



Pentair

Summary Annual Report **2000**

Handing over the day-to-day leadership

of Pentair to a team of experienced and savvy managers was a key step in a leadership transition process initiated almost two years ago as I approached my retirement date. I am confident that the accomplishments we achieved in the last decade will prove a strong and stable platform for building improved returns to Pentair shareholders in the near future.

Winslow H. Buxton

Chairman of the Board



Pentair is a diversified manufacturer that builds value for stakeholders by acquiring, renewing, and developing manufacturing companies. With \$2.7 billion in annual sales, Pentair comprises three core business groups: tools, water technologies, and enclosures. Headquartered in St. Paul, Minnesota, the company employs 13,000 people in more than 50 locations around the world. Pentair common stock is traded on the New York Stock Exchange under the symbol: PNR.



from left

David D. Harrison

*Executive Vice President
and Chief Financial Officer*

Randall J. Hogan

*President and
Chief Executive Officer*

Richard J. Cathcart

*President and Chief Operating Officer
Water Technologies*

Frank J. Feraco

*President and Chief Operating Officer
Tools*

George M. Danko

*President and Chief Operating Officer
Enclosures*

“This is a hands-on management team
*with the technological savvy, leadership skills,
intelligence, creativity, and determination needed
to direct Pentair’s success. Our goal is to return the
Tools segment to its position as a market leader
and top performer, while transforming the entire
Pentair organization into a new global growth
company intent on building value for shareholders.
And we intend to deliver results.*”

Randall J. Hogan

President and Chief Executive Officer

financial highlights

Pentair, Inc. and Subsidiaries

Years ended December 31

(Dollars in thousands, except per-share data)

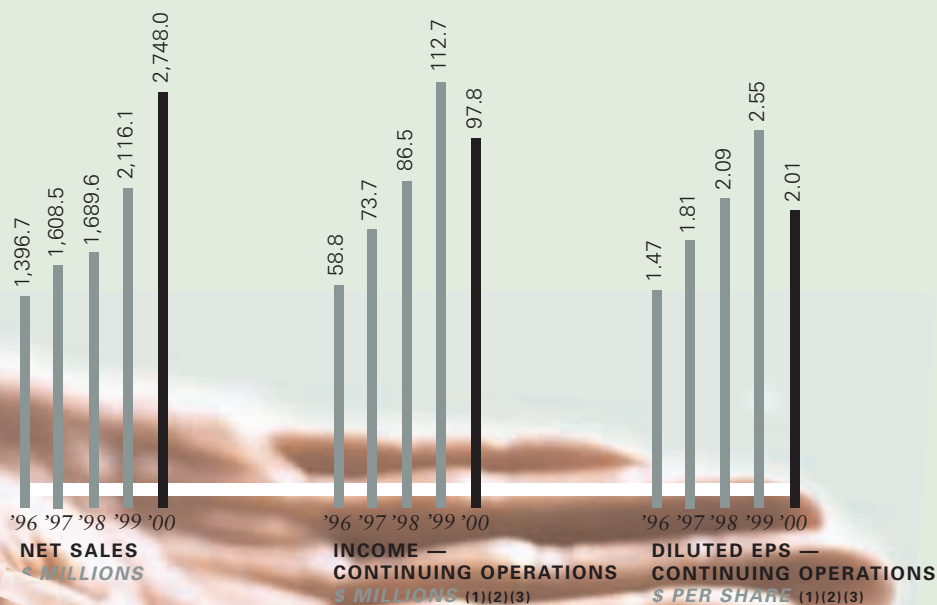
	2000	1999	Change
Net sales	\$ 2,748,013	\$ 2,116,070	29.9%
Operating income (1)	\$ 226,819	\$ 224,774	0.9%
Income — continuing operations (1) (2) (3)	\$ 97,770	\$ 112,723	(13.3%)
Diluted EPS — continuing operations (1) (2) (3)	\$ 2.01	\$ 2.55	(21.2%)
Cash dividends declared per common share	\$ 0.66	\$ 0.64	
Total debt	\$ 913,974	\$ 1,035,084	
Shareholders' equity	\$ 1,010,591	\$ 990,771	
Debt/invested capital	47.5%	51.1%	
Return on average common shareholders' equity (1)	7.1%	13.8%	
Common shares outstanding (December 31)	48,711,955	48,317,068	
Market value per share (December 31)	\$ 24.19	\$ 38.50	
Capital expenditures	\$ 68,041	\$ 53,671	
Employees of continuing operations	13,100	12,400	

(1) Excludes pre-tax restructuring charge of \$24.8 million (\$15.9 million after tax, or \$0.33 per share) and \$23.0 million (\$14.6 million after tax, or \$0.34 per share) in 2000 and 1999, respectively.

(2) Excludes income (loss) from discontinued operations of \$(24.8) million, or \$(0.51) per share, and \$5.2 million, or \$0.12 per share in 2000 and 1999, respectively.

(3) Excludes non-cash pre-tax cumulative effect of accounting change of \$1.9 million expense (\$1.2 million after tax, or \$0.02 per share) in 2000.

page 2



to our *shareholders*

The past year's business challenges were perhaps the most difficult ever faced by Pentair. In spite of these difficulties, we recorded increases in both revenues and operating earnings from continuing businesses and, in the process, became a significantly different company. We are now focused. We have our costs in line. We have a different set of priorities. And we are on track to returning our businesses to peak performance and productivity.

Our sales in 2000 were \$2.7 billion, about 30 percent above comparable 1999 levels, after deducting revenues from the equipment businesses that were discontinued in the fourth quarter. Net income and diluted earnings per share (EPS) declined as a result of setbacks and one-time working capital charges of \$30 million in our tools businesses. We reported net income of \$55.9 million, or \$1.15 per diluted share. Those results include a pre-tax restructuring charge of \$24.8 million (\$15.9 million after tax, or \$0.33 per share); loss from discontinued operations of \$24.8 million, or \$0.51 per share; and a non-cash pre-tax cumulative effect of accounting change of \$1.9 million expense (\$1.2 million after tax, or \$0.02 per share). Excluding these charges, we earned \$97.8 million or \$2.01 per diluted share, down from \$112.7 million, or \$2.55 per diluted share in 1999. Free cash flow, however, was a record \$117 million, driven by a renewed emphasis on reducing working capital.

Pentair passed a significant milestone in 2000 with the retirement of Winslow Buxton as chief executive officer (CEO) after a nine-year tenure. Under his leadership, the company was skillfully shaped to grow, prosper, and reward shareholders in the 1990s. In fact, Pentair grew from a \$700 million company in 1992 to its current annual revenue of nearly \$3 billion.

While Winslow was CEO, Pentair successfully exited the paper industry and the ammunition business, completed the two largest acquisitions in the company's history, and set the stage for a 21st century company that is well positioned in global growth industries. He worked closely with me in the CEO transition process, he will continue to lend his experience to us as chairman of the board of directors, and I am grateful for his support.

We recorded increases in both revenues and operating earnings from continuing operations and, in the process, became a significantly different company.

Reconstructing Pentair

Pentair's EPS shortfall was primarily a result of the disappointing performance of the service equipment business and the core tools business, where performance was depressed by execution problems related to the start-up of a new distribution facility early in the year.

Our results in the past year called for prompt and effective action. Although we had kept the company on track in the past by fine-tuning operations and adding strategic acquisitions, we realized that we must substantially reconstruct the businesses to reestablish a basis for delivering improved shareholder value. We acted to extract the growth opportunities from each of our three business groups, and quickly fix or exit any underperforming operations that pose a threat to shareholder value.

The reconstruction process was launched in the fourth quarter of 2000 and, today, we are a repositioned and refocused company that is more capable of delivering the results our shareholders expect. We implemented all of these changes without in any way straying from the time-honored values that have characterized Pentair since its inception.

One key element of the reconstruction process was the discontinuance of the Equipment segment. These businesses were no longer considered core elements of Pentair and proceeds from the ultimate sale of the businesses will be used to pay down debt.

We realized that we must substantially reconstruct the businesses to reestablish a basis for delivering improved shareholder value.

We also have substantially reorganized the tools business, made additional expense reductions in other operating units, significantly reduced staff at the corporate headquarters, decentralized service functions, and reinforced accountability and responsibility at the operating level. The cost savings associated with restructuring charges taken in the fourth quarter of 2000 are expected to total \$20 million in 2001.

With respect to the special charges, we had a choice of pulling the bandage off all at once, or pulling it off a little at a time. We chose to do it all at once — our goal being to get all of the charges behind us and start 2001 with a clean slate. We made our decisions after thorough analysis of the situations and announced them with clarity and simplicity. It is my intent to make those two characteristics — clarity and simplicity — part and parcel of our future dialogues.

Review of 2000

The turnaround of the underperforming tools operations is a major priority. These are excellent businesses, which, through poor execution of several key programs in a marketplace characterized by retail softness, had lost their formula for excellence. We are dedicated to returning Porter-Cable/Delta and DeVilbiss Air Power Company to peak performance.

A new leadership team is hard at work in the tools business to effect the turnaround plan, which consists of five key elements:

▶ **Cost** We have introduced a wide range of operating cost reductions, including a downsizing that trimmed our tools headcount by about 150 people in the fourth quarter and another 175 people in January 2001. To reduce inventories, we idled the tools operations during the last two weeks of December and the first two weeks of January. We also launched a proven integrated cost-reduction program that leverages lean manufacturing, and tracks inventories and cost productivity as key performance measures. We have made further performance improvements within the distribution function, and are reinforcing our supply management function.

▶ **Pricing** We have overhauled our pricing practices to establish a new process that gives us greater flexibility in serving multiple distribution channels and will afford us a much stronger measure of margin protection.

▶ **Channel management** While we've done a good job of attending to the needs of the home center market, we didn't give the same level of attention to smaller chains or the professional tools dealers in the past year. We are taking action to correct our underrepresentation in these channels, while developing an aggressive positioning strategy for 2001 that focuses on regaining our status as the brand of choice.

We are dedicated to returning Porter-Cable/Delta and DeVilbiss Air Power to peak performance.

Pentair completed construction of a new automated distribution center for its tools business in early 2000.

Business concerns dictated bringing the huge facility on-line two months ahead of schedule. Adapting to the steep learning curve and technology challenges drove up costs and severely hampered shipments in the first half of the year. By the third quarter, the distribution center was operating smoothly, but related problems had drastically reduced productivity, increased costs, trimmed margins, and demanded substantially more working capital than originally budgeted. Combined with weak demand during the normally strong Christmas selling season, problems at the Tools segment made 2000 the worst performance year in the history of the group.

At year-end, the 675,000-square-foot distribution center was operating to expectations and improving weekly. The new facility, and investments in distribution automation — like the remote inventory control computers worn by distribution center employees — have enabled the tools business to double its shipping capacity from prior levels. This improved productivity

advanced technology

will be essential to supporting increased sales that will be driven, in part, by an accelerated new product development schedule, which last year brought a new line of Porter-Cable branded air compressors to market.



► **New products** New product development remains the lifeblood of the tools business. In 2001, we will maintain our rate of introducing innovative new products, while reducing our product development time by nearly 35 percent. This improved speed-to-market will position Pentair to once again outdistance our competitors while helping to improve the tool group's profit margins.

► **Leadership** Driving this effort is a new management team. Our new tools president, Frank Feraco, an experienced and well-respected tools industry executive, is on-site and in charge. He is supported by new leadership in distribution, finance, marketing, and supply management.

We're streamlining our tools operations, cutting overall operating and material costs, and redoubling efforts to return the businesses to high performance levels.

Overall, we're streamlining our tools operations, cutting overall operating and material costs, and redoubling our efforts to return the businesses to high performance levels. These are excellent businesses, and we are confident that our turnaround efforts will return them to strong profit performance in the coming year.

The water business performed very well in 2000, delivering a five-year compound annual growth rate of over 45 percent. Water Technologies segment revenues and operating income in 2000 gained 55 percent and 65 percent, respectively, with strong performance recorded in the pump, water treatment, and pool and spa sectors of the business, both in North America and abroad. The year was highlighted by the successful integration of the late-1999 Esfef acquisition. Esfef was accretive in its first year, and made excellent contributions to our record cash flow in 2000 as a result of facility rationalization, outsourcing, and consolidated management. In addition, Esfef brought to Pentair many manufacturing and marketing synergies that have enhanced both the pump and water treatment portions of our business, as well as introducing us to an entirely new growth market — pool and spa equipment.

The Water Technologies segment performed very well in 2000, continuing a five-year annual growth rate of over 45 percent.

Pumps reported continued strong activity, particularly in the municipal market, which was active throughout 2000 and continues to show strong demand into 2001, as well as in international markets. The fourth quarter of 2000 showed some softening in retail and weather-related segments. Internationally, the segment's European and Asian sales gained 25 percent in local currencies during the year. We established distribution centers in Taiwan, India and Europe, opened a new sales office in Shanghai, and launched a promising e-commerce venture in Asia to facilitate our global expansion.

Equally important, the Water Technologies segment also is adopting lean manufacturing processes within all of its operations, a move that has substantially reduced working capital in the segment and contributed to its record cash flow.

Our enclosures business also delivered excellent results in 2000, giving us ample evidence that the transformation of this business is not only complete, but completely successful. Enclosures segment sales reflected an 18 percent gain over 1999 levels, while operating income gained 50 percent over the previous year (excluding restructuring charges). Sales in local currencies at Pentair Enclosures Europe also continue to rise, with an 18 percent gain in 2000 versus 1999.

The conversion of our enclosures business into a dynamic array of integrated, global facilities focused on the fast-growing opportunities in a broad market spectrum benefited the company again and again in 2000.

Each of the businesses landed major contracts with global customers in the datacom, telecom, and networking markets — Motorola, Dell, AVAYA, and Marconi to name a few.

We are relocating the manufacture of small enclosure products from plants in Minnesota to our Mexican facility. This move will allow us to dedicate capacity in Minnesota to meet the increased demand for advanced aluminum enclosures and other products used in the fast-growing data/telecommunications industries and by large OEM manufacturers. Our growth strategy calls for us to expand aggressively in new high-tech markets while maintaining our leading position in the industrial markets.

w a t e r t e c h n o l o g i e s segment

The Fairbanks Morse brand of Pentair's Pump and Pool Group designed and manufactured four vertical turbine water pumps for the Board of Public Utilities' new Nearman pump station in Kansas City, Kansas.

Forming the core of the world's largest Ranney collector well, the 10 million-gallon-per-day pumps draw water from far below the Missouri River and lift it 125 feet to the Nearman Water Treatment Plant. After filtration and treatment, the Nearman facility provides safe, clean water to a growing population of approximately 54,000 people.

Pentair Water Treatment launched an e-commerce web site during 2000 to increase its already-substantial water purification business in rapidly-growing Asian economies. The web site, called e-watershop India (<http://www.e-watershop.com>), is designed as an electronic shopping store for Pentair's wide range of water products. It also serves as a reference source for helpful information about the importance of clean, potable water to consumers, public health agencies, and industry. The site presents Pentair products that can be ordered directly from the web site and are increasingly in demand for water treatment and purification applications in India and other expanding economies in Asia.



reliable performance



We're continuing to grow geographically, as well. We are now delivering enclosures in China, and are ready to support the burgeoning growth of telecom and datacom industries in that fast-developing marketplace. We've also further expanded our presence in Mexico by adding a sales office and a distribution center in Mexico City to support Latin American sales that have almost doubled since the beginning of 2000.

Our enclosures business delivered excellent results in 2000, giving us ample evidence that the transformation of this segment is not only complete, but also completely successful.

The expansion into high-growth markets hasn't come at the expense of our traditional industrial markets. Our Hoffman brand continues to outpace the North American industrial enclosures market, as evidenced by its standing in the annual *Control* magazine Reader's Choice Awards for the Enclosures Product category. A full 72 percent of *Control* readers chose Hoffman as their preferred enclosure manufacturer.

Overall, in enclosures we have solid momentum going into 2001. Orders in the year 2000 were up 23 percent in dollar amounts versus sales increase of 18 percent. And our backlog going into 2001 was up 33 percent over last year.

Looking ahead

The global marketplace is constantly changing, but never have changes come as fast as they have in the digital age. Through the years, Pentair has demonstrated time after time that it can reinvent itself to adapt to new market conditions.

We will remain a company obsessed with quality, but we are now applying new, well-refined skill sets to sharply focus our talent and resources, shorten the time it takes to make strategic decisions, and steadily drive top and bottom line results to the superior levels that will build shareholder value.



full *integration*

Pentair Electronic Packaging received its largest-ever order for the supply of telecommunications cabinet systems for AVAYA Communications, a Lucent spin-off.

The cabinet systems are being deployed in outdoor environments to provide primary and backup power to wireless base station systems, integral components of mobile telephone and communication networks. The AVAYA order reflects the acceleration of wireless subscriber growth and the migration to 3G wireless systems, the latest generation of mobile communications equipment.

Pentair Electronic Packaging's high quality telecommunications enclosures, its best-of-class supply management capabilities, and its ability to produce and integrate cabinet systems globally have strengthened Pentair's relationships with both Lucent and AVAYA, as well as other top-tier telecom equipment providers, including Motorola, Ericsson, Nortel, Cisco, and Tellabs.

enclosures segment

Today, we are a **totally repositioned and refocused company that is more capable of delivering the results our shareholders expect.**

Changes are occurring in each of Pentair's businesses, and the pace of the reconstruction will accelerate as 2001 progresses. Overall, the Pentair of 2001 is focused on three broad actions:

1) *Narrow our focus on our most attractive businesses.* We will complete the divestiture of Lincoln Industrial and the service equipment businesses; reinvigorate the tools business and return it to superior performance; and continue to grow and reposition the water technologies and enclosures businesses.

2) *Develop and execute winning strategies in our businesses.* We will target higher-than-industry growth rates in each of our segments, provide cutting-edge product and service innovations, increase the value-adding content of our products through the introduction of new technologies, and continue our drive toward world-class manufacturing and supply management status.

3) *Refocus our corporate capabilities to drive high performance.* We have redefined the role of our operating leadership at both the corporate level and in our businesses; established improved processes for operating review and oversight; ensured strong acquisition and integration capabilities; strengthened our business and financial analysis and communication; and accelerated our talent and organization development while changing the reward system to motivate improved shareholder value. The changes we have implemented, when combined with the results of a renewed emphasis on the importance of cash flow, will result in improved market performance and financial results.

Allow me to state, clearly and simply, that Pentair is:

- ▶ **Focused on taking advantage of the many opportunities ahead of us,**
- ▶ **Committed to driving superior performance throughout the organization, and**
- ▶ **Determined to exceed the expectations of our shareholders.**

And we will deliver.



Randall J. Hogan
President and Chief Executive Officer

enclosures: safeguarding today's technologies

The enclosure products of yesteryear have been transformed into highly engineered, technically advanced systems designed to house and protect sophisticated electronics. And global electronics manufacturers have increasingly delegated the design and production of packaging solutions to specialists like Pentair.

Pentair is dedicated to being at the leading edge of the rapidly changing enclosures market. The company has recast its sizable enclosures sector to meet the continually increasing demands for cost-effective superior designs, ultimate protection attributes, reduced production cycle time, and prompt delivery — all while giving customers a competitive advantage that differentiates their products in the marketplace.

After gaining substantial momentum in 1999, Pentair's enclosures businesses reported a 50 percent operating income gain for 2000 (excluding restructuring charges), as revenues rose more than 18 percent. Armed with new strategies, the segment expects to grow sales despite an anticipated market slowdown.

While it continues to build upon its leadership in its core industrial enclosures business, Pentair has moved strategically into the fast-growing electronics sector, which is less affected by industrial cycles and offers increased opportunities for value-added product offerings that yield higher margins. Today, Pentair is one of only a few major enclosure producers that offer customers a broad design and production capability and multiple operations in North America, Europe, Latin America, and Asia.

Pentair is leveraging its global strengths to take advantage of the strong outsourcing trend in the telecom and datacom industries by adopting a service-provider strategy, expanding the scope of its systems integration services, initiating global supply-chain management, accelerating solution design competency, and expanding its original equipment manufacturers' program development and project management.

As Pentair heads into the new century, its enclosures group is moving up the technology ladder with investments in Internet-based design tools, enhanced product selection and configuration software for customers, and expansion of internal systems capabilities. The application of these advanced tools are part of the repositioning that has made Pentair a solutions provider with expanded market opportunities.

The company's solid industrial and electronic enclosures businesses serve a \$60 billion global market segment that is expanding at double-digit rates. Pentair's financial strength, design and production acumen, and growing global presence place the company in a very good position to capitalize on expanding business opportunities.



w a t e r technologies: a dynamic *g r o w t h* industry



Water, a simple compound that covers about 70 percent of the earth, has become one of the great growth opportunities of the 21st century. The key to success in this immense market is responding to the growing global shortage by providing enough safe, clean water to satisfy the rapidly increasing demands for human consumption and for the burgeoning requirements of industry.



While it is a relatively recent (1995) entrant into the water business, Pentair has expanded beyond its original pump business and become a premier, diversified water equipment company that delivered compound annual growth of 45 percent in sales and 55 percent in profits from 1995 through 2000.



As impressive as its water business results have been in the past five years, however, Pentair is moving aggressively to fine-tune its operations and build an expanded portfolio of water technologies, which will assure a continuation of the strong growth momentum well into the new century.



Technology will be the capstone of Pentair's new water strategies as the company migrates from being a components supplier to being a provider of total solutions that encompass innovative products and services that serve people and industries throughout the world.

page **14**



Pentair now ranks as one of the 10 largest water pump businesses in the world, and is among the top five in North America. But the company has established leadership positions in many other water technologies. Pentair is the world's leader in water treatment control valves and North America's largest provider of a wide range of accessories for the growing pool and spa market. The company also offers an industry leading range of composite pressure vessels and storage tanks for use with water treatment systems.



As Pentair moves ahead with its reconstruction programs, its investments in water technologies are becoming increasingly linked to fast-growing industries, particularly where pure water is mission critical to the customer's goals. With additional strategic acquisitions to expand its expertise in this area, the Water Technologies segment has bright prospects for further growth and improved performance.



t o o l s : p r o f e s s i o n a l s , h o b b y i s t s d r i v e d e v e l o p m e n t

A steadily growing global need for construction, remodeling, and repair, supplemented by the increased popularity of do-it-yourself hobbies, particularly woodworking, have created a strong market for power tools – the latest generation of tools to meet the demands of creative and industrious people throughout the world.



Pentair has developed a signature group of leading brands in the field, creating a Tools segment that comprises some of the best-known names in the industry and has captured leading market positions in targeted industrial and retail market segments.



While the economic softness of late 2000 slowed the tool industry's traditional growth, Pentair took the opportunity to reinvigorate the segment's products, resources, and processes. The restructured Tools segment is now better positioned to capture market share as the tool industry returns to normal growth patterns.



The growth of the tool industry is driven by many factors. These include the rate of housing starts (1.59 million units in the U.S. in 2000), commercial and industrial expansion, millions of homes that require repair/remodeling, and the explosive growth of do-it-yourselfers, particularly those involved in woodworking. These factors, combined with a steady rise in disposable income, augur well for stable growth of the tools business.



Pentair's U.S. tools business is headquartered in Jackson, Tennessee. The Porter-Cable/Delta complex houses a new 675,000-square-foot distribution center, as well as engineering, production, and administrative facilities. Pentair also has tools facilities in Arkansas, Arizona, Mississippi, Canada, Germany, and Taiwan.

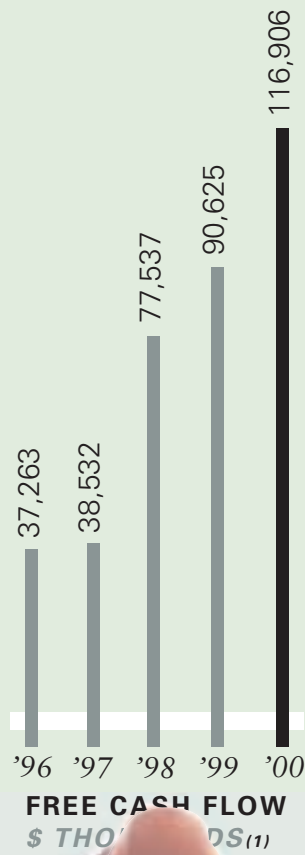
page **15**

Product development is the segment's lifeblood. Pentair is a tool industry leader in the creation of solutions for emerging applications. Leveraging the efficiencies of the restructured businesses, we target an ambitious level of product development and a 35 percent reduction in product development time in 2001. The segment generates approximately 50 percent of its sales from products on the market for less than five years.



Without losing focus on its hallmarks of quality and innovation, Pentair also has refined its global manufacturing capability to allow the Tools segment to achieve the best possible cost position in its steadfast commitment to return the tools businesses to acceptable levels of performance, and then to deliver stable, consistent, and profitable growth.





FREE CASH FLOW
\$ THOUSANDS (1)

(1) Net cash provided by operating activities less capital expenditures, including both continuing and discontinued operations.

Net sales

The components of the net sales increase were:

	2000 vs. 1999	1999 vs. 1998
Volume	32.5%	26.0%
Price	(1.0%)	(0.3%)
Currency	(1.6%)	(0.5%)
Total net sales increase	29.9%	25.2%

Net sales in 2000 totaled \$2,748 million, compared with \$2,116 million in 1999 and \$1,690 million in 1998. In 2000, volume grew about 32.5 percent (up about 8 percent adjusted for acquisitions), with the stronger U.S. dollar reducing sales by about 1.6 percent. In 1999, volume grew about 26 percent (up about 5 percent adjusted for acquisitions).

Sales by segment and the change from last year were as follows:

<i>In thousands</i>	2000	1999	1998	00/99 % change	99/98 % change
Tools	\$ 1,066,616	\$ 875,643	\$ 661,782	21.8%	32.3%
Water	903,672	582,927	441,030	55.0%	32.2%
Enclosures	777,725	657,500	586,829	18.3%	12.0%
Total	\$ 2,748,013	\$ 2,116,070	\$ 1,689,641	29.9%	25.2%

Tools

The increase in Tools segment sales in 2000 and 1999 was primarily due to:

- ▶ the September 1999 acquisition of DeVilbiss Air Power Company; and
- ▶ higher volume in our Porter-Cable/Delta business.

These increases were offset by:

- ▶ volume decreases in 2000 for generators due to high inventories at distributors and retailers at the end of 1999 and lower storm sales in 2000; and
- ▶ price decreases, primarily in our Porter-Cable/Delta business, due to price discounting in some markets on some products in 2000.

Water

The increase in Water segment sales in 2000 and 1999 was primarily due to:

- ▶ the August 1999 acquisition of the pressure vessel and pool and spa equipment businesses of Esfef Corporation; and
- ▶ increased volume in our pump and valve businesses due to higher demand in the municipal market.

These increases were somewhat offset by:

- ▶ unfavorable impacts of foreign currency translation primarily in our valve and pressure vessel businesses.

Enclosures

The increase in Enclosures segment sales in 2000 and 1999 was primarily due to:

- ▶ higher volume due to strong demand for our products in the telecom and datacom markets and with industrial original equipment manufacturers; and
- ▶ the April 1999 acquisition of WEB Tool & Manufacturing and the October 1998 acquisition of Walker Dickson.

These increases were somewhat offset by:

- ▶ unfavorable impacts of foreign currency translation. Excluding the impacts of foreign currency translation, 2000 Enclosures segment sales increased by 22 percent over 1999.

Operating income

Operating income by segment and the change from last year were as follows:

<i>In thousands</i>	2000	1999	1998	00/99 % change	99/98 % change
Tools (1)	\$ 23,751	\$ 100,680	\$ 80,383	(76.4%)	25.3%
Water	120,732	73,362	56,264	64.6%	30.4%
Enclosures (2)	96,268	46,346	46,026	107.7%	0.7%
Other (3)	(38,721)	(18,662)	(18,431)	107.5%	1.3%
Total	\$ 202,030	\$ 201,726	\$ 164,242	0.2%	22.8%

(1) Includes restructuring charge expense of \$5.4 million in 2000 and \$6.3 million in 1999.

(2) Includes restructuring charge (income) of \$(1.6) million in 2000 and \$16.7 million expense in 1999.

(3) Includes restructuring charge expense of \$21.0 million in 2000.

Tools

The decrease in Tools segment operating income in 2000 was primarily due to:

- ▶ one-time working capital charges of \$30 million for inventory and accounts receivable;
- ▶ lower sales volume for generators and a change in product mix in our Porter-Cable/Delta business; and
- ▶ lower selling prices due to price discounting.

The increase in Tools segment operating income in 1999 was primarily due to:

- ▶ the acquisition of DeVilbiss Air Power Company; and
- ▶ higher volume in our Porter-Cable/Delta business.

These 1999 increases were somewhat offset by:

- ▶ restructuring charge expense of \$6.3 million in 1999.

Water

The increase in Water segment operating income in 2000 and 1999 was primarily due to:

- ▶ the acquisition of the pressure vessel and pool and spa equipment businesses of Essef Corporation;
- ▶ increased volume for pumps and valves; and
- ▶ material cost savings as a result of supply management initiatives in 1999.

These increases were somewhat offset by:

- ▶ unfavorable impacts of foreign currency translation in 2000.

Enclosures

The increase in Enclosures segment operating income in 2000 was primarily due to:

- ▶ higher volume due to strong demand for our products; and
- ▶ restructuring charge expense of \$16.7 million in 1999.

These increases were somewhat offset by:

- ▶ unfavorable impacts of foreign currency translation in 2000.

The increase in Enclosures segment operating income in 1999 was primarily due to:

- ▶ higher volume due to strong demand for our products; and
- ▶ material cost savings as a result of supply management initiatives in 1999.

These increases were offset by:

- ▶ restructuring charge expense of \$16.7 million in 1999.

Report of management

We are responsible for the integrity and objectivity of the financial information presented in this report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States and include certain amounts based on our best estimates and judgment.

We are also responsible for establishing and maintaining our accounting systems and related internal controls, which are designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded. These systems and controls are reviewed by the internal auditors. In addition, our code of conduct states that our affairs are to be conducted under the highest ethical standards.

The independent auditors provide an independent review of the financial statements and the fairness of the information presented therein. The Audit Committee of the Board of Directors, composed solely of outside directors, meets regularly with us, our internal auditors and our independent auditors to review audit activities, internal controls and other accounting, reporting and financial matters. Both the independent auditors and internal auditors have unrestricted access to the Audit Committee.



Randall J. Hogan

President and Chief Executive Officer

St. Paul, Minnesota

February 16, 2001



David D. Harrison

Executive Vice President and Chief Financial Officer

Independent auditors' report on condensed financial information

To the Board of Directors and Shareholders of Pentair, Inc.:

We have audited the consolidated balance sheets of Pentair, Inc. and subsidiaries (the Company) as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, cash flows, and comprehensive income for the years ended December 31, 2000, 1999, and 1998. Such consolidated financial statements and our report thereon dated February 16, 2001, expressing an unqualified opinion (which are not included herein), are included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2000. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements of the Company is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Deloitte & Touche LLP



Minneapolis, Minnesota

February 16, 2001

condensed consolidated statements of *income*

Pentair, Inc. and Subsidiaries

Years ended December 31

(In thousands, except per-share data)

	2000	1999	1998
Net sales	\$ 2,748,013	\$ 2,116,070	\$ 1,689,641
Cost of goods sold	2,051,515	1,529,419	1,227,427
Gross profit	696,498	586,651	462,214
Selling, general and administrative	438,488	339,707	281,078
Research and development	31,191	22,170	16,894
Restructuring charge	24,789	23,048	—
Operating income	202,030	201,726	164,242
Interest income	1,488	1,472	1,414
Interest expense	76,387	45,054	21,269
Income from continuing operations before income taxes	127,131	158,144	144,387
Provision for income taxes	45,263	60,056	53,667
Income from continuing operations	81,868	98,088	90,720
Income (loss) from discontinued operations, net of tax	(24,759)	5,221	16,120
Cumulative effect of accounting change, net of tax	(1,222)	—	—
Net income	55,887	103,309	106,840
Preferred dividends	—	—	(4,267)
Income available to common shareholders	\$ 55,887	\$ 103,309	\$ 102,573
Earnings per common share			
Basic			
Continuing operations	\$ 1.68	\$ 2.24	\$ 2.25
Income (loss) from discontinued operations	(0.51)	0.12	0.42
Cumulative effect of accounting change	(0.02)	—	—
Basic earnings per common share	\$ 1.15	\$ 2.36	\$ 2.67
Diluted			
Continuing operations	\$ 1.68	\$ 2.21	\$ 2.09
Income (loss) from discontinued operations	(0.51)	0.12	0.37
Cumulative effect of accounting change	(0.02)	—	—
Diluted earnings per common share	\$ 1.15	\$ 2.33	\$ 2.46
Pro forma amounts assuming the accounting change is applied retroactively			
Net income from continuing operations	\$ 81,868	\$ 97,514	\$ 90,631
Net income (loss) from discontinued operations	(24,759)	5,221	16,120
Preferred dividend requirements	—	—	(4,267)
Income available to common shareholders	\$ 57,109	\$ 102,735	\$ 102,484
Net income per common share			
Basic			
Continuing operations	\$ 1.68	\$ 2.23	\$ 2.25
Income (loss) from discontinued operations	(0.51)	0.12	0.42
Basic earnings per common share	\$ 1.17	\$ 2.35	\$ 2.67
Diluted			
Continuing operations	\$ 1.68	\$ 2.20	\$ 2.09
Income (loss) from discontinued operations	(0.51)	0.12	0.37
Diluted earnings per common share	\$ 1.17	\$ 2.32	\$ 2.46
Weighted average common shares outstanding			
Basic	48,544	43,803	38,444
Diluted	48,645	44,287	43,149

condensed consolidated *balance sheets*

Pentair, Inc. and Subsidiaries

December 31

(In thousands, except per-share data)

2000

1999

Assets

Current assets

Cash and cash equivalents	\$ 34,944	\$ 63,015
Accounts and notes receivable, net of allowance of \$18,636 and \$14,242, respectively	468,081	502,235
Inventories	392,495	352,830
Deferred income taxes	72,577	51,356
Prepaid expenses and other current assets	22,442	13,229
Net assets of discontinued operations	101,263	143,839
Total current assets	1,091,802	1,126,504

Property, plant and equipment, net

352,984 367,783

Other assets

Goodwill, net	1,141,102	1,164,056
Other	58,137	48,173
Total other assets	1,199,239	1,212,229
	\$ 2,644,025	\$ 2,706,516

Liabilities and shareholders' equity

Current liabilities

Short-term borrowings	\$ 108,141	\$ 150,612
Current maturities of long-term debt	23,999	27,176
Accounts and notes payable	250,088	220,944
Employee compensation and benefits	84,197	96,082
Accrued product claims and warranties	42,189	46,467
Income taxes	5,487	16,182
Other current liabilities	134,691	130,393
Total current liabilities	648,792	687,856

Long-term debt	781,834	857,296
Pension and other retirement compensation	59,313	59,042
Post retirement medical and other benefits	34,213	31,471
Deferred income taxes	37,133	6,632
Other noncurrent liabilities	72,149	73,448
Total liabilities	1,633,434	1,715,745

Commitments and contingencies

Shareholders' equity

Preferred shares	—	—
Common shares par value \$0.16 2/3; 48,711,955 and 48,317,068 shares issued and outstanding, respectively	8,119	8,053
Additional paid-in capital	468,425	456,516
Retained earnings	568,084	544,235
Unearned restricted stock compensation	(7,285)	(2,434)
Accumulated other comprehensive loss	(26,752)	(15,599)
Total shareholders' equity	1,010,591	990,771
	\$ 2,644,025	\$ 2,706,516

condensed consolidated statements of *cash flows*

Pentair, Inc. and Subsidiaries

Years ended December 31

(In thousands)	2000	1999	1998
Operating activities			
Net income	\$ 55,887	\$ 103,309	\$ 106,840
Depreciation	59,897	56,081	46,571
Amortization	39,131	25,987	15,483
Deferred income taxes	13,118	(5,299)	4,069
Restructuring charge	24,789	23,048	—
Cumulative effect of accounting change	1,222	—	—
Changes in assets and liabilities, net of effects of business acquisitions and dispositions			
Accounts and notes receivable	17,719	(31,053)	(16,366)
Inventories	(45,186)	(26,740)	6,253
Prepaid expenses and other current assets	(8,635)	7,447	2,077
Accounts payable	32,536	26,478	(9,017)
Employee compensation and benefits	(10,309)	20,122	(3,677)
Accrued product claims and warranties	(6,318)	21,400	(5,461)
Income taxes	(11,850)	(4,458)	(5,543)
Other current liabilities	(19,401)	(43,289)	(11,326)
Pension and post-retirement benefits	3,148	4,213	2,020
Other assets and liabilities	(4,940)	(20,676)	9,997
Net cash provided by continuing operations	140,808	156,570	141,920
Net cash provided by (used for) discontinued operations	44,139	(12,274)	(21,048)
Net cash provided by operating activities	184,947	144,296	120,872
Investing activities			
Capital expenditures	(68,041)	(53,671)	(43,335)
Proceeds from sale of businesses	—	—	13,001
Acquisitions, net of cash acquired	—	(953,124)	(57,699)
Other	(32)	1,664	611
Net cash used for investing activities	(68,073)	(1,005,131)	(87,422)
Financing activities			
Net short-term borrowings (repayments)	(42,471)	150,612	—
Proceeds from long-term debt	6,967	351,297	72,967
Repayment of long-term debt	(76,987)	(59,814)	(64,805)
Proceeds from long-term bonds	—	250,000	—
Debt issuance costs	—	(2,430)	—
Proceeds from bridge loans	—	450,000	—
Repayment of bridge loans	—	(450,000)	—
Unearned ESOP compensation decrease	—	—	6,315
Stock options and restricted stock	3,100	4,454	1,715
Proceeds from issuance of common stock, net	774	214,480	—
Repurchases of common stock	(410)	(4,030)	(12,373)
Dividends paid	(32,038)	(28,201)	(27,330)
Net cash provided by (used for) financing activities	(141,065)	876,368	(23,511)
Effect of exchange rate changes on cash	(3,880)	18,344	(7,676)
Change in cash and cash equivalents	(28,071)	33,877	2,263
Cash and cash equivalents, beginning of period	63,015	29,138	26,875
Cash and cash equivalents, end of period	\$ 34,944	\$ 63,015	\$ 29,138
Supplemental disclosure of cash paid for:			
Interest	\$ 81,401	\$ 46,359	\$ 24,990
Income taxes	\$ 42,449	\$ 68,108	\$ 64,956

selected financial data

Pentair, Inc. and Subsidiaries

Years ended December 31

(In thousands, except per-share data)

	2000	1999	1998	1997	1996
Statement of operations					
Net sales:					
Tools	\$ 1,066,616	\$ 875,643	\$ 661,782	\$ 573,787	\$ 478,107
Water	903,672	582,927	441,030	306,047	218,344
Enclosures	777,725	657,500	586,829	600,491	566,919
Other	—	—	—	128,136	133,360
Total	2,748,013	2,116,070	1,689,641	1,608,461	1,396,730
Cost of goods sold	2,051,515	1,529,419	1,227,427	1,189,777	1,032,343
Other costs and expenses	469,679	361,877	297,972	272,578	240,982
Restructuring charge	24,789	23,048	—	—	—
Operating income:					
Tools	23,751	100,680	80,383	62,669	45,800
Water	120,732	73,362	56,264	32,366	30,562
Enclosures	96,268	46,346	46,026	47,282	53,856
Other	(38,721)	(18,662)	(18,431)	3,789	(6,813)
Total	202,030	201,726	164,242	146,106	123,405
Gain on sale of business	—	—	—	10,313	—
Net interest expense	74,899	43,582	19,855	19,729	16,849
Provision for income taxes	45,263	60,056	53,667	58,089	42,860
Income from continuing operations	81,868	98,088	90,720	78,601	63,696
Income (loss) from discontinued operations, net of tax	(24,759)	5,221	16,120	12,999	10,813
Cumulative effect of accounting change, net of tax	(1,222)	—	—	—	—
Net income	55,887	103,309	106,840	91,600	74,509
Preferred dividends	—	—	(4,267)	(4,867)	(4,928)
Income available to common shareholders	55,887	103,309	102,573	86,733	69,581
Balance sheet data					
Property and equipment, net	\$ 352,984	\$ 367,783	\$ 271,389	\$ 261,486	\$ 270,071
Total assets	2,644,025	2,706,516	1,484,207	1,413,494	1,236,694
Long-term debt	781,834	857,296	288,026	294,368	279,889
Total debt	913,974	1,035,084	340,721	328,538	312,817
Preferred equity	—	—	53,638	53,381	47,618
Common equity	1,010,591	990,771	653,990	574,272	513,133
Debt/invested capital	47.5%	51.1%	32.5%	34.4%	35.8%
Common share data					
Basic EPS — continuing operations	\$ 1.68	\$ 2.24	\$ 2.25	\$ 1.94	\$ 1.57
Basic EPS — discontinued operations	(0.51)	0.12	0.42	0.34	0.29
Basic EPS — cumulative effect of accounting change	(0.02)	—	—	—	—
Basic EPS — net income	1.15	2.36	2.67	2.28	1.86
Diluted EPS — continuing operations	1.68	2.21	2.09	1.81	1.47
Diluted EPS — discontinued operations	(0.51)	0.12	0.37	0.30	0.26
Diluted EPS — cumulative effect of accounting change	(0.02)	—	—	—	—
Diluted EPS — net income	1.15	2.33	2.46	2.11	1.73
Cash dividends declared per common share	0.66	0.64	0.60	0.54	0.50
Stock dividends declared per common share	—	—	—	—	100.0%
Book value per common share	20.75	20.51	16.99	15.04	13.60
Other data					
Depreciation and amortization	\$ 99,028	\$ 82,068	\$ 62,054	\$ 62,817	\$ 55,415
Capital expenditures	68,041	53,671	43,335	69,364	67,216
Employees of continuing operations	13,100	12,400	8,800	8,800	8,000

All financial information reflects our Equipment segment (Century/Lincoln and Lincoln Industrial businesses) as discontinued operations. We have restated all financial information for the adoption of a new accounting standard related to shipping and handling fees and costs. The 2000 results include a non-cash pre-tax cumulative effect of accounting change of \$1.9 million expense (\$1.2 million after tax, or \$0.02 per share). The 1997 results include a pre-tax gain on the sale of Federal Cartridge of \$10.3 million (\$1.2 million after tax, or \$0.03 per share).

board of *directors* and pentair *officers* and executives

Board of directors

Winslow H. Buxton (3, 4, 5), 61
Chairman of the Board of Pentair, Inc.

William J. Cadogan (3, 4), 52
*Retired Chairman and Chief Executive Officer
of ADC Telecommunications.*

Joseph R. Collins, 59
Retired Vice Chairman of Pentair, Inc.

Barbara B. Grogan (2, 4, 5), 53
*Chairman and President of
Western Industrial Contractors, Inc.*

Charles A. Haggerty (2, 3, 4, 5), 59
*Chief Executive Officer of
LeConte Associates, LLC.*

Quentin J. Hietpas (2, 4), 70
*Senior Vice President of External Affairs,
University of St. Thomas.*

Randall J. Hogan (3, 4, 5), 45
*President and Chief Executive Officer
of Pentair, Inc.*

Stuart Maitland (1, 2), 55
*Director of Manufacturing Operations for
Vehicle Operations, Ford Motor Company.*

Augusto Meozzi (1, 5), 61
*Chief Operating Officer
of the German Isola Group.*

William T. Monahan (2), 53
*Chairman of the Board and
Chief Executive Officer of Imation.*

Richard M. Schulze (1, 4), 60
*Founder, Chairman, and Chief Executive Officer
of Best Buy Company, Inc.*

Karen E. Welke (1, 5), 56
*Former Group Vice President
for Medical Markets, 3M Company.*

(1) Audit and Finance Committee, (2) Compensation/HR
Committee, (3) Executive Committee, (4) Nominating/
Governance, Public Policy and Share Rights Committee,
(5) European Policy Subcommittee.

Corporate officers

Winslow H. Buxton *Chairman of the Board*

Randall J. Hogan *President and
Chief Executive Officer*

David D. Harrison *Executive Vice President
and Chief Financial Officer*

Richard J. Cathcart *President and
Chief Operating Officer, Water Technologies Segment*

George M. Danko *President and
Chief Operating Officer, Enclosures Segment*

Frank J. Feraco *President and
Chief Operating Officer, Tools Segment*

Louis L. Ainsworth *Senior Vice President
and General Counsel*

Karen A. Durant *Vice President and Controller*

Deb S. Knutson *Vice President, Human Resources*

Roy T. Rueb *Vice President, Treasurer, and Secretary*

Business executives

John S. Abbott *Pentair Electronic Packaging*

Werner Brauer *Pentair Water Europe*

Michael L. Davis *Pentair Tools — Delta*

Jorge Fernandez *Pentair Water Treatment*

Frederick A. Leers *Pentair Water Asia*

Gautam Khanna *Pentair Water India*

Robert L. Kibbe *Pentair Tools — Porter-Cable*

Kenneth Lewandowski *Pentair Enclosures Europe*

Delton D. Nickel *Hoffman Enclosures*

Michael V. Schrock *Pentair Pump and Pool*

H. Eugene Swacker *DeVilbiss Air Power Company*

board of *directors*



**seated, left to right: Augusto Meozzi and Karen E. Welke
standing, left to right: Quentin J. Hietpas, William J. Cadogan,
Randall J. Hogan, Winslow H. Buxton, Barbara B. Grogan,
Joseph R. Collins, Charles A. Haggerty, Stuart Maitland,
and Richard M. Schulze. (William T. Monahan not pictured.)**

Common stock data Pentair common stock is listed on the New York Stock Exchange under the symbol PNR. The price information below represents closing sale prices reported in the Dow Jones Historical Stock Quote Reporter Service for the calendar year 2000. There were 4,271 shareholder accounts on December 31, 2000.

Price range and dividends of common stock

2000	High	Low	Dividend	Last	1999	High	Low	Dividend	Last
1Q	39 ⁷ / ₆	31 ¹ / ₆	0.16	37 ¹ / ₆	1Q	41 ¹ / ₆	31 ⁵ / ₆	0.16	31 ⁵ / ₆
2Q	44	35 ⁵ / ₆	0.16	35 ¹ / ₂	2Q	48 ⁷ / ₆	30 ¹ / ₆	0.16	45 ⁵ / ₆
3Q	36 ³ / ₆	23 ¹ / ₆	0.17	26 ³ / ₄	3Q	47 ¹ / ₆	40 ¹ / ₆	0.16	41 ⁷ / ₆
4Q	30 ¹ / ₂	21	0.17	24 ³ / ₆	4Q	41 ¹ / ₆	32 ⁷ / ₆	0.16	38 ¹ / ₂

Common dividends Dividends are \$0.17 per share quarterly for an indicated annual rate of \$0.68 per share. Pentair has now paid 100 consecutive quarterly dividends.

Dividend reinvestment Pentair has established a Dividend Reinvestment Plan. This plan enables shareholders to automatically reinvest Pentair dividends and to invest up to an additional \$3,000 per calendar quarter in Pentair common stock, with any costs of purchasing the shares paid by the Company. The plan brochure and enrollment cards are available from the Company or Wells Fargo Bank Minnesota, N.A.

Direct book entry registration Pentair offers its shareholders the opportunity to participate in the Company's Direct Book Entry Registration service. Direct Book Entry is an uncertificated form of stock ownership that provides protection against loss, theft, and inadvertent destruction of stock certificate(s), while reducing administrative costs. Plan brochures and enrollment forms are available from the Company or Wells Fargo Bank Minnesota, N.A.

Annual meeting The annual meeting of shareholders will be held in the Auditorium at the Lutheran Brotherhood Building, 625 Fourth Avenue, Minneapolis, Minnesota, at 10:00 a.m. on April 25, 2001. Management and directors encourage all shareholders to attend the annual meeting.

Form 10-K available A copy of the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be provided on request. Written requests should be directed to Pentair Investor Relations.

Takeover defense Pentair is committed to protecting its stakeholders from harm by corporate raiders and unfriendly takeover actions. Information on our position may be obtained by writing to the Pentair, Inc. corporate secretary at the corporate office.

Forward-looking statements This summary annual report contains forward-looking statements that are based on current expectations, estimates, and projections. These statements are not guarantees of future performance and involve risks and uncertainties, which are difficult to predict. For a discussion of these risks and uncertainties, please refer to Forms 10-Q and 10-K, which Pentair files with the Securities and Exchange Commission.

Trademarks, copyrights, and trade names Certain trademarks, copyrights, and trade names are owned or licensed by Pentair, Inc. or its wholly owned subsidiaries. Other trademarks, copyrights, and trade names may also appear in this report. It is not Pentair's intent to imply that these are its own.

Registrar and transfer agent Wells Fargo Bank Minnesota, N.A., St. Paul, MN 55164

Certified public accountants Deloitte & Touche LLP, Minneapolis, MN 55402

code of business conduct

Pentair, Inc. chooses to be an independent, publicly owned company, and this statement is to guide the development of its organization and the conduct of its business affairs. Our businesses are to be managed in keeping with the highest business, ethical, moral and patriotic standards applicable to a publicly owned corporation. Our businesses are to be operated so that we are respected for our actions by shareholders, employees, plant communities, customers, suppliers, investors and all other stakeholders. Our approach to business is intended to make Pentair, Inc. a top-performing company managed and operated to provide long-term benefits to all constituents.

operating guidelines

- ▶ **Balanced consideration will be given to the interests of shareholders and employees in managing the corporation.**
- ▶ **The corporation staff will be kept to minimum size, and subsidiary operations will be as autonomous as practicable.**
- ▶ **A strong work ethic is expected of all constituents. Good performance will be freely recognized. Poor performance will not be condoned.**
- ▶ **We will strive to: operate with the highest regard for the environment; eliminate environmental risks from the workplace; and minimize emissions and waste.**
- ▶ **The dignity and self-worth of all persons involved with the Company will be respected.**
- ▶ **Safety in the workplace and in work practices shall be maximized.**
- ▶ **We will encourage, aid and promote the physical and mental health and wellness of employees and their families.**
- ▶ **Qualified employees will be given priority for internal employment opportunities.**
- ▶ **Standards of ethics, integrity and work practices shall apply equally to all employees.**
- ▶ **We will honor agreements, meet obligations timely, maintain the spirit and intent of our commitments, and value good relationships.**
- ▶ **Hiring emphasis will recognize ability, compatibility and integrity, and will not discriminate on the basis of sex, religion, race or age.**
- ▶ **We will promote open and candid communications with emphasis on informality and on conversational exchanges.**

Pentair
Waters Edge Plaza
1500 County Road B2 West
St. Paul, Minnesota 55113
651.636.7920 tel
www.pentair.com



Pentair