

FLOWSERVE CORP  
Form 10-K  
February 18, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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

Commission file number 1-13179

FLOWSERVE CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

31-0267900

(I.R.S. Employer Identification No.)

5215 N. O'Connor Boulevard

Suite 2300, Irving, Texas

(Address of principal executive offices)

Registrant's telephone number, including area code:

(972) 443-6500

75039

(Zip Code)

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

Title of Each Class

Common Stock, \$1.25 Par Value

Name of Each Exchange on Which Registered

New York Stock Exchange

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

None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company. Yes  No

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price of the registrant's common stock as reported on June 30, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately \$5,197,000,000. For purposes of the foregoing calculation only, all directors, executive officers and known 5% beneficial owners have been deemed affiliates.

Number of the registrant's common shares outstanding as of February 10, 2016 was 130,069,598.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the definitive proxy statement for the registrant's 2016 Annual Meeting of Shareholders scheduled to be held on May 19, 2016 is incorporated by reference into Part III hereof.

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FLOWSERVE CORPORATION  
FORM 10-K

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## PART I

## ITEM 1. BUSINESS

## OVERVIEW

Flowserve Corporation is a world leading manufacturer and aftermarket service provider of comprehensive flow control systems. Under the name of a predecessor entity, we were incorporated in the State of New York on May 1, 1912. Flowserve Corporation as it exists today was created in 1997 through the merger of two leading fluid motion and control companies — BW/IP and Durco International. Over the years, we have evolved through organic growth and strategic acquisitions, and our 220-year history of Flowserve heritage brands serves as the foundation for the breadth and depth of our products and services today. Unless the context otherwise indicates, references to "Flowserve," "the Company" and such words as "we," "our" and "us" include Flowserve Corporation and its subsidiaries.

We develop and manufacture precision-engineered flow control equipment integral to the movement, control and protection of the flow of materials in our customers' critical processes. Our product portfolio of pumps, valves, seals, automation and aftermarket services supports global infrastructure industries, including oil and gas, chemical, power generation (including nuclear, fossil and renewable) and water management, as well as certain general industrial markets where our products and services add value. Through our manufacturing platform and global network of Quick Response Centers ("QRCs"), we offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting.

We sell our products and services to more than 10,000 companies, including some of the world's leading engineering, procurement and construction firms ("EPC"), original equipment manufacturers, distributors and end users. Our products and services are used in several distinct industries having a broad geographic reach. Our bookings mix by industry in 2015 and 2014 consisted of:

|                         | 2015 | 2014 |   |
|-------------------------|------|------|---|
| • oil and gas           | 36   | % 43 | % |
| • general industries(1) | 24   | % 22 | % |
| • chemical              | 22   | % 20 | % |
| • power generation      | 14   | % 12 | % |
| • water management      | 4    | % 3  | % |

General industries includes mining and ore processing, pharmaceuticals, pulp and paper, food and beverage and (1) other smaller applications, as well as sales to distributors whose end customers typically operate in the industries we primarily serve.

The breakdown of the geographic regions to which our sales were shipped in 2015 and 2014 were as follows:

|                          | 2015 | 2014 |   |
|--------------------------|------|------|---|
| • North America          | 39   | % 36 | % |
| • Europe                 | 22   | % 19 | % |
| • Asia Pacific           | 18   | % 21 | % |
| • Middle East and Africa | 12   | % 13 | % |
| • Latin America          | 9    | % 11 | % |

We have pursued a strategy of industry diversity and geographic breadth to mitigate the impact on our business of normal economic downturns in any one of the industries or in any particular part of the world we serve. For events that may occur and adversely impact our business, financial condition, results of operations and cash flows, refer to "Item 1A. Risk Factors" of this Annual Report on Form 10-K for the year ended December 31, 2015 ("Annual Report"). For information on our sales and long-lived assets by geographic areas, see Note 16 to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" ("Item 8") of this Annual Report.

We conduct our operations through three business segments based on type of product and how we manage the business:

• Engineered Product Division ("EPD") for long lead time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services;

• Industrial Product Division ("IPD") for pre-configured engineered pumps and pump systems and related products and services; and



Flow Control Division ("FCD") for engineered and industrial valves, control valves, actuators and controls and related services.

Our business segments share a focus on industrial flow control technology and benefit from our global footprint and our economies of scale in reducing administrative and overhead costs to serve customers more cost effectively. EPD and IPD have a high number of common customers and complementary product offerings and technologies that are often combined in applications that provide us a net competitive advantage. All segments share certain resources and functions, including elements of research and development ("R&D"), supply chain, safety, quality assurance and administrative functions that provide efficiencies and an overall lower cost structure.

Our operations leadership reports to our Chief Operating Officer, and the segments share leadership for operational support functions such as R&D, marketing and supply chain. We believe this leadership structure positions the Company to leverage operational excellence, cost reduction initiatives and internal synergies across our entire operating platform to drive further growth and increase shareholders' value.

#### Strategies

Our overarching objective is to grow our position as a product and integrated solutions provider in the flow control industry. This objective includes continuing to sell products by building on existing sales relationships and leveraging the power of our portfolio of products and services. It also includes delivering specific end-user solutions that help customers attain their business goals by ensuring maximum reliability at a decreased cost of ownership. This objective is pursued by cultivating a corporate culture based on workplace safety for our employees, ethical and transparent business practices and a dedicated focus on serving our customers. These three pillars support a collaborative, 'One Flowserve' approach that leverages a diverse and inclusive work environment worldwide. We seek to drive increasing enterprise value by using the following strategies: disciplined profitable growth, customer intimacy, innovation and portfolio management, strategic localization, operational excellence, employee focus and sustainable business model. The key elements of these strategies are outlined below.

#### Disciplined Profitable Growth

Disciplined profitable growth is focused on growing revenues profitably from our existing portfolio of products and services, as well as through the development or acquisition of new customer-driven products and services. Its overarching goals are to focus on opportunities that can maximize the organic growth from existing customers and to evaluate potential new customer-partnering initiatives that maximize the capture of products' total life cycle. We believe we are the largest major pump, valve and seal company that can offer customers a differentiated option of flow management products and services across a broad portfolio, as well as offer additional options that include any combination of products and solution support packages.

We also seek to continue to review our substantial installed pump, valve and seal base as a means to expand the aftermarket parts and services business, as customers are increasingly using third-party aftermarket parts and service providers to reduce their fixed costs and improve profitability. To date, the aftermarket business has provided us with a steady source of revenues and cash flows at higher margins than are typically realized with original equipment sales. Aftermarket sales represented approximately 43% and 42% of total sales in 2015 and 2014, respectively. We are building on our established presence through an extensive global QRC network to provide the immediate parts, service and technical support required to effectively manage and expand the aftermarket business created from our installed base.

#### Customer Relationship

Through our ongoing relationships with our customers, we seek to gain a rich understanding of their business objectives and how our portfolio of offerings can best help them succeed. We collaborate with our customers on the front-end engineering and design work to drive flow management solutions that effectively generate the desired business outcomes. As we progress through original equipment projects, we work closely with our customers to understand and prepare for the long-term support needs for their operations with the intent of maximizing total life cycle value for our customers' investments.

We seek to capture additional aftermarket business by creating mutually beneficial opportunities for us and our customers through sourcing and maintenance alliance programs where we provide all or an agreed-upon portion of customers' parts and servicing needs. These alliances enable us to develop long-term relationships with our customers and serve as an effective platform for introducing new products and services and generating additional sales.



### Innovation and Portfolio Management

The ongoing management of our portfolio of products and services is critical to our success. As part of managing our portfolio, we continue to rationalize our portfolio of products and services to ensure alignment with changing market requirements. We also continue to invest in R&D to expand the scope of our product offerings and our deployment of advanced technologies. The infusion of advanced technologies into new products and services continues to play a critical role in the ongoing evolution of our product portfolio. Our objective is to improve the percentage of revenue derived from new products as a function of overall sales, utilizing technological innovation to improve overall product life cycle and reduce total cost of ownership for our customers.

We employ a robust portfolio management and project execution process to seek out new product and technology opportunities, evaluate their potential return on investment and allocate resources to their development on a prioritized basis. Each project is reviewed on a routine basis for such performance measures as time to market, net present value, budget adherence, technical and commercial risk and compliance with customer requirements. Technical skill sets and knowledge are deployed across business segment boundaries to ensure that we bring the best capabilities to bear for each project. Collectively, our R&D portfolio is a key to our ability to differentiate our product and service offerings from other competitors in our target markets.

We are focused on exploring and commercializing new technologies. In many of our research areas, we are teaming with universities and experts in the appropriate scientific fields to accelerate the required learning and to shorten the development time in leveraging the value of applied technologies in our products and services. Our intent is to be a market leader in the application of advanced technology to improve product performance and return on investment for our customers.

Predictive diagnostics and asset management continue to be one of the key areas of effort for us across our business segments. Building on the strength of our ValveSight, Technology Advantage solutions and integration with host control systems, we have continued to deploy more diagnostics capabilities into our devices and expand on the equipment that can be monitored continuously. These capabilities continue to provide a key source of competitive advantage in the marketplace and are saving our customers time and money in keeping their operations running. We continually evaluate acquisitions, joint ventures and other strategic investment opportunities to broaden our product portfolio, service capabilities, geographic presence and operational capabilities to meet the growing needs of our customers. We evaluate all investment opportunities through a decision filtering process to ensure a good strategic, financial and cultural fit.

### Strategic Localization

Strategic localization continues to drive our global growth strategy. While we are a global company, we recognize that opportunities still remain. Therefore, we strive to advance our presence in geographies that we believe are critical to our future success as a company by focusing on the following areas:

- expanding our global presence to capture business in developing geographic market areas;
- expanding our low cost manufacturing capabilities in South East Asia and Latin America for local markets and exports;
- utilizing low-cost sourcing opportunities to remain competitive in the global economy; and
- attracting and retaining the global intellectual capital required to support our growth plans in new geographical areas.

We believe there are attractive opportunities in international markets, particularly in Africa, China, India, Latin America and the Middle East, and we intend to continue to utilize our global presence and strategically invest to further penetrate these markets. In the aftermarket services business, we seek to strategically add QRC sites in order to provide rapid response, fast delivery and field repair on a global scale for our customers.

We believe that our future success will be supported by investments made to establish indigenous operations to effectively serve the local market while taking advantage of low-cost manufacturing, competent engineering and strategic sourcing to support both local markets and export. We believe that this positions us well to support our global customers from project conception through commissioning and throughout the life of their operations. For example, we are currently expanding our pump and valve operations in China, valve operations in India and pump operations in Mexico.





We continue to develop and increase our manufacturing, engineering and sourcing functions in lower-cost regions and emerging markets such as India, China, Mexico, Latin America, the Middle East and Eastern Europe as we drive higher value-add from our supply base of materials and components and satisfy local content requirements. In 2015, these lower-cost regions supplied our business segments with direct materials ranging from 22% to 42% of business segment spending.

#### Operational Excellence

The operational excellence strategy encapsulates ongoing programs that work to drive increased customer fulfillment and yield internal productivity. This initiative includes:

- driving improved customer fulfillment through metrics such as on-time delivery, cost reduction, quality, cycle time reduction and warranty cost reduction as a percentage of sales;
- continuing to develop a culture of continuous improvement that delivers maximum productivity and cost efficiencies; and
- implementing global functional competencies to drive standardized processes.

We seek to increase our operational efficiency through our Continuous Improvement Process ("CIP") initiative, which utilizes tools such as value analysis, value engineering, six sigma methodology, lean manufacturing and capacity management to improve quality and processes, reduce product cycle times and lower costs. Recognizing that employees are our most valuable resource in achieving operational excellence goals, we have instituted CIP training tailored to maximize the impact on our business. At this date, we have approximately 2,100 active employees that are CIP-trained or certified as "Green Belts," "Black Belts" or "Master Black Belts," and are deployed on CIP projects throughout our operations and supporting functions of the business. As a result of the CIP initiative, we have developed and implemented processes at various sites to reduce our engineering and manufacturing process cycle time, improve on-time delivery and service response time, optimize working capital levels and reduce costs. We have also experienced success in sharing and applying best practices achieved in one business segment and deploying those ideas to other segments of the business.

We continue to rationalize existing Enterprise Resource Planning ("ERP") systems onto six strategic ERP systems. Going forward, these six strategic ERP systems will be maintained as core systems with standard tool sets, and will be enhanced as needed to meet the growing needs of the business in areas such as e-commerce, back office optimization and export compliance. Further investment in non-strategic ERP systems will be limited to compliance matters and conversion to strategic ERP systems.

We also seek to improve our working capital utilization, with a particular focus on management of accounts receivable and inventory. See further discussion in the "Liquidity and Capital Resources" section of "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" ("Item 7") of this Annual Report.

#### Employee Focus

We focus on several elements in our strategic efforts to continuously enhance our organizational capability, including:

- institutionalizing our succession planning along with our core competencies and performance management capabilities, with a focus on key positions and critical talent pools;
- utilizing these capabilities to drive employee engagement through our training initiatives and leadership development programs and facilitate our cross-business segment and functional development assignments;
- developing talent acquisition programs such as our engineering recruitment program to address current and future critical talent needs to support our emerging markets and global growth;
- capturing the intellectual capital in the current workforce, disseminating it throughout our company and sharing it with customers as a competitive advantage;
- creating a total compensation program that provides our associates with equitable opportunities that are competitive and linked to business and individual performance while promoting employee behavior consistent with our code of business conduct and risk tolerance; and
- building a diverse and globally inclusive organization with a strong ethical and compliance culture based on transparency and trust.



We continue to focus on training through the distribution of electronic learning packages in multiple languages for our Code of Business Conduct, workplace harassment, facility safety, anti-bribery, export compliance and other regulatory and compliance programs. We also drive our training and leadership development programs through the deployment of general management development, manager competencies and a series of multi-lingual programs that focus on enhancing people management skills.

#### Sustainable Business Model

The sustainable business model initiative is focused on areas that have the potential of adversely affecting our reputation, limiting our financial flexibility or creating unnecessary risk for any of our stakeholders. We proactively administer an enterprise risk management program with regular reviews of high-level matters with our Board of Directors. We work with our capital sourcing partners to ensure that the terms of our credit facilities and long-term debt are appropriately aligned with our business strategy. We also train our associates on and monitor matters of a legal or ethical nature to support understanding and compliance on a global basis.

#### Competition

Despite consolidation activities in past years, the markets for our products remain highly competitive, with primary competitive drivers being price, reputation, project management, timeliness of delivery, quality, proximity to service centers and technical expertise, as well as contractual terms and previous installation history. In the pursuit of large capital projects, competitive drivers and competition vary depending on the industry and products involved. Industries experiencing slow growth generally tend to have a competitive environment more heavily influenced by price due to supply outweighing demand, and price competition tends to be more significant for original equipment orders than aftermarket services. Considering the domestic and global economic environments in 2015 and current forecasts for 2016, pricing was and may continue to be a particularly influential competitive factor. The unique competitive environments in each of our three business segments are discussed in more detail under the "Business Segments" heading below.

In the aftermarket portion of our business, we compete against large, well-established national and global competitors and, in some markets, against regional and local companies. In the oil and gas and chemical industries, the primary competitors for aftermarket services tend to be customers' own in-house capabilities. In the nuclear power generation industry, we possess certain competitive advantages due to our "N Stamp" certification, which is a prerequisite to serve customers in that industry, and our considerable base of proprietary knowledge. Aftermarket competition for standardized products is aggressive due to the existence of common standards allowing for easier replacement or repair of the installed products.

In the sale of aftermarket products and services, we benefit from our large installed base of pumps, valves and seals, which continually require maintenance, repair and replacement parts due to the nature of the products and the conditions under which they operate. Timeliness of delivery, quality and the proximity of service centers are important customer considerations when selecting a provider for aftermarket products and services. In geographic regions where we are locally positioned to provide a quick response, customers have traditionally relied on us, rather than our competitors, for aftermarket products relating to our highly-engineered and customized products, although we are seeing increased competition in this area.

Generally, our customers attempt to reduce the number of vendors from which they purchase, thereby reducing the size and diversity of their supply chain. Although vendor reduction programs could adversely affect our business, we have been successful in establishing long-term supply agreements with a number of customers. While the majority of these agreements do not provide us with exclusive rights, they can provide us a "preferred" status with our customers and thereby increase opportunities to win future business. We also utilize our LifeCycle Advantage program to establish fee-based contracts to manage customers' aftermarket requirements. These programs provide an opportunity to manage the customer's installed base and expand the business relationship with the customer.

Our ability to use our portfolio of products, solutions and services to meet customer needs is a competitive strength. Our market approach is to create value for our customers throughout the life cycle of their investments in flow control management. We continue to explore and develop potential new offerings in conjunction with our customers. In the early phases of project design, we endeavor to create value in optimizing the selection of equipment for the customer's specific application, as we are capable of providing technical expertise on product and system capabilities even outside the scope of our specific products, solutions and services. After the equipment is constructed and delivered to

the customer's site, we continue to create value through our aftermarket capabilities by optimizing the performance of the equipment over its operational life. Our skilled service personnel can provide these aftermarket services for our products, as well as many competitors' products, within the installed base. This value is further enhanced by the global reach of our QRCs and, when combined with our other solutions for our customers' flow control management needs, allows us to create value for our customers during all phases of the capital expenditure cycle.

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#### New Product Development

We spent \$45.9 million, \$40.9 million and \$37.8 million during 2015, 2014 and 2013, respectively, on company-sponsored R&D initiatives. Our R&D group consists of engineers involved in new product development and improvement of existing products. Additionally, we sponsor consortium programs for research with various universities and jointly conduct limited development work with certain vendors, licensees and customers. We believe our R&D expenditures are adequate to sustain our ongoing and necessary future product development. In addition, we work closely with our customers on customer-sponsored research activities to help execute their R&D initiatives in connection with our products and services. New product development in each of our three business segments is discussed in more detail under the "Business Segments" heading below.

#### Customers

We sell to a wide variety of customers globally including leading EPC firms, original equipment manufacturers, distributors and end users in several distinct industries: oil and gas, chemical, power generation, water management and general industries. We do not believe that we have sales to any individual customer that represent 10% or more of consolidated 2015 revenues. Customer information relating to each of our three business segments is discussed in more detail under the "Business Segments" heading below.

We are not normally required to carry unusually high amounts of inventory to meet customer delivery requirements, although higher backlog levels and longer lead times generally require higher amounts of inventory. We typically require advance cash payments from customers on longer lead time projects to help offset our investment in inventory. We have initiated programs targeted at improving our operational effectiveness to reduce our overall working capital needs. While we do provide cancellation policies through our contractual relationships, we generally do not provide rights of product return for our customers.

#### Selling and Distribution

We primarily distribute our products through direct sales by employees assigned to specific regions, industries or products. In addition, we use distributors and sales representatives to supplement our direct sales force in countries where it is more appropriate due to business practices or customs, or whenever the use of direct sales staff is not economically efficient. We generate a majority of our sales leads through existing relationships with vendors, customers and prospects or through referrals.

#### Intellectual Property

We own a number of trademarks and patents relating to the names and designs of our products. We consider our trademarks and patents to be valuable assets of our business. In addition, our pool of proprietary information, consisting of know-how and trade secrets related to the design, manufacture and operation of our products, is considered particularly valuable. Accordingly, we take proactive measures to protect such proprietary information. We generally own the rights to the products that we manufacture and sell and are unencumbered by licensing or franchise agreements. Our trademarks can typically be renewed indefinitely as long as they remain in use, whereas our existing patents generally expire 10 to 20 years from the dates they were filed, which has occurred at various times in the past. We do not believe that the expiration of any individual patent will have a material adverse impact on our business, financial condition or results of operations.

#### Raw Materials

The principal raw materials used in manufacturing our products are readily available and include ferrous and non-ferrous metals in the form of bar stock, machined castings, fasteners, forgings and motors, as well as silicon, carbon faces, gaskets and fluoropolymer components. A substantial volume of our raw materials is purchased from outside sources, and we have been able to develop a robust supply chain and anticipate no significant shortages of such materials in the future. We continually monitor the business conditions of our suppliers to manage competitive market conditions and to avoid potential supply disruptions. We continue to expand global sourcing to capitalize on localization in emerging markets and low-cost sources of purchased goods balanced with efficient consolidated and compliant logistics.

We are a vertically-integrated manufacturer of certain pump and valve products. Certain corrosion-resistant castings for our pumps and valves are manufactured at our foundries. Other metal castings are either manufactured at our foundries or purchased from qualified and approved foundry sources.



Concerning the products we supply to customers in the nuclear power generation industry, suppliers of raw materials for nuclear power generation markets must be qualified to meet the requirements of nuclear industry standards and governmental regulations. Supply channels for these materials are currently adequate, and we do not anticipate difficulty in obtaining such materials in the future.

#### Employees and Labor Relations

We have approximately 19,000 employees globally as of December 31, 2015. In the United States ("U.S."), a portion of the hourly employees at our pump manufacturing plant located in Vernon, California, our pump service center located in Cleveland, Ohio, our valve manufacturing plant located in Lynchburg, Virginia and our foundry located in Dayton, Ohio, are represented by unions. Additionally, some employees at select facilities in the following countries are unionized or have employee works councils: Argentina, Australia, Austria, Brazil, Canada, Finland, France, Germany, Italy, Japan, Mexico, The Netherlands, Spain, South Africa, Sweden and the United Kingdom (U.K.). We believe relations with our employees throughout our operations are generally satisfactory, including those employees represented by unions and employee works councils. No unionized facility accounted for more than 10% of our consolidated 2015 revenues.

#### Environmental Regulations and Proceedings

We are subject to environmental laws and regulations in all jurisdictions in which we have operating facilities. These requirements primarily relate to the generation and disposal of waste, air emissions and waste water discharges. We periodically make capital expenditures to enhance our compliance with environmental requirements, as well as to abate and control pollution. At present, we have no plans for any material capital expenditures for environmental control equipment at any of our facilities. However, we have incurred and continue to incur operating costs relating to ongoing environmental compliance matters. Based on existing and proposed environmental requirements and our anticipated production schedule, we believe that future environmental compliance expenditures will not have a material adverse effect on our financial condition, results of operations or cash flows.

We use hazardous substances and generate hazardous wastes in many of our manufacturing and foundry operations. Most of our current and former properties are or have been used for industrial purposes and some may require clean-up of historical contamination. During the due diligence phase of our acquisitions, we conduct environmental site assessments to identify potential environmental liabilities and required clean-up measures. We are currently conducting follow-up investigation and/or remediation activities at those locations where we have known environmental concerns. We have cleaned up a majority of the sites with known historical contamination and are addressing the remaining identified issues.

Over the years, we have been involved as one of many potentially responsible parties ("PRP") at former public waste disposal sites that are or were subject to investigation and remediation. We are currently involved as a PRP at five Superfund sites. The sites are in various stages of evaluation by government authorities. Our total projected "fair share" cost allocation at these five sites is expected to be immaterial. See "Item 3. Legal Proceedings" included in this Annual Report for more information.

We have established reserves that we currently believe to be adequate to cover our currently identified on-site and off-site environmental liabilities.

#### Exports

Our export sales from the U.S. to foreign unaffiliated customers were \$295.6 million in 2015, \$338.5 million in 2014 and \$355.7 million in 2013.

Licenses are required from U.S. and other government agencies to export certain products. In particular, products with nuclear power generation and/or military applications are restricted, as are certain other pump, valve and seal products.

#### BUSINESS SEGMENTS

In addition to the business segment information presented below, Note 16 to our consolidated financial statements in Item 8 of this Annual Report contains additional financial information about our business segments and geographic areas in which we have conducted business in 2015, 2014 and 2013.

#### ENGINEERED PRODUCT DIVISION





Our largest business segment is EPD, through which we design, manufacture, distribute and service custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems, replacement parts and related equipment. The business consists of long lead time, highly-engineered, custom-configured products, which require extensive test requirements and superior project management skills, as well as aftermarket services supporting global infrastructure industries. EPD products and services are primarily used by companies that operate in the oil and gas, power generation, chemical, water management and general industries. We market our pump and mechanical seal products through our global sales force and our regional QRCs and service and repair centers or through independent distributors and sales representatives. A portion of our mechanical seal products are sold directly to original equipment manufacturers for incorporation into rotating equipment requiring mechanical seals.

Our pump products are manufactured in a wide range of metal alloys and with a variety of configurations to meet the critical operating demands of our customers. Mechanical seals are critical to the reliable operation of rotating equipment in that they prevent leakage and emissions of hazardous substances from the rotating equipment and reduce shaft wear on the equipment caused by the use of non-mechanical seals. We also manufacture a gas-lubricated mechanical seal that is used in high-speed compressors for gas pipelines and in the oil and gas production and process markets. Our products are currently manufactured at 33 plants worldwide, 10 of which are located in Europe, 11 in North America, seven in Asia Pacific and five in Latin America.

We also conduct business through strategic foreign joint ventures. We have six unconsolidated joint ventures that are located in China, India, Japan, Saudi Arabia, South Korea and the United Arab Emirates, where a portion of our products are manufactured, assembled or serviced in these territories. These relationships provide numerous strategic opportunities, including increased access to our current and new markets, access to additional manufacturing capacity and expansion of our operational platform to support low-cost sourcing initiatives and capacity demands for other markets.

#### EPD Products

We manufacture more than 40 different active types of pumps and approximately 185 different models of mechanical seals and sealing systems. The following is a summary list of our EPD products and globally recognized brands:

#### EPD Product Types

##### Between Bearings Pumps

- Single Case — Axially Split
- Single Case — Radially Split
- Double Case

##### Positive Displacement Pumps

- Multiphase
- Reciprocating
- Screw

##### Specialty Products

- Nuclear Pumps
- Nuclear Seals
- Cryogenic Pumps
- Cryogenic Liquid Expander
- Hydraulic Decoking Systems
- API Slurry Pumps

##### Overhung Pumps

- API Process

##### Mechanical Seals and Seal Support Systems

- Gas Barrier Seals
- Dry-Running Seals

- Power Recovery — DWEER
- Power Recovery — Hydroturbine
- Energy Recovery Devices
- CVP Concrete Volute Pumps
- Wireless Transmitters

#### EPD Brand Names

- BW Seals
- Byron Jackson
- Calder Energy Recovery Devices
- Cameron
- Durametallic
- FEDD Wireless
- Five Star Seal
- Flowserve
- GASPAC™
- IDP
- Interseal
- Lawrence
- LifeCycle Advantage
- Niigata Worthington
- QRC™
- Pacific
- Pacific Weitz
- Pac-Seal
- ReadySeal
- United Centrifugal
- Western Land Roller
- Wilson-Snyder
- Worthington
- Worthington-Simpson

#### EPD Services

We provide engineered aftermarket services through our global network of 129 QRCs, some of which are co-located in manufacturing facilities, in 47 countries. Our EPD service personnel provide a comprehensive set of equipment services for flow management control systems, including installation, commissioning, repair, advanced diagnostics, re-rate and retrofit programs, machining and comprehensive asset management solutions. We provide asset management services and condition monitoring for rotating equipment through special contracts with many of our customers that reduce maintenance costs. A large portion of EPD's service work is performed on a quick response basis, and we offer 24-hour service in all of our major markets.

#### EPD New Product Development

Our investments in new product R&D continue to focus on increasing the capability of our products as customer applications become more advanced, demanding greater levels of production (i.e., flow, power and pressure) and under more extreme conditions beyond the level of traditional technology. We continue to develop innovations that improve product performance and our competitive position in the engineered equipment industry, specifically targeting pipeline, offshore and downstream applications for the oil and gas market. The emergence of extreme pressure applications prompted the development of an advanced stage design and construction of high pressure test capability necessary to validate the technology prior to introduction into the market.

As new sources of energy generation are explored, we have been developing new product designs to support the most critical applications in the power generation market. New designs and qualification test programs continue to support the critical services found in the modern nuclear power generation plant. In addition to nuclear pump product development, we have focused development efforts on an advanced seal design required to accommodate upset conditions recently identified by the nuclear industry. Continued engagement with our end users is exemplified through completion of advancements in coke cutting technology, nozzle design and auxiliary equipment improvements, as well as creation of an automated cutting system to improve operator safety.

We continue to address our core products with design enhancements to improve performance and the speed at which we can deliver our products. Application of advanced computational fluid dynamics methods utilizing unsteady flow analysis led to the development of an advanced inlet chamber and impeller vane design for high energy injection water pumps. Our engineering teams continue to apply and develop sophisticated design technology and methods supporting continuous improvement of our proven technology. Additionally, we are incentivizing our operations and tracking the R&D projects more closely, which is leading to broader engagement in developing new products.

In 2015, EPD continued to advance our Technology Advantage platform through the Integrated Solutions Organization ("ISO"). This platform utilizes a combination of our developed technologies and leading edge technology partners to increase our asset management and service capabilities for our end-user customers. These technologies include intelligent devices, advanced communication and security protocols, wireless and satellite communications and web-enabled data convergence. Additionally, we have been exploring the "additive manufacturing" opportunities in our products and auxiliary systems.



None of these newly developed products or services required the investment of a material amount of our assets or was otherwise material.

#### EPD Customers

Our customer mix is diversified and includes leading EPC firms, original equipment manufacturers, distributors and end users. Our sales mix of original equipment products and aftermarket products and services diversifies our business and helps mitigate the impact of normal economic cycles on our business. Our sales are diversified among several industries, including oil and gas, power generation, chemical, water management and general industries.

#### EPD Competition

The pump and mechanical seal industry is highly fragmented, with hundreds of competitors. We compete, however, primarily with a limited number of large companies operating on a global scale. Competition among our closest competitors is generally driven by delivery times, expertise, price, breadth of product offerings, contractual terms, previous installation history and reputation for quality. Some of our largest industry competitors include: Sulzer Pumps; Ebara Corp.; SPX FLOW, Inc.; Eagle Burgmann, which is a joint venture of two traditional global seal manufacturers, A. W. Chesterton Co. and AES Corp.; John Crane Inc., a unit of Smiths Group Plc; and Weir Group Plc.

The pump and mechanical seal industry continues to undergo considerable consolidation, which is primarily driven by (i) the need to lower costs through reduction of excess capacity and (ii) customers' preference to align with global full service suppliers to simplify their supplier base. Despite the consolidation activity, the market remains highly competitive.

We believe that our strongest sources of competitive advantage rest with our extensive range of pumps for the oil and gas, chemical and power generation industries, our large installed base of products, our strong customer relationships, our more than 200 years of legacy experience in manufacturing and servicing pumping equipment, our reputation for providing quality engineering solutions and our ability to deliver engineered new seal product orders within 72 hours from the customer's request.

#### EPD Backlog

EPD's backlog of orders as of December 31, 2015 was \$1,157.3 million (including \$10.5 million of interdivision backlog, which is eliminated and not included in consolidated backlog), compared with \$1,573.3 million (including \$16.3 million of interdivision backlog) as of December 31, 2014. We expect to ship approximately 92% of December 31, 2015 backlog during 2016.

#### INDUSTRIAL PRODUCT DIVISION

Through IPD we design, manufacture, distribute and service pre-configured engineered pumps and pump systems, including submersible motors, for industrial markets. Our globalized operating platform, low-cost sourcing and continuous improvement initiatives are essential aspects of this business. IPD's standardized, general purpose pump products are primarily utilized by the oil and gas, chemical, water management, power generation and general industries. Our products are currently manufactured in 22 manufacturing facilities, five of which are located in the U.S. and 12 in Europe. IPD operates 34 QRCs worldwide, including 21 sites in Europe, six in the U.S., four in Asia Pacific and three in Latin America.

#### IPD Products

We manufacture approximately 40 different active types of pumps available in a wide range of metal alloys and non-metallics with a variety of configurations to meet the critical operating demands of our customers. The following is a summary list of our IPD products and globally recognized brands:

#### IPD Pump Product Types

##### Overhung

- Chemical Process ASME and ISO
- Industrial Process
- Slurry and Solids Handling

##### Specialty Products

- Ag Chem
- Molten Salt VTP Pump
- Submersible Pump
- Thruster
- Geothermal Deepwell
- Barge Pump
- Sewage Submersible

##### Positive Displacement

- Gear

##### IPD Brand Names

- Aldrich
- Durco
- Halberg
- IDP
- Innomag
- Labour
- Meregalli
- Pacific
- Pleuger & Byron Jackson
- Scienco

##### Between Bearings

- Side Channel Multistage
- Segmental Channel Multistage
- Single Case — Axially Split
- Single Case — Radially Split

##### Vertical

- Wet Pit and Suction Case API
- Deep Well Submersible Motor
- Slurry and Solids Handling
- Sump
- Vacuum Systems

##### Vacuum Systems

- Liquid Ring
- LR Systems
- Dry Systems

- Sier Bath
- SIHI
- TKL
- Western Land Roller
- Worthington
- Worthington-Simpson

#### IPD Services

We market our pump products through our worldwide sales force and our regional service and repair centers or through independent distributors and sales representatives. We provide an array of aftermarket services including product installation and commissioning services, spare parts, repairs, re-rate and upgrade solutions, advanced diagnostics and maintenance solutions through our global network of QRCs.

#### IPD New Product Development

Our IPD development projects target product feature enhancements, design improvements and sourcing opportunities that we believe will improve the competitive position of our industrial pump product lines. We will invest in our chemical product platform to expand and enhance our products offered to the global chemical industry.

We continue to address our core products with design enhancements to improve performance and the speed at which we can deliver our products. Successful new product release of permanent magnet motor technology in our submersible motor products demonstrated improved product efficiency. We will further our energy efficiency initiatives in response to various global governmental directives. Cost reduction projects incorporating product rationalization, value engineering, lean manufacturing and overhead reduction continue to be key drivers for IPD. None of these newly developed products or services required the investment of a material amount of our assets or was otherwise material.

#### IPD Customers

Our customer mix is diversified and includes leading EPC firms, original equipment manufacturers, distributors and end users. Our sales mix of original equipment products and aftermarket products and services diversifies our business and helps mitigate the impact of normal economic cycles on our business. Our sales are diversified among several industries, including oil and gas, chemical, water management, power generation and general industries.

#### IPD Competition

The industrial pump industry is highly fragmented, with many competitors. We compete, however, primarily with a limited number of large companies operating on a global scale. Competition among our closest competitors is generally driven by delivery times, expertise, price, breadth of product offerings, contractual terms, previous installation history and reputation for quality. Some of our largest industry competitors include ITT Industries, KSB Inc. and Sulzer Pumps.

We believe that our strongest sources of competitive advantage rest with our extensive range of pumps for the chemical industry, our large installed base, our strong customer relationships, our more than 200 years of legacy experience in manufacturing and servicing pumping equipment and our reputation for providing quality engineering solutions.

#### IPD Backlog

IPD's backlog of orders as of December 31, 2015 was \$424.6 million (including \$15.7 million of interdivision backlog, which is eliminated and not included in consolidated backlog), compared with \$393.9 million (including \$18.0 million of interdivision backlog) as of December 31, 2014. We expect to ship approximately 94% of December 31, 2015 backlog during 2016.

#### FLOW CONTROL DIVISION

FCD designs, manufactures, distributes and services a broad portfolio of industrial valve and automation solutions, including isolation and control valves, actuation, controls and related equipment. In addition, FCD offers energy management products such as steam traps, boiler controls and condensate and energy recovery systems. FCD leverages its experience and application know-how by offering a complete menu of engineering and project management services to complement its expansive product portfolio. FCD products are used to control, direct and manage the flow of liquids and gases and are an integral part of any flow control system. Our valve products are most often customized and engineered to perform specific functions within each customer's unique flow control environment.

Our flow control products are primarily used by companies operating in the chemical, power generation, oil and gas, water management and general industries. Our products are currently manufactured in 26 principal manufacturing facilities, five of which are located in the U.S., 13 of which are located in Europe, seven of which are located in Asia Pacific and one of which is located in Latin America. FCD operates 32 QRCs worldwide.

#### FCD Products

Our valve, automation and controls product and solutions portfolio represents one of the most comprehensive in the flow control industry. Our products are used in a wide variety of applications, from general service to the most severe and demanding services, including those involving high levels of corrosion, extreme temperatures and/or pressures, zero fugitive emissions and emergency shutdown.

Our "smart" valve and diagnostic technologies integrate sensors, microprocessor controls and software into high performance integrated control valves, digital positioners and switchboxes for automated on/off valve assemblies and electric actuators. These technologies permit real-time system analysis, system warnings and remote indication of asset health. These technologies have been developed in response to the growing demand for reduced maintenance, improved process control efficiency and digital communications at the plant level. We are committed to further enhancing the quality of our product portfolio by continuing to upgrade our existing offerings with cutting-edge technologies.

Our valve automation products encompass a broad range of pneumatic, electric, hydraulic and stored energy actuation designs to take advantage of whatever power source the customer has available. FCD's actuation products can utilize the process fluid flowing through the pipeline as a source of power to actuate the valve. Our actuation products also cover one of the widest ranges of output torques in the industry, providing the ability to automate anything from the smallest linear globe valve to the largest multi-turn gate valve. Most importantly, FCD combines best-in-class mechanical designs with the latest in digital controls in order to provide complete integrated automation solutions that optimize the combined valve-actuator-controls package.

The following is a summary list of our generally available valve and automation products and globally recognized brands:

#### FCD Product Types

- Valve Automation Systems
- Control Valves
- Ball Valves
- Gate Valves
- Globe Valves
- Check Valves
- Butterfly Valves
- Lined Plug Valves
- Lined Ball Valves
- Lubricated Plug Valves
- Non-Lubricated Plug Valves
- Integrated Valve Controllers
- Diagnostic Software
- Electro Pneumatic Positioners
- Digital Positioners
- Pneumatic Positioners
- Intelligent Positioners
- Electric/Electronic Actuators
- Pneumatic Actuators
- Hydraulic Actuators
- Diaphragm Actuators
- Direct Gas and Gas-over-Oil Actuators
- Limit Switches
- Steam Traps
- Condensate and Energy Recovery Systems
- Boiler Controls
- Digital Communications
- Valve and Automation Repair Services

#### FCD Brand Names

- Accord
- Anchor/Darling
- Argus
- Atomac
- Automax
- Durco
- Edward
- Flowserve
- Gestra
- Kammer
- Limitorque
- McCANNA/MARPAC
- NAF
- Noble Alloy
- Norbro
- Nordstrom
- PMV
- Serck Audco
- Schmidt Armaturen
- Valbart
- Valtek
- Vogt
- Worcester Controls

#### FCD Services

Our service personnel provide comprehensive equipment maintenance services for flow control systems, including advanced diagnostics, repair, installation, commissioning, retrofit programs and field machining capabilities. A large portion of our service work is performed on a quick response basis, which includes 24-hour service in all of our major markets. We also provide in-house repair and return manufacturing services worldwide through our manufacturing facilities. We believe our ability to offer comprehensive, quick turnaround services provides us with a unique competitive advantage and unparalleled access to our customers' installed base of flow control products.



#### FCD New Product Development

Our R&D investment is focused on areas that will advance our technological leadership and further differentiate our competitive advantage from a product perspective. Investment has been focused on significantly enhancing the digital integration and interoperability of valve top works (e.g., positioners, actuators, limit switches and associated accessories) with Distributed Control Systems ("DCS"). We continue to pursue the development and deployment of next-generation hardware and software for valve diagnostics and the integration of the resulting device intelligence through the DCS to provide a practical and effective asset management capability for the end user. In addition to developing these new capabilities and value-added services, our investments also include product portfolio expansion and fundamental research in material sciences in order to increase the temperature, pressure and corrosion/erosion-resistance limits of existing products, as well as noise and cavitation reduction. These investments are made by adding new resources and talent to the organization, as well as leveraging the experience of EPD and IPD and increasing our collaboration with third parties. We expect to continue our R&D investments in the areas discussed above.

None of these newly developed valve products or services required the investment of a material amount of our assets or was otherwise material.

#### FCD Customers

Our customer mix spans several markets, including the chemical, power generation, oil and gas, water management, pulp and paper, mining and other general industries. Our product mix includes original equipment and aftermarket parts and services. FCD contracts with a variety of customers, ranging from EPC firms, to distributors, end users and other original equipment manufacturers.

#### FCD Competition

While in recent years the valve market has undergone a significant amount of consolidation, the market remains highly fragmented. Some of the largest valve industry competitors include Pentair Ltd., Cameron International Corp., Emerson Electric Co., General Electric Co. and Crane Co.

Our market research and assessments indicate that the top 10 global valve manufacturers collectively comprise less than 25% of the total valve market. Based on independent industry sources, we believe that we are the fourth largest industrial valve supplier in the world. We believe that our strongest sources of competitive advantage rest with our comprehensive portfolio of valve products and services, our focus on execution and our expertise in severe corrosion and erosion applications.

#### FCD Backlog

FCD's backlog of orders as of December 31, 2015 was \$622.0 million, compared with \$774.8 million as of December 31, 2014. We expect to ship approximately 86% of December 31, 2015 backlog during 2016.

#### AVAILABLE INFORMATION

We maintain an Internet web site at [www.flowserve.com](http://www.flowserve.com). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934 are made available free of charge through the "Investor Relations" section of our Internet web site as soon as reasonably practicable after we electronically file the reports with, or furnish the reports to, the U.S. Securities and Exchange Commission ("SEC").

Also available on our Internet web site are our Corporate Governance Guidelines for our Board of Directors and Code of Ethics and Business Conduct, as well as the charters of the Audit, Finance, Organization and Compensation and Corporate Governance and Nominating Committees of our Board of Directors and other important governance documents. All of the foregoing documents may be obtained through our Internet web site as noted above and are available in print without charge to shareholders who request them. Information contained on or available through our Internet web site is not incorporated into this Annual Report or any other document we file with, or furnish to, the SEC.

## ITEM 1A. RISK FACTORS

Any of the events discussed as risk factors below may occur. If they do, our business, financial condition, results of operations and cash flows could be materially adversely affected. While we believe all known material risks are disclosed, additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. Because of these risk factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

Our business depends on the levels of capital investment and maintenance expenditures by our customers, which in turn are affected by numerous factors, including the state of domestic and global economies, global energy demand, the cyclical nature of their markets, their liquidity and the condition of global credit and capital markets.

Demand for most of our products and services depends on the level of new capital investment and planned maintenance expenditures by our customers. The level of capital expenditures by our customers depends, in turn, on general economic conditions, availability of credit, economic conditions within their respective industries and expectations of future market behavior. Additionally, volatility in commodity prices can negatively affect the level of these activities and can result in postponement of capital spending decisions or the delay or cancellation of existing orders. The ability of our customers to finance capital investment and maintenance may also be affected by factors independent of the conditions in their industry, such as the condition of global credit and capital markets.

The businesses of many of our customers, particularly oil and gas companies, chemical companies and general industrial companies, are to varying degrees cyclical and have experienced periodic downturns. Our customers in these industries, particularly those whose demand for our products and services is primarily profit-driven, historically have tended to delay large capital projects, including expensive maintenance and upgrades, during economic downturns. For example, our chemical customers generally tend to reduce their spending on capital investments and operate their facilities at lower levels in a soft economic environment, which reduces demand for our products and services. Additionally, fluctuating energy demand forecasts and lingering uncertainty concerning commodity pricing, specifically the price of oil, can cause our customers to be more conservative in their capital planning, which may reduce demand for our products and services. Reduced demand for our products and services could result in the delay or cancellation of existing orders or lead to excess manufacturing capacity, which unfavorably impacts our absorption of fixed manufacturing costs. This reduced demand may also erode average selling prices in our industry. Any of these results could adversely affect our business, financial condition, results of operations and cash flows.

Additionally, some of our customers may delay capital investment and maintenance even during favorable conditions in their industries or markets. Despite these favorable conditions, the general health of global credit and capital markets and our customers' ability to access such markets may impact investments in large capital projects, including necessary maintenance and upgrades. In addition, the liquidity and financial position of our customers could impact capital investment decisions and their ability to pay in full and/or on a timely basis. Any of these factors, whether individually or in the aggregate, could have a material adverse effect on our customers and, in turn, our business, financial condition, results of operations and cash flows.

Volatility in commodity prices, effects from credit and capital market conditions and global economic growth forecasts could prompt customers to delay or cancel existing orders, which could adversely affect the viability of our backlog and could impede our ability to realize revenues on our backlog.

Our backlog represents the value of uncompleted customer orders. While we cannot be certain that reported backlog will be indicative of future results, our ability to accurately value our backlog can be adversely affected by numerous factors, including the health of our customers' businesses and their access to capital, volatility in commodity prices (e.g., copper, nickel, stainless steel) and economic uncertainty. While we attempt to mitigate the financial consequences of order delays and cancellations through contractual provisions and other means, if we were to experience a significant increase in order delays or cancellations that can result from the aforementioned economic conditions or other factors beyond our control, it could impede or delay our ability to realize anticipated revenues on our backlog. Such a loss of anticipated revenues could have a material adverse effect on our business, financial condition, results of operations and cash flows.



We may be unable to deliver our sizeable backlog on time, which could affect our revenues, future sales and profitability and our relationships with customers.

At December 31, 2015, backlog was \$2.2 billion. In 2016, our ability to meet customer delivery schedules for backlog is dependent on a number of factors including, but not limited to, sufficient manufacturing plant capacity, adequate supply channel access to the raw materials and other inventory required for production, an adequately trained and capable workforce, project engineering expertise for certain large projects and appropriate planning and scheduling of manufacturing resources. Many of the contracts we enter into with our customers require long manufacturing lead times and contain penalty clauses related to on-time delivery. Failure to deliver in accordance with customer expectations could subject us to financial penalties, may result in damage to existing customer relationships and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We sell our products in highly competitive markets, which results in pressure on our profit margins and limits our ability to maintain or increase the market share of our products.

The markets for our products and services are geographically diverse and highly competitive. We compete against large and well-established national and global companies, as well as regional and local companies, low-cost replicators of spare parts and in-house maintenance departments of our end-user customers. We compete based on price, technical expertise, timeliness of delivery, contractual terms, previous installation history and reputation for quality and reliability. Competitive environments in slow-growth industries and for original equipment orders have been inherently more influenced by pricing and domestic and global economic conditions and current economic forecasts suggest that the competitive influence of pricing has broadened. Additionally, some of our customers have been attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their supply chain. To remain competitive, we must invest in manufacturing, marketing, customer service and support and our distribution networks. No assurances can be made that we will have sufficient resources to continue to make the investment required to maintain or increase our market share or that our investments will be successful. If we do not compete successfully, our business, financial condition, results of operations and cash flows could be materially adversely affected.

If we are unable to obtain raw materials at favorable prices, our operating margins and results of operations may be adversely affected.

We purchase substantially all electric power and other raw materials we use in the manufacturing of our products from outside sources. The costs of these raw materials have been volatile historically and are influenced by factors that are outside our control. In recent years, the prices for energy, metal alloys, nickel and certain other of our raw materials have been volatile. While we strive to offset our increased costs through supply chain management, contractual provisions and our CIP initiative, where gains are achieved in operational efficiencies, our operating margins and results of operations and cash flows may be adversely affected if we are unable to pass increases in the costs of our raw materials on to our customers or operational efficiencies are not achieved.

Economic, political and other risks associated with international operations could adversely affect our business.

A substantial portion of our operations is conducted and located outside the U.S. We have manufacturing, sales or service facilities in more than 50 countries and sell to customers in over 90 countries, in addition to the

U.S. Moreover, we primarily outsource certain of our manufacturing and engineering functions to, and source our raw materials and components from, China, Eastern Europe, India, Latin America and Mexico. Accordingly, our business and results of operations are subject to risks associated with doing business internationally, including:

- instability in a specific country's or region's political or economic conditions, particularly economic conditions in Europe, and political conditions in Russia, the Middle East, North Africa, Latin America and other emerging markets;
- trade protection measures, such as tariff increases, and import and export licensing and control requirements;
- potentially negative consequences from changes in tax laws or tax examinations;
- difficulty in staffing and managing widespread operations;
- increased aging and slower collection of receivables, particularly in Latin America and other emerging markets;
- difficulty of enforcing agreements and collecting receivables through some foreign legal systems;
- differing and, in some cases, more stringent labor regulations;



- potentially negative consequences from fluctuations in foreign currency exchange rates;
- partial or total expropriation;
- differing protection of intellectual property;
- inability to repatriate income or capital; and
- difficulty in administering and enforcing corporate policies, which may be different than the customary business practices of local cultures.

For example, political unrest or work stoppages could negatively impact the demand for our products from customers in affected countries and other customers, such as U.S. oil refineries, that could be affected by the resulting disruption in the supply of crude oil. Similarly, military conflicts in Russia, the Middle East and North Africa could soften the level of capital investment and demand for our products and services.

Some of the risks outlined above are particularly prevalent in Venezuela. The operating environment in Venezuela is challenging, with high inflation, increased risk of political and economic instability and increased government restrictions. As a result of these factors, we have experienced delays in payments from the national oil company in Venezuela, our primary Venezuelan customer, though these amounts are not disputed and we have not historically had write-offs relating to this customer. Going forward, additional government actions, political and labor unrest, or other economic headwinds, including the Venezuelan government's inability to fulfill its fiscal obligations, could have further adverse impacts on our ability to fully collect our receivable and our business in Venezuela.

In order to manage our day-to-day operations, we must overcome cultural and language barriers and assimilate different business practices. In addition, we are required to create compensation programs, employment policies and other administrative programs that comply with laws of multiple countries. We also must communicate and monitor standards and directives across our global network. Our failure to successfully manage our geographically diverse operations could impair our ability to react quickly to changing business and market conditions and to enforce compliance with standards and procedures.

Our future success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these factors could, however, materially adversely affect our international operations and, consequently, our financial condition, results of operations and cash flows.

Our international operations and foreign subsidiaries are subject to a variety of complex and continually changing laws and regulations.

Due to the international scope of our operations, the system of laws and regulations to which we are subject is complex and includes, without limitation, regulations issued by the U.S. Customs and Border Protection, the U.S. Department of Commerce's Bureau of Industry and Security, the U.S. Treasury Department's Office of Foreign Assets Control and various foreign governmental agencies, including applicable export controls, customs, currency exchange control and transfer pricing regulations, as applicable. No assurances can be made that we will continue to be found to be operating in compliance with, or be able to detect violations of, any such laws or regulations. In addition, we cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted.

Our international operations expose us to fluctuations in foreign currency exchange rates.

A significant portion of our revenue and certain of our costs, assets and liabilities, are denominated in currencies other than the U.S. dollar. The primary currencies to which we have exposure are the Euro, British pound, Mexican peso, Brazilian real, Indian rupee, Japanese yen, Singapore dollar, Argentine peso, Canadian dollar, Australian dollar, Chinese yuan, Colombian peso, Chilean peso and South African rand. Certain of the foreign currencies to which we have exposure, such as the Venezuelan bolivar and Argentine peso, have undergone significant devaluation in the past, which can reduce the value of our local monetary assets, reduce the U.S. dollar value of our local cash flow, generate local currency losses that may impact our ability to pay future dividends from our subsidiary to the parent company and potentially reduce the U.S. dollar value of future local net income. Although we enter into forward exchange contracts to economically hedge some of our risks associated with transactions denominated in certain foreign currencies, no assurances can be made that exchange rate fluctuations will not adversely affect our financial condition, results of operations and cash flows.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws and regulations.



The U.S. Foreign Corrupt Practices Act ("FCPA") and similar anti-bribery laws and regulations in other jurisdictions, such as the UK Bribery Act, generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business or securing an improper advantage. Because we operate in many parts of the world and sell to industries that have experienced corruption to some degree, our policies mandate compliance with applicable anti-bribery laws worldwide. If we are found to be in violation of the FCPA or other similar anti-bribery laws or regulations, whether due to our or others' actions or inadvertence, we could be subject to civil and criminal penalties or other sanctions that could have a material adverse impact on our business, financial condition, results of operations and cash flows. In addition, actual or alleged violations could damage our reputation or ability to do business.

Terrorist acts, conflicts and wars may materially adversely affect our business, financial condition and results of operations and may adversely affect the market for our common stock.

As a global company with a large international footprint, we are subject to increased risk of damage or disruption to us, our employees, facilities, partners, suppliers, distributors, resellers or customers due to terrorist acts, conflicts and wars, wherever located around the world. The potential for future attacks, the national and international responses to attacks or perceived threats to national security, and other actual or potential conflicts or wars, such as the Israeli-Hamas conflict and ongoing instability in Syria and Egypt, have created many economic and political uncertainties. In addition, as a global company with headquarters and significant operations located in the U.S., actions against or by the U.S. may impact our business or employees. Although it is impossible to predict the occurrences or consequences of any such events, they could result in a decrease in demand for our products, make it difficult or impossible to deliver products to our customers or to receive components from our suppliers, create delays and inefficiencies in our supply chain and pose risks to our employees, resulting in the need to impose travel restrictions, any of which could adversely affect our business, financial condition, results of operations and cash flows.

Environmental compliance costs and liabilities could adversely affect our financial condition, results of operations and cash flows.

Our operations and properties are subject to regulation under environmental laws, which can impose substantial sanctions for violations. We must conform our operations to applicable regulatory requirements and adapt to changes in such requirements in all countries in which we operate.

We use hazardous substances and generate hazardous wastes in many of our manufacturing and foundry operations. Most of our current and former properties are or have been used for industrial purposes, and some may require clean-up of historical contamination. We are currently conducting investigation and/or remediation activities at a number of locations where we have known environmental concerns. In addition, we have been identified as one of many PRPs at five Superfund sites. The projected cost of remediation at these sites, as well as our alleged "fair share" allocation, while not anticipated to be material, has been reserved. However, until all studies have been completed and the parties have either negotiated an amicable resolution or the matter has been judicially resolved, some degree of uncertainty remains.

We have incurred, and expect to continue to incur, operating and capital costs to comply with environmental requirements. In addition, new laws and regulations, stricter enforcement of existing requirements, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur costs or become the basis for new or increased liabilities. Moreover, environmental and sustainability initiatives, practices, rules and regulations are under increasing scrutiny of both governmental and non-governmental bodies, which can cause rapid change in operational practices, standards and expectations and, in turn, increase our compliance costs. Any of these factors could have a material adverse effect on our financial condition, results of operations and cash flows.

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

We are a defendant in a substantial number of lawsuits that seek to recover damages for personal injury allegedly resulting from exposure to asbestos-containing products formerly manufactured and/or distributed by us. Such products were used as internal components of process equipment, and we do not believe that there was any significant emission of asbestos-containing fibers during the use of this equipment. Although we are defending these allegations



vigorously and believe that a high percentage of these lawsuits are covered by insurance or indemnities from other companies, there can be no assurance that we will prevail or that payments made by insurance or such other companies would be adequate. Unfavorable rulings, judgments or settlement terms could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Our business may be adversely impacted by work stoppages and other labor matters.

As of December 31, 2015, we had approximately 19,000 employees, of which approximately 5,300 were located in the U.S. Approximately 6% of our U.S. employees are represented by unions. We also have unionized employees or employee work councils in Argentina, Australia, Austria, Brazil, Canada, Finland, France, Germany, Italy, Japan, Mexico, The Netherlands, Spain, South Africa, Sweden and the U.K. No individual unionized facility produces more than 10% of our revenues. Although we believe that our relations with our employees are generally satisfactory and we have not experienced any material strikes or work stoppages recently, no assurances can be made that we will not in the future experience these and other types of conflicts with labor unions, works councils, other groups representing employees or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in our cost of labor.

Our ability to implement our business strategy and serve our customers is dependent upon the continuing ability to employ talented professionals and attract, train, develop and retain a skilled workforce. We are subject to the risk that we will not be able to effectively replace the knowledge and expertise of an aging workforce as workers retire.

Without a properly skilled and experienced workforce, our costs, including productivity costs and costs to replace employees may increase, and this could negatively impact our earnings.

Inability to protect our intellectual property could negatively affect our competitive position.

We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. We cannot guarantee, however, that the steps we have taken to protect our intellectual property will be adequate to prevent infringement of our rights or misappropriation of our technology. For example, effective patent, trademark, copyright and trade secret protection may be unavailable or limited in some of the foreign countries in which we operate. In addition, while we generally enter into confidentiality agreements with our employees and third parties to protect our intellectual property, such confidentiality agreements could be breached or otherwise may not provide meaningful protection for our trade secrets and know-how related to the design, manufacture or operation of our products. If it became necessary for us to resort to litigation to protect our intellectual property rights, any proceedings could be burdensome and costly, and we may not prevail. Further, adequate remedies may not be available in the event of an unauthorized use or disclosure of our trade secrets and manufacturing expertise. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our business, financial condition, results of operations and cash flows.

Significant changes in pension fund investment performance or assumptions changes may have a material effect on the valuation of our obligations under our defined benefit pension plans, the funded status of these plans and our pension expense.

We maintain defined benefit pension plans that are required to be funded in the U.S., Canada, India, Mexico, The Netherlands, Switzerland and the U.K., and defined benefit plans that are not required to be funded in Austria, France, Germany, Japan and Sweden. Our pension liability is materially affected by the discount rate used to measure our pension obligations and, in the case of the plans that are required to be funded, the level of plan assets available to fund those obligations and the expected long-term rate of return on plan assets. A change in the discount rate can result in a significant increase or decrease in the valuation of pension obligations, affecting the reported status of our pension plans and our pension expense. Significant changes in investment performance or a change in the portfolio mix of invested assets can result in increases and decreases in the valuation of plan assets or in a change of the expected rate of return on plan assets. This impact may be particularly prevalent where we maintain significant concentrations of specified investments, such as the U.K. equity and fixed income securities in our non-U.S. defined benefit plans. Changes in the expected return on plan assets assumption can result in significant changes in our pension expense and future funding requirements.

We continually review our funding policy related to our U.S. pension plan in accordance with applicable laws and regulations. U.S. regulations have increased the minimum level of funding for U.S. pension plans in prior years, which has at times required significant contributions to our pension plans. Contributions to our pension plans reduce the availability of our cash flows to fund working capital, capital expenditures, R&D efforts and other general corporate purposes.

We may incur material costs as a result of product liability and warranty claims, which could adversely affect our financial condition, results of operations and cash flows.

We may be exposed to product liability and warranty claims in the event that the use of one of our products results in, or is alleged to result in, bodily injury and/or property damage or our products actually or allegedly fail to perform as expected. While we maintain insurance coverage with respect to certain product liability claims, we may not be able to obtain such

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insurance on acceptable terms in the future, and any such insurance may not provide adequate coverage against product liability claims. In addition, product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. An unsuccessful defense of a product liability claim could have an adverse effect on our business, financial condition, results of operations and cash flows. Even if we are successful in defending against a claim relating to our products, claims of this nature could cause our customers to lose confidence in our products and our company. Warranty claims are not generally covered by insurance, and we may incur significant warranty costs in the future for which we would not be reimbursed.

The recording of increased deferred tax asset valuation allowances in the future or the impact of tax law changes on such deferred tax assets could affect our operating results.

We currently have significant net deferred tax assets resulting from tax credit carryforwards, net operating losses and other deductible temporary differences that are available to reduce taxable income in future periods. Based on our assessment of our deferred tax assets, we determined, based on projected future income and certain available tax planning strategies, that approximately \$250 million of our deferred tax assets will more likely than not be realized in the future, and no valuation allowance is currently required for this portion of our deferred tax assets. Should we determine in the future that these assets will not be realized we will be required to record an additional valuation allowance in connection with these deferred tax assets and our operating results would be adversely affected in the period such determination is made. In addition, tax law changes could negatively impact our deferred tax assets. Our outstanding indebtedness and the restrictive covenants in the agreements governing our indebtedness limit our operating and financial flexibility.

We are required to make scheduled repayments and, under certain events of default, mandatory repayments on our outstanding indebtedness, which may require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, R&D efforts and other general corporate purposes, such as dividend payments and share repurchases, and could generally limit our flexibility in planning for, or reacting to, changes in our business and industry.

In addition, the agreements governing our indebtedness impose certain operating and financial restrictions on us and somewhat limit management's discretion in operating our businesses. These agreements limit or restrict our ability, among other things, to: incur additional debt; pay dividends and make other distributions; prepay subordinated debt; make investments and other restricted payments; create liens; sell assets; and enter into transactions with affiliates. We are also required to maintain certain debt ratings, comply with leverage and interest coverage financial covenants and deliver to our lenders audited annual and unaudited quarterly financial statements. Our ability to comply with these covenants may be affected by events beyond our control. Failure to comply with these covenants could result in an event of default which, if not cured or waived, may have a material adverse effect on our business, financial condition, results of operations and cash flows.

We may not be able to continue to expand our market presence through acquisitions, and any future acquisitions may present unforeseen integration difficulties or costs.

Since 1997, we have expanded through a number of acquisitions, and we may pursue strategic acquisitions of businesses in the future. Our ability to implement this growth strategy will be limited by our ability to identify appropriate acquisition candidates, covenants in our credit agreement and other debt agreements and our financial resources, including available cash and borrowing capacity. Acquisitions may require additional debt financing, resulting in higher leverage and an increase in interest expense. In addition, acquisitions may require large one-time charges and can result in the incurrence of contingent liabilities, adverse tax consequences, substantial depreciation or deferred compensation charges, the amortization of identifiable purchased intangible assets or impairment of goodwill, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Should we acquire another business, the process of integrating acquired operations into our existing operations may create operating difficulties and may require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of existing operations. Some of the more common challenges associated with acquisitions that we may experience include:

Loss of key employees or customers of the acquired company;



conforming the acquired company's standards, processes, procedures and controls, including accounting systems and controls, with our operations, which could cause deficiencies related to our internal control over financial reporting; coordinating operations that are increased in scope, geographic diversity and complexity; retooling and reprogramming of equipment; hiring additional management and other critical personnel; and the diversion of management's attention from our day-to-day operations.

Further, no guarantees can be made that we would realize the cost savings, synergies or revenue enhancements that we may anticipate from any acquisition, or that we will realize such benefits within the time frame that we expect. If we are not able to timely address the challenges associated with acquisitions and successfully integrate acquired businesses, or if our integrated product and service offerings fail to achieve market acceptance, our business could be adversely affected.

Goodwill impairment could negatively impact our net income and stockholders' equity.

Goodwill is not amortized, but is tested for impairment at the reporting unit level, which is an operating segment or one level below an operating segment. Goodwill is required to be tested for impairment annually and between annual tests if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying value. There are numerous risks that may cause the fair value of a reporting unit to fall below its carrying amount, which could lead to the measurement and recognition of goodwill impairment. These risks include, but are not limited to, lowered expectations of future financial results, adverse changes in the business climate, an adverse action or assessment by a regulator, the loss of key personnel, a more-likely-than-not expectation that all or a significant portion of a reporting unit may be disposed of, failure to realize anticipated synergies from acquisitions, a sustained decline in the Company's market capitalization, and significant, prolonged negative variances between actual and expected financial results.

Cybersecurity threats could disrupt our business and result in the loss of critical and confidential information.

Our information technology networks and related systems and devices are critical to the operation of our business and essential to our ability to successfully perform day-to-day operations. Cybersecurity breaches could expose us to a risk of loss, misuse, or interruption of sensitive and critical information and functions, including our proprietary information and information related to our customers, suppliers and employees. While we devote substantial resources to maintaining adequate levels of cybersecurity, there can be no assurance that we will be able to prevent all of the rapidly evolving forms of increasingly sophisticated and frequent cyberattacks. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, regulatory actions, theft of intellectual property, and increased cybersecurity protection and remediation costs. If we are unable to prevent, detect or adequately respond to security breaches, our operations could be disrupted and our business could be materially and adversely affected.

If we are not able to successfully execute and realize the expected financial benefits from our strategic realignment and other cost-saving initiatives, our business could be adversely affected.

In April 2015, we announced cost saving actions and a strategic manufacturing optimization initiative intended to reduce our cost structure and drive an optimized, low-cost manufacturing footprint. This initiative was expanded in the latter half of 2015 and the beginning of 2016 to include additional realignment activities. This initiative will involve reducing our workforce, accelerating structural changes in our global manufacturing footprint through leveraging investments in low-cost regions, additional consolidation of product manufacturing and further selling, general and administrative expense ("SG&A") reductions.

While we expect significant financial benefits from our strategic realignment, we may not realize the full benefits that we currently expect within the anticipated time frame or at all. Adverse effects from our execution of realignment activities could interfere with our realization of anticipated synergies, customer service improvements and cost savings from these strategic initiatives. Additionally, our ability to fully realize the benefits and implement the realignment program may be limited by the terms of our credit facilities and other contractual commitments.

Moreover, because such expenses are difficult to predict and are necessarily inexact, we may incur substantial expenses in connection with the execution of our realignment plans in excess of what is currently forecast. Further, realignment activities are a complex and time-consuming process that can place substantial demands on management, which could divert attention from other business priorities or disrupt our daily operations. Any of these failures could,

in turn, materially adversely affect our business, financial condition, results of operations and cash flows, which could constrain our liquidity.

If these measures are not successful or sustainable, we may undertake additional realignment and cost reduction efforts, which could result in future charges. Moreover, our ability to achieve our other strategic goals and business plans may be adversely affected, and we could experience business disruptions with customers and elsewhere if our realignment efforts prove ineffective.

#### Forward-Looking Information is Subject to Risk and Uncertainty

This Annual Report and other written reports and oral statements we make from time-to-time include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts included in this Annual Report regarding our financial position, business strategy, plans and objectives of management for future operations, industry conditions, market conditions and indebtedness covenant compliance are forward-looking statements. In some cases forward looking statements can be identified by terms such as "may," "should," "expects," "could," "intends," "projects," "predicts," "plans," "anticipates," "estimates," "believes," "forecasts" or other comparable terminology. These statements are not historical facts or guarantees of future performance, but instead are based on current expectations and are subject to significant risks, uncertainties and other factors, many of which are outside of our control.

We have identified factors that could cause actual plans or results to differ materially from those included in any forward-looking statements. These factors include those described above under this "Risk Factors" heading, or as may be identified in our other SEC filings from time to time. These uncertainties are beyond our ability to control, and in many cases, it is not possible to foresee or identify all the factors that may affect our future performance or any forward-looking information, and new risk factors can emerge from time to time. Given these risks and uncertainties, undue reliance should not be placed on forward-looking statements as a prediction of actual results.

All forward-looking statements included in this Annual Report are based on information available to us on the date of this Annual Report and the risk that actual results will differ materially from expectations expressed in this report will increase with the passage of time. We undertake no obligation, and disclaim any duty, to publicly update or revise any forward-looking statement or disclose any facts, events or circumstances that occur after the date hereof that may affect the accuracy of any forward-looking statement, whether as a result of new information, future events, changes in our expectations or otherwise. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995 and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2. PROPERTIES

Our principal executive offices, including our global headquarters, are located at 5215 N. O'Connor Boulevard, Suite 2300, Irving, Texas 75039. Our global headquarters is a leased facility, which we began to occupy on January 1, 2004. In September 2011, we extended our original lease term an additional 10 years to December 31, 2023. We have the option to renew the current lease for two additional five-year periods. We currently occupy 125,000 square feet at this facility.

Our major manufacturing facilities (those with 50,000 or more square feet of manufacturing capacity) operating at December 31, 2015 are presented in the table below. See "Item 1. Business" in this Annual Report for further information with respect to all of our manufacturing and operational facilities, including QRCs.



|          | Number<br>of Facilities | Approximate<br>Square<br>Footage |
|----------|-------------------------|----------------------------------|
| EPD      |                         |                                  |
| U.S.     | 4                       | 725,000                          |
| Non-U.S. | 16                      | 2,874,000                        |
| IPD      |                         |                                  |
| U.S.     | 4                       | 593,000                          |
| Non-U.S. | 12                      | 3,097,103                        |
| FCD      |                         |                                  |
| U.S.     | 5                       | 1,027,000                        |
| Non-U.S. | 12                      | 1,764,000                        |

We own the majority of our manufacturing facilities, and those manufacturing facilities we do not own are leased. We also maintain a substantial network of U.S. and foreign service centers and sales offices, most of which are leased. The majority of our manufacturing leased facilities are covered by lease agreements with terms ranging from two to seven years, with individual lease terms generally varying based on the facilities' primary usage. We believe we will be able to extend leases on our various facilities as necessary, as they expire.

We believe that our current facilities are adequate to meet the requirements of our present and foreseeable future operations. We continue to review our capacity requirements as part of our strategy to optimize our global manufacturing efficiency. See Note 10 to our consolidated financial statements included in Item 8 of this Annual Report for additional information regarding our operating lease obligations.

### ITEM 3. LEGAL PROCEEDINGS

We are party to the legal proceedings that are described in Note 12 to our consolidated financial statements included in Item 8 of this Annual Report, and such disclosure is incorporated by reference into this Item 3. In addition to the foregoing, we and our subsidiaries are named defendants in certain other routine lawsuits incidental to our business and are involved from time to time as parties to governmental proceedings, all arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings involving us and our subsidiaries cannot be predicted with certainty, and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not currently expect these matters, either individually or in the aggregate, to have a material effect on our financial position, results of operations or cash flows. We have established reserves covering exposures relating to contingencies to the extent believed to be reasonably estimable and probable based on past experience and available facts.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

Market Information and Dividends

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "FLS." On February 11, 2016, our records showed 1,468 shareholders of record. The following table sets forth the range of high and low prices per share of our common stock as reported by the NYSE for the periods indicated.

PRICE RANGE OF FLOWSERVE COMMON STOCK

(Intraday High/Low Prices)

|                | 2015            | 2014            |
|----------------|-----------------|-----------------|
| First Quarter  | \$64.41/\$52.75 | \$82.24/\$69.35 |
| Second Quarter | 59.99/51.14     | 79.98/71.18     |
| Third Quarter  | 53.01/39.47     | 78.48/70.23     |
| Fourth Quarter | 48.64/39.72     | 71.06/53.93     |

The table below presents declaration, record and payment dates, as well as the per share amounts, of dividends on our common stock during 2015 and 2014:

| Declaration Date   | Record Date        | Payment Date    | Dividend Per Share |
|--------------------|--------------------|-----------------|--------------------|
| December 8, 2015   | December 23, 2015  | January 6, 2016 | \$0.18             |
| September 14, 2015 | September 25, 2015 | October 9, 2015 | 0.18               |
| May 21, 2015       | June 26, 2015      | July 10, 2015   | 0.18               |
| February 17, 2015  | March 27, 2015     | April 10, 2015  | 0.18               |

| Declaration Date  | Record Date        | Payment Date     | Dividend Per Share |
|-------------------|--------------------|------------------|--------------------|
| November 17, 2014 | December 26, 2014  | January 9, 2015  | \$0.16             |
| August 19, 2014   | September 26, 2014 | October 10, 2014 | 0.16               |
| May 22, 2014      | June 27, 2014      | July 11, 2014    | 0.16               |
| February 18, 2014 | March 28, 2014     | April 11, 2014   | 0.16               |

On May 23, 2013, our certificate of incorporation was amended to increase the number of authorized shares of common stock from 120.0 million to 305.0 million and enable a three-for-one stock split approved by the Board of Directors on February 7, 2013 in the form of a 200% common stock dividend. The record date for the stock split was June 7, 2013, and additional shares were distributed on June 21, 2013. Shareholders' equity and all share data, including treasury shares and stock-based compensation award shares, and per share data presented herein have been retrospectively adjusted to reflect the impact of the increase in authorized shares and the stock split, as appropriate.

On February 17, 2015, our Board of Directors authorized an increase in the payment of quarterly dividends on our common stock from \$0.16 per share to \$0.18 per share payable beginning on April 10, 2015. On February 17, 2014, our Board of Directors authorized an increase in the payment of quarterly dividends on our common stock from \$0.14 per share to \$0.16 per share payable beginning on April 11, 2014. Any subsequent dividends will be reviewed by our Board of Directors on a quarterly basis and declared at its discretion dependent on its assessment of our financial situation and business outlook at the applicable time. Our credit facilities contain covenants that could restrict our ability to declare and pay dividends on our common stock. See the discussion of our credit facilities under Item 7 of this Annual Report and in Note 10 to our consolidated financial statements included in Item 8 of this Annual Report.



## Issuer Purchases of Equity Securities

Note 14 to our consolidated financial statements included in Item 8 of this Annual Report includes a discussion of our share repurchase activity and payment of quarterly dividends on our common stock.

During the quarter ended December 31, 2015, we repurchased a total of 1,214,693 shares of our common stock for \$54.0 million (representing \$44.43 per share) under our current share repurchase program. The following table sets forth the repurchase data for each of the three months during the quarter ended December 31, 2015:

| Period          | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Plan (In millions) |
|-----------------|----------------------------------|------------------------------|---|---|
| October 1 - 31  | 607,877                          | (1) \$42.92                  | 605,403   | \$188.7   |
| November 1 - 30 | 444,362                          | (2) 45.98                    | 440,490   | 168.4   |
| December 1 - 31 | 168,800                          | 45.83                        | 168,800   | 160.7   |
| Total           | 1,221,039                        | \$44.43                      | 1,214,693   | (3)   |

(1) Includes 2,474 shares that were tendered by employees to satisfy minimum tax withholding amounts for restricted stock awards at an average price per share of \$43.01.

(2) Includes 2,967 shares of common stock purchased at a price of \$46.50 per share by a rabbi trust that we maintain for non-employee directors who elect to defer their quarterly compensation for payment at a later date in the form of common stock. Also, includes a total of 905 shares that were tendered by employees to satisfy minimum tax withholding amounts for restricted stock awards at an average price per share of \$44.95.

(3) For additional information concerning our share repurchase program, please see the discussion in Note 14 to our consolidated financial statements included in Item 8 of this Annual Report.

Stock Performance Graph

The following graph depicts the most recent five-year performance of our common stock with the S&P 500 Index and S&P 500 Industrial Machinery. The graph assumes an investment of \$100 on December 31, 2010, and assumes the reinvestment of any dividends over the following five years. The stock price performance shown in the graph is not necessarily indicative of future price performance.

| Company/Index                | Base Period | December 31, |          |          |          |          |
|------------------------------|-------------|--------------|----------|----------|----------|----------|
|                              | 2010        | 2011         | 2012     | 2013     | 2014     | 2015     |
| Flowserve Corporation        | \$100.00    | \$84.39      | \$126.20 | \$205.18 | \$157.15 | \$112.23 |
| S&P 500 Index                | 100.00      | 102.11       | 118.43   | 156.77   | 178.22   | 180.67   |
| S&P 500 Industrial Machinery | 100.00      | 90.71        | 115.65   | 168.62   | 177.13   | 170.13   |

## ITEM 6. SELECTED FINANCIAL DATA

|  | Year Ended December 31,                                  |             |             |             |             |   |
|--|--|-------------|-------------|-------------|-------------|---|
|  | 2015(a)  | 2014        | 2013(b)     | 2012        | 2011(c)     |   |
|  | (Amounts in thousands, except per share data and ratios) |             |             |             |             |   |
| <b>RESULTS OF OPERATIONS</b>   |  |             |             |             |             |   |
| Sales  | \$4,561,030  | \$4,877,885 | \$4,954,619 | \$4,751,339 | \$4,510,201 |   |
| Gross profit   | 1,487,318  | 1,714,617   | 1,688,095   | 1,580,951   | 1,513,646   |   |
| Selling, general and administrative expense                                      | (971,611 )   | (936,900 )  | (966,829 )  | (922,125 )  | (914,080 )  |   |
| Operating income   | 525,568  | 789,832     | 760,283     | 675,778     | 618,677     |   |
| Interest expense   | (65,270 )  | (60,322 )   | (54,413 )   | (43,520 )   | (36,181 )   |   |
| Provision for income taxes   | (148,922 )   | (208,305 )  | (204,701 )  | (160,766 )  | (158,524 )  |   |
| Net earnings attributable to Flowserve Corporation                               | 267,669  | 518,824     | 485,530     | 448,339     | 428,582     |   |
| Net earnings per share of Flowserve Corporation common shareholders (diluted)(d) | 2.00   | 3.76        | 3.41        | 2.84        | 2.55        |   |
| Cash flows from operating activities   | 417,092  | 570,962     | 487,759     | 517,130     | 218,213     |   |
| Cash dividends declared per share(d)   | 0.72   | 0.64        | 0.56        | 0.48        | 0.43        |   |
| <b>FINANCIAL CONDITION</b>   |  |             |             |             |             |   |
| Working capital  | \$1,271,830  | \$1,322,288 | \$1,289,283 | \$1,149,591 | \$1,158,033 |   |
| Total assets   | 5,103,850  | 4,968,020   | 5,036,733   | 4,810,958   | 4,622,614   |   |
| Total debt   | 1,631,270  | 1,154,922   | 1,200,297   | 928,594     | 505,216     |   |
| Retirement obligations and other liabilities                                     | 489,319  | 452,511     | 473,894     | 456,742     | 422,470     |   |
| Total equity   | 1,683,733  | 1,941,843   | 1,877,121   | 1,894,475   | 2,278,230   |   |
| <b>FINANCIAL RATIOS</b>  |  |             |             |             |             |   |
| Return on average net assets(e)  | 9.6  | % 18.1      | % 17.1      | % 16.5      | % 16.9      | % |
| Net debt to net capital ratio(f)   | 42.9   | % 26.6      | % 30.8      | % 24.8      | % 6.9       | % |

(a) Results of operations in 2015 include costs of \$108.1 million resulting from realignment initiatives, resulting in a reduction of after tax net earnings of \$85.0 million.

(b) Results of operations in 2013 include costs of \$10.7 million resulting from realignment initiatives, resulting in a reduction of after tax net earnings of \$7.6 million.

(c) Results of operations in 2011 include costs of \$11.9 million resulting from realignment initiatives, resulting in a reduction of after tax net earnings of \$8.8 million.

(d) Periods prior to 2013 have been retrospectively adjusted for a three-for-one stock split discussed in Note 14 to our consolidated financial statements included in Item 8 of this Annual Report.

Calculated as adjusted net income divided by adjusted net assets, where adjusted net income is the sum of earnings before income taxes plus interest expense multiplied by one minus our effective tax rate and adjusted net assets is the average of beginning of year and end of year net assets, excluding cash and cash equivalents and debt due in one year.

(f) Calculated as total debt minus cash and cash equivalents divided by the sum of total debt and shareholders' equity minus cash and cash equivalents.



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

The following discussion and analysis is provided to increase the understanding of, and should be read in conjunction with, the accompanying consolidated financial statements and notes. See "Item 1A. Risk Factors" and the "Forward-Looking Statements" included in this Annual Report on Form 10-K for the year ended December 31, 2015 ("Annual Report") for a discussion of the risks, uncertainties and assumptions associated with these statements. Unless otherwise noted, all amounts discussed herein are consolidated.

### EXECUTIVE OVERVIEW

#### Our Company

We believe that we are a world-leading manufacturer and aftermarket service provider of comprehensive flow control systems. We develop and manufacture precision-engineered flow control equipment integral to the movement, control and protection of the flow of materials in our customers' critical processes. Our product portfolio of pumps, valves, seals, automation and aftermarket services supports global infrastructure industries, including oil and gas, chemical, power generation and water management, as well as general industrial markets where our products and services add value. Through our manufacturing platform and global network of Quick Response Centers ("QRCs"), we offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting. We currently employ approximately 19,000 employees in more than 50 countries.

Our business model is significantly influenced by the capital spending of global infrastructure industries for the placement of new products into service and aftermarket services for existing operations. The worldwide installed base of our products is an important source of aftermarket revenue, where products are expected to ensure the maximum operating time of many key industrial processes. Over the past several years, we have significantly invested in our aftermarket strategy to provide local support to drive customer investments in our offerings and use of our services to replace or repair installed products. The aftermarket portion of our business also helps provide business stability during various economic periods. The aftermarket business, which is primarily served by our network of 191 QRCs located around the globe, provides a variety of service offerings for our customers including spare parts, service solutions, product life cycle solutions and other value-added services. It is generally a higher margin business compared to our original equipment business and a key component of our profitable growth strategy.

Our operations are conducted through three business segments that are referenced throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"):

• Engineered Product Division ("EPD") for long lead time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services;

• Industrial Product Division ("IPD") for pre-configured engineered pumps and pump systems and related products and services; and

• Flow Control Division ("FCD") for engineered and industrial valves, control valves, actuators and controls and related services.

Our business segments share a focus on industrial flow control technology and have a high number of common customers. These segments also have complementary product offerings and technologies that are often combined in applications that provide us a net competitive advantage. Our segments also benefit from our global footprint and our economies of scale in reducing administrative and overhead costs to serve customers more cost effectively. For example, our segment leadership reports to our Chief Operating Officer ("COO") and the segments share leadership for operational support functions, such as research and development, marketing and supply chain.

The reputation of our product portfolio is built on more than 50 well-respected brand names such as Worthington, IDP, Valtek, Limitorque, Durco, Edward, Anchor/Darling and Durametallc, which we believe to be one of the most comprehensive in the industry. Our products and services are sold either directly or through designated channels to more than 10,000 companies, including some of the world's leading engineering, procurement and construction ("EPC") firms, original equipment manufacturers, distributors and end users.

We continue to build on our geographic breadth through our QRC network with the goal to be positioned as near to customers as possible for service and support in order to capture valuable aftermarket business. Along with ensuring that we have the local capability to sell, install and service our equipment in remote regions, it is equally imperative to



continuously

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improve our global operations. We continue to expand our global supply chain capability to meet global customer demands and ensure the quality and timely delivery of our products. We continue to devote resources to improving the supply chain processes across our business segments to find areas of synergy and cost reduction and to improve our supply chain management capability to ensure it can meet global customer demands. We also remain focused on improving on-time delivery and quality, while managing warranty costs as a percentage of sales across our global operations, through the assistance of a focused Continuous Improvement Process ("CIP") initiative. The goal of the CIP initiative, which includes lean manufacturing, six sigma business management strategy and value engineering, is to maximize service fulfillment to customers through on-time delivery, reduced cycle time and quality at the highest internal productivity.

In 2015, we were challenged by broad-based capital spending declines, originating in the oil and gas industry, heightened pricing pressures and negative currency impacts caused by a stronger U.S. dollar. This was further compounded by economic and geo-political conditions in Latin America, the Middle East and China. In addition, we experienced lower than expected activity levels in our aftermarket business due to deferred spending of our customers' repair and maintenance budgets. We expect that the current environment will persist into 2016.

To better align costs and improve long-term efficiency, we initiated realignment programs, inclusive of those associated with the SIHI acquisition, to accelerate both short- and long-term strategic plans, including targeted manufacturing optimization through the consolidation of facilities, SG&A efficiency initiatives and transfer of activities from high-cost regions to lower-cost facilities. We currently estimate an approximate 18% reduction in our global workforce from these realignment programs. With an expected total investment of approximately \$400 million, including projects still under final evaluation, we expect the results of these realignment programs will deliver annualized run-rate savings of approximately \$230 million with a portion realized in 2015 and an increasingly larger amount realized in 2016 and 2017. In addition, we are continuing to focus on our ongoing low-cost sourcing, including greater use of third-party suppliers and increasing our lower-cost, emerging market capabilities. For further discussion of our realignment programs see Note 18 to our consolidated financial statements included in Item 8 of this Annual Report.

#### Our Markets

The following discussion should be read in conjunction with the "Outlook for 2016" section included below in this MD&A.

Our products and services are used in several distinct industries: oil and gas, chemical, power generation, water management, and a number of other industries that are collectively referred to as "general industries." Demand for most of our products depends on the level of new capital investment and planned and unplanned maintenance expenditures by our customers. The level of new capital investment depends, in turn, on capital infrastructure projects driven by the need for oil and gas, chemicals, power generation and water management, as well as general economic conditions. These drivers are generally related to the phase of the business cycle in their respective industries and the expectations of future market behavior. The levels of maintenance expenditures are additionally driven by the reliability of equipment, planned and unplanned downtime for maintenance and the required capacity utilization of the process.

Sales to EPC firms and original equipment manufacturers are typically for large project orders and critical applications, as are certain sales to distributors. Project orders are typically procured for customers either directly from us or indirectly through contractors for new construction projects or facility enhancement projects.

The quick turnaround business, which we also refer to as "short-cycle," is defined as orders that are received from the customer (booked) and shipped generally within six months of receipt. These orders are typically for more standardized, general purpose products, parts or services. Each of our three business segments generate certain levels of this type of business.

In the sale of aftermarket products and services, we benefit from a large installed base of our original equipment, which requires periodic maintenance, repair and replacement parts. We use our manufacturing platform and global network of QRCs to offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics,

repair and retrofitting. In geographic regions where we are positioned to provide quick response, we believe customers have traditionally relied on us, rather than our competitors, for aftermarket products due to our highly engineered and customized products. However, the aftermarket for standard products is competitive, as the existence of common standards allows for easier replacement of the installed products. As proximity of service centers, timeliness of delivery and quality are important considerations for all aftermarket products and services, we continue to selectively expand our global QRC capabilities to improve our ability to capture this important aftermarket business.

### Oil and Gas

The oil and gas industry represented approximately 36% and 43% of our bookings in 2015 and 2014, respectively. Capital spending in the oil and gas industry decreased in 2015 compared to the previous year due to broad-based capital spending declines, heightened pricing pressures and negative currency impacts caused by a stronger U.S. dollar. Aftermarket opportunities in this industry decreased in 2015 due to deferred spending on our customers' repair and maintenance budgets and the impact of end-user union strikes in North America.

The outlook for the oil and gas industry is heavily dependent on the demand growth from both mature markets and developing geographies. We believe increased crude oil supply resulted in the significant decline in the price of oil beginning in the fourth quarter of 2014. We believe the lower oil prices will continue to negatively impact oil and gas upstream investment most acutely and impact mid-stream and downstream investment to a lesser extent. In addition, a reduction in the overall level of spending by oil and gas companies could continue to decrease demand for our products and services. However, we believe the long-term fundamentals for this industry remain solid in spite of a near-term down cycle as the industry works through current excess supply with projected depletion rates of existing fields and forecasted long-term demand growth. With our long-standing reputation in providing successful solutions for upstream, mid-stream and downstream applications, along with the advancements in our portfolio of offerings, we believe that we continue to be well-positioned to assist our customers in this challenging environment.

### Chemical

The chemical industry, which represented approximately 22% and 20% of our bookings in 2015 and 2014, respectively, experienced a decreased level of capital spending in 2015 due to broad-based capital spending declines, heightened pricing pressures and negative currency impacts caused by a stronger U.S. dollar. The aftermarket opportunities decreased in 2015 due to deferred spending of our customers' repair and maintenance budgets and the impact of union strikes of our customers in North America.

The outlook for the chemical industry remains heavily dependent on global economic conditions. As global economies stabilize and unemployment conditions improve, a rise in consumer spending should follow. An increase in spending would drive greater demand for chemical-based products supporting improved levels of capital investment. We believe the chemical industry in the near-term will continue to invest in North America capacity additions, maintenance and upgrades for optimization of existing assets and that developing regions will selectively invest in capital infrastructure to meet current and future indigenous demand. We believe our global presence and our localized aftermarket capabilities are well-positioned to serve the potential growth opportunities in this industry.

### Power Generation

The power generation industry represented approximately 14% and 12% of our bookings in 2015 and 2014, respectively. In 2015, the power generation industry continued to experience some softness in capital spending in the mature regions driven by the uncertainty related to environmental regulations, as well as potential regulatory impacts to the overall civilian nuclear market. In the developing regions, capital investment remained in place driven by increased demand forecasts for electricity in countries such as China and India. Global concerns about the environment continue to support an increase in desired future capacity from renewable energy sources. The majority of the active and planned construction throughout 2015 continued to utilize designs based on fossil fuels. Natural gas increased its percentage of utilization driven by market prices for gas remaining low and relatively stable. With the potential of unconventional sources of gas, such as shale gas, the power generation industry is forecasting an increased use of this form of fuel for power generation plants.

We believe the outlook for the power generation industry remains favorable. Current legislative efforts to limit the emissions of carbon dioxide may have an adverse effect on investment plans depending on the potential requirements imposed and the timing of compliance by country. However, we believe that proposed methods of limiting carbon dioxide emissions offer business opportunities for our products and services. We believe the long-term fundamentals for the power generation industry remain solid based on projected increases in demand for electricity driven by global population growth, advancements of industrialization and growth of urbanization in developing markets. We also believe that our long-standing reputation in the power generation industry, our portfolio of offerings for the various generating methods, our advancements in serving the renewable energy market and carbon capture methodologies, as well as our global service and support structure, position us well for the future opportunities in this important industry.



### Water Management

The water management industry represented approximately 4% and 3% our bookings in 2015 and 2014, respectively. Water management industry activity level experienced some softness in 2015 despite worldwide demand for fresh water and water treatment continuing to create requirements for new facilities or for upgrades of existing systems, many of which require products that we offer, particularly pumps. The proportion of people living in regions that find it difficult to meet water requirements is expected to double by 2025. We believe that the persistent demand for fresh water during all economic cycles supports continued investments.

### General Industries

General industries represented, in the aggregate, approximately 24% and 22% of our bookings in 2015 and 2014, respectively. General industries comprises a variety of different businesses, including mining and ore processing, pharmaceuticals, pulp and paper, food and beverage and other smaller applications, none of which individually represented more than 5% of total bookings in 2015 and 2014. General industries also includes sales to distributors, whose end customers operate in the industries we primarily serve.

The outlook for this group of industries is heavily dependent upon the condition of global economies and consumer confidence levels. The long-term fundamentals of many of these industries remain sound, as many of the products produced by these industries are common staples of industrialized and urbanized economies. We believe that our specialty product offerings designed for these industries and our aftermarket service capabilities will provide continued business opportunities.

## OUR RESULTS OF OPERATIONS

Throughout this discussion of our results of operations, we discuss the impact of fluctuations in foreign currency exchange rates. We have calculated currency effects by translating current year results on a monthly basis at prior year exchange rates for the same periods.

Effective March 28, 2013, we and our joint venture partner agreed to exit our joint venture, Audco India, Limited ("AIL"), which manufactures integrated industrial valves in India. To effect the exit, in two separate transactions, we acquired 100% ownership of AIL's plug valve manufacturing business in an asset purchase and sold our 50% equity interest in AIL to the joint venture partner. Effective December 10, 2013, we acquired for inclusion in IPD, Innovative Mag-Drive, LLC ("Innomag"), a privately-owned, United States ("U.S.") based company specializing in advanced sealless magnetic drive centrifugal pumps in the chemical and general industries. The results of operations of Innomag and AIL have been consolidated since the applicable acquisition dates. No pro forma information has been provided for these acquisitions due to immateriality.

Effective March 31, 2014, we sold our FCD Naval OY ("Naval") business to a Finnish valve manufacturer. The sale included Naval's manufacturing facility located in Laitila, Finland and a service and support center located in St. Petersburg, Russia.

Effective January 7, 2015, we acquired for inclusion in IPD, 100% of SIHI Group B.V. ("SIHI"), a global provider of engineered vacuum and fluid pumps and related services. The impact of the acquisition of SIHI for the the year ended December 31, 2015 included bookings of \$270.1 million, sales of \$294.2 million, gross profit of \$53.8 million, operating loss of \$47.6 million (including realignment costs of \$29.9 million, purchase accounting adjustments of \$23.0 million and acquisition-related costs of \$11.6 million) and period end backlog of \$94.2 million. No pro forma information has been provided for this acquisition due to immateriality.

Note 2 to our consolidated financial statements included in Item 8. "Financial Statements and Supplementary Data" ("Item 8") of this Annual Report discusses the details of the above acquisitions, disposition and the exit of the joint venture.

In the first quarter of 2015, we initiated the R1 Realignment Program to reduce and optimize certain non-strategic QRCs and manufacturing facilities from the SIHI acquisition. We anticipate a total investment in this program of approximately \$50 million.

In the second quarter of 2015, we initiated the R2 Realignment Program to better align costs and improve long-term efficiency, including further manufacturing optimization through the consolidation of facilities, a reduction in our workforce and the transfer of activities from high-cost regions to lower-cost facilities. In the fourth quarter of 2015, we expanded the scope of our previously announced R2 Realignment Program to accelerate our long-term plans by

implementing key strategic and structural changes to our operating platform and cost structure. Subject to final evaluation, we anticipate a total investment in this program of approximately \$350 million, including amounts recorded to income tax expense.

The total charges for realignment programs by segment are detailed below for the year ended December 31, 2015:

| (Amounts in thousands) | Engineered Product Division | Industrial Product Division | Flow Control Division | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
|------------------------|-----------------------------|-----------------------------|-----------------------|------------------------------|----------------------------|--------------------|
| Cost of sales          | \$20,261                    | \$28,760                    | \$17,878              | \$ 66,899                    | \$—                        | \$66,899           |
| SG&A                   | 13,448                      | 16,700                      | 11,027                | 41,175                       | —                          | 41,175             |
|                        | \$33,709                    | \$45,460                    | \$28,905              | \$ 108,074                   | \$—                        | \$108,074          |

In addition to the charges above, \$8.9 million related to the realignment programs was reported in income tax expense in our consolidated statement of income for the year ended December 31, 2015. We anticipate that the majority of the remaining charges related to our realignment programs will be incurred in 2016.

Upon completion of the realignment programs, we expect annual run-rate cost savings of approximately \$230 million, with a portion realized in 2015 and an increasingly larger amount realized in 2016 and 2017. Actual savings realized could vary from expected savings, which represent management's best estimate to date.

The following discussion should be read in conjunction with the "Outlook for 2016" section included in this MD&A.

#### Bookings and Backlog

|                         | 2015                  | 2014      | 2013      |
|-------------------------|-----------------------|-----------|-----------|
|                         | (Amounts in millions) |           |           |
| Bookings                | \$4,176.8             | \$5,161.0 | \$4,881.4 |
| Backlog (at period end) | 2,173.2               | 2,704.2   | 2,556.9   |

We define a booking as the receipt of a customer order that contractually engages us to perform activities on behalf of our customer in regards to the manufacture, delivery, and/or support of products or the delivery of service. Bookings recorded and subsequently canceled within the same fiscal period are excluded from bookings. Bookings in 2015 decreased by \$984.2 million, or 19.1%, as compared with 2014. The decrease included negative currency effects of approximately \$377 million. The decrease was primarily driven by the oil and gas industry, and to a lesser extent, the general and chemical industries. The decrease was more heavily weighted toward customer original equipment bookings.

Bookings in 2014 increased by \$279.6 million, or 5.7%, as compared with 2013. The increase included negative currency effects of approximately \$113 million. The increase was driven by the oil and gas, chemical and general industries, partially offset by the water management industry. The increase was more heavily weighted toward customer original equipment bookings.

Backlog represents the aggregate value of booked but uncompleted customer orders and is influenced primarily by bookings, sales, cancellations and currency effects. Backlog of \$2.2 billion at December 31, 2015 decreased by \$531.0 million, or 19.6%, as compared with December 31, 2014. The decrease included negative currency effects of approximately \$145 million (currency effects on backlog are calculated using the change in period end exchange rates). The decrease includes the impact of cancellations of \$118.4 million of orders booked during prior years. Order cancellations do not typically result in material negative impacts to our financial results due to the cancellation provisions of our long lead time contracts. Backlog related to aftermarket orders was approximately 26% and 25% of the backlog at December 31, 2015 and 2014, respectively. Backlog of \$2.7 billion at December 31, 2014 increased by \$147.3 million, or 5.8%, as compared with December 31, 2013. The increase included negative currency effects of approximately \$154 million.

#### Sales

|       | 2015                  | 2014      | 2013      |
|-------|-----------------------|-----------|-----------|
|       | (Amounts in millions) |           |           |
| Sales | \$4,561.0             | \$4,877.9 | \$4,954.6 |

Sales in 2015 decreased by \$316.9 million, or 6.5%, as compared with 2014. The decrease included negative currency effects of approximately \$433 million. The decrease was more heavily weighted towards original equipment sales.

#### Sales





decreased into every region except for sales into Europe, primarily due to the favorable impact of SIHI sales into the region. Sales in 2015 include \$294.2 million sales from SIHI which do not compare to 2014.

Sales in 2014 decreased by \$76.7 million, or 1.5%, as compared with 2013. The decrease included negative currency effects of approximately \$112 million. The decrease was due to decreased original equipment sales, partially offset by increased aftermarket sales, and was driven by decreased sales into Europe, the Middle East and Asia Pacific, partially offset by increased sales into North America. The sale of the Naval business in the first quarter of 2014 also resulted in a negative impact to the 2013 comparison.

Sales to international customers, including export sales from the U.S., were approximately 66% of total sales in 2015, 68% in 2014 and 71% in 2013. Sales into Europe, the Middle East and Africa ("EMA") were approximately 34%, 32% and 35% of total sales in 2015, 2014 and 2013, respectively. Sales into Asia Pacific were approximately 18% of total sales in 2015 and 20% for both 2014 and 2013. Sales into Latin America were approximately 9% of total sales in 2015 and 11% for both 2014 and 2013.

Gross Profit and Gross Profit Margin

|                     | 2015                                      | 2014      | 2013      |  |   |
|---------------------|---|-----------|-----------|--|---|
|                     | (Amounts in millions, except percentages) |           |           |  |   |
| Gross profit        | \$1,487.3                                 | \$1,714.6 | \$1,688.1 |  |   |
| Gross profit margin | 32.6                                      | % 35.2    | % 34.1    |  | % |

Gross profit in 2015 decreased by \$227.3 million, or 13.3%, as compared with 2014. Gross profit margin in 2015 of 32.6% decreased from 35.2% in 2014. The decrease in gross profit margin was primarily attributed to the negative impact of margins resulting from purchase accounting adjustments on acquired SIHI backlog and inventory of \$18.1 million, charges related to our realignment programs of \$66.9 million, and to a lesser extent, certain lower margin projects that shipped from backlog and the negative impact of decreased sales on our absorption of fixed manufacturing costs, as compared with the same period in 2014. The decrease was partially offset by a decrease in compensation, which included a decrease in broad-based annual incentive program compensation, and a mix shift to higher margin aftermarket sales. Aftermarket sales increased to approximately 43% of total sales, as compared with approximately 42% of total sales for the same period in 2014.

Gross profit in 2014 increased by \$26.5 million, or 1.6%, as compared with 2013. Gross profit margin in 2014 of 35.2% increased from 34.1% in 2013. The increase in gross profit margin was primarily attributed to a mix shift to higher margin aftermarket sales, the effects of lower costs as a result of operational improvements and disciplined selectivity of customer bookings, as compared with the same period in 2013. Aftermarket sales increased to approximately 42% of total sales, as compared with approximately 40% of total sales for the same period in 2013.  
SG&A

|                               | 2015                                      | 2014    | 2013    |  |   |
|-------------------------------|---|---------|---------|--|---|
|                               | (Amounts in millions, except percentages) |         |         |  |   |
| SG&A                          | \$971.6                                   | \$936.9 | \$966.8 |  |   |
| SG&A as a percentage of sales | 21.3                                      | % 19.2  | % 19.5  |  | % |

SG&A in 2015 increased by \$34.7 million, or 3.7%, as compared with 2014. Currency effects yielded a decrease of approximately \$81 million. SG&A as a percentage of sales in 2015 increased 210 basis points as compared with the same period in 2014 due in part to \$41.2 million of charges related to our realignment programs, \$11.6 million of SIHI acquisition-related costs, lower sales leverage, a \$11.9 million increase in bad debt expense and the \$13.4 million gain from the sale of the Naval business in the first quarter of 2014, partially offset by a decrease in compensation, which included a decrease in broad-based annual incentive program compensation, and a \$6.8 million gain from the reversal of contingent consideration on our purchase of Innovative Mag-Drive, LLC ("Innomag").

SG&A in 2014 decreased by \$29.9 million, or 3.1%, as compared with 2013. Currency effects yielded a decrease of approximately \$15 million. The decrease was primarily attributable to the 2014 gains noted below and decreased

selling-related expenses. SG&A as a percentage of sales in 2014 decreased 30 basis points as compared with the same period in 2013 due primarily to a \$13.4 million gain from the sale of the Naval business in the first quarter of 2014 and a gain from certain legal matters in the fourth quarter of 2014.

## Net Earnings from Affiliates

|                              | 2015                  | 2014   | 2013   |
|------------------------------|-----------------------|--------|--------|
|                              | (Amounts in millions) |        |        |
| Net earnings from affiliates | \$9.9                 | \$12.1 | \$39.0 |

Net earnings from affiliates represents our net income from investments in eight joint ventures (one located in each of Chile, Japan, Saudi Arabia, South Korea, the United Arab Emirates, and India and two in China) that are accounted for using the equity method of accounting. Net earnings from affiliates in 2015 decreased by \$2.2 million primarily as a result of decreased earnings of our EPD joint venture in South Korea. Net earnings from affiliates in 2014 decreased by \$26.9 million as compared with 2013 primarily as a result of the AIL transactions, which resulted in total pre-tax gains of \$28.3 million recorded in net earnings from affiliates in 2013.

## Operating Income

|   | 2015                                      | 2014    | 2013    |
|---|---|---------|---------|
|   | (Amounts in millions, except percentages) |         |         |
| Operating income                          | \$525.6                                   | \$789.8 | \$760.3 |
| Operating income as a percentage of sales | 11.5                                      | % 16.2  | % 15.3  |

Operating income in 2015 decreased by \$264.2 million, or 33.5%, as compared with 2014. The decrease was primarily a result of the \$227.3 million decrease in gross profit and the \$34.7 million increase in SG&A discussed above. The decrease included negative currency effects of approximately \$46 million and \$108.1 million of realignment expense.

Operating income in 2014 increased by \$29.5 million, or 3.9%, as compared with 2013. The increase included negative currency effects of approximately \$23 million. The increase was primarily a result of the \$26.5 million increase in gross profit and the \$29.9 million decrease in SG&A discussed above, partially offset by the \$28.3 million in pre-tax gains in 2013 from the AIL transactions that did not recur in 2014.

## Interest Expense and Interest Income

|                  | 2015                  | 2014     | 2013     |
|------------------|-----------------------|----------|----------|
|                  | (Amounts in millions) |          |          |
| Interest expense | \$(65.3)              | \$(60.3) | \$(54.4) |
| Interest income  | 2.1                   | 1.7      | 1.4      |

Interest expense in 2015 increased by \$5.0 million as compared with 2014. The increase was primarily attributable to interest expense associated with increased borrowings in 2015 related to our public offering of €500.0 million of Euro senior notes in aggregate principal amount due March 17, 2022 (the "2022 EUR Senior Notes") issued on March 17, 2015. Interest expense in 2014 increased by \$5.9 million as compared with 2013. The increase was attributable to interest expense associated with the senior notes issued in the fourth quarter of 2013. See Note 10 to our consolidated financial statements included in Item 8 of this Annual Report for definition and discussion of our various credit resources.

Interest income in 2015 increased by \$0.4 million as compared with 2014. The increase was primarily attributable to higher average cash balances in 2015 as compared with 2014. Interest income in 2014 increased by \$0.3 million compared to 2013. The increase was primarily attributable to higher average cash balances in 2014 as compared with 2013.

## Other (Expense) Income, net

|                             | 2015                  | 2014  | 2013     |
|-----------------------------|-----------------------|-------|----------|
|                             | (Amounts in millions) |       |          |
| Other (expense) income, net | \$(40.2)              | \$2.0 | \$(14.3) |

Other expense, net increased \$42.2 million from income of \$2.0 million in 2014 to a loss of \$40.2 million in 2015. The increase was primarily due to a \$57.0 million increase in losses arising from transactions in currencies other than our sites' functional currencies, including the impact of the \$18.5 million loss as a result of the first quarter of 2015 remeasurement of our bolivar-denominated Venezuelan net monetary assets, partially offset by a \$15.4 million

increase in gains from foreign

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exchange contracts. The changes are primarily due to the foreign currency exchange rate movements of the Brazilian real, Mexican peso and Euro in relation to the U.S. dollar as compared with the same period in 2014.

Other income, net increased \$16.3 million from a loss of \$14.3 million in 2013 to a gain of \$2.0 million in 2014. The increase was primarily due to a \$12.8 million increase in gains from foreign exchange contracts and a \$2.7 million decrease in losses arising from transactions in currencies other than our sites' functional currencies. The change is primarily due to the foreign currency exchange rate movements of the Mexican peso, Japanese yen and Euro in relation to the U.S. dollar.

#### Tax Expense and Tax Rate

|                            | 2015                                      | 2014    | 2013    |   |
|----------------------------|---|---------|---------|---|
|                            | (Amounts in millions, except percentages) |         |         |   |
| Provision for income taxes | \$148.9                                   | \$208.3 | \$204.7 |   |
| Effective tax rate         | 35.3                                      | % 28.4  | % 29.5  | % |

The 2015 tax rate differed from the federal statutory rate of 35% primarily due to tax impacts of the realignment programs, the non-deductible Venezuelan exchange rate remeasurement loss and the establishment of a valuation allowance against our deferred tax assets in Brazil in the amount of \$12.6 million (due to deteriorating economic conditions in Brazil), substantially offset by the net impact of foreign operations, which included the impacts of lower foreign tax rates and changes in our reserves established for uncertain tax positions. Our effective tax rate of 35.3% for the year ended December 31, 2015 increased from 28.4% in 2014 due primarily to the unfavorable tax impacts described above. The 2014 and 2013 effective tax rates differed from the federal statutory rate of 35% primarily due to the net impact of foreign operations, which included the impacts of lower foreign tax rates and changes in our reserves established for uncertain tax positions.

On May 17, 2006, the Tax Increase Prevention and Reconciliation Act of 2005 was signed into law, creating an exclusion from U.S. taxable income for certain types of foreign related party payments of dividends, interest, rents and royalties that, prior to 2006, had been subject to U.S. taxation. On December 18, 2015, this exclusion was further extended for five additional years. This exclusion is effective for the years 2006 through 2019, and applies to certain of our related party payments.

Our effective tax rate is based upon current earnings and estimates of future taxable earnings for each domestic and international location. Changes in any of these and other factors, including our ability to utilize foreign tax credits and net operating losses or results from tax audits, could impact the tax rate in future periods. As of December 31, 2015, we have foreign tax credits of \$46.5 million, expiring in 2021 through 2024 against which we recorded a valuation allowance of \$0.6 million. Additionally, we have recorded other net deferred tax assets of \$42.2 million, which relate to net operating losses, tax credits and other deductible temporary differences that are available to reduce taxable income in future periods, most of which do not have a definite expiration. Should we not be able to utilize all or a portion of these credits and losses, our effective tax rate would increase.

#### Net Earnings and Earnings Per Share

|  | 2015  | 2014    | 2013    |
|--|---|---------|---------|
|  | (Amounts in millions, except per share amounts) |         |         |
| Net earnings attributable to Flowserve Corporation | \$267.7   | \$518.8 | \$485.5 |
| Net earnings per share — diluted                   | \$2.00  | \$3.76  | \$3.41  |
| Average diluted shares                             | 133.8   | 137.8   | 142.4   |

Net earnings in 2015 decreased by \$251.1 million to \$267.7 million, or to \$2.00 per diluted share, as compared with 2014. The decrease was primarily attributable to a \$264.2 million decrease in operating income, a \$42.2 million increase in other expense, net and a \$5.0 million increase in interest expense, partially offset by a \$59.4 million decrease in tax expense.

Net earnings in 2014 increased by \$33.3 million to \$518.8 million, or to \$3.76 per diluted share, as compared with 2013. The increase was primarily attributable to a \$29.5 million increase in operating income and a \$16.3 million increase in other income, net, partially offset by a \$5.9 million increase in interest expense and a \$3.6 million increase in tax expense.



## Other Comprehensive (Loss) Income

|                                   | 2015                  | 2014       | 2013    |
|-----------------------------------|-----------------------|------------|---------|
|                                   | (Amounts in millions) |            |         |
| Other comprehensive (loss) income | \$(158.2              | ) \$(158.8 | ) \$2.8 |

Other comprehensive loss in 2015 decreased by \$0.6 million to \$158.2 million as compared to \$158.8 million in 2014. The loss was primarily due to the foreign currency exchange rate movements of the Euro, Brazilian real and Argentine peso versus the U.S. dollar at December 31, 2015 as compared with 2014.

Other comprehensive loss in 2014 increased to \$158.8 million as compared to income of \$2.8 million in 2013. The increase was almost entirely due to foreign currency translation impacts resulting from the weakening of the Euro versus the U.S. dollar and, to a lesser extent, all other major currencies that we have exposure to at December 31, 2014 as compared with December 31, 2013.

## Business Segments

We conduct our operations through three business segments based on type of product and how we manage the business. We evaluate segment performance and allocate resources based on each segment's operating income. See Note 16 to our consolidated financial statements included in Item 8 of this Annual Report for further discussion of our segments. The key operating results for our three business segments, EPD, IPD and FCD, are discussed below.

## Engineered Product Division Segment Results

Our largest business segment is EPD, through which we design, manufacture, distribute and service custom and other highly-engineered pumps and pump systems, mechanical seals and auxiliary systems (collectively referred to as "original equipment"). EPD includes longer lead time, highly-engineered pump products, and shorter cycle engineered pumps and mechanical seals that are generally manufactured within shorter lead times. EPD also manufactures replacement parts and related equipment and provides a full array of replacement parts, repair and support services (collectively referred to as "aftermarket"). EPD primarily operates in the oil and gas, power generation, chemical, water management and general industries. EPD operates in 47 countries with 33 manufacturing facilities worldwide, 10 of which are located in Europe, 11 in North America, seven in Asia and five in Latin America, and it has 129 QRCs, including those co-located in manufacturing facilities and/or shared with FCD.

|   | EPD                                       |           |           |   |
|---|---|-----------|-----------|---|
|   | 2015                                      | 2014      | 2013      |   |
|   | (Amounts in millions, except percentages) |           |           |   |
| Bookings  | \$2,065.6                                 | \$2,832.8 | \$2,581.7 |   |
| Sales   | 2,260.0                                   | 2,564.6   | 2,650.4   |   |
| Gross profit                                      | 746.4                                     | 892.5     | 903.6     |   |
| Gross profit margin                               | 33.0                                      | % 34.8    | % 34.1    | % |
| Segment operating income                          | 329.0                                     | 447.2     | 445.2     |   |
| Segment operating income as a percentage of sales | 14.6                                      | % 17.4    | % 16.8    | % |
| Backlog (at period end)                           | 1,157.3                                   | 1,573.3   | 1,379.8   |   |

Bookings in 2015 decreased by \$767.2 million, or 27.1%, as compared with 2014. The decrease included negative currency effects of approximately \$228 million. The decrease in customer bookings was primarily driven by the oil and gas industry, and to a lesser extent, the chemical and general industries. Customer bookings decreased \$267.5 million into North America, \$226.0 million into Latin America, \$149.1 million into Europe, and \$92.4 million into Asia Pacific. The decrease was more heavily weighted toward customer original equipment bookings. Of the \$2.1 billion of bookings in 2015, approximately 47% were from oil and gas, 19% from general industries, 17% from chemical, 15% from power generation and 2% from water management. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$18.9 million.

Bookings in 2014 increased by \$251.1 million, or 9.7%, as compared with 2013. The increase included negative currency effects of approximately \$103 million. The increase in customer bookings was primarily driven by the oil and gas





and chemical industries, partially offset by the power generation industry. Customer bookings increased \$208.6 million into North America, \$60.8 million into Europe, \$46.8 million into Latin America and \$41.5 million into the Middle East, partially offset by a decrease of \$115.8 million into Asia Pacific. The increase was more heavily weighted toward customer aftermarket bookings. Of the \$2.8 billion of bookings in 2014, approximately 55% were from oil and gas, 16% from chemical, 15% from general industries, 13% from power generation and 1% from water management. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) increased \$9.7 million.

Sales in 2015 decreased \$304.6 million, or 11.9%, as compared with 2014. The decrease included negative currency effects of approximately \$258 million. The decrease was primarily driven by decreased original equipment sales, resulting from decreased customer sales of \$127.4 million into Asia Pacific, \$71.4 million into Latin America, \$39.9 million into the Middle East, \$27.8 million into Europe and \$11.3 million into North America. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) decreased \$10.0 million.

Sales in 2014 decreased \$85.8 million, or 3.2%, as compared with 2013. The decrease included negative currency effects of approximately \$101 million. The decrease was primarily driven by decreased original equipment sales, primarily resulting from decreased customer sales of \$63.0 million into Asia Pacific, \$41.4 million into the Middle East, \$38.7 million into Europe, \$27.0 million into Latin America and \$19.9 million into Africa, partially offset by increased sales of \$96.7 million into North America. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) increased \$1.3 million.

Gross profit in 2015 decreased by \$146.1 million, or 16.4%, as compared with 2014. Gross profit margin in 2015 of 33.0% decreased from 34.8% in 2014. The decrease in gross profit margin was primarily attributable to the charges related to our realignment programs and the negative impact of decreased sales on our absorption of fixed manufacturing costs, partially offset by a decrease in broad-based annual incentive program compensation.

Gross profit in 2014 decreased by \$11.1 million, or 1.2%, as compared with 2013. Gross profit margin in 2014 of 34.8% increased from 34.1% in 2013. The increase in gross profit margin was primarily attributable to a mix shift to higher margin aftermarket sales, disciplined selectivity of customer bookings and the effects of lower costs associated with operational execution improvements, partially offset by the negative impact of decreased sales on the absorption of fixed manufacturing costs.

Operating income in 2015 decreased by \$118.2 million, or 26.4%, as compared with 2014. The decrease included negative currency effects of approximately \$28 million. The decrease was due to a \$146.1 million decrease in gross profit, partially offset by a \$31.0 million decrease in SG&A (including a decrease due to currency effects of approximately \$49 million). The decrease in SG&A was due primarily to decreased selling and marketing-related expenses resulting from lower sales, savings associated with strategic cost reduction programs and a decrease in broad-based annual incentive program compensation, partially offset by charges related to our realignment programs and increased bad debt expense.

Operating income in 2014 increased by \$2.0 million, or 0.4%, as compared with 2013. The increase included negative currency effects of approximately \$20 million. The increase was due to a \$10.9 million decrease in SG&A (including a decrease due to currency effects of approximately \$14 million) substantially offset by a \$11.1 million decrease in gross profit. The decrease in SG&A was due primarily to decreased selling-related expenses.

Backlog of \$1.2 billion at December 31, 2015 decreased by \$416.0 million, or 26.4%, as compared with December 31, 2014. Currency effects provided a decrease of approximately \$80 million. The decrease includes the impact of cancellations of \$104.0 million of orders booked during prior years. Order cancellations do not typically result in material negative impacts to our financial results due to the cancellation provisions of our long lead time contracts.

Backlog at December 31, 2015 included \$10.5 million of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above). Backlog of \$1.6 billion at December 31, 2014 increased by \$193.5 million, or 14.0%, as compared with December 31, 2013. Currency effects provided a decrease of approximately \$72 million. Backlog at December 31, 2014 included \$16.3 million of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above).

## Industrial Product Division Segment Results

Through IPD we design, manufacture, distribute and service engineered, pre-configured industrial pumps and pump systems, including submersible motors and specialty products, collectively referred to as "original equipment." Additionally, IPD manufactures replacement parts and related equipment, and provides a full array of support services, collectively referred to as "aftermarket". IPD primarily operates in the oil and gas, chemical, water management, power generation and general industries. IPD operates 22 manufacturing facilities, five of which are located in the U.S and 12 in Europe, four in Asia, one in Latin America and it operates 34 QRCs worldwide, including 21 sites in Europe and six in the U.S. three in Latin America and four in Asia, including those co-located in manufacturing facilities.

|   | IPD                                       |         |         |   |   |
|---|---|---------|---------|---|---|
|   | 2015                                      | 2014    | 2013    |   |   |
|   | (Amounts in millions, except percentages) |         |         |   |   |
| Bookings  | \$887.2                                   | \$781.0 | \$747.8 |   |   |
| Sales   | 981.9                                     | 805.9   | 798.4   |   |   |
| Gross profit                                      | 239.7                                     | 221.0   | 204.0   |   |   |
| Gross profit margin                               | 24.4                                      | % 27.4  | % 25.6  | % | % |
| Segment operating income                          | 30.2                                      | 107.0   | 94.8    |   |   |
| Segment operating income as a percentage of sales | 3.1                                       | % 13.3  | % 11.9  | % | % |
| Backlog (at period end)                           | 424.6                                     | 393.9   | 442.6   |   |   |

As discussed in Note 2 to our consolidated financial statements included in Item 8, we acquired SIHI on January 7, 2015. SIHI's post-acquisition operating results are included in IPD's segment results of operations above. No proforma information has been provided for the acquisition due to immateriality. The impact of the acquisition of SIHI for year ended December 31, 2015 includes bookings of \$270.1 million, sales of \$294.2 million, gross profit of \$53.8 million, operating loss of \$47.6 million (including acquisition-related costs of \$11.6 million, purchase accounting adjustments of \$23.0 million and realignment costs of \$29.9 million) and period end backlog of \$94.2 million.

Bookings in 2015 increased by \$106.2 million, or 13.6%, as compared with 2014. The increase included negative currency effects of approximately \$42 million. Increased customer bookings in the chemical, general and power generation industries were partially offset by a decrease in the oil and gas and the water management industries. Bookings increased \$116.1 million into Europe due to SIHI and \$30.7 million into Asia Pacific, partially offset by a \$30.5 million decrease into North America. The increase was primarily driven by customer original equipment bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$4.5 million. Of the \$887.2 million of bookings in 2015, approximately 38% were from general industries, 23% from chemical, 18% from oil and gas, 13% from water management and 8% from power generation. Excluding the \$270.1 million addition from SIHI, bookings for the year ended December 31, 2015 decreased by \$163.9 million, or 21.0%, as compared with the same period in 2014.

Bookings in 2014 increased by \$33.2 million, or 4.4%, as compared with 2013. The increase included negative currency effects of approximately \$4 million. Increased customer bookings in the general, chemical and oil and gas industries were partially offset by a decrease in the power generation industry. The bookings increase of \$43.7 million into North America was partially offset by a decrease of \$8.3 million into Africa. The increase was primarily driven by customer original equipment bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) increased by \$1 million. Of the \$781.0 million of bookings in 2014, approximately 25% were from oil and gas, 34% from general industries, 18% from water management, 16% from chemical and 7% from power generation.

Sales in 2015 increased by \$176.0 million, or 21.8%, as compared with 2014. The increase included negative currency effects of approximately \$50 million and was primarily driven by customer original equipment sales. Customer sales increased \$151.7 million into Europe, \$39.8 million into North America and \$36.6 million into Asia Pacific due to SIHI, partially offset by decreased sales of \$29.6 million into Latin America and \$22.1 million into Africa.

Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) decreased \$0.8 million. Excluding the \$294.2 million addition from SIHI, sales for the year ended December 31, 2015 decreased by \$118.2 million, or 14.7%, as compared with the same period in 2014.

Sales in 2014 increased by \$7.5 million, or 0.9%, as compared with 2013. The decrease included negative currency effects of approximately \$4 million. Decreased customer sales of \$24.2 million into the Middle East, were partially offset

by increased customer sales of \$31.4 million into Asia Pacific. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) decreased \$1.1 million.

Gross profit in 2015 increased by \$18.7 million, or 8.5%, as compared with 2014. Gross profit margin in 2015 of 24.4% decreased from 27.4% in 2014. The decrease in gross profit margin was primarily attributable to charges related to our realignment programs and the negative impact of SIHI's Purchase Accounting Adjustments, partially offset by a decrease in broad-based annual incentive program compensation.

Gross profit in 2014 increased by \$17.0 million, or 8.3%, as compared with 2013. Gross profit margin in 2014 of 27.4% increased from 25.6% in 2013. The increase was primarily attributable to a sales mix shift to higher margin aftermarket sales, lower manufacturing costs resulting from our execution of operational improvements and disciplined selectivity of customer bookings.

Operating income for 2015 decreased by \$76.8 million, or 71.8%, as compared with 2014. The decrease included negative currency effects of approximately \$5 million. The decrease was primarily due to a \$96.6 million increase in SG&A, due primarily to the inclusion of SIHI's SG&A, which included charges related to our realignment programs and acquisition-related costs, and increased bad debt expense, partially offset by a decrease in broad-based annual incentive compensation.

Operating income for 2014 increased by \$12.2 million, or 12.9%, as compared with 2013. The increase included negative currency effects of approximately \$2 million. The increase was due to the \$17.0 million increase in gross profit, partially offset by a \$4.8 million increase in SG&A due in part to increased spending on research and development.

Backlog of \$424.6 million at December 31, 2015 increased by \$30.7 million, or 7.8%, as compared with December 31, 2014. Currency effects provided a decrease of approximately \$16 million. Backlog at December 31, 2015 included \$15.7 million of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above). Backlog of \$393.9 million at December 31, 2014 decreased by \$48.7 million, or 11.0%, as compared to December 31, 2013. Currency effects provided an decrease of approximately \$41 million. Backlog at December 31, 2014 included \$18.0 million of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above). Excluding the \$94.2 million impact of SIHI, backlog decreased by \$63.5 million, or 16.1%, as compared with December 31, 2014.

#### Flow Control Division Segment Results

Our second largest business segment is FCD, which designs, manufactures and distributes a broad portfolio of engineered-to-order and configured-to-order isolation valves, control valves, valve automation products, boiler controls and related services. FCD leverages its experience and application know-how by offering a complete menu of engineered services to complement its expansive product portfolio. FCD has a total of 58 manufacturing facilities and QRCs in 25 countries around the world, with five of its 26 manufacturing operations located in the U.S., 13 located in Europe, seven located in Asia Pacific and one located in Latin America. Based on independent industry sources, we believe that FCD is the fourth largest industrial valve supplier on a global basis.

|   | FCD                                       |           |           |   |
|---|---|-----------|-----------|---|
|   | 2015                                      | 2014      | 2013      |   |
|   | (Amounts in millions, except percentages) |           |           |   |
| Bookings  | \$1,318.5                                 | \$1,665.2 | \$1,661.9 |   |
| Sales   | 1,415.5                                   | 1,615.7   | 1,615.7   |   |
| Gross profit                                      | 497.5                                     | 603.0     | 579.2     |   |
| Gross profit margin                               | 35.1                                      | % 37.3    | % 35.8    | % |
| Segment operating income                          | 234.4                                     | 322.8     | 308.0     |   |
| Segment operating income as a percentage of sales | 16.6                                      | % 20.0    | % 19.1    | % |
| Backlog (at period end)                           | 622.0                                     | 774.8     | 769.6     |   |

Bookings in 2015 decreased \$346.7 million, or 20.8%, as compared with 2014. The decrease included negative currency effects of approximately \$107 million. The decrease in customer bookings was primarily driven by the general, chemical, and oil and gas industries. Customer bookings decreased \$136.2 million into Europe, \$129.8

million into Asia Pacific, \$46.3 million into Latin America and \$37.3 million into North America. The decrease was driven by decreased customer original equipment bookings. Of the \$1.3 billion of bookings in 2015, approximately 32% were from oil and gas, 27% from chemical, 24% from general industries, 15% from power generation and 2% from water management.

Bookings in 2014 increased \$3.3 million, or 0.2%, as compared with 2013. The increase included negative currency effects of approximately \$6 million. The increase in customer bookings was primarily attributable to the power and chemical industries, partially offset by decreases in the oil and gas and general industries. Increased customer bookings of \$53.4 million into the Middle East were partially offset by decreases of \$21.0 million into Latin America, \$11.0 million into Africa and \$9.3 million into Asia Pacific. The increase was driven by increased customer aftermarket bookings. Of the \$1.7 billion of bookings in 2014, approximately 32% were from oil and gas, 28% from chemical, 26% from general industries, 13% from power generation and 1% from water management. Sales in 2015 decreased by \$200.2 million, or 12.4%, as compared with 2014. The decrease included negative currency effects of approximately \$125 million and was primarily driven by decreased customer original equipment sales. Sales decreased \$66.0 million into Asia Pacific, \$54.8 million into Europe, \$38.4 million into North America, \$24.3 million into Latin America, and \$22.2 million into Africa, partially offset by an increase of \$3.5 million into the Middle East.

Sales in 2014 were flat compared with 2013 and included negative currency effects of approximately \$6 million. The sale of the Naval business in the first quarter of 2014 resulted in a negative impact to the comparison of approximately 2%. Increases in customer aftermarket sales were substantially offset by decreases in customer original equipment sales. Increased sales of \$22.5 million into Latin America, \$9.5 million into North America, \$8.8 million into Asia Pacific, and \$5.3 million into Africa were substantially offset by decreased sales of \$35.7 million into Europe and \$9.7 million into the Middle East.

Gross profit in 2015 decreased by \$105.5 million, or 17.5%, as compared with 2014. Gross profit margin in 2015 of 35.1% decreased from 37.3% for the same period in 2014. The decrease in gross profit margin was primarily attributable to unfavorable shift in product line mix and charges related to our realignment programs, partially offset by a decrease in broad-based annual incentive compensation.

Gross profit in 2014 increased by \$23.8 million, or 4.1%, as compared with 2013. Gross profit margin in 2014 of 37.3% increased from 35.8% for the same period in 2013. The increase in gross profit margin was attributable to continued focus on low cost sourcing and cost control initiatives.

Operating income in 2015 decreased by \$88.4 million, or 27.4%, as compared with 2014. The decrease included negative currency effects of approximately \$14 million. The decrease was primarily attributable to the \$105.5 million decrease in gross profit, partially offset by the \$17.2 million decrease in SG&A. The decrease in SG&A was primarily driven by the decrease in broad-based annual incentive compensation, partially offset by charges related to our realignment programs and the \$13.4 million gain from the sale of the Naval business in the first quarter of 2014 that did not recur.

Operating income in 2014 increased by \$14.8 million, or 4.8%, as compared with 2013. The increase included negative currency effects of approximately \$2 million. The increase was primarily attributed to the \$23.8 million increase in gross profit and the \$20.3 million decrease in SG&A. The decrease in SG&A was primarily driven by the \$13.4 million gain from the sale of the Naval business in the first quarter of 2014 and, to a lesser extent, reductions in personnel related expenses and non-recurring realignment charges from 2013. The 2014 gross profit and SG&A improvements were partially offset by the \$28.3 million in pre-tax gains realized from transactions concerning the AIL joint venture in 2013 that did not recur.

Backlog of \$622.0 million at December 31, 2015 decreased by \$152.8 million, or 19.7%, as compared with December 31, 2014. Currency effects provided an decrease of approximately \$49 million. Backlog of \$774.8 million at December 31, 2014 increased by \$5.2 million, or 0.7%, as compared to December 31, 2013. Currency effects provided a decrease of approximately \$41 million.

## LIQUIDITY AND CAPITAL RESOURCES

## Cash Flow Analysis

|   | 2015                  | 2014    | 2013    |
|---|-----------------------|---------|---------|
|   | (Amounts in millions) |         |         |
| Net cash flows provided by operating activities | \$417.1               | \$571.0 | \$487.8 |
| Net cash flows used by investing activities     | (525.3)               | (84.1)  | (168.0) |
| Net cash flows used by financing activities     | 61.3                  | (367.7) | (255.8) |

Existing cash, cash generated by operations and borrowings available under our existing revolving credit facility are our primary sources of short-term liquidity. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. Our sources of operating cash generally include the sale of our products and services and the conversion of our working capital, particularly accounts receivable and inventories. Our total cash balance at December 31, 2015 was \$366.4 million, compared with \$450.4 million at December 31, 2014 and \$363.8 million at December 31, 2013. Our cash provided by operating activities was \$417.1 million, \$571.0 million and \$487.8 million in 2015, 2014 and 2013, respectively, which provided cash to support short-term working capital needs. Working capital increased in 2015 due primarily to lower accounts payable of \$113.6 million and higher inventory of \$26.2 million, partially offset by lower accounts receivable of \$50.4 million. During 2015, we contributed \$43.8 million to our defined benefit pension plans. Working capital increased in 2014 due primarily to higher accounts receivable of \$79.7 million, higher inventory of \$35.5 million and lower accrued liabilities of \$22.7 million, partially offset by higher accounts payable of \$50.8 million. During 2014, we contributed \$43.5 million to our defined benefit pension plans.

Decreases in accounts receivable provided \$50.4 million of cash flow in 2015, as compared with uses of \$79.7 million in 2014 and \$53.8 million in 2013. The decrease in accounts receivable in 2015 was partially attributable to lower sales during the period. We have experienced delays in collecting payment on our accounts receivable from the national oil company in Venezuela, our primary Venezuelan customer. These accounts receivable are primarily U.S. dollar-denominated and are not disputed, and we have not historically had write-offs relating to this customer. Our total outstanding accounts receivable with this customer were approximately 7% and 9% of our gross accounts receivable at December 31, 2015 and December 31, 2014, respectively. Given the experienced delays in collecting payments we estimate that approximately 64% of the outstanding accounts receivable will most likely not be collected within one year and therefore has been classified as long-term within other assets, net on our December 31, 2015 consolidated balance sheet. As of December 31, 2014, we had approximately 48% classified as long-term. The use of cash for accounts receivable in 2014 was partially attributable to increased aging and slower collection of our accounts receivable balances in Latin America, as compared with 2013. For the fourth quarter of 2015 our days' sales outstanding ("DSO") was 72 days, including the amount classified as long-term, discussed above. DSO was 73 days for 2014 and 75 for 2013. We have not experienced a significant increase in customer payment defaults in 2015. Increases in inventory used \$26.2 million of cash flow in 2015 compared with a use of \$35.5 million in 2014 and a source of \$28.6 million in 2013. The use of cash from inventory in 2014 was primarily due to a decrease in progress billings on large orders at December 31, 2014. Inventory turns were 3.6 times at December 31, 2015, compared with 3.6 and 3.5 times for the same period in 2014 and 2013, respectively. Our calculation of inventory turns does not reflect the impact of advanced cash received from our customers.

Cash flows used by investing activities were \$525.3 million, \$84.1 million and \$168.0 million in 2015, 2014 and 2013, respectively. Capital expenditures were \$181.9 million, \$132.6 million and \$139.1 million in 2015, 2014 and 2013, respectively. In 2016, we currently estimate capital expenditures to be between \$105 million and \$115 million before consideration of any acquisition activity. As discussed in Note 2 to our consolidated financial statements included in Item 8, during January 2015 we acquired SIHI for \$341.5 million in cash, during the first quarter of 2014 we sold our Naval business for \$46.8 million in net cash proceeds and in the first quarter of 2013 we sold our 50% equity interest in AIL to our joint venture partner for \$46.2 million in cash.

Cash flows provided by financing activities were \$61.3 million in 2015 compared with a use of cash of \$367.7 million in 2014 and \$255.8 million in 2013. Cash inflows during 2015 resulted primarily from the \$526.3 million in proceeds



from the issuance of the 2022 EUR Senior Notes, partially offset by outflows from the repurchase of \$303.7 million of our common stock, \$93.7 million of dividend payments and \$45.0 million in payments on long-term debt. Cash outflows during 2014

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resulted primarily from the repurchase of \$246.5 million of our common stock, \$85.1 million of dividend payments and \$40.0 million in payments on long-term debt.

We have maintained our previously-announced policy of annually returning 40% to 50% of running two-year average net earnings to shareholders following attainment of the previously announced target leverage ratio. On February 19, 2013, our Board of Directors approved a \$750.0 million share repurchase authorization. On November 13, 2014, our Board of Directors approved a \$500.0 million share repurchase authorization, which included approximately \$175 million of remaining capacity under the previous \$750.0 million share repurchase authorization. As of December 31, 2015, we had \$160.7 million of remaining capacity under our current share repurchase program. While we intend to adhere to this policy for the foreseeable future, any future returns of cash through dividends and/or share repurchases, will be reviewed individually, declared by our Board of Directors and implemented by management at its discretion, depending on our financial condition, business opportunities and market conditions at such time.

In the fourth quarter of 2015, through amendment we extended the maturity of our Senior Credit Facility by two years to October 14, 2020, lowered the sublimits for the issuance of letters of credit and reduced the commitment fee from 0.175% to 0.15% on the daily unused portions of the Senior Credit Facility. The amended Senior Credit Facility also increases the maximum permitted leverage ratio from 3.25 to 3.5 times debt to total Consolidated EBITDA (as defined in the Senior Credit Facility). Additionally, on March 17, 2015, we issued \$500.0 million 2022 EUR Senior Notes, which bear an annual stated interest rate of 1.25%. These items are more fully described in Note 10 to our consolidated financial statements included in Item 8 of this Annual Report.

Our cash needs for the next 12 months are expected to be less than those of 2015 resulting from a decreased level of anticipated capital expenditures and share repurchases, partially offset by increased realignment cash expenditures. We believe cash flows from operating activities, combined with availability under our Revolving Credit Facility and our existing cash balances, will be sufficient to enable us to meet our cash flow needs for the next 12 months.

However, cash flows from operations could be adversely affected by a decrease in the rate of general global economic growth and an extended decrease in capital spending of our customers, as well as economic, political and other risks associated with sales of our products, operational factors, competition, regulatory actions, fluctuations in foreign currency exchange rates and fluctuations in interest rates, among other factors. We believe that cash flows from operating activities and our expectation of continuing availability to draw upon our credit agreements are also sufficient to meet our cash flow needs for periods beyond the next 12 months.

#### Acquisitions and Dispositions

We regularly evaluate acquisition opportunities of various sizes. The cost and terms of any financing to be raised in conjunction with any acquisition, including our ability to raise economical capital, is a critical consideration in any such evaluation.

Note 2 to our consolidated financial statements included in Item 8 of this this Annual Report contains a discussion of acquisitions, disposition and exit of our AIL joint venture.

#### Financing

A discussion of our debt and related covenants is included in Note 10 to our consolidated financial statements included in Item 8 of this this Annual Report. We were in compliance with all covenants as of December 31, 2015. Certain financing arrangements contain provisions that may result in an event of default if there was a failure under other financing arrangements to meet payment terms or to observe other covenants that could result in an acceleration of payment due. Such provisions are referred to as "cross default" provisions. The Senior Credit Facility and the Senior Notes as described in Note 10 to our consolidated financial statements included in Item 8 of this Annual Report are cross-defaulted to each other.

The rating agencies assign credit ratings to certain of our debt. Our access to capital markets and costs of debt could be directly affected by our credit ratings. Any adverse action with respect to our credit ratings could generally cause borrowing costs to increase and the potential pool of investors and funding sources to decrease. In particular, a decline in credit ratings would increase the cost of borrowing under our Senior Credit Facility.

We have entered into interest rate swap agreements to hedge our exposure to variable interest payments related to our Senior Credit Facility. These agreements are more fully described in Note 6 to our consolidated financial statements included in Item 8 of this Annual Report, and in "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" below.



### Liquidity Analysis

Our cash balance decreased by \$83.9 million to \$366.4 million as of December 31, 2015 as compared with December 31, 2014. The cash decrease included \$353.7 million of payments for acquisitions, \$303.7 million of share repurchases, \$181.9 million in capital expenditures, \$93.7 million in dividend payments and \$45.0 million in payments on long-term debt, partially offset by \$417.1 million in operating cash flows and \$526.3 million of proceeds from the issuance of the 2022 EUR Senior Notes.

Approximately 20% of our currently outstanding Term Loan Facility is due to mature in 2016 and 2017. Our Senior Credit Facility matures in October 2020. As of December 31, 2015, we had a borrowing capacity of \$894.8 million on our \$1.0 billion Revolving Credit Facility (including outstanding letters of credit). Our Revolving Credit Facility is committed and held by a diversified group of financial institutions.

At December 31, 2015 and 2014, as a result of increases in values of the plan's assets and our contributions to the plan, our U.S. pension plan was fully-funded as defined by applicable law. After consideration of our intent to maintain fully funded status, we contributed \$20.0 million to our U.S. pension plan in 2015, excluding direct benefits paid of \$1.0 million. We continue to maintain an asset allocation consistent with our strategy to maximize total return, while reducing portfolio risks through asset class diversification.

At December 31, 2015, \$322.3 million of our total cash balance of \$366.4 million was held by foreign subsidiaries, \$236.5 million of which we consider permanently reinvested outside the U.S. Based on the expected 2016 liquidity needs of our various geographies, we currently do not anticipate the need to repatriate any permanently reinvested cash to fund domestic operations that would generate adverse tax results. However, in the event this cash is needed to fund domestic operations, we estimate the \$236.5 million could be repatriated resulting in a U.S. cash tax liability between \$5 million and \$15 million. Should we be required to repatriate this cash, it could limit our ability to assert permanent reinvestment of foreign earnings and invested capital in future periods.

### OUTLOOK FOR 2016

Our future results of operations and other forward-looking statements contained in this Annual Report, including this MD&A, involve a number of risks and uncertainties — in particular, the statements regarding our goals and strategies, new product introductions, plans to cultivate new businesses, future economic conditions, revenue, pricing, gross profit margin and costs, capital spending, expected cost savings from our realignment programs, depreciation and amortization, research and development expenses, potential impairment of investments, tax rate and pending tax and legal proceedings. Our future results of operations may also be affected by employee incentive compensation including our annual program and the amount, type and valuation of share-based awards granted, as well as the amount of awards forfeited due to employee turnover. In addition to the various important factors discussed above, a number of other factors could cause actual results to differ materially from our expectations. See the risks described in "Item 1A. Risk Factors" of this Annual Report.

Our bookings were \$4,176.8 million during 2015. Because a booking represents a contract that can be, in certain circumstances, modified or canceled, and can include varying lengths between the time of booking and the time of revenue recognition, there is no guarantee that bookings will result in comparable revenues or otherwise be indicative of future results.

We believe increased crude oil supply resulted in the significant decline in the price of oil beginning in the fourth quarter of 2014. We believe the lower oil prices will continue to negatively impact oil and gas upstream investment most acutely and impact mid-stream and downstream investment to a lesser extent. In addition, a reduction in the overall level of spending by oil and gas companies could continue to decrease demand for our products and services. However, we believe the long-term fundamentals for this industry remain solid in spite of a near-term down cycle as the industry works through current excess supply with projected depletion rates of existing fields and forecasted long-term demand growth. With our long-standing reputation in providing successful solutions for upstream, mid-stream and downstream applications, along with the advancements in our portfolio of offerings, we believe that we continue to be well-positioned to assist our customers in this challenging environment.

We expect a continued competitive economic environment in 2016. However, we anticipate benefits from the continuation of our end-user strategies, the strength of our high margin aftermarket business, continued disciplined cost management, execution of our Realignment Programs, our diverse customer base, our broad product portfolio and

our unified operating platform. Similar to prior years, we expect our results will be weighted towards the second half of the year. While we believe that our primary markets continue to provide opportunities, we remain cautious in our outlook for 2016 given the continuing uncertainty of capital spending in many of our markets and global economic conditions. For additional discussion on our markets and our opportunities, see the "Business Overview — Our Markets" section of this MD&A.

On December 31, 2015, we had \$1,337.3 million of fixed-rate Senior Notes outstanding and \$285.0 million of variable-rate debt under our Term Loan Facility. As of December 31, 2015, we had no variable interest rate to fixed interest rate derivative contracts. However, because a portion of our debt carries a variable rate of interest, our debt is subject to volatility in rates, which could impact interest expense. We expect our interest expense in 2016 will be relatively consistent with amounts incurred in 2015. Our results of operations may also be impacted by unfavorable foreign currency exchange rate movements. See “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” of this Annual Report.

We expect to generate sufficient cash from operations and have sufficient capacity under our Revolving Credit Facility to fund our working capital, capital expenditures, dividend payments, share repurchases, debt payments and pension plan contributions in 2016. The amount of cash generated or consumed by working capital is dependent on our level of revenues, customer cash advances, backlog, customer-driven delays and other factors. We seek to improve our working capital utilization, with a particular focus on improving the management of accounts receivable and inventory. In 2016, our cash flows for investing activities will be focused on strategic initiatives to pursue new markets, geographic expansion, information technology infrastructure and cost reduction opportunities and we currently estimate capital expenditures to be between \$105 million and \$115 million, before consideration of any acquisition activity. We have \$60.0 million in scheduled principal repayments in 2016 under our Term Loan Facility, and we expect to comply with the covenants under our Senior Credit Facility in 2016. See Note 10 to our consolidated financial statements included in Item 8 of this Annual Report for further discussion of our debt covenants.

We currently anticipate that our minimum contribution to our qualified U.S. pension plan will be approximately \$20 million, excluding direct benefits paid, in 2016 in order to maintain fully-funded status as defined by applicable law. We currently anticipate that our contributions to our non-U.S. pension plans will be approximately \$12 million in 2016, excluding direct benefits paid.

#### CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table presents a summary of our contractual obligations at December 31, 2015:

|  | Payments Due By Period |           |           |                | Total     |
|--|------------------------|-----------|-----------|----------------|-----------|
|  | Within 1 Year          | 1-3 Years | 3-5 Years | Beyond 5 Years |           |
|  | (Amounts in millions)  |           |           |                |           |
| Term Loan Facility and Senior Notes      | \$60.0                 | \$120.0   | \$60.0    | \$1,382.3      | \$1,622.3 |
| Fixed interest payments(1)               | 36.3                   | 72.6      | 72.6      | 72.6           | 254.1     |
| Variable interest payments(2)            | 5.7                    | 8.0       | 1.3       |                | 15.0      |
| Other debt and capital lease obligations | 0.4                    | 8.6       | —         | —              | 9.0       |
| Operating leases                         | 45.5                   | 65.9      | 40.8      | 63.8           | 216.0     |
| Purchase obligations:(3)                 |                        |           |           |                |           |
| Inventory                                | 397.9                  | 10.7      | 0.4       | —              | 409.0     |
| Non-inventory                            | 55.8                   | 1.0       | 0.1       | —              | 56.9      |
| Pension and postretirement benefits(4)   | 58.2                   | 115.5     | 119.8     | 314.6          | 608.1     |
| Total                                    | \$659.8                | \$402.3   | \$295.0   | \$1,833.3      | \$3,190.4 |

(1) Fixed interest payments represent interest payments on the Senior Notes and Term Loan Facility as defined in Note 10 to our consolidated financial statements included in Item 8 of this Annual Report.

(2) Variable interest payments under our Term Loan Facility were estimated using a base rate of three-month LIBOR as of December 31, 2015.

(3) Purchase obligations are presented at the face value of the purchase order, excluding the effects of early termination provisions. Actual payments could be less than amounts presented herein.

(4) Retirement and postretirement benefits represent estimated benefit payments for our U.S. and non-U.S. defined benefit plans and our postretirement medical plans, as more fully described below and in Note 11 to our consolidated financial statements included in Item 8 of this Annual Report.



As of December 31, 2015, the gross liability for uncertain tax positions was \$56.1 million. We do not expect a material payment related to these obligations to be made within the next twelve months. We are unable to provide a reasonably reliable estimate of the timing of future payments relating to the uncertain tax positions.

The following table presents a summary of our commercial commitments at December 31, 2015:

|                   | Commitment Expiration By Period |           |           |                | Total   |
|-------------------|---------------------------------|-----------|-----------|----------------|---------|
|                   | Within 1 Year                   | 1-3 Years | 3-5 Years | Beyond 5 Years |         |
|                   | (Amounts in millions)           |           |           |                |         |
| Letters of credit | \$390.9                         | \$175.7   | \$53.0    | \$29.7         | \$649.3 |
| Surety bonds      | 81.4                            | 7.8       | 1.9       | 0.2            | 91.3    |
| Total             | \$472.3                         | \$183.5   | \$54.9    | \$29.9         | \$740.6 |

We expect to satisfy these commitments through performance under our contracts.

## PENSION AND POSTRETIREMENT BENEFITS OBLIGATIONS

### Plan Descriptions

We and certain of our subsidiaries have defined benefit pension plans and defined contribution plans for full-time and part-time employees. Approximately 64% of total defined benefit pension plan assets and approximately 52% of defined benefit pension obligations are related to the U.S. qualified plan as of December 31, 2015. The assets for the U.S. qualified plan are held in a single trust with a common asset allocation. Unless specified otherwise, the references in this section are to all of our U.S. and non-U.S. plans. None of our common stock is directly held by these plans.

Our U.S. defined benefit plan assets consist of a balanced portfolio of primarily U.S. equity and fixed income securities. Our non-U.S. defined benefit plan assets include a significant concentration of United Kingdom ("U.K.") fixed income securities. In addition, certain of our defined benefit plans hold investments in European equity and fixed income securities as discussed in Note 11 to our consolidated financial statements included in Item 8 of this Annual Report. We monitor investment allocations and manage plan assets to maintain acceptable levels of risk. At December 31, 2015, the estimated fair market value of U.S. and non-U.S. plan assets for our defined benefit pension plans decreased to \$639.0 million from \$642.1 million at December 31, 2014. Assets were allocated as follows:

| Asset category              | U.S. Plan |      |   |
|-----------------------------|-----------|------|---|
|                             | 2015      | 2014 | % |
| U.S. Large Cap              | 19        | % 19 | % |
| U.S. Small Cap              | 4         | % 4  | % |
| International Large Cap     | 14        | % 14 | % |
| Emerging Markets            | 5         | % 5  | % |
| World Equity                | 8         | % 8  | % |
| Equity securities           | 50        | % 50 | % |
| Liability Driven Investment | 39        | % 40 | % |
| Long-Term Government/Credit | 11        | % 10 | % |
| Fixed income                | 50        | % 50 | % |



| Asset category             | Non-U.S. Plans |      |   |
|----------------------------|----------------|------|---|
|                            | 2015           | 2014 |   |
| North American Companies   | 6              | % 3  | % |
| U.K. Companies             | 8              | % 9  | % |
| European Companies         | 3              | % 4  | % |
| Asian Pacific Companies    | 2              | % 3  | % |
| Global Equity              | 8              | % 8  | % |
| Equity securities          | 27             | % 27 | % |
| U.K. Government Gilt Index | 27             | % 30 | % |
| U.K. Corporate Bond Index  | 19             | % 22 | % |
| Global Fixed Income Bond   | 18             | % 19 | % |
| Fixed income               | 64             | % 71 | % |
| Other                      | 9              | % 2  | % |

The projected benefit obligation ("Benefit Obligation") for our defined benefit pension plans was \$812.4 million and \$808.9 million as of December 31, 2015 and 2014, respectively. Benefits under our defined benefit pension plans are based primarily on participants' compensation and years of credited service.

The estimated prior service cost and the estimated actuarial net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net pension expense in 2016 is approximately \$0.5 million and \$9.8 million, respectively. We amortize estimated prior service costs and estimated net losses over the remaining expected service period or over the remaining expected lifetime for plans with only inactive participants.

We sponsor defined benefit postretirement medical plans covering certain current retirees and a limited number of future retirees in the U.S. These plans provide for medical and dental benefits and are administered through insurance companies. We fund the plans as benefits are paid, such that the plans hold no assets in any period presented.

Accordingly, we have no investment strategy or targeted allocations for plan assets. The benefits under the plans are not available to new employees or most existing employees.

The Benefit Obligation for our defined benefit postretirement medical plans was \$28.6 million and \$33.0 million as of December 31, 2015 and 2014, respectively. The estimated actuarial net gain for the defined benefit postretirement medical plans that will be amortized from accumulated other comprehensive loss into net pension expense in 2016 is \$0.6 million. The estimated prior service cost that is expected to be amortized from accumulated other comprehensive loss into pension expense in 2016 is \$0.1 million. We amortize any estimated net gain over the remaining expected service period of approximately three years.

#### Accrual Accounting and Significant Assumptions

We account for pension benefits using the accrual method, recognizing pension expense before the payment of benefits to retirees. The accrual method of accounting for pension benefits requires actuarial assumptions concerning future events that will determine the amount and timing of the benefit payments.

Our key assumptions used in calculating our cost of pension benefits are the discount rate, the rate of compensation increase and the expected long-term rate of return on plan assets. We, in consultation with our actuaries, evaluate the key actuarial assumptions and other assumptions used in calculating the cost of pension and postretirement benefits, such as discount rates, expected return on plan assets for funded plans, mortality rates, retirement rates and assumed rate of compensation increases, and determine such assumptions as of December 31 of each year to calculate liability information as of that date and pension and postretirement expense for the following year. See discussion of our accounting for and assumptions related to pension and postretirement benefits in the "Our Critical Accounting Estimates" section of this MD&A.

In 2015, net pension expense for our defined benefit pension plans included in operating income was \$40.1 million compared with \$45.5 million in 2014 and \$50.5 million in 2013.



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The following are assumptions related to our defined benefit pension plans as of December 31, 2015:

|  | U.S. Plan |   | Non-U.S. Plans |   |
|--|-----------|---|----------------|---|
| Weighted average assumptions used to determine Benefit Obligation:       |           |   |                |   |
| Discount rate  | 4.75      | % | 3.13           | % |
| Rate of increase in compensation levels                                  | 4.00      |   | 3.61           |   |
| Weighted average assumptions used to determine 2015 net pension expense: |           |   |                |   |
| Long-term rate of return on assets                                       | 6.25      | % | 5.03           | % |
| Discount rate  | 4.00      |   | 3.40           |   |
| Rate of increase in compensation levels                                  | 4.25      |   | 3.95           |   |

The following provides a sensitivity analysis of alternative assumptions on the U.S. qualified and aggregate non-U.S. pension plans and U.S. postretirement plans.

Effect of Discount Rate Changes and Constancy of Other Assumptions:

|  | 0.5% Increase         |   | 0.5% Decrease |
|--|-----------------------|---|---------------|
|  | (Amounts in millions) |   |               |
| U.S. defined benefit pension plan:       |                       |   |               |
| Effect on net pension expense            | \$(1.4                | ) | \$1.6         |
| Effect on Benefit Obligation             | (15.5                 | ) | 16.6          |
| Non-U.S. defined benefit pension plans:  |                       |   |               |
| Effect on net pension expense            | (2.6                  | ) | 2.7           |
| Effect on Benefit Obligation             | (25.1                 | ) | 28.4          |
| U.S. Postretirement medical plans:       |                       |   |               |
| Effect on postretirement medical expense | (0.3                  | ) | 0.2           |
| Effect on Benefit Obligation             | (0.9                  | ) | 0.9           |

Effect of Changes in the Expected Return on Assets and Constancy of Other Assumptions:

|   | 0.5% Increase         |   | 0.5% Decrease |
|---|-----------------------|---|---------------|
|   | (Amounts in millions) |   |               |
| U.S. defined benefit pension plan:      |                       |   |               |
| Effect on net pension expense           | \$(1.9                | ) | \$1.9         |
| Non-U.S. defined benefit pension plans: |                       |   |               |
| Effect on net pension expense           | (1.1                  | ) | 1.1           |

As discussed below, accounting principles generally accepted in the U.S. ("U.S. GAAP") provide that differences between expected and actual returns are recognized over the average future service of employees.

At December 31, 2015, as compared with December 31, 2014, we increased our discount rate for the U.S. plan from 4.00% to 4.75% based on an analysis of publicly-traded investment grade U.S. corporate bonds, which had a higher yield due to current market conditions. The average discount rate for the non-U.S. plans decreased from 3.40% to 3.13% based on analysis of bonds and other publicly-traded instruments, by country, which had lower yields due to market conditions. The average assumed rate of compensation decreased to 4.00% from 4.25% for the U.S. plan and to 3.61% from 3.95% for our non-U.S. plans. To determine the 2015 pension expense, the expected rate of return on U.S. plan assets increased to 6.25% and we decreased our average rate of return on non-U.S. plan assets from 5.51% to 5.03%, primarily due to asset returns lower than expected during the year. As the expected rate of return on plan assets is long-term in nature, short-term market changes do not significantly impact the rate. For all U.S. plans, we adopted the RP-2006 mortality tables and the MP-2015 improvement scale published in October 2015. We applied the RP-2006 tables based on the constituency of our plan population for union and non-union participants. We adjusted the improvement scale to utilize 75% of the ultimate improvement rate, consistent with assumptions adopted by the Social Security Administration trustees, based on long-term historical experience. Currently, we believe this approach provides the best estimate of our future obligation. Most plan participants elect to receive plan benefits as a lump sum at the end of service, rather than an annuity. As such, the updated mortality tables had an immaterial effect on our

pension obligation.

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We expect that the net pension expense for our defined benefit pension plans included in earnings before income taxes will be approximately \$3.3 million lower in 2016 than the \$40.1 million in 2015, primarily due to the reduction in the amortization of the actuarial net loss. We have used discount rates of 4.75%, 3.13% and 4.25% at December 31, 2015, in calculating our estimated 2016 net pension expense for U.S. pension plans, non-U.S. pension plans and postretirement medical plans, respectively.

The assumed ranges for the annual rates of increase in health care costs were 7.5% for 2015, 2014 and 2013, with a gradual decrease to 5.0% for 2025 and future years. If actual costs are higher than those assumed, this will likely put modest upward pressure on our expense for retiree health care.

#### Plan Funding

Our funding policy for defined benefit plans is to contribute at least the amounts required under applicable laws and local customs. We contributed \$43.8 million, \$43.5 million and \$46.9 million to our defined benefit plans in 2015, 2014 and 2013, respectively. After consideration of our intent to remain fully-funded based on standards set by law, we currently anticipate that our contribution to our U.S. pension plan in 2016 will be approximately \$20 million, excluding direct benefits paid. We expect to contribute approximately \$12 million to our non-U.S. pension plans in 2016, excluding direct benefits paid.

For further discussion of our pension and postretirement benefits, see Note 11 to our consolidated financial statements included in Item 8 of this Annual Report.

#### OUR CRITICAL ACCOUNTING ESTIMATES

The process of preparing financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine reported amounts of certain assets, liabilities, revenues and expenses and the disclosure of related contingent assets and liabilities. These estimates and assumptions are based upon information available at the time of the estimates or assumptions, including our historical experience, where relevant. The most significant estimates made by management include: timing and amount of revenue recognition; deferred taxes, tax valuation allowances and tax reserves; reserves for contingent loss; pension and postretirement benefits; and valuation of goodwill, indefinite-lived intangible assets and other long-lived assets. The significant estimates are reviewed at least annually if not quarterly by management. Because of the uncertainty of factors surrounding the estimates, assumptions and judgments used in the preparation of our financial statements, actual results may differ from the estimates, and the difference may be material.

Our critical accounting policies are those policies that are both most important to our financial condition and results of operations and require the most difficult, subjective or complex judgments on the part of management in their application, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe that the following represent our critical accounting policies. For a summary of all of our significant accounting policies, see Note 1 to our consolidated financial statements included in Item 8 of this Annual Report. Management and our external auditors have discussed our critical accounting estimates and policies with the Audit Committee of our Board of Directors.

#### Revenue Recognition

Revenues for product sales are recognized when the risks and rewards of ownership are transferred to the customers, which is typically based on the contractual delivery terms agreed to with the customer and fulfillment of all but inconsequential or perfunctory actions. In addition, our policy requires persuasive evidence of an arrangement, a fixed or determinable sales price and reasonable assurance of collectibility. We defer the recognition of revenue when advance payments are received from customers before performance obligations have been completed and/or services have been performed. Freight charges billed to customers are included in sales and the related shipping costs are included in cost of sales in our consolidated statements of income. Our contracts typically include cancellation provisions that require customers to reimburse us for costs incurred up to the date of cancellation, as well as any contractual cancellation penalties.

We enter into certain agreements with multiple deliverables that may include any combination of designing, developing, manufacturing, modifying, installing and commissioning of flow management equipment and providing services related to the performance of such products. Delivery of these products and services typically occurs within a one to two-year period, although many arrangements, such as "short-cycle" type orders, have a shorter timeframe for

delivery. We separate deliverables into units of accounting based on whether the deliverable(s) have standalone value to the customer (impact of general rights of return is immaterial). Contract value is allocated ratably to the units of accounting in the arrangement based on their relative selling prices determined as if the deliverables were sold separately.

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Revenues for long-term contracts that exceed certain internal thresholds regarding the size and duration of the project and provide for the receipt of progress billings from the customer are recorded on the percentage of completion method with progress measured on a cost-to-cost basis. Percentage of completion revenue represents less than 7% of our consolidated sales for each year presented.

Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered. Revenues generated under fixed fee service and repair contracts are recognized on a ratable basis over the term of the contract. These contracts can range in duration, but generally extend for up to five years. Fixed fee service contracts represent approximately 1% of consolidated sales for each year presented.

In certain instances, we provide guaranteed completion dates under the terms of our contracts. Failure to meet contractual delivery dates can result in late delivery penalties or non-recoverable costs. In instances where the payment of such costs are deemed to be probable, we perform a project profitability analysis, accounting for such costs as a reduction of realizable revenues, which could potentially cause estimated total project costs to exceed projected total revenues realized from the project. In such instances, we would record reserves to cover such excesses in the period they are determined. In circumstances where the total projected revenues still exceed total projected costs, the incurrence of penalties or non-recoverable costs generally reduces profitability of the project at the time of subsequent revenue recognition. Our reported results would change if different estimates were used for contract costs or if different estimates were used for contractual contingencies.

#### Deferred Taxes, Tax Valuation Allowances and Tax Reserves

We recognize valuation allowances to reduce the carrying value of deferred tax assets to amounts that we expect are more likely than not to be realized. Our valuation allowances primarily relate to the deferred tax assets established for certain tax credit carryforwards and net operating loss carryforwards for non-U.S. subsidiaries, and we evaluate the realizability of our deferred tax assets by assessing the related valuation allowance and by adjusting the amount of these allowances, if necessary. We assess such factors as our forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets in determining the sufficiency of our valuation allowances. Failure to achieve forecasted taxable income in the applicable tax jurisdictions could affect the ultimate realization of deferred tax assets and could result in an increase in our effective tax rate on future earnings. Implementation of different tax structures in certain jurisdictions could, if successful, result in future reductions of certain valuation allowances.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for open tax years for uncertain tax positions that may be subject to challenge by various tax authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate. Tax benefits recognized in the financial statements from uncertain tax positions are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

While we believe we have adequately provided for any reasonably foreseeable outcome related to these matters, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities. To the extent that the expected tax outcome of these matters changes, such changes in estimate will impact the income tax provision in the period in which such determination is made.

#### Reserves for Contingent Loss

Liabilities are recorded for various contingencies arising in the normal course of business when it is both probable that a loss has been incurred and such loss is estimable. Assessments of reserves are based on information obtained from our independent and in-house experts, including recent legal decisions and loss experience in similar situations. The recorded legal reserves are susceptible to changes due to new developments regarding the facts and circumstances of each matter, changes in political environments, legal venue and other factors. Recorded environmental reserves could change based on further analysis of our properties, technological innovation and regulatory environment changes.

Estimates of liabilities for unsettled asbestos-related claims are based on known claims and on our experience during the preceding two years for claims filed, settled and dismissed, with adjustments for events deemed unusual and unlikely to recur. A substantial majority of our asbestos-related claims are covered by insurance or indemnities.

Estimated indemnities and receivables from insurance carriers for unsettled claims and receivables for settlements and

legal fees paid by us for asbestos-related claims are estimated using our historical experience with insurance recovery rates and estimates of future recoveries, which include estimates of coverage and financial viability of our insurance carriers. We have claims pending against certain insurers that, if resolved more favorably than estimated future recoveries, would result in discrete gains in the



applicable quarter. We are currently unable to estimate the impact, if any, of unasserted asbestos-related claims, although future claims would also be subject to existing indemnities and insurance coverage. Changes in claims filed, settled and dismissed and differences between actual and estimated settlement costs and insurance or indemnity recoveries could impact future expense.

#### Pension and Postretirement Benefits

We provide pension and postretirement benefits to certain of our employees, including former employees, and their beneficiaries. The assets, liabilities and expenses we recognize and disclosures we make about plan actuarial and financial information are dependent on the assumptions and estimates used in calculating such amounts. The assumptions include factors such as discount rates, health care cost trend rates, inflation, expected rates of return on plan assets, retirement rates, mortality rates, turnover, rates of compensation increases and other factors.

The assumptions utilized to compute expense and benefit obligations are shown in Note 11 to our consolidated financial statements included in Item 8 of this Annual Report. These assumptions are assessed annually in consultation with independent actuaries and investment advisors as of December 31 and adjustments are made as needed. We evaluate prevailing market conditions and local laws and requirements in countries where plans are maintained, including appropriate rates of return, interest rates and medical inflation (health care cost trend) rates. We ensure that our significant assumptions are within the reasonable range relative to market data. The methodology to set our significant assumptions includes:

Discount rates are estimated using high quality debt securities based on corporate or government bond yields with a duration matching the expected benefit payments. For the U.S. the discount rate is obtained from an analysis of publicly-traded investment-grade corporate bonds to establish a weighted average discount rate. For plans in the United Kingdom and the Eurozone we use the discount rate obtained from an analysis of AA-graded corporate bonds used to generate a yield curve. For other countries or regions without a corporate AA bond market, government bond rates are used. Our discount rate assumptions are impacted by changes in general economic and market conditions that affect interest rates on long-term high-quality debt securities, as well as the duration of our plans' liabilities.

The expected rates of return on plan assets are derived from reviews of asset allocation strategies, expected long-term performance of asset classes, risks and other factors adjusted for our specific investment strategy. These rates are impacted by changes in general market conditions, but because they are long-term in nature, short-term market changes do not significantly impact the rates. Changes to our target asset allocation also impact these rates.

The expected rates of compensation increase reflect estimates of the change in future compensation levels due to general price levels, seniority, age and other factors.

Depending on the assumptions used, the pension and postretirement expense could vary within a range of outcomes and have a material effect on reported earnings. In addition, the assumptions can materially affect benefit obligations and future cash funding. Actual results in any given year may differ from those estimated because of economic and other factors.

We evaluate the funded status of each retirement plan using current assumptions and determine the appropriate funding level considering applicable regulatory requirements, tax deductibility, reporting considerations, cash flow requirements and other factors. We discuss our funding assumptions with the Finance Committee of our Board of Directors.

#### Valuation of Goodwill, Indefinite-Lived Intangible Assets and Other Long-Lived Assets

The initial recording of goodwill and intangible assets requires subjective judgments concerning estimates of the fair value of the acquired assets. We test the value of goodwill and indefinite-lived intangible assets for impairment as of December 31 each year or whenever events or circumstances indicate such assets may be impaired.

The test for goodwill impairment involves significant judgment in estimating projections of fair value generated through future performance of each of the reporting units. The identification of our reporting units began at the operating segment level and considered whether components one level below the operating segment levels should be identified as reporting units for purpose of testing goodwill for impairment based on certain conditions. These conditions included, among other factors, (i) the extent to which a component represents a business and (ii) the aggregation of economically similar components within the operating segments and resulted in seven reporting units. Other factors that were considered in determining whether the aggregation of components was appropriate included the similarity of the nature of the products and services, the nature of the production processes, the methods of

distribution and the types of industries served.

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An impairment loss for goodwill is recognized if the implied fair value of goodwill is less than the carrying value. We estimate the fair value of our reporting units based on an income approach, whereby we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. A discounted cash flow analysis requires us to make various judgmental assumptions about future sales, operating margins, growth rates and discount rates, which are based on our budgets, business plans, economic projections, anticipated future cash flows and market participants. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. We did not record an impairment of goodwill in 2015, 2014 or 2013; however the estimated fair value of our Engineered Product Operations ("EPO") reporting unit reduced significantly in 2015 due to broad-based capital spending declines and heightened pricing pressure experienced in the oil and gas markets which are anticipated to continue in the near to mid-term. The EPO reporting unit is a component of our EPD reporting segment and is primarily focused on long lead time, custom and other highly-engineered pumps and pump systems. As of December 31, 2015 our EPO reporting unit had approximately \$157 million of goodwill and its estimated fair value exceeded its carrying value by approximately 70%. Key assumptions used in determining the estimated fair value of our EPO reporting unit included the annual operating plan and forecasted operating results, successful execution of our current realignment programs and identified strategic initiatives, a constant cost of capital, a short-term stabilization and mid to long-term improvement of the macro-economic conditions of the oil and gas market, and a relatively stable world gross domestic product. A 100 basis point increase in our cost of capital would reduce the estimated fair value of our EPO reporting unit by approximately 40%, which coupled with a prolonged down cycle of the oil and gas markets, could potentially put our EPO reporting unit's goodwill at risk of a future impairment. Although we have concluded that there is no impairment on the goodwill associated with our EPO reporting unit as of December 31, 2015, we will continue to closely monitor its performance and related market conditions for future indicators of potential impairment and reassess accordingly.

We also consider our market capitalization in our evaluation of the fair value of our goodwill. Our market capitalization decreased as compared with 2014; however, it did not indicate a potential impairment of our goodwill as of December 31, 2015.

Impairment losses for indefinite-lived intangible assets are recognized whenever the estimated fair value is less than the carrying value. Fair values are calculated for trademarks using a "relief from royalty" method, which estimates the fair value of a trademark by determining the present value of estimated royalty payments that are avoided as a result of owning the trademark. This method includes judgmental assumptions about sales growth and discount rates that have a significant impact on the fair value and are substantially consistent with the assumptions used to determine the fair value of our reporting units discussed above. We did not record a material impairment of our trademarks in 2015, 2014 or 2013.

The recoverable value of other long-lived assets, including property, plant and equipment and finite-lived intangible assets, is reviewed when indicators of potential impairments are present. The recoverable value is based upon an assessment of the estimated future cash flows related to those assets, utilizing assumptions similar to those for goodwill. Additional considerations related to our long-lived assets include expected maintenance and improvements, changes in expected uses and ongoing operating performance and utilization.

Due to uncertain market conditions and potential changes in strategy and product portfolio, it is possible that forecasts used to support asset carrying values may change in the future, which could result in non-cash charges that would adversely affect our financial condition and results of operations.

#### ACCOUNTING DEVELOPMENTS

We have presented the information about accounting pronouncements not yet implemented in Note 1 to our consolidated financial statements included in Item 8 of this Annual Report.

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

We have market risk exposure arising from changes in interest rates and foreign currency exchange rate movements. We are exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, including interest rate swaps and forward exchange contracts, but we currently expect all counterparties will continue to meet their obligations given their current creditworthiness.



### Interest Rate Risk

Our earnings are impacted by changes in short-term interest rates as a result of borrowings under our Senior Credit Facility, which bear interest based on floating rates. At December 31, 2015, we had \$285.0 million of variable rate debt obligations outstanding under our Senior Credit Facility with a weighted average interest rate of 1.86%. A hypothetical change of 100 basis points in the interest rate for these borrowings, assuming constant variable rate debt levels, would have changed interest expense by \$2.9 million for the year ended December 31, 2015. At December 31, 2015 we had no notional amount in outstanding interest rate swaps with third parties, compared to \$40.0 million in December 31, 2014.

### Foreign Currency Exchange Rate Risk

A substantial portion of our operations are conducted by our subsidiaries outside of the U.S. in currencies other than the U.S. dollar. The primary currencies in which we operate, in addition to the U.S. dollar, are the Argentine peso, Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese yuan, Colombian peso, Euro, Indian rupee, Japanese yen, Mexican peso, Singapore dollar, Swedish krona and Venezuelan bolivar. Almost all of our non-U.S. subsidiaries conduct their business primarily in their local currencies, which are also their functional currencies. Foreign currency exposures arise from translation of foreign-denominated assets and liabilities into U.S. dollars and from transactions, including firm commitments and anticipated transactions, denominated in a currency other than a non-U.S. subsidiary's functional currency. In March 2015, we designated €255.7 million of our €500.0 million 2022 EUR Senior Notes as a net investment hedge of our investments in certain of our international subsidiaries that use the Euro as their functional currency. Generally, we view our investments in foreign subsidiaries from a long-term perspective and use capital structuring techniques to manage our investment in foreign subsidiaries as deemed necessary. We realized net losses associated with foreign currency translation of \$174.9 million, \$148.6 million and \$28.9 million for the years ended December 31, 2015, 2014 and 2013, respectively, which are included in other comprehensive (loss) income. The net loss in 2015 was primarily driven by the weakening of the Euro, Brazilian real and Argentine peso versus the U.S. dollar at December 31, 2015 as compared with the December 31, 2014. We employ a foreign currency risk management strategy to minimize potential changes in cash flows from unfavorable foreign currency exchange rate movements. Where available, the use of forward exchange contracts allows us to mitigate transactional exposure to exchange rate fluctuations as the gains or losses incurred on the forward exchange contracts will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. Our policy allows foreign currency coverage only for identifiable foreign currency exposures, and beginning in the fourth quarter of 2013 instruments that meet certain criteria are designated for hedge accounting. As of December 31, 2015, we had a U.S. dollar equivalent of \$397.3 million in aggregate notional amount outstanding in foreign exchange contracts with third parties, compared with \$547.0 million at December 31, 2014. Transactional currency gains and losses arising from transactions outside of our sites' functional currencies and changes in fair value of non-designated foreign exchange contracts are included in our consolidated results of operations. We recognized foreign currency net (losses) gains of \$(38.7) million, \$2.8 million and \$(12.6) million for the years ended December 31, 2015, 2014 and 2013, respectively, which are included in other (expense) income, net in the accompanying consolidated statements of income. See discussion of the impact in 2015 and 2013 of the devaluation of the Venezuelan bolivar in Note 1 to our consolidated financial statements included in Item 8 of this Annual Report. Based on a sensitivity analysis at December 31, 2015, a 10% change in the foreign currency exchange rates for the year ended December 31, 2015 would have impacted our net earnings by approximately \$13 million. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices. This calculation does not take into account the impact of the foreign currency forward exchange contracts discussed above.

Hedging related transactions for interest rate swaps and designated foreign exchange contracts recorded to other comprehensive (loss) income, net of deferred taxes, are summarized in Note 17 to our consolidated financial statements included in Item 8 of this Annual Report.

We expect to recognize losses of \$2.3 million, net of deferred taxes, into earnings in the next twelve months related to designated cash flow hedges based on their fair values at December 31, 2015.



ITEM 8. FINANCIAL STATEMENTS AND  
SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of Flowserve Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Flowserve Corporation and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

As described in Management's Report on Internal Control over Financial Reporting, management has excluded SIHI Group B.V. ("SIHI") from its assessment of internal control over financial reporting as of December 31, 2015 because it

was acquired by the Company on January 7, 2015. We have also excluded SIHI from our audit of internal control over financial reporting. SIHI is a wholly owned subsidiary whose total assets and sales represent approximately 10% and 6%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Dallas, Texas

February 18, 2016



FLOWSERVE CORPORATION  
CONSOLIDATED BALANCE SHEETS

|   | December 31,                                     |              |
|---|--|--------------|
|   | 2015   | 2014         |
|   | (Amounts in thousands,<br>except per share data) |              |
| <b>ASSETS</b>   |  |              |
| Current assets:   |  |              |
| Cash and cash equivalents   | \$366,444  | \$450,350    |
| Accounts receivable, net  | 988,391  | 1,082,447    |
| Inventories, net  | 995,565  | 995,564      |
| Deferred taxes  | 155,982  | 158,912      |
| Prepaid expenses and other  | 125,410  | 106,890      |
| Total current assets  | 2,631,792  | 2,794,163    |
| Property, plant and equipment, net                                | 758,427  | 693,881      |
| Goodwill  | 1,223,986  | 1,067,255    |
| Deferred taxes  | 26,264   | 31,419       |
| Other intangible assets, net                                      | 228,777  | 146,337      |
| Other assets, net   | 234,604  | 234,965      |
| Total assets  | \$5,103,850                                      | \$4,968,020  |
| <b>LIABILITIES AND EQUITY</b>                                     |  |              |
| Current liabilities:  |  |              |
| Accounts payable  | \$491,378  | \$611,715    |
| Accrued liabilities   | 796,764  | 794,072      |
| Debt due within one year  | 60,434   | 53,131       |
| Deferred taxes  | 11,386   | 12,957       |
| Total current liabilities   | 1,359,962  | 1,471,875    |
| Long-term debt due after one year                                 | 1,570,836  | 1,101,791    |
| Retirement obligations and other liabilities                      | 489,319  | 452,511      |
| Commitments and contingencies (See Note 12)                       |  |              |
| Shareholders' equity:   |  |              |
| Common shares, \$1.25 par value                                   | 220,991  | 220,991      |
| Shares authorized — 305,000                                       |  |              |
| Shares issued — 176,793 and 176,793, respectively                 |  |              |
| Capital in excess of par value                                    | 494,961  | 495,600      |
| Retained earnings   | 3,587,120  | 3,415,738    |
| Treasury shares, at cost — 47,703 and 42,444 shares, respectively | (2,106,785 )                                     | (1,830,919 ) |
| Deferred compensation obligation                                  | 10,233   | 10,558       |
| Accumulated other comprehensive loss                              | (540,043 )                                       | (380,406 )   |
| Total Flowserve Corporation shareholders' equity                  | 1,666,477  | 1,931,562    |
| Noncontrolling interests  | 17,256   | 10,281       |
| Total equity  | 1,683,733  | 1,941,843    |
| Total liabilities and equity                                      | \$5,103,850                                      | \$4,968,020  |

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME

|   | Year Ended December 31,                       |              |              |
|---|---|--------------|--------------|
|   | 2015  | 2014         | 2013         |
|   | (Amounts in thousands, except per share data) |              |              |
| Sales   | \$4,561,030                                   | \$4,877,885  | \$4,954,619  |
| Cost of sales   | (3,073,712 )                                  | (3,163,268 ) | (3,266,524 ) |
| Gross profit  | 1,487,318                                     | 1,714,617    | 1,688,095    |
| Selling, general and administrative expense                                       | (971,611 )                                    | (936,900 )   | (966,829 )   |
| Net earnings from affiliates (Note 2)   | 9,861   | 12,115       | 39,017       |
| Operating income  | 525,568                                       | 789,832      | 760,283      |
| Interest expense  | (65,270 )                                     | (60,322 )    | (54,413 )    |
| Interest income   | 2,065   | 1,680        | 1,431        |
| Other (expense) income, net   | (40,167 )                                     | 2,000        | (14,280 )    |
| Earnings before income taxes  | 422,196                                       | 733,190      | 693,021      |
| Provision for income taxes  | (148,922 )                                    | (208,305 )   | (204,701 )   |
| Net earnings, including noncontrolling interests                                  | 273,274                                       | 524,885      | 488,320      |
| Less: Net earnings attributable to noncontrolling interests                       | (5,605 )                                      | (6,061 )     | (2,790 )     |
| Net earnings attributable to Flowserve Corporation                                | \$267,669                                     | \$518,824    | \$485,530    |
| Net earnings per share attributable to Flowserve Corporation common shareholders: |   |              |              |
| Basic   | \$2.01  | \$3.79       | \$3.43       |
| Diluted   | 2.00  | 3.76         | 3.41         |
| Cash dividends declared per share   | \$0.72  | \$0.64       | \$0.56       |

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Year Ended December 31, |            |           |
|--|-------------------------|------------|-----------|
|  | 2015                    | 2014       | 2013      |
|  | (Amounts in thousands)  |            |           |
| Net earnings, including noncontrolling interests   | \$273,274               | \$524,885  | \$488,320 |
| Other comprehensive (loss) income:   |                         |            |           |
| Foreign currency translation adjustments, net of taxes of \$104,174, \$88,730 and \$17,351 in 2015, 2014 and 2013, respectively  | (174,889 )              | (148,580 ) | (28,870 ) |
| Pension and other postretirement effects, net of taxes of \$(6,843), \$8,698 and \$(20,218) in 2015, 2014 and 2013, respectively | 14,937                  | (5,870 )   | 32,229    |
| Cash flow hedging activity, net of taxes of \$(862), \$1,937 and \$(483) in 2015, 2014 and 2013, respectively                    | 1,752                   | (4,396 )   | (560 )    |
| Other comprehensive (loss) income  | (158,200 )              | (158,846 ) | 2,799     |
| Comprehensive income, including noncontrolling interests   | 115,074                 | 366,039    | 491,119   |
| Comprehensive income attributable to noncontrolling interests  | (7,036 )                | (6,144 )   | (2,756 )  |
| Comprehensive income attributable to Flowserve Corporation   | \$108,038               | \$359,895  | \$488,363 |

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Total Flowserve Corporation Shareholders' Equity

|   | Common Stock |           | Capital<br>in Excess<br>of Par<br>Value | Retained<br>Earnings | Treasury Stock |               | Deferred<br>Compensation<br>Obligation | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontro<br>l Interests | Total E  |
|---|--------------|-----------|---|----------------------|----------------|---------------|--|---|--------------------------|----------|
|   | Shares       | Amount    |   |                      | Shares         | Amount        |  |   |                          |          |
| (Amounts in thousands)  |              |           |   |                      |                |               |  |   |                          |          |
| Balance —<br>January 1, 2013  | 176,793      | \$220,991 | \$467,856                               | \$2,579,308          | (32,388)       | \$(1,164,496) | \$10,870                               | \$(224,310)                                   | \$4,256                  | \$1,894, |
| Stock activity<br>under stock<br>plans  | —            | —         | (37,491 )                               | —                    | 902            | 22,540        | —                                      | —   | —                        | (14,951  |
| Stock-based<br>compensation   | —            | —         | 35,737                                  | 20                   | —              | —             | —                                      | —   | —                        | 35,757   |
| Tax benefit<br>associated with<br>stock-based<br>compensation                         | —            | —         | 10,116                                  | —                    | —              | —             | —                                      | —   | —                        | 10,116   |
| Net earnings  | —            | —         | —                                       | 485,530              | —              | —             | —                                      | —   | 2,790                    | 488,320  |
| Cash dividends<br>declared  | —            | —         | —                                       | (79,467 )            | —              | —             | —                                      | —   | —                        | (79,467  |
| Repurchases of<br>common shares   | —            | —         | —                                       | —                    | (8,144 )       | (458,310 )    | —                                      | —   | —                        | (458,310 |
| Other<br>comprehensive<br>income, net of<br>tax                                       | —            | —         | —                                       | —                    | —              | —             | —                                      | 2,833   | (34 )                    | 2,799    |
| Purchase of<br>shares from and<br>dividends paid<br>to<br>noncontrolling<br>interests | —            | —         | —                                       | —                    | —              | —             | —                                      | —   | (270 )                   | (270     |
| Other, net  | —            | —         | —                                       | —                    | —              | —             | (1,348 )                               | —   | —                        | (1,348   |
| Balance —<br>December 31,<br>2013   | 176,793      | \$220,991 | \$476,218                               | \$2,985,391          | (39,630)       | \$(1,600,266) | \$9,522                                | \$(221,477)                                   | \$6,742                  | \$1,877, |
| Stock activity<br>under stock<br>plans  | —            | —         | (31,860 )                               | —                    | 607            | 15,851        | —                                      | —   | —                        | (16,009  |
| Stock-based<br>compensation   | —            | —         | 42,655                                  | 20                   | —              | —             | —                                      | —   | —                        | 42,675   |
| Tax benefit<br>associated with<br>stock-based<br>compensation                         | —            | —         | 8,587                                   | —                    | —              | —             | —                                      | —   | —                        | 8,587    |
| Net earnings  | —            | —         | —                                       | 518,824              | —              | —             | —                                      | —   | 6,061                    | 524,885  |
|   | —            | —         | —                                       | (88,497 )            | —              | —             | —                                      | —   | —                        | (88,497  |

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|  |         |           |           |             |          |               |          |             |          |            |             |
|--|---------|-----------|-----------|-------------|----------|---------------|----------|-------------|----------|------------|-------------|
| Cash dividends declared  |         |           |           |             |          |               |          |             |          |            |             |
| Repurchases of common shares   | —       | —         | —         | —           | (3,421 ) | (246,504 )    | —        | —           | —        | —          | (246,504 )  |
| Other comprehensive loss, net of tax                                   | —       | —         | —         | —           | —        | —             | —        | (158,929 )  | 83       | —          | (158,846 )  |
| Purchase of shares from and dividends paid to noncontrolling interests | —       | —         | —         | —           | —        | —             | —        | —           | —        | (2,605 )   | (2,605 )    |
| Other, net   | —       | —         | —         | —           | —        | —             | 1,036    | —           | —        | —          | 1,036       |
| Balance —  |         |           |           |             |          |               |          |             |          |            |             |
| December 31, 2014  | 176,793 | \$220,991 | \$495,600 | \$3,415,738 | (42,444) | \$(1,830,919) | \$10,558 | \$(380,406) | \$10,281 |            | \$1,941,100 |
| Stock activity under stock plans                                       |         |           |           |             |          |               |          |             |          |            |             |
| Stock-based compensation   | —       | —         | (41,860 ) | —           | 789      | 27,785        | —        | —           | —        | —          | (14,075 )   |
| Tax benefit associated with stock-based compensation                   | —       | —         | 34,797    | 19          | —        | —             | —        | —           | —        | —          | 34,816      |
| Net earnings   | —       | —         | 6,424     | —           | —        | —             | —        | —           | —        | —          | 6,424       |
| Cash dividends declared  | —       | —         | —         | 267,669     | —        | —             | —        | —           | 5,605    | —          | 273,274     |
| Repurchases of common shares   | —       | —         | —         | (96,306 )   | —        | —             | —        | —           | —        | —          | (96,306 )   |
| Other comprehensive loss, net of tax                                   | —       | —         | —         | —           | (6,048 ) | (303,651 )    | —        | —           | —        | —          | (303,651 )  |
| Purchase of shares from and dividends paid to noncontrolling interests | —       | —         | —         | —           | —        | —             | —        | —           | —        | (159,637 ) | 1,437       |
| Other, net   | —       | —         | —         | —           | —        | —             | (325 )   | —           | —        | —          | (158,200 )  |
| Balance —  |         |           |           |             |          |               |          |             |          |            |             |
| December 31, 2015  | 176,793 | \$220,991 | \$494,961 | \$3,587,120 | (47,703) | \$(2,106,785) | \$10,233 | \$(540,043) | \$17,256 |            | \$1,683,100 |

See accompanying notes to consolidated financial statements.

FLOWSERVE CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2015                    | 2014       | 2013       |
|   | (Amounts in thousands)  |            |            |
| Cash flows — Operating activities:  |                         |            |            |
| Net earnings, including noncontrolling interests                                    | \$273,274               | \$524,885  | \$488,320  |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                         |            |            |
| Depreciation  | 99,501                  | 93,307     | 90,695     |
| Amortization of intangible and other assets   | 27,586                  | 16,970     | 15,697     |
| Gain on sale of business  | —                       | (13,403 )  | —          |
| Gain on sale of equity investment in affiliate                                      | —                       | —          | (12,995 )  |
| Gain on remeasurement of acquired assets  | —                       | —          | (15,315 )  |
| Excess tax benefits from stock-based payment arrangements                           | (6,813 )                | (8,587 )   | (10,111 )  |
| Stock-based compensation  | 34,816                  | 42,675     | 35,757     |
| Foreign currency and other non-cash adjustments                                     | 72,888                  | 39,627     | (1,462 )   |
| Change in assets and liabilities, net of acquisitions:                              |                         |            |            |
| Accounts receivable, net  | 50,441                  | (79,655 )  | (53,823 )  |
| Inventories, net  | (26,232 )               | (35,519 )  | 28,616     |
| Prepaid expenses and other  | (121 )                  | (9,371 )   | (6,824 )   |
| Other assets, net   | 5,636                   | (24,509 )  | (18,002 )  |
| Accounts payable  | (113,639 )              | 50,752     | (15,642 )  |
| Accrued liabilities and income taxes payable  | 25,523                  | (22,669 )  | (65,702 )  |
| Retirement obligations and other liabilities  | (24,994 )               | (7,905 )   | (3,145 )   |
| Net deferred taxes  | (774 )                  | 4,364      | 31,695     |
| Net cash flows provided by operating activities                                     | 417,092                 | 570,962    | 487,759    |
| Cash flows — Investing activities:  |                         |            |            |
| Capital expenditures  | (181,861 )              | (132,619 ) | (139,090 ) |
| Payments for acquisitions, net of cash acquired                                     | (353,654 )              | —          | (76,801 )  |
| Proceeds from disposal of assets  | 10,220                  | 1,731      | 1,653      |
| Proceeds from sale of business, net of cash divested                                | —                       | 46,805     | —          |
| Proceeds from equity investments in affiliates                                      | —                       | —          | 46,240     |
| Net cash flows used by investing activities   | (525,295 )              | (84,083 )  | (167,998 ) |
| Cash flows — Financing activities:  |                         |            |            |
| Excess tax benefits from stock-based payment arrangements                           | 6,813                   | 8,587      | 10,111     |
| Payments on long-term debt  | (45,000 )               | (40,000 )  | (25,000 )  |
| Proceeds from issuance of senior notes  | 526,332                 | —          | 298,596    |
| Payments of deferred loan costs   | (5,108 )                | —          | (3,744 )   |
| Proceeds under other financing arrangements   | 10,436                  | 18,483     | 10,674     |
| Payments under other financing arrangements   | (34,949 )               | (20,502 )  | (11,075 )  |
| Repurchases of common shares  | (303,651 )              | (246,504 ) | (458,310 ) |
| Payments of dividends   | (93,650 )               | (85,118 )  | (76,897 )  |
| Other   | 99                      | (2,604 )   | (179 )     |
| Net cash flows provided (used) by financing activities                              | 61,322                  | (367,658 ) | (255,824 ) |
| Effect of exchange rate changes on cash   | (37,025 )               | (32,675 )  | (4,385 )   |
| Net change in cash and cash equivalents   | (83,906 )               | 86,546     | 59,552     |
| Cash and cash equivalents at beginning of year                                      | 450,350                 | 363,804    | 304,252    |
| Cash and cash equivalents at end of year  | \$366,444               | \$450,350  | \$363,804  |
| Income taxes paid (net of refunds)  | \$152,536               | \$159,520  | \$195,532  |

|  |        |        |        |
|--|--------|--------|--------|
| Interest paid  | 57,030 | 58,269 | 49,618 |
| See accompanying notes to consolidated financial statements. |        |        |        |

FLOWSERVE CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2015 AND 2014 AND FOR THE  
THREE YEARS ENDED DECEMBER 31, 2015

1. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING DEVELOPMENTS

We are principally engaged in the worldwide design, manufacture, distribution and service of industrial flow management equipment. We provide long lead time, custom and other highly-engineered pumps; standardized, general-purpose pumps; mechanical seals; industrial valves; and related automation products and solutions primarily for oil and gas, chemical, power generation, water management and other general industries requiring flow management products and services. Equipment manufactured and serviced by us is predominantly used in industries that deal with difficult-to-handle and corrosive fluids, as well as environments with extreme temperatures, pressure, horsepower and speed. Our business is affected by economic conditions in the United States ("U.S.") and other countries where our products are sold and serviced, by the cyclical nature and competitive environment of our industries served, by the relationship of the U.S. dollar to other currencies and by the demand for and pricing of our customers' end products.

**Stock Split** — On June 7, 2013 we recorded a three-for-one stock split. Shareholders' equity and all share data, including treasury shares and stock-based compensation award shares, and per share data presented herein have been retrospectively adjusted to reflect the impact of the increase in authorized shares and the stock split, as appropriate. Details of the stock split are included in Note 14.

**Venezuela** — Our operations in Venezuela primarily consist of a service center that performs service and repair activities. Our Venezuelan subsidiary's sales for the year ending December 31, 2015 and total assets at December 31, 2015 represented less than 0.5% of consolidated sales and total assets for the same periods. Assets primarily consisted of United States ("U.S.") dollar-denominated monetary assets and bolivar-denominated non-monetary assets at December 31, 2015. In addition, certain of our operations in other countries sell equipment and parts that are typically denominated in U.S. dollars directly to Venezuelan customers.

We have experienced delays in collecting payment on our accounts receivable from the national oil company in Venezuela, our primary Venezuelan customer. These accounts receivable are primarily U.S. dollar-denominated and are not disputed, and we have not historically written off accounts receivable from this customer. Our total outstanding accounts receivable with this customer were approximately 7% and 9% of our gross accounts receivable at December 31, 2015 and 2014, respectively. Given the experienced delays in collecting payments we estimate that approximately 64% of the outstanding accounts receivable will most likely not be collected within one year and therefore has been classified as long-term within other assets, net on our December 31, 2015 consolidated balance sheet. As of December 31, 2014, we had approximately 48% classified as long-term.

Effective February 13, 2013, the Venezuelan government devalued its official exchange rate from 4.3 to 6.3 bolivars to the U.S. dollar. As a result of the devaluation, we recognized a loss of \$4.0 million in the first quarter of 2013. The loss was reported in other expense, net in our consolidated statements of income and resulted in no tax benefit. As of March of 2015, we determined, based on our specific facts and circumstances, that the SIMADI exchange rate was the most appropriate for the remeasurement of our Venezuelan subsidiary's bolivar-denominated net monetary assets in U.S. dollars. As a result of the remeasurement, in the first quarter of 2015 we recognized a loss of \$20.6 million of which \$18.5 million was reported in other (expense) income, net and \$2.1 million in cost of goods sold in our consolidated statement of income and resulted in no tax benefit. As of December 31, 2015, we believe the SIMADI exchange rate continues to be the most appropriate rate to remeasure the U.S. dollar value of the assets, liabilities and results of operations of our Venezuelan subsidiary. At December 31, 2015 the SIMADI exchange rate was 198.7 bolivars to the U.S. dollar, compared with the official exchange rate of 6.3 bolivars to the U.S. dollar.

We are continuing to assess and monitor the ongoing impact of the changes in the Venezuelan foreign exchange market on our Venezuelan operations and imports into the market, including our Venezuelan subsidiary's ability to remit cash for dividends and other payments at the SIMADI exchange rate, as well as additional government actions, political and labor unrest, or other economic conditions, including the Venezuelan government's fiscal obligations, that may adversely impact our future consolidated financial condition or results of operations.





**Principles of Consolidation** — The consolidated financial statements include the accounts of our company and our wholly and majority-owned subsidiaries. In addition, we would consolidate any variable interest entities for which we are deemed to be the primary beneficiary. Noncontrolling interests of non-affiliated parties have been recognized for all majority-owned consolidated subsidiaries. Intercompany profits/losses, transactions and balances among consolidated entities have been eliminated from our consolidated financial statements. Investments in unconsolidated affiliated companies, which represent noncontrolling ownership interests between 20% and 50%, are accounted for using the equity method, which approximates our equity interest in their underlying equivalent net book value under accounting principles generally accepted in the U.S. ("U.S. GAAP"). Investments in interests where we own less than 20% of the investee are accounted for by the cost method, whereby income is only recognized in the event of dividend receipt. Investments accounted for by the cost method are tested for impairment if an impairment indicator is present. **Use of Estimates** — The process of preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses. We believe our estimates and assumptions are reasonable; however, actual results may differ materially from such estimates. The most significant estimates and assumptions are used in determining:

- Timing and amount of revenue recognition;
- Deferred taxes, tax valuation allowances and tax reserves;
- Reserves for contingent loss;
- Pension and postretirement benefits; and
- Valuation of goodwill, indefinite-lived intangible assets and other long-lived assets.

**Revenue Recognition** — Revenues for product sales are recognized when the risks and rewards of ownership are transferred to the customers, which is typically based on the contractual delivery terms agreed to with the customer and fulfillment of all but inconsequential or perfunctory actions. In addition, our policy requires persuasive evidence of an arrangement, a fixed or determinable sales price and reasonable assurance of collectibility. We defer the recognition of revenue when advance payments are received from customers before performance obligations have been completed and/or services have been performed. Freight charges billed to customers are included in sales and the related shipping costs are included in cost of sales in our consolidated statements of income. Our contracts typically include cancellation provisions that require customers to reimburse us for costs incurred up to the date of cancellation, as well as any contractual cancellation penalties.

We enter into certain agreements with multiple deliverables that may include any combination of designing, developing, manufacturing, modifying, installing and commissioning of flow management equipment and providing services related to the performance of such products. Delivery of these products and services typically occurs within a one to two-year period, although many arrangements, such as "short-cycle" type orders, have a shorter timeframe for delivery. We separate deliverables into units of accounting based on whether the deliverable(s) have standalone value to the customer (impact of general rights of return is immaterial). Contract value is allocated ratably to the units of accounting in the arrangement based on their relative selling prices determined as if the deliverables were sold separately.

Revenues for long-term contracts that exceed certain internal thresholds regarding the size and duration of the project and provide for the receipt of progress billings from the customer are recorded on the percentage of completion method with progress measured on a cost-to-cost basis. Percentage of completion revenue represents less than 7% of our consolidated sales for each year presented.

Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered. Revenues generated under fixed fee service and repair contracts are recognized on a ratable basis over the term of the contract. These contracts can range in duration, but generally extend for up to five years. Fixed fee service contracts represent approximately 1% of consolidated sales for each year presented.

In certain instances, we provide guaranteed completion dates under the terms of our contracts. Failure to meet contractual delivery dates can result in late delivery penalties or non-recoverable costs. In instances where the payment of such costs are deemed to be probable, we perform a project profitability analysis, accounting for such costs as a reduction of realizable revenues, which could potentially cause estimated total project costs to exceed projected total revenues realized from the project. In such instances, we would record reserves to cover such excesses in the period they are determined. In circumstances where the total projected revenues still exceed total projected

costs, the incurrence of penalties or non-recoverable costs generally reduces profitability of the project at the time of subsequent revenue recognition.

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**Cash and Cash Equivalents** — We place temporary cash investments with financial institutions and, by policy, invest in those institutions and instruments that have minimal credit risk and market risk. These investments, with an original maturity of three months or less when purchased, are classified as cash equivalents. They are highly liquid and principal values are not subject to significant risk of change due to interest rate fluctuations.

**Allowance for Doubtful Accounts and Credit Risk** — The allowance for doubtful accounts is established based on estimates of the amount of uncollectible accounts receivable, which is determined principally based upon the aging of the accounts receivable, but also customer credit history, industry and market segment information, economic trends and conditions and credit reports. Customer credit issues, customer bankruptcies or general economic conditions may also impact our estimates.

Credit risks are mitigated by the diversity of our customer base across many different geographic regions and industries and by performing creditworthiness analyses on our customers. Additionally, we mitigate credit risk through letters of credit and advance payments received from our customers. As of December 31, 2015, although we have experienced increased aging and slower collection of receivables with our primary Venezuelan customer, we do not believe that we have any significant concentrations of credit risk.

**Inventories and Related Reserves** — Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. Reserves for excess and obsolete inventories are based upon our assessment of market conditions for our products determined by historical usage and estimated future demand. Due to the long life cycles of our products, we carry spare parts inventories that have historically low usage rates and provide reserves for such inventory based on demonstrated usage and aging criteria.

**Income Taxes, Deferred Taxes, Tax Valuation Allowances and Tax Reserves** — We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are calculated using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. We record valuation allowances to reflect the estimated amount of deferred tax assets that may not be realized based upon our analysis of existing deferred tax assets, net operating losses and tax credits by jurisdiction and expectations of our ability to utilize these tax attributes through a review of past, current and estimated future taxable income and establishment of tax strategies.

We provide deferred taxes for the temporary differences associated with our investment in foreign subsidiaries that have a financial reporting basis that exceeds tax basis, unless we can assert permanent reinvestment in foreign jurisdictions. Financial reporting basis and tax basis differences in investments in foreign subsidiaries consist of both unremitted earnings and losses, as well as foreign currency translation adjustments.

The amount of income taxes we pay is subject to ongoing audits by federal, state, and foreign tax authorities, which often result in proposed assessments. We establish reserves for open tax years for uncertain tax positions that may be subject to challenge by various tax authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest and penalties as deemed appropriate.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement.

**Legal and Environmental Contingencies** — Legal and environmental reserves are recorded based upon a case-by-case analysis of the relevant facts and circumstances and an assessment of potential legal obligations and costs. Amounts relating to legal and environmental liabilities are recorded when it is probable that a loss has been incurred and such loss is estimable. Assessments of legal and environmental costs are based on information obtained from our independent and in-house experts and our loss experience in similar situations. Estimates are updated as applicable when new information regarding the facts and circumstances of each matter becomes available. Legal fees associated with legal and environmental liabilities are expensed as incurred.



Estimates of liabilities for unsettled asbestos-related claims are based on known claims and on our experience during the preceding two years for claims filed, settled and dismissed, with adjustments for events deemed unusual and unlikely to recur, and are included in retirement obligations and other liabilities in our consolidated balance sheets. A substantial majority of our asbestos-related claims are covered by insurance or indemnities. Estimated indemnities and receivables from insurance carriers for unsettled claims and receivables for settlements and legal fees paid by us for asbestos-related claims are estimated using our historical experience with insurance recovery rates and estimates of future recoveries, which include estimates of coverage and financial viability of our insurance carriers. Estimated receivables are included in other assets, net in our consolidated balance sheets. We have claims pending against certain insurers that, if resolved more favorably than estimated future recoveries, would result in discrete gains in the applicable quarter. We are currently unable to estimate the impact, if any, of unasserted asbestos-related claims, although future claims would also be subject to existing indemnities and insurance coverage.

**Warranty Accruals** — Warranty obligations are based upon product failure rates, materials usage, service delivery costs, an analysis of all identified or expected claims and an estimate of the cost to resolve such claims. The estimates of expected claims are generally a factor of historical claims and known product issues. Warranty obligations based on these factors are adjusted based on historical sales trends for the preceding 24 months.

**Insurance Accruals** — Insurance accruals are recorded for wholly or partially self-insured risks such as medical benefits and workers' compensation and are based upon an analysis of our claim loss history, insurance deductibles, policy limits and other relevant factors that are updated annually and are included in accrued liabilities in our consolidated balance sheets. The estimates are based upon information received from actuaries, insurance company adjusters, independent claims administrators or other independent sources. Receivables from insurance carriers are estimated using our historical experience with insurance recovery rates and estimates of future recoveries, which include estimates of coverage and financial viability of our insurance carriers. Estimated receivables are included in accounts receivable, net and other assets, net, as applicable, in our consolidated balance sheets.

**Pension and Postretirement Obligations** — Determination of pension and postretirement benefits obligations is based on estimates made by management in consultation with independent actuaries and investment advisors. Inherent in these valuations are assumptions including discount rates, expected rates of return on plan assets, retirement rates, mortality rates and rates of compensation increase and other factors all of which are reviewed annually and updated if necessary. Current market conditions, including changes in rates of return, interest rates and medical inflation rates, are considered in selecting these assumptions.

Actuarial gains and losses and prior service costs are recognized in accumulated other comprehensive loss as they arise and we amortize these costs into net pension expense over the remaining expected service period.

**Property, Plant and Equipment and Depreciation** — Property, plant and equipment are stated at historical cost, less accumulated depreciation. If asset retirement obligations exist, they are capitalized as part of the carrying amount of the asset and depreciated over the remaining useful life of the asset. The useful lives of leasehold improvements are the lesser of the remaining lease term or the useful life of the improvement. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and any resulting gains or losses are included in income from operations for the period. Depreciation is computed by the straight-line method based on the estimated useful lives of the depreciable assets, or in the case of assets under capital leases, over the related lease term. Generally, the estimated useful lives of the assets are:

|  |                |
|--|----------------|
| Buildings and improvements                 | 10 to 40 years |
| Machinery, equipment and tooling           | 3 to 14 years  |
| Software, furniture and fixtures and other | 3 to 7 years   |

Costs related to routine repairs and maintenance are expensed as incurred.

**Internally Developed Software** — We capitalize certain costs associated with the development of internal-use software. Generally, these costs are related to significant software development projects and are amortized over their estimated useful life, typically three to five years, upon implementation of the software.

**Intangible Assets** — Intangible assets, excluding trademarks (which are considered to have an indefinite life), consist primarily of engineering drawings, patents, existing customer relationships, software, distribution networks and other items that are being amortized over their estimated useful lives generally ranging from four to 40 years. These assets are reviewed for impairment whenever events and circumstances indicate impairment may have occurred.

**Valuation of Goodwill, Indefinite-Lived Intangible Assets and Other Long-Lived Assets** — The value of goodwill and indefinite-lived intangible assets is tested for impairment as of December 31 each year or whenever events or circumstances indicate such assets may be impaired. The identification of our reporting units began at the operating segment level and considered whether components one level below the operating segment levels should be identified as reporting units for purpose of testing goodwill for impairment based on certain conditions. These conditions included, among other factors, (i) the extent to which a component represents a business and (ii) the aggregation of economically similar components within the operating segments and resulted in seven reporting units. Other factors that were considered in determining whether the aggregation of components was appropriate included the similarity of the nature of the products and services, the nature of the production processes, the methods of distribution and the types of industries served.

An impairment loss for goodwill is recognized if the implied fair value of goodwill is less than the carrying value. We estimate the fair value of our reporting units based on an income approach, whereby we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. A discounted cash flow analysis requires us to make various judgmental assumptions about future sales, operating margins, growth rates and discount rates, which are based on our budgets, business plans, economic projections, anticipated future cash flows and market participants. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. We did not record an impairment of goodwill in 2015, 2014 or 2013; however the estimated fair value of our Engineered Product Operations ("EPO") reporting unit reduced significantly in 2015 due to broad-based capital spending declines and heightened pricing pressure experienced in the oil and gas markets which are anticipated to continue in the near to mid-term. The EPO reporting unit is a component of our EPD reporting segment and is primarily focused on long lead time, custom and other highly-engineered pumps and pump systems. As of December 31, 2015 our EPO reporting unit had approximately \$157 million of goodwill and its estimated fair value exceeded its carrying value by approximately 70%. Key assumptions used in determining the estimated fair value of our EPO reporting unit included the annual operating plan and forecasted operating results, successful execution of our current realignment programs and identified strategic initiatives, a constant cost of capital, a short-term stabilization and mid to long-term improvement of the macro-economic conditions of the oil and gas market, and a relatively stable world gross domestic product. Although we have concluded that there is no impairment on the goodwill associated with our EPO reporting unit as of December 31, 2015, we will continue to closely monitor its performance and related market conditions for future indicators of potential impairment and reassess accordingly.

We also consider our market capitalization in our evaluation of the fair value of our goodwill. Our market capitalization decreased as compared with 2014; however, it did not indicate a potential impairment of our goodwill as of December 31, 2015.

Impairment losses for indefinite-lived intangible assets are recognized whenever the estimated fair value is less than the carrying value. Fair values are calculated for trademarks using a "relief from royalty" method, which estimates the fair value of a trademark by determining the present value of estimated royalty payments that are avoided as a result of owning the trademark. This method includes judgmental assumptions about sales growth and discount rates that have a significant impact on the fair value and are substantially consistent with the assumptions used to determine the fair value of our reporting units discussed above. We did not record a material impairment of our trademarks in 2015, 2014 or 2013.

The recoverable value of other long-lived assets, including property, plant and equipment and finite-lived intangible assets, is reviewed when indicators of potential impairments are present. The recoverable value is based upon an assessment of the estimated future cash flows related to those assets, utilizing assumptions similar to those for goodwill. Additional considerations related to our long-lived assets include expected maintenance and improvements, changes in expected uses and ongoing operating performance and utilization.

**Deferred Loan Costs** — Deferred loan costs, consisting of fees and other expenses associated with debt financing, are amortized over the term of the associated debt using the effective interest method. Additional amortization is recorded

in periods where optional prepayments on debt are made.

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**Fair Values of Financial Instruments** — Our financial instruments are presented at fair value in our consolidated balance sheets, with the exception of our long-term debt. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied.

Assets and liabilities recorded at fair value in our consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Hierarchical levels, as defined by Accounting Standards Codification ("ASC") 820, "Fair Value Measurements and Disclosures," are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities. An asset or a liability's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation.

Hierarchical levels are as follows:

**Level I** — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

**Level II** — Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

**Level III** — Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Recurring fair value measurements are limited to investments in derivative instruments and certain equity securities. The fair value measurements of our derivative instruments are determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies, and are classified as Level II under the fair value hierarchy. The fair values of our derivative instruments are included in Note 6. The fair value measurements of our investments in equity securities are determined using quoted market prices and are classified as Level I. The fair values of our investments in equity securities, and changes thereto, are immaterial to our consolidated financial position and results of operations.

**Derivatives and Hedging Activities** — We have a foreign currency derivatives and hedging policy outlining the conditions under which we can enter into financial derivative transactions. We do not use derivative instruments for trading or speculative purposes. All derivative instruments are recognized on the balance sheet at their fair values. The accounting for gains and losses resulting from changes in fair value depends on whether the derivative is designated and qualifies for hedge accounting.

**Foreign Exchange Contracts** — We employ a foreign currency economic hedging strategy to mitigate certain financial risks resulting from foreign currency exchange rate movements that impact foreign currency denominated receivables and payables, firm committed transactions and forecasted sales and purchases. In 2013 we began to designate certain forward exchange contracts as hedging instruments and apply hedge accounting to those instruments.

For designated forward exchange contracts, the changes in fair value are recorded in other comprehensive loss until the underlying hedged item affects earnings, at which time the change in fair value is recognized in sales in the consolidated statements of income. For non-designated forward exchange contracts, the changes in the fair values are recognized immediately in other (expense) income, net in the consolidated statements of income. See Note 6 for further discussion of forward exchange contracts.

**Interest Rate Swaps** — We enter into interest rate swap agreements for the purpose of hedging our cash flow exposure to floating interest rates on certain portions of our debt. Changes in the fair value of a designated interest rate swap are recorded in other comprehensive loss until earnings are affected by the underlying hedged item. Any ineffective portion of the gain or loss is immediately recognized in earnings. Upon settlement, realized gains and losses are recognized in interest expense in the consolidated statements of income. See Note 6 for further discussion of interest rate swaps.

We discontinue hedge accounting when (1) we deem the hedge to be ineffective and determine that the designation of the derivative as a hedging instrument is no longer appropriate; (2) the derivative matures, terminates or is sold; or (3) occurrence of the contracted or committed transaction is no longer probable or will not occur in the originally expected period.

When hedge accounting is discontinued and the derivative remains outstanding, we carry the derivative at its estimated fair value on the balance sheet, recognizing changes in the fair value in current period earnings. If a cash flow hedge becomes ineffective, any deferred gains or losses remain in accumulated other comprehensive loss until the underlying hedged item is recognized. If it becomes probable that a hedged forecasted transaction will not occur, deferred gains or losses on the hedging instrument are recognized in earnings immediately.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluations of our counterparties under forward exchange contracts and interest rate swap agreements and expect all counterparties to meet their obligations. If necessary, we would adjust the values of our derivative contracts for our or our counterparties' credit risks.

Foreign Currency Translation — Assets and liabilities of our foreign subsidiaries are translated to U.S. dollars at exchange rates prevailing at the balance sheet date, while income and expenses are translated at average rates for each month. Translation gains and losses are reported as a component of accumulated other comprehensive loss.

Transactional currency gains and losses arising from transactions in currencies other than our sites' functional currencies are included in our consolidated results of operations.

Transaction and translation gains and losses arising from intercompany balances are reported as a component of accumulated other comprehensive loss when the underlying transaction stems from a long-term equity investment or from debt designated as not due in the foreseeable future. Otherwise, we recognize transaction gains and losses arising from intercompany transactions as a component of income. Where intercompany balances are not long-term investment related or not designated as due beyond the foreseeable future, we may mitigate risk associated with foreign currency fluctuations by entering into forward exchange contracts.

Stock-Based Compensation — Stock-based compensation is measured at the grant-date fair value. The exercise price of stock option awards and the value of restricted share, restricted share unit and performance-based unit awards (collectively referred to as "Restricted Shares") are set at the closing price of our common stock on the New York Stock Exchange on the date of grant, which is the date such grants are authorized by our Board of Directors.

Restricted share units and performance-based units refer to restricted awards that do not have voting rights and accrue dividends, which are forfeited if vesting does not occur.

The intrinsic value of Restricted Shares, which is typically the product of share price at the date of grant and the number of Restricted Shares granted, is amortized on a straight-line basis to compensation expense over the periods in which the restrictions lapse based on the expected number of shares that will vest. The forfeiture rate is based on unvested Restricted Shares forfeited compared with original total Restricted Shares granted over a 4-year period, excluding significant forfeiture events that are not expected to recur.

Earnings Per Share — We use the two-class method of calculating Earnings Per Share ("EPS"), which determines earnings per share for each class of common stock and participating security as if all earnings for the period had been distributed. Unvested restricted share awards that earn non-forfeitable dividend rights qualify as participating securities and, accordingly, are included in the basic computation as such. Our unvested restricted shares participate on an equal basis with common shares; therefore, there is no difference in undistributed earnings allocated to each participating security. Accordingly, the presentation below is prepared on a combined basis and is presented as earnings per common share. The following is a reconciliation of net earnings of Flowserve Corporation and weighted average shares for calculating basic net earnings per common share.

Earnings per weighted average common share outstanding was calculated as follows:

|   | Year Ended December 31,                       |           |           |
|---|---|-----------|-----------|
|   | 2015  | 2014      | 2013      |
|   | (Amounts in thousands, except per share data) |           |           |
| Net earnings of Flowserve Corporation   | \$267,669                                     | \$518,824 | \$485,530 |
| Dividends on restricted shares not expected to vest                               | 12  | 12        | 13        |
| Earnings attributable to common and participating shareholders                    | \$267,681                                     | \$518,836 | \$485,543 |
| Weighted average shares:  |   |           |           |
| Common stock  | 132,567                                       | 136,334   | 140,901   |
| Participating securities  | 507   | 578       | 698       |
| Denominator for basic earnings per common share                                   | 133,074                                       | 136,912   | 141,599   |
| Effect of potentially dilutive securities   | 737   | 931       | 830       |
| Denominator for diluted earnings per common share                                 | 133,811                                       | 137,843   | 142,429   |
| Net earnings per share attributable to Flowserve Corporation common shareholders: |   |           |           |
| Basic   | \$2.01  | \$3.79    | \$3.43    |
| Diluted   | 2.00  | 3.76      | 3.41      |

Diluted earnings per share is based upon the weighted average number of shares as determined for basic earnings per share plus shares potentially issuable in conjunction with stock options, restricted share units and performance share units.

Research and Development Expense — Research and development costs are charged to expense when incurred. Aggregate research and development costs included in selling, general and administrative expenses ("SG&A") were \$45.9 million, \$40.9 million and \$37.8 million in 2015, 2014 and 2013, respectively. Costs incurred for research and development primarily include salaries and benefits and consumable supplies, as well as rent, professional fees, utilities and the depreciation of property and equipment used in research and development activities.

#### Accounting Developments

##### Pronouncements Implemented

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-11 "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This ASU changes the accounting for repurchase-to-maturity transactions and linked repurchase financings so that such transactions will now be accounted for as secured borrowings. This accounting change is effective for the first interim or annual period beginning after December 15, 2014 and early adoption is not permitted. There are also new disclosure requirements in this ASU. Our adoption of ASU No. 2014-11, as of January 1, 2015, did not have an impact on our consolidated financial condition and results of operations.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The ASU provides explicit guidance about a customer's accounting for fees paid in connection with a cloud computing arrangements. ASU 2015-05 is effective for periods beginning after December 15, 2015. Early adoption is permitted. We adopted the amendments of this ASU immediately and it did not have an impact on our consolidated financial condition and results of operations.

In May 2015, the FASB issued ASU No. 2015-08, "Business Combinations (Topic 805): Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115." This ASU amends various U.S. Securities and Exchange Commission ("SEC") paragraphs pursuant to the issuance Staff Accounting Bulletin No. 115. The amendments conform the Board's guidance on pushdown accounting to that of the SEC. We adopted the amendments of this ASU immediately and it did not have an impact on our consolidated financial condition and results of operations.



In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." The ASU eliminates the requirement to account for business combination measurement period adjustments retrospectively. Measurement period adjustments will now be recognized prospectively in the reporting period in which the adjustment amount is determined. The nature and amount of any measurement period adjustments recognized during the reporting period must be disclosed, including the value of the adjustment to each current period income statement line item relating to the income effects that would have been recognized in previous periods if the adjustment to provisional amounts were recognized as of the acquisition date. ASU 2015-16 is effective for periods beginning after December 15, 2015. Early adoption is permitted. We adopted the amendments of this ASU immediately and it did not have an impact on our consolidated financial condition and results of operations.

#### Pronouncements Not Yet Implemented

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" which supersedes the revenue recognition requirements in "Revenue Recognition (Topic 605)." The standard is principle-based and provides a five-step model to determine when and how revenue is recognized. The core principle is that a company should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. There are also expanded disclosure requirements in this ASU. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date." As a result, public entities will apply the new standard for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Early adoption as of the original public entity effective date is permitted. We are currently evaluating the impact of ASU No. 2014-09 on our consolidated financial condition and results of operations.

In June 2014, the FASB issued ASU No. 2014-12 "Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." This ASU was issued to address share-based payment awards with a performance target affecting vesting that could be achieved after the employee's requisite service period. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. This ASU may be applied either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU No. 2014-12 will not have a material impact on our consolidated financial condition and results of operations.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU requires management to evaluate whether there are conditions or events that raise substantial doubt about the ability of a company to continue as a going concern for one year from the date the financial statements are issued or within one year after the date that the financial statements are available to be issued when applicable. Further, the ASU provides management guidance regarding its responsibility to disclose the ability of a company to continue as a going concern in the notes to the financial statements. This ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The adoption of ASU No. 2014-15 will not have an impact on our consolidated financial condition and results of operations.

In November 2014, the FASB issued ASU No. 2014-16, "Derivatives and Hedging (Topic 815): "Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity." This ASU was issued to clarify and reinforce the practice of evaluating all relevant terms and features when reviewing the nature of a host contract. The ASU stipulates that no one term or feature would define the host contract's economic characteristics and risks. As a result, the economic characteristics and risks of the hybrid financial instrument as a whole would determine the nature of the host contract. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU No. 2014-16 will not have an impact on our consolidated financial condition and results of operations.



In January 2015, the FASB issued ASU No. 2015-01, "Income Statement-Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." In connection with the FASB's efforts to simplify accounting standards, the FASB released new guidance on simplifying Income Statement presentation by eliminating the concept of extraordinary items from U.S. GAAP. With the issuance of this ASU the FASB determined that the elimination of the concept of extraordinary items from U.S. GAAP would reduce the cost and complexity on the application of accounting standards, while maintaining or improving the usefulness of information included in financial statements. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU No. 2015-01 will not have an impact on our consolidated financial condition and results of operations.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810) - Amendments to the Consolidation Analysis," which provides guidance on the analysis process companies must perform in order to determine whether a legal entity should be consolidated. The new ASU simplifies U.S. GAAP by eliminating entity specific consolidation guidance for limited partnerships. It also revises other aspects of the consolidation analysis, to include the ownership assessment of variable interest entities (VIEs), fee arrangements and how related parties are assessed. The amendments rescind the indefinite deferral of FASB Statement 167, Amendments to FASB Interpretation No. 46(R), for certain investment funds and replace it with a permanent scope exception for money market funds. This ASU is effective for periods beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The adoption of ASU No. 2015-02 will not have an impact on our consolidated financial condition and results of operations.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." The ASU was issued in connection with the FASB's efforts to simplify accounting standards for the presentation of debt issuance costs. The amendments of this ASU require companies to present debt issuance costs the same manner that present debt discounts are currently reported, as a direct deduction from the carrying value of that debt liability. The applicability of this requirement does not impact the recognition and measurement guidance for debt issuance costs. ASU 2015-03 is effective for periods beginning after December 15, 2015. Early adoption is allowed for financial statements that have yet to be issued. The adoption of ASU No. 2015-03 will not have a material impact on our consolidated financial condition and results of operations.

In May 2015, the FASB issued ASU No. 2015-07, "Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the Emerging Issues Task Force)." The ASU removes the requirement to categorize all investments for which fair value is measured using the net asset value per share practical expedient within the fair value hierarchy. This ASU is effective for periods beginning after December 15, 2015. Early adoption is permitted. The adoption of ASU No. 2015-07 will not have a material impact on our consolidated financial condition and results of operations.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." Previous to the issuance of this ASU, ASC 330 required that an entity measure inventory at the lower of cost or market. ASU 2015-11 specifies that "market" is defined as "net realizable value," or the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Application is to be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of ASU No. 2015-11 will not have a material impact on our consolidated financial condition and results of operations.

In August 2015, the FASB issued ASU No. 2015-15, "Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update)." The ASU clarifies the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of credit arrangements. The SEC staff has announced that it would "not object to an entity deferring and presenting debt



issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement." The adoption of ASU No. 2015-15 will not have a material impact on our consolidated financial condition and results of operations.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This update is effective for periods beginning after December 15, 2016 and early application is permitted. The adoption of ASU No. 2015-17 will not have a material impact on our consolidated financial condition and results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The ASU requires entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value with changes in fair value recognized in net income. The ASU also requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The requirement to disclose the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet has been eliminated by this ASU. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact of ASU No. 2016-01 on our consolidated financial condition and results of operations.

## 2. ACQUISITIONS, DISPOSITION AND EXIT OF JOINT VENTURE

### SIHI Group B.V.

Effective January 7, 2015, we acquired for inclusion in Industrial Product Division ("IPD"), 100% of SIHI Group B.V. ("SIHI"), a global provider of engineered vacuum and fluid pumps and related services, primarily servicing the chemical market, as well as the pharmaceutical, food & beverage and other process industries, in a stock purchase for €286.7 million (\$341.5 million based on exchange rates in effect at the time the acquisition closed and net of cash acquired) in cash. The acquisition was funded using approximately \$110 million in available cash and approximately \$255 million in initial borrowings from our Revolving Credit Facility (as defined and discussed in Note 10), which was subsequently paid down with a portion of the net proceeds from our March 2015 offering of the 2022 EUR Senior Notes (as defined and discussed in Note 10). SIHI, based in The Netherlands, has operations primarily in Europe and, to a lesser extent, the Americas and Asia.

During the first quarter of 2015, the fair value of assets acquired and liabilities assumed was recorded on a preliminary basis. During the second quarter of 2015, we recorded measurement period adjustments, primarily related to the revision of the estimated fair value of our investment in an unconsolidated joint venture, and other reclassifications that had no net impact on goodwill. These adjustments were made to the preliminary amounts recognized to reflect new information obtained about facts and circumstances that existed as of the acquisition date, that if known, would have affected the measurements of the amounts recognized at that date and did not have a material impact on the opening balance sheet. There were no measurement period adjustments identified in the third or fourth quarters of 2015.

The allocation of the purchase price, including the above mentioned measurement period adjustments, is summarized below:

| (Amounts in millions)                          | January 7, 2015<br>(As adjusted) |
|--|----------------------------------|
| Accounts receivable                            | \$59.3                           |
| Inventories                                    | 74.0                             |
| Prepaid expenses and other                     | 17.7                             |
| Total current assets                           | 151.0                            |
| Intangible assets                              |                                  |
| Trademarks                                     | 20.9                             |
| Existing customer relationships                | 45.3                             |
| Backlog  | 8.5                              |
| Engineering drawings and other                 | 3.9                              |
| Total intangible assets                        | 78.6                             |
| Property, plant and equipment                  | 94.5                             |
| Long-term deferred tax asset                   | 11.7                             |
| Investments in affiliates                      | 7.3                              |
| Total assets                                   | 343.1                            |
| Current liabilities                            | (88.0 )                          |
| Noncurrent liabilities                         | (114.7 )                         |
| Net assets                                     | 140.4                            |
| Goodwill                                       | 201.1                            |
| Purchase price, net of cash acquired of \$23.4 | \$341.5                          |

The excess of the acquisition date fair value of the total purchase price over the estimated fair value of the net assets was recorded as goodwill. Goodwill of \$201.1 million represents the value expected to be obtained from strengthening our portfolio of products and services through the addition of SIHI's engineered vacuum and fluid pumps, as well as the associated aftermarket services and parts. The goodwill related to this acquisition is recorded in the IPD segment and is not expected to be deductible for tax purposes. The trademarks are primarily indefinite-lived intangibles. As of date of acquisition existing customer relationships, engineering drawings and backlog had expected weighted average useful lives of 10 years, 10 years and less than one year, respectively. In total, amortizable intangible assets have a weighted average useful live of approximately 9 years.

Subsequent to January 7, 2015, the revenues and expenses of SIHI have been included in our consolidated statement of income. SIHI operations generated sales of approximately \$294.2 million and impacted net earnings by a loss of \$39.5 million for the year ended December 31, 2015. SIHI's sales (unaudited) were approximately €270 million during its fiscal year ended November 30, 2014. No proforma financial information has been presented due to immateriality.

Naval OY

Effective March 31, 2014, we sold our Flow Control Division's ("FCD") Naval OY ("Naval") business to a Finnish valve manufacturer. The sale included Naval's manufacturing facility located in Laitila, Finland and a service and support center located in St. Petersburg, Russia. The cash proceeds for the sale totaled \$46.8 million, net of cash divested, and resulted in a \$13.4 million pre-tax gain recorded in selling, general and administrative expense in the consolidated statements of income. Net sales related to the Naval business totaled \$8.2 million in the first quarter of 2014.

**Innovative Mag-Drive, LLC**

On December 10, 2013, we acquired for inclusion in Industrial Product Division ("IPD"), 100% of Innovative Mag-Drive, LLC ("Innomag"), a privately-owned, U.S.-based company specializing in advanced sealless magnetic drive centrifugal pumps for the chemical and general industries, in an asset purchase of up to \$78.7 million in cash. Of the total purchase price, \$67.5 million has been paid. The remaining \$11.2 million of the total purchase price is contingent upon Innomag achieving certain performance metrics during the two- and five-year periods following the acquisition, and to the extent achieved, is expected to be paid in cash within four months of the performance measurement dates. We initially recorded a liability of \$7.5 million as an estimate of the acquisition date fair value of the contingent consideration, which is based on the weighted probability of achievement of the performance metrics. During the fourth quarter of 2015, the estimated fair value of the contingent consideration was reduced to \$0.7 million based on 2015 results and an updated weighted probability of achievement of the performance metrics within the specified time frame. The resulting gain was included in SG&A in our consolidated statement of income. Subsequent to December 10, 2013, the revenues and expenses of Innomag have been included in our consolidated statements of income. No pro forma information has been provided due to immateriality.

**Audco India, Limited**

Effective March 28, 2013, we and our joint venture partner agreed to exit our joint venture, Audco India, Limited ("AIL"), which manufactures integrated industrial valves in India. To effect the exit, in two separate transactions, Flow Control Division ("FCD") acquired 100% ownership of AIL's plug valve manufacturing business in an asset purchase for cash of \$10.1 million and sold its 50% equity interest in AIL to the joint venture partner for \$46.2 million in cash. We remeasured to fair value our previously held equity interest in the purchased net assets of the plug valve manufacturing business resulting in net assets acquired of approximately \$25 million and a pre-tax gain of \$15.3 million. The sale of our equity interest in AIL resulted in a pre-tax gain of \$13.0 million. Both of the above gains were recorded in net earnings from affiliates in the consolidated statements of income. No pro forma information has been provided due to immateriality. Prior to these transactions, our 50% interest in AIL was recorded using the equity method of accounting.

**3. GOODWILL AND OTHER INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill for the years ended December 31, 2015 and 2014 are as follows:

|                                 | EPD                    | IPD       | FCD       | Total       |
|---------------------------------|------------------------|-----------|-----------|-------------|
|                                 | (Amounts in thousands) |           |           |             |
| Balance as of January 1, 2014   | \$449,496              | \$165,532 | \$492,523 | \$1,107,551 |
| Disposition(1)                  | —                      | —         | (6,483)   | (6,483)     |
| Currency translation            | (9,756)                | (790)     | (23,267)  | (33,813)    |
| Balance as of December 31, 2014 | \$439,740              | \$164,742 | \$462,773 | \$1,067,255 |
| Acquisition(2)                  | 5,253                  | 201,149   | —         | 206,402     |
| Segment composition change(3)   | 41,072                 | (41,072)  | —         | —           |
| Currency translation            | (8,006)                | (23,703)  | (17,962)  | (49,671)    |
| Balance as of December 31, 2015 | \$478,059              | \$301,116 | \$444,811 | \$1,223,986 |

(1) Goodwill disposition related to the sale of Naval in 2014. See Note 2 for additional information.

(2) Goodwill addition is primarily related to the acquisition of SIHI. See Note 2 for additional information.

(3) Movement of goodwill from IPD to EPD due to segment composition change. See Note 16 for additional information.

The following table provides information about our intangible assets for the years ended December 31, 2015 and 2014:

|                                       | Useful<br>Life<br>(Years) | December 31, 2015         |                             | December 31, 2014         |                             |
|---------------------------------------|---------------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|
|                                       |                           | Ending<br>Gross<br>Amount | Accumulated<br>Amortization | Ending<br>Gross<br>Amount | Accumulated<br>Amortization |
| (Amounts in thousands, except years)  |                           |                           |                             |                           |                             |
| Finite-lived intangible assets:       |                           |                           |                             |                           |                             |
| Engineering drawings(1)               | 10-22                     | \$92,694                  | \$(66,345 )                 | \$90,843                  | \$(62,947 )                 |
| Existing customer relationships(2)    | 5-10                      | 80,270                    | (25,747 )                   | 38,003                    | (19,285 )                   |
| Patents                               | 9-16                      | 27,277                    | (25,242 )                   | 29,396                    | (26,087 )                   |
| Other                                 | 4-40                      | 80,305                    | (28,092 )                   | 43,351                    | (25,426 )                   |
|                                       |                           | \$280,546                 | \$(145,426 )                | \$201,593                 | \$(133,745 )                |
| Indefinite-lived intangible assets(3) |                           | \$95,220                  | \$(1,563 )                  | \$79,982                  | \$(1,493 )                  |

(1) Engineering drawings represent the estimated fair value associated with specific acquired product and component schematics.

(2) Existing customer relationships acquired prior to 2011 had a useful life of five years.

(3) Accumulated amortization for indefinite-lived intangible assets relates to amounts recorded prior to the implementation date of guidance issued in ASC 350.

The following schedule outlines actual amortization expense recognized during 2015 and an estimate of future amortization based upon the finite-lived intangible assets owned at December 31, 2015:

|   | Amortization<br>Expense<br>(Amounts in<br>thousands) |
|---|--|
| Actual for year ended December 31, 2015     | \$22,013   |
| Estimated for year ending December 31, 2016 | 14,189   |
| Estimated for year ending December 31, 2017 | 14,036   |
| Estimated for year ending December 31, 2018 | 13,838   |
| Estimated for year ending December 31, 2019 | 13,365   |
| Estimated for year ending December 31, 2020 | 13,150   |
| Thereafter                                  | 66,542   |

Amortization expense for finite-lived intangible assets was \$14.0 million in 2014 and \$12.8 million in 2013.

## 4. INVENTORIES

Inventories, net consisted of the following:

|                                   | December 31,           |            |
|-----------------------------------|------------------------|------------|
|                                   | 2015                   | 2014       |
|                                   | (Amounts in thousands) |            |
| Raw materials                     | \$390,998              | \$352,928  |
| Work in process                   | 739,227                | 687,343    |
| Finished goods                    | 235,083                | 265,439    |
| Less: Progress billings           | (285,582 )             | (230,058 ) |
| Less: Excess and obsolete reserve | (84,161 )              | (80,088 )  |
| Inventories, net                  | \$995,565              | \$995,564  |

During 2015, 2014 and 2013, we recognized expenses of \$24.2 million, \$19.2 million and \$24.4 million, respectively, for excess and obsolete inventory. These expenses are included in cost of sales ("COS") in our consolidated statements of income.

## 5. STOCK-BASED COMPENSATION PLANS

We maintain the Flowserve Corporation Equity and Incentive Compensation Plan (the "2010 Plan"), which is a shareholder-approved plan authorizing the issuance of up to 8,700,000 shares of our common stock in the form of incentive stock options, non-statutory stock options, restricted shares, restricted share units and performance-based units (collectively referred to as "Restricted Shares"), stock appreciation rights and bonus stock. Of the 8,700,000 shares of common stock authorized under the 2010 Plan, 4,172,064 were available for issuance as of December 31, 2015. The Flowserve Corporation 2004 Stock Compensation Plan expired on June 22, 2014, with 827,835 shares unissued. No stock options have been granted since 2006.

Stock Options — Options granted to officers, other employees and directors allow for the purchase of common shares at the market value of our stock on the date the options are granted. Options generally become exercisable over a staggered period ranging from one to five years (most typically from one to three years). At December 31, 2015, all outstanding options were fully vested. Options generally expire 10 years from the date of the grant or within a short period of time following the termination of employment or cessation of services by an option holder. No options were granted during 2015, 2014 or 2013. Information related to stock options issued to officers, other employees and directors prior to 2010 under all plans is presented in the following table:

|                                 | 2015      |  | 2014   |  | 2013      |  |
|---------------------------------|-----------|--|--------|--|-----------|--|
|                                 | Shares    | Weighted<br>Average<br>Exercise<br>Price | Shares | Weighted<br>Average<br>Exercise<br>Price | Shares    | Weighted<br>Average<br>Exercise<br>Price |
| Number of shares under option:  |           |  |        |  |           |  |
| Outstanding — beginning of year | 97,962    | \$16.61                                  | 97,962 | \$16.61                                  | 115,362   | \$15.00                                  |
| Exercised                       | (13,701 ) | 11.66                                    | —      | —  | (17,400 ) | 5.91                                     |
| Canceled                        | —         | —  | —      | —  | —         | —  |
| Outstanding — end of year       | 84,261    | \$17.42                                  | 97,962 | \$16.61                                  | 97,962    | \$16.61                                  |
| Exercisable — end of year       | 84,261    | \$17.42                                  | 97,962 | \$16.61                                  | 97,962    | \$16.61                                  |

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Additional information relating to the ranges of options outstanding at December 31, 2015, is as follows:

| Range of Exercise<br>Prices per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Options Outstanding and<br>Exercisable |  |
|---------------------------------------|---|--|--|
|                                       |   | Number<br>Outstanding                  | Weighted<br>Average<br>Exercise Price<br>per Share |
| \$16.16 - \$18.18                     | 0.96  | 84,261                                 | \$17.42  |
|                                       |   | 84,261                                 | \$17.42  |

As of December 31, 2015, we had no unrecognized compensation cost related to outstanding stock option awards. The weighted average remaining contractual life of options outstanding at December 31, 2015 and 2014 was one year and 1.8 years, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2015, 2014 and 2013 was less than \$1 million in each year. No stock options vested during the years ended December 31, 2015, 2014 and 2013.

Restricted Shares — Generally, the restrictions on Restricted Shares do not expire for a minimum of one year and a maximum of three years, and shares are subject to forfeiture during the restriction period. Most typically, Restricted Share grants have staggered vesting periods over one to three years from grant date. The intrinsic value of the Restricted Shares, which is typically the product of share price at the date of grant and the number of Restricted Shares granted, is amortized on a straight-line basis to compensation expense over the periods in which the restrictions lapse.

Unearned compensation is amortized to compensation expense over the vesting period of the Restricted Shares. As of December 31, 2015 and 2014, we had \$30.2 million and \$30.6 million, respectively, of unearned compensation cost related to unvested Restricted Shares, which is expected to be recognized over a weighted-average period of approximately one year. These amounts will be recognized into net earnings in prospective periods as the awards vest. The total fair value of Restricted Shares vested during the years ended December 31, 2015, 2014 and 2013 was \$41.3 million, \$34.8 million and \$34.9 million, respectively.

We recorded stock-based compensation for restricted shares as follows:

|                                      | Year Ended December 31, |        |        |
|--------------------------------------|-------------------------|--------|--------|
|                                      | 2015                    | 2014   | 2013   |
|                                      | (Amounts in millions)   |        |        |
| Stock-based compensation expense     | \$34.8                  | \$42.7 | \$35.8 |
| Related income tax benefit           | (11.8)                  | (14.6) | (12.3) |
| Net stock-based compensation expense | \$23.0                  | \$28.1 | \$23.5 |

The following table summarizes information regarding Restricted Shares:

|                                       | Year Ended December 31, |   |
|---------------------------------------|-------------------------|---|
|                                       | 2015                    | Weighted<br>Average<br>Grant-Date<br>Fair Value |
| Number of unvested Restricted Shares: |                         |   |
| Outstanding — beginning of year       | 1,856,548               | \$52.29   |
| Granted                               | 777,730                 | 53.64   |
| Vested                                | (962,949)               | ) 42.87   |
| Canceled                              | (130,486)               | ) 60.82   |
| Outstanding — ending of year          | 1,540,843               | \$58.14   |





Unvested Restricted Shares outstanding as of December 31, 2015, includes approximately 817,000 units with performance-based vesting provisions. Performance-based units are issuable in common stock and vest upon the achievement of pre-defined performance targets, primarily based on our average annual return on net assets over a three-year period as compared with the same measure for a defined peer group for the same period. Most units were granted in three annual grants since January 1, 2013 and have a vesting percentage between 0% and 200% depending on the achievement of the specific performance targets. Compensation expense is recognized ratably over a cliff-vesting period of 36 months based on the fair market value of our common stock on the date of grant, as adjusted for anticipated forfeitures. During the performance period, earned and unearned compensation expense is adjusted based on changes in the expected achievement of the performance targets. Vesting provisions range from 0 to approximately 1,491,000 shares based on performance targets. As of December 31, 2015, we estimate vesting of approximately 998,000 shares based on expected achievement of performance targets.

## 6. DERIVATIVES AND HEDGING ACTIVITIES

Our risk management and foreign currency derivatives and hedging policy specifies the conditions under which we may enter into derivative contracts. See Note 1 for additional information on our purpose for entering into derivatives and our overall risk management strategies. We enter into foreign exchange forward and swap contracts to hedge our cash flow risks associated with transactions denominated in currencies other than the local currency of the operation engaging in the transaction. All designated foreign exchange hedging instruments are highly effective.

In 2013 we elected to designate and apply hedge accounting to certain forward exchange contracts. Foreign exchange contracts designated as hedging instruments had notional values of \$21.0 million and \$125.9 million at December 31, 2015 and 2014, respectively. Foreign exchange contracts not designated as hedging instruments had notional values of \$376.3 million and \$421.1 million at December 31, 2015 and 2014, respectively. At December 31, 2015, the length of foreign exchange contracts currently in place ranged from 6 days to 25 months.

Also as part of our risk management program, we enter into interest rate swap agreements to hedge exposure to floating interest rates on certain portions of our debt. At December 31, 2015 we had no notional amounts of outstanding interest rate swaps with third parties, compared to \$40.0 million as of December 31, 2014.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluations of our counterparties under forward exchange contracts and interest rate swap agreements and expect all counterparties to meet their obligations. We have not experienced credit losses from our counterparties.

The fair value of foreign exchange derivative contracts not designated as hedging instruments are summarized below:

|                                   | Year Ended December 31, |          |
|-----------------------------------|-------------------------|----------|
|                                   | 2015                    | 2014     |
|                                   | (Amounts in thousands)  |          |
| Current derivative assets         | \$2,364                 | \$11,709 |
| Noncurrent derivative assets      | —                       | 6        |
| Current derivative liabilities    | 3,196                   | 6,168    |
| Noncurrent derivative liabilities | 441                     | 348      |

The fair value of interest rate swaps and foreign exchange derivative contracts designated as hedging instruments are summarized below:

|                                   | Year Ended December 31, |       |
|-----------------------------------|-------------------------|-------|
|                                   | 2015                    | 2014  |
|                                   | (Amounts in thousands)  |       |
| Current derivative assets         | \$26                    | \$—   |
| Current derivative liabilities    | 1,448                   | 6,952 |
| Noncurrent derivative liabilities | —                       | 411   |



Current and noncurrent derivative assets are reported in our consolidated balance sheets in prepaid expenses and other and other assets, net, respectively. Current and noncurrent derivative liabilities are reported in our consolidated balance sheets in accrued liabilities and retirement obligations and other liabilities, respectively.

The impact of net changes in the fair values of foreign exchange contracts are summarized below:

|                                  | Year Ended December 31, |         |            |
|----------------------------------|-------------------------|---------|------------|
|                                  | 2015                    | 2014    | 2013       |
|                                  | (Amounts in thousands)  |         |            |
| Gain (loss) recognized in income | \$23,900                | \$8,464 | \$(4,352 ) |

Gains and losses recognized in our consolidated statements of income for foreign exchange contracts are classified as other (expense) income, net.

The impact of net changes in the fair values of interest rate swaps in cash flow hedging relationships are immaterial for disclosure purposes.

In March 2015, we designated €255.7 million of our €500.0 million 2022 EUR Senior Notes discussed in Note 10 as a net investment hedge of our investments in certain of our international subsidiaries that use the Euro as their functional currency. We used the spot method to measure the effectiveness of our net investment hedge. Under this method, for each reporting period, the change in the carrying value of the 2022 EUR Senior Notes due to remeasurement of the effective portion is reported in accumulated other comprehensive loss on our consolidated balance sheet and the remaining change in the carrying value of the ineffective portion, if any, is recognized in other expense, net in our consolidated statements of income. We evaluate the effectiveness of our net investment hedge on a prospective basis at the beginning of each quarter. We did not record any ineffectiveness for the year ended December 31, 2015.

#### 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of our debt, excluding the Senior Notes (as described in Note 10), was estimated using interest rates on similar debt recently issued by companies with credit metrics similar to ours and is classified as Level II under the fair value hierarchy. The carrying value of our debt is included in Note 10 and, except for the Senior Notes, approximates fair value. The estimated fair value of the Senior Notes is based on Level I quoted market rates. The estimated fair value of our Senior Notes at December 31, 2015 was \$1,295.9 million compared to the carrying value of \$1,337.3 million. The carrying amounts of our other financial instruments (i.e., cash and cash equivalents, accounts receivable, net and accounts payable) approximated fair value due to their short-term nature at December 31, 2015 and December 31, 2014.

#### 8. DETAILS OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

The following tables present financial information of certain consolidated balance sheet captions.

Accounts Receivable, net — Accounts receivable, net were:

|                                       | December 31,           |             |
|---------------------------------------|------------------------|-------------|
|                                       | 2015                   | 2014        |
|                                       | (Amounts in thousands) |             |
| Accounts receivable                   | \$1,032,327            | \$1,107,916 |
| Less: allowance for doubtful accounts | (43,936 )              | (25,469 )   |
| Accounts receivable, net              | \$988,391              | \$1,082,447 |

As disclosed in Note 1, we reclassified a portion of our accounts receivable to long-term within other assets, net on our December 31, 2015 and 2014 consolidated balance sheets.

Property, Plant and Equipment, net — Property, plant and equipment, net were:

|  | December 31,           |            |
|--|------------------------|------------|
|  | 2015                   | 2014       |
|  | (Amounts in thousands) |            |
| Land                                       | \$83,475               | \$76,645   |
| Buildings and improvements                 | 430,267                | 405,733    |
| Machinery, equipment and tooling           | 690,566                | 668,710    |
| Software, furniture and fixtures and other | 409,333                | 379,774    |
| Gross property, plant and equipment        | 1,613,641              | 1,530,862  |
| Less: accumulated depreciation             | (855,214 )             | (836,981 ) |
| Property, plant and equipment, net         | \$758,427              | \$693,881  |

Accrued Liabilities — Accrued liabilities were:

|  | December 31,           |           |
|--|------------------------|-----------|
|  | 2015                   | 2014      |
|  | (Amounts in thousands) |           |
| Wages, compensation and other benefits           | \$160,452              | \$226,488 |
| Commissions and royalties                        | 30,574                 | 34,194    |
| Customer advance payments                        | 315,510                | 303,527   |
| Progress billings in excess of accumulated costs | 8,085                  | 22,098    |
| Warranty costs and late delivery penalties       | 51,894                 | 47,738    |
| Sales and use tax                                | 17,741                 | 16,274    |
| Income tax                                       | 38,747                 | 37,451    |
| Other  | 173,761                | 106,302   |
| Accrued liabilities                              | \$796,764              | \$794,072 |

"Other" accrued liabilities include professional fees, lease obligations, insurance, interest, freight, accrued cash dividends payable, legal and environmental matters, derivative liabilities, restructuring reserves and other items, none of which individually exceed 5% of current liabilities.

Retirement Obligations and Other Liabilities — Retirement obligations and other liabilities were:

|  | December 31,           |           |
|--|------------------------|-----------|
|  | 2015                   | 2014      |
|  | (Amounts in thousands) |           |
| Pension and postretirement benefits          | \$203,150              | \$195,429 |
| Deferred taxes                               | 140,614                | 118,780   |
| Legal and environmental                      | 26,538                 | 27,606    |
| Uncertain tax positions                      | 73,459                 | 69,284    |
| Other  | 45,558                 | 41,412    |
| Retirement obligations and other liabilities | \$489,319              | \$452,511 |

## 9. EQUITY METHOD INVESTMENTS

We occasionally enter into joint venture arrangements with local country partners as our preferred means of entry into countries where barriers to entry may exist. Similar to our consolidated subsidiaries, these unconsolidated joint ventures generally operate within our primary businesses of designing, manufacturing, assembling and distributing fluid motion and control products and services. We have agreements with certain of these joint ventures that restrict us from otherwise entering the respective market and certain joint ventures produce and/or sell our products as part of their broader product offering. Net earnings from investments in unconsolidated joint ventures is reported in net earnings from affiliates in our consolidated statements of income. Given the integrated role of the unconsolidated joint ventures in our business, net earnings from affiliates is presented as a component of operating income.

As discussed in Note 2, effective March 28, 2013, we and our joint venture partner agreed to exit our AIL joint venture. Prior the exit, our 50% interest was recorded using the equity method of accounting. As of December 31, 2015, we had investments in eight joint ventures (one located in each of Chile, India, Japan, Saudi Arabia, South Korea and the United Arab Emirates and two located in China) that were accounted for using the equity method and are immaterial for disclosure purposes.

## 10. DEBT AND LEASE OBLIGATIONS

Debt, including capital lease obligations, consisted of:

|  | December 31,           |             |
|--|------------------------|-------------|
|  | 2015                   | 2014        |
|  | (Amounts in thousands) |             |
| 1.25% EUR Senior Notes due March 17, 2022, net of unamortized discount                           | \$539,785              | \$—         |
| 4.00% Senior Notes due November 15, 2023, net of unamortized discount                            | 298,853                | 298,731     |
| 3.50% Senior Notes due September 15, 2022, net of unamortized discount                           | 498,637                | 498,460     |
| Term Loan Facility, interest rate of 1.86% and 1.51% at December 31, 2015 and 2014, respectively | 285,000                | 330,000     |
| Capital lease obligations and other borrowings   | 8,995                  | 27,731      |
| Debt and capital lease obligations   | 1,631,270              | 1,154,922   |
| Less amounts due within one year   | 60,434                 | 53,131      |
| Total debt due after one year  | \$1,570,836            | \$1,101,791 |

Scheduled maturities of the Senior Credit Facility (as described below), as well as our Senior Notes and other debt, are:

|            | Term<br>Loan           | Senior Notes<br>and other debt | Total       |
|------------|------------------------|--------------------------------|-------------|
|            | (Amounts in thousands) |                                |             |
| 2016       | \$60,000               | \$434                          | \$60,434    |
| 2017       | 60,000                 | 8,561                          | 68,561      |
| 2018       | 60,000                 | —                              | 60,000      |
| 2019       | 60,000                 | —                              | 60,000      |
| Thereafter | 45,000                 | 1,337,275                      | 1,382,275   |
| Total      | \$285,000              | \$1,346,270                    | \$1,631,270 |

Senior Notes

On March 17, 2015, we completed a public offering of €500.0 million of Euro senior notes in aggregate principal amount due March 17, 2022 ("2022 EUR Senior Notes"). The 2022 EUR Senior Notes bear an interest rate of 1.25% per year, payable each year on March 17, commencing on March 17, 2016. The 2022 EUR Senior Notes were priced at 99.336% of par value, reflecting a discount to the aggregate principal amount. The proceeds of the offering were €496.7 million (\$526.3 million based on exchange rates in effect at the time the offering closed). We used a portion of the proceeds of the 2022 EUR Senior Notes to ultimately fund the acquisition of SIHI described in Note 2 and anticipate utilizing the remaining portion for other general corporate purposes.

On November 1, 2013 we completed the public offering of \$300.0 million in aggregate principal amount of senior notes due November 15, 2023 ("2023 Senior Notes"). The 2023 Senior Notes bear an interest rate of 4.00% per year, payable on May 15 and November 15 of each year. The 2023 Senior Notes were priced at 99.532% of par value, reflecting a discount to the aggregate principal amount. We used a portion of the net proceeds of the 2023 Senior Notes offering to repay amounts outstanding under our revolving credit facility described below. We used the remaining portion of the net proceeds for general corporate purposes, including the acquisition of Innomag described in Note 2.

On September 11, 2012, we completed the public offering of \$500.0 million in aggregate principal amount of senior notes due September 15, 2022 ("2022 Senior Notes"). The 2022 Senior Notes bear an interest rate of 3.50% per year, payable on March 15 and September 15 of each year. The 2022 Senior Notes were priced at 99.615% of par value, reflecting a discount to the aggregate principal amount.

We have the right to redeem the 2022 Senior Notes and 2023 Senior Notes at any time prior to June 15, 2022 and August 15, 2023, respectively, in whole or in part, at our option, at a redemption price equal to the greater of: (1) 100% of the principal amount of the senior notes being redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest in respect of the Senior Notes being redeemed discounted to the redemption date on a semi-annual basis, at the applicable Treasury Rate plus 30 basis points for the 2022 Senior Notes and plus 25 basis points for the 2023 Senior Notes. In addition, at any time on or after June 15, 2022 for the 2022 Senior Notes and August 15, 2023 for the 2023 Senior Notes, we may redeem the Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes being redeemed. In each case, we will also pay the accrued and unpaid interest on the principal amount being redeemed to the redemption date. Similarly, we have the right to redeem the 2022 EUR Senior Notes on or after December 17, 2021, in whole or in part, at our option, at a redemption price equal to the greater of: (1) 100% of the principal amount of the senior notes being redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest in respect of the Senior Notes being redeemed (exclusive of interest accrued to, but excluding, the date of redemption) discounted to the redemption date on an annual basis, at the Comparable German Government Bond Rate plus 25 basis points.

Our Senior Notes and Senior Credit Facility were fully and unconditionally and jointly and severally guaranteed by certain of our 100% owned domestic subsidiaries. Pursuant to the terms of the Senior Credit Facility and the indentures governing the Senior Notes, any guarantees on our obligations were subject to release if the Company satisfactorily achieved and met the following guaranty release conditions: (a) obtains a ratings of BBB (stable outlook) or better from S&P and Baa2 (stable outlook) or better from Moody's and (b) our domestic subsidiaries do not guarantee any material indebtedness. On February 27, 2015 Standard & Poor's Ratings Services raised its corporate credit and senior unsecured debt rating on the Company to BBB from BBB-, with a stable outlook. As of March 11, 2015 Moody's Investors Services' corporate credit and senior unsecured debt rating on the Company was Baa2, with a stable outlook. As a result, the guarantees of the Senior Notes and Senior Credit Facility were released as of March 26, 2015 upon the discharge of the terms of the note indentures and Senior Credit Facility agreement; therefore, the Company is exempt from disclosing supplemental guarantor financial information in accordance with Rule 3-10 of Regulation S-X, promulgated under the Securities Act of 1933.

#### Senior Credit Facility

Our credit agreement provides for a \$400.0 million term loan ("Term Loan Facility") and a \$1.0 billion revolving credit facility ("Revolving Credit Facility" and, together with the Term Loan Facility, the "Senior Credit Facility"). On October 14, 2015 we amended our Senior Credit Facility. The amendment extended the maturity of our Senior Credit Facility

by two years to October 14, 2020, lowered the sublimits for the issuance of letters of credit and reduced the commitment fee from 0.175% to 0.15% on the daily unused portions of the Senior Credit Facility. The amended Senior Credit Facility also increased the maximum permitted leverage ratio from 3.25 to 3.5 times debt to total Consolidated EBITDA (as defined in the Senior Credit Facility). Pursuant to the terms of the Senior Credit Facility and the indentures governing the Senior Notes, our obligations will no longer carry a conditional guarantee by certain of our 100% owned domestic subsidiaries. Subject to certain conditions,

we have the right to increase the amount of the Term Loan Facility or the Revolving Credit Facility by an aggregate amount not to exceed \$400.0 million. All other existing terms under the Senior Credit Facility remained unchanged.

As of December 31, 2015 and December 31, 2014, we had no amounts outstanding under the Revolving Credit Facility. We had outstanding letters of credit of \$105.2 million and \$76.8 million at December 31, 2015 and December 31, 2014, respectively, which reduced our borrowing capacity to \$894.8 million and \$923.2 million, respectively.

The Senior Credit Facility contains, among other things, covenants defining our and our subsidiaries' ability to dispose of assets, merge, pay dividends, repurchase or redeem capital stock and indebtedness, incur indebtedness and guarantees, create liens, enter into agreements with negative pledge clauses, make certain investments or acquisitions, enter into transactions with affiliates or engage in any business activity other than our existing business. Our compliance with these financial covenants under the Senior Credit Facility is tested quarterly. We were in compliance with the covenants as of December 31, 2015.

Repayment of Obligations —We may prepay loans under our Senior Credit Facility in whole or in part, without premium or penalty, at any time. A commitment fee, which is payable quarterly on the daily unused portions of the Senior Credit Facility, was 0.15% (per annum) at December 31, 2015. We made scheduled principal repayments under our Term Loan Facility of \$45.0 million, \$40.0 million and \$25.0 million in 2015, 2014 and 2013, respectively. We have scheduled principal repayments of \$15.0 million due in each of the next four quarters of 2016 under our Term Loan Facility. As a result of extending the maturity of our Term Loan by two years we have scheduled repayments of \$60.0 million in each of 2018 and 2019, and \$45.0 million in 2020.

#### Operating Leases

We have non-cancelable operating leases for certain offices, service and quick response centers, certain manufacturing and operating facilities, machinery, equipment and automobiles. Rental expense relating to operating leases was \$53.1 million, \$56.2 million and \$62.3 million in 2015, 2014 and 2013, respectively.

The future minimum lease payments due under non-cancelable operating leases are (amounts in thousands):

|                              |           |
|------------------------------|-----------|
| Year Ended December 31,      |           |
| 2016                         | \$45,505  |
| 2017                         | 37,553    |
| 2018                         | 28,355    |
| 2019                         | 22,063    |
| 2020                         | 18,699    |
| Thereafter                   | 63,848    |
| Total minimum lease payments | \$216,023 |

#### 11. PENSION AND POSTRETIREMENT BENEFITS

We sponsor several noncontributory defined benefit pension plans, covering substantially all U.S. employees and certain non-U.S. employees, which provide benefits based on years of service, age, job grade levels and type of compensation. Retirement benefits for all other covered employees are provided through contributory pension plans, cash balance pension plans and government-sponsored retirement programs. All funded defined benefit pension plans receive funding based on independent actuarial valuations to provide for current service and an amount sufficient to amortize unfunded prior service over periods not to exceed 30 years, with funding falling within the legal limits prescribed by prevailing regulation. We also maintain unfunded defined benefit plans that, as permitted by local regulations, receive funding only when benefits become due.

Our defined benefit plan strategy is to ensure that current and future benefit obligations are adequately funded in a cost-effective manner. Additionally, our investing objective is to achieve the highest level of investment performance that is compatible with our risk tolerance and prudent investment practices. Because of the long-term nature of our defined benefit plan liabilities, our funding strategy is based on a long-term perspective for formulating and implementing investment policies and evaluating their investment performance.



The asset allocation of our defined benefit plans reflect our decision about the proportion of the investment in equity and fixed income securities, and, where appropriate, the various sub-asset classes of each. At least annually, we complete a comprehensive

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review of our asset allocation policy and the underlying assumptions, which includes our long-term capital markets rate of return assumptions and our risk tolerances relative to our defined benefit plan liabilities.

The expected rates of return on defined benefit plan assets are derived from review of the asset allocation strategy, expected long-term performance of asset classes, risks and other factors adjusted for our specific investment strategy. These rates are impacted by changes in general market conditions, but because they are long-term in nature, short-term market changes do not significantly impact the rates.

Our U.S. defined benefit plan assets consist of a balanced portfolio of primarily U.S. equity and fixed income securities. Our non-U.S. defined benefit plan assets include a significant concentration of United Kingdom ("U.K.") fixed income securities. We monitor investment allocations and manage plan assets to maintain acceptable levels of risk. In addition, certain of our defined benefit plans hold investments in European equity and fixed income securities. For all periods presented, we used a measurement date of December 31 for each of our U.S. and non-U.S. pension plans and postretirement medical plans.

#### U.S. Defined Benefit Plans

We maintain qualified and non-qualified defined benefit pension plans in the U.S. The qualified plan provides coverage for substantially all full-time U.S. employees who receive benefits, up to an earnings threshold specified by the U.S. Department of Labor. The non-qualified plans primarily cover a small number of employees including current and former members of senior management, providing them with benefit levels equivalent to other participants, but that are otherwise limited by U.S. Department of Labor rules. The U.S. plans are designed to operate as "cash balance" arrangements, under which the employee has the option to take a lump sum payment at the end of their service. The total accumulated benefit obligation is equivalent to the total projected benefit obligation ("Benefit Obligation").

The following are assumptions related to the U.S. defined benefit pension plans:

|   | Year Ended December 31, |        |        |   |
|---|-------------------------|--------|--------|---|
|   | 2015                    | 2014   | 2013   |   |
| Weighted average assumptions used to determine Benefit Obligations: |                         |        |        |   |
| Discount rate   | 4.75                    | % 4.00 | % 4.50 | % |
| Rate of increase in compensation levels                             | 4.00                    | 4.25   | 4.25   |   |
| Weighted average assumptions used to determine net pension expense: |                         |        |        |   |
| Long-term rate of return on assets                                  | 6.25                    | % 6.00 | % 6.00 | % |
| Discount rate   | 4.00                    | 4.50   | 3.75   |   |
| Rate of increase in compensation levels                             | 4.25                    | 4.25   | 4.25   |   |

At December 31, 2015 as compared with December 31, 2014, we increased our discount rate from 4.00% to 4.75% based on an analysis of publicly-traded investment grade U.S. corporate bonds, which had a higher yield due to current market conditions. At December 31, 2015, as compared with December 31, 2014, our average assumed rate of compensation increase decreased to 4.00% compared to 4.25%. In determining 2015 expense, the expected rate of return on U.S. plan assets increased to 6.25%, primarily based on our target allocations and expected long-term asset returns. The long-term rate of return assumption is calculated using a quantitative approach that utilizes unadjusted historical returns and asset allocation as inputs for the calculation. For all US plans, we adopted the RP-2006 mortality tables and the MP-2015 improvement scale published in October 2015. We applied the RP-2006 tables based on the constituency of our plan population for union and non-union participants. We adjusted the improvement scale to utilize 75% of the ultimate improvement rate, consistent with assumptions adopted by the Social Security Administration trustees, based on long-term historical experience. Currently, we believe this approach provides the best estimate of our future obligation. Most plan participants elect to receive plan benefits as a lump sum at the end of service, rather than an annuity. As such, the updated mortality tables had an immaterial effect on our pension obligation.

Net pension expense for the U.S. defined benefit pension plans (including both qualified and non-qualified plans) was:

|  | Year Ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2015                    | 2014      | 2013      |
|  | (Amounts in thousands)  |           |           |
| Service cost                                       | \$24,113                | \$22,981  | \$23,355  |
| Interest cost                                      | 17,072                  | 17,429    | 15,089    |
| Expected return on plan assets                     | (24,185 )               | (21,985 ) | (19,952 ) |
| Settlement and curtailment of benefits             | —                       | —         | (28 )     |
| Amortization of unrecognized prior service benefit | 509                     | 475       | (87 )     |
| Amortization of unrecognized net loss              | 9,178                   | 8,428     | 14,280    |
| U.S. net pension expense                           | \$26,687                | \$27,328  | \$32,657  |

The estimated prior service cost and the estimated net loss for the U.S. defined benefit pension plans that will be amortized from accumulated other comprehensive loss into pension expense in 2016 is \$0.5 million and \$4.9 million, respectively. We amortize estimated prior service benefits and estimated net losses over the remaining expected service period.

The following summarizes the net pension liability for U.S. plans:

|                            | December 31,           |             |
|----------------------------|------------------------|-------------|
|                            | 2015                   | 2014        |
|                            | (Amounts in thousands) |             |
| Plan assets, at fair value | \$408,218              | \$426,784   |
| Benefit Obligation         | (426,248 )             | (447,552 )  |
| Funded status              | \$(18,030 )            | \$(20,768 ) |

The following summarizes amounts recognized in the balance sheet for U.S. plans:

|                        | December 31,           |             |
|------------------------|------------------------|-------------|
|                        | 2015                   | 2014        |
|                        | (Amounts in thousands) |             |
| Noncurrent assets      | \$—                    | \$—         |
| Current liabilities    | (248 )                 | (260 )      |
| Noncurrent liabilities | (17,782 )              | (20,508 )   |
| Funded status          | \$(18,030 )            | \$(20,768 ) |

The following is a summary of the changes in the U.S. defined benefit plans' pension obligations:

|  | 2015                   | 2014      |
|--|------------------------|-----------|
|  | (Amounts in thousands) |           |
| Balance — January 1                            | \$447,552              | \$405,812 |
| Service cost                                   | 24,113                 | 22,981    |
| Interest cost                                  | 17,072                 | 17,429    |
| Plan amendments                                | —                      | 2,387     |
| Actuarial (gain) loss(1)                       | (28,052 )              | 32,425    |
| Benefits paid                                  | (34,437 )              | (33,482 ) |
| Balance — December 31                          | \$426,248              | \$447,552 |
| Accumulated benefit obligations at December 31 | \$426,248              | \$447,552 |

(1)The 2015 actuarial gain primarily reflects the impact of an increase in the discount rate.

The following table summarizes the expected cash benefit payments for the U.S. defined benefit pension plans in the future (amounts in millions):

|           |        |
|-----------|--------|
| 2016      | \$38.0 |
| 2017      | 38.3   |
| 2018      | 40.2   |
| 2019      | 40.9   |
| 2020      | 40.8   |
| 2021-2025 | 215.5  |

The following table shows the change in accumulated other comprehensive loss attributable to the components of the net cost and the change in Benefit Obligations for U.S. plans, net of tax:

|  | 2015                   | 2014        | 2013        |
|--|------------------------|-------------|-------------|
|  | (Amounts in thousands) |             |             |
| Balance — January 1                          | \$(66,903 )            | \$(55,110 ) | \$(90,270 ) |
| Amortization of net loss                     | 5,750                  | 5,277       | 8,919       |
| Amortization of prior service cost (benefit) | 318                    | 297         | (54 )       |
| Net (loss) gain arising during the year      | (812 )                 | (17,367 )   | 26,312      |
| Settlement gain                              | —                      | —           | (17 )       |
| Balance — December 31                        | \$(61,647 )            | \$(66,903 ) | \$(55,110 ) |

Amounts recorded in accumulated other comprehensive loss consist of:

|  | December 31,           |             |
|--|------------------------|-------------|
|  | 2015                   | 2014        |
|  | (Amounts in thousands) |             |
| Unrecognized net loss                            | \$(60,034 )            | \$(64,970 ) |
| Unrecognized prior service cost                  | (1,613 )               | (1,933 )    |
| Accumulated other comprehensive loss, net of tax | \$(61,647 )            | \$(66,903 ) |

The following is a reconciliation of the U.S. defined benefit pension plans' assets:

|                       | 2015                   | 2014      |
|-----------------------|------------------------|-----------|
|                       | (Amounts in thousands) |           |
| Balance — January 1   | \$426,784              | \$410,462 |
| Return on plan assets | (5,160 )               | 29,058    |
| Company contributions | 21,031                 | 20,746    |
| Benefits paid         | (34,437 )              | (33,482 ) |
| Balance — December 31 | \$408,218              | \$426,784 |

We contributed \$21.0 million and \$20.7 million to the U.S. defined benefit pension plans during 2015 and 2014, respectively. These payments exceeded the minimum funding requirements mandated by the U.S. Department of Labor rules. Our estimated contribution in 2016 is expected to be approximately \$20 million, excluding direct benefits paid.

All U.S. defined benefit plan assets are held by the qualified plan. The asset allocations for the qualified plan at the end of 2015 and 2014 by asset category, are as follows:

| Asset category                | Target Allocation<br>at December 31, |      | Percentage of Actual Plan<br>Assets at December 31, |      |   |
|-------------------------------|--------------------------------------|------|---|------|---|
|                               | 2015                                 | 2014 | 2015  | 2014 |   |
| U.S. Large Cap                | 19                                   | % 19 | % 19  | % 19 | % |
| U.S. Small Cap                | 4                                    | % 4  | % 4   | % 4  | % |
| International Large Cap       | 14                                   | % 14 | % 14  | % 14 | % |
| Emerging Markets              | 5                                    | % 5  | % 5   | % 5  | % |
| World Equity                  | 8                                    | % 8  | % 8   | % 8  | % |
| Equity securities             | 50                                   | % 50 | % 50  | % 50 | % |
| Liability Driven Investment   | 39                                   | % 40 | % 39  | % 40 | % |
| Long-Term Government / Credit | 11                                   | % 10 | % 11  | % 10 | % |
| Fixed income                  | 50                                   | % 50 | % 50  | % 50 | % |

None of our common stock is directly held by our qualified plan. Our investment strategy is to earn a long-term rate of return consistent with an acceptable degree of risk and minimize our cash contributions over the life of the plan, while taking into account the liquidity needs of the plan. We preserve capital through diversified investments in high quality securities. Our current allocation target is to invest approximately 50% of plan assets in equity securities and 50% in fixed income securities. Within each investment category, assets are allocated to various investment strategies. A professional money management firm manages our assets, and we engage a consultant to assist in evaluating these activities. We periodically review the allocation target, generally in conjunction with an asset and liability study and in consideration of our future cash flow needs. We regularly rebalance the actual allocation to our target investment allocation.

Plan assets are invested in commingled funds and the individual funds are actively managed with the intent to outperform specified benchmarks. Our "Pension and Investment Committee" is responsible for setting the investment strategy and the target asset allocation, as well as selecting individual funds. As the qualified plan approached fully funded status, we implemented a Liability-Driven Investing ("LDI") strategy, which more closely aligns the duration of the assets with the duration of the liabilities. The LDI strategy results in an asset portfolio that more closely matches the behavior of the liability, thereby protecting the funded status of the plan.

The plan's financial instruments, shown below, are presented at fair value. See Note 1 for further discussion on how the hierarchical levels of the fair values of the Plan's investments are determined. Prior period information has been updated to conform to current year presentation. The fair values of our U.S. defined benefit plan assets were:

|                                 | At December 31, 2015 |                     |           |     | At December 31, 2014 |                     |           |     |
|---------------------------------|----------------------|---------------------|-----------|-----|----------------------|---------------------|-----------|-----|
|                                 | Total                | Hierarchical Levels |           |     | Total                | Hierarchical Levels |           |     |
|                                 |                      | I                   | II        | III |                      | I                   | II        | III |
| Cash and cash equivalents       | \$31                 | \$31                | \$—       | \$— | \$40                 | \$40                | \$—       | \$— |
| Commingled Funds:               |                      |                     |           |     |                      |                     |           |     |
| Equity securities               |                      |                     |           |     |                      |                     |           |     |
| U.S. Large Cap(a)               | 77,765               | —                   | 77,765    | —   | 82,355               | —                   | 82,355    | —   |
| U.S. Small Cap(b)               | 16,160               | —                   | 16,160    | —   | 17,422               | —                   | 17,422    | —   |
| International Large Cap(c)      | 57,174               | —                   | 57,174    | —   | 56,716               | —                   | 56,716    | —   |
| Emerging Markets(d)             | 19,888               | —                   | 19,888    | —   | 19,175               | —                   | 19,175    | —   |
| World Equity(e)                 | 32,680               | —                   | 32,680    | —   | 34,384               | —                   | 34,384    | —   |
| Fixed income securities         |                      |                     |           |     |                      |                     |           |     |
| Liability Driven Investment (f) | 159,900              | —                   | 159,900   | —   | 172,758              | —                   | 172,758   | —   |
| Long-Term Government/Credit(g)  | 44,620               | —                   | 44,620    | —   | 43,934               | —                   | 43,934    | —   |
|                                 | \$408,218            | \$31                | \$408,187 | \$— | \$426,784            | \$40                | \$426,744 | \$— |

U.S. Large Cap funds seek to outperform the Russell 1000 (R) Index with investments in large and medium (a) capitalization U.S. companies represented in the Russell 1000 (R) Index, which is composed of the largest 1,000 U.S. equities as determined by market capitalization.

U.S. Small Cap funds seek to outperform the Russell 2000 (R) Index with investments in medium and small (b) capitalization U.S. companies represented in the Russell 2000 (R) Index, which is composed of the smallest 2,000 U.S. equities as determined by market capitalization.

International Large Cap funds seek to outperform the MSCI Europe, Australia, and Far East Index with (c) investments in most of the developed nations of the world so as to maintain a high degree of diversification among countries and currencies.

Emerging Markets funds represent a diversified portfolio that seeks high, long-term returns comparable to (d) investments in emerging markets by investing in stocks from newly developed emerging market economies.

World Equity funds seek to outperform the Russell Developed Large Cap Index Net over a full market cycle. The (e) fund's goal is to provide a favorable total return relative to the benchmark, primarily through long-term capital appreciation.

LDI funds seek to outperform the Barclays-Russell LDI Index by investing in high quality, mostly corporate bonds (f) and fixed income securities that closely match those found in discount curves used to value the plan's liabilities.

Long-Term Government/Credit funds seek to outperform the Barclays Capital U.S. Long-Term Government/Credit (g) Index by generating excess return through a variety of diversified strategies in securities with longer durations, such as sector rotation, security selection and tactical use of high-yield bonds.

#### Non-U.S. Defined Benefit Plans

We maintain defined benefit pension plans, which cover some or all of our employees in the following countries: Austria, Belgium, Canada, France, Germany, India, Italy, Mexico, The Netherlands, Sweden, Switzerland and the U.K. The assets in the U.K. (two plans), The Netherlands and Canada represent 94% of the total non-U.S. plan assets ("non-U.S. assets"). Details of other countries' plan assets have not been provided due to immateriality.

The following are assumptions related to the non-U.S. defined benefit pension plans:

|   | Year Ended December 31, |        |        |   |
|---|-------------------------|--------|--------|---|
|   | 2015                    | 2014   | 2013   |   |
| Weighted average assumptions used to determine Benefit Obligations: |                         |        |        |   |
| Discount rate   | 3.13                    | % 3.40 | % 4.22 | % |
| Rate of increase in compensation levels                             | 3.61                    | 3.95   | 3.83   |   |
| Weighted average assumptions used to determine net pension expense: |                         |        |        |   |
| Long-term rate of return on assets                                  | 5.03                    | % 5.51 | % 5.49 | % |
| Discount rate   | 3.40                    | 4.22   | 4.16   |   |
| Rate of increase in compensation levels                             | 3.95                    | 3.83   | 3.84   |   |

At December 31, 2015 as compared with December 31, 2014, we decreased our average discount rate for non-U.S. plans from 3.40% to 3.13% based on analysis of bonds and other publicly-traded instruments, by country, which had lower yields due to market conditions. To determine 2015 pension expense, we decreased our average expected rate of return on plan assets from 5.51% at December 31, 2014 to 5.03% at December 31, 2015, primarily due to asset returns lower than expected during the year. As the expected rate of return on plan assets is long-term in nature, short-term market changes do not significantly impact the rate.

Many of our non-U.S. defined benefit plans are unfunded, as permitted by local regulation. The expected long-term rate of return on assets for funded plans was determined by assessing the rates of return for each asset class and is calculated using a quantitative approach that utilizes unadjusted historical returns and asset allocation as inputs for the calculation. We work with our actuaries to determine the reasonableness of our long-term rate of return assumptions by looking at several factors including historical returns, expected future returns, asset allocation, risks by asset class and other items.

Net pension expense for non-U.S. defined benefit pension plans was:

|  | Year Ended December 31, |           |          |
|--|-------------------------|-----------|----------|
|  | 2015                    | 2014      | 2013     |
|  | (Amounts in thousands)  |           |          |
| Service cost                                       | \$7,832                 | \$6,857   | \$6,819  |
| Interest cost                                      | 11,770                  | 14,576    | 13,486   |
| Expected return on plan assets                     | (11,693 )               | (10,581 ) | (9,200 ) |
| Amortization of unrecognized net loss              | 4,949                   | 6,962     | 6,650    |
| Amortization of unrecognized prior service benefit | (12 )                   | —         | —        |
| Settlement and other                               | 570                     | 314       | 134      |
| Non-U.S. net pension expense                       | \$13,416                | \$18,128  | \$17,889 |

In 2016, there is no significant estimated prior service cost that will be amortized from accumulated other comprehensive loss into pension expense for the non-U.S. defined benefit pension plans. The estimated net loss for the non-U.S. defined benefit pension plans that will be amortized from accumulated other comprehensive loss into pension expense in 2016 is \$4.9 million. We amortize estimated net losses over the remaining expected service period or over the remaining expected lifetime of inactive participants for plans with only inactive participants.

The following summarizes the net pension liability for non-U.S. plans:

|                            | December 31,           |              |
|----------------------------|------------------------|--------------|
|                            | 2015                   | 2014         |
|                            | (Amounts in thousands) |              |
| Plan assets, at fair value | \$230,827              | \$215,360    |
| Benefit Obligation         | (386,175 )             | (361,351 )   |
| Funded status              | \$(155,348 )           | \$(145,991 ) |

The following summarizes amounts recognized in the balance sheet for non-U.S. plans:

|                        | December 31,           |              |
|------------------------|------------------------|--------------|
|                        | 2015                   | 2014         |
| \                      | (Amounts in thousands) |              |
| Noncurrent assets      | \$9,570                | \$5,204      |
| Current liabilities    | (9,950 )               | (7,960 )     |
| Noncurrent liabilities | (154,968 )             | (143,235 )   |
| Funded status          | \$(155,348 )           | \$(145,991 ) |

The following is a reconciliation of the non-U.S. plans' defined benefit pension obligations:

|  | 2015                   | 2014      |
|--|------------------------|-----------|
|  | (Amounts in thousands) |           |
| Balance — January 1                            | \$361,351              | \$363,425 |
| Acquisition                                    | 65,920                 | —         |
| Service cost                                   | 7,832                  | 6,857     |
| Interest cost                                  | 11,770                 | 14,576    |
| Employee contributions                         | 312                    | 272       |
| Plan amendments and other                      | (1,254 )               | 162       |
| Actuarial (gain) loss(1)                       | (6,407 )               | 28,430    |
| Net benefits and expenses paid                 | (16,476 )              | (17,985 ) |
| Currency translation impact(2)                 | (36,873 )              | (34,386 ) |
| Balance — December 31                          | \$386,175              | \$361,351 |
| Accumulated benefit obligations at December 31 | \$363,918              | \$335,282 |

(1) The 2015 actuarial gain primarily reflects the increase in the discount rate for Germany.

(2) The currency translation impact reflects the strengthening of the U.S. dollar against our significant currencies, primarily the Euro and British pound.

The following table summarizes the expected cash benefit payments for the non-U.S. defined benefit plans in the future (amounts in millions):

|           |        |
|-----------|--------|
| 2016      | \$16.5 |
| 2017      | 14.7   |
| 2018      | 15.6   |
| 2019      | 16.1   |
| 2020      | 16.5   |
| 2021-2025 | 89.2   |



The following table shows the change in accumulated other comprehensive loss attributable to the components of the net cost and the change in Benefit Obligations for non-U.S. plans, net of tax:

|  | 2015                   | 2014        | 2013        |
|--|------------------------|-------------|-------------|
|  | (Amounts in thousands) |             |             |
| Balance — January 1                                  | \$(69,598 )            | \$(78,863 ) | \$(76,197 ) |
| Amortization of net loss                             | 3,776                  | 5,262       | 4,999       |
| Net loss arising during the year                     | (2,673 )               | (3,709 )    | (6,091 )    |
| Settlement loss                                      | 390                    | 216         | 93          |
| Prior service (cost) benefit arising during the year | (14 )                  | 141         | 137         |
| Currency translation impact and other                | 8,126                  | 7,355       | (1,804 )    |
| Balance — December 31                                | \$(59,993 )            | \$(69,598 ) | \$(78,863 ) |

Amounts recorded in accumulated other comprehensive loss consist of:

|  | December 31,           |             |
|--|------------------------|-------------|
|  | 2015                   | 2014        |
|  | (Amounts in thousands) |             |
| Unrecognized net loss                            | \$(59,878 )            | \$(69,161 ) |
| Unrecognized prior service cost                  | (115 )                 | (437 )      |
| Accumulated other comprehensive loss, net of tax | \$(59,993 )            | \$(69,598 ) |

The following is a reconciliation of the non-U.S. plans' defined benefit pension assets:

|                                       | 2015                   | 2014      |
|---------------------------------------|------------------------|-----------|
|                                       | (Amounts in thousands) |           |
| Balance — January 1                   | \$215,360              | \$195,042 |
| Acquisition                           | 23,333                 | —         |
| Return on plan assets                 | 3,017                  | 30,246    |
| Employee contributions                | 312                    | 272       |
| Company contributions                 | 22,785                 | 22,740    |
| Settlements                           | (1,485 )               | —         |
| Currency translation impact and other | (16,019 )              | (14,955 ) |
| Net benefits and expenses paid        | (16,476 )              | (17,985 ) |
| Balance — December 31                 | \$230,827              | \$215,360 |

Our contributions to non-U.S. defined benefit pension plans in 2016 are expected to be approximately \$12 million, excluding direct benefits paid.

The asset allocations for the non-U.S. defined benefit pension plans at the end of 2015 and 2014 are as follows:

| Asset category             | Target Allocation at<br>December 31, |      | Percentage of Actual Plan<br>Assets at December 31, |      |   |
|----------------------------|--------------------------------------|------|---|------|---|
|                            | 2015                                 | 2014 | 2015  | 2014 |   |
| North American Companies   | 6                                    | % 3  | % 6   | % 3  | % |
| U.K. Companies             | 8                                    | % 9  | % 8   | % 9  | % |
| European Companies         | 4                                    | % 4  | % 3   | % 4  | % |
| Asian Pacific Companies    | 2                                    | % 3  | % 2   | % 3  | % |
| Global Equity              | 9                                    | % 8  | % 8   | % 8  | % |
| Equity securities          | 29                                   | % 27 | % 27  | % 27 | % |
| U.K. Government Gilt Index | 27                                   | % 30 | % 27  | % 30 | % |
| U.K. Corporate Bond Index  | 20                                   | % 22 | % 19  | % 22 | % |
| Global Fixed Income Bond   | 18                                   | % 19 | % 18  | % 19 | % |
| Fixed income               | 65                                   | % 71 | % 64  | % 71 | % |
| Other                      | 6                                    | % 2  | % 9   | % 2  | % |

None of our common stock is held directly by these plans. In all cases, our investment strategy for these plans is to earn a long-term rate of return consistent with an acceptable degree of risk and minimize our cash contributions over the life of the plan, while taking into account the liquidity needs of the plan and the legal requirements of the particular country. We preserve capital through diversified investments in high quality securities.

Asset allocation differs by plan based upon the plan's Benefit Obligation to participants, as well as the results of asset and liability studies that are conducted for each plan and in consideration of our future cash flow needs. Professional money management firms manage plan assets and we engage consultants in the U.K. and The Netherlands to assist in evaluation of these activities. The assets of the U.K. plans are overseen by a group of Trustees who review the investment strategy, asset allocation and fund selection. These assets are passively managed as they are invested in index funds that attempt to match the performance of the specified benchmark index. The assets of The Netherlands plan are independently managed by an outside service provider.

The fair values of the non-U.S. assets were:

|                               | At December 31, 2015   |                     |           |          | At December 31, 2014   |                     |           |         |
|-------------------------------|------------------------|---------------------|-----------|----------|------------------------|---------------------|-----------|---------|
|                               | Total                  | Hierarchical Levels |           |          | Total                  | Hierarchical Levels |           |         |
|                               |                        | I                   | II        | III      |                        | I                   | II        | III     |
|                               | (Amounts in thousands) |                     |           |          | (Amounts in thousands) |                     |           |         |
| Cash                          | \$5,641                | \$5,641             | \$—       | \$—      | \$24                   | \$24                | \$—       | \$—     |
| Commingled Funds:             |                        |                     |           |          |                        |                     |           |         |
| Equity securities             |                        |                     |           |          |                        |                     |           |         |
| North American Companies(a)   | 13,737                 | —                   | 13,737    | —        | 7,155                  | —                   | 7,155     | —       |
| U.K. Companies(b)             | 18,003                 | —                   | 18,003    | —        | 18,829                 | —                   | 18,829    | —       |
| European Companies (c)        | 8,035                  | —                   | 8,035     | —        | 8,018                  | —                   | 8,018     | —       |
| Asian Pacific Companies(d)    | 5,378                  | —                   | 5,378     | —        | 5,367                  | —                   | 5,367     | —       |
| Global Equity(e)              | 19,581                 | —                   | 19,581    | —        | 17,120                 | —                   | 17,120    | —       |
| Fixed income securities       |                        |                     |           |          |                        |                     |           |         |
| U.K. Government Gilt Index(f) | 60,478                 | —                   | 60,478    | —        | 65,161                 | —                   | 65,161    | —       |
| U.K. Corporate Bond Index(g)  | 44,318                 | —                   | 44,318    | —        | 47,683                 | —                   | 47,683    | —       |
| Global Fixed Income Bond(h)   | 41,325                 | —                   | 41,325    | —        | 40,820                 | —                   | 40,820    | —       |
| Other(i)                      | 14,331                 | —                   | —         | 14,331   | 5,183                  | —                   | —         | 5,183   |
|                               | \$230,827              | \$5,641             | \$210,855 | \$14,331 | \$215,360              | \$24                | \$210,153 | \$5,183 |

(a) North American Companies represents U.S. and Canadian large cap equity index funds, which are passively managed and track their respective benchmarks (FTSE All-World USA Index and FTSE All-World Canada Index).

(b) U.K. Companies represents a U.K. equity index fund, which is passively managed and tracks the FTSE All-Share Index.

(c) European companies represents a European equity index fund, which is passively managed and tracks the FTSE All-World Developed Europe Ex-U.K. Index.

(d) Asian Pacific Companies represents Japanese and Pacific Rim equity index funds, which are passively managed and track their respective benchmarks (FTSE All-World Japan Index and FTSE All-World Developed Asia Pacific Ex-Japan Index).

(e) Global Equity represents actively managed, global equity funds taking a top-down strategic view on the different regions by analyzing companies based on fundamentals, market-driven, thematic and quantitative factors to generate alpha.

(f) U.K. Government Gilt Index represents U.K. government issued fixed income investments which are passively managed and track the respective benchmarks (FTSE U.K. Gilt Index-Linked Over 5 Years Index, FTSE U.K. Gilt Over 15 Years Index and FTSE U.K. Gilt Index-Linked Over 25 Years Index).

(g) U.K. Corporate Bond Index represents U.K. corporate bond investments, which are passively managed and track the iBoxx Over 15 years £ Non-Gilt Index.

(h) Global Fixed Income Bond represents investment funds that are actively managed, diversified and invested in traditional government bonds, high-quality corporate bonds, asset backed securities, emerging market debt.

(i) Includes assets held by plans outside the U.K. and The Netherlands. Details, including Level III rollforward details, have not been provided due to immateriality.

## Defined Benefit Pension Plans with Accumulated Benefit Obligations in Excess of Plan Assets

The following summarizes key pension plan information regarding U.S. and non-U.S. plans whose accumulated benefit obligations exceed the fair value of their respective plan assets. The increase in 2015 is primarily due to SIHI acquisition, partially offset by actuarial gains due to changes in assumptions at December 31, 2015.

|                                | December 31,           |           |
|--------------------------------|------------------------|-----------|
|                                | 2015                   | 2014      |
|                                | (Amounts in thousands) |           |
| Benefit Obligation             | \$629,402              | \$619,756 |
| Accumulated benefit obligation | 614,172                | 600,017   |
| Fair value of plan assets      | 449,818                | 449,141   |

## Postretirement Medical Plans

We sponsor several defined benefit postretirement medical plans covering certain current retirees and a limited number of future retirees in the U.S. These plans provide for medical and dental benefits and are administered through insurance companies and health maintenance organizations. The plans include participant contributions, deductibles, co-insurance provisions and other limitations and are integrated with Medicare and other group plans. We fund the plans as benefits and health maintenance organization premiums are paid, such that the plans hold no assets in any period presented. Accordingly, we have no investment strategy or targeted allocations for plan assets. Benefits under our postretirement medical plans are not available to new employees or most existing employees.

The following are assumptions related to postretirement benefits:

|  | Year Ended December 31, |        |        |   |
|--|-------------------------|--------|--------|---|
|  | 2015                    | 2014   | 2013   |   |
| Weighted average assumptions used to determine Benefit Obligation: |                         |        |        |   |
| Discount rate  | 4.25                    | % 3.75 | % 4.00 | % |
| Weighted average assumptions used to determine net expense:        |                         |        |        |   |
| Discount rate  | 3.75                    | % 4.00 | % 3.25 | % |

The assumed ranges for the annual rates of increase in medical costs used to determine net expense were 7.5% for 2015, 2014 and 2013, with a gradual decrease to 5.0% for 2025 and future years.

Net postretirement benefit income for postretirement medical plans was:

|  | Year Ended December 31, |          |          |
|--|-------------------------|----------|----------|
|  | 2015                    | 2014     | 2013     |
|  | (Amounts in thousands)  |          |          |
| Service cost                                       | \$2                     | \$3      | \$6      |
| Interest cost                                      | 1,155                   | 1,200    | 1,066    |
| Amortization of unrecognized prior service benefit | 122                     | —        | —        |
| Amortization of unrecognized net gain              | (539                    | ) (1,220 | ) (1,280 |
| Net postretirement benefit expense (income)        | \$740                   | \$(17    | ) \$(208 |

The estimated prior service cost expected to be amortized from accumulated other comprehensive loss into U.S. pension expense in 2016 is \$0.1 million. The estimated net gain for postretirement medical plans that will be amortized from accumulated other comprehensive loss into U.S. expense in 2016 is \$0.6 million.

The following summarizes the accrued postretirement benefits liability for the postretirement medical plans:

|                                   | December 31,           |             |
|-----------------------------------|------------------------|-------------|
|                                   | 2015                   | 2014        |
|                                   | (Amounts in thousands) |             |
| Postretirement Benefit Obligation | \$28,614               | \$33,019    |
| Funded status                     | \$(28,614 )            | \$(33,019 ) |

The following summarizes amounts recognized in the balance sheet for postretirement Benefit Obligation:

|                        | December 31,           |             |
|------------------------|------------------------|-------------|
|                        | 2015                   | 2014        |
|                        | (Amounts in thousands) |             |
| Current liabilities    | \$(3,582 )             | \$(3,799 )  |
| Noncurrent liabilities | (25,032 )              | (29,220 )   |
| Funded status          | \$(28,614 )            | \$(33,019 ) |

The following is a reconciliation of the postretirement Benefit Obligation:

|                                | 2015                   | 2014     |
|--------------------------------|------------------------|----------|
|                                | (Amounts in thousands) |          |
| Balance — January 1            | \$33,019               | \$31,477 |
| Service cost                   | 2                      | 3        |
| Interest cost                  | 1,155                  | 1,200    |
| Employee contributions         | 789                    | 901      |
| Medicare subsidies receivable  | 71                     | 453      |
| Actuarial loss                 | 127                    | 1,779    |
| Plan Amendments                | (625 )                 | 2,339 )  |
| Net benefits and expenses paid | (5,924 )               | (5,133 ) |
| Balance — December 31          | \$28,614               | \$33,019 |

The following presents expected benefit payments for future periods (amounts in millions):

|           | Expected Payments | Medicare Subsidy |
|-----------|-------------------|------------------|
| 2016      | \$3.7             | \$0.1            |
| 2017      | 3.5               | 0.1              |
| 2018      | 3.2               | 0.1              |
| 2019      | 2.9               | 0.1              |
| 2020      | 2.6               | 0.1              |
| 2021-2025 | 9.9               | 0.5              |

The following table shows the change in accumulated other comprehensive loss attributable to the components of the net cost and the change in Benefit Obligations for postretirement benefits, net of tax:

|   | 2015                   | 2014    | 2013    |
|---|------------------------|---------|---------|
|   | (Amounts in thousands) |         |         |
| Balance — January 1                     | \$1,103                | \$4,445 | \$4,710 |
| Amortization of net gain                | (338)                  | ) (764  | ) (800  |
| Amortization of prior service cost      | 76                     | (1,464  | ) —     |
| Net gain (loss) arising during the year | 338                    | (1,114  | ) 535   |
| Balance — December 31                   | \$1,179                | \$1,103 | \$4,445 |

Amounts recorded in accumulated other comprehensive loss consist of:

|  | December 31,           |          |
|--|------------------------|----------|
|  | 2015                   | 2014     |
|  | (Amounts in thousands) |          |
| Unrecognized net gain                              | \$2,344                | \$2,788  |
| Unrecognized prior service cost                    | (1,165                 | ) (1,685 |
| Accumulated other comprehensive income, net of tax | \$1,179                | \$1,103  |

We made contributions to the postretirement medical plans to pay benefits of \$5.1 million in 2015, \$3.8 million in 2014 and \$3.7 million in 2013. Because the postretirement medical plans are unfunded, we make contributions as the covered individuals' claims are approved for payment. Accordingly, contributions during any period are directly correlated to the benefits paid.

Assumed health care cost trend rates have an effect on the amounts reported for the postretirement medical plans. A one-percentage point change in assumed health care cost trend rates would have the following effect on the 2015 reported amounts (in thousands):

|   | 1% Increase | 1% Decrease |
|---|-------------|-------------|
| Effect on postretirement Benefit Obligation | \$148       | \$(147)     |
| Effect on service cost plus interest cost   | 6           | (6)         |

#### Defined Contribution Plans

We sponsor several defined contribution plans covering substantially all U.S. and Canadian employees and certain other non-U.S. employees. Employees may contribute to these plans, and these contributions are matched in varying amounts by us, including opportunities for discretionary matching contributions by us. Defined contribution plan expense was \$19.6 million in 2015, \$20.4 million in 2014 and \$20.0 million in 2013.

Effective January 1, 2013, our common stock was no longer an investment option. Prior to 2013, participants in the U.S. defined contribution plan had the option to invest in our common stock, therefore, the plan assets prior to 2013 included such holdings of our common stock. Participants with existing holdings of our stock on the effective date are able to maintain their holdings until such time as they are reallocated within the plan by the participant or taken as a distribution by the participant.

## 12. LEGAL MATTERS AND CONTINGENCIES

### Asbestos-Related Claims

We are a defendant in a substantial number of lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and/or distributed by our heritage companies in the past. While the overall number of asbestos-related claims has generally declined in recent years, there can be no assurance that this trend will continue, or that the average cost per claim will not further increase. Asbestos-containing materials incorporated into any such products were encapsulated and used as internal components of process equipment, and we do not believe that any significant emission of asbestos fibers occurred during the use of this equipment.

Our practice is to vigorously contest and resolve these claims, and we have been successful in resolving a majority of claims with little or no payment. Historically, a high percentage of resolved claims have been covered by applicable insurance

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or indemnities from other companies, and we believe that a substantial majority of existing claims should continue to be covered by insurance or indemnities. Accordingly, we have recorded a liability for our estimate of the most likely settlement of asserted claims and a related receivable from insurers or other companies for our estimated recovery, to the extent we believe that the amounts of recovery are probable and not otherwise in dispute. While unfavorable rulings, judgments or settlement terms regarding these claims could have a material adverse impact on our business, financial condition, results of operations and cash flows, we currently believe the likelihood is remote.

Additionally, we have claims pending against certain insurers that, if resolved more favorably than reflected in the recorded receivables, would result in discrete gains in the applicable quarter. We are currently unable to estimate the impact, if any, of unasserted asbestos-related claims, although future claims would also be subject to then existing indemnities and insurance coverage.

#### United Nations Oil-for-Food Program

In mid-2006, the French authorities began an investigation of over 170 French companies, of which one of our French subsidiaries was included, concerning suspected inappropriate activities conducted in connection with the United Nations Oil for Food Program. As previously disclosed, the French investigation of our French subsidiary was formally opened in the first quarter of 2010, and our French subsidiary filed a formal response with the French court. In July 2012, the French court ruled against our procedural motions to challenge the constitutionality of the charges and quash the indictment. Hearings occurred on April 1-2, 2015, and the Company presented its defense and closing arguments. On June 18, 2015, the French court issued its ruling dismissing the case against the Company and the other defendants. However, on July 1, 2015, the French prosecutor lodged an appeal. We currently do not expect to incur additional case resolution costs of a material amount in this matter. However, if the French authorities ultimately take enforcement action against our French subsidiary regarding its investigation, we may be subject to monetary and non-monetary penalties, which we currently do not believe will have a material adverse financial impact on our company.

#### Other

We are currently involved as a potentially responsible party at five former public waste disposal sites in various stages of evaluation or remediation. The projected cost of remediation at these sites, as well as our alleged "fair share" allocation, will remain uncertain until all studies have been completed and the parties have either negotiated an amicable resolution or the matter has been judicially resolved. At each site, there are many other parties who have similarly been identified. Many of the other parties identified are financially strong and solvent companies that appear able to pay their share of the remediation costs. Based on our information about the waste disposal practices at these sites and the environmental regulatory process in general, we believe that it is likely that ultimate remediation liability costs for each site will be apportioned among all liable parties, including site owners and waste transporters, according to the volumes and/or toxicity of the wastes shown to have been disposed of at the sites. We believe that our financial exposure for existing disposal sites will not be materially in excess of accrued reserves.

As previously disclosed, we terminated an employee of an overseas subsidiary after uncovering actions that violated our Code of Business Conduct and may have violated the Foreign Corrupt Practices Act. We completed our internal investigation into the matter, self-reported the potential violation to the United States Department of Justice (the "DOJ") and the SEC, and continue to cooperate with the DOJ and SEC. We previously received a subpoena from the SEC requesting additional information and documentation related to the matter and are in the process of responding. We currently believe that this matter will not have a material adverse financial impact on the Company, but there can be no assurance that the Company will not be subjected to monetary penalties and additional costs.

We are also a defendant in a number of other lawsuits, including product liability claims, that are insured, subject to the applicable deductibles, arising in the ordinary course of business, and we are also involved in other uninsured routine litigation incidental to our business. We currently believe none of such litigation, either individually or in the aggregate, is material to our business, operations or overall financial condition. However, litigation is inherently unpredictable, and resolutions or dispositions of claims or lawsuits by settlement or otherwise could have an adverse impact on our financial position, results of operations or cash flows for the reporting period in which any such resolution or disposition occurs.

Although none of the aforementioned potential liabilities can be quantified with absolute certainty except as otherwise indicated above, we have established reserves covering exposures relating to contingencies, to the extent believed to



be reasonably estimable and probable based on past experience and available facts. While additional exposures beyond these reserves could exist, they currently cannot be estimated. We will continue to evaluate and update the reserves as necessary and appropriate.

**13. WARRANTY RESERVE**

We have recorded reserves for product warranty claims that are included in current liabilities. The following is a summary of the activity in the warranty reserve:

|   | 2015                   | 2014      | 2013      |
|---|------------------------|-----------|-----------|
|   | (Amounts in thousands) |           |           |
| Balance — January 1                               | \$31,095               | \$37,828  | \$35,400  |
| Accruals for warranty expense, net of adjustments | 33,113                 | 24,909    | 33,504    |
| Settlements made                                  | (29,634 )              | (31,642 ) | (31,076 ) |
| Balance — December 31                             | \$34,574               | \$31,095  | \$37,828  |

**14. SHAREHOLDERS' EQUITY**

**Stock Split** – On May 23, 2013, our certificate of incorporation was amended to increase the number of authorized shares of common stock from \$120.0 million to \$305.0 million and enable a three-for-one stock split approved by the Board of Directors on February 7, 2013 in the form of a 200% common stock dividend. The record date for the stock split was June 7, 2013, and additional shares were distributed on June 21, 2013. As a result of the three-for-one stock split, 117,861,772 shares of common stock were issued. The par value of the common stock remained unchanged at \$1.25 per share, which required \$147.3 million to be retrospectively reclassified from capital in excess of par value to common shares all within the shareholders' equity section of our consolidated balance sheets. For periods prior to 2013, shareholders' equity and all share data, including treasury shares and stock-based compensation award shares, and per share data presented herein have been retrospectively adjusted to reflect the impact of the increase in authorized shares and the stock split, as appropriate.

**Dividends** - On February 15, 2016, our Board of Directors authorized an increase in the payment of quarterly dividends on our common stock from \$0.18 per share to \$0.19 per share payable beginning on April 8, 2016. On February 16, 2015, our Board of Directors authorized an increase in the payment of quarterly dividends on our common stock from \$0.16 per share to \$0.18 per share payable beginning on April 10, 2015. On February 17, 2014, our Board of Directors authorized an increase in the payment of quarterly dividends on our common stock from \$0.14 per share to \$0.16 per share payable beginning on April 11, 2014. On February 19, 2013, our Board of Directors authorized an increase in the payment of quarterly dividends on our common stock from \$0.12 per share to \$0.14 per share payable beginning on April 12, 2013. Generally, our dividend date-of-record is in the last month of the quarter, and the dividend is paid the following month. Any subsequent dividends will be reviewed by our Board of Directors and declared at its discretion dependent on its assessment of our financial situation and business outlook at the applicable time.

**Share Repurchase Program** – On November 13, 2014, our Board of Directors approved a \$500.0 million share repurchase authorization, which included approximately \$175 million of remaining capacity under the prior \$750.0 million share repurchase authorization. Our share repurchase program does not have an expiration date, and we reserve the right to limit or terminate the repurchase program at anytime without notice.

We repurchased 6,047,839, 3,420,656 and 8,142,723 shares for \$303.7 million, \$246.5 million and \$458.3 million during 2015, 2014 and 2013, respectively. As of December 31, 2015, we have \$160.7 million of remaining capacity under our current share repurchase program.

## 15. INCOME TAXES

The provision for income taxes consists of the following:

|                 | Year Ended December 31, |           |           |
|-----------------|-------------------------|-----------|-----------|
|                 | 2015                    | 2014      | 2013      |
|                 | (Amounts in thousands)  |           |           |
| Current:        |                         |           |           |
| U.S. federal    | \$62,032                | \$62,301  | \$61,670  |
| Non-U.S.        | 78,489                  | 123,052   | 112,471   |
| State and local | 4,947                   | 7,422     | 7,537     |
| Total current   | 145,468                 | 192,775   | 181,678   |
| Deferred:       |                         |           |           |
| U.S. federal    | (3,509                  | ) 1,270   | 8,771     |
| Non-U.S.        | 5,543                   | 13,016    | 13,120    |
| State and local | 1,420                   | 1,244     | 1,132     |
| Total deferred  | 3,454                   | 15,530    | 23,023    |
| Total provision | \$148,922               | \$208,305 | \$204,701 |

The expected cash payments for the current income tax expense for 2015, 2014 and 2013 were reduced by \$6.4 million, \$8.6 million and \$10.1 million, respectively, as a result of tax deductions related to the vesting of restricted stock and the exercise of non-qualified employee stock options. The income tax benefit resulting from these stock-based compensation plans has increased capital in excess of par value.

The provision for income taxes differs from the statutory corporate rate due to the following:

|                                     | Year Ended December 31, |         |         |
|-------------------------------------|-------------------------|---------|---------|
|                                     | 2015                    | 2014    | 2013    |
|                                     | (Amounts in millions)   |         |         |
| Statutory federal income tax at 35% | \$147.8                 | \$256.6 | \$242.6 |
| Foreign impact, net                 | (25.1                   | ) (57.1 | ) (42.5 |
| Change in valuation allowance       | 11.6                    | (1.6    | ) 1.8   |
| State and local income taxes, net   | 6.4                     | 8.7     | 8.7     |
| Other                               | 8.2                     | 1.7     | (5.9    |
| Total                               | \$148.9                 | \$208.3 | \$204.7 |
| Effective tax rate                  | 35.3                    | % 28.4  | % 29.5  |

The 2015 tax rate differed from the federal statutory rate of 35% primarily due to tax impacts of the realignment programs, the non-deductible Venezuelan exchange rate remeasurement loss and the establishment of a valuation allowance against our deferred tax assets in Brazil in the amount of \$12.6 million (due to deteriorating economic conditions in Brazil), substantially offset by the net impact of foreign operations, which included the impacts of lower foreign tax rates and changes in our reserves established for uncertain tax positions. The 2014 and 2013 effective tax rates differed from the federal statutory rate of 35% primarily due to the net impact of foreign operations, which included the impacts of lower foreign tax rates and changes in our reserves established for uncertain tax positions. We assert permanent reinvestment on the majority of invested capital and unremitted foreign earnings in our foreign subsidiaries. However, we do not assert permanent reinvestment on a limited number of foreign subsidiaries where future distributions may occur. The cumulative amount of undistributed earnings considered permanently reinvested is \$1.5 billion. Should these permanently reinvested earnings be repatriated in a future period in the form of dividends or otherwise, our provision for income taxes may increase materially in that period. Quantification of the deferred tax liability, if any, associated

with indefinitely reinvested differences is not practicable due to the complexities with its hypothetical calculation. During each of the three years reported in the period ended December 31, 2015, we have not recognized any net deferred tax assets attributable to excess foreign tax credits on unremitted earnings or foreign currency translation adjustments in our foreign subsidiaries with excess financial reporting basis.

For those subsidiaries where permanent reinvestment was not asserted, we had cash and deemed dividend distributions that resulted in the recognition of \$2.4 million of income tax benefit during 2015 and \$6.9 million and \$5.0 million of income tax expense in 2014 and 2013, respectively. As we have not recorded a benefit for the excess foreign tax credits associated with deemed repatriation of unremitted earnings, these credits are not available to offset the liability associated with these dividends.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the consolidated deferred tax assets and liabilities were:

|                                      | December 31,           |           |
|--------------------------------------|------------------------|-----------|
|                                      | 2015                   | 2014      |
|                                      | (Amounts in thousands) |           |
| Deferred tax assets related to:      |                        |           |
| Retirement benefits                  | \$36,845               | \$35,501  |
| Net operating loss carryforwards     | 29,473                 | 23,483    |
| Compensation accruals                | 36,695                 | 56,903    |
| Inventories                          | 49,660                 | 51,528    |
| Credit carryforwards                 | 50,380                 | 32,039    |
| Warranty and accrued liabilities     | 30,897                 | 13,913    |
| Other                                | 41,089                 | 43,603    |
| Total deferred tax assets            | 275,039                | 256,970   |
| Valuation allowances                 | (24,725)               | (15,378)  |
| Net deferred tax assets              | 250,314                | 241,592   |
| Deferred tax liabilities related to: |                        |           |
| Property, plant and equipment        | (43,348)               | (30,077)  |
| Goodwill and intangibles             | (175,748)              | (150,741) |
| Other                                | (972)                  | (2,182)   |
| Total deferred tax liabilities       | (220,068)              | (183,000) |
| Deferred tax assets, net             | \$30,246               | \$58,592  |

We have \$155.3 million of U.S. and foreign net operating loss carryforwards at December 31, 2015. Of this total, \$34.4 million are state net operating losses. Net operating losses generated in the U.S., if unused, will expire in 2016 through 2027. The majority of our non-U.S. net operating losses carry forward without expiration. Additionally, we have \$46.5 million of foreign tax credit carryforwards at December 31, 2015, expiring in 2020 through 2023 for which a valuation allowance of \$0.6 million has been recorded.

Earnings before income taxes comprised:

|          | Year Ended December 31, |           |           |
|----------|-------------------------|-----------|-----------|
|          | 2015                    | 2014      | 2013      |
|          | (Amounts in thousands)  |           |           |
| U.S.     | \$217,398               | \$230,896 | \$231,179 |
| Non-U.S. | 204,798                 | 502,294   | 461,842   |
| Total    | \$422,196               | \$733,190 | \$693,021 |

A tabular reconciliation of the total gross amount of unrecognized tax benefits, excluding interest and penalties, is as follows (in millions):

|   | 2015   | 2014    | 2013    |
|---|--------|---------|---------|
| Balance — January 1   | \$51.5 | \$59.3  | \$59.1  |
| Gross amount of increases in unrecognized tax benefits resulting from tax positions taken:  |        |         |         |
| During a prior year   | 9.8    | 2.7     | 3.9     |
| During the current period   | 8.6    | 7.2     | 8.9     |
| Decreases in unrecognized tax benefits relating to:   |        |         |         |
| Settlements with taxing authorities   | (1.1 ) | (3.9 )  | (0.1 )  |
| Lapse of the applicable statute of limitations  | (7.4 ) | (10.0 ) | (11.5 ) |
| Decreases in unrecognized tax benefits relating to foreign currency translation adjustments | (5.3 ) | (3.8 )  | (1.0 )  |
| Balance — December 31   | \$56.1 | \$51.5  | \$59.3  |

The amount of gross unrecognized tax benefits at December 31, 2015 was \$70.4 million, which includes \$14.4 million of accrued interest and penalties. Of this amount \$60.8 million, if recognized, would favorably impact our effective tax rate. We recognized no net interest and penalty income for the year ended December 31, 2015, and recognized \$1.5 million and \$2.4 million, respectively, during the years ended December 31, 2014 and 2013 in our consolidated statements of income.

With limited exception, we are no longer subject to U.S. federal income tax audits for years through 2013, state and local income tax audits for years through 2009 or non-U.S. income tax audits for years through 2008. We are currently under examination for various years in Austria, Germany, India, Italy, Singapore, Spain, the U.S. and Venezuela. It is reasonably possible that within the next 12 months the effective tax rate will be impacted by the resolution of some or all of the matters audited by various taxing authorities. It is also reasonably possible that we will have the statute of limitations close in various taxing jurisdictions within the next 12 months. As such, we estimate we could record a reduction in our tax expense up to approximately \$12 million within the next 12 months.

## 16. BUSINESS SEGMENT INFORMATION

Our business segments share a focus on industrial flow control technology and have a high number of common customers. These segments also have complementary product offerings and technologies that are often combined in applications that provide us a net competitive advantage. Our segments also benefit from our global footprint and our economies of scale in reducing administrative and overhead costs to serve customers more cost effectively.

We conduct our operations through these three business segments based on type of product and how we manage the business:

- EPD for long lead time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services;

- IPD for engineered and pre-configured industrial pumps and pump systems and related products and services; and

- FCD for engineered and industrial valves, control valves, actuators and controls and related services.

For decision-making purposes, our Chief Executive Officer ("CEO") and other members of senior executive management use financial information generated and reported at the reportable segment level. Our corporate headquarters does not constitute a separate division or business segment. We evaluate segment performance and allocate resources based on each reportable segment's operating income. Amounts classified as "Eliminations and All Other" include corporate headquarters costs and other minor entities that do not constitute separate segments.

Intersegment sales and transfers are recorded at cost plus a profit margin, with the sales and related margin on such sales eliminated in consolidation.

During the first quarter of 2015, we made composition changes to our EPD and IPD reportable segments to take into consideration the acquisition of SIHI that was closed on January 7, 2015. Effective January 1, 2015, certain activities, primarily related to engineered pumps and seals, that were previously included in the IPD business segment are now

reported in the

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EPD business segment. These changes did not materially impact segment results or segment assets. We did not change our business segments, management structure, chief operating decision maker or how we evaluate segment performance and allocate resources. Prior periods were retrospectively adjusted to conform to the new reportable segment composition. The following is a summary of the financial information of our reportable segments as of and for the years ended December 31, 2015, 2014 and 2013 reconciled to the amounts reported in the consolidated financial statements.

|                               | EPD         | IPD       | FCD         | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
|-------------------------------|-------------|-----------|-------------|------------------------------|----------------------------|--------------------|
| (Amounts in thousands)        |             |           |             |                              |                            |                    |
| Year Ended December 31, 2015: |             |           |             |                              |                            |                    |
| Sales to external customers   | \$2,213,048 | \$937,756 | \$1,410,226 | \$ 4,561,030                 | \$—                        | \$4,561,030        |
| Intersegment sales            | 46,948      | 44,137    | 5,276       | 96,361                       | (96,361 )                  | —                  |
| Segment operating income      | 328,952     | 30,194    | 234,407     | 593,553                      | (67,985 )                  | 525,568            |
| Depreciation and amortization | 50,289      | 36,826    | 30,404      | 117,519                      | 9,568                      | 127,087            |
| Identifiable assets           | 2,295,209   | 1,070,412 | 1,377,135   | 4,742,756                    | 361,094                    | 5,103,850          |
| Capital expenditures          | 88,496      | 19,446    | 63,569      | 171,511                      | 10,350                     | 181,861            |
|                               |             |           |             | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
| (Amounts in thousands)        |             |           |             |                              |                            |                    |
| Year Ended December 31, 2014: |             |           |             |                              |                            |                    |
| Sales to external customers   | \$2,507,707 | \$760,924 | \$1,609,254 | \$ 4,877,885                 | \$—                        | \$4,877,885        |
| Intersegment sales            | 56,940      | 44,958    | 6,474       | 108,372                      | (108,372 )                 | —                  |
| Segment operating income      | 447,183     | 107,008   | 322,845     | 877,036                      | (87,204 )                  | 789,832            |
| Depreciation and amortization | 51,047      | 14,718    | 35,458      | 101,223                      | 9,054                      | 110,277            |
| Identifiable assets           | 2,383,734   | 642,093   | 1,467,756   | 4,493,583                    | 474,437                    | 4,968,020          |
| Capital expenditures          | 69,107      | 15,165    | 37,496      | 121,768                      | 10,851                     | 132,619            |
|                               |             |           |             | Subtotal—Reportable Segments | Eliminations and All Other | Consolidated Total |
| (Amounts in thousands)        |             |           |             |                              |                            |                    |
| Year Ended December 31, 2013: |             |           |             |                              |                            |                    |
| Sales to external customers   | 2,594,735   | 752,385   | 1,607,499   | 4,954,619                    | —                          | 4,954,619          |
| Intersegment sales            | 55,635      | 46,028    | 8,213       | 109,876                      | (109,876 )                 | —                  |
| Segment operating income      | 445,241     | 94,776    | 307,967     | 847,984                      | (87,701 )                  | 760,283            |
| Depreciation and amortization | 48,463      | 12,153    | 36,590      | 97,206                       | 9,186                      | 106,392            |
| Identifiable assets           | 2,390,626   | 698,513   | 1,520,085   | 4,609,224                    | 427,509                    | 5,036,733          |
| Capital expenditures          | 77,900      | 14,924    | 40,205      | 133,029                      | 6,061                      | 139,090            |

Geographic Information — We attribute sales to different geographic areas based on the facilities' locations. Long-lived assets are classified based on the geographic area in which the assets are located and exclude deferred taxes, goodwill and intangible assets. Prior period information has been updated to conform to current year presentation. Sales and long-lived assets by geographic area are as follows:

|                    | Year Ended December 31, 2015               |            |                   |            |  |   |
|--------------------|--|------------|-------------------|------------|--|---|
|                    | Sales                                      | Percentage | Long-Lived Assets | Percentage |  |   |
|                    | (Amounts in thousands, except percentages) |            |                   |            |  |   |
| United States      | \$1,790,119                                | 39.3       | % \$351,367       | 35.4       |  | % |
| EMA(1)             | 1,773,281                                  | 38.9       | % 326,728         | 32.9       |  | % |
| Asia(2)            | 562,792                                    | 12.3       | % 143,767         | 14.5       |  | % |
| Other(3)           | 434,838                                    | 9.5        | % 171,169         | 17.2       |  | % |
| Consolidated total | \$4,561,030                                | 100.0      | % \$993,031       | 100.0      |  | % |
|                    | Year Ended December 31, 2014               |            |                   |            |  |   |
|                    | Sales                                      | Percentage | Long-Lived Assets | Percentage |  |   |
|                    | (Amounts in thousands, except percentages) |            |                   |            |  |   |
| United States      | \$1,724,392                                | 35.4       | % \$386,489       | 41.6       |  | % |
| EMA(1)             | 1,991,638                                  | 40.8       | % 268,334         | 28.9       |  | % |
| Asia(2)            | 571,195                                    | 11.7       | % 126,878         | 13.7       |  | % |
| Other(3)           | 590,660                                    | 12.1       | % 147,145         | 15.8       |  | % |
| Consolidated total | \$4,877,885                                | 100.0      | % \$928,846       | 100.0      |  | % |
|                    | Year Ended December 31, 2013               |            |                   |            |  |   |
|                    | Sales                                      | Percentage | Long-Lived Assets | Percentage |  |   |
|                    | (Amounts in thousands, except percentages) |            |                   |            |  |   |
| United States      | \$1,699,053                                | 34.3       | % \$374,125       | 41.5       |  | % |
| EMA(1)             | 2,102,428                                  | 42.4       | % 287,071         | 31.8       |  | % |
| Asia(2)            | 552,383                                    | 11.2       | % 124,619         | 13.8       |  | % |
| Other(3)           | 600,755                                    | 12.1       | % 115,904         | 12.9       |  | % |
| Consolidated total | \$4,954,619                                | 100.0      | % \$901,719       | 100.0      |  | % |

(1) "EMA" includes Europe, the Middle East and Africa. No individual country within this group represents 10% or more of consolidated totals for any period presented.

(2) "Asia" includes Asia and Australia. No individual country within this group represents 10% or more of consolidated totals for any period presented.

(3) "Other" includes Canada and Latin America. No individual country within this group represents 10% or more of consolidated totals for any period presented.

Net sales to international customers, including export sales from the U.S., represented approximately 66% of total sales in 2015, 68% in 2014 and 71% in 2013.

Major Customer Information — We have a large number of customers across a large number of manufacturing and service facilities and do not believe that we have sales to any individual customer that represent 10% or more of consolidated sales for any of the years presented.



## 17. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following presents the components of accumulated other comprehensive loss (AOCL), net of related tax effects:

| (Amounts in thousands)                                     | 2015                                  |   |                            |              | 2014                                  |   |                            |              |
|--|---------------------------------------|---|----------------------------|--------------|---------------------------------------|---|----------------------------|--------------|
|  | Foreign currency translation items(1) | Pension and other post-retirement effects | Cash flow hedging activity | Total(1)     | Foreign currency translation items(1) | Pension and other post-retirement effects | Cash flow hedging activity | Total(1)     |
| Balance - January 1  | \$ (238,533 )                         | \$ (135,398 )                             | \$ (5,210 )                | \$ (379,141) | \$ (89,953 )                          | \$ (129,528 )                             | \$ (814 )                  | \$ (220,295) |
| Other comprehensive (loss) income before reclassifications | (174,889 )                            | 4,977                                     | (6,382 )                   | (176,294 )   | (150,357 )                            | (16,300 )                                 | (5,342 )                   | (171,999 )   |
| Amounts reclassified from AOCL                             | —                                     | 9,960                                     | 8,134                      | 18,094       | 1,777                                 | 10,430                                    | 946                        | 13,153       |
| Net current-period other comprehensive (loss) income       | (174,889 )                            | 14,937                                    | 1,752                      | (158,200 )   | (148,580 )                            | (5,870 )                                  | (4,396 )                   | (158,846 )   |
| Balance - December 31                                      | \$ (413,422 )                         | \$ (120,461 )                             | \$ (3,458 )                | \$ (537,341) | \$ (238,533 )                         | \$ (135,398 )                             | \$ (5,210 )                | \$ (379,141) |

Includes foreign currency translation adjustments attributable to noncontrolling interests of \$2.7 million, \$1.3 million and \$1.2 million for December 31, 2015, 2014 and 2013, respectively. Foreign currency translation impact (1) primarily represents the weakening of the Euro, Brazilian real and Argentine peso exchange rates versus the U.S. dollar for the period. Additionally, includes net investment hedge losses of \$4.2 million, net of deferred taxes, for the year ended December 31, 2015. Amounts in parentheses indicate debits.

The following table presents the reclassifications out of AOCL:

| (Amounts in thousands)  | Affected line item in the statement of income | 2015(1)   | 2014(1)     |   |
|---|---|-----------|-------------|---|
| Foreign currency translation items                                    |   |           |             |   |
| Release of cumulative translation adjustments due to sale of business | Selling, general and administrative expense   | \$—       | \$(1,777    | ) |
|   | Tax (expense) benefit                         | —         | —           |   |
|   | Net of tax                                    | \$—       | \$(1,777    | ) |
| Cash flow hedging activity  |   |           |             |   |
| Foreign exchange contracts  | Other (expense) income, net                   | \$(3,327  | ) \$—       |   |
|   | Sales   | (7,920    | ) (1,534    | ) |
|   | Tax benefit                                   | 3,113     | 588         |   |
|   | Net of tax                                    | \$(8,134  | ) \$(946    | ) |
| Pension and other postretirement effects                              |   |           |             |   |
| Amortization of actuarial losses(2)                                   |   | \$(13,587 | ) \$(13,976 | ) |
| Prior service costs(2)  |   | (619      | ) (668      | ) |
| Settlement(2)   |   | (570      | ) (314      | ) |
|   | Tax benefit                                   | 4,816     | 4,528       |   |
|   | Net of tax                                    | \$(9,960  | ) \$(10,430 | ) |

(1) Amounts in parentheses indicate decreases to income. None of the reclassification amounts have a noncontrolling interest component.

(2) These accumulated other comprehensive loss components are included in the computation of net periodic pension cost. See Note 11 for additional details.

At December 31, 2015, we expect to recognize losses of \$2.3 million, net of deferred taxes, into earnings in the next twelve months related to designated cash flow hedges based on their fair values at December 31, 2015.

## 18. REALIGNMENT PROGRAMS

In the first quarter of 2015, we initiated a realignment program ("R1 Realignment Program") to reduce and optimize certain non-strategic QRCs and manufacturing facilities from the SIHI acquisition. We anticipate a total investment in this program of approximately \$50 million related to identified initiatives that are primarily restructuring, including related severance costs and primarily incurred by IPD. R1 Realignment Program charges of \$33.6 million were recorded in IPD, \$0.7 million in EPD and \$5.5 million was reported in income tax expense in our consolidated statement of income for the year ended December 31, 2015. We anticipate that the majority of any remaining charges will be incurred in 2016.

In the second quarter of 2015, we initiated a second realignment program ("R2 Realignment Program") to better align costs and improve long-term efficiency, including further manufacturing optimization through the consolidation of facilities, a reduction in our workforce and the transfer of activities from high-cost regions to lower-cost facilities. We anticipate a total investment in this program of approximately \$350 million, subject to final evaluation. We anticipate that the majority of the charges will be incurred in 2016.

The realignment programs consist of both restructuring and non-restructuring charges. Restructuring charges represent costs associated with the relocation or reorganization of certain business activities and facility closures and include related severance costs. Non-restructuring charges are primarily employee severance associated with workforce reductions to reduce redundancies. Expenses are primarily reported in COS or SG&A, as applicable, in our consolidated statements of income.

Total realignment charges, net of adjustments, were \$117.0 million, \$1.6 million and \$10.7 million for the year ended December 31, 2015, 2014 and 2013, respectively. Generally, the aforementioned charges will be paid in cash, except for asset write-downs, which are non-cash charges. The total restructuring reserve related to our realignment programs was \$58.3 million and \$1.1 million at December 31, 2015 and 2014, respectively.

### R1 Realignment Program

The following is a summary of total charges, net of adjustments, related to the R1 Realignment Program for the year ended December 31, 2015. In addition to the charges below \$5.5 million was reported in income tax expense in our consolidated statement of income for the year ended December 31, 2015:

(Amounts in thousands)

|                                   |  |          |
|-----------------------------------|--|----------|
| Restructuring Charges             |  |          |
| COS                               |  | \$20,446 |
| SG&A                              |  | 9,259    |
|                                   |  | \$29,705 |
| Non-Restructuring Charges         |  |          |
| COS                               |  | \$700    |
| SG&A                              |  | 3,872    |
|                                   |  | \$4,572  |
| Total Realignment Program Charges |  |          |
| COS                               |  | \$21,146 |
| SG&A                              |  | 13,131   |
|                                   |  | \$34,277 |

The following represents the activity, primarily severance, related to the restructuring reserve for the R1 Realignment Program:

(Amounts in thousands)

|  |          |
|--|----------|
| Balance at December 31, 2014                   | \$—      |
| Charges  | 29,705   |
| Cash expenditures                              | (383 )   |
| Other non-cash adjustments, including currency | (4,166 ) |
| Balance at December 31, 2015                   | \$25,156 |

#### R2 Realignment Program

The following is a summary of charges, net of adjustments, related to the R2 Realignment Program for the year ended December 31, 2015. In addition to the charges below, \$3.4 million was reported in income tax expense in our consolidated statement of income for the year ended December 31, 2015:

| (Amounts in thousands)                       | Engineered<br>Product<br>Division | Industrial<br>Product<br>Division | Flow<br>Control<br>Division | Subtotal—Reportable<br>Segments | Eliminations<br>and All Other | Consolidated<br>Total |
|--|-----------------------------------|-----------------------------------|-----------------------------|---------------------------------|-------------------------------|-----------------------|
| <b>Restructuring Charges</b>                 |                                   |                                   |                             |                                 |                               |                       |
| COS  | \$9,963                           | \$—                               | 9,301                       | 19,264                          | \$—                           | \$19,264              |
| SG&A   | 7,475                             | —                                 | 7,611                       | 15,086                          | —                             | 15,086                |
|  | \$17,438                          | \$—                               | \$16,912                    | \$ 34,350                       | \$—                           | \$34,350              |
| <b>Non-Restructuring<br/>Charges</b>         |                                   |                                   |                             |                                 |                               |                       |
| COS  | \$10,266                          | \$7,461                           | \$8,583                     | \$ 26,310                       | \$—                           | \$26,310              |
| SG&A   | 5,831                             | 2,976                             | 3,413                       | 12,220                          | —                             | 12,220                |
|  | \$16,097                          | \$10,437                          | \$11,996                    | \$ 38,530                       | \$—                           | \$38,530              |
| <b>Total Realignment<br/>Program Charges</b> |                                   |                                   |                             |                                 |                               |                       |
| COS  | \$20,229                          | \$7,461                           | \$17,884                    | \$ 45,574                       | \$—                           | \$45,574              |
| SG&A   | 13,306                            | 2,976                             | 11,024                      | 27,306                          | —                             | 27,306                |
|  | \$33,535                          | \$10,437                          | \$28,908                    | \$ 72,880                       | \$—                           | \$72,880              |

Restructuring charges represent costs associated with the relocation or reorganization of certain business activities and facility closures and include costs related to employee severance at closed facilities, contract termination costs, asset write-downs and other costs. Severance costs primarily include costs associated with involuntary termination benefits. Contract termination costs include costs related to termination of operating leases or other contract termination costs. Asset write-downs include accelerated depreciation of fixed assets, accelerated amortization of intangible assets and inventory write-downs. Other costs generally includes costs related to employee relocation, asset relocation, vacant facility costs (i.e., taxes and insurance) and other charges.

The following is a summary of Restructuring charges, net of adjustments, for the R2 Realignment Program the year ended December 31, 2015:

| (Amounts in thousands) | Severance | Contract Termination | Asset Write-Downs | Other | Total    |
|------------------------|-----------|----------------------|-------------------|-------|----------|
| COS                    | \$16,893  | \$424                | \$1,764           | \$183 | \$19,264 |
| SG&A                   | 14,328    | 43                   | 33                | 682   | 15,086   |
| Total                  | \$31,221  | \$467                | \$1,797           | \$865 | \$34,350 |

The following represents the activity, primarily severance, related to the restructuring reserve for the R2 Realignment Program:

| (Amounts in thousands)                         |          |
|--|----------|
| Balance at December 31, 2014                   | \$—      |
| Charges  | 34,350   |
| Cash expenditures                              | (1,791)  |
| Other non-cash adjustments, including currency | 589      |
| Balance at December 31, 2015                   | \$33,148 |

#### 19. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following presents a summary of the unaudited quarterly data for 2015 and 2014 (amounts in millions, except per share data):

| Quarter  | 2015      |           |           |           |
|--|-----------|-----------|-----------|-----------|
|  | 4th       | 3rd       | 2nd       | 1st       |
| Sales  | \$1,287.7 | \$1,096.5 | \$1,162.2 | \$1,014.6 |
| Gross profit                                       | 397.7     | 388.8     | 369.1     | 331.7     |
| Earnings before income taxes                       | 109.8     | 146.6     | 107.6     | 58.2      |
| Net earnings attributable to Flowserve Corporation | 71.4      | 93.6      | 75.0      | 27.7      |
| Earnings per share (1):                            |           |           |           |           |
| Basic  | \$0.55    | \$0.71    | \$0.56    | \$0.21    |
| Diluted  | 0.54      | 0.70      | 0.56      | 0.20      |
| Quarter  | 2014      |           |           |           |
|  | 4th       | 3rd       | 2nd       | 1st       |
| Sales  | \$1,381.4 | \$1,204.0 | \$1,224.4 | \$1,068.1 |
| Gross profit                                       | 485.7     | 421.5     | 430.3     | 377.1     |
| Earnings before income taxes                       | 227.3     | 183.3     | 176.0     | 146.6     |
| Net earnings attributable to Flowserve Corporation | 159.0     | 128.6     | 123.5     | 107.7     |
| Earnings per share (1):                            |           |           |           |           |
| Basic  | \$1.17    | \$0.94    | \$0.90    | \$0.78    |
| Diluted  | 1.16      | 0.93      | 0.90      | 0.78      |

(1) Earnings per share is computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in weighted average quarterly shares outstanding.

The significant fourth quarter impact to 2015 earnings before income taxes was to record \$52.4 million in charges related to our Realignment Programs. See Note 18 for additional information on our Realignment Programs. In addition, there was \$31.5 million less broad-based annual incentive compensation expense in the fourth quarter of 2015 as compared to the same period in 2014.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) are designed to ensure that the information, which we are required to disclose in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the United States ("U.S.") Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Annual Report on Form 10-K ("Annual Report") for the year ended December 31, 2015, our management, under the supervision and with the participation of our Principal Executive Officer and our Principal Financial Officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2015.

Management's Report on Internal Control Over Financial Reporting

Our management, under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the ("U.S. GAAP"). Internal control over financial reporting includes policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

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

SIHI Group B.V. ("SIHI") has been excluded from management's assessment of internal control over financial reporting as of December 31, 2015, because it was acquired by the Company on January 7, 2015. SIHI's total assets and sales represented approximately 10% and 6%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2015.

Under the supervision and with the participation of our Principal Executive Officer and Principal Financial Officer, our management conducted an assessment of our internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management has concluded

that as of December 31, 2015, our internal control over financial reporting was effective.

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The effectiveness of our internal control over financial reporting as of December 31, 2015, has been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm, as stated in their report, which is included herein.

#### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### PART III

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

The information required in this Item 10 is incorporated by reference to our definitive Proxy Statement relating to our 2016 annual meeting of shareholders to be held on May 19, 2016. The Proxy Statement will be filed with the SEC no later than April 26, 2016.

#### ITEM 11. EXECUTIVE COMPENSATION

The information required in this Item 11 is incorporated by reference to our definitive Proxy Statement relating to our 2016 annual meeting of shareholders to be held on May 19, 2016. The Proxy Statement will be filed with the SEC no later than April 26, 2016.

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

The information required in this Item 12 is incorporated by reference to our definitive Proxy Statement relating to our 2016 annual meeting of shareholders to be held on May 19, 2016. The Proxy Statement will be filed with the SEC no later than April 26, 2016.

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

The information required in this Item 13 is incorporated by reference to our definitive Proxy Statement relating to our 2016 annual meeting of shareholders to be held on May 19, 2016. The Proxy Statement will be filed with the SEC no later than April 26, 2016.

#### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required in this Item 14 is incorporated by reference to our definitive Proxy Statement relating to our 2016 annual meeting of shareholders to be held on May 19, 2016. The Proxy Statement will be filed with the SEC no later than April 26, 2016.



PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as a part of this Annual Report:

1. Consolidated Financial Statements

The following consolidated financial statements and notes thereto are filed as part of this Annual Report:

Report of Independent Registered Public Accounting Firm

FlowsERVE Corporation Consolidated Financial Statements:

Consolidated Balance Sheets at December 31, 2015 and 2014

For each of the three years in the period ended December 31, 2015:

Consolidated Statements of Income

Consolidated Statements of Comprehensive Income

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2. Consolidated Financial Statement Schedules

The following consolidated financial statement schedule is filed as part of this Annual Report:

Schedule II — Valuation and Qualifying Accounts

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Financial statement schedules not included in this Annual Report have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

See Index to Exhibits to this Annual Report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLOWSERVE CORPORATION

By: /s/ Mark A. Blinn  
Mark A. Blinn  
President and Chief Executive Officer

Date: February 18, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

| Signature                                      | Title   | Date              |
|--|---|-------------------|
| /s/ William C. Rusnack<br>William C. Rusnack   | Non-Executive Chairman of the Board   | February 18, 2016 |
| /s/ Mark A. Blinn<br>Mark A. Blinn             | President, Chief Executive Officer and<br>Director (Principal Executive Officer)                        | February 18, 2016 |
| /s/ Karyn F. Ovelmen<br>Karyn F. Ovelmen       | Executive Vice President and Chief<br>Financial Officer<br>(Principal Financial and Accounting Officer) | February 18, 2016 |
| /s/ Leif E. Darner<br>Leif E. Darner           | Director  | February 18, 2016 |
| /s/ Gayla J. Delly<br>Gayla J. Delly           | Director  | February 18, 2016 |
| /s/ Lynn L. Elsenhans<br>Lynn L. Elsenhans     | Director  | February 18, 2016 |
| /s/ Roger L. Fix<br>Roger L. Fix               | Director  | February 18, 2016 |
| /s/ John R. Friedery<br>John R. Friedery       | Director  | February 18, 2016 |
| /s/ Joseph E. Harlan<br>Joseph E. Harlan       | Director  | February 18, 2016 |
| /s/ Rick J. Mills<br>Rick J. Mills             | Director  | February 18, 2016 |
| /s/ Charles M. Rampacek<br>Charles M. Rampacek | Director  | February 18, 2016 |
| /s/ David E. Roberts<br>David E. Roberts       | Director  | February 18, 2016 |



FLOWSERVE CORPORATION  
 Schedule II — Valuation and Qualifying Accounts

| Description                                | Balance at Beginning of Year | Additions Charged to Cost and Expenses | Additions Charged to Other Accounts— Acquisitions and Related Adjustments | Deductions From Reserve | Balance at End of Year |
|--|------------------------------|--|---|-------------------------|------------------------|
| (Amounts in thousands)                     |                              |  |   |                         |                        |
| Year Ended December 31, 2015               |                              |  |   |                         |                        |
| Allowance for doubtful accounts(a):        | \$25,469                     | \$19,624                               | \$152   | \$(1,309)               | ) \$43,936             |
| Deferred tax asset valuation allowance(b): | 15,378                       | 18,548                                 | (3,596)   | ) (5,605)               | ) 24,725               |
| Year Ended December 31, 2014               |                              |  |   |                         |                        |
| Allowance for doubtful accounts(a):        | 24,073                       | 17,817                                 | (443)   | ) (15,978)              | ) 25,469               |
| Deferred tax asset valuation allowance(b): | 18,058                       | 1,366                                  | (996)   | ) (3,050)               | ) 15,378               |
| Year Ended December 31, 2013               |                              |  |   |                         |                        |
| Allowance for doubtful accounts(a):        | 21,491                       | 17,412                                 | 79  | (14,909)                | ) 24,073               |
| Deferred tax asset valuation allowance(b): | 17,975                       | 2,352                                  | —   | (2,269)                 | ) 18,058               |

(a) Deductions from reserve represent accounts written off and recoveries.

(b) Deductions from reserve result from the expiration or utilization of net operating losses and foreign tax credits previously reserved.

INDEX TO EXHIBITS

| Exhibit<br>No. | Description   |
|----------------|---|
| 3.1            | Restated Certificate of Incorporation of Flowserve Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013).  |
| 3.2            | Flowserve Corporation By-Laws, as amended and restated effective December 14, 2015 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated December 15, 2015).   |
| 4.1            | Senior Indenture, dated September 11, 2012, by and between Flowserve Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 11, 2012).   |
| 4.2            | First Supplemental Indenture, dated September 11, 2012, by and among Flowserve Corporation, certain of its subsidiaries and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 11, 2012).  |
| 4.3            | Second Supplemental Indenture, dated November 1, 2013, by and among Flowserve Corporation, certain of its subsidiaries and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated November 1, 2013).   |
| 4.4            | Third Supplemental Indenture, dated March 17, 2015, by and among Flowserve Corporation, certain of its subsidiaries and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated March 17, 2015).  |
| 10.1           | Credit Agreement, dated August 20, 2012, among Flowserve Corporation, Bank of America, N.A., as swingline lender, letter of credit issuer and administrative agent and the other lenders referred to therein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated August 20, 2012).   |
| 10.2           | First Amendment to Credit Agreement, dated October 4, 2013, among Flowserve Corporation, Bank of America, N.A., as administrative agent, and the other lenders referred to therein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated October 4, 2013).   |
| 10.3           | Second Amendment to Credit Agreement, dated October 14, 2015, among Flowserve Corporation, Bank of America, N.A., as administrative agent, and the other lenders referred to therein (incorporated by reference to Exhibit 10.1 to the Registrants' Current Report on Form 8-K dated October 19, 2015).   |
| 10.4           | Letter of Credit Agreement, dated as of September 14, 2007 among Flowserve B.V., as an Applicant, Flowserve Corporation, as an Applicant and as Guarantor, the Additional Applicants from time to time as a party thereto, the various Lenders from time to time as a party thereto, and ABN AMRO Bank, N.V., as Administrative Agent and an Issuing Bank (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated September 19, 2007).                       |
| 10.5           | First Amendment to Letter of Credit Agreement, dated as of September 11, 2008 among Flowserve Corporation, Flowserve B.V. and other subsidiaries of the Company party thereto, ABN AMRO Bank, N.V., as Administrative Agent and an Issuing Bank, and the other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated September 16, 2008).   |
| 10.6           | Second Amendment to Letter of Credit Agreement, dated as of September 9, 2009 among Flowserve Corporation, Flowserve B.V. and other subsidiaries of the Company party thereto, ABN AMRO Bank, N.V., as Administrative Agent and an Issuing Bank, and the other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated September 11, 2009).  |
| 10.7           | Third Amendment to Letter of Credit Agreement, dated October 26, 2012, among Flowserve Corporation, Flowserve B.V. and other subsidiaries of the Company party thereto, Credit Agricole Corporate and Investment Bank (f/k/a Calyon), as Mandated Lead Arranger, Administrative Agent and an Issuing Bank, and the other financial institutions party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012). |
| 10.8           | Amended and Restated Flowserve Corporation Director Cash Deferral Plan, effective January 1, 2009 (incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year  |

ended December 31, 2008).\*

10.9 Amended and Restated Flowserve Corporation Director Stock Deferral Plan, dated effective January 1, 2009 (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008).\*

10.10 Trust for Non-Qualified Deferred Compensation Benefit Plans, dated February 10, 2011 (incorporated by reference to Exhibit 10.8 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010).\*

10.11 2007 Flowserve Corporation Long-Term Stock Incentive Plan, as amended and restated effective January 1, 2010 (incorporated by reference to Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009).\*

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- 10.12 2007 Flowserve Corporation Annual Incentive Plan, as amended and restated effective January 1, 2010 (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009).\*
- 10.13 Flowserve Corporation Deferred Compensation Plan (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).\*
- 10.14 Amendment No. 1 to the Flowserve Corporation Deferred Compensation Plan, as amended and restated, effective June 1, 2000 (incorporated by reference to Exhibit 10.50 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).\*
- 10.15 Amendment to the Flowserve Corporation Deferred Compensation Plan, dated December 14, 2005 (incorporated by reference to Exhibit 10.70 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).\*
- 10.16 Amendment No. 3 to the Flowserve Corporation Deferred Compensation Plan, as amended and restated effective June 1, 2000 (incorporated by reference to Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).\*
- 10.17 Flowserve Corporation Officer Severance Plan, amended and restated effective January 1, 2010 (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009).\*
- 10.18 Flowserve Corporation Executive Officer Change In Control Severance Plan, amended and restated effective November 12, 2007 (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).\*
- 10.19 First Amendment to the Flowserve Corporation Executive Officer Change In Control Severance Plan, effective January 1, 2011 (incorporated by reference to Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010).\*
- 10.20 Flowserve Corporation Officer Change In Control Severance Plan, amended and restated effective November 12, 2007 (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).\*
- 10.21 First Amendment to the Flowserve Corporation Officer Change In Control Severance Plan, effective January 1, 2011 (incorporated by reference to Exhibit 10.23 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010).\*
- 10.22 Flowserve Corporation Key Management Change In Control Severance Plan, amended and restated effective November 12, 2007 (incorporated by reference to Exhibit 10.40 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).\*
- 10.23 First Amendment to the Flowserve Corporation Key Management Change In Control Severance Plan, effective January 1, 2011 (incorporated by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010).\*
- 10.24 Flowserve Corporation Senior Management Retirement Plan, amended and restated effective January 1, 2008 (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).\*
- 10.25 Flowserve Corporation Supplemental Executive Retirement Plan, amended and restated effective November 12, 2007 (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007).\*
- 10.26 Flowserve Corporation 2004 Stock Compensation Plan, effective April 21, 2004 (incorporated by reference to Appendix A to the Registrant's 2004 Proxy Statement, dated May 10, 2004).\*
- 10.27 Amendment Number One to the Flowserve Corporation 2004 Stock Compensation Plan, effective March 6, 2008 (incorporated by reference to Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).\*
- 10.28 Amendment Number Two to the Flowserve Corporation 2004 Stock Compensation Plan, effective March 7, 2008 (incorporated by reference to Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).\*
- 10.29

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Form of Incentive Stock Option Agreement pursuant to the Flowserve Corporation 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.60 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).\*

10.30 Form of Non-Qualified Stock Option Agreement pursuant to the Flowserve Corporation 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.61 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004).\*

10.31 Form of Incentive Stock Option Agreement for certain officers pursuant to the Flowserve Corporation 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K, dated March 9, 2006).\*

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| Exhibit No. | Description  |
|-------------|--|
| 10.32       | Form A of Performance Restricted Stock Unit Agreement pursuant to Flowserve Corporation's 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*  |
| 10.33       | Form B of Performance Restricted Stock Unit Agreement pursuant to Flowserve Corporation's 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*  |
| 10.34       | Amendment Number One to the Form A and Form B Performance Restricted Stock Unit Agreements pursuant to Flowserve Corporation's 2004 Stock Compensation Plan, dated March 27, 2008 (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).* |
| 10.35       | Form A of Restricted Stock Unit Agreement pursuant to Flowserve Corporation's 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*  |
| 10.36       | Form B of Restricted Stock Unit Agreement pursuant to Flowserve Corporation's 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*  |
| 10.37       | Form A of Restricted Stock Agreement pursuant to Flowserve Corporation's 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*   |
| 10.38       | Form B of Restricted Stock Agreement pursuant to Flowserve Corporation's 2004 Stock Compensation Plan (incorporated by reference to Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).*   |
| 10.39       | Flowserve Corporation Equity and Incentive Compensation Plan (incorporated by reference to Appendix A to the Registrant's Proxy Statement on Schedule 14A dated April 3, 2009).*   |
| 10.40       | Form A of Restricted Stock Agreement pursuant to the Flowserve Corporation Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012).*   |
| 10.41       | Form B of Restricted Stock Agreement pursuant to the Flowserve Corporation Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012).*   |
| 10.42       | Form A of Restricted Stock Unit Agreement pursuant to the Flowserve Corporation Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.40 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012).*  |
| 10.43       | Form B of Restricted Stock Unit Agreement pursuant to the Flowserve Corporation Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.41 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012).*  |
| 10.44       | Form A of Performance Restricted Stock Unit Agreement pursuant to the Flowserve Corporation Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.42 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012).*  |
| 10.45       | Form B of Performance Restricted Stock Unit Agreement pursuant to the Flowserve Corporation Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.43 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012).*  |
| 10.46       | Form of Restrictive Covenants Agreement for Officers (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated as of March 9, 2006).*   |
| 10.47+      | Form of Indemnification Agreement for all Directors and Officers   |
| 14.1        | Flowserve Financial Management Code of Ethics adopted by the Flowserve Corporation principal executive officer and CEO, principal financial officer and CFO, principal accounting officer and controller,  |

and other senior financial managers (incorporated by reference to Exhibit 14.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).

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| Exhibit No. | Description  |
|-------------|--|
| 21.1+       | Subsidiaries of the Registrant.  |
| 23.1+       | Consent of PricewaterhouseCoopers LLP.   |
| 31.1+       | Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2+       | Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1++      | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                     |
| 32.2++      | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                     |
| 101.INS     | XBRL Instance Document   |
| 101.SCH     | XBRL Taxonomy Extension Schema Document  |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document   |

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- \* Management contracts and compensatory plans and arrangements required to be filed as exhibits to this Annual Report on Form 10-K.
- + Filed herewith.
- ++ Furnished herewith.