

PENTAIR plc
Form 10-K
February 24, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2014

OR

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

Commission file number 001-11625

Pentair plc

(Exact name of Registrant as specified in its charter)

Ireland

(State or other jurisdiction of incorporation or organization)

98-1141328

(I.R.S. Employer Identification number)

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

(Address of principal executive offices)

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

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

Title of each class

Name of each exchange on which registered

Ordinary Shares, nominal value \$0.01 per share

New York Stock Exchange

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

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

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Pentair plc
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 For the Year Ended December 31, 2014

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PART I

ITEM 1. BUSINESS

GENERAL

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

Pentair Strategy

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

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

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

HISTORY AND DEVELOPMENT

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

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

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

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

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

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

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

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

BUSINESS AND PRODUCTS

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

VALVES & CONTROLS

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

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

Customers

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

Seasonality

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

Competition

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

PROCESS TECHNOLOGIES

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

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

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

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

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

Seasonality

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

Competition

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

FLOW TECHNOLOGIES

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

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

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

Customers

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

Seasonality

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

Competition

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

TECHNICAL SOLUTIONS

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

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

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

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

Customers

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

Seasonality

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

Competition

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

NEW SEGMENTATION

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

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

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

INFORMATION REGARDING ALL REPORTABLE SEGMENTS

Backlog of orders by segment

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

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

Research and development

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

Environmental

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

Raw materials

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

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

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

Intellectual property

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

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

Employees

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

Captive insurance subsidiary

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

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

Available information

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

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our share price may fluctuate significantly.

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

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

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

Risks Relating to Legal, Regulatory and Compliance Matters

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our results of operations may be negatively impacted by litigation.

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

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

Risks Relating to the Distribution and the Merger

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Liquidity

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

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

Covenants in our debt instruments may adversely affect us.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

Asbestos Matters

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

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

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

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

Environmental Matters

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

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

Product liability claims

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

product liability lawsuits or personal injury claims.

Compliance Matters

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

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

PART II

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

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

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

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

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

Future dividends on our ordinary shares or reductions of share capital for distribution to shareholders, if any, must be approved by our board of directors for payment out of distributable reserves on our statutory balance sheet. We are not permitted to pay dividends out of share capital, which includes share premiums. Distributable reserves may be created through the earnings of the Irish parent company and through a reduction in share capital approved by the Irish High Court. Distributable reserves are not linked to a U.S. generally accepted accounting principles ("GAAP") reported amount (e.g., retained earnings). On July 22, 2014, the Irish High Court approved Pentair plc's conversion of approximately \$14.4 billion of share premium to distributable reserves. On July 29, 2014, following the approval of the Irish High Court, we made the required filing of Pentair plc's initial accounts with the Irish Companies Registration Office, which completed the process to allow us to pay future cash dividends and redeem and repurchase shares out of Pentair plc's "distributable reserves." As of December 31, 2014, our distributable reserve balance was \$12.1 billion.

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

United Kingdom Tax Considerations

Although our jurisdiction of organization is Ireland, we manage our affairs so that we are centrally managed and controlled in the U.K. and therefore have our tax residency in the U.K.

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

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

Share Performance Graph

The following information under the caption "Share Performance Graph" in this ITEM 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or to the liabilities of Section 18 of the Exchange Act and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent we specifically incorporate it by reference into such a filing.

The following graph sets forth the cumulative total shareholder return on our ordinary shares for the last five years, assuming the investment of \$100 on December 31, 2009 and the reinvestment of all dividends since that date to December 31, 2014. The graph also contains for comparison purposes the S&P 500 Index and the S&P 500 Industrials Index, assuming the same investment level and reinvestment of dividends.

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

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

Purchases of Equity Securities

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

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

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

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

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

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

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

Factors Affecting Comparability of our Selected Financial Data

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

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

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-looking Statements

This report contains statements that we believe to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact are forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets," "plans," "believes," "expects," "intends," "will," "likely," "may," "anticipates," "estimates," "projects," "should," "would," "positioned" or words, phrases or terms of similar substance or the negative thereof, are forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond our control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors include the ability to successfully complete the disposition of our Water Transport business on anticipated terms and timetable; overall global economic and business conditions; competition and pricing pressures in the markets we serve; the strength of housing and related markets; volatility in currency exchange rates and commodity prices; inability to generate savings from excellence in operations initiatives consisting of lean enterprise, supply management and cash flow practices; increased risks associated with operating foreign businesses; the ability to deliver backlog and win future project work; failure of markets to accept new product introductions and enhancements; the ability to successfully identify, complete and integrate acquisitions; the impact of changes in laws and regulations, including those that limit U.S. tax benefits; the outcome of litigation and governmental proceedings; and the ability to achieve our long-term strategic operating goals. Additional information concerning these and other factors is contained in our filings with the U.S. Securities and Exchange Commission, including in Item 1A of this Annual Report on Form 10-K. All forward-looking statements speak only as of the date of this report. Pentair plc assumes no obligation, and disclaims any obligation, to update the information contained in this report.

Overview

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

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

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

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

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

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

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

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

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

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

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

Key Trends and Uncertainties Regarding Our Existing Business

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

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

Despite the overall strength of our end-markets, we experience differing levels of volatility depending on the end-market and may continue to do so over the medium and longer term. While we believe the general trends are favorable, factors specific to each of our major end-markets may negatively affect the capital spending plans of our customers and lead to lower sales volumes for us.

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

Through 2013 and 2014, we experienced material and other cost inflation. We strive for productivity improvements, and we implement increases in selling prices to help mitigate this inflation. We expect the current economic environment will result in continuing price volatility for many of our raw materials. Commodity prices have begun to moderate, but we are uncertain as to the timing and impact of these market changes.

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

In 2015, our operating objectives include the following:

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

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

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

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

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

Change in Warranty Reserve

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

CONSOLIDATED RESULTS OF OPERATIONS

The consolidated results of operations were as follows:

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

N.M. Not Meaningful

Net sales

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

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

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

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

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

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

These increases were partially offset by:

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

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

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

These increases were partially offset by:

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

Gross profit

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

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

These increases were partially offset by:

- inflationary increases related to raw materials and labor costs.

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

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

These increases were partially offset by:

- inflationary increases related to raw materials and labor costs.

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

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

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

These fluctuations were offset by the following:

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

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

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

These decreases were partially offset by:

- restructuring costs of \$103.2 million in 2013, compared to \$48.7 million in 2012;
- certain increases for labor and related costs; and