employee compensation and benefits in the Consolidated Balance Sheets is summarized as follows:

In millions	Years ended December 31	
	2014	2013
Beginning balance	\$68.6	\$40.4
Costs incurred	58.9	81.5
Cash payments and other	(54.1	)(53.3
Ending balance	\$73.4	\$68.6

6. Goodwill and Other Identifiable Intangible Assets

The changes in the carrying amount of goodwill for the year ended December 31, 2014 and December 31, 2013 by reportable segment were as follows:

In millions	December 31,	Acquisitions/	Foreign currency	December 31,
	2013	divestitures	translation/other	2014
Valves & Controls	\$1,511.6	\$—	\$—	\$1,511.6
Process Technologies	1,524.5	6.8	(79.8	)1,451.5
Flow Technologies	666.6	—	(38.1	)628.5
Technical Solutions	1,158.0	—	(7.7	)1,150.3
Total goodwill	\$4,860.7	\$6.8	\$(125.6	)\$4,741.9
In millions	December 31,	Acquisitions/	Foreign currency	December 31,
	2012	divestitures	translation/other	2013
Valves & Controls	\$1,511.6	\$—	\$—	\$1,511.6
Process Technologies	1,500.4	7.6	16.5	1,524.5
Flow Technologies	663.8	(5.7	)8.5	666.6
Technical Solutions	1,161.7	(5.3	)1.6	1,158.0
Total goodwill	\$4,837.5	\$(3.4	)\$26.6	\$4,860.7

Accumulated goodwill impairment losses were \$200.5 million as of December 31, 2014 and 2013.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Identifiable intangible assets consisted of the following at December 31:

In millions	2014			2013		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Finite-life intangibles						
Customer relationships	\$1,247.8	\$(325.2)	)\$922.6	\$1,271.2	\$(243.1)	)\$1,028.1
Trade names	2.0	(1.1)	)0.9	2.1	(0.9)	)1.2
Proprietary technology and patents	255.7	(96.7)	)159.0	263.7	(80.0)	)183.7
Total finite-life intangibles	1,505.5	(423.0)	)1,082.5	1,537.0	(324.0)	)1,213.0
Indefinite-life intangibles						
Trade names	525.6	—	525.6	536.9	—	536.9
Total intangibles	\$2,031.1	\$(423.0)	)\$1,608.1	\$2,073.9	\$(324.0)	)\$1,749.9

Identifiable intangible asset amortization expense in 2014, 2013 and 2012 was \$114.0 million, \$134.1 million and \$74.9 million, respectively.

There were no impairment charges recorded in 2014. In 2013 we recorded an impairment charge for trade name intangible assets of \$11.0 million in Technical Solutions. In 2012 we recorded an impairment charge for trade name intangible assets of \$23.2 million, \$25.9 million and \$11.6 million in Process Technologies, Flow Technologies and Technical Solutions, respectively.

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

In millions	2015	2016	2017	2018	2019
Estimated amortization expense	\$111.5	\$110.6	\$109.0	\$106.5	\$99.4

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

## 7. Supplemental Balance Sheet Information

In millions	December 31	
	2014	2013
Inventories		
Raw materials and supplies	\$460.1	\$549.8
Work-in-process	229.0	164.4
Finished goods	441.3	480.9
Total inventories	\$1,130.4	\$1,195.1
Other current assets		
Cost in excess of billings	\$103.5	\$91.6
Prepaid expenses	109.6	97.6
Deferred income taxes	139.4	149.7
Other current assets	14.3	22.7
Total other current assets	\$366.8	\$361.6
Property, plant and equipment, net		
Land and land improvements	\$165.1	\$186.4
Buildings and leasehold improvements	493.5	502.6
Machinery and equipment	1,169.1	1,155.1
Construction in progress	71.0	70.9
Total property, plant and equipment	1,898.7	1,915.0
Accumulated depreciation and amortization	948.7	870.7
Total property, plant and equipment, net	\$950.0	\$1,044.3
Other non-current assets		
Asbestos-related insurance receivable	\$115.8	\$119.6
Deferred income taxes	87.9	92.4
Other non-current assets	232.5	178.0
Total other non-current assets	\$436.2	\$390.0
Other current liabilities		
Deferred revenue and customer deposits	\$112.7	\$90.8
Dividends payable	116.8	98.7
Billings in excess of cost	41.4	35.4
Accrued warranty	66.4	56.0
Other current liabilities	371.8	365.0
Total other current liabilities	\$709.1	\$645.9
Other non-current liabilities		
Asbestos-related liabilities	\$249.1	\$254.7
Taxes payable	61.6	48.9
Other non-current liabilities	187.0	152.8
Total other non-current liabilities	\$497.7	\$456.4

## 8. Supplemental Cash Flow Information

In millions	Years ended December 31		
	2014	2013	2012
Cash paid for interest, net	\$67.5	\$69.4	\$66.7
Cash paid for income taxes, net	134.2	91.2	82.0





Pentair plc and Subsidiaries  
Notes to consolidated financial statements

## 9. Accumulated Other Comprehensive Income (Loss)

Components of AOCI consist of the following:

In millions	December 31	
	2014	2013
Cumulative translation adjustments	\$(371.0)	\$(34.7)
Market value of derivative financial instruments, net of tax	(9.3)	(8.9)
Accumulated other comprehensive loss	\$(380.3)	\$(43.6)

## 10. Debt

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

In millions	Average interest rate at December 31, 2014	Maturity year	December 31	
			2014	2013
Commercial paper	0.679%	2019	\$987.6	\$528.9
Revolving credit facilities	1.421%	2019	9.8	—
Senior notes - fixed rate	1.350%	2015	350.0	350.0
Senior notes - fixed rate	1.875%	2017	350.0	350.0
Senior notes - fixed rate	2.650%	2019	250.0	250.0
Senior notes - fixed rate	5.000%	2021	500.0	500.0
Senior notes - fixed rate	3.150%	2022	550.0	550.0
Capital lease obligations	6.195%	2015	6.7	21.5
Total debt			3,004.1	2,550.4
Less: Current maturities and short-term borrowings			(6.7)	(2.5)
Long-term debt			\$2,997.4	\$2,547.9

The 1.35% Senior Notes due 2015, 1.875% Senior Notes due 2017, 2.65% Senior Notes due 2019, 3.15% Senior Notes due 2022 and \$373.0 million of the 5.00% Senior Notes due 2021 (collectively, the “Notes”) were all issued in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. In March 2013, Pentair Ltd. and our 100 percent-owned subsidiary, Pentair Finance S.A. (“PFSA”), filed a Registration Statement with the SEC offering to exchange the Notes for new, registered Notes. The exchange offer expired on April 19, 2013 and did not impact the aggregate principal amount or the terms of the Notes outstanding. Effective upon the Redomicile, the Notes are guaranteed as to payment by Pentair plc and Pentair Investments Switzerland GmbH (“PISG”), a 100-percent owned subsidiary of Pentair plc and the 100-percent owner of PFSA. Prior to the Redomicile, the registered Notes were guaranteed as to payment by Pentair Ltd.

In December 2012, PFSA completed an exchange offer (the “Exchange Offer”) pursuant to which it exchanged \$373.0 million in aggregate principal amount of 5.00% Senior Notes due 2021 of Pentair, Inc., a wholly-owned, indirect subsidiary of the Company (the “2021 Notes”) for a like amount of new 5.00% Senior Notes due 2021 of PFSA (the “New 2021 Notes”) plus \$5.6 million in transaction-related costs. Upon completion of the Exchange Offer, \$127.0 million in aggregate principal amount of 2021 Notes remained outstanding. The remaining 2021 Notes and New 2021 Notes are guaranteed as to payment by Pentair plc.

In November 2012, PFSA completed a private offering of \$350.0 million aggregate principal amount of 1.35% Senior Notes due 2015 (the “2015 Notes”) and \$250.0 million aggregate principal amount of 2.65% Senior Notes due 2019 (the “2019 Notes” and, collectively, the “2015/2019 Notes”), which are guaranteed as to payment by Pentair plc. In certain circumstances, PFSA may be required to pay additional interest on the 2015/2019 Notes. We used the net proceeds from the sale of the 2015/2019 Notes to repay commercial paper and for general corporate purposes.

In October 2012, we redeemed the remaining outstanding aggregate principal of our 5.65% fixed rate senior notes due 2013-2017 totaling \$400.0 million and our 1.05% floating rate senior notes due 2013 totaling \$100.0 million (the “Fixed/Floating Rate Notes”). The redemptions included make-whole premiums of \$65.8 million. Concurrent with the redemption of the Fixed/Floating Rate Notes, we terminated a related interest rate swap that was designated as a cash

flow hedge, which resulted in the reclassification of \$3.4 million of previously unrecognized variable to fixed swap losses from AOCI to earnings

68

---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

in October 2012. All costs associated with the redemption were recorded as a Loss on the early extinguishment of debt including \$0.6 million of unamortized deferred financing costs.

In September 2012, PFSA, completed a private offering of \$550.0 million aggregate principal amount of 3.15% Senior Notes due 2022 (the "2022 Notes") and \$350 million aggregate principal amount of 1.875% Senior Notes due 2017 (the "2017 Notes" and, collectively, the "2017/2022 Notes"), which are guaranteed as to payment by Pentair Ltd. In certain circumstances, PFSA may be required to pay additional interest on the 2017/2022 Notes. The 2017/2022 Notes remained outstanding after the Merger. A portion of the net proceeds from the 2017/2022 Notes offering were used to repay \$435.0 million to Tyco in conjunction with the Distribution and the Merger.

In September 2012, Pentair, Inc. entered into a credit agreement providing for an unsecured, committed revolving credit facility, originally set to mature in September 2017 (the "Prior Credit Facility"). Upon the completion of the Merger, Pentair Ltd. became the guarantor under the Prior Credit Facility and PFSA and certain other of our subsidiaries became affiliate borrowers under the Prior Credit Facility. In October 2014, Pentair plc, PISG, PFSA and Pentair, Inc. entered into an amended and restated credit agreement related to the Prior Credit Facility (the "Amended Credit Facility"), with Pentair plc and PISG as guarantors and PFSA and Pentair, Inc. as borrowers. The Amended Credit Facility increased the the maximum aggregate availability to \$2,100.0 million and extended the maturity date to October 3, 2019. Borrowings under the Amended 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 Amended Credit Facility.

PFSA is authorized to sell short-term commercial paper notes to the extent availability exists under the Amended Credit Facility. PFSA uses the Amended Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. As of December 31, 2014 and 2013, we had \$987.6 million and \$528.9 million, respectively, of commercial paper outstanding, all of which was classified as long-term as we have the intent and the ability to refinance such obligations on a long-term basis under the Amended Credit Facility.

Total availability under the Amended Credit Facility was \$1,102.6 million, which was not limited by any covenants contained in the Amended Credit Facility's credit agreement. Subsequent to the Merger, we used the remaining proceeds from the 2017/2022 Notes offering and issuances of commercial paper to redeem the Fixed/Floating Rate Notes as discussed above, to repurchase shares in conjunction with our share repurchase as discussed in Note 14 and to purchase the remaining 25 percent interest in KEF for \$100.0 million as discussed in Note 2.

Our debt agreements contain certain financial covenants, the most restrictive of which are in the Amended Credit Facility, 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 arising out of Permitted Acquisitions, ("EBITDA") for the four consecutive fiscal quarters then ended (the "Leverage Ratio") to exceed 3.50 to 1.00 on the last day of each fiscal quarter, 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 Amended 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 December 31, 2014, we were in compliance with all financial covenants in our debt agreements.

In addition to the Amended Credit Facility, we have various other credit facilities with an aggregate availability of \$78.3 million, of which none was outstanding at December 31, 2014. Borrowings under these credit facilities bear interest at variable rates.

We have \$350.0 million of fixed rate senior notes maturing in December 2015. We classified this debt as long-term as of December 31, 2014 as we have the intent and ability to refinance such obligation on a long-term basis under the

Amended Credit Facility.

69

---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Debt outstanding at December 31, 2014 matures on a calendar year basis as follows:

In millions	2015	2016	2017	2018	2019	Thereafter	Total
Contractual debt obligation maturities	\$—	\$—	\$350.0	\$—	\$1,597.4	\$1,050.0	\$2,997.4
Capital lease obligations	6.7	—	—	—	—	—	6.7
Total maturities	\$6.7	\$—	\$350.0	\$—	\$1,597.4	\$1,050.0	\$3,004.1

As part of 2012 and 2011 acquisitions, we assumed capital lease obligations related primarily to land and buildings. As of December 31, 2014 and 2013, the recorded values of the assets acquired under those capital leases were \$19.5 million and \$41.7 million, respectively, less accumulated amortization of \$2.4 million and \$7.6 million, respectively, all of which were included in Property, plant and equipment, net on the Consolidated Balance Sheets.

Capital lease obligations consisted of total future minimum lease payments of \$6.9 million, less the imputed interest of \$0.2 million, as of December 31, 2014.

#### 11. Derivatives and Financial Instruments

##### Derivative financial instruments

We are exposed to market risk related to changes in foreign currency exchange rates and interest rates on our floating rate indebtedness. To manage the volatility related to these exposures, 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 and interest 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.

##### Interest rate swaps

During 2012, we used floating to fixed rate interest rate swaps to mitigate our exposure to future changes in interest rates related to our floating rate indebtedness. We designated these interest rate swap arrangements as cash flow hedges. As a result, changes in the fair value of the interest rate swaps were recorded in AOCI on the Consolidated Balance Sheets throughout the contractual term of each of the interest rate swap arrangements.

During the year ended December 31, 2012, all of our interest rate swaps expired or were terminated and, as a result, we had no outstanding interest rate swap arrangements at December 31, 2014 or 2013.

In September 2005, we entered into a \$100.0 million interest rate swap agreement with several major financial institutions to exchange variable rate interest payment obligations for fixed rate obligations without the exchange of the underlying principal amounts in order to manage interest rate exposures. The effective date of the fixed rate swap was April 25, 2006. The swap agreement has a fixed interest rate of 4.68% and was set to expire in July 2013. The fixed interest rate of 4.68% plus the 0.60% interest rate spread over LIBOR results in an effective fixed interest rate of 5.28%. This swap was terminated in October 2012. A loss of \$3.3 million was recognized upon termination and was recorded in Loss on early extinguishment of debt in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2012.

Derivative gains and losses on interest rate swaps included in AOCI were reclassified into earnings at the time the related interest expense was recognized or the settlement of the related commitment occurred. Interest expense from swaps was \$5.3 million in 2012 and was recorded in Interest expense in the Consolidated Statements of Operations and Comprehensive Income (Loss).

In April 2011, as part of our planned debt issuance to fund an acquisition, we entered into interest rate swap contracts to hedge movement in interest rates through the expected date of closing for a portion of the expected fixed rate debt offering. The swaps had a notional amount of \$400.0 million with an average interest rate of 3.65%. In May 2011, upon the sale of the 2021 Notes, the swaps were terminated at a cost of \$11.0 million. Because we used the contracts to hedge future interest payments, this was recorded in AOCI in the Consolidated Balance Sheets and will be amortized as interest expense over the 10 year life of the 2021 Notes. The ending unrealized net loss in AOCI at December 31, 2014 and 2013 was \$7.0 million and \$8.1 million, respectively.

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

70

---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

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 December 31, 2014 and 2013, we had outstanding foreign currency derivative contracts with gross notional U.S. dollar equivalent amounts of \$250.8 million and \$130.3 million, respectively. The impact of these contracts on the Consolidated Statements of Operations and Comprehensive Income (Loss) was not material for any period presented.

Gains or losses on foreign currency contracts designated as hedges are reclassified out of AOCI and into Selling, general and administrative expense in the Consolidated Statements of Operations and Comprehensive Income (Loss) upon settlement. Such reclassifications during 2014, 2013 and 2012 were not material.

Fair value of financial instruments

The following methods were used to estimate the fair values of each class of financial instrument:

- 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 at December 31 were as follows:

In millions	2014		2013	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Variable rate debt	\$997.4	\$997.4	\$528.9	\$528.9
Fixed rate debt	2,006.7	2,070.4	2,021.5	1,997.5
Total debt	\$3,004.1	\$3,067.8	\$2,550.4	\$2,526.4

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

Recurring fair value measurements In millions	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Foreign currency contract assets	\$—	\$0.9	\$—	\$0.9
Foreign currency contract liabilities	—	(6.6	)—	(6.6
Deferred compensation plans assets <sup>(1)</sup>	47.9	7.4	—	55.3
Total recurring fair value measurements	\$47.9	\$1.7	\$—	\$49.6
Nonrecurring fair value measurements <sup>(2)</sup> Recurring fair value measurements In millions	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Foreign currency contract assets	\$—	\$3.6	\$—	\$3.6
Deferred compensation plan assets <sup>(1)</sup>	32.1	—	—	32.1
Total recurring fair value measurements	\$32.1	\$3.6	\$—	\$35.7
Nonrecurring fair value measurements <sup>(3)</sup>				

(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.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

During the third quarter of 2014, we recognized an impairment charge related to allocated amounts of goodwill, intangible assets, property, plant & equipment and other non-current assets totaling \$380.1 million, net of a \$12.3 million tax benefit, representing our estimated loss on disposal of the Water Transport business. The impairment charge was determined using significant unobservable inputs ("Level 3" fair value measurements). See Note 3 for additional information about the impairment.

In the fourth quarter of 2013, we completed our annual intangible assets impairment review. As a result, we recorded a pre-tax non-cash impairment charge of \$11.0 million for a trade name intangible in 2013. The impairment charge reduced the fair 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.

## 12. Income Taxes

Income (loss) from continuing operations before income taxes and noncontrolling interest consisted of the following:

In millions	Years ended December 31		
	2014	2013	2012
Federal <sup>(1)</sup>	\$13.3	\$328.7	\$39.5
International	771.0	365.8	(185.6 )
Income (loss) from continuing operations before income taxes and noncontrolling interest	\$784.3	\$694.5	\$(146.1 )

<sup>(1)</sup> As a result of the Redomicile, "Federal" reflects income (loss) from continuing operations before income taxes and noncontrolling interest for the U.K. in 2014 and for Switzerland in 2013 and 2012.

The provision (benefit) for income taxes consisted of the following:

In millions	Years ended December 31		
	2014	2013	2012
Currently payable			
Federal <sup>(1)</sup>	\$(0.4	)\$17.4	\$6.5
International <sup>(2)</sup>	175.7	105.6	65.2
Total current taxes	175.3	123.0	71.7
Deferred			
Federal <sup>(1)</sup>	2.2	18.9	1.3
International <sup>(2)</sup>	(0.2	)35.1	(140.2 )
Total deferred taxes	2.0	54.0	(138.9 )
Total provision (benefit) for income taxes	\$177.3	\$177.0	\$(67.2 )

<sup>(1)</sup> As a result of the Redomicile, "Federal" represents U.K. taxes for 2014 and Swiss taxes for 2013 and 2012.

<sup>(2)</sup> As a result of the Redomicile, "International" represents non-U.K. taxes for 2014 and non-Swiss taxes for 2013 and 2012.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Reconciliations of the federal statutory income tax rate to our effective tax rate were as follows:

Percentages	Years ended December 31		
	2014	2013	2012
Federal statutory income tax rate <sup>(1)</sup>	21.0	7.8	7.8
Tax effect of international operations <sup>(2)</sup>	(4.9	) 10.4	23.5
Change in valuation allowances	3.4	5.7	—
Withholding taxes	2.3	1.1	—
Interest limitations	0.8	0.5	—
Non-deductible transaction costs	—	—	(5.9
Impact of debt-financing	—	—	13.6
Resolution of tax audits	—	—	7.0
Effective tax rate	22.6	25.5	46.0

(1) The statutory rate for 2014 reflects the U.K. statutory rate of 21 percent. For 2013 and 2012, the statutory rate reflects the Swiss statutory rate of 7.8 percent.

(2) The tax effect of international operations for 2014 consists of non-U.K. jurisdictions. For 2013 and 2012, the tax effect of international operations consists of non-Swiss jurisdictions.

Reconciliations of the beginning and ending gross unrecognized tax benefits were as follows:

In millions	Years ended December 31		
	2014	2013	2012
Beginning balance	\$60.8	\$53.4	\$26.5
Gross increases for tax positions in prior periods	2.3	12.2	2.2
Gross decreases for tax positions in prior periods	(0.5	) (0.6	) (0.6
Gross increases based on tax positions related to the current year	1.8	2.7	13.6
Gross decreases related to settlements with taxing authorities	(0.1	) (5.1	) (13.2
Reductions due to statute expiration	(1.2	) (1.8	) (0.4
Gross decreases due to currency fluctuations	(1.0	) —	—
Gross increases due to acquisitions	—	—	25.3
Ending balance	\$62.1	\$60.8	\$53.4

Included in the \$62.1 million of total gross unrecognized tax benefits as of December 31, 2014 was \$60.7 million of tax benefits that, if recognized, would impact the effective tax rate. It is reasonably possible that the gross unrecognized tax benefits as of December 31, 2014 may decrease by a range of \$0 to \$25.3 million during 2015, primarily as a result of the resolution of non-U.K. examinations, including U.S. federal and state examinations, and the expiration of various statutes of limitations.

The determination of annual income tax expense takes into consideration amounts which may be needed to cover exposures for open tax years. The Internal Revenue Service ("IRS") is currently examining the Pentair, Inc. U.S. federal income tax return for the tax year ending September 28, 2012, and the Panthro Acquisition Co. U.S. federal income tax returns for tax years ending December 31, 2012 and December 31, 2013. A number of tax periods from 2002 to present are under audit by tax authorities in various jurisdictions, including Germany, India and Italy. We anticipate that several of these audits may be concluded in the foreseeable future. We are also subject to the 2012 Tax Sharing Agreement, discussed below, which generally applies to pre-Distribution Tyco tax periods beginning in 1997 which remain subject to audit by the IRS.

We record penalties and interest related to unrecognized tax benefits in Provision (benefit) for income taxes and Interest expense, respectively. As of December 31, 2014 and 2013, we have liabilities of \$1.2 million and \$0.9 million, respectively, for the possible payment of penalties and \$9.8 million and \$8.9 million, respectively, for the possible payment of interest expense, which are recorded in Other current liabilities in the Consolidated Balance Sheets.

Deferred taxes in the amount of \$11.8 million have been provided on undistributed earnings of certain subsidiaries. Taxes have not been provided on undistributed earnings of subsidiaries where it is our intention to reinvest these earnings permanently or

73

---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

to repatriate the earnings only when it is tax effective to do so. It is not practicable to estimate the amount of tax that might be payable if such earnings were to be remitted.

Deferred taxes arise because of different treatment between financial statement accounting and tax accounting, known as “temporary differences.” We record the tax effect of these temporary differences as “deferred tax assets” (generally items that can be used as a tax deduction or credit in future periods) and “deferred tax liabilities” (generally items for which we received a tax deduction but the tax impact has not yet been recorded in the Consolidated Statements of Operations and Comprehensive Income (Loss)).

Deferred taxes were recorded in the Consolidated Balance Sheets as follows:

In millions	December 31	
	2014	2013
Other current assets	\$139.4	\$149.7
Other non-current assets	87.9	92.4
Deferred tax liabilities	528.3	557.0
Net deferred tax liabilities	\$301.0	\$314.9

The tax effects of the major items recorded as deferred tax assets and liabilities were as follows:

In millions	December 31	
	2014	2013
Deferred tax assets		
Accrued liabilities and reserves	\$200.3	\$192.2
Pension and other post-retirement benefits	68.4	76.8
Employee compensation & benefits	100.0	82.2
Tax loss and credit carryforwards	291.9	351.7
Total deferred tax assets	660.6	702.9
Valuation allowance	235.8	235.5
Deferred tax assets, net of valuation allowance	424.8	467.4
Deferred tax liabilities		
Property, plant and equipment	51.6	57.9
Goodwill and other intangibles	645.6	697.1
Other liabilities	28.6	27.3
Total deferred tax liabilities	725.8	782.3
Net deferred tax liabilities	\$301.0	\$314.9

As of December 31, 2014, tax loss carryforwards of \$1,118.3 million were available to offset future income. A valuation allowance of \$207.3 million exists for deferred income tax benefits related to the tax loss carryforwards which may not be realized. We believe sufficient taxable income will be generated in the respective jurisdictions to allow us to fully recover the remainder of the tax losses. The tax losses relate to Non-U.S. carryforwards of \$1,010.7 million which are subject to varying expiration periods and will begin to expire in 2015. In addition, there were \$21.4 million of U.S. federal and \$86.2 million of state tax loss carryforwards as of December 31, 2014, which will expire in future years through 2034.

#### Tax sharing agreement and other income tax matters

In connection with the Distribution, we entered into a tax sharing agreement (the “2012 Tax Sharing Agreement”) with Tyco and The ADT Corporation (“ADT”), which governs the rights and obligations of Tyco, ADT and us for certain pre-Distribution tax liabilities, including Tyco’s obligations under a separate tax sharing agreement (the “2007 Tax Sharing Agreement”) that Tyco, Covidien Ltd. (“Covidien”) and TE Connectivity Ltd. (“TE Connectivity”) entered into in connection with the 2007 distributions of Covidien and TE Connectivity by Tyco (the “2007 Separation”). The 2007 Tax Sharing Agreement governs the rights and obligations of Tyco, Covidien and TE Connectivity with respect to certain pre-2007 Separation tax liabilities and certain tax liabilities arising in connection with the 2007 Separation. More specifically, Tyco, Covidien and TE Connectivity share 27%, 42% and 31%, respectively, of income tax

liabilities that arise from adjustments made by tax authorities to Tyco's, Covidien's and TE Connectivity's U.S. and certain non-U.S. 2007 and prior income tax returns.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

The 2012 Tax Sharing Agreement provides that we, Tyco and ADT will share (i) certain pre-Distribution income tax liabilities that arise from adjustments made by tax authorities to our, Tyco's and ADT's U.S. income tax returns, and (ii) payments required to be made by Tyco in respect to the 2007 Tax Sharing Agreement (collectively, "Shared Tax Liabilities"). Tyco is responsible for the first \$500 million of Shared Tax Liabilities. As of December 31, 2014, Tyco has paid \$52.0 million of Shared Tax Liabilities. We and ADT will share 42% and 58%, respectively, of the next \$225 million of Shared Tax Liabilities. We, ADT and Tyco will share 20%, 27.5% and 52.5%, respectively, of Shared Tax Liabilities above \$725 million. Under these tax sharing agreements, the amount ultimately assessed would have to be in excess of \$1.85 billion before we would be required to pay any of the amounts assessed.

In the event the Distribution, the spin-off of ADT, or certain internal transactions undertaken in connection therewith were determined to be taxable as a result of actions taken after the Distribution by us, ADT or Tyco, the party responsible for such failure would be responsible for all taxes imposed on us, ADT or Tyco as a result thereof. Taxes resulting from the determination that the Distribution, the spin-off of ADT, or any internal transaction is taxable are referred to herein as "Distribution Taxes." If such failure is not the result of actions taken after the Distribution by us, ADT or Tyco, then we, ADT and Tyco would be responsible for any Distribution Taxes imposed on us, ADT or Tyco as a result of such determination in the same manner and in the same proportions as the Shared Tax Liabilities. ADT will have sole responsibility for any income tax liability arising as a result of Tyco's acquisition of Brink's Home Security Holdings, Inc. ("BHS") in May 2010, including any liability of BHS under the tax sharing agreement between BHS and The Brink's Company dated October 31, 2008 (collectively, the "BHS Tax Liabilities"). Costs and expenses associated with the management of Shared Tax Liabilities, Distribution Taxes and BHS Tax Liabilities will generally be shared 20% by us, 27.5% by ADT and 52.5% by Tyco. We are responsible for all of our own taxes that are not shared pursuant to the 2012 Tax Sharing Agreement's sharing formulae. In addition, Tyco and ADT are responsible for their tax liabilities that are not subject to the 2012 Tax Sharing Agreement's sharing formula.

The 2012 Tax Sharing Agreement also provides that, if any party were to default in its obligation to another party to pay its share of the distribution taxes that arise as a result of no party's fault, each non-defaulting party would be required to pay, equally with any other non-defaulting party, the amounts in default. In addition, if another party to the 2012 Tax Sharing Agreement that is responsible for all or a portion of an income tax liability were to default in its payment of such liability to a taxing authority, we could be legally liable under applicable tax law for such liabilities and required to make additional tax payments. Accordingly, under certain circumstances, we may be obligated to pay amounts in excess of our agreed-upon share of our, Tyco's and ADT's tax liabilities.

On July 1, 2013, Tyco announced that the Internal Revenue Service ("IRS") issued Notices of Deficiency ("Tyco IRS Notices") to Tyco asserting that several of Tyco's former U.S. subsidiaries collectively owe additional taxes in the aggregate amount of \$883.3 million plus penalties of \$154 million based on audits of the 1997 through 2000 tax years of Tyco and its subsidiaries as they existed at that time. These amounts exclude interest and do not reflect the impact on subsequent periods if the IRS challenge to Tyco's tax filings as described below is ultimately successful. If the IRS should successfully assert its position, our share of the collective liability, if any, would be determined pursuant to the 2007 Tax Sharing Agreement and the 2012 Tax Sharing Agreement. Tyco has filed petitions with the U.S. Tax Court to contest the IRS assessments.

As we have previously disclosed, in connection with U.S. federal tax audits of Tyco and its subsidiaries, the IRS has previously raised issues and proposed tax adjustments for periods beginning with the 1997 tax year. The adjustments now asserted by the IRS under the Tyco IRS Notices primarily relate to the treatment of certain intercompany debt transactions. The IRS has asserted in the Tyco IRS Notices that substantially all of the intercompany debt originated during the 1997 - 2000 period should not be treated as debt for U.S. federal income tax purposes, and has therefore disallowed interest and related deductions recognized associated with that intercompany debt on the U.S. income tax returns for those periods totaling approximately \$2.9 billion. If the IRS is successful in asserting its claim, it would have an adverse impact on interest deductions related to the same Tyco intercompany debt in subsequent time periods, totaling approximately \$6.6 billion, which Tyco has advised us that it expects the IRS to disallow. Under the 2012 Tax Sharing Agreement, Tyco has the right to administer, control, and settle all U.S. income tax audits for periods prior to

and including the Distribution. As mentioned above, Tyco has filed petitions with the U.S. Tax Court to contest the IRS assessments. Tyco has advised us that it strongly disagrees with the IRS position and believes (i) it has meritorious defenses for the respective tax filings, (ii) the IRS positions with regard to these matters are inconsistent with applicable tax laws and Treasury regulations, and (iii) the previously reported taxes for the years in question are appropriate.

No payments with respect to these matters would be required until the dispute is resolved in the U.S. Tax Court, which Tyco has advised us, based on the experience of other companies, could take several years. However, the ultimate resolution of these matters is uncertain, and to the extent we are responsible for any Shared Tax Liability or Distribution Tax, including if the IRS were to prevail with respect to the matter set forth above, there could be a material adverse impact on our financial condition, results of operations, or cash flows in future reporting periods.



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

### 13. Benefit Plans

#### Pension and other post-retirement plans

We sponsor U.S. and Non-U.S. defined-benefit pension and other post-retirement plans. Pension benefits are based principally on an employee's years of service and/or compensation levels near retirement. In addition, we provide certain post-retirement health care and life insurance benefits. Generally, the post-retirement health care and life insurance plans require contributions from retirees. In December 2007, we announced that we will be freezing certain U.S. pension plans as of December 31, 2017.

#### Obligations and funded status

The following tables present reconciliations of plan benefit obligations, fair value of plan assets and the funded status of pension plans and other post-retirement plans as of and for the years ended December 31, 2014 and 2013:

In millions	U.S. pension plans		Non-U.S. pension plans		Other post-retirement plans	
	2014	2013	2014	2013	2014	2013
Change in benefit obligations						
Benefit obligation beginning of year	\$346.9	\$394.3	\$462.0	\$460.8	\$42.4	\$59.3
Service cost	13.1	15.6	7.4	8.4	0.2	0.3
Interest cost	15.4	14.3	17.3	17.9	1.7	1.9
Actuarial loss (gain)	50.1	(56.9)	) 73.0	(16.6)	) 0.3	(15.9)
Translation loss (gain)	—	—	(36.6)	)9.7	—	—
Benefits paid	(9.3)	) (20.4)	) (17.9)	) (18.2)	) (3.1)	) (3.2)
Benefit obligation end of year	\$416.2	\$346.9	\$505.2	\$462.0	\$41.5	\$42.4
Change in plan assets						
Fair value of plan assets beginning of year	\$285.8	\$326.2	\$286.5	\$249.0	\$—	\$—
Actual return on plan assets	63.7	(28.9)	) 35.2	28.6	—	—
Company contributions	3.7	8.9	20.9	21.9	3.1	3.2
Translation gain (loss)	—	—	(15.0)	)5.2	—	—
Benefits paid	(9.3)	) (20.4)	) (17.9)	) (18.2)	) (3.1)	) (3.2)
Fair value of plan assets end of year	\$343.9	\$285.8	\$309.7	\$286.5	\$—	\$—
Funded status						
Benefit obligations in excess of the fair value of plan assets	\$(72.3)	) \$(61.1)	) \$(195.5)	) \$(175.5)	) \$(41.5)	) \$(42.4)

Amounts recorded in the Consolidated Balance Sheets were as follows:

In millions	U.S. pension plans		Non-U.S. pension plans		Other post-retirement plans	
	2014	2013	2014	2013	2014	2013
Other non-current assets	\$2.7	\$0.7	\$6.5	\$3.7	\$—	\$—
Current liabilities	(4.0)	) (3.9)	) (4.7)	) (4.7)	) (3.4)	) (3.7)
Non-current liabilities	(71.0)	) (57.9)	) (197.3)	) (174.5)	) (38.1)	) (38.7)
Benefit obligations in excess of the fair value of plan assets	\$(72.3)	) \$(61.1)	) \$(195.5)	) \$(175.5)	) \$(41.5)	) \$(42.4)

The accumulated benefit obligation for all defined benefit plans was \$887.5 million and \$772.2 million at December 31, 2014 and 2013, respectively.



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Information for pension plans with an accumulated benefit obligation or projected benefit obligation in excess of plan assets as of December 31 was as follows:

In millions	Projected benefit obligation exceeds the fair value of plan assets		Accumulated benefit obligation exceeds the fair value of plan assets	
	2014	2013	2014	2013
U.S. pension plans				
Projected benefit obligation	\$92.5	\$76.3	\$92.5	\$76.3
Fair value of plan assets	17.5	14.5	17.5	14.5
Accumulated benefit obligation	N/A	N/A	85.1	73.1
Non-U.S. pension plans				
Projected benefit obligation	\$460.0	\$438.2	\$453.2	\$420.4
Fair value of plan assets	258.1	259.0	252.3	244.5
Accumulated benefit obligation	N/A	N/A	440.9	411.5

Components of net periodic benefit expense (income) for our pension plans for the years ended December 31 were as follows:

In millions	U. S. pension plans			Non-U.S. pension plans		
	2014	2013	2012	2014	2013	2012
Service cost	\$13.1	\$15.6	\$12.9	\$7.4	\$8.4	\$3.3
Interest cost	15.4	14.3	28.2	17.3	17.9	7.5
Expected return on plan assets	(10.5)	(9.7)	(29.4)	(15.9)	(15.2)	(3.9)
Amortization of prior year service cost (benefit)	—	0.4	—	—	(0.2)	—
Net actuarial (gain) loss	(3.1)	(18.3)	114.3	50.3	(30.0)	24.2
Net periodic benefit expense (income)	\$14.9	\$2.3	\$126.0	\$59.1	\$(19.1)	\$(31.1)

Components of net periodic benefit expense (income) for our other post-retirement plans for the years ended December 31 were as follows:

In millions	Other post-retirement plans		
	2014	2013	2012
Service cost	\$0.2	\$0.3	\$0.2
Interest cost	1.7	1.9	1.9
Amortization of prior year service benefit	—	(0.8)	—
Net actuarial loss (gain)	0.3	(15.9)	8.1
Net periodic benefit expense (income)	\$2.2	\$(14.5)	\$10.2

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Assumptions

Weighted-average assumptions used to determine benefit obligations as of December 31 were as follows:

	U.S. pension plans			Non-U.S. pension plans			Other post-retirement plans			
	2014	2013	2012	2014	2013	2012	2014	2013	2012	
Percentages										
Discount rate	3.63	%4.51	%3.67	% 3.04	%4.13	%3.85	% 3.60	%4.35	%3.40	%
Rate of compensation increase	4.00	%4.00	%4.37	% 2.95	%3.02	%3.02	% —	—	—	

Weighted-average assumptions used to determine net periodic benefit expense (income) for years ended December 31 were as follows:

	U.S. pension plans			Non-U.S. pension plans			Other post-retirement plans			
	2014	2013	2012	2014	2013	2012	2014	2013	2012	
Percentages										
Discount rate	4.51	%3.67	%5.05	% 4.13	%3.85	%4.82	% 4.35	%3.40	%5.05	%
Expected long-term return on plan assets	4.56	%3.75	%7.50	% 5.95	%5.98	%4.09	% —	—	—	
Rate of compensation increase	4.00	%4.37	%4.21	% 3.02	%3.02	%2.98	% —	—	—	

Uncertainty in the securities markets and U.S. economy could result in investment returns less than those assumed. Should the securities markets decline or medical and prescription drug costs increase at a rate greater than assumed, we would expect increasing annual combined net pension and other post-retirement costs for the next several years. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated other post-retirement benefit obligation and other post-retirement benefit cost would be affected in future years.

Discount rates

The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year based on our December 31 measurement date. The discount rate was determined by matching our expected benefit payments to payments from a stream of bonds rated AA or higher available in the marketplace, adjusted to eliminate the effects of call provisions. This produced a weighted-average discount rate for our U.S. pension plans of 3.63%, 4.51% and 3.67% in 2014, 2013 and 2012, respectively. The discount rates on our non-U.S. pension plans ranged from 0.50% to 4.25%, 0.50% to 5.00% and 0.50% to 4.50% in 2014, 2013 and 2012, respectively. There are no known or anticipated changes in our discount rate assumptions that will impact our pension expense in 2015.

Expected rates of return

Our expected rates of return on U.S. pension plan assets were 4.56%, 3.75% and 7.50% for 2014, 2013 and 2012, respectively. The expected rates of return on non-U.S. pension plan assets ranged from 1.00% to 6.40%, 1.00% to 6.50% and 1.00% to 4.60% in 2014, 2013 and 2012, respectively. The expected rate of return is designed to be a long-term assumption that may be subject to considerable year-to-year variance from actual returns. In developing the expected long-term rate of return, we considered our historical returns, with consideration given to forecasted economic conditions, our asset allocations, input from external consultants and broader longer-term market indices. U.S. pension plan assets yielded returns of 22.30%, (9.90)% and 10.80% in 2014, 2013 and 2012, respectively. As a result of our de-risking strategy to reduce U.S. pension plan liability, we anticipate the expected rate of return on our U.S. funded pension plans will continue to be consistent with the discount rate utilized. Any difference in the expected rate and actual returns will be included with the actuarial gain or loss recorded in the fourth quarter when our plans are remeasured.

Healthcare cost trend rates

The assumed healthcare cost trend rates for other post-retirement plans as of December 31 were as follows:

Edgar Filing: PENTAIR plc - Form 10-K

	2014	2013	
Healthcare cost trend rate assumed for following year	6.8	% 7.0	%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.5	% 4.5	%
Year the cost trend rate reaches the ultimate trend rate	2027	2027	

78

---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

The assumed healthcare cost trend rates can have a significant effect on the amounts reported for healthcare plans. A one-percentage-point change in the assumed healthcare cost trend rates would have the following effects as of and for the year ended December 31, 2014:

In millions	One Percentage Point	
	Increase	Decrease
Increase (decrease) in annual service and interest cost	\$0.1	\$(0.1)
Increase (decrease) in other post-retirement benefit obligations	1.0	(0.9)
Pension plans assets		
Objective		

The primary objective of our investment strategy is to meet the pension obligation to our employees at a reasonable cost to us. This is primarily accomplished through growth of capital and safety of the funds invested.

During 2012, we adopted an investment strategy for our U.S. pension plans with a primary objective of preserving the funded status of the U.S. plans. This was achieved through investments in fixed interest instruments with interest rate sensitivity characteristics closely reflecting the interest rate sensitivity of our benefit obligations. Shifting of allocations away from equities to liability hedging fixed income investments, by reinvesting in fixed income instruments as equity investments were redeemed, was completed during 2013. As of December 31, 2014, the U.S. pension plans have an approximately 97 percent allocation to fixed income investments.

#### Asset allocation

Our actual overall asset allocation for our U.S. and non-U.S. pension plans as compared to our investment policy goals as of December 31 was as follows:

	U.S. pension plans				
	Actual		Target		
	2014	2013	2014	2013	
Percentages					
Fixed income	97	% 92	% 100	% 100	%
Alternative	3	% 7	% —	—	
Cash	—	% 1	% —	—	
	Non-U.S. pension plans				
	Actual		Target		
	2014	2013	2014	2013	
Equity securities	40	% 54	% 45	% 56	%
Fixed income	53	% 41	% 55	% 44	%
Alternative	5	% 3	% —	—	
Cash	2	% 2	% —	—	

While the target allocations do not have a percentage allocated to cash, the plan assets will always include some cash due to cash flow requirements.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

## Fair value measurement

The fair values of our pension plan assets and their respective levels in the fair value hierarchy as of December 31, 2014 and December 31, 2013 were as follows:

In millions	December 31, 2014			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$3.1	\$4.5	\$—	\$7.6
Fixed income:				
Corporate and non U.S. government	—	373.6	—	373.6
U.S. treasuries	—	70.7	—	70.7
Mortgage-backed securities	—	8.3	—	8.3
Other	—	45.5	—	45.5
Global equity securities:				
Mid cap equity	—	3.1	—	3.1
Large cap equity	—	43.7	—	43.7
International equity	—	77.0	—	77.0
Other investments	—	17.4	6.7	24.1
Total fair value of plan assets	\$3.1	\$643.8	\$6.7	\$653.6

In millions	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$1.8	\$5.9	\$—	\$7.7
Fixed income:				
Corporate and non U.S. government	—	262.2	—	262.2
U.S. treasuries	—	75.5	—	75.5
Mortgage-backed securities	—	8.7	—	8.7
Other	—	34.1	—	34.1
Global equity securities:				
Mid cap equity	—	7.3	—	7.3
Large cap equity	—	43.5	—	43.5
International equity	—	101.9	—	101.9
Long/short equity	—	0.6	—	0.6
Other investments	—	11.8	19.0	30.8
Total fair value of plan assets	\$1.8	\$551.5	\$19.0	\$572.3

Valuation methodologies used for investments measured at fair value were as follows:

Cash and cash equivalents: Cash consists of cash held in bank accounts and was classified as Level 1. Cash equivalents consist of investments in commingled funds valued based on observable market data. Such investments were classified as Level 2.

Fixed income: Investments in corporate bonds, government securities, mortgages and asset backed securities were valued based upon quoted market prices for similar securities and other observable market data. Investments in commingled funds were generally valued at the net asset value of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices or by a pricing service. Such investments were classified as Level 2.

Global equity securities: Investments in commingled funds were valued at the net asset value of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices or by a pricing service. Such investments were classified as Level 2.





Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Other investments: Other investments include investments in commingled funds with diversified investment strategies. Investments in commingled funds that were valued at the net asset value of units held at the end of the period based upon the value of the underlying investments as determined by quoted market prices or by a pricing service were classified as Level 2. Investments in commingled funds that were valued based on unobservable inputs due to liquidation restrictions were classified as Level 3.

The following tables present a reconciliation of Level 3 assets held during the years ended December 31, 2014 and 2013, respectively:

In millions	January 1, 2014	Net realized and unrealized gains (losses)	Net issuances and settlements	Net transfers into (out of) level 3	December 31, 2014
Other investments	\$ 19.0	\$0.7	\$(11.8)	\$(1.2)	\$6.7

In millions	January 1, 2013	Net realized and unrealized gains (losses)	Net issuances and settlements	Net transfers into (out of) level 3	December 31, 2013
Other investments	\$ 18.3	\$1.9	\$(1.2)	\$—	\$ 19.0

Cash flows

Contributions

Pension contributions totaled \$24.6 million and \$30.8 million in 2014 and 2013, respectively. Our 2015 pension contributions are expected to be approximately \$30.0 million to \$35.0 million. The 2015 expected contributions will equal or exceed our minimum funding requirements.

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans for the years ended December 31 as follows:

In millions	U.S. pension plans	Non-U.S. pension plans	Other post- retirement plans
2015	\$10.0	\$15.0	\$3.4
2016	12.2	15.9	3.3
2017	13.7	17.1	3.2
2018	16.2	18.1	3.1
2019	18.7	18.9	3.1
Thereafter	109.7	108.4	13.8

Savings plan

We have a 401(k) plan (the "401(k) plan") with an employee share ownership ("ESOP") bonus component, which covers certain union and all non-union U.S. employees who meet certain age requirements. Under the 401(k) plan, eligible U.S. employees may voluntarily contribute a percentage of their eligible compensation. We match contributions made by employees who meet certain eligibility and service requirements. Our matching contribution is 100% of eligible employee contributions for the first 1% of eligible compensation and 50% of the next 5% of eligible compensation. In addition to the matching contribution, all employees who meet certain service requirements receive a discretionary ESOP contribution equal to 1.5% of annual eligible compensation.

Additionally, we had a 401(k) plan acquired as part of the Merger (the "Flow 401(k) plan") which covered certain union and all non-union U.S. employees who met certain age requirements. On December 31, 2013, the Flow 401(k) plan merged into the 401(k) plan and all employees covered by the Flow 401(k) plan became fully vested in their Flow 401(k) plan employer matching contributions and all future employer matching contributions were made under the 401(k) plan matching contribution formula. Under the Flow 401(k) plan, eligible U.S. employees could voluntarily

contribute a percentage of their eligible compensation. We matched contributions made by employees who met certain eligibility and service requirements. Our matching contribution was 500% of eligible employee contributions for the first 1% of eligible compensation. Additional company match was based on years of service, as follows: an additional 1% match at 10 – 19 years of service, an additional 2%

81

---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

match at 20 – 24 years, an additional 3% match at 25 – 29 years and an additional 4% match at 30+ years. Participants were 100% vested in the employer match after 3 years of service.

Our combined expense for the 401(k) plan, the Flow 401(k) plan and the ESOP was \$21.5 million, \$26.8 million and \$19.7 million in 2014, 2013 and 2012, respectively.

#### Other retirement compensation

Total other accrued retirement compensation, primarily related to deferred compensation and supplemental retirement plans, was \$70.2 million and \$53.3 million as of December 31, 2014 and 2013, respectively, and is included in Pension and other post-retirement compensation and benefits and Other non-current liabilities in the Consolidated Balance Sheets.

#### Multi-employer defined benefit plans

We participate in a number of multi-employer defined benefit plans on behalf of certain employees. Pension expense related to multi-employer plans was not material in 2014, 2013 and 2012.

### 14. Shareholders' Equity

#### Authorized shares

Our authorized share capital consists of 426.0 million ordinary shares with a par value of \$0.01 per share.

#### Share repurchases

Prior to the closing of the Merger, our board of directors, and Tyco as our sole shareholder, authorized the repurchase of our ordinary shares with a maximum aggregate value of \$400.0 million following the closing of the Merger. This authorization does not have an expiration date. On October 1, 2012, our board of directors authorized the repurchase of our ordinary shares with a maximum aggregate value of \$800.0 million. This authorization expires on December 31, 2015 and is in addition to the \$400.0 million share repurchase authorization. There is no remaining availability under these 2012 authorizations.

In December 2013, the Board of Directors authorized the repurchase of our ordinary shares up to a maximum dollar limit of \$1.0 billion. This authorization is in addition to the combined \$1.2 billion 2012 share repurchase authorizations. The authorization expires on December 31, 2016.

In December 2014, the Board of Directors authorized the repurchase of our ordinary shares up to a maximum dollar limit of \$1.0 billion. This authorization is in addition to the 2012 and 2013 share repurchase authorizations. The authorization expires on December 31, 2019 and there were no repurchases made in 2014 under this authorization. During the year ended December 31, 2014, we repurchased 16.4 million of our ordinary shares for \$1.2 billion pursuant to these authorizations and had no remaining availability for repurchases under the 2013 authorization.

#### Dividends payable

At our 2014 annual meeting of shareholders held on May 20, 2014, our shareholders approved a proposal to pay quarterly cash dividends through the second quarter of 2015. The authorization provided that dividends of \$1.20 per share will be paid to our shareholders in quarterly installments of \$0.30 for each of the third and fourth quarters of 2014 and first and second quarters of 2015. In December 2014, the Board of Directors approved an increase of \$0.02 per share for the remaining dividends to be paid in the first and second quarters of 2015, bringing the total quarterly dividend for those quarters to \$0.32 per share. As a result, the balance of dividends payable included in Other current liabilities on our Consolidated Balance Sheets was \$116.8 million at December 31, 2014. Dividends paid per ordinary share were \$1.10, \$0.96 and \$0.88 for the years ended December 31, 2014, 2013 and 2012, respectively.

### 15. Share Plans

#### Share-based compensation expense

Total share-based compensation expense for 2014, 2013 and 2012 was as follows:

In millions	December 31		
	2014	2013	2012
Restricted stock units	\$22.6	\$20.2	\$24.2
Stock options	11.0	10.9	11.6
Total share-based compensation expense	\$33.6	\$31.1	\$35.8

The expense for 2012 included \$13.5 million of expense due to the Merger triggering change of control provisions of Pentair, Inc. share-based compensation plans resulting in immediate vesting of certain outstanding awards.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

### Share Incentive Plans

Prior to the Merger, our board of directors approved, and Tyco as our sole shareholder approved, the Pentair plc 2012 Stock and Incentive Plan (the “2012 Plan”). The 2012 Plan became effective on September 28, 2012 and authorizes the issuance of 9.0 million of our ordinary shares. The shares may be issued as new shares or from shares held in treasury. Our practice is to settle equity-based awards from shares held in treasury. The 2012 Plan terminates in September 2022. The 2012 Plan allows for the granting to our officers, directors, employees and consultants of nonqualified stock options, incentive stock options, stock appreciation rights, performance shares, performance units, restricted shares, restricted stock units, deferred stock rights, annual incentive awards, dividend equivalent units and other equity-based awards.

The 2012 Plan is administered by our compensation committee (the “Committee”), which is made up of independent members of our board of directors. Employees eligible to receive awards under the 2012 Plan are managerial, administrative or other key employees who are in a position to make a material contribution to the continued profitable growth and long-term success of our company. The Committee has the authority to select the recipients of awards, determine the type and size of awards, establish certain terms and conditions of award grants and take certain other actions as permitted under the 2012 Plan. The 2012 Plan prohibits the Committee from re-pricing awards or cancelling and reissuing awards at lower prices.

The 2008 Omnibus Stock Incentive Plan as Amended and Restated (the “2008 Plan”) terminated upon the completion of the Merger. Prior grants of restricted stock units and stock options made under the 2008 Plan and earlier stock incentive plans outstanding at completion of the Merger were converted into equity-based awards with respect to our ordinary shares and were assumed by us on the terms in effect at the time of grant and are outstanding under the 2012 Plan.

#### Non-qualified and incentive stock options

Under the 2012 Plan, we may grant stock options to any eligible employee with an exercise price equal to the market value of the shares on the dates the options were granted. Options generally vest over a three-year period commencing on the grant date and expire ten years after the grant date.

#### Restricted shares and restricted stock units

Under the 2012 Plan, eligible employees may be awarded restricted shares or restricted stock units of our common stock. Restricted shares and restricted stock units generally vest three to four years after issuance, subject to continuous employment and certain other conditions. Restricted shares and restricted stock units are valued at market value on the date of grant and are expensed over the vesting period.

#### Stock appreciation rights, performance shares and performance units

Under the 2012 Plan, the Committee is permitted to issue these awards which are generally earned over a three-year vesting period and tied to specific financial metrics.

#### Stock options

The following table summarizes stock option activity under all plans for the year ended December 31, 2014:

Shares and intrinsic value in millions	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Outstanding as of January 1, 2014	6.2	\$35.53		
Granted	0.5	77.93		
Exercised	(0.9)	)35.53		
Forfeited	(0.1)	)49.29		
Outstanding as of December 31, 2014	5.7	\$39.08	5.1	\$157.8
Options exercisable as of December 31, 2014	4.5	\$33.53	4.2	\$144.0
Options expected to vest as of December 31, 2014	1.2	\$59.46	8.2	\$13.8

Fair value of options granted

The weighted average grant date fair value of options granted under Pentair plans in 2014, 2013 and 2012 was estimated to be \$23.23, \$13.96 and \$9.63 per share, respectively. The weighted-average grant date fair value of options assumed in the Merger was estimated to be \$11.76. The total intrinsic value of options that were exercised during 2014, 2013 and 2012 was \$34.8 million, \$68.9 million and \$41.6 million, respectively. At December 31, 2014, the total unrecognized compensation cost related to stock options was \$5.5 million. This cost is expected to be recognized over a weighted average period of 1.3 years.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

We estimated the fair value of each stock option award on the date of grant using a Black-Scholes option pricing model, modified for dividends and using the following weighted average assumptions:

	December 31		2012	Assumed in Merger	Granted by Pentair plans	
	2014	2013				
Risk-free interest rate	1.44	% 0.69	% 0.02 - 0.68%	0.96	%	
Expected dividend yield	1.46	% 2.01	% 2.12	% 2.48	%	
Expected share price volatility	35.3	% 36.0	% 33.0	% 36.5	%	
Expected term (years)	5.6	5.7	0.1 - 5.1	5.7		

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 volatility, we considered a rolling average of historical volatility measured over a period approximately equal to the expected option term. The risk-free 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.

Cash received from option exercises for the years ended December 31, 2014, 2013 and 2012 was \$46.6 million, \$102.3 million and \$91.6 million, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$8.3 million, \$23.5 million and \$12.2 million for the years ended December 31, 2014, 2013 and 2012, respectively.

#### Restricted stock units

The following table summarizes restricted stock unit activity under all plans for the year ended December 31, 2014:

Shares in millions	Number of shares	Weighted average grant date fair value
Outstanding as of January 1, 2014	1.3	\$43.25
Granted	0.3	78.39
Vested	(0.4)	) 39.68
Forfeited	(0.1)	) 46.42
Outstanding as of December 31, 2014	1.1	\$50.55

As of December 31, 2014, there was \$17.2 million of unrecognized compensation cost related to restricted share compensation arrangements granted under the 2012 Plan and previous plans. That cost is expected to be recognized over a weighted-average period of 1.3 years. The total fair value of shares vested during the years ended December 31, 2014, 2013 and 2012, was \$26.3 million, \$23.4 million and \$58.0 million, respectively. The actual tax benefits realized related to restricted share compensation arrangements totaled \$3.1 million, \$7.2 million and \$18.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

#### 16. Segment Information

We classify our operations into the following business segments based primarily on types of products offered and markets served:

Valves & Controls — The Valves & Controls segment designs, manufactures, markets and services valves, fittings, automation and controls and actuators for the energy and industrial verticals and operates as a stand-alone Global

Business Unit ("GBU").

Process Technologies — The Process Technologies segment designs, manufactures, markets and services innovative water system products and solutions to meet filtration, separation and fluid process management challenges in food and beverage, water, wastewater, swimming pools and aquaculture applications. The Filtration & Process and Water Quality Systems GBUs comprise this segment.

84

---



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

**Flow Technologies** — The Flow Technologies segment designs, manufactures and markets products and services designed for the transfer and flow of clean water, wastewater and a variety of industrial applications. The Flow Technologies segment operates as a stand-alone GBU.

**Technical Solutions** — The Technical Solutions segment designs, manufactures, markets and services products that guard and protect some of the world's most sensitive electronics and electronic equipment, as well as heat management solutions designed to provide thermal protection to temperature sensitive fluid applications. The Technical Solutions segment operates as a stand-alone GBU.

**Other** — Other is primarily composed of unallocated corporate expenses, our captive insurance subsidiary and intermediate finance companies.

During the first quarter of 2015, we reorganized our business segments to reflect a new operating structure and management of our GBUs, resulting in a change to our reporting segments in 2015. All segment information presented in this note and throughout this Annual Report on Form 10-K was prepared based on the reporting segments in place during 2014, unless otherwise noted.

The accounting policies of our reporting segments are the same as those described in the summary of significant accounting policies. We evaluate performance based on the 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 operating income (loss) exclusive of 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 included in the following summary:

	2014	2013	2012	2014	2013	2012
In millions	Net sales			Segment income (loss)		
Valves & Controls	\$2,394.8	\$2,469.2	\$548.6	\$350.8	\$302.8	\$41.8
Process Technologies	1,833.2	1,765.9	1,521.1	267.2	253.2	181.1
Flow Technologies	1,106.6	1,131.6	1,025.5	138.5	132.3	104.7
Technical Solutions	1,728.1	1,663.4	1,236.4	358.8	322.4	232.1
Other	(23.7)	(30.4)	(24.8)	(93.6)	(108.4)	(76.2)
Consolidated	\$7,039.0	\$6,999.7	\$4,306.8	\$1,021.7	\$902.3	\$483.5
	2014	2013	2012	2014	2013	2012
In millions	Identifiable assets <sup>(1)</sup>			Depreciation		
Valves & Controls	\$4,049.9	\$4,204.0		\$59.0	\$64.0	\$15.1
Process Technologies	2,586.9	2,730.6		31.1	29.2	29.2
Flow Technologies	1,276.7	1,426.4		14.5	14.5	14.0
Technical Solutions	2,117.3	2,093.4		24.2	23.6	18.9
Other	624.4	1,288.9		9.9	10.0	8.0
Consolidated	\$10,655.2	\$11,743.3		\$138.7	\$141.3	\$85.2
	2014	2013	2012	2014	2013	2012
In millions	Amortization			Capital expenditures		
Valves & Controls	\$53.4	\$69.3	\$21.7	\$45.9	\$67.2	\$21.9
Process Technologies	27.2	26.0	24.4	30.0	45.2	31.2
Flow Technologies	13.5	13.6	12.5	15.5	26.2	18.7
Technical Solutions	19.9	25.2	16.2	24.0	16.2	13.5
Other	—	—	0.1	14.2	15.2	9.2
Consolidated	\$114.0	\$134.1	\$74.9	\$129.6	\$170.0	\$94.5

(1) All cash and cash equivalents and assets held for sale are included in "Other."



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

The following table presents a reconciliation of consolidated segment income to consolidated operating income (loss):

In millions	2014	2013	2012
Segment income	\$1,021.7	\$902.3	\$483.5
Deal related costs and expenses	—	—	(82.8)
Inventory step-up and customer backlog	—	(86.6)	(157.7)
Restructuring and other	(109.6)	(119.9)	(45.4)
Pension and other post-retirement mark-to-market gain (loss)	(49.9)	63.2	(141.7)
Trade name impairment	—	(11.0)	(60.7)
Redomicile related expenses	(10.3)	(5.4)	—
Operating income (loss)	\$851.9	\$742.6	\$(4.8)

The following tables present certain geographic information by region:

In millions	2014	2013	2012	2014	2013
	Net sales			Long-lived assets	
U.S.	\$3,541.1	\$3,431.3	\$2,624.3	\$350.0	\$365.4
Western Europe	1,701.0	1,795.3	909.1	340.0	393.9
Fast Growth	998.5	921.6	473.8	180.9	193.3
Other Developed	798.4	851.5	299.6	79.1	91.7
Consolidated	\$7,039.0	\$6,999.7	\$4,306.8	\$950.0	\$1,044.3

Net sales are based on the location in which the sale originated. Long-lived assets represent property, plant and equipment, net of related depreciation.

We offer a broad array of products and systems to multiple markets and customers for which we do not have the information systems to track revenues by primary product category. However, our net sales by segment are representative of our sales by major product category. We sell our products through various distribution channels including wholesale and retail distributors, original equipment manufacturers and home centers. No customer accounted for more than 10% of net sales in 2014, 2013, or 2012.

#### 17. Commitments and Contingencies

##### Operating lease commitments

Net rental expense under operating leases was as follows:

In millions	Years ended December 31		
	2014	2013	2012
Gross rental expense	\$68.7	\$76.0	\$44.6
Sublease rental income	(1.3)	(0.9)	(0.5)
Net rental expense	\$67.4	\$75.1	\$44.1

Future minimum lease commitments under non-cancelable operating leases, principally related to facilities, machinery, equipment and vehicles as of December 31, 2014 were as follows:

In millions	2015	2016	2017	2018	2019	Thereafter	Total
Minimum lease payments	\$52.4	\$40.1	\$31.2	\$19.7	\$15.7	\$19.1	\$178.2
Minimum sublease rentals	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)	—	(2.1)
Net future minimum lease commitments	\$51.9	\$39.7	\$30.8	\$19.3	\$15.3	\$19.1	\$176.1

##### Asbestos Matters

Our subsidiaries and numerous other companies are named as defendants in personal injury lawsuits based on alleged exposure to asbestos-containing materials. These cases typically involve product liability claims based primarily on allegations of manufacture, sale or distribution of industrial products that either contained asbestos or were attached to or used with asbestos-



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

containing components manufactured by third-parties. Each case typically names between dozens to hundreds of corporate defendants. While we have observed an increase in the number of these lawsuits over the past several years, including lawsuits by plaintiffs with mesothelioma-related claims, a large percentage of these suits have not presented viable legal claims and, as a result, have been dismissed by the courts. Our historical strategy has been to mount a vigorous defense aimed at having unsubstantiated suits dismissed, and, where appropriate, settling suits before trial. Although a large percentage of litigated suits have been dismissed, we cannot predict the extent to which we will be successful in resolving lawsuits in the future.

As of December 31, 2014, there were approximately 3,400 claims outstanding against our subsidiaries. This amount includes adjustments for claims that are not actively being prosecuted. This amount is not adjusted for claims that identify incorrect defendants, or duplicate other actions. In addition, the amount does not include certain claims pending against third parties for which we have been provided an indemnification.

Periodically, we perform an analysis with the assistance of outside counsel and other experts to update our estimated asbestos-related assets and liabilities. Our estimate of the liability and corresponding insurance recovery for pending and future claims and defense costs is based on our historical claim experience and estimates of the number and resolution cost of potential future claims that may be filed. Our legal strategy for resolving claims also impacts these estimates.

Our estimate of asbestos-related insurance recoveries represents estimated amounts due to us for previously paid and settled claims and the probable reimbursements relating to our estimated liability for pending and future claims. In determining the amount of insurance recoverable, we consider a number of factors, including available insurance, allocation methodologies and the solvency and creditworthiness of insurers.

Our estimated liability for asbestos-related claims was \$249.1 million and \$254.7 million as of December 31, 2014 and 2013, respectively, and was recorded in Other non-current liabilities in the Consolidated Balance Sheets for pending and future claims and related defense costs. Our estimated receivable for insurance recoveries was \$115.8 million and \$119.6 million, respectively, at December 31, 2014 and 2013 and was recorded in Other non-current assets in the Consolidated Balance Sheets.

The amounts recorded by us for asbestos-related liabilities and insurance-related assets are based on our strategies for resolving our asbestos claims and currently available information as well as estimates and assumptions. Key variables and assumptions include the number and type of new claims filed each year, the average cost of resolution of claims, the resolution of coverage issues with insurance carriers, the amounts of insurance and the related solvency risk with respect to our insurance carriers, and the indemnifications we have provided to third parties. Furthermore, predictions with respect to these variables are subject to greater uncertainty in the latter portion of the projection period. Other factors that may affect our liability and cash payments for asbestos-related matters include uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, reforms of state or federal tort legislation and the applicability of insurance policies among subsidiaries. As a result, actual liabilities or insurance recoveries could be significantly higher or lower than those recorded if assumptions used in our calculations vary significantly from actual results.

#### Environmental Matters

We are involved in or have retained responsibility and potential liability for environmental obligations and legal proceedings related to our current business and, including pursuant to certain indemnification obligations, related to certain formerly owned businesses. We are responsible, or alleged to be responsible, for ongoing environmental investigation and/or remediation of sites in several countries. These sites are in various stages of investigation and/or remediation and at some of these sites our liability is considered de minimis. We received notification from the U.S. Environmental Protection Agency and from similar state and non-U.S. environmental agencies, that several sites formerly or currently owned and/or operated by us, and other properties or water supplies that may be or may have been impacted from those operations, contain disposed or recycled materials or waste and require environmental investigation and/or remediation. Those sites include instances where we have been identified as a potentially responsible party under U.S. federal, state and/or non-U.S. environmental laws and regulations. For several formerly

owned businesses, we have also received claims for indemnification from purchasers of these businesses. Our accruals for environmental matters are recorded on a site-by-site basis when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. It can be difficult to estimate reliably the final costs of investigation and remediation due to various factors. In our opinion, the amounts accrued are appropriate based on facts and circumstances as currently known. Based upon our experience, current information regarding known contingencies and applicable laws, we have recorded reserves for these environmental matters of \$31.4 million and \$34.8 million as of December 31, 2014 and 2013, respectively. We do not anticipate these environmental conditions will have a material adverse effect on our financial position, results of operations or cash flows. However, unknown conditions, new details about existing conditions or changes in environmental requirements may give rise to environmental liabilities that will exceed the amount of our current reserves and could have a material adverse effect in the future.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

### Compliance Matters

Prior to the Merger, the Flow Control business was subject to investigations by the U.S. Department of Justice (“DOJ”) and the SEC related to allegations that improper payments were made by the Flow Control business and other Tyco subsidiaries and third-party intermediaries in recent years in violation of the Foreign Corrupt Practices Act. Tyco reported to the DOJ and the SEC the remedial measures that it had taken in response to the allegations and Tyco’s own internal investigations. As a result of discussions with the DOJ and SEC aimed at resolving these matters, on September 24, 2012, Tyco entered into a settlement with the SEC and a non-prosecution agreement with the DOJ, pursuant to which the Flow Control business is for a three year period subject to yearly reporting to the DOJ concerning its continuing compliance efforts.

### Other Matters

In addition to the matters described above, from time to time, we are subject to disputes, administrative proceedings and other claims arising out of the normal conduct of our business. These matters generally relate to disputes arising out of the use or installation of our products, product liability litigation, personal injury claims, commercial and contract disputes and employment related matters. On the basis of information currently available to it, management does not believe that existing proceedings and claims will have a material impact on our Consolidated Financial Statements. However, litigation is unpredictable, and we could incur judgments or enter into settlements for current or future claims that could adversely affect our financial statements.

### 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.

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.

The changes in the carrying amount of service and product warranties for the years ended December 31, 2014 and 2013 were as follows:

In millions	Years ended December 31	
	2014	2013
Beginning balance	\$56.0	\$52.5
Service and product warranty provision	75.3	64.1
Payments	(62.1	)(60.8
Foreign currency translation	(2.8	)(0.2
Ending balance	\$66.4	\$56.0

Subsequent to December 31, 2014, we became aware of a potential warranty issue related to certain product sold by Process Technologies, resulting in an increase to our warranty reserve of \$13.0 million.

### Stand-by Letters of Credit, Bank Guarantees and Bonds

In certain situations, Tyco guaranteed Flow Control’s performance to third parties or provided financial guarantees for financial commitments of Flow Control. In situations where Flow Control and Tyco were unable to obtain a release from these guarantees in connection with the spin-off of Flow Control from Tyco, 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

88

---



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

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 December 31, 2014 and 2013, the outstanding value of bonds, letters of credit and bank guarantees totaled \$370.1 million and \$484.0 million, respectively, of which \$32.4 million and \$25.3 million, respectively, relate to the Water Transport business.



Diluted					
Continuing operations	\$0.22	\$0.67	\$0.81	\$0.81	\$2.50
Discontinued operations	0.03	0.08	0.04	(0.03)	0.12
Diluted earnings per ordinary share attributable to Pentair plc	\$0.25	\$0.75	\$0.85	\$0.78	\$2.62

(1) Amounts may not total to annual earnings because each quarter and year are calculated separately based on basic and diluted weighted-average ordinary shares outstanding during that period.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Fourth quarter 2014 includes a decrease in operating income of \$49.9 million related to "mark-to-market" actuarial losses on pension and other post-retirement benefit plans for 2014. Fourth quarter 2014 also includes decreases in operating income due to restructuring costs of \$35.5 million.

Second quarter 2014 includes decreases in operating income due to restructuring costs of \$35.4 million. First quarter 2014 includes decreases in operating income due to restructuring costs of \$17.4 million.

Fourth quarter 2013 includes an increase in operating income of \$63.2 million related to "mark-to-market" actuarial gains on pension and other post-retirement benefit plans for 2013. Fourth quarter 2013 also includes decreases in operating income due to restructuring costs of \$54.1 million and impairment charges of \$11.0 million related to trade name intangibles.

First quarter 2013 includes a decrease in operating income of \$76.6 million due to inventory step-up and customer backlog related to the Merger and restructuring costs of \$26.6 million.

#### 19. Supplemental Guarantor Information

Effective upon the Redomicile, Pentair plc (the "Parent Company Guarantor") and Pentair Investments Switzerland GmbH (the "Subsidiary Guarantor"), fully and unconditionally, guarantee the 1.35% Senior Notes due 2015, 1.875% Senior Notes due 2017, 2.65% Senior Notes due 2019, 5.00% Senior Notes due 2021 and 3.15% Senior Notes due 2022 (collectively, the "Notes") of Pentair Finance S.A. (the "Subsidiary Issuer"). The Subsidiary Guarantor is a Switzerland limited liability company formed in April 2014 and 100 percent-owned subsidiary of the Parent Company Guarantor. The Subsidiary Issuer is a Luxembourg public limited liability company formed in January 2012 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) and Condensed Consolidating Statement of Cash Flows for the years ended December 31, 2014, 2013 and 2012 and Condensed Consolidating Balance Sheet as of December 31, 2014 and 2013. The guarantees provided by the Parent Company Guarantor and Subsidiary Guarantor are joint and several.

Condensed Consolidating financial information for Pentair plc, Pentair Investments Switzerland GmbH and Pentair Finance S.A. on a stand-alone basis is presented using the equity method of accounting for subsidiaries.

Prior to the Redomicile, the Notes of the Subsidiary Issuer were guaranteed, fully and unconditionally, by the former parent company, Pentair Ltd. The supplemental financial information for the reporting periods prior to Redomicile are presented under this previous guarantee structure.

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pentair plc and Subsidiaries  
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)  
Year Ended December 31, 2014

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$—	\$—	\$7,039.0	\$—	\$7,039.0
Cost of goods sold	—	—	—	4,576.0	—	4,576.0
Gross profit	—	—	—	2,463.0	—	2,463.0
Selling, general and administrative	25.3	2.6	7.7	1,458.2	—	1,493.8
Research and development	—	—	—	117.3	—	117.3
Operating (loss) income	(25.3)	)(2.6)	)(7.7)	)887.5	—	851.9
Loss (earnings) from continuing operations of investment in subsidiaries	(615.5)	)(619.7)	)(611.1)	)—	1,846.3	—
Other (income) expense:						
Loss on sale of businesses, net	—	—	—	0.2	—	0.2
Equity income of unconsolidated subsidiaries	—	—	—	(1.2)	)—	(1.2)
Interest income	—	—	(92.3)	)(40.2)	)128.8	(3.7)
Interest expense	0.7	2.1	95.6	102.7	(128.8)	)72.3
Income (loss) from continuing operations before income taxes	589.5	615.0	600.1	826.0	(1,846.3)	)784.3
Provision (benefit) for income taxes	(17.5)	)(0.5)	)(2.4)	)197.7	—	177.3
Net income (loss) from continuing operations	607.0	615.5	602.5	628.3	(1,846.3)	)607.0
Loss from discontinued operations, net of tax	—	—	—	(6.4)	)—	(6.4)
Loss from sale / impairment of discontinued operations, net of tax	—	—	—	(385.7)	)—	(385.7)
Earnings (loss) from discontinued operations of investment in subsidiaries	(392.1)	)(392.1)	)(392.1)	)—	1,176.3	—
Net income (loss) attributable to Pentair plc	\$214.9	\$223.4	\$210.4	\$236.2	\$(670.0)	)\$214.9
Comprehensive income (loss), net of tax						
Net income (loss) attributable to Pentair plc	\$214.9	\$223.4	\$210.4	\$236.2	\$(670.0)	)\$214.9
Changes in cumulative translation adjustment	(336.3)	)(336.3)	)(336.3)	)(336.3)	)1,008.9	(336.3)
Changes in market value of derivative financial instruments	(0.4)	)(0.4)	)(0.4)	)(0.4)	)1.2	(0.4)

Comprehensive income (loss) attributable to Pentair plc	\$(121.8	)\$(113.3	)\$(126.3	)\$(100.5	)\$340.1	\$(121.8	)
--	----------	-----------	-----------	-----------	----------	----------	---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pentair plc and Subsidiaries  
Condensed Consolidating Balance Sheet  
December 31, 2014

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$—	\$—	\$0.1	\$ 110.3	\$—	\$ 110.4
Accounts and notes receivable, net	—	—	—	1,206.8	(0.9	) 1,205.9
Inventories	—	—	—	1,130.4	—	1,130.4
Other current assets	—	17.6	2.0	367.6	(20.4	) 366.8
Current assets held for sale	—	—	—	80.6	—	80.6
Total current assets	—	17.6	2.1	2,895.7	(21.3	) 2,894.1
Property, plant and equipment, net	—	—	—	950.0	—	950.0
<b>Other assets</b>						
Investments in subsidiaries	4,733.0	4,893.8	7,612.2	—	(17,239.0	)—
Goodwill	—	—	—	4,741.9	—	4,741.9
Intangibles, net	—	—	—	1,608.1	—	1,608.1
Other non-current assets	80.2	—	1,381.8	345.0	(1,370.8	) 436.2
Non-current assets held for sale	—	—	—	24.9	—	24.9
Total other assets	4,813.2	4,893.8	8,994.0	6,719.9	(18,609.8	) 6,811.1
Total assets	\$4,813.2	\$4,911.4	\$8,996.1	\$ 10,565.6	\$(18,631.1	) \$10,655.2
<b>Liabilities and Equity</b>						
<b>Current liabilities</b>						
Current maturities of long-term debt and short-term borrowings	\$—	\$—	\$—	\$ 6.7	\$—	\$ 6.7
Accounts payable	0.9	—	—	583.1	(0.9	) 583.1
Employee compensation and benefits	0.2	0.6	—	304.7	—	305.5
Other current liabilities	120.6	2.2	10.9	595.8	(20.4	) 709.1
Current liabilities held for sale	—	—	—	35.1	—	35.1
Total current liabilities	121.7	2.8	10.9	1,525.4	(21.3	) 1,639.5
<b>Other liabilities</b>						
Long-term debt	11.4	175.6	2,860.6	1,320.6	(1,370.8	) 2,997.4
Pension and other post-retirement compensation and benefits	—	—	—	322.0	—	322.0
Deferred tax liabilities	—	—	2.9	525.4	—	528.3
Other non-current liabilities	16.3	—	—	481.4	—	497.7
Non-current liabilities held for sale	—	—	—	6.5	—	6.5
Total liabilities	149.4	178.4	2,874.4	4,181.3	(1,392.1	) 5,991.4
Equity	4,663.8	4,733.0	6,121.7	6,384.3	(17,239.0	) 4,663.8

Edgar Filing: PENTAIR plc - Form 10-K

Total liabilities and equity	\$4,813.2	\$4,911.4	\$8,996.1	\$10,565.6	\$(18,631.1 )	\$10,655.2
------------------------------	-----------	-----------	-----------	------------	---------------	------------



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pentair plc and Subsidiaries  
Condensed Consolidating Statement of Cash Flows  
Year Ended December 31, 2014

In millions	Parent Company Guarantor	Guarantor Subsidiary	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Operating activities</b>						
Net cash provided by (used for) operating activities	\$169.0	\$208.6	\$207.0	\$1,093.8	\$(670.0)	)\$1,008.4
<b>Investing activities</b>						
Capital expenditures	—	—	—	(129.6)	)—	(129.6)
Proceeds from sale of property and equipment	—	—	—	13.1	—	13.1
Proceeds from sale of businesses, net	—	—	—	0.3	—	0.3
Acquisitions, net of cash acquired	—	—	—	(12.3)	)—	(12.3)
Net intercompany loan activity	—	—	37.8	112.2	(150.0)	)—
Other	—	—	—	0.2	—	0.2
Net cash provided by (used for) investing activities	—	—	37.8	(16.1)	)(150.0)	)(128.3)
<b>Financing activities</b>						
Net receipts of short-term borrowings	—	—	—	0.5	—	0.5
Net receipts of commercial paper and revolving long-term debt	—	—	458.7	9.9	—	468.6
Proceeds from long-term debt	—	—	—	2.2	—	2.2
Repayment of long-term debt	—	—	—	(16.8)	)—	(16.8)
Debt issuance costs	—	—	(3.1)	)—	—	(3.1)
Net change in advances to subsidiaries	741.1	(208.6)	)(747.3)	)(605.2)	)820.0	—
Excess tax benefits from share-based compensation	—	—	—	12.6	—	12.6
Shares issued to employees, net of shares withheld	—	—	—	37.0	—	37.0
Repurchases of ordinary shares	(699.2)	)—	—	(450.8)	)—	(1,150.0)
Dividends paid	(211.4)	)—	—	—	—	(211.4)
Purchase of noncontrolling interest	—	—	—	(134.7)	)—	(134.7)
Net cash provided by (used for) financing activities	(169.5)	)(208.6)	)(291.7)	)(1,145.3)	)820.0	(995.1)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(30.6)	)—	(30.6)
Change in cash and cash equivalents	(0.5)	)—	(46.9)	)(98.2)	)—	(145.6)

Edgar Filing: PENTAIR plc - Form 10-K

Cash and cash equivalents, beginning of year	0.5	—	47.0	208.5	—	256.0
Cash and cash equivalents, end of year	\$—	\$—	\$0.1	\$110.3	\$—	\$110.4

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pentair plc and Subsidiaries  
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)  
Year Ended December 31, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$—	\$ 6,999.7	\$—	\$ 6,999.7
Cost of goods sold	—	—	4,629.6	—	4,629.6
Gross profit	—	—	2,370.1	—	2,370.1
Selling, general and administrative	21.0	13.3	1,459.4	—	1,493.7
Research and development	—	—	122.8	—	122.8
Impairment of trade names	—	—	11.0	—	11.0
Operating (loss) income	(21.0)	) (13.3)	) 776.9	—	742.6
Loss (earnings) from continuing operations of investment in subsidiaries	(539.0)	) (508.6)	) —	1,047.6	—
Other (income) expense:					
Gain on sale of businesses, net	—	—	(20.8)	) —	(20.8)
Equity income of unconsolidated subsidiaries	—	—	(2.0)	) —	(2.0)
Interest income	—	(99.2)	) (53.4)	) 148.2	(4.4)
Interest expense	5.6	106.0	111.9	(148.2)	) 75.3
Income (loss) from continuing operations before income taxes and noncontrolling interest	512.4	488.5	741.2	(1,047.6)	) 694.5
Provision for income taxes	0.7	1.4	174.9	—	177.0
Net income (loss) from continuing operations before noncontrolling interest	511.7	487.1	566.3	(1,047.6)	) 517.5
Income from discontinued operations, net of tax	—	—	25.9	—	25.9
Loss from sale of discontinued operations, net of tax	—	—	(0.8)	) —	(0.8)
Earnings (loss) from discontinued operations of investment in subsidiaries	25.1	25.1	—	(50.2)	) —
Net income (loss) before noncontrolling interest	536.8	512.2	591.4	(1,097.8)	) 542.6
Noncontrolling interest	—	—	5.8	—	5.8
Net income (loss) attributable to Pentair plc	\$ 536.8	\$ 512.2	\$ 585.6	\$ (1,097.8)	) \$ 536.8
Net income (loss) from continuing operations attributable to Pentair plc	\$ 511.7	\$ 487.1	\$ 560.5	\$ (1,047.6)	) \$ 511.7
Comprehensive income (loss), net of tax					
Net income (loss) before noncontrolling interest	\$ 536.8	\$ 512.2	\$ 591.4	\$ (1,097.8)	) \$ 542.6
Changes in cumulative translation adjustment	(31.3)	) (31.3)	) (29.1)	) 62.6	(29.1)
Amortization of pension and other post-retirement prior service cost	(0.4)	) (0.4)	) (0.4)	) 0.8	(0.4)
Changes in market value of derivative financial instruments	(0.3)	) (0.3)	) (0.3)	) 0.6	(0.3)

Edgar Filing: PENTAIR plc - Form 10-K

Total comprehensive income (loss)	504.8	480.2	561.6	(1,033.8	) 512.8
Less: Comprehensive income (loss) attributable to noncontrolling interest	—	—	8.0	—	8.0
Comprehensive income (loss) attributable to Pentair plc	\$504.8	\$480.2	\$553.6	\$(1,033.8	)\$504.8

95

---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pentair plc and Subsidiaries  
Condensed Consolidating Balance Sheet  
December 31, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$0.5	\$47.0	\$208.5	\$—	\$256.0
Accounts and notes receivable, net	2.9	4.0	1,341.7	(63.6)	\$1,285.0
Inventories	—	—	1,195.1	—	\$1,195.1
Other current assets	1.4	0.6	359.6	—	\$361.6
Current assets held for sale	—	—	134.4	—	\$134.4
<b>Total current assets</b>	<b>4.8</b>	<b>51.6</b>	<b>3,239.3</b>	<b>(63.6)</b>	<b>)3,232.1</b>
Property, plant and equipment, net	—	—	1,044.3	—	1,044.3
<b>Other assets</b>					
Investments in subsidiaries	6,224.7	8,066.6	—	(14,291.3)	)—
Goodwill	—	—	4,860.7	—	4,860.7
Intangibles, net	—	—	1,749.9	—	1,749.9
Other non-current assets	31.6	1,302.7	352.4	(1,296.7)	)390.0
Non-current assets held for sale	—	—	466.3	—	466.3
<b>Total other assets</b>	<b>6,256.3</b>	<b>9,369.3</b>	<b>7,429.3</b>	<b>(15,588.0)</b>	<b>)7,466.9</b>
<b>Total assets</b>	<b>\$6,261.1</b>	<b>\$9,420.9</b>	<b>\$11,712.9</b>	<b>\$(15,651.6)</b>	<b>)\$11,743.3</b>
<b>Liabilities and Equity</b>					
<b>Current liabilities</b>					
Current maturities of long-term debt and short-term borrowings	\$—	\$—	\$2.5	\$—	\$2.5
Accounts payable	48.1	8.6	583.8	(63.6)	)576.9
Employee compensation and benefits	0.5	—	311.9	—	312.4
Other current liabilities	99.6	11.7	534.6	—	645.9
Current liabilities held for sale	—	—	72.5	—	72.5
<b>Total current liabilities</b>	<b>148.2</b>	<b>20.3</b>	<b>1,505.3</b>	<b>(63.6)</b>	<b>)1,610.2</b>
<b>Other liabilities</b>					
Long-term debt	—	2,401.9	1,442.7	(1,296.7)	)2,547.9
Pension and other post-retirement compensation and benefits	—	—	320.2	—	320.2
Deferred tax liabilities	—	2.2	554.8	—	557.0
Other non-current liabilities	17.6	—	438.8	—	456.4
Non-current liabilities held for sale	—	—	33.9	—	33.9
<b>Total liabilities</b>	<b>165.8</b>	<b>2,424.4</b>	<b>4,295.7</b>	<b>(1,360.3)</b>	<b>)5,525.6</b>
<b>Equity</b>					
Shareholders' equity attributable to Pentair plc and subsidiaries	6,095.3	6,996.5	7,294.8	(14,291.3)	)6,095.3
Noncontrolling interest	—	—	122.4	—	122.4
<b>Total equity</b>	<b>6,095.3</b>	<b>6,996.5</b>	<b>7,417.2</b>	<b>(14,291.3)</b>	<b>)6,217.7</b>
<b>Total liabilities and equity</b>	<b>\$6,261.1</b>	<b>\$9,420.9</b>	<b>\$11,712.9</b>	<b>\$(15,651.6)</b>	<b>)\$11,743.3</b>



Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pentair plc and Subsidiaries  
Condensed Consolidating Statement of Cash Flows  
Year Ended December 31, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Operating activities</b>					
Net cash provided by (used for) operating activities	\$534.2	\$514.0	\$977.5	\$(1,097.8)	\$927.9
<b>Investing activities</b>					
Capital expenditures	—	—	(170.0)	)—	(170.0)
Proceeds from sale of property and equipment	—	—	6.0	—	6.0
Proceeds from sale of businesses, net	—	—	43.5	—	43.5
Acquisitions, net of cash acquired	—	—	(92.4)	)—	(92.4)
Other	—	—	1.7	—	1.7
Net cash provided by (used for) investing activities	—	—	(211.2)	)—	(211.2)
<b>Financing activities</b>					
Net receipts of commercial paper and revolving long-term debt	—	104.2	—	—	104.2
Proceeds from long-term debt	—	—	0.7	—	0.7
Repayment of long-term debt	—	—	(7.4)	)—	(7.4)
Debt issuance costs	—	(1.4)	)—	—	(1.4)
Net change in advances to subsidiaries	(339.5)	)(569.8	)(188.5	)1,097.8	—
Excess tax benefits from share-based compensation	—	—	16.8	—	16.8
Shares issued to employees, net of shares withheld	—	—	80.0	—	80.0
Repurchases of ordinary shares	—	—	(715.8)	)—	(715.8)
Dividends paid	(194.2)	)—	—	—	(194.2)
Distributions to noncontrolling interest	—	—	(2.0)	)—	(2.0)
Net cash provided by (used for) financing activities	(533.7)	)(467.0	)(816.2	)1,097.8	(719.1)
Effect of exchange rate changes on cash and cash equivalents	—	—	21.0	—	21.0
Change in cash and cash equivalents	0.5	47.0	(28.9)	)—	18.6
Cash and cash equivalents, beginning of year	—	—	237.4	—	237.4
Cash and cash equivalents, end of year	\$0.5	\$47.0	\$208.5	\$—	\$256.0





Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pentair plc and Subsidiaries  
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)  
Year Ended December 31, 2012

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$—	\$4,306.8	\$—	\$4,306.8
Cost of goods sold	—	—	3,040.9	—	3,040.9
Gross profit	—	—	1,265.9	—	1,265.9
Selling, general and administrative	5.0	(3.8	) 1,116.5	—	1,117.7
Research and development	—	—	92.3	—	92.3
Impairment of trade names	—	—	60.7	—	60.7
Operating (loss) income	(5.0	) 3.8	(3.6	)—	(4.8
Loss (earnings) from continuing operations of investment in subsidiaries	75.7	76.6	—	(152.3	)—
Other (income) expense:					
Loss on early extinguishment of debt	—	—	75.4	—	75.4
Equity income of unconsolidated subsidiaries	—	—	(2.3	)—	(2.3
Interest income	—	(9.2	) (2.0	) 9.2	(2.0
Interest expense	0.1	10.2	69.1	(9.2	) 70.2
Income (loss) from continuing operations before income taxes and noncontrolling interest	(80.8	) (73.8	) (143.8	) 152.3	(146.1
Provision (benefit) for income taxes	0.7	1.1	(69.0	)—	(67.2
Net income (loss) from continuing operations before noncontrolling interest	(81.5	) (74.9	) (74.8	) 152.3	(78.9
Loss from discontinued operations, net of tax	—	—	(25.7	)—	(25.7
Earnings (loss) from discontinued operations of investment in subsidiaries	(25.7	) (25.7	)—	51.4	—
Net income (loss) before noncontrolling interest	(107.2	) (100.6	) (100.5	) 203.7	(104.6
Noncontrolling interest	—	—	2.6	—	2.6
Net income (loss) attributable to Pentair plc	\$(107.2	) \$(100.6	) \$(103.1	) \$203.7	\$(107.2
Net income (loss) from continuing operations attributable to Pentair plc	\$(81.5	) \$(74.9	) \$(77.4	) \$152.3	\$(81.5
Comprehensive income (loss), net of tax					
Net income (loss) before noncontrolling interest	\$(107.2	) \$(100.6	) \$(100.5	) \$203.7	\$(104.6
Changes in cumulative translation adjustment	30.0	30.0	31.4	(60.0	) 31.4
Amortization of pension and other post-retirement prior service cost	(0.3	) (0.3	) (0.3	) 0.6	(0.3
Changes in market value of derivative financial instruments	(3.6	) (3.6	) (3.6	) 7.2	(3.6
Total comprehensive income (loss)	(81.1	) (74.5	) (73.0	) 151.5	(77.1
Less: Comprehensive income (loss) attributable to noncontrolling interest	—	—	4.0	—	4.0

Comprehensive income (loss) attributable to Pentair plc	\$(81.1	)	\$(74.5	)	\$(77.0	)	\$151.5	\$(81.1	)
---	---------	---	---------	---	---------	---	---------	---------	---

Pentair plc and Subsidiaries  
Notes to consolidated financial statements

Pentair plc and Subsidiaries  
Condensed Consolidating Statement of Cash Flows  
Year Ended December 31, 2012

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
<b>Operating activities</b>					
Net cash provided by (used for) operating activities	\$(109.0	)\$(88.2	)\$37.2	\$203.7	\$43.7
<b>Investing activities</b>					
Capital expenditures	—	—	(94.5	)—	(94.5
Proceeds from sale of property and equipment	—	—	5.5	—	5.5
Acquisitions, net of cash acquired	—	300.1	170.4	—	470.5
Other	—	—	(5.9	)—	(5.9
Net cash provided by (used for) investing activities	—	300.1	75.5	—	375.6
<b>Financing activities</b>					
Net repayments of short-term borrowings	—	—	(3.7	)—	(3.7
Net receipts (repayments) of commercial paper and revolving long-term debt	—	424.7	(170.9	)—	253.8
Proceeds from long-term debt	—	594.3	—	—	594.3
Repayment of long-term debt	—	—	(617.2	)—	(617.2
Debt issuance costs	—	(8.7	) (1.0	)—	(9.7
Debt extinguishment costs	—	—	(74.8	)—	(74.8
Net change in advances to subsidiaries	157.0	(1,222.2	) 1,268.9	(203.7	)—
Excess tax benefits from share-based compensation	—	—	5.0	—	5.0
Shares issued to employees, net of shares withheld	—	—	68.2	—	68.2
Repurchases of ordinary shares	—	—	(334.2	)—	(334.2
Dividends paid	(48.0	)—	(64.4	)—	(112.4
Distributions to noncontrolling interest	—	—	(1.6	)—	(1.6
Net cash provided by (used for) financing activities	109.0	(211.9	) 74.3	(203.7	) (232.3
Effect of exchange rate changes on cash and cash equivalents	—	—	0.3	—	0.3
Change in cash and cash equivalents	—	—	187.3	—	187.3
Cash and cash equivalents, beginning of year	—	—	50.1	—	50.1
Cash and cash equivalents, end of year	\$—	\$—	\$237.4	\$—	\$237.4

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the year ended December 31, 2014, pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (“the Exchange Act”). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the year ended December 31, 2014 to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms and to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosures.

**Management’s Annual Report on Internal Control Over Financial Reporting**

The report of management required under this ITEM 9A is contained in ITEM 8 of this Annual Report on Form 10-K under the caption “Management’s Report on Internal Control Over Financial Reporting.”

**Attestation Report of Independent Registered Public Accounting Firm**

The attestation report required under this ITEM 9A is contained in ITEM 8 of this Annual Report on Form 10-K under the caption “Report of Independent Registered Public Accounting Firm.”

**Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required under this item with respect to directors is contained in our Proxy Statement for our 2015 annual general meeting of shareholders under the captions “Corporate Governance Matters,” “Proposal 1 Re-elect Eleven Director Nominees” and “Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference.

Information required under this item with respect to executive officers is contained in Part I of this Form 10-K under the caption “Executive Officers of the Registrant.”

Our Board of Directors has adopted Pentair’s Code of Business Conduct and Ethics and designated it as the code of ethics for the Company’s Chief Executive Officer and senior financial officers. The Code of Business Conduct and Ethics also applies to all employees and directors in accordance with New York Stock Exchange Listing Standards. We have posted a copy of Pentair’s Code of Business Conduct and Ethics on our website at <http://pentair.com/en/about-us/leadership/corporate-governance>. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendments to or waivers from, Pentair’s Code of Business Conduct and Ethics by posting such information on our website at <http://pentair.com/en/about-us/leadership/corporate-governance>. We are not including the information contained on our website as part of, or incorporating it by reference into, this report.

### ITEM 11. EXECUTIVE COMPENSATION

Information required under this item is contained in our Proxy Statement for our 2015 annual general meeting of shareholders under the captions “Corporate Governance Matters — Committees of the Board — Compensation Committee,” “Corporate Governance Matters — Compensation Committee Interlocks and Insider Participation,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Executive Compensation” and “Director Compensation” and is incorporated herein by reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required under this item with respect to security ownership is contained in our Proxy Statement for our 2015 annual general meeting of shareholders under the caption “Security Ownership” and is incorporated herein by reference.

The following table summarizes, as of December 31, 2014, information about compensation plans under which our equity securities are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders:			
2012 Stock and Incentive Plan	2,804,889	<sup>(1)</sup> \$52.63	<sup>(2)</sup> 7,236,778 <sup>(3)</sup>
2008 Omnibus Stock Incentive Plan	2,659,574	<sup>(4)</sup> 32.82	<sup>(2)</sup> — <sup>(5)</sup>
2004 Omnibus Stock Incentive Plan	1,223,592	32.99	— <sup>(5)</sup>
Outside Directors Non-qualified Stock Option Plan	200,000	35.36	— <sup>(5)</sup>
Total	6,888,055	\$40.99	<sup>(2)</sup> 7,236,778

(1) Consists of 1,845,959 shares subject to stock options and 958,930 shares subject to restricted stock units.

(2) Represents the weighted average exercise price of outstanding stock options and does not take into account outstanding restricted stock units.

(3) Represents securities remaining available for issuance under the 2012 Stock and Incentive Plan.

(4) Consists of 2,529,593 shares subject to stock options and 129,981 shares subject to restricted stock units.

(5) The 2008 Omnibus Stock Incentive Plan was terminated in connection with the Merger. The 2004 Omnibus Plan and the Directors Plan were terminated in 2008. Options previously granted under these plans and restricted stock units granted under the 2008 Omnibus Stock Incentive Plan remain outstanding, but no further options or shares may be granted or issued under either plan.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required under this item is contained in our Proxy Statement for our 2015 annual general meeting of shareholders under the captions “Corporate Governance Matters — Board Governance,” “Corporate Governance Matters — Independent Directors,” and “Corporate Governance Matters — Policies and Procedures Regarding Related Person Transactions” and is incorporated herein by reference.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required under this item is contained in our Proxy Statement for our 2015 annual general meeting of shareholders under the caption “Proposal 3 Ratify, by Non-Binding Advisory Vote, the Appointment of Deloitte & Touche LLP as the Independent Auditors of Pentair plc and Authorize, by Binding Vote, the Audit and Finance Committee to Set the Auditors Remuneration” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) List of documents filed as part of this report:

(1) Financial Statements

Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012

Consolidated Balance Sheets as of December 31, 2014 and 2013

Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule

Schedule II — Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) Exhibits

The exhibits of this Annual Report on Form 10-K included herein are set forth on the attached Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 24, 2015.

PENTAIR PLC

By /s/ John L. Stauch  
John L. Stauch  
Executive Vice President and Chief Financial  
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on February 24, 2015.

Signature	Title
/s/ Randall J. Hogan Randall J. Hogan	Chairman and Chief Executive Officer
/s/ John L. Stauch John L. Stauch	Executive Vice President and Chief Financial Officer
/s/ Mark C. Borin Mark C. Borin	Chief Accounting Officer and Treasurer
* Glynis A. Bryan	Director
* Jerry W. Burris	Director
* Carol Anthony (John) Davidson	Director
* Jacques Esculier	Director
* T. Michael Glenn	Director
* David H. Y. Ho	Director
* David A. Jones	Director
* Ronald L. Merriman	Director
* William T. Monahan	Director



\*

Director

Billie I. Williamson

\*By /s/ Angela D. Lageson

Angela D. Lageson

Attorney-in-fact

104

---

Schedule II — Valuation and Qualifying Accounts  
Pentair plc and Subsidiaries

In millions	Beginning balance	Additions charged (reductions credited) to costs and expenses	Deductions <sup>(1)</sup>	Other changes <sup>(2)</sup>	Ending balance
Allowances for doubtful accounts					
Year ended December 31, 2014	\$58.7	\$(1.2	)\$11.5	\$(3.5	)\$42.5
Year ended December 31, 2013	\$14.0	\$49.7	\$2.4	\$(2.6	)\$58.7
Year ended December 31, 2012	\$16.0	\$1.6	\$4.0	\$0.4	\$14.0

(1)Uncollectible accounts written off, net of recoveries

(2)Result of foreign currency effects

EXHIBIT INDEX

Exhibit Number	Exhibit
2.1	Merger Agreement, dated as of March 27, 2012, among Tyco International Ltd., Pentair Ltd. (formerly Tyco Flow Control International Ltd.), Panthro Acquisition Co., Panthro Merger Sub, Inc. and Pentair, Inc. (Incorporated by reference to Exhibit 2.1 in the Current Report on Form 8-K of Pentair, Inc. filed with the Commission on March 30, 2012 (File No. 000-04689)).
2.2	Amendment No. 1, dated as of July 25, 2012, to the Merger Agreement, dated as of March 27, 2012, among Tyco International Ltd., Pentair Ltd. (formerly Tyco Flow Control International Ltd.), Panthro Acquisition Co., Panthro Merger Sub, Inc. and Pentair, Inc. (Incorporated by reference to Exhibit 2.1 in the Current Report on Form 8-K of Pentair, Inc. filed with the Commission on July 31, 2012 (File No. 000-04689)).
2.3	Amended and Restated Separation and Distribution Agreement, dated September 27, 2012 among Tyco International Ltd., Pentair Ltd. and The ADT Corporation (Incorporated by reference to Exhibit 2.3 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on September 28, 2012 (File No. 001-11625)).
2.4	Merger Agreement, dated December 10, 2013, between Pentair Ltd. and Pentair plc (Incorporated by reference to Exhibit 2.1 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on December 10, 2013 (File No. 001-11625)).*
3.1	Memorandum and Articles of Association of Pentair plc (Incorporated by reference to Exhibit 3.1 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).
4.1	Indenture, dated as of September 24, 2012, among Pentair Finance S.A. (formerly Tyco Flow Control International Finance S.A.) (as Issuer), Pentair Ltd. (as Guarantor) and Wells Fargo Bank, National Association (as Trustee) (Incorporated by reference to Exhibit 4.1 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on September 28, 2012 (File No. 001-11625)).
4.2	First Supplemental Indenture, dated as of September 24, 2012, among Pentair Finance S.A. (formerly Tyco Flow Control International Finance S.A.) (as Issuer), Pentair Ltd. (as Guarantor), Pentair, Inc. and Wells Fargo Bank, National Association (as Trustee) (Incorporated by reference to Exhibit 4.2 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on September 28, 2012 (File No. 001-11625)).
4.3	Second Supplemental Indenture, dated as of September 24, 2012, among Pentair Finance S.A. (formerly Tyco Flow Control International Finance S.A.) (as Issuer), Pentair Ltd. (as Guarantor), Pentair, Inc. and Wells Fargo Bank, National Association (as Trustee) (Incorporated by reference to Exhibit 4.3 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on September 28, 2012 (File No. 001-11625)).
4.4	Third Supplemental Indenture, dated as of November 26, 2012, among Pentair Finance S.A. (as Issuer), Pentair Ltd. (as Guarantor) and Wells Fargo Bank, National Association (as Trustee) (Incorporated by reference to Exhibit 4.1 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on November 28, 2012 (File No. 001-11625)).

Edgar Filing: PENTAIR plc - Form 10-K

- 4.5 Fourth Supplemental Indenture, dated as of November 26, 2012, among Pentair Finance S.A. (as Issuer), Pentair Ltd. (as Guarantor) and Wells Fargo Bank, National Association (as Trustee) (Incorporated by reference to Exhibit 4.2 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on November 28, 2012 (File No. 001-11625)).
- 4.6 Fifth Supplemental Indenture, dated as of December 18, 2012, among Pentair Finance S.A. (as Issuer), Pentair Ltd. (as Guarantor) and Wells Fargo Bank, National Association (as Trustee) (Incorporated by reference to Exhibit 4.1 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on December 18, 2012 (File No. 001-11625)).
- 4.7 Sixth Supplemental Indenture, dated as of May 20, 2014, among Pentair Finance S.A., Pentair Ltd., Pentair Investments Switzerland GmbH, Pentair plc and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.3 in the Current Report on Form 8-K of Pentair plc filed with the Commission on May 20, 2014 (File No. 001-11625)).
- 4.8 Senior Indenture, dated May 2, 2011 by and among Pentair, Inc. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 4.5 to Pentair, Inc.'s Registration Statement on Form S-3 (Registration 333-173829)).
- 4.9 First Supplemental Indenture, dated as of May 9, 2011, among Pentair, Inc., the guarantors named therein and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 4.2 in the Current Report on Form 8-K of Pentair, Inc. filed with the Commission on May 9, 2011 (File No. 000-04689)).

Edgar Filing: PENTAIR plc - Form 10-K

- 4.10 Third Supplemental Indenture, dated October 1, 2012, among Pentair Ltd., Pentair, Inc. and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.1 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on October 1, 2012 (File No. 001-11625)).
- 4.11 Fourth Supplemental Indenture, dated as of December 17, 2012, among Pentair, Inc. (as Issuer), Pentair Ltd. (as Guarantor) and Wells Fargo Bank, National Association (as Trustee) (Incorporated by reference to Exhibit 4.2 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on December 18, 2012 (File No. 001-11625)).
- 4.12 Fifth Supplemental Indenture, dated as of May 20, 2014, among Pentair, Inc., Pentair Ltd., Pentair Investments Switzerland GmbH, Pentair plc and Wells Fargo Bank, National Association, as trustee (Incorporated by reference to Exhibit 4.2 in the Current Report on Form 8-K of Pentair plc filed with the Commission on May 20, 2014 (File No. 001-11625)).
- 4.13 Amended and Restated Credit Agreement, dated as of October 3, 2014 among Pentair, plc, Pentair Investments Switzerland GmbH, Pentair Finance, S.A., Pentair, Inc. and the lenders and agents party thereto (Incorporated by reference to Exhibit 4.1 in the Current Report on Form 8-K of Pentair, plc, filed with the Commission on October 3, 2014 (File No. 001-11625)).
- 10.1 Tax Sharing Agreement, dated September 28, 2012 by and among Pentair Ltd., Tyco International Ltd. and The ADT Corporation (Incorporated by reference to Exhibit 10.1 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on September 28, 2012 (File No. 001-11625)).
- 10.2 Pentair plc 2012 Stock and Incentive Plan, as amended and restated (Incorporated by reference to Exhibit 10.1 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.3 Form of Executive Officer Stock Option Grant Agreement (Incorporated by reference to Exhibit 10.7 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.4 Form of Executive Officer Restricted Stock Unit Grant Agreement (Incorporated by reference to Exhibit 10.8 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.5 Form of Executive Officer Performance Unit Grant Agreement (Incorporated by reference to Exhibit 10.9 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.6 Form of Non-Employee Director Stock Option Grant Agreement (Incorporated by reference to Exhibit 10.10 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.7 Form of Non-Employee Director Restricted Stock Unit Grant Agreement (Incorporated by reference to Exhibit 10.11 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.8 Pentair plc 2008 Omnibus Stock Incentive Plan, as amended and restated (Incorporated by reference to Exhibit 10.2 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014

(File No. 001-11625)).\*

10.9 Pentair plc Omnibus Stock Incentive Plan, as amended and restated (Incorporated by reference to Exhibit 10.3 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*

10.10 Pentair plc Outside Directors Nonqualified Stock Option Plan, as amended and restated (Incorporated by reference to Exhibit 10.4 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*

10.11 Form of Assignment and Assumption Agreement, among Pentair, Inc., Pentair Ltd. and the executive officers of Pentair Ltd. relating to Key Executive Employment and Severance Agreement (Incorporated by reference to Exhibit 10.12 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on October 1, 2012 (File No. 001-11625)).\*

10.12 Form of Key Executive Employment and Severance Agreement for Randall J. Hogan (Incorporated by reference to Exhibit 10.10 in the Annual Report on Form 10-K of Pentair, Inc. for the year ended December 31, 2008 (File No. 000-04689)).\*

10.13 Form of Key Executive Employment and Severance Agreement for Frederick S. Koury (Incorporated by reference to Exhibit 10.11 in the Annual Report on Form 10-K of Pentair, Inc. for the year ended December 31, 2008 (File No. 000-04689)).\*

107

---

- 10.14 Form of Key Executive Employment and Severance Agreement for John L. Stauch, Mark C. Borin and Angela D. Lageson (Incorporated by reference to Exhibit 10.12 in the Annual Report on Form 10-K of Pentair, Inc. for the year ended December 31, 2008 (File No. 000-04689)).\*
- 10.15 Form of Key Executive Employment and Severance Agreement for Karl R. Frykman, Alok Maskara, Philip Pejovich and Christopher Stevens (Incorporated by reference to Exhibit 10.17 in the Annual Report on Form 10-K of Pentair Ltd. for the quarter ended December 31, 2013 (File No. 001-11625)).\*
- 10.16 Form of Letter regarding RSU Grants and Waiver of Certain KEESA Rights, between Pentair, Inc. and certain executives of Pentair, Inc., dated March 27, 2012 (Incorporated by reference to Exhibit 10.1 in the Current Report on Form 8-K of Pentair, Inc. filed with the Commission on March 30, 2012 (File No. 000-04689)).\*
- 10.17 Pentair plc Compensation Plan for Non-Employee Directors, as amended and restated (Incorporated by reference to Exhibit 10.6 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.18 Pentair plc Employee Stock Purchase and Bonus Plan, as amended and restated (Incorporated by reference to Exhibit 10.5 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.19 Pentair, Inc. Non-Qualified Deferred Compensation Plan effective January 1, 1996 (Incorporated by reference to Exhibit 10.17 in the Annual Report on Form 10-K of Pentair, Inc. for the year ended December 31, 2005 (File No. 000-04689)).\*
- 10.20 Trust Agreement for Pentair, Inc. Non-Qualified Deferred Compensation Plan between Pentair, Inc. and Fidelity Management Trust Company (Incorporated by reference to Exhibit 10.18 contained in the Annual Report on Form 10-K of Pentair, Inc. for the year ended December 31, 1995 (File No. 000-04689)).\*
- 10.21 Amendment effective August 23, 2000 to Pentair, Inc. Non-Qualified Deferred Compensation Plan effective January 1, 1996 (Incorporated by reference to Exhibit 10.8 in the Current Report on Form 8-K of Pentair, Inc. filed with the Commission on September 21, 2000 (File No. 000-04689)).\*
- 10.22 Pentair, Inc. Non-Qualified Deferred Compensation Plan effective January 1, 2009, as amended and restated (Incorporated by reference to Exhibit 10.12 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.23 Pentair, Inc. 1999 Supplemental Executive Retirement Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.2 in the Current Report on Form 8-K of Pentair, Inc. filed with the Commission on September 21, 2000 (File No. 000-04689)).\*
- 10.24 Pentair, Inc. Supplemental Executive Retirement Plan effective January 1, 2009, as amended and restated (Incorporated by reference to Exhibit 10.13 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.25 Pentair, Inc. Restoration Plan as Amended and Restated effective August 23, 2000 (Incorporated by reference to Exhibit 10.3 in the Current Report on Form 8-K of Pentair, Inc. filed with the Commission on September 21, 2000 (File No. 000-04689)).\*

- 10.26 Pentair, Inc. Restoration Plan effective January 1, 2009, as amended and restated (Incorporated by reference to Exhibit 10.14 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.27 Agreement, dated March 6, 2013, between Pentair Ltd. and Randall J. Hogan (Incorporated by reference to Exhibit 10.1 in the Current Report on Form 8-K of Pentair Ltd. filed with the Commission on March 8, 2013 (File No. 001-11625)).\*
- 10.28 Form of Deed of Indemnification for directors and executive officers of Pentair plc (Incorporated by reference to Exhibit 10.15 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.29 Form of Indemnification Agreement for directors and executive officers of Pentair plc (Incorporated by reference to Exhibit 10.16 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).\*
- 10.30 Separation Agreement, dated February 1, 2015, between Pentair Management Company and Netha N. Johnson.\*
- 10.31 Separation Agreement, dated February 16, 2015, between Pentair Management Company and Todd R. Gleason.\*
- 14 Pentair plc Code of Conduct (Incorporated by reference to Exhibit 14.1 in the Current Report on Form 8-K of Pentair plc filed with the Commission on June 3, 2014 (File No. 001-11625)).

108

---



- 21 List of Pentair plc subsidiaries.
- 23 Consent of Independent Registered Public Accounting Firm — Deloitte & Touche LLP.
- 24 Power of attorney.
- 31.1 Certification of Chief Executive Officer.
- 31.2 Certification of Chief Financial Officer.
- 32.1 Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from Pentair plc's Annual Report on Form 10-K for the year ended December 31, 2014 are filed herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2014, 2013 and 2012, (ii) the Consolidated Balance Sheets as of December 31, 2014 and 2013, (iii) the Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012, (iv) the Consolidated Statements of Changes in Equity for the years ended December 31, 2014, 2013 and 2012 and (v) the Notes to the Consolidated Financial Statements.

\* Denotes a management contract or compensatory plan or arrangement.