

Company Registration No. 03710607

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

Report and Financial Statements

For the year ended 31 December 2016

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PENTAIR TECHNICAL SOLUTIONS UK LTD
2016 REPORT AND FINANCIAL STATEMENTS
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PENTAIR TECHNICAL SOLUTIONS UK LIMITED

2016 REPORT AND FINANCIAL STATEMENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Martin
S Lemmens
W Gheysens

SECRETARY

Eversecretary Limited

REGISTERED OFFICE

3 Rutherford Road
Stephenson Industrial Estate
Washington
Tyne and Wear
NE37 3HX

BANKERS

Barclays Bank PLC
PO Box 729
I Capability Green
Luton
LU1 3US

AUDITOR

Deloitte LLP
Statutory Auditor
Leeds

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

STRATEGIC REPORT

The directors present their Strategic Report for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The company is involved in the project design, material supply and project execution for major oil and petrochemical developments both in the UK and the rest of the world. The company also designs, manufactures, markets and sells an extensive range of systems and products. These range from heating and wiring cables, self-regulating heating cables, leak detection cables, measurement and monitoring systems and related products, and are sold to the Building, Infrastructure, Industrial, Nuclear, Aerospace and Power Generation markets worldwide.

On 31 January 2016 the company acquired the trade and assets of Schroff UK Limited, a fellow group company. The principal activities now also include the sales and distribution of products and solutions that enclose, protect and cool critical electrical and electronic equipment and components. Principal applications include enclosures which protect sensitive controls and components, to protection against extremes in heat and cold or shock and vibration mitigation for critical electronics. The company helps to safeguard the investments its customers make in essential equipment and ensures reliable performance, improved productivity and reduced maintenance.

BUSINESS REVIEW

The company experienced a significant increase in turnover for the year of £23.6m (2015: £16.8m), predominately due to acquired Schroff business in January 2016. The company experienced a small decline in sales of the company's Pyrotex products.

The company continues to benefit from its presence in global markets and a diverse range of high quality market leading branded products.

The profit and loss account on page 9 shows an operating loss for 2016 of £0.6m (2015: £0.4m profit). This has been impacted by goodwill amortisation of £0.4m and goodwill impairment of £1.7m in the current year (2015: £nil). The prior year operating profit was impacted by one off expenses relating to underpaid National Insurance of £0.8m (2016: £nil)

The underlying operating profit for the year, after consideration of the items noted above, was £1.5m (2015: £1.2m). The improvement in underlying operating profit is mainly attributable to the acquired Schroff business.

The company retains a strong balance sheet and has enjoyed a good cash flow performance during the year. The company continues to be cash positive (in terms of its group cash pooling position).

The Pentair plc group manages its operations on a divisional basis. For this reason, the company's directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of the Thermal Management and Enclosures division of Pentair plc, which includes the company, is discussed in the group's Annual Report which does not form part of this Report.

Taking account of the satisfactory performance in the year and the future outlook, as outlined in the going concern discussion below, the directors consider the prospects of the business to be reasonable.

On 6 December 2017, the previous immediate parent company, Pentair UK Holdings Limited, sold the entire share capital of the company to a third party, Nvent UK Holdings Limited.

PRINCIPAL RISKS AND UNCERTAINTIES

A principal risk facing the company is the decline in investment in the UK (and global) oil and gas market, resulting in delay or cancellation of customer projects.

Other risks include exposure to foreign currency fluctuations, bad debts, warranty risks, the effect of Brexit and increased competition for the wiring business to enhanced other technologies.

The company manages these risks by keeping up to date on market information, maintaining strong relationships and providing a value add service to its customers. The company monitors its exposure to rate changes in foreign currencies on a regular basis, and the risk is managed by natural hedges.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

STRATEGIC REPORT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a number of financial risks including credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the company's policies approved by the board of directors, which provide written principles on the use of financial derivatives to manage these risks. The company does not use derivative financial instruments for speculative purposes.

Credit risk

The company's principal financial assets are bank balances and cash, and trade and other receivables.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Cash flow risk

The company's sales are either in Sterling, USD or Euros so it has exposure to movements in foreign exchange rates.

Liquidity risk

The company is financed by interest bearing loans from its parent and has no third party debt. There is no third party interest rate exposure.

GOING CONCERN

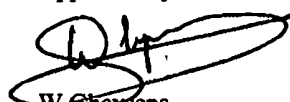
The directors have undertaken a full and detailed review on the future financial position of the company, covering a period of at least 12 months from the date of approval of the financial statements. The review undertaken by the directors considered the company's future performance in the very competitive markets in which the company operates and the continuing uncertainties in the global economy despite the recent upturn experienced in some key markets.

Positive cash flows continued to be generated during the year on its own account. The company participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The directors have given their consideration to any risk that this may represent to the company's ability to access funds on demand. Based on the current position of the group cash pool the directors do not consider this a risk. Further profits and positive cash flows have continued to be generated since the balance sheet date.

The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern or its ability to continue with the current banking arrangements.

The directors have considered the company's forecast performance and the current balance sheet and have reasonable expectations that the company has adequate resources to continue in operational existence for the foreseeable future. On this basis the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

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


W. Gheysens
Director
21 March 2018

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, together with the audited financial statements for the year ended 31 December 2016.

Financial risk management objectives and policies and future developments have been disclosed in the strategic report and form part of this report by cross reference.

RESULTS AND DIVIDENDS

The company's loss for the year ended 31 December 2016 was £0.4m (2015: £0.4m profit). The company a dividend of £2.6m during the year (2015: £nil). The directors do not recommend the payment of a further dividend (2015: £nil).

DIRECTORS INDEMNITIES

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group and the company that the training, career development and promotion of disabled persons will, as far as possible, be identical to that of other employees.

EMPLOYEE CONSULTATION

The company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through quarterly formal meetings, informal departmental meeting, company electronic magazines and websites. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. In addition, all eligible employees are entitled to participate in an annual bonus scheme which is determined, amongst other factors, by the overall profitability of the company.

DIRECTORS AND THEIR INTEREST

The directors who served during the year and up to the date of this report were as follows:

S Lemmens
T Toffolo (resigned 28/04/2017)
D Martin (appointed 01/03/2016)
W Gheysens (appointed 28/04/2017)

No director has a beneficial interest in the shares of the company or other subsidiaries of the ultimate parent company and no contracts exists other than service agreements with the company or other subsidiaries of the ultimate parent company in which the directors have an interest.

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as each of the directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- (2) each of the directors has taken all the steps that he ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

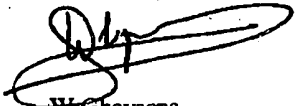
PENTAIR TECHNICAL SOLUTIONS UK LIMITED

DIRECTORS' REPORT

AUDITOR (CONTINUED)

In accordance with section 385 of the Companies Act 2006, appropriate arrangements have been put in place for Deloitte LLP to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



W Gheysens
Director
21 March 2018

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENTAIR TECHNICAL SOLUTIONS UK LIMITED

We have audited the financial statements of Pentair Technical Solutions UK Limited for the year ended 31 December 2016, which comprise of the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements..

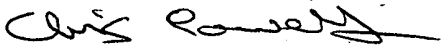
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PENTAIR
TECHNICAL SOLUTIONS UK LIMITED (continued)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Christopher Powell F.C.A. (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
21 March 2018

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

PROFIT AND LOSS ACCOUNT **Year ended 31 December 2016**

	Note	2016 £'000	2015 £'000
TURNOVER	3	23,638	16,807
Net operating expenses (including £0.4m goodwill amortisation and £1.7m exceptional impairment of goodwill, 2015: £nil)	5	(24,191)	(16,415)
OPERATING (LOSS)/PROFIT	6	(553)	392
Net interest receivable	7	27	35
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(526)	427
Tax on (loss)/profit ordinary activities	8	133	(40)
(LOSS)/PROFIT FOR THE YEAR		(393)	387

The company has no other items of income or expenditure in either year other than the results shown above, and therefore no separate statement of comprehensive income has been presented.

All results derive from continuing operations.

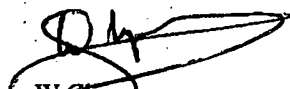
The accompanying notes are an integral part of this profit and loss account.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

BALANCE SHEET As at 31 December 2016

	Note	2016 £'000	2015 £'000
FIXED ASSETS			
Tangible assets	9	242	274
Goodwill	10	2,373	
		<u>2,615</u>	<u>274</u>
CURRENT ASSETS			
Stock	11	310	446
Debtors	12	20,768	14,933
Cash at bank and in hand			
		<u>21,078</u>	<u>15,379</u>
CREDITORS: Amounts falling due within one year	13	<u>(12,984)</u>	<u>(1,855)</u>
NET CURRENT ASSETS		<u>8,094</u>	<u>13,524</u>
Provisions for liabilities	15	<u>(707)</u>	<u>(797)</u>
NET ASSETS		<u>10,002</u>	<u>13,001</u>
CAPITAL AND RESERVES			
Called-up share capital	16	9,924	9,924
Profit and loss account		(6)	2,993
Share option reserve		84	84
SHAREHOLDER'S FUNDS		<u>10,002</u>	<u>13,001</u>

The financial statements of Pentair Technical Solutions UK Limited, company number 03710607, were approved by the board of directors and authorised for issue on 21 March 2018 and signed on its behalf by:


W. Gheysens
Director

The accompanying notes are an integral part of this balance sheet.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Called-up share capital £'000	Share option reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2015	9,924	84	2,606	12,614
Profit for the financial year	-	-	387	387
Total comprehensive income	-	-	387	387
At 31 December 2015	9,924	84	2,993	13,001
Loss for the financial year	-	-	(393)	(393)
Total comprehensive expense	-	-	(393)	(393)
Dividends paid	-	-	(2,606)	(2,606)
At 31 December 2016	9,924	84	(6)	10,002

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. ACCOUNTING POLICIES

General information and basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency and presentational currency of the company is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

The company is incorporated in the United Kingdom under the Companies Act. The company is a private company limited by shares and is registered in England and Wales. The address of the company's registered office is shown on page 1.

The nature of the company's operations and its principal activities are set out in the strategic report on page 2.

The principal accounting policies adopted are described below. They have all been applied consistently throughout the current year and preceding year.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of disclosure exemption available to it in respect of its financial statements. Exemptions have been taken in relation to share based payments, financial instruments, presentation of a cash flow statement, related party transactions and remuneration of key management personnel.

Going concern

The directors have undertaken a full and detailed review on the future financial position of the company, covering a period of at least 12 months from the date of approval of the financial statements. Full details of the review are shown in the Strategic Report.

The directors are of the opinion, based on the review they have undertaken, that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date, or if hedged, at the forward contract rate.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All gains and losses arising are charged directly to the profit and loss account.

Goodwill

Goodwill arising on the acquisition, or the increase in stake, of subsidiary undertakings and businesses, representing any excess of the fair value of the total consideration given, both actual and deferred, over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is ten years. Provision is made for any impairment.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, together with any incidental expenses of acquisition, less accumulated depreciation and provision for impairment. Depreciation is provided on tangible fixed assets so as to write off the cost, less any estimated residual value, over their expected useful life, as follows:

Asset class	Depreciation method and rate
Plant and machinery	between 5% and 33% straight line
Computer equipment	between 20% and 33% straight line
Fixtures and Fittings	between 10% and 20% straight line

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. ACCOUNTING POLICIES (CONTINUED)

Impairment of assets

Assets are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below:

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash generating units ("CGU"s) of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis.

Where indicators exist for a decrease in impairment loss previously recognised for assets other than goodwill, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets of the CGU, except for goodwill, on a pro-rata basis. Impairment of goodwill is never reversed.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease terms.

Stocks

Stocks are valued on a first-in first-out basis at the lower of cost and net realisable value. Costs include all appropriate production overheads in bringing each product to its present location and condition. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those assets classified as fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the company either intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

ii) Equity instruments

Equity instruments issued by the company are recorded at the fair value of the cash or other resources received or receivable, net of direct issue costs.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Share based payments

Pentair plc ("the group") issues equity-settled and cash-settled share based payments to certain employees. The company has applied the requirements of FRS 102 Section 26 "Share based payments" in accounting for its share based payments. In both the current year and prior period the share based payments are not material and the directors have determined that no further disclosures in relation to share based payments are necessary.

Equity-settled share based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. Fair value is measured by use of the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on managements' best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the goods and services received is recognised at the current fair value determined at each balance sheet date for cash-settled share based payments.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

1. ACCOUNTING POLICIES (CONTINUED)

Turnover

Turnover is recognised at the point that the goods sold arrive with the customer or when the risks and rewards of ownership are transferred as determined by the specific incoterms on each sale. Revenue is stated net of value added tax and trade discounts.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated by reference to the value of work performed to date as a proportion of the total contract value.

Pension scheme arrangements

The company operates a defined contribution scheme. Pension contributions for this scheme are charged to profit and loss account as incurred. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet

Long-term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as long-term contract balances in stock.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the group's accounting policies

The following is the only critical judgement, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The recognition of revenue and their associated costs in the correct accounting period as dictated by the individual transactions INCO terms. In making its judgement, management have considered the detailed criteria for the recognition of revenue from the sale of goods set out in FRS 102 Section 23 *Revenue* and, in particular, whether the company had transferred to the buyer the significant risks and rewards of ownership of the goods.

Key sources of estimation uncertainty – deferred tax

The company has a deferred tax asset of £0.3m as at 31 December 2016, which is fully recognised in the financial statements. The asset is solely in relation to accelerated capital allowances, the difference between accumulated depreciation and the capital allowances claimed. Management deem it probable at present that they will be recovered against the reversal of future taxable profits and it is correct to recognise the asset. Management continue to monitor this position on an ongoing basis.

Key source of estimation uncertainty – impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £2.4m. An impairment of £1.7m has been recognised in the current year as shown in note 10.

3. TURNOVER

Turnover which is stated net of value added tax, discounts and commissions, represents amounts invoiced to third parties and group entities. The turnover is attributable to one continuing activity, as explained in the strategic report.

The split of turnover by geographical market is as follows:

	2016 £'000	2015 £'000
United Kingdom	18,953	11,209
Rest of Europe	2,710	3,451
North and South America	210	-
Middle East and India	1,436	2,081
Asia and Australia	329	60
Africa	-	6
	<u>23,638</u>	<u>16,807</u>

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

None of the directors received emoluments from the company for services provided as a director of the company (2015: none). The emoluments of the directors in the current year, and the emoluments of the other directors in the prior year, are paid by other group entities located outside the United Kingdom. The company does not receive recharges for these directors as it is not possible to make an accurate apportionment of their emoluments in respect of services to the company.

	2016 No.	2015 No.
Average number of persons employed		
Production	8	8
Selling and distribution and administration	68	54
	<u>76</u>	<u>62</u>

*Social security costs in 2015 include £797,000 one off expenses relating to underpaid National Insurance. The balance is included in provisions for liabilities as shown in note 15.

	2016 £'000	2015 £'000
Staff costs during the period (including directors)		
Wages and salaries	3,600	2,811
Social security costs*	325	1,077
Other pension costs	178	185
	<u>4,103</u>	<u>4,073</u>

5. NET OPERATING EXPENSES

	2016 £'000	2015 £'000
Change in stocks of finished goods and work in progress	(136)	(110)
Raw materials and consumables	16,760	11,779
Other external charges	36	17
Staff costs (note 4)	4,103	4,073
Depreciation of tangible fixed assets	50	42
Other operating charges	1,219	614
Goodwill impairment	1,744	-
Amortisation of goodwill	415	-
	<u>24,191</u>	<u>16,415</u>

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

6. OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging:

	2016 £'000	2015 £'000
Deprecation of owned tangible fixed assets	50	42
Goodwill impairment	1,744	-
Amortisation of goodwill	415	-
Operating lease rentals:		
- Land and buildings	80	80
- Other	70	67
Foreign exchange losses	63	54
Loss on disposal of tangible fixed assets	-	3
Cost of stock recognised as an expense	<u>16,624</u>	<u>11,669</u>

The analysis of auditor's remuneration is as follows:

	2016 £'000	2015 £'000
Fees payable to the company's auditor for the audit of the company's financial statements	35	35
Total audit fees	<u>35</u>	<u>35</u>

7. NET INTEREST RECEIVABLE

	2016 £'000	2015 £'000
Interest receivable on group cash pool	27	35
Net interest receivable	<u>27</u>	<u>35</u>

8. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2016 £'000	2015 £'000
Current tax		
Total current tax	<u>13</u>	<u>34</u>
Deferred tax		
Total deferred tax (note 14)	<u>(146)</u>	<u>6</u>
Tax on (loss)/profit on ordinary activities	<u>(133)</u>	<u>40</u>

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

8. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

The differences between the total tax shown above and the amount calculated by applying the average standard rate of UK corporation tax to the (loss)/profit before tax is as follows:

	2016 £'000	2015 £'000
(Loss)/profit on ordinary activities before taxation	(526)	427
Tax on (loss)/profit on ordinary activities at average standard UK corporation tax rate of 20.00% (2015: 20.25%)	(105)	86
Effects of:		
Expenses not deductible for tax purposes	444	171
Deferred tax movements	(146)	-
Other timing differences	(11)	-
Adjustments in respect of previous periods	13	(217)
Group relief claimed	(328)	-
Total tax	(133)	40

Factors that may affect future tax charges

The applicable tax rate changed to 20% from 1 April 2015. Finance Act No2 2015 was substantively enacted on 26 October 2015, includes provisions to reduce the corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. An additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. As these rates have been substantially enacted in tax legislation, deferred tax balances have been calculated with reference to these rates in line with the expected period of reversal of the deferred tax balances.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

9. TANGIBLE FIXED ASSETS

Cost	Plant and machinery £'000	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
At 1 January 2016	826	63	313	1,202
Additions		18		18
31 December 2016	826	81	313	1,220
Depreciation				
At 1 January 2016	583	34	311	928
Charge for year	35	13	2	50
31 December 2016	618	47	313	978
Net book value				
At 31 December 2016	208	34	-	242
At 31 December 2015	243	29	2	274

10. GOODWILL

Cost	Total £'000
At 1 January 2016	
Additions	4,532
31 December 2016	4,532
Amortisation and impairment	
At 1 January 2016	-
Charge for year	415
Impairment	1,744
31 December 2016	2,159
Net book value	
At 31 December 2016	2,373
At 31 December 2015	-

Goodwill arose on the acquisition of the trade and assets of Schroff UK Limited in January 2016. An impairment loss of £1.7m has been recognised in the year by reference to the value in use of the underlying assets.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

11. STOCKS

	2016 £'000	2015 £'000
Raw materials and consumables	89	85
Work in progress	43	22
Finished goods	178	339
	<u>310</u>	<u>446</u>

In the opinion of the directors there is no material difference between the balance sheet value of stocks and their replacement cost.

12. DEBTORS

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade debtors	5,193	2,995
Amounts owed by fellow subsidiary undertakings	15,005	11,552
Prepayments and accrued income	312	274
Deferred tax assets (note 14)	258	112
	<u>20,768</u>	<u>14,933</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2016 £'000	2015 £'000
Trade creditors	433	532
Amounts owed to fellow subsidiary undertakings	11,365	651
Other taxation and social security	711	368
Accruals	459	241
Other creditors including payments received on account	16	63
	<u>12,984</u>	<u>1,855</u>

The amounts owed to group undertakings are unsecured, had no fixed repayment date and are interest free.

14. DEFERRED TAX ASSET

	£'000
At 1 January 2016	112
Credited to profit and loss account	146
	<u>258</u>
At 31 December 2016 (note 12)	
	<u>258</u>
	2016 £'000
	2015 £'000

Deferred taxation assets provided in the financial statements comprises:

Difference between accumulated depreciation and capital allowances	137	112
Other timing differences	121	
	<u>258</u>	<u>112</u>

There are no unprovided deferred tax amounts in either the current year or preceding year.

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

15. PROVISIONS FOR LIABILITIES

	2016 £'000	2015 £'000
At 1 January	797	-
Credit/(charge) to the profit and loss account	(90)	797
At 31 December	707	797

The provision relates to additional social security costs payable to HM Revenue and Customs in respect of employees of the company. The provision is based on management's best estimate of the settlement due. The provision is expected to be utilised in the next 6 months.

16. CALLED-UP SHARE CAPITAL AND RESERVES

	2016 £'000	2015 £'000
Authorised		
25,000,000 ordinary shares of £1 each (2015: 25,000,000)	25,000	25,000
Called-up, allotted and fully paid		
9,924,000 ordinary shares of £1 each (2015: 9,924,000)	9,924	9,924

The profit and loss reserve represents cumulative profits or losses, net of dividends and other adjustments.

The share option reserve arises in connection to the group's share-based payments scheme as described in note 1 to the financial statements. The amount of the reserve represents the value of shares held by employees that have not vested at the reporting date.

17. DIVIDENDS

The company paid a dividend of £2,606,000 (£0.26 per share) during the year (2015: no dividend).

18. FINANCIAL COMMITMENTS

Operating leases

At 31 December 2016 the company had the following future minimum lease payments under non-cancellable operating leases as follows:

	2016		2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	109	131	80	99
Between one and five years	406	144	320	122
After five years	-	-	73	-
	515	275	473	221

19. PENSIONS

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The total pension costs for the year were £178,000 (2015: £185,000).

PENTAIR TECHNICAL SOLUTIONS UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

20. ULTIMATE PARENT COMPANY

At the balance sheet date the company was a wholly owned subsidiary undertaking of Pentair SSC UK Limited (formerly Pentair Flow Control (UK) Limited), a company registered in England. Copies of the financial statements of Pentair SSC UK Limited are available from Companies House, Crown Way, Cardiff, CR4 3UZ.

At the date of signing the financial statements, the immediate parent company was Nvent UK Holdings Limited, a company registered in England.

The ultimate parent company and controlling party at the date of signing the financial statements is Pentair plc, a company incorporated in Republic of Ireland. This is the only group for which consolidated financial statements are prepared for the year ended 31 December 2016. Copies of the consolidated financial statements may be obtained from the Company Secretary, Pentair plc, 43 London Wall, London, EC2M 5TF, United Kingdom.