

PENTAIR plc  
Form 10-Q  
October 21, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the Quarterly Period Ended September 27, 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

98-1141328

(State or other jurisdiction of incorporation or organization)

(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

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 web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§223.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Yes  No

On September 27, 2014, 186,794,220 shares of Registrant's common stock were outstanding.

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## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Pentair plc and Subsidiaries

## Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

In millions, except per-share data	Three months ended		Nine months ended	
	September 28, 2014	September 28, 2013	September 28, 2014	September 28, 2013
Net sales	\$1,758.4	\$ 1,713.3	\$5,236.5	\$ 5,168.7
Cost of goods sold	1,133.7	1,098.6	3,401.4	3,429.1
Gross profit	624.7	614.7	1,835.1	1,739.6
Selling, general and administrative	328.8	353.4	1,071.0	1,143.5
Research and development	28.5	31.3	88.2	94.8
Operating income	267.4	230.0	675.9	501.3
Other (income) expense:				
Equity income of unconsolidated subsidiaries	(0.3	) (0.5	) (0.9	) (1.7
Loss (gain) on sale of businesses	—	(0.1	) 0.2	(16.8
Net interest expense	17.1	17.5	51.1	53.8
Income from continuing operations before income taxes and noncontrolling interest	250.6	213.1	625.5	466.0
Provision for income taxes	58.1	46.7	148.3	112.9
Net income from continuing operations before noncontrolling interest	192.5	166.4	477.2	353.1
Income from discontinued operations, net of tax	1.6	7.8	2.6	29.8
Loss from sale / impairment of discontinued operations, net of tax	(380.1	) —	(385.7	) —
Net income (loss) before noncontrolling interest	(186.0	) 174.2	94.1	382.9
Noncontrolling interest	—	1.4	—	4.3
Net income (loss) attributable to Pentair plc	\$(186.0	) \$ 172.8	\$94.1	\$ 378.6
Net income from continuing operations attributable to Pentair plc	\$192.5	\$ 165.0	\$477.2	\$ 348.8
Comprehensive income (loss), net of tax				
Net income (loss) before noncontrolling interest	\$(186.0	) \$ 174.2	\$94.1	\$ 382.9
Changes in cumulative translation adjustment	(178.8	) 89.1	(190.3	) (29.1
Changes in market value of derivative financial instruments, net of (\$0.2), \$0.4, (\$0.1) and \$0.5 tax, respectively	0.8	(0.6	) 1.2	(0.3
Total comprehensive income (loss)	(364.0	) 262.7	(95.0	) 353.5
Less: Comprehensive income attributable to noncontrolling interest	—	2.6	—	5.0
Comprehensive income (loss) attributable to Pentair plc	\$(364.0	) \$ 260.1	\$(95.0	) \$ 348.5
Earnings (loss) per ordinary share attributable to Pentair plc				
Basic				
Continuing operations	\$1.01	\$ 0.83	\$2.47	\$ 1.73
Discontinued operations	(1.99	) 0.04	(1.98	) 0.14
Basic earnings (loss) per ordinary share attributable to Pentair plc	\$(0.98	) \$ 0.87	\$0.49	\$ 1.87
Diluted				
Continuing operations	\$1.00	\$ 0.81	2.43	1.70
Discontinued operations	(1.95	) 0.04	(1.95	) 0.14

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Diluted earnings (loss) per ordinary share attributable to Pentair plc	\$(0.95	)\$ 0.85	\$0.48	\$ 1.84
Weighted average ordinary shares outstanding				
Basic	190.2	199.3	193.2	202.1
Diluted	193.1	202.8	196.4	205.6
Cash dividends paid per ordinary share	\$0.30	\$ 0.25	\$0.80	\$ 0.71
See accompanying notes to condensed consolidated financial statements.				

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## Pentair plc and Subsidiaries

## Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per-share data	September 27, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 156.6	\$ 256.0
Accounts and notes receivable, net of allowances of \$102.1 and \$112.4, respectively	1,180.9	1,285.0
Inventories	1,199.4	1,195.1
Other current assets	386.3	361.6
Current assets held for sale	129.2	134.4
Total current assets	3,052.4	3,232.1
Property, plant and equipment, net	990.8	1,044.3
Other assets		
Goodwill	4,792.6	4,860.7
Intangibles, net	1,648.6	1,749.9
Other non-current assets	406.3	390.0
Non-current assets held for sale	36.2	466.3
Total other assets	6,883.7	7,466.9
Total assets	\$ 10,926.9	\$ 11,743.3
Liabilities and Equity		
Current liabilities		
Current maturities of long-term debt and short-term borrowings	\$ 2.5	\$ 2.5
Accounts payable	527.2	576.9
Employee compensation and benefits	287.4	312.4
Other current liabilities	791.1	645.9
Current liabilities held for sale	60.5	72.5
Total current liabilities	1,668.7	1,610.2
Other liabilities		
Long-term debt	2,960.7	2,547.9
Pension and other post-retirement compensation and benefits	279.1	320.2
Deferred tax liabilities	558.4	557.0
Other non-current liabilities	480.7	456.4
Non-current liabilities held for sale	11.9	33.9
Total liabilities	5,959.5	5,525.6
Equity		
Ordinary shares \$0.01 and CHF 0.50 par value, 426.0 and 213.0 authorized, 207.1 and 213.0 issued at September 27, 2014 and December 31, 2013, respectively	2.1	113.5
Ordinary shares held in treasury, 20.3 and 15.6 shares at September 27, 2014 and December 31, 2013, respectively	(1,267.5)	(875.1)
Additional paid-in capital	4,542.3	5,071.4
Retained earnings	1,923.2	1,829.1
Accumulated other comprehensive income (loss)	(232.7)	(43.6)
Shareholders' equity attributable to Pentair plc	4,967.4	6,095.3
Noncontrolling interest	—	122.4
Total equity	4,967.4	6,217.7
Total liabilities and equity	\$ 10,926.9	\$ 11,743.3

See accompanying notes to condensed consolidated financial statements.



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## Pentair plc and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine months ended	
	September 27, 2014	September 28, 2013
Operating activities		
Net income before noncontrolling interest	\$94.1	\$382.9
Income from discontinued operations, net of tax	(2.6)	)(29.8)
Loss from sale / impairment of discontinued operations, net of tax	385.7	—
Net income from continuing operations before noncontrolling interest	477.2	353.1
Adjustments to reconcile net income from continuing operations before noncontrolling interest to net cash provided by (used for) operating activities of continuing operations		
Equity income of unconsolidated subsidiaries	(0.9)	)(1.7)
Depreciation	103.9	108.9
Amortization	85.9	106.7
Deferred income taxes	6.7	22.8
Loss (gain) on sale of businesses	0.2	(16.8)
Share-based compensation	24.8	25.3
Excess tax benefits from share-based compensation	(10.0)	)(7.4)
Loss on sale of assets	1.0	3.9
Changes in assets and liabilities, net of effects of business acquisitions		
Accounts and notes receivable	71.5	(40.1)
Inventories	(38.5)	)10.0
Other current assets	(36.8)	)(10.2)
Accounts payable	(34.4)	)16.7
Employee compensation and benefits	(11.9)	)38.5
Other current liabilities	95.4	11.8
Other non-current assets and liabilities	(45.9)	)(10.1)
Net cash provided by (used for) operating activities of continuing operations	688.2	611.4
Net cash provided by (used for) operating activities of discontinued operations	(4.8)	)22.6
Net cash provided by (used for) operating activities	683.4	634.0
Investing activities		
Capital expenditures	(92.5)	)(126.3)
Proceeds from sale of property and equipment	4.1	3.7
Proceeds from sale of businesses, net	0.3	30.9
Acquisitions, net of cash acquired	—	(84.4)
Other	0.6	(0.8)
Net cash provided by (used for) investing activities	(87.5)	)(176.9)
Financing activities		
Net receipts of short-term borrowings	0.3	—
Net receipts of commercial paper and revolving long-term debt	426.2	122.5
Repayments of long-term debt	(13.2)	)(6.2)
Debt issuance costs	—	(1.4)
Excess tax benefits from share-based compensation	10.0	7.4
Shares issued to employees, net of shares withheld	30.3	70.8
Repurchases of ordinary shares	(850.0)	)(540.3)
Dividends paid	(156.2)	)(143.9)
Purchase of noncontrolling interest	(134.7)	)—

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Distribution to noncontrolling interest	—	(2.0	)
Net cash provided by (used for) financing activities	(687.3	)	(493.1
Effect of exchange rate changes on cash and cash equivalents	(8.0	)	17.8
Change in cash and cash equivalents	(99.4	)	(18.2
Cash and cash equivalents, beginning of period	256.0		237.4
Cash and cash equivalents, end of period	\$156.6		\$219.2
See accompanying notes to condensed consolidated financial statements.			

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## Pentair plc and Subsidiaries

## Condensed Consolidated Statements of Changes in Equity (Unaudited)

In millions	Ordinary shares		Treasury shares		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair plc	Noncontrolling interest	Total
	Number	Amount	Number	Amount						
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	—	—	—	—	—	94.1	—	94.1	—	94.1
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(189.1)	(189.1)	—	(189.1)
Conversion of Pentair Ltd. common shares to Pentair plc ordinary shares	—	(111.4)	—	—	111.4	—	—	—	—	—
Dividends declared	—	—	—	—	(225.7)	—	—	(225.7)	—	(225.7)
Purchase of noncontrolling interest	—	—	—	—	(12.3)	—	—	(12.3)	(122.4)	(134.7)
Share repurchase	(5.9)	—	(5.8)	(450.7)	(399.3)	—	—	(850.0)	—	(850.0)
Exercise of options, net of shares tendered for payment	—	—	0.9	48.7	(11.0)	—	—	37.7	—	37.7
Issuance of restricted shares, net of cancellations	—	—	0.3	14.4	(14.4)	—	—	—	—	—
Shares surrendered by employees to pay taxes	—	—	(0.1)	(4.8)	(2.6)	—	—	(7.4)	—	(7.4)
Share-based compensation	—	—	—	—	24.8	—	—	24.8	—	24.8
Balance - September 27, 2014	207.1	\$ 2.1	(20.3)	\$(1,267.5)	\$4,542.3	\$ 1,923.2	\$ (232.7)	\$ 4,967.4	\$ —	\$ 4,967.4

In millions	Ordinary shares		Treasury shares		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Pentair plc	Noncontrolling interest	Total
	Number	Amount	Number	Amount						
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	—	—	—	—	—	378.6	—	378.6	4.3	382.9
	—	—	—	—	—	—	(30.1)	(30.1)	0.7	(29.4)

Other comprehensive income (loss), net of tax										
Tax benefits of share-based compensation	—	—	—	—	6.2	—	—	6.2	—	6.2
Dividends declared	—	—	—	—	(199.6)	—	—	(199.6)	—	(199.6)
Distribution to noncontrolling interest	—	—	—	—	—	—	—	—	(2.0)	(2.0)
Share repurchase	—	—	(9.7)	(540.3)	—	—	—	(540.3)	—	(540.3)
Exercise of options, net of shares tendered for payment	—	—	2.5	109.8	(26.6)	—	—	83.2	—	83.2
Issuance of restricted shares, net of cancellations	—	—	0.6	28.9	(28.9)	—	—	—	—	—
Shares surrendered by employees to pay taxes	—	—	(0.2)	(10.1)	(2.3)	—	—	(12.4)	—	(12.4)
Share-based compensation	—	—	—	—	25.3	—	—	25.3	—	25.3
Balance - September 28, 2013	213.0	\$113.5	(13.7)	\$(727.2)	\$5,066.5	\$1,670.9	\$(41.7)	\$6,082.0	\$119.4	\$6,201.4

See accompanying notes to condensed consolidated financial statements.

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Pentair plc and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

1. Basis of Presentation and Responsibility for Interim Financial Statements

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

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.

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 to 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 common shares of Flow Control to Tyco’s shareholders, resulting in the distribution of approximately 110.9 million of our common 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.

During the fourth quarter of 2013, we reorganized our business segments to reflect a new operating structure and management of our Global Business Units, resulting in a change from three reporting segments to four, Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions. All prior period amounts related to the segment change have been retrospectively reclassified throughout this Quarterly Report on Form 10-Q to conform to the new presentation.

We are responsible for the unaudited financial statements included in this document. The financial statements include all normal recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. As these are condensed financial statements, one should also read our consolidated financial statements and notes thereto, which are included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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.

## 2. Acquisitions

On January 30, 2014, we acquired, as part of Process Technologies, the remaining 19.9 percent ownership interest in 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 an 80.1 percent ownership equity interest in PRF, representing our and GE's respective global water softener and residential water

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Pentair plc and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

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.

## 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. We expect to dispose of the Water Transport business by early to mid-2015. 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 quarter ended September 27, 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 we sold a portion of our Water Transport business in Australia resulting in a loss of \$5.6 million, net of a \$2.4 million tax benefit.

Operating results of discontinued operations are summarized below:

In millions	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales	\$74.8	\$116.7	\$235.4	\$403.0
Income from discontinued operations before income taxes	\$0.2	\$10.3	\$0.3	\$40.0
Income tax benefit (provision)	1.4	(2.5)	) 2.3	(10.2)
Income from discontinued operations, net of tax	\$1.6	\$7.8	\$2.6	\$29.8
Loss from sale / impairment of discontinued operations before income taxes	\$(392.4)	)\$—	\$(400.4)	)\$—
Income tax benefit	12.3	—	14.7	—
Loss from sale / impairment of discontinued operations, net of tax	\$(380.1)	)\$—	\$(385.7)	)\$—

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Pentair plc and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

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

In millions	September 27, 2014	December 31, 2013
Cash and cash equivalents	\$ 10.6	\$ 9.1
Accounts and notes receivable, net	40.7	49.3
Inventories	45.0	48.2
Other current assets	32.9	27.8
Current assets held for sale	\$ 129.2	\$ 134.4
Property, plant and equipment, net	\$ 22.8	\$ 125.7
Goodwill	—	273.5
Intangibles, net	—	26.2
Other non-current assets	13.4	40.9
Non-current assets held for sale	\$ 36.2	\$ 466.3
Accounts payable	22.4	19.7
Employee compensation and benefits	17.4	34.7
Other current liabilities	20.7	18.1
Current liabilities held for sale	\$ 60.5	\$ 72.5
Long-term debt	\$ 4.5	\$ 4.7
Pension and other post-retirement compensation and benefits	3.2	4.6
Deferred tax liabilities	3.7	23.6
Other non-current liabilities	0.5	1.0
Non-current liabilities held for sale	\$ 11.9	\$ 33.9

## Divestitures

During the first quarter of 2013 we sold a business that was part of Technical Solutions for a cash purchase price of \$30.0 million, net of transaction costs, resulting in a gain of \$16.7 million. Goodwill of \$5.3 million was included in the assets of the business sold. The sales price was subject to a working capital adjustment and we received an additional \$0.1 million cash in the third quarter of 2013 as a result.

## 4. Share Plans

Total share-based compensation expense for the three and nine months ended September 27, 2014 and September 28, 2013 was as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Restricted stock units	\$ 5.6	\$ 4.6	\$ 16.7	\$ 16.4
Stock options	2.7	2.6	8.1	8.9
Total share-based compensation expense	\$ 8.3	\$ 7.2	\$ 24.8	\$ 25.3

In the first quarter of 2014, we issued our annual share-based compensation grants under the Pentair plc 2012 Stock and Incentive Plan to eligible employees. The total number of awards issued was approximately 0.7 million, of which 0.5 million were stock options and 0.2 million were restricted stock units. The weighted-average grant date fair value of the stock options and restricted stock units issued was \$23.35 and \$78.72, respectively.

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Pentair plc and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

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

	2014	
	Annual Grant	
Risk-free interest rate	1.43	%
Expected dividend yield	1.45	%
Expected share price volatility	35.3	%
Expected term (years)	5.6	

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

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

**5. Restructuring**

During the nine months ended September 27, 2014 and the year ended December 31, 2013, we continued execution of certain business restructuring initiatives aimed at reducing our fixed cost structure and realigning our business. The 2014 initiatives included the reduction in hourly and salaried headcount of approximately 750 employees, consisting of approximately 400 in Valves & Controls, 100 in Process Technologies, 150 in Flow Technologies and 100 in Technical Solutions. The 2013 initiatives included the reduction in hourly and salaried headcount of approximately 1,100 employees, consisting of approximately 500 in Valves & Controls, 150 in Process Technologies, 150 in Flow Technologies and 300 in Technical Solutions.

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

In millions	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Severance and related costs	\$—	\$0.8	\$34.7	\$40.5
Other	—	2.5	18.3	8.6
Total restructuring costs	\$—	\$3.3	\$53.0	\$49.1

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

Restructuring costs by reportable segment for the three and nine months ended September 27, 2014 and September 28, 2013 are as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Valves & Controls	\$—	\$0.4	\$27.7	\$18.6
Process Technologies	—	2.3	9.5	6.4
Flow Technologies	—	—	10.0	6.5
Technical Solutions	—	0.6	5.8	15.8
Other	—	—	—	1.8
Consolidated	\$—	\$3.3	\$53.0	\$49.1





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Activity in the restructuring accrual recorded in Other current liabilities and Employee compensation and benefits in the Condensed Consolidated Balance Sheets is summarized as follows for the nine months ended September 27, 2014:

In millions	September 27, 2014
Beginning balance	\$68.6
Costs incurred	34.7
Cash payments and other	(43.8 )
Ending balance	\$59.5

## 6. Earnings (Loss) Per Share

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

In millions, except per-share data	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net income (loss) attributable to Pentair plc	\$(186.0	)\$172.8	\$94.1	\$378.6
Net income from continuing operations attributable to Pentair plc	\$192.5	\$165.0	\$477.2	\$348.8
Weighted average ordinary shares outstanding				
Basic	190.2	199.3	193.2	202.1
Dilutive impact of stock options and restricted stock units	2.9	3.5	3.2	3.5
Diluted	193.1	202.8	196.4	205.6
Earnings (loss) per ordinary share attributable to Pentair plc				
Basic				
Continuing operations	\$1.01	\$0.83	\$2.47	\$1.73
Discontinued operations	(1.99	)0.04	(1.98	)0.14
Basic earnings (loss) per ordinary share	\$(0.98	)\$0.87	\$0.49	\$1.87
Diluted				
Continuing operations	\$1.00	\$0.81	\$2.43	\$1.70
Discontinued operations	(1.95	)0.04	(1.95	)0.14
Diluted earnings (loss) per ordinary share	\$(0.95	)\$0.85	\$0.48	\$1.84
Anti-dilutive stock options excluded from the calculation of diluted earnings per share	0.5	0.1	0.5	0.9

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## 7. Supplemental Balance Sheet Information

In millions	September 27, 2014	December 31, 2013
Inventories		
Raw materials and supplies	\$464.5	\$549.8
Work-in-process	249.8	164.4
Finished goods	485.1	480.9
Total inventories	\$1,199.4	\$1,195.1
Other current assets		
Cost in excess of billings	\$108.3	\$91.6
Prepaid expenses	114.7	97.6
Deferred income taxes	145.6	149.7
Other current assets	17.7	22.7
Total other current assets	\$386.3	\$361.6
Property, plant and equipment, net		
Land and land improvements	\$175.5	\$186.4
Buildings and leasehold improvements	506.0	502.6
Machinery and equipment	1,177.4	1,155.1
Construction in progress	78.0	70.9
Total property, plant and equipment	1,936.9	1,915.0
Accumulated depreciation and amortization	946.1	870.7
Total property, plant and equipment, net	\$990.8	\$1,044.3
Other non-current assets		
Asbestos-related insurance receivable	\$116.1	\$119.6
Deferred income taxes	93.1	92.3
Other non-current assets	197.1	178.1
Total other non-current assets	\$406.3	\$390.0
Other current liabilities		
Deferred revenue and customer deposits	\$112.0	\$90.8
Dividends payable	168.1	98.7
Billings in excess of cost	36.6	35.4
Accrued warranty	54.3	56.0
Other current liabilities	420.1	365.0
Total other current liabilities	\$791.1	\$645.9
Other non-current liabilities		
Asbestos-related liabilities	\$250.5	\$254.7
Taxes payable	49.5	48.9
Other non-current liabilities	180.7	152.8
Total other non-current liabilities	\$480.7	\$456.4

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## 8. Goodwill and Other Identifiable Intangible Assets

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

In millions	December 31, 2013	Acquisitions/ divestitures	Foreign currency translation/other	September 27, 2014
Valves & Controls	\$1,511.6	\$—	\$—	\$1,511.6
Process Technologies	1,524.5	—	(45.4)	) 1,479.1
Flow Technologies	666.6	—	(18.3)	) 648.3
Technical Solutions	1,158.0	—	(4.4)	) 1,153.6
Total goodwill	\$4,860.7	\$—	\$(68.1)	) \$4,792.6

Identifiable intangible assets consisted of the following:

In millions	September 27, 2014			December 31, 2013		
	Cost	Accumulated amortization	Net	Cost	Accumulated amortization	Net
Finite-life intangibles						
Customer relationships	\$1,259.5	\$(306.7)	) \$952.8	\$1,271.2	\$(243.1)	) \$1,028.1
Trade names	2.1	(1.1)	) 1.0	2.1	(0.9)	) 1.2
Proprietary technology and patents	257.3	(92.8)	) 164.5	263.7	(80.0)	) 183.7
Total finite-life intangibles	\$1,518.9	\$(400.6)	) \$1,118.3	\$1,537.0	\$(324.0)	) \$1,213.0
Indefinite-life intangibles						
Trade names	530.3	—	530.3	536.9	—	536.9
Total intangibles, net	\$2,049.2	\$(400.6)	) \$1,648.6	\$2,073.9	\$(324.0)	) \$1,749.9

Intangible asset amortization expense was \$28.5 million and \$28.2 million for the three months ended September 27, 2014 and September 28, 2013, respectively, and \$85.9 million and \$106.7 million for the nine months ended September 27, 2014 and September 28, 2013, respectively.

Estimated future amortization expense for identifiable intangible assets during the remainder of 2014 and the next five years is as follows:

In millions	Q4					
	2014	2015	2016	2017	2018	2019
Estimated amortization expense	\$28.2	\$112.6	\$111.7	\$110.0	\$107.6	\$100.2

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## 9. Debt

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

In millions	Average interest rate at September 27, 2014	Maturity Year	September 27, 2014	December 31, 2013
Commercial paper	0.510%	2019	\$945.6	\$528.9
Revolving credit facilities	1.404%	2019	9.5	—
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
Other	6.000%	2014	0.5	—
Capital lease obligations	6.300%	2014-2015	7.6	21.5
Total debt			2,963.2	2,550.4
Less: Current maturities and short-term borrowings			(2.5)	(2.5)
Long-term debt			\$2,960.7	\$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 principle 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 September 2012, Pentair, Inc. entered into a credit agreement providing for an unsecured, committed revolving credit facility (the "Credit Facility") with initial maximum aggregate availability of up to \$1,450.0 million. Upon the completion of the Merger, Pentair Ltd. became the guarantor under the Credit Facility and PFSA and certain other of our subsidiaries became affiliate borrowers under the Credit Facility. Effective upon the Redomicile, Pentair plc and PISG became the guarantors under the Credit Facility. Borrowings under the Credit Facility generally bear interest at a variable rate equal to the London Interbank Offered Rate ("LIBOR") plus a specified margin based upon PFSA's credit ratings. PFSA must also pay a facility fee ranging from 10.0 to 30.0 basis points per annum (based upon PFSA's credit ratings) on the amount of each lender's commitment. PFSA is authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. PFSA uses the Credit Facility as back-up liquidity to support 100% of our outstanding commercial paper. As of September 27, 2014 and December 31, 2013, we had \$945.6 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 Credit Facility.

Total availability under the Credit Facility was \$494.9 million as of September 27, 2014, which was not limited by any covenants contained in the Credit Facility's credit agreement.

In October 2014, Pentair plc, PISG, PFSA and Pentair, Inc. entered into an amended and restated credit agreement related to the Credit Facility ("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 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.

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Our debt agreements contain certain financial covenants, the most restrictive of which are in the 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 \$40.0 million of costs and expenses incurred in connection with the Merger (\$25.0 million of costs and expenses incurred in connection with acquisitions, investments, dispositions and the issuance, incurrence, repayment or refinancing of debt as a result of the Amended Credit Facility) (“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 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 September 27, 2014, we were in compliance with all financial covenants in our debt agreements.

In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of \$83.5 million, of which \$0.5 million was outstanding at September 27, 2014. Borrowings under these credit facilities bear interest at variable rates.

Debt outstanding at September 27, 2014 matures on a calendar year basis, reflecting maturity date changes as a result of the Amended Credit Facility, as follows:

In millions	Q4							
	2014	2015	2016	2017	2018	2019	Thereafter	Total
Contractual debt obligation maturities	\$0.5	\$350.0	\$—	\$350.0	\$—	\$1,205.1	\$1,050.0	\$2,955.6
Capital lease obligations	0.5	7.1	—	—	—	—	—	7.6
Total maturities	\$1.0	\$357.1	\$—	\$350.0	\$—	\$1,205.1	\$1,050.0	\$2,963.2

Capital lease obligations relate primarily to land and buildings and consist of total future minimum lease payments of \$7.8 million less the imputed interest of \$0.2 million as of September 27, 2014.

As of September 27, 2014 and December 31, 2013, assets under capital lease were \$20.4 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 Condensed Consolidated Balance Sheets.

## 10. 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

In April 2011, we entered into interest rate swap contracts to hedge movement in interest rates through the expected date of a 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 fixed rate debt, 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 Accumulated other comprehensive income (“AOCI”) in the Condensed Consolidated Balance Sheets and will be amortized as interest expense over the 10 year life of the underlying fixed rate debt. The ending unrealized net loss in AOCI was \$7.2 million and \$8.1 million at September 27, 2014 and December 31, 2013, 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

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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 September 27, 2014 and December 31, 2013, we had outstanding foreign currency derivative contracts with gross notional U.S. dollar equivalent amounts of \$170.3 million and \$130.3 million, respectively. The impact of these contracts on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) is not material for any period presented.

Gains or losses on foreign currency contracts designated as hedges are reclassified out of AOCI and into Selling, general and administrative expense in the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) upon settlement. Such reclassifications during the three and nine months ended September 27, 2014 and September 28, 2013 were not material.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are classified using the following hierarchy, which is based upon the transparency of inputs to the valuation as of the measurement date:

Level 1: Valuation is based on observable inputs such as quoted market prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Valuation is based on inputs such as quoted market prices for similar assets or liabilities in active markets or other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Valuation is based upon other unobservable inputs that are significant to the fair value measurement. In making fair value measurements, observable market data must be used when available. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

Fair value of financial instruments

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

• short-term financial instruments (cash and cash equivalents, accounts and notes receivable, accounts and notes payable and variable-rate debt) — recorded amount approximates fair value because of the short maturity period;  
• long-term fixed-rate debt, including current maturities — fair value is based on market quotes available for issuance of debt with similar terms, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance; and

• foreign currency contract agreements — fair values are determined through the use of models that consider various assumptions, including time value, yield curves, as well as other relevant economic measures, which are inputs that are classified as Level 2 in the valuation hierarchy defined by the accounting guidance.

The recorded amounts and estimated fair values of total debt were as follows:

In millions	September 27, 2014		December 31, 2013	
	Recorded Amount	Fair Value	Recorded Amount	Fair Value
Variable rate debt	\$955.6	\$955.6	\$528.9	\$528.9
Fixed rate debt	2,007.6	2,065.8	2,021.5	1,997.5
Total debt	\$2,963.2	\$3,021.4	\$2,550.4	\$2,526.4





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

In millions	September 27, 2014			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Foreign currency contract assets	\$—	\$0.5	\$—	\$0.5
Deferred compensation plans <sup>(1)</sup>	47.2	7.4	—	54.6
Total recurring fair value measurements	\$47.2	\$7.9	\$—	\$55.1
Nonrecurring fair value measurements <sup>(2)</sup>				
	December 31, 2013			
In millions	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Foreign currency contract assets	\$—	\$3.6	\$—	\$3.6
Deferred compensation plan <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>				

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 (1) 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.

During the quarter ended September 27, 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 (2) impairment charge was determined using significant unobservable inputs (Level 3 fair value measurements). See Note 3 of the Notes to the Condensed Consolidated Financial Statements 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 trade names intangibles. The impairment charge reduced the fair value of the impacted trade name intangible to \$0. The fair value of trade names is (3) 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.

**11. Income Taxes**

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

The effective income tax rate for the nine months ended September 27, 2014 was 23.7% compared to 24.2% for the nine months ended September 28, 2013. We continue to actively pursue initiatives to reduce our effective tax rate. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the specific quarter of resolution.

The liability for uncertain tax positions was \$60.9 million and \$60.8 million at September 27, 2014 and December 31, 2013, respectively. We record penalties and interest related to unrecognized tax benefits in Provision for income taxes and Net interest



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expense, respectively, on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), which is consistent with our past practices.

## 12. Benefit Plans

Components of net periodic benefit cost for our pension plans for the three and nine months ended September 27, 2014 and September 28, 2013 were as follows:

In millions	U.S. pension plans			
	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Service cost	\$3.3	\$3.9	\$9.9	\$11.7
Interest cost	3.8	3.6	11.4	10.8
Expected return on plan assets	(2.6	)(2.4	)(7.8	)(7.2
Net periodic benefit cost	\$4.5	\$5.1	\$13.5	\$15.3
In millions	Non-U.S. pension plans			
	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Service cost	\$2.0	\$2.4	\$6.0	\$7.2
Interest cost	4.7	4.4	14.1	13.2
Expected return on plan assets	(4.2	)(3.8	)(12.6	)(11.4
Net periodic benefit cost	\$2.5	\$3.0	\$7.5	\$9.0

Components of net periodic benefit cost for our other post-retirement plans for the three and nine months ended September 27, 2014 and September 28, 2013 were not material.

## 13. Shareholders' Equity

## Share repurchases

Prior to the closing of the Merger, our board of directors, and Tyco as our sole shareholder, authorized the repurchase of our shares with a maximum aggregate value of \$400.0 million following the closing of the Merger. In October 2012, our board of directors authorized the repurchase of our 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 for repurchase under these 2012 authorizations. In December 2013, our board of directors authorized the repurchase of our 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.

During the nine months ended September 27, 2014, we repurchased 11.8 million of our shares for \$850.0 million pursuant to these authorizations. As of September 27, 2014, we had \$300.0 million remaining available for share repurchases under the December 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 provides 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 the first and second quarters of 2015. As a result, the balance of dividends payable included in Other current liabilities on our Condensed Consolidated Balance Sheets was \$168.1 million and \$98.7 million at September 27, 2014 and December 31, 2013, respectively.

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## 14. Segment information

Financial information by reportable segment is as follows:

In millions	Three months ended		Nine months ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
Net sales				
Valves & Controls	\$613.4	\$611.5	\$1,782.1	\$1,817.2
Process Technologies	437.8	421.2	1,352.9	1,295.4
Flow Technologies	274.5	281.5	856.8	865.6
Technical Solutions	438.8	405.9	1,262.7	1,213.3
Other	(6.1	)(6.8	)(18.0	)(22.8
Consolidated	\$1,758.4	\$1,713.3	\$5,236.5	\$5,168.7
Operating income (loss)				
Valves & Controls	\$96.4	\$76.6	\$220.1	\$114.9
Process Technologies	58.1	57.1	186.8	177.3
Flow Technologies	38.8	38.7	102.5	100.5
Technical Solutions	96.5	82.2	246.3	200.6
Other	(22.4	)(24.6	)(79.8	)(92.0
Consolidated	\$267.4	\$230.0	\$675.9	\$501.3

## 15. Commitments and Contingencies

## 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 September 27, 2014, there were approximately 3,200 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 \$250.5 million and \$254.7 million as of September 27, 2014 and December 31, 2013, respectively, and was recorded in Other non-current liabilities in the Condensed Consolidated Balance Sheets for pending and future claims and related defense costs. Our estimated receivable for

insurance recoveries was \$116.1 million and \$119.6 million as of September 27, 2014 and December 31, 2013, respectively, and was recorded in Other non-current assets in the Condensed Consolidated Balance Sheets.

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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 and received from 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. 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. Based upon our experience, current information regarding known contingencies and applicable laws, we have recorded reserves for these environmental matters of \$33.1 million and \$34.8 million as of September 27, 2014 and December 31, 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.

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 nine months ended September 27, 2014 were as follows:

In millions	September 27, 2014
Beginning balance	\$56.0
Service and product warranty provision	44.9
Payments	(45.0 )
Foreign currency translation	(1.6 )
Ending balance	\$54.3

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

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Notes to condensed consolidated financial statements (unaudited)

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 September 27, 2014 and December 31, 2013, the outstanding value of bonds, letters of credit and bank guarantees totaled \$466.9 million and \$484.0 million, respectively, of which \$42.6 million and \$25.3 million, respectively, relate to the Water Transport business.

16. 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 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 and 100 percent-owned subsidiary of the Subsidiary Guarantor. The guarantees provided by the Parent Company Guarantor and Subsidiary Guarantor are joint and several.

The following supplemental financial information sets forth the Company's Condensed Consolidating Statement of Operations and Comprehensive Income (Loss), Condensed Consolidating Balance Sheets and Condensed Consolidating Statement of Cash Flows by relevant group within the Company: Pentair plc and Pentair Investments Switzerland GmbH as the guarantors, Pentair Finance S.A. as issuer of the debt and all other non-guarantor subsidiaries. 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 reporting periods prior to Redomicile are presented under this previous guarantee structure.

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## Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)

Three months ended September 27, 2014

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$—	\$—	\$ 1,758.4	\$—	\$1,758.4
Cost of goods sold	—	—	—	1,133.7	—	1,133.7
Gross profit	—	—	—	624.7	—	624.7
Selling, general and administrative	3.2	1.5	0.8	323.3	—	328.8
Research and development	—	—	—	28.5	—	28.5
Operating income (loss)	(3.2	)(1.5	)(0.8	)272.9	—	267.4
Loss (earnings) from continuing operations of investment in subsidiaries	(195.7	)(198.1	)(206.3	)—	600.1	—
Other (income) expense:						
Equity income of unconsolidated subsidiaries	—	—	—	(0.3	) —	(0.3 )
Net interest expense	—	0.9	1.0	15.2	—	17.1
Income (loss) from continuing operations before income taxes	192.5	195.7	204.5	258.0	(600.1	)250.6
Provision for income taxes	—	—	—	58.1	—	58.1
Net income (loss) from continuing operations	192.5	195.7	204.5	199.9	(600.1	)192.5
Income from discontinued operations, net of tax	—	—	—	1.6	—	1.6
Loss from impairment of discontinued operations, net of tax	—	—	—	(380.1	) —	(380.1 )
Earnings (loss) from discontinued operations of investment in subsidiaries	(378.5	)(378.5	)(378.5	)—	1,135.5	—
Net income (loss) attributable to Pentair plc	\$(186.0	)(182.8	)(174.0	)\$ (178.6	) \$535.4	\$(186.0 )
Net income (loss) from continuing operations attributable to Pentair plc	\$192.5	\$195.7	\$204.5	\$ 199.9	\$(600.1	)\$192.5
Comprehensive income (loss), net of tax						
Net income (loss) attributable to Pentair plc	\$(186.0	)(182.8	)(174.0	)\$ (178.6	) \$535.4	\$(186.0 )
Changes in cumulative translation adjustment	(178.8	)(178.8	)(178.8	)(178.8	) 536.4	(178.8 )
Changes in market value of derivative financial instruments	0.8	0.8	0.8	0.8	(2.4	)0.8
Comprehensive income (loss) attributable to Pentair plc	\$(364.0	)(360.8	)(352.0	)\$ (356.6	) \$1,069.4	\$(364.0 )



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Pentair plc and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)

Nine months ended September 27, 2014

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$—	\$—	\$ 5,236.5	\$—	\$5,236.5
Cost of goods sold	—	—	—	3,401.4	—	3,401.4
Gross profit	—	—	—	1,835.1	—	1,835.1
Selling, general and administrative	10.6	4.2	6.8	1,049.4	—	1,071.0
Research and development	—	—	—	88.2	—	88.2
Operating income (loss)	(10.6	)(4.2	)(6.8	)697.5	—	675.9
Loss (earnings) from continuing operations of investment in subsidiaries	(488.5	)(493.9	)(484.0	)—	1,466.4	—
Other (income) expense:						
Equity income of unconsolidated subsidiaries	—	—	—	(0.9	) —	(0.9 )
Loss on sale of business	—	—	—	0.2	—	0.2
Net interest expense	0.7	1.2	2.0	47.2	—	51.1
Income (loss) from continuing operations before income taxes	477.2	488.5	475.2	651.0	(1,466.4	)625.5
Provision for income taxes	—	—	1.0	147.3	—	148.3
Net income (loss) from continuing operations	477.2	488.5	474.2	503.7	(1,466.4	)477.2
Income from discontinued operations, net of tax	—	—	—	2.6	—	2.6
Loss from sale / impairment of discontinued operations, net of tax	—	—	—	(385.7	) —	(385.7 )
Earnings (loss) from discontinued operations of investment in subsidiaries	(383.1	)(383.1	)(383.1	)—	1,149.3	—
Net income (loss) attributable to Pentair plc	\$94.1	\$105.4	\$91.1	\$ 120.6	\$(317.1	)\$94.1
Net income (loss) from continuing operations attributable to Pentair plc	\$477.2	\$488.5	\$474.2	\$ 503.7	\$(1,466.4	)\$477.2
Comprehensive income (loss), net of tax						
Net income (loss) attributable to Pentair plc	\$94.1	\$105.4	\$91.1	\$ 120.6	\$(317.1	)\$94.1
Changes in cumulative translation adjustment	(190.3	)(190.3	)(190.3	)(190.3	) 570.9	(190.3 )
	1.2	1.2	1.2	1.2	(3.6	)1.2

Changes in market value of derivative financial instruments											
Comprehensive income (loss) attributable to Pentair plc	\$(95.0	)	\$(83.7	)	\$(98.0	)	\$(68.5	)	\$250.2	\$(95.0	)

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Notes to condensed consolidated financial statements (unaudited)

## Condensed Consolidating Balance Sheet

September 27, 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	\$—	\$—	\$0.2	\$ 156.4	\$—	\$ 156.6
Accounts and notes receivable, net	—	—	—	1,180.9	—	1,180.9
Inventories	—	—	—	1,199.4	—	1,199.4
Other current assets	0.1	16.3	8.0	402.5	(40.6)	)386.3
Current assets held for sale	—	—	—	129.2	—	129.2
Total current assets	0.1	16.3	8.2	3,068.4	(40.6)	)3,052.4
Property, plant and equipment, net	—	—	—	990.8	—	990.8
<b>Other assets</b>						
Investments in subsidiaries	5,589.5	5,751.6	7,830.7	—	(19,171.8)	)—
Goodwill	—	—	—	4,792.6	—	4,792.6
Intangibles, net	—	—	—	1,648.6	—	1,648.6
Other non-current assets	31.6	—	1,979.7	370.6	(1,975.6)	)406.3
Non-current assets held for sale	—	—	—	36.2	—	36.2
Total other assets	5,621.1	5,751.6	9,810.4	6,848.0	(21,147.4)	)6,883.7
Total assets	\$5,621.2	\$5,767.9	\$9,818.6	\$ 10,907.2	\$(21,188.0)	)\$10,926.9
<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	—	—	—	527.2	—	527.2
Employee compensation and benefits	—	0.7	—	286.7	—	287.4
Other current liabilities	173.4	4.5	14.2	639.6	(40.6)	)791.1
Current liabilities held for sale	—	—	—	60.5	—	60.5
Total current liabilities	173.4	5.2	14.2	1,516.5	(40.6)	)1,668.7
<b>Other liabilities</b>						
Long-term debt	462.8	173.2	2,818.6	1,481.7	(1,975.6)	)2,960.7
Pension and other post-retirement compensation and benefits	—	—	—	279.1	—	279.1
Deferred tax liabilities	—	—	2.2	556.2	—	558.4
Other non-current liabilities	17.6	—	—	463.1	—	480.7
Non-current liabilities held for sale	—	—	—	11.9	—	11.9
Total liabilities	653.8	178.4	2,835.0	4,308.5	(2,016.2)	)5,959.5
Equity	4,967.4	5,589.5	6,983.6	6,598.7	(19,171.8)	)4,967.4
Total liabilities and equity	\$5,621.2	\$5,767.9	\$9,818.6	\$ 10,907.2	\$(21,188.0)	)\$10,926.9



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Notes to condensed consolidated financial statements (unaudited)

## Condensed Consolidating Statement of Cash Flows

Nine months ended September 27, 2014

In millions	Parent Company Guarantor	Subsidiary Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Operating activities						
Net cash provided by (used for) operating activities	\$99.4	\$94.2	\$88.1	\$ 718.8	\$(317.1)	)\$683.4
Investing activities						
Capital expenditures	—	—	—	(92.5)	) —	(92.5)
Proceeds from sale of property and equipment	—	—	—	4.1	—	4.1
Proceeds from sale of businesses, net	—	—	—	0.3	—	0.3
Other	—	—	—	0.6	—	0.6
Net cash provided by (used for) investing activities	—	—	—	(87.5)	) —	(87.5)
Financing activities						
Net receipts (repayments) of short-term borrowings	—	—	—	0.3	—	0.3
Net receipts (repayments) of commercial paper and revolving long-term debt	—	—	416.7	9.5	—	426.2
Repayments of long-term debt	—	—	—	(13.2)	) —	(13.2)
Net change in advances to subsidiaries	455.6	(94.2)	)(551.6)	)(126.9)	) 317.1	—
Excess tax benefits from share-based compensation	—	—	—	10.0	—	10.0
Shares issued to employees, net of shares withheld	—	—	—	30.3	—	30.3
Repurchases of ordinary shares	(399.3)	)—	—	(450.7)	) —	(850.0)
Dividends paid	(156.2)	)—	—	—	—	(156.2)
Purchase of noncontrolling interest	—	—	—	(134.7)	) —	(134.7)
Net cash provided by (used for) financing activities	(99.9)	)(94.2)	)(134.9)	)(675.4)	) 317.1	(687.3)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(8.0)	) —	(8.0)
Change in cash and cash equivalents	(0.5)	)—	(46.8)	)(52.1)	) —	(99.4)
Cash and cash equivalents, beginning of period	0.5	—	47.0	208.5	—	256.0
Cash and cash equivalents, end of period	\$—	\$—	\$0.2	\$ 156.4	\$—	\$156.6





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## Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)

Three months ended September 28, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$—	\$ 1,713.3	\$—	\$ 1,713.3
Cost of goods sold	—	—	1,098.6	—	1,098.6
Gross profit	—	—	614.7	—	614.7
Selling, general and administrative	(0.7)	) 3.1	351.0	—	353.4
Research and development	—	—	31.3	—	31.3
Operating income (loss)	0.7	(3.1	) 232.4	—	230.0
Loss (earnings) from continuing operations of investment in subsidiaries	(165.5	) (169.5	)—	335.0	—
Other (income) expense:					
Equity income of unconsolidated subsidiaries	—	—	(0.5	)—	(0.5 )
Gain on sale of business	—	—	(0.1	)—	(0.1 )
Net interest expense	1.3	0.6	15.6	—	17.5
Income (loss) from continuing operations before income taxes and noncontrolling interest	164.9	165.8	217.4	(335.0	) 213.1
Provision (benefit) for income taxes	(0.1	) 1.3	45.5	—	46.7
Net income (loss) from continuing operations before noncontrolling interest	165.0	164.5	171.9	(335.0	) 166.4
Income from discontinued operations, net of tax	—	—	7.8	—	7.8
Earnings (loss) from discontinued operations of investment in subsidiaries	7.8	7.8	—	(15.6	)—
Net income (loss) before noncontrolling interest	172.8	172.3	179.7	(350.6	) 174.2
Noncontrolling interest	—	—	1.4	—	1.4
Net income (loss) attributable to Pentair plc	\$ 172.8	\$ 172.3	\$ 178.3	\$(350.6	) \$ 172.8
Net income (loss) from continuing operations attributable to Pentair plc	\$ 165.0	\$ 164.5	\$ 170.5	\$(335.0	) \$ 165.0
Comprehensive income (loss), net of tax					
Net income (loss) before noncontrolling interest	\$ 172.8	\$ 172.3	\$ 179.7	\$(350.6	) \$ 174.2
Changes in cumulative translation adjustment	87.9	87.9	89.1	(175.8	) 89.1
Changes in market value of derivative financial instruments	(0.6	) (0.6	) (0.6	) 1.2	(0.6 )
Total comprehensive income (loss)	260.1	259.6	268.2	(525.2	) 262.7
Less: Comprehensive income attributable to noncontrolling interest	—	—	2.6	—	2.6
Comprehensive income (loss) attributable to Pentair plc	\$ 260.1	\$ 259.6	\$ 265.6	\$(525.2	) \$ 260.1



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Pentair plc and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

## Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)

Nine months ended September 28, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	\$—	\$—	\$5,168.7	\$—	\$5,168.7
Cost of goods sold	—	—	3,429.1	—	3,429.1
Gross profit	—	—	1,739.6	—	1,739.6
Selling, general and administrative	(1.5)	)10.1	1,134.9	—	1,143.5
Research and development	—	—	94.8	—	94.8
Operating income (loss)	1.5	(10.1)	)509.9	—	501.3
Loss (earnings) from continuing operations of investment in subsidiaries	(351.3)	) (366.6)	)—	717.9	—
Other (income) expense:					
Equity income of unconsolidated subsidiaries	—	—	(1.7)	)—	(1.7)
Gain on sale of business	—	—	(16.8)	)—	(16.8)
Net interest expense	4.4	6.7	42.7	—	53.8
Income (loss) from continuing operations before income taxes and noncontrolling interest	348.4	349.8	485.7	(717.9)	)466.0
Provision (benefit) for income taxes	(0.4)	)1.3	112.0	—	112.9
Net income (loss) from continuing operations before noncontrolling interest	348.8	348.5	373.7	(717.9)	)353.1
Income from discontinued operations, net of tax	—	—	29.8	—	29.8
Earnings (loss) from discontinued operations of investment in subsidiaries	29.8	29.8	—	(59.6)	)—
Net income (loss) before noncontrolling interest	378.6	378.3	403.5	(777.5)	)382.9
Noncontrolling interest	—	—	4.3	—	4.3
Net income (loss) attributable to Pentair plc	\$378.6	\$378.3	\$399.2	\$(777.5)	)\$378.6
Net income (loss) from continuing operations attributable to Pentair plc	\$348.8	\$348.5	\$369.4	\$(717.9)	)\$348.8
Comprehensive income (loss), net of tax					
Net income (loss) before noncontrolling interest	\$378.6	\$378.3	\$403.5	\$(777.5)	)\$382.9
Changes in cumulative translation adjustment	(29.8)	) (29.8)	) (29.1)	) 59.6	(29.1)
Changes in market value of derivative financial instruments	(0.3)	) (0.3)	) (0.3)	) 0.6	(0.3)
Total comprehensive income (loss)	348.5	348.2	374.1	(717.3)	)353.5
Less: Comprehensive income attributable to noncontrolling interest	—	—	5.0	—	5.0
Comprehensive income (loss) attributable to Pentair plc	\$348.5	\$348.2	\$369.1	\$(717.3)	)\$348.5



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## 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
Total current assets	4.8	51.6	3,239.3	(63.6)	)3,232.1
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
Total other assets	6,256.3	9,369.3	7,429.3	(15,588.0)	)7,466.9
Total assets	\$6,261.1	\$9,420.9	\$11,712.9	\$(15,651.6)	)\$11,743.3
<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
Total current liabilities	148.2	20.3	1,505.3	(63.6)	)1,610.2
<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
Total liabilities	165.8	2,424.4	4,295.7	(1,360.3)	)5,525.6
<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
Total equity	6,095.3	6,996.5	7,417.2	(14,291.3)	)6,217.7
Total liabilities and equity	\$6,261.1	\$9,420.9	\$11,712.9	\$(15,651.6)	)\$11,743.3



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Pentair plc and Subsidiaries

Notes to condensed consolidated financial statements (unaudited)

## Condensed Consolidating Statement of Cash Flows

Nine months ended September 28, 2013

In millions	Parent Company Guarantor	Subsidiary Issuer	Non-guarantor Subsidiaries	Eliminations	Consolidated Total
Operating activities					
Net cash provided by (used for) operating activities	\$369.0	\$383.4	\$659.1	\$(777.5)	)\$634.0
Investing activities					
Capital expenditures	—	—	(126.3)	)—	(126.3 )
Proceeds from sale of property and equipment	—	—	3.7	—	3.7
Proceeds from sale of businesses, net	—	—	30.9	—	30.9
Acquisitions, net of cash acquired	(84.4)	)—	—	—	(84.4 )
Other	—	—	(0.8)	)—	(0.8 )
Net cash provided by (used for) investing activities	(84.4)	)—	(92.5)	)—	(176.9 )
Financing activities					
Net receipts (repayments) of commercial paper and revolving long-term debt	—	114.9	7.6	—	122.5
Repayments of long-term debt	—	—	(6.2)	)—	(6.2 )
Debt issuance costs	—	(1.4)	)—	—	(1.4 )
Excess tax benefits from share-based compensation	—	—	7.4	—	7.4
Net change in advances to subsidiaries	(140.7)	)(496.7	)(140.1	)777.5	—
Shares issued to employees, net of shares withheld	—	—	70.8	—	70.8
Repurchases of ordinary shares	—	—	(540.3)	)—	(540.3 )
Dividends paid	(143.9)	)—	—	—	(143.9 )
Distributions to noncontrolling interest	—	—	(2.0)	)—	(2.0 )
Net cash provided by (used for) financing activities	(284.6)	)(383.2	)(602.8	)777.5	(493.1 )
Effect of exchange rate changes on cash and cash equivalents	—	—	17.8	—	17.8
Change in cash and cash equivalents	—	0.2	(18.4)	)—	(18.2 )
Cash and cash equivalents, beginning of period	—	—	237.4	—	237.4
Cash and cash equivalents, end of period	\$—	\$0.2	\$219.0	\$—	\$219.2



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

## Forward-looking Statements

This report contains statements that we believe to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact are forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets," "plans," "believes," "expects," "intends," "will," "likely," "may," "anticipates," "estimates," "projects," "should," "would," "positioned" 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 integrate Pentair, Inc. and the Flow Control (as defined below) business and achieve expected benefits from the Merger (as defined below); 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; the ability to achieve our long-term strategic operating goals; and the ability to achieve the expected benefits from the Redomicile (as defined below). Additional information concerning these and other factors is contained in our filings with the U.S. Securities and Exchange Commission ("SEC"), including in our 2013 Annual Report on Form 10-K and this Quarterly Report on Form 10-Q. All forward-looking statements speak only as of the date of this report. Pentair plc assumes no obligation, and disclaims any obligation, to update the information contained in this report.

## Overview

The terms "us," "we" or "our" refer to Pentair plc (formerly Pentair Ltd.) and its consolidated subsidiaries and the term "Flow Control" refers to Pentair Ltd. prior to the Merger (defined below). We are a focused diversified industrial manufacturing company comprising four reporting segments: Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions. During the fourth quarter of 2013, we reorganized our business segments to reflect a new operating structure and management of our Global Business Units, resulting in a change from three reporting segments to four. All prior period amounts related to the segment change have been retrospectively reclassified throughout this Quarterly Report on Form 10-Q to conform to the new presentation. For the first nine months of 2014, Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions represented approximately 34 percent, 26 percent, 16 percent and 24 percent of total revenues, respectively. We classify our operations into 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 Aquatic Systems GBUs comprise this segment.

**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.

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### Recent Developments

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. common shares would be cancelled and all holders of such shares would receive 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 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 and therefore have our tax residency in the U.K. We anticipate 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 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, with Pentair, Inc. surviving as an indirect, wholly-owned subsidiary of ours. 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 common shares of Flow Control to Tyco's shareholders (the "Distribution"), resulting in the distribution of 110.9 million of our common 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 July 28, 2014, our Board of Directors approved a decision to exit our Water Transport business in Australia. We expect to dispose of the Water Transport business by early to mid-2015. 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 quarter ended September 27, 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.

### Key Trends and Uncertainties Regarding Our Existing Business

The following trends and uncertainties affected our financial performance in 2013 and the first nine months of 2014 and will likely impact our results in the future:

In September 2012, we completed the Merger. With an acquisition of this magnitude and complexity, there are uncertainties and risks associated with realizing the amount and timing of anticipated growth opportunities and cost and tax synergies as described in ITEM 1A – Risk Factors of this Quarterly Report on Form 10-Q.

We have identified specific product and geographic market opportunities that we find attractive and continue to pursue, both within and outside the United States. We are reinforcing our businesses to more effectively address these opportunities through research and development and additional sales and marketing resources. Unless we successfully

penetrate these markets, our organic growth will 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

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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.

Economic uncertainty in our Water Transport business in Australia has negatively impacted our results of discontinued operations and may continue to do so for the foreseeable future.

Through 2013 and the first nine months of 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 2013 was \$751.3 million. Our free cash flow for the first nine months of 2014 was \$599.8 million; we continue to expect to generate free cash flow in excess of 100 percent of our net income in 2014. We are continuing to target reductions in working capital, particularly inventory as a percentage of sales. See the discussion of “Other financial measures” under “Liquidity and Capital Resources” in this report for a reconciliation of our free cash flow.

In 2014, our operating objectives include the following:

Continuing integration of Pentair, Inc. and the Flow Control business;

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.

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## CONSOLIDATED RESULTS OF OPERATIONS

The consolidated results of operations for the three months ended September 27, 2014 and September 28, 2013 were as follows:

In millions	Three months ended		\$	% / point change	
	September 27, 2014	September 28, 2013			
Net sales	\$1,758.4	\$1,713.3	\$45.1	2.6	%
Cost of goods sold	1,133.7	1,098.6	35.1	3.2	%
Gross profit	624.7	614.7	10.0	1.6	%
% of net sales	35.5	% 35.9	%	(0.4)	) pts
Selling, general and administrative	328.8	353.4	(24.6)	(7.0)	)%
% of net sales	18.7	% 20.7	%	(2.0)	) pts
Operating income	267.4	230.0	37.4	16.3	%
% of net sales	15.2	% 13.4	%	1.8	pts
Loss (gain) on sale of businesses	—	(0.1)	) 0.1	N.M.	
Net interest expense	17.1	17.5	(0.4)	(2.3)	)%
Net income from continuing operations before income taxes and noncontrolling interest	250.6	213.1	37.5	17.6	%
Provision for income taxes	58.1	46.7	11.4	24.4	%
Effective tax rate	23.2	% 21.9	%	1.3	pts

N.M. Not Meaningful

The consolidated results of operations for the nine months ended September 27, 2014 and September 28, 2013 were as follows:

In millions	Nine months ended		\$	% / point change	
	September 27, 2014	September 28, 2013			
Net sales	\$5,236.5	\$5,168.7	\$67.8	1.3	%
Cost of goods sold	3,401.4	3,429.1	(27.7)	(0.8)	)%
Gross profit	1,835.1	1,739.6	95.5	5.5	%
% of net sales	35.0	% 33.7	%	1.3	pts
Selling, general and administrative	1,071.0	1,143.5	(72.5)	(6.3)	)%
% of net sales	20.4	% 22.2	%	(1.8)	) pts
Operating income	675.9	501.3	174.6	34.8	%
% of net sales	12.9	% 9.7	%	3.2	pts
Loss (gain) on sale of businesses	0.2	(16.8)	) 17.0	(101.2)	)%
Net interest expense	51.1	53.8	(2.7)	(5.0)	)%
Net income from continuing operations before income taxes and noncontrolling interest	625.5	466.0	159.5	34.2	%
Provision for income taxes	148.3	112.9	35.4	31.4	%
Effective tax rate	23.7	% 24.2	%	(0.5)	) pts



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## Net sales

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

	Three months ended September 27, 2014 over the prior year period	Nine months ended September 27, 2014 over the prior year period	
Volume	1.6	% 0.9	%
Acquisition (divestiture)	(0.2)	) (0.3	)
Price	1.1	0.9	
Currency	0.1	(0.2	)
Total	2.6	% 1.3	%

The 2.6 and 1.3 percent increases in consolidated net sales in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

- sales growth in Technical Solutions, primarily as the result of increased volume in United States and Canada;
- organic sales growth in Process Technologies related to higher sales of certain pool products primarily 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:

- decrease in sales of energy products in Valves & Controls and sales declines in residential and commercial product sales and infrastructure businesses in Flow Technologies; and
- loss of revenue related to the 2013 divestiture of businesses in Technical Solutions and Flow Technologies.

## Gross profit

The 0.4 percentage point decrease in gross profit as a percentage of sales in the third quarter of 2014 from 2013 was primarily driven by:

- inflationary increases related to raw materials and labor costs.

This decrease was partially offset by:

- 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.

The 1.3 percentage point increase in gross profit as a percentage of sales in the first nine months of 2014 from 2013 was primarily driven by:

- a decrease in cost of goods sold of \$86.6 million in the first nine months of 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 the first nine months of 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.



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

The 2.0 and 1.8 percentage point decreases in SG&A expense as a percentage of sales in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

- restructuring costs of \$3.3 million in the third quarter of 2013 that did not recur in the third quarter of 2014;
- 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 decreases were partially offset by:

- costs of \$10.3 million incurred in the first nine months of 2014 as a result of the redomicile of the Company from Switzerland to Ireland; and
- restructuring costs of \$53.0 million in the first nine months of 2014, compared to \$49.1 million in the first nine months of 2013.

Loss (gain) on sale of businesses

During the first quarter of 2013 we sold a business that was part of Technical Solutions for a cash purchase price of \$30.0 million, net of transaction costs, resulting in a gain of \$16.7 million recorded in the first quarter of 2013.

Goodwill of \$5.3 million was included in the assets of the business sold. The sales price was subject to a working capital adjustment and we received an additional \$0.1 million cash in the third quarter of 2013 as a result, resulting in a final gain on sale of \$16.8 million.

Net interest expense

The 2.3 and 5.0 percent decreases in net interest expense in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

- reduced overall interest rates in effect on our outstanding debt.

This decrease was partially offset by:

- the impact of higher debt levels during the first nine months of 2014.

Provision for income taxes

The 1.3 percentage point increase in the effective tax rate in the third quarter of 2014 from 2013 was primarily driven by:

- the timing of losses in jurisdictions where we recognize no tax benefits; and
- non-recurring tax benefits recognized during the third quarter of 2013.

These increases were partially offset by:

- the mix of global earnings toward lower tax jurisdictions.

The 0.5 percentage point decrease in the effective tax rate in the first nine months of 2014 from 2013 was primarily driven by:

- the mix of global earnings toward lower tax jurisdictions.

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## SEGMENT RESULTS OF OPERATIONS

The summary that follows provides a discussion of the results of operations of each of our four reportable segments (Valves & Controls, Process Technologies, Flow Technologies and Technical Solutions). Each of these segments is comprised of various product offerings that serve multiple end users.

## Valves &amp; Controls

The net sales and operating income for Valves & Controls for the three and nine months ended September 27, 2014 and September 28, 2013 were as follows:

In millions	Three months ended			Nine months ended		
	September 27, 2014	September 28, 2013	% / point change	September 27, 2014	September 28, 2013	% / point change
Net sales	\$613.4	\$611.5	0.3 %	\$1,782.1	\$1,817.2	(1.9) %
Operating income	96.4	76.6	25.8 %	220.1	114.9	91.6 %
% of net sales	15.7	% 12.5	% 3.2 pts	12.4	% 6.3	% 6.1 pts

## Net sales

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

	Three months ended September 27, 2014 over the prior year period	Nine months ended September 27, 2014 over the prior year period
Volume	(1.1)	)% (2.4)
Price	0.8	0.6
Currency	0.6	(0.1)
Total	0.3	% (1.9)

The 0.3 percent increase in net sales for Valves & Controls in the third quarter of 2014 from 2013 was primarily driven by:

• increased sales volume of our industrial products and in our developed regions; and  
 • favorable foreign currency effects.

These increases were partially offset by:

• decreased sales in our fast growth regions, primarily in the Middle East;  
 and

• continued sales decline in the mining industry.

The 1.9 percent decrease in net sales for Valves & Controls in the first nine months of 2014 from 2013 was primarily driven by:

• 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.

## Operating income

The 3.2 and 6.1 percentage point increases in operating income for Valves & Controls as a percentage of net sales in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

• a decrease in cost of goods sold of \$80.6 million in the first nine months of 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 the first nine months of 2014;

• price and productivity more than offsetting inflationary cost increases; and

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

These increases were partially offset by:

• restructuring costs of \$27.7 million in the first nine months of 2014, compared to \$18.6 million in the first nine months of 2013; and

• costs related to the operating model transformation ("OMT") investment in the third quarter and first nine months of 2014.

**Process Technologies**

The net sales and operating income for Process Technologies for the three and nine months ended September 27, 2014 and September 28, 2013 were as follows:

In millions	Three months ended			Nine months ended		
	September 27, 2014	September 28, 2013	% / point change	September 27, 2014	September 28, 2013	% / point change
Net sales	\$437.8	\$421.2	3.9 %	\$1,352.9	\$1,295.4	4.4 %
Operating income	58.1	57.1	1.8 %	186.8	177.3	5.4 %
% of net sales	13.3	% 13.6	%(0.3 ) pts	13.8	% 13.7	% 0.1 pts

**Net sales**

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

	Three months ended September 27, 2014 over the prior year period	Nine months ended September 27, 2014 over the prior year period
Volume	2.8	% 3.7
Price	1.1	0.9
Currency	—	(0.2 )
Total	3.9	% 4.4

The 3.9 and 4.4 percent increases in net sales for Process Technologies in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

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

• increased demand for global food & beverage solutions for the first nine months of 2014;

• growth in developed regions led by strength in the United States 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; and

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

**Operating income**

The 0.3 percentage point decrease in operating income for Process Technologies as a percentage of net sales in the third quarter of 2014 from 2013 was primarily driven by:

• inflationary increases related to certain raw materials; and

• lower sales volumes in our industrial business, which resulted in decreased leverage on operating expenses.

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These decreases were partially offset by:

- a decrease in restructuring costs, as the result of \$2.3 million of costs in the third quarter of 2013 that did not recur in the third quarter of 2014;
- selective increases in selling prices to mitigate inflationary cost increases; and
- higher sales volumes in our residential & commercial and food & beverage businesses, which resulted in increased leverage on operating expenses.

The 0.1 percentage point increase in operating income for Process Technologies as a percentage of net sales in the first nine months of 2014 from 2013 was primarily driven by:

- selective increases in selling prices to mitigate inflationary cost increases; and
- higher sales volumes in our residential & commercial and food & beverage businesses, which resulted in increased leverage on operating expenses.

These increases were partially offset by:

- restructuring costs of \$9.5 million in the first nine months of 2014, compared to \$6.4 million in the first nine months of 2013;
- 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.

#### Flow Technologies

The net sales and operating income for Flow Technologies for the three and nine months ended September 27, 2014 and September 28, 2013 were as follows:

In millions	Three months ended			Nine months ended		
	September 27, 2014	September 28, 2013	% / point change	September 27, 2014	September 28, 2013	% / point change
Net sales	\$274.5	\$281.5	(2.5)%	\$856.8	\$865.6	(1.0)%
Operating income	38.8	38.7	0.3%	102.5	100.5	2.0%
% of net sales	14.1	% 13.8	% 0.3 pts	12.0	% 11.6	% 0.4 pts

#### Net sales

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

	Three months ended September 27, 2014 over the prior year period	Nine months ended September 27, 2014 over the prior year period
Volume	(2.6)	)(0.7)
Acquisition (divestiture)	(1.1)	) (0.9)
Price	1.2	0.8
Currency	—	(0.2)
Total	(2.5)	)(1.0)

The 2.5 and 1.0 percent decreases in net sales for Flow Technologies in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

- decreased sales volume related to the loss of a customer in the residential and commercial business and sales declines in the infrastructure businesses;
- loss of revenue related to the divestiture of a business at the end of the fourth quarter of 2013; and
- unfavorable foreign currency effects.

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These decreases were partially offset by:

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

Operating income

The 0.3 and 0.4 percentage point increases in operating income for Flow Technologies as a percentage of net sales in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

- 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 costs and certain raw materials; and
- restructuring costs of \$10.0 million in the first nine months of 2014, respectively, compared to \$6.5 million in the first nine months of 2013.

Technical Solutions

The net sales and operating income for Technical Solutions for the three and nine months ended September 27, 2014 and September 28, 2013 were as follows:

In millions	Three months ended			Nine months ended			
	September 27, 2014	September 28, 2013	% / point change	September 27, 2014	September 28, 2013	% / point change	
Net sales	\$438.8	\$405.9	8.1 %	\$1,262.7	\$1,213.3	4.1 %	
Operating income	96.5	82.2	17.4 %	246.3	200.6	22.8 %	
% of net sales	22.0	%20.3	% 1.7 pts	19.5	% 16.5	% 3.0	pts

Net sales

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

	Three months ended September 27, 2014 over the prior year period	Nine months ended September 27, 2014 over the prior year period	
Volume	6.9	%3.5	%
Acquisition (divestiture)	—	(0.5	)
Price	1.5	1.4	
Currency	(0.3	) (0.3	)
Total	8.1	%4.1	%

The 8.1 and 4.1 percent increases in net sales for Technical Solutions in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

- higher sales volume in the United States 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.

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### Operating income

The 1.7 and 3.0 percentage point increases in operating income for Technical Solutions as a percentage of net sales in the third quarter and first nine months, respectively, of 2014 from 2013 were primarily driven by:

• restructuring costs of \$5.8 million in the first nine months of 2014, compared to \$15.8 million in the first nine months of 2013;

• a decrease in cost of goods sold of \$5.7 million in the first nine months of 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 the first nine months of 2014;

• higher sales volumes 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.

### LIQUIDITY AND CAPITAL RESOURCES

We generally fund cash requirements for working capital, capital expenditures, equity investments, acquisitions, debt repayments, dividend payments and share repurchases from cash generated from operations, availability under existing committed revolving credit facilities and in certain instances, public and private debt and equity offerings.

Our primary revolving credit facilities have generally been adequate for these purposes, although we have negotiated additional credit facilities 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.

### Operating activities

Cash provided by operating activities of continuing operations was \$688.2 million in the first nine months of 2014, or \$76.8 million higher than cash provided by operating activities of continuing operations in the same period of 2013.

The increase in cash provided by operating activities of continuing operations is primarily the result of a \$115.3 million increase in net income from continuing operations before noncontrolling interest, net of non-cash depreciation and amortization and loss (gain) on sale of businesses. The increase was partially offset by a cash outflow of \$28.5 million in the first nine months of 2014 related to the funding of deferred compensation plan assets for payment of certain non-qualified benefits for retired, terminated and active employees.

### Investing activities

Cash used for investing activities was \$87.5 million in the first nine months of 2014 compared to cash used for investing activities of \$176.9 million in the same period of 2013. Net cash used for investing activities in the first nine months of 2014 primarily relates to capital expenditures of \$92.5 million partially offset by \$4.1 million of proceeds from the sale of property and equipment.

Net cash used for investing activities in the first nine months of 2013 relates primarily to \$126.3 million of capital expenditures, a cash payment of \$84.4 million for a working capital and net indebtedness adjustment related to the Merger, partially offset by \$30.9 million of proceeds, net of transaction costs, from the sale of a business within Technical Solutions in the first quarter of 2013.



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Capital expenditures in the first nine months of 2014 were \$92.5 million compared with \$126.3 million in the prior year period. We anticipate capital expenditures for fiscal 2014 to be approximately \$140 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 \$687.3 million in the first nine months of 2014 compared with net cash used for financing activities of \$493.1 million in the prior year period. Net cash used for financing activities in the first nine months of 2014 included share repurchases, the acquisition of the remaining 19.9 percent ownership interest in Pentair Residential Filtration as part of Process Technologies and payment of dividends, partially offset by net receipts of commercial paper and revolving long-term debt. Net cash used for financing activities in the first nine months of 2013 included share repurchases and payment of dividends, partially offset by net receipts of commercial paper and revolving long-term debt.

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 September 2012, Pentair, Inc. entered into a credit agreement providing for an unsecured, committed revolving credit facility (the "Credit Facility") with initial maximum aggregate availability of up to \$1,450.0 million. Upon the completion of the Merger, Pentair Ltd. became the guarantor under the Credit Facility and PFSA and certain other of our subsidiaries became affiliate borrowers under the Credit Facility. Effective upon the Redomicile, Pentair plc and PISG became the guarantors under the Credit Facility. Borrowings under the Credit Facility generally bear interest at a variable rate equal to the London Interbank Offered Rate plus a specified margin based upon PFSA's credit ratings. PFSA must also pay a facility fee ranging from 10.0 to 30.0 basis points per annum (based upon PFSA's credit ratings) on the amount of each lender's commitment. PFSA is authorized to sell short-term commercial paper notes to the extent availability exists under the Credit Facility. PFSA uses the Credit Facility as back-up liquidity to support 100% of commercial paper outstanding. As of September 27, 2014 and December 31, 2013, we had \$945.6 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 Credit Facility.

Total availability under the Credit Facility was \$494.9 million as of September 27, 2014, which was not limited by any covenants contained in the Credit Facility's credit agreement.

In October 2014, Pentair plc, PISG, PFSA and Pentair, Inc. entered into an amended and restated credit agreement related to the Credit Facility ("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 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.

Our debt agreements contain certain financial covenants, the most restrictive of which are in the 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 \$40.0 million of costs and expenses incurred in connection with the Merger (\$25.0 million of costs and expenses incurred in connection with acquisitions, investments, dispositions and the issuance, incurrence, repayment or refinancing of debt as a result of the



Amended Credit Facility) (“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 Credit Facility provides for the calculation of EBITDA giving pro forma effect to the Merger and certain acquisitions, divestitures and liquidations during the period to which such calculation relates. As of September 27, 2014, we were in compliance with all financial covenants in our debt agreements.

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In addition to the Credit Facility, we have various other credit facilities with an aggregate availability of \$83.5 million, of which \$0.5 million was outstanding at September 27, 2014. Borrowings under these credit facilities bear interest at variable rates.

As of September 27, 2014, we have \$62.8 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.

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. 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 for repurchase under these 2012 authorizations. In December 2013, 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, 2016 and is in addition to the combined \$1.2 billion prior share repurchase authorization.

During the nine months ended September 27, 2014, we repurchased 11.8 million of our ordinary shares for \$850.0 million pursuant to these authorizations. As of September 27, 2014, we had \$300.0 million remaining available for share repurchases under the December 2013 authorization.

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 provides 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 the first and second quarters of 2015. We expect to continue paying dividends on a quarterly basis.

We paid dividends in the first nine months of 2014 of \$156.2 million, or \$0.80 per common share, compared with \$143.9 million, or \$0.71 per ordinary share, in the prior year period.

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. 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."

### Other financial measures

In addition to measuring our cash flow generation or usage based upon operating, investing and financing classifications included in the Condensed 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-Generally Accepted Accounting Principles 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.

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The following table is a reconciliation of free cash flow:

In millions	Nine months ended	
	September 27, 2014	September 28, 2013
Net cash provided by (used for) operating activities of continuing operations	\$688.2	\$611.4
Capital expenditures	(92.5	)(126.3
Proceeds from sale of property and equipment	4.1	3.7
Free cash flow	\$599.8	\$488.8

**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.

**CRITICAL ACCOUNTING POLICIES**

In our 2013 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements. We have not changed these policies from those previously disclosed in our Annual Report.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in our market risk during the quarter ended September 27, 2014. For additional information, refer to Item 7A of our 2013 Annual Report on Form 10-K.

**ITEM 4. CONTROLS AND PROCEDURES****(a) Evaluation of Disclosure Controls and Procedures**

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in this report. Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter ended September 27, 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 end of the quarter ended September 27, 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.

**(b) Changes in Internal Controls**

There was no change in our internal control over financial reporting that occurred during the quarter ended September 27, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material developments from the disclosures contained in our 2013 Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

The following risk factors amend and supersede the risk factors previously disclosed in Item 1A to the Annual Report on Form 10-K of Pentair Ltd. for the year ended December 31, 2013.

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. 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 these 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 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.



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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 United States for the year ended December 31, 2013 accounted for 54 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;
- 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 foreign 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.

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

Sales outside of the United States for the year ended December 31, 2013 accounted for 54 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 and Flow Technologies is derived from major capital projects, including water pipeline and desalination projects in Flow Technologies. 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. 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



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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 September 27, 2014 our goodwill and intangible assets were \$6,441.2 million and represented 59% 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.

In the fourth quarter of each year, we complete our annual goodwill and intangible assets impairment reviews. As a result, we recorded a pre-tax non-cash impairment charge of \$11.0 million and \$60.7 million for trade name intangibles in the fourth quarter of 2013 and 2012, respectively. These represent impairments of a trade name in Technical Solutions in 2013 and trade names in Flow Technologies, Process Technologies and Technical Solutions in 2012. The impairment charges were the result of rebranding strategies implemented in the fourth quarter of 2013 and 2012.

During the quarter ended September 27, 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 on the Condensed 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, 2013, 10,900 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). Also in Flow Technologies, we generally experience increased demand during Australia’s prime agricultural seasons. 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;

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• 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 September 27, 2014, there were approximately 3,200 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

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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.

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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.



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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 may not realize the growth opportunities and cost synergies that are anticipated from the Merger.

The benefits that are expected to result from the Merger will depend, in part, on our ability to realize the anticipated growth opportunities and cost synergies as a result of the Merger. Our success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on the successful integration of the Pentair, Inc. and Flow Control businesses. Even if we are able to integrate the Pentair, Inc. and Flow Control businesses successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that we currently expect from this integration or that these benefits will be achieved within the anticipated time frame or at all. For example, we may not be able to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration of the Pentair, Inc. and Flow Control businesses. While we anticipate that certain expenses will be incurred, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the Merger may be offset by costs incurred or delays in integrating the businesses. The integration of the Pentair, Inc. and Flow Control businesses following the Merger may present significant challenges.

There is a significant degree of difficulty and management distraction inherent in the process of integrating the Pentair, Inc. and Flow Control businesses. These difficulties include:

- the challenge of integrating the Pentair, Inc. and Flow Control businesses while carrying on the ongoing operations of each entity;
- the necessity of coordinating geographically separate organizations;
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the challenge of integrating the business cultures of the Pentair, Inc. and Flow Control businesses, which may prove to be incompatible;

the challenge and cost of integrating the information technology systems of the Pentair, Inc. and Flow Control businesses; and

the potential difficulty in retaining key executives and personnel of the Pentair, Inc. and Flow Control businesses.

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The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of the Pentair, Inc. and Flow Control businesses. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our company, service existing customers, attract new customers and develop new products or strategies. If senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, the Pentair, Inc. and Flow Control businesses could suffer. There can be no assurance that we will successfully or cost-effectively integrate the Pentair, Inc. and Flow Control businesses. The failure to do so could have a material adverse effect on our business, financial condition and results of operations. 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. 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

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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 common shares distributed to Tyco shareholders on the Distribution date over Tyco's tax basis in such common 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. common 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.

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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 September 27, 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



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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. Also, regardless of the terms of our financings, the amount of our shares that we can issue may be limited because the issuance of our shares may cause the Distribution to be a taxable event for Tyco under Section 355(e) of the Code, and under the 2012 Tax Sharing Agreement, we could be required to indemnify Tyco for that tax. See discussion under “We might not be able to engage in desirable strategic transactions and equity issuances following the Distribution and the Merger because of restrictions relating to U.S. federal income tax requirements for tax-free distributions.” 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 United States 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.

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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 United States. 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 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

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

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Dollar value of shares that may yet be purchased under the plans or programs
June 29 — July 26, 2014	49,411	\$72.49	—	\$699,274,364
July 27 — August 23, 2014	4,246,802	67.74	4,246,800	412,859,070
August 24 — September 27, 2014	1,670,736	67.85	1,663,500	300,005,353
Total	5,966,949		5,910,300	

The purchases in this column include 49,411 shares for the period June 29 — July 26, 2014, 2 shares for the period July 27 — August 23, 2014 and 7,236 shares for the period August 24 — September 27, 2014 deemed surrendered to us (a) 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 deemed surrendered to us by participants in the Plans to (b) satisfy the exercise price for 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 common shares up to a maximum dollar limit of \$1.0 billion.

(d) In December 2013, our board of directors authorized the repurchase of our common shares up to a maximum dollar limit of \$1.0 billion. This authorization expires on December 31, 2016.

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ITEM 6. EXHIBITS

The exhibits listed in the accompanying Exhibit Index are filed as part of this Quarterly Report on Form 10-Q.

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SIGNATURES

Pursuant to the requirements 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 October 21, 2014.

Pentair plc  
Registrant

By /s/ John L. Stauch  
John L. Stauch  
Executive Vice President and Chief Financial Officer

By /s/ Mark C. Borin  
Mark C. Borin  
Corporate Controller and Chief Accounting Officer

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Exhibit Index to Form 10-Q for the Period Ended September 27, 2014

- 2.1 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. 011-11625)).
- 4.1 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 9, 2014 (File No. 011-11625)).
- 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 Quarterly Report on Form 10-Q for the quarter ended September 27, 2014 are filed herewith, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and nine months ended September 27, 2014 and September 28, 2013, (ii) the Condensed Consolidated Balance Sheets as of September 27, 2014 and December 31, 2013, (iii) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 27, 2014 and September 28, 2013, (iv) the Condensed Consolidated Statements of Changes in Equity for the nine months ended September 27, 2014 and September 28, 2013, and (v) Notes to Condensed Consolidated Financial Statements.