SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

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	31-0267900
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
222 W. LAS COLINAS BOULEVARD SUITE 1500 IRVING, TEXAS	75039
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (972) 443-6500

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, $1.25 PAR VALUE	NEW YORK STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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 X 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. [X]

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of February 23, 1999 (based on the closing sale price as reported on the New York Stock Exchange on such date) was approximately $632,068,000.

The number of shares outstanding of the registrant's Common Stock as of February 23, 1999: 37,778,825 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on or about April 22, 1999, are incorporated by reference into Part III of this Form 10-K.

Portions of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1998, are incorporated by reference into Parts I, II and IV of this Form 10-K.

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PART I

ITEM 1. BUSINESS

Flowserve Corporation ("Flowserve") was incorporated under the laws of the State of New York on May 1, 1912. On July 22, 1997, Flowserve (formerly known as Durco International Inc. and The Duriron Company, Inc.) merged with BW/IP, Inc. ("BW/IP") in a stock-for-stock merger of equals, accounted for as a pooling of interests, (hereafter the "Merger"). The Merger created one of the world's leading providers of industrial flow management services. All references herein to the "Company" or "Flowserve" refer collectively to Flowserve and its subsidiaries unless otherwise indicated by the context.

Flowserve is principally engaged in the design, manufacture, distribution and service of industrial flow management equipment throughout the world. The Company provides pumps, valves and mechanical seals primarily for the refinery and pipeline segments of the petroleum industry, the chemical processing industry, the power generation industry and other industries requiring flow management products and services. Flowserve manufactures certain standard products, but specializes in the development of precision engineered equipment for critical service applications where high reliability is required. The Company's materials expertise, design and engineering capabilities and applications know-how have enabled it to develop product lines that are responsive to customers needs for manufacturing efficiency, reduced maintenance cost, and avoidance of premature equipment failure.

An important element of Flowserve's business is its successful emphasis on providing aftermarket products and services. These consist of supplying parts, making repairs and providing a variety of technical services for the upgrade or retrofit of equipment to extend its useful life or improve its operating characteristics.

The Company operates in three business segments: Rotating Equipment, Flow Control and Flow Solutions. Included in Note 12 to the consolidated financial statements on pages 35 through 38 of the 1998 Annual Report to Shareholders, provided as part of Item 8 of this Form 10-K and incorporated herein by reference, is information concerning the Company's sales, operating income and identifiable assets by business and geographic segment for each year in the three-year period ended December 31, 1998. For a significant portion of its products, the Company's domestic operations supply each other and the Company's foreign manufacturing subsidiaries with components and subassemblies.

ROTATING EQUIPMENT

PRODUCTS

Through its Rotating Equipment Division business segment, the Company designs, manufactures and distributes pumps and related equipment. Pump products accounted for approximately 34.0%, 35.0% and 36.1% of the Company's sales to external customers in 1998, 1997 and 1996, respectively. Pumps are manufactured to industry-recognized standards, including those set by the American Petroleum Institute (API), the American National Standards Institute (ANSI) and the International Standards Organization (ISO).

Pump products for the petroleum industry include horizontal double case pumps used especially for hot oils under high pressure, horizontal multi-stage pumps used in pipelines, vertical pumps used for low specific gravity applications, vertical circulating pumps used for cooling water, submersible pumps used for water or brine injection in oil fields, and submersible water pumps used on offshore platforms to supply water for fire fighting.

Pump products for chemical processing industries include metallic and nonmetallic pumps, varying in size, capacity, material components and sealant specifications. These pumps are used primarily to move liquids during processing activities, but also in auxiliary services such as waste removal, water treatment and pollution control. The pumps are modular in design and manufactured to withstand the abrasive and/or corrosive service fluids being processed by customers in these industries.

Pump products for the power generating industry include a variety of pumps used in both nuclear and fossil fuel facilities to generate steam. Products for the fossil fuel power generation industry are horizontal double case pumps for high pressure boiler feed applications, horizontal multi-stage pumps for low pressure boiler feed applications, vertical double case pumps and vertical circulating pumps.

The Company supplies pumps for other industrial uses, including without limitation industrial production, utility services, pollution control, mining operations and municipal water transport.

MARKETING AND DISTRIBUTION

Pumps or pump components are produced in plant facilities in the United States (one in California, one in Oklahoma, one in Ohio, two in New Mexico), Mexico, Argentina, Belgium and two in The Netherlands. Pump manufacturing facilities in The Netherlands and Belgium are key sources of pumps sold in Europe, Africa and the Middle East. The Argentine facility provides products primarily for Argentine customers, but also serves customers in other South American countries. The Company's Mexican operation manufactures pumps for export and for Mexican customers. Large vertical circulating pumps manufactured in Mexico are distributed worldwide. A majority-owned joint venture in India, which began production in late 1997, manufactures ANSI and ISO pump components which are assembled in Belgium.

The two specialized component manufacturing facilities in New Mexico provide a significant portion of pump components (except for ANSI pump components). The component facilities also supply components to other Company plants outside of the U.S. on an economically selective basis.

The Company's pump products are primarily marketed to end-users and engineering contractors through the Company's worldwide pump sales force, regional service centers, independent distributors and representatives and, for modular pumps, a national parts distribution center.

The majority of the Company's sales of pump products in the nuclear power market are in the United States and Japan, where the Company's large installed base of equipment provides a continuing market for products and services to ensure safety and reliability, major customer concerns. A significant characteristic of the nuclear market worldwide is the stringent requirements that must be met in order to sell products to nuclear power plants. For example, the Company maintains a Nuclear Stamp ("N Stamp") from the American Society of Mechanical Engineers, which is required for qualification to supply certain kinds of products to the U.S. nuclear industry.

The Company could face liability in excess of its own commercial or government provided insurance if any of its products were found to contribute to an accident at a nuclear power facility or at other industrial facilities. The Company does not maintain nuclear liability insurance for the United States or Canada, but maintains an aggregate of $15 million in nuclear liability insurance for all other countries. The Federal Price-Anderson Act of 1954 provides U.S. nuclear utilities with a system of no-fault insurance coverage in an amount up to about $8.7 billion for third party losses or damages resulting from a nuclear incident.

BACKLOG

The Rotating Equipment Division's backlog of orders at December 31, 1998, was $162.7 million, compared to $169.4 million at December 31, 1997. The Company believes that a very high percentage of the current backlog will be shipped by December 31, 1999.

FLOW CONTROL

PRODUCTS

Through its Flow Control Division business segment, the Company designs, manufactures and distributes quarter-turn manual valves, automatic control valves, actuators, and related components. Valve products accounted for approximately 27.3%, 26.5% and 25.0% of the Company's sales to external customers in 1998, 1997 and 1996, respectively. Valves are used to control the flow of liquids and gases. Valve products for industrial processing systems include plug and butterfly valves made of various metals, alloys and plastics and lined ball valves. Actuators and other control accessories manufactured by the Company are either sold independently or mounted on valves to move them from open to closed positions and to various specified positions in between. Valve products for the nuclear power market include a complete line of gate, globe and check valves (including valve actuators). Automatic control valves include high pressure valves, rotary valves, and anti-noise and anti-cavitation valves. These valves are generally sold with an actuator. "Smart" valve technologies have been incorporated into various control valve products to provide more efficient process control. Through a technology alliance with Honeywell Inc., a manufacturer of computerized control systems and software for process plants, the Company's "smart" and control valve technologies are being incorporated in Honeywell's distributed control systems.

MARKETING AND DISTRIBUTION

Valves are produced at facilities in the United States (two in Utah, one in Pennsylvania, and one in Tennessee), Australia, France, Germany (one in Ahaus, one in Essen) and Switzerland. Actuators are produced at facilities in the United States (Utah and Ohio), Germany, France, and Italy. Two Company majority-owned joint ventures in India (which began production in late 1997) manufacture valves for export to U.S., Asian and European markets. In 1998 the Company acquired Valtek Engineering Division of Rolls Royce plc, a former licensee with territorial rights covering certain Company control valves in parts of Europe, the Middle East and Africa.

Manual valve products and valve actuators are distributed through the Company's sales personnel and through a network of independent stocking distributors. Automatic control valves are marketed through specialized sales offices with engineers and service centers or on a commission basis through independent manufacturing representatives in principal marketing centers throughout the United States and other countries.

BACKLOG

The Flow Control Division's backlog of orders at December 31, 1998 was $69.8 million, compared to $67.0 million at December 31, 1997. The Company believes that virtually all of the current backlog will be shipped by December 31, 1999.

FLOW SOLUTIONS

PRODUCTS

Through its Flow Solutions Division business segment, the Company designs, manufactures and distributes mechanical seals and sealing systems and provides service and repair for flow control equipment used in

process industries. Mechanical seal products and flow management services and repairs accounted for approximately 38.7%, 36.0% and 36.9% of the Company's sales to external customers in 1998, 1997 and 1996, respectively.

The mechanical seal is critical to the smooth operation of centrifugal pumps, compressors and mixers because mechanical seals help prevent leakage between a rotating shaft and a stationary casing. In doing so, mechanical seals reduce shaft wear on pumps, compressors and mixers used in many industries. The Company's seals are used on a variety of pumps, mixers, compressors, steam turbines and specialty equipment, principally in the oil refining and chemical processing industries. The Company also manufactures a dry gas seal used in gas transmission and oil and gas production markets. In 1998, the Company acquired its former licensee's seal manufacturing and service business in Australia and the remaining ownership interests in its seal manufacturing joint venture in Singapore.

The Company has established a global network of service facilities throughout the world which have the capability to provide service, repair and diagnostics for rotating equipment, including pumps, turbines, mixers and compressors, as well as numerous types of valves and mechanical seals. In 1998, the Company has expanded its service network with the acquisition of two European valve repair companies: ARS Loheren NV in Belgium and ZAR Beheer BV in The Netherlands, plus the acquisition of the assets of a Canadian service repair facility. The Company sees the opportunity to expand this service repair business, as many of its customers look for alternatives to their own in-house maintenance capabilities or to small and independent service facilities with limited expertise.

MARKETING AND DISTRIBUTION

Mechanical seals are primarily produced in facilities in the United States (one in California, one in Michigan), The Netherlands, Germany, Mexico, Argentina, Brazil, Singapore, New Zealand, Australia and Japan. Seal manufacturing facilities in The Netherlands and Germany are key sources of seals sold in Europe, Africa and the Middle East.

The Company's mechanical seal products are primarily marketed through the Company's worldwide seals sales force directly to end users and engineering and construction firms. A portion of the Company's seal products is sold directly to original equipment ("OE") manufacturers for incorporation into pumps, compressors, mixers or other rotary equipment requiring seals. Distributors, dealers, commissioned representatives and sales agents are also used in the distribution and sale of mechanical seal products.

Fully equipped service centers provide equipment maintenance, including major repairs, advanced diagnostics, installation, commissioning, re-rate and retrofit programs and full machining capabilities. A network of quick response centers provides local engineering, manufacturing and assembly capabilities for mechanical seals, as well as seal inventory.

BACKLOG

The Flow Solutions Division's backlog of orders at December 31, 1998, was $56.4 million compared to $54.4 million at December 31, 1997. The Company believes that virtually all of the current backlog will be shipped by December 31, 1999.

GENERAL BUSINESS

COMPETITION

The markets for the Company's products are highly competitive. Competition occurs on the basis of price, technical expertise, delivery, contractual terms, previous installation history and reputation for quality.

Delivery speed and the proximity of service centers are important with respect to aftermarket products. Customers are generally more likely to rely on the Company than competitors for aftermarket products relating to its more highly engineered and customized products than for its standard products. Price competition tends to be more significant for OE manufacturers than aftermarket services and has been generally increasing.

In the aftermarket portion of its service business, the Company competes against both large and well-established national or global competitors and, in some markets, against smaller regional and local companies, as well as the in-house maintenance departments of the Company's end-user customers. In the sale of aftermarket products and services, the Company benefits from the large installed base of pumps which require maintenance, repair and replacement parts.

In the petroleum industry, the competitors for aftermarket services tend to be the customers themselves because of their in-house capabilities. In other industries, except the nuclear power industry, the competitors for aftermarket services tend to be low cost replicators of spare parts and local independent repair shops for the Company's products. The Company has certain competitive advantages in the nuclear power industry because it maintains the N Stamp that is required to service customers in that industry and because the Company has a considerable base of proprietary knowledge.

Customers for the Company's products are attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventory. Although vendor reduction programs could adversely affect the Company's business, the Company has been successful in entering into "alliance" arrangements with a number of customers both in the United States and overseas which provide competitive advantages to the Company.

RESEARCH AND DEVELOPMENT

The Company conducts research and development at its own facilities in various locations. In 1998, 1997, and 1996, the Company spent approximately $14.7 million, $14.8 million, and $13.9 million, respectively, on Company-sponsored research and development, primarily for new product development and extensions.

The Company's research and development group consists of engineers involved in new product development as well as the support and improvement of existing products. Additionally, the Company sponsors consortium programs for research with various universities and conducts limited development work jointly with certain of its vendors, licensees and customers. Management believes current expenditures are adequate to sustain ongoing research and development activities.

CUSTOMERS

The Company sells to a wide variety of customers. No individual customer accounted for more than 10% of the Company's 1998 net sales.

RISKS OF INTERNATIONAL BUSINESS

In 1998 42% of the Company's sales were outside the United States. The Company's activities thus are subject to the customary risks of operating in an international environment, such as unstable political situations, local laws, the potential imposition of trade restrictions or tariff increases and the relationship of the U.S. dollar to other currencies. The impact of these conditions is mitigated somewhat by the strength and diversity of the Company's product lines and geographic coverage. To minimize the impact of foreign exchange rate movements on its operating results, the Company enters into forward exchange contracts to hedge specific foreign currency denominated transactions. See Note 1 to consolidated financial statements on pages 25 and 26 of the 1998 Annual Report to Shareholders, which is incorporated by reference in this Form 10-K. The Company conducts substantial business activities in the Middle East.

INTELLECTUAL PROPERTY

The Company owns a number of trademarks and patents relating to the name and design of its products. The Company considers its trademarks Byron Jackson(R), Durco(R), United Centrifugal(R), Durametallic(R), BW Seals(R), GASPAC(R), Pacific Wietz(TM), Five Star Seal(R), Wilson-Snyder(R), Valtek(R), Kammer(R), Sereg(TM) and Automax(R) to be important to its business. The patents underlying much of the technology for the Company's products have been in the public domain for many years. Surviving patents are not considered, either individually or in the aggregate, to be material to the Company's business. However, the Company's pool of proprietary information, consisting of know-how and trade secrets relating to the design, manufacture and operation of its products and their use, is considered particularly important and valuable. Accordingly the Company protects such proprietary information. The Company, in general, is the owner of the rights to the products which it manufactures and sells, and the Company is not dependent in any material way upon any license or franchise to operate.

RAW MATERIALS

The principal raw materials used by the Company in the manufacture of its products are normally readily available. While substantially all raw materials are purchased from outside sources, the Company has been able to obtain an adequate supply of raw materials, and no shortage of such materials is currently anticipated. The Company intends to expand its use of worldwide sourcing to capitalize on low cost sources of purchased goods.

The Company is a vertically-integrated manufacturer of certain pump and valve products. Certain corrosion-resistant castings for Company pumps and quarter-turn valves are manufactured at its Dayton, Ohio foundries; other metal castings are purchased from outside sources.

The Company also produces most of its highly engineered corrosion resistant plastic parts for certain pump and valve product lines. This includes rotomolding as well as injection and compression molding of a variety of fluorocarbon and other plastic materials.

Suppliers of raw materials for nuclear markets must be qualified by the American Society of Mechanical Engineers and, accordingly, are limited in number. However, the Company to date has experienced no significant difficulty in obtaining such materials.

EMPLOYEES AND LABOR RELATIONS

The Company and its subsidiaries employ approximately 7,000 persons of whom approximately 55% work in the United States. The Company's hourly employees at its three principal U.S. pump manufacturing plants in Vernon, California, Dayton, Ohio, and Tulsa, Oklahoma, plus those at its valve manufacturing plant in Williamsport, Pennsylvania and at its foundries in Dayton, Ohio are represented by unions. The Company's operations in Mexico, The Netherlands, Germany and Belgium are unionized. The Company believes employee relations throughout its operations are satisfactory, including those represented by unions.

ENVIRONMENTAL REGULATIONS AND PROCEEDINGS

The Company is subject to environmental laws and regulations in all jurisdictions in which it has operating facilities. The Company periodically makes capital expenditures for pollution abatement and control to meet environmental requirements. At present, the Company has no plans for any material capital expenditures for environmental control facilities. However, the Company has experienced and continues to experience

operating costs relating to environmental matters, although certain costs have been offset by the Company's successful waste minimization programs.

The Company believes that future environmental compliance expenditures will not have a material adverse effect on its financial position and has established allowances which it believes to be adequate to cover potential environmental liabilities.

EXPORTS

Licenses are required from U.S. government agencies to export certain of the Company's products from the United States. In particular, products with nuclear applications are restricted, although limitations are placed on the export of certain other pump, valve and mechanical seal products.

The Company's export sales from the United States to foreign unaffiliated customers were $130,766 in 1998, $146,704 in 1997 and $140,842 in 1996.

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FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This 1998 Annual Report on Form 10-K, including Management's Discussion and Analysis, contains various forward-looking statements and includes assumptions about the Company's future market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: further changes in the already competitive environment for the Company's products or competitors' responses to the Company's strategies; political risks or trade embargoes affecting important country markets; the health of the petroleum, chemical and power industries; economic turmoil in areas outside the United States; continued economic growth within the United States; unanticipated difficulties or costs or reduction in benefits associated with the implementation of the Company's "Flowserver" business process improvement initiative, including software; the impact of the "Year 2000" computer issue; and the recognition of significant expenses associated with adjustments to realign the combined Company's facilities and other capabilities with its strategic and business conditions. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

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ITEM 2. PROPERTIES

The Company's corporate headquarters is a leased facility in Irving, Texas encompassing approximately 34,000 square feet.

The location, size and products manufactured at the Company's principal manufacturing facilities are as follows:

LOCATION	SQUARE FOOTAGE	PRODUCTS MANUFACTURED
DOMESTIC:		
Dayton, Ohio	600,000	Castings and pumps
Tulsa, Oklahoma	320,000	Pumps
Vernon, California	273,000	Pumps
Cookeville, Tennessee	190,000	Valves
Williamsport, Pennsylvania	141,000	Valves
Springville, Utah	140,000	Valves and actuators
Kalamazoo, Michigan	137,000	Mechanical seals
Temecula, California	64,000	Mechanical seals
Springboro, Ohio	50,000	Plastic components for pumps and valves
Albuquerque, New Mexico	50,000	Components for pumps
INTERNATIONAL:		
Etten-Leur, The Netherlands	175,000	Pumps
Santa Clara, Mexico	154,000	Pumps and mechanical seals
Mendoza, Argentina	81,000	Pumps and mechanical seals
Dortmund, Germany	70,000	Mechanical seals
Ahaus, Germany	68,000	Valves
Petit Rechain, Belgium	65,000	Pumps and valves
Essen, Germany	50,000	Valves and actuators
Hengelo, The Netherlands	49,400	Pumps
Roosendaal, The Netherlands	48,400	Mechanical seals

All of the Company's principal manufacturing facilities are owned with the exception of the facilities in Springboro, Ohio; Hengelo, The Netherlands; and Dortmund, Germany.

On the average, the Company utilizes approximately 80% to 90% of its manufacturing capacity, although there is a variation in usage rate among the facilities. The Company could, in general, increase its capacity through the purchase of new or additional manufacturing equipment without obtaining additional facilities.

The Company maintains a substantial network of domestic and foreign service centers and sales offices most of which are leased.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in ordinary routine litigation incidental to its business, none of which it believes to be material to its financial condition. For further information about such litigation, see Note 9 of the Financial Statements, provided as part of Item 8 of this Form 10-K and incorporated herein by reference.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The common stock of the Company (FLS) is traded on the New York Stock Exchange. In February 1999, the Company's records showed approximately 2,300 shareholders of record. Based on these records plus requests from brokers and nominees listed as shareholders of record, the Company estimates there are approximately 11,200 beneficial owners of its common stock. In 1998 and 1997, the Company paid a dividend of fourteen cents per share each calendar quarter.

PRICE RANGE OF FLOWSERVE COMMON STOCK
(INTRADAY HIGH/LOW PRICES)

	1998	1997
First Quarter	$33.75/$26.50	$27.13/$21.88
Second Quarter	$32.44/$24.25	$30.00/$21.25
Third Quarter	$25.50/$17.75	$36.69/$28.63
Fourth Quarter	$20.38/$15.38	$30.69/$26.00

During 1998, 1997 and 1996, the Company issued 10,165, 21,700 and 29,900 shares of restricted common stock, respectively, pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Shares were issued for the benefit of directors and officers of the Company subject to restrictions on transfer.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1998, which appears on page 39 of the 1998 Annual Report to Shareholders, is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis appears on pages 14 through 20 of the 1998 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Disclosure about market risk appears on page 18 of the Company's 1998 Annual Report to Shareholders under the heading "Market Risks Associated With Financial Instruments" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements appearing on pages 21 through 38 of the 1998 Annual Report to Shareholders, together with the report thereon of Ernst & Young LLP, dated February 9, 1999, appearing on page 13 of the 1998 Annual Report to Shareholders, and supplementary data appearing on page 38 of the 1998 Annual Report to Shareholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the heading "Election of Directors" in the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on or about April 22, 1999, (the "1999 Proxy Statement") is incorporated herein by reference. The executive officers of the Company, all positions and offices presently held by each person named, their ages as of February 15, 1999, and their business experience during the last five years are stated below. Executive officers serve at the discretion of the Board of Directors.

Name and Position	Age	Principal Occupation During Past Five Years
Bernard G. Rethore Chairman of the Board of Directors, President and Chief Executive Officer	57	Chairman of the Board of Directors and Chief Executive Officer since 1997 and President since 1998; Chairman of the Board of Directors of BW/IP in 1997 and President and Chief Executive Officer and a Director of BW/IP from 1995 to 1997; Senior Vice President of Phelps Dodge Corporation and President of Phelps Dodge Industries, its diversified international manufacturing business, from 1989 to 1995.
Renee J. Hornbaker Vice President and Chief Financial Officer	46	Vice President and Chief Financial Officer since December 1997; Vice President, Business Development and Chief Information Officer in 1997; Vice President, Finance and Chief Financial Officer of BW/IP in 1997; Vice President, Business Development of BW/IP from 1996 to 1997; Director-Business Analysis and Planning of Phelps Dodge Industries, the diversified international manufacturing business of Phelps Dodge Corporation in 1996 and Director Financial Analysis and Control from 1991 to 1996.
Rick L. Johnson Vice President, Business Development and Controller	46	Vice President, Business Development since January 1998 and Controller since November 1998; Vice President and Controller of the Industrial Products Division from 1997 to January 1998; Industrial Products Group Vice President and Controller from 1995 to 1997; President Durco Valtek (Singapore) from 1993 to 1995; Corporate Controller 1991 to 1993.
Rory E. MacDowell Vice President and Chief Information Officer	48	Vice President and Chief Information Officer since 1998; Chief Information Officer of Keystone International, Inc., a manufacturer and distributor of flow control products from 1993 to 1997; various information technology management positions in the oilfield services division of Schlumberger from 1985 to 1993.
Cheryl D. McNeal Vice President, Human Resources	48	Vice President, Human Resources since 1996; Assistant Vice President, Human Resources and other Human Resource management positions at NCR from 1978 to 1996.

George A. Shedlarski President, Flow Solutions Division	54	President, Flow Solutions Division since January 1999; President, Fluid Sealing Division from 1997 to 1999; President, ServiceRepair Division in 1997; President Rotating Equipment Group in 1997; Group Vice President, Industrial Products Group from 1994 to 1997; Vice President U.S. Operations from 1990 to 1994.
Ronald F. Shuff Vice President, Secretary and General Counsel	46	Vice President since 1990 and Secretary and General Counsel since 1989 .
Mark E. Vernon President, Flow Control Division	46	President, Flow Control Division since 1997; President, Industrial Products Division in 1997; Group Vice President, Flow Control Group from 1993 to 1997.
Howard D. Wynn President, Rotating Equipment Division	51	President, Rotating Equipment Division since 1997; Vice President of BW/IP and President, Pump Division from 1996 to 1997; Vice President of the BW/IP Pump Division from 1993 to 1996.
Scott E. Messel Treasurer	40	Treasurer since 1998; Vice President and Director, International Treasury from 1994 to December 1997, plus other increasingly responsible management positions from 1983 to 1994, at Ralston Purina Company, a manufacturer of pet foods, food-related products and battery products.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is set forth in the 1999 Proxy Statement and is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 is set forth in the 1999 Proxy Statement under the heading "Security Ownership" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item 13 is set forth to the extent applicable in the 1999 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The financial statements, appearing on pages 21 through 38 of the 1998 Annual Report to Shareholders, together with the report thereon of Ernst & Young LLP, dated February 9, 1999, appearing on page 13 of the 1998 Annual Report to Shareholders, and the report of Price Waterhouse LLP dated January 28, 1997, listed in the accompanying index on page F-1, are incorporated herein by reference.

2. Financial Statement Schedules

The required financial statement schedule together with the reports thereon of Ernst & Young LLP dated February 9, 1999, and Price Waterhouse LLP dated January 28, 1997, listed in the accompanying index on page F-1, is filed as part of this Form 10-K.

3. Exhibits

The exhibits listed on the accompanying index to exhibits on pages 13 through 18 are filed as part of this Form 10-K.

(b) Reports on Form 8-K

None.

(c) See Item 14(a) 3 above.

(d) See Item 14(a) 2 above.

INDEX TO EXHIBITS*

EXHIBIT NO.	DESCRIPTION
2.1	Agreement and Plan of Merger dated as of May 6, 1997, among the Company, Bruin Acquisition Corp. and BW/IP, Inc. ("BW/IP") was filed as Annex 1 to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997.
3.1	1988 Restated Certificate of Incorporation of The Duriron Company, Inc. was filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988.
3.2	1989 Amendment to Certificate of Incorporation was filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
3.3	By-Laws of The Duriron Company, Inc. (as restated) were filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.
3.4	1996 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
3.5	Amendment No. 1 to Restated Bylaws was filed as Exhibit 3.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
3.6	April 1997 Certificate of Amendment of Certificate of Incorporation was filed as part of Annex VI to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997.
3.7	July 1997 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.6 to the Company's Quarterly Report on Form 10-Q, for the Quarter ended June 30, 1997.
4.1	Lease agreement and indenture, dated as of January 1, 1995 and bond purchase agreement dated January 27, 1995, in connection with an 8% Taxable Industrial Development Revenue Bond, City of Albuquerque, New Mexico. (Relates to a class of indebtedness that does not exceed 10% of the total assets of the Company. The Company will furnish a copy of the documents to the Commission upon request.)
4.2	Rights Agreement dated as of August 1, 1986 between the Company and BankOne, N.A., as Rights Agent, which includes as Exhibit B thereto the Form of Rights Certificate which was filed as Exhibit 1 to the Company's Registration Statement on Form 8-A on August 13, 1986.
4.3	Amendment dated August 1, 1996, to Rights Agreement was filed as Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.

4.4	Amendment No. 2 dated as of June 1, 1998, to the Rights Agreement dated as of August 13, 1986, and amended as of August 1, 1996, was filed as Exhibit 1 to the Company's Form 8-A/A dated June 11, 1998.

4.5 Interest Rate and Currency Exchange Agreement between the Company and Barclays Bank PLC dated November 17, 1992 in the amount of $25,000,000 was filed as Exhibit 4.9 to Company's Annual Report on Form 10-K for year ended December 31, 1992.

4.6 Credit Agreement dated as of November 26, 1997, among Flowserve Corporation, Bank of America National Trust and Savings Association as Agent and Letter of Credit Issuing Bank and the other Financial Institutions Party thereto was filed as Exhibit 4.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

4.7 Material Subsidiary Guarantee, dated as of November 26, 1997, by BW/IP International, Inc. in favor of and for the benefit of Bank of America National Trust and Savings Association, as Agent, was filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

4.8 Rate Swap Agreement in the amount of $25,000,000 between the Company and National City Bank dated November 14, 1996 was filed as Exhibit 4.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

4.9 Rate Swap Agreement in the amount of $25,000,000 between the Company and Key Bank National Association dated October 28, 1996 was filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

4.10 Guaranty, dated August 1, 1997 between Flowserve Corporation and ABN-AMRO Bank N.V. was filed as Exhibit 4.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

4.11 Credit Agreement, dated as of September 10, 1993, between BW/IP International B.V. and ABN/AMRO was filed as Exhibit 10.dd to BWIP's Annual Report on Form 10-K for the year ended December 31, 1993.

4.12 Note Agreement, dated as of November 15, 1996, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to $30,000,000 principal amount of 7.14% Senior Notes, Series A, due November 15, 2006, and $20,000,000 principal amount of 7.17% Senior Notes, Series B, due March 31, 2007, was filed as Exhibit 4.1 to BW/IP's Registration Statement on Form S-8 (Registration No. 333-21637) as filed February 12, 1997.

4.13 Note Agreement, dated as of April 15, 1992, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to $50,000,000 principal amount of 7.92% Senior Notes due May 15, 1999, filed as Exhibit 4.a to BW/IP's Quarterly Report on Form 10-Q for the quarter ended June 30, 1992.

10.1 Flowserve Corporation Incentive Compensation Plan (the "Incentive Plan") for Senior Executives, as amended and restated effective January 1, 1994, was filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.2 Amendment No. 1 to the Incentive Plan was filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.3 Amendment No. 2 to the Incentive Plan was filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.**

10.4 Amendment No. 3 to the Incentive Plan (filed herewith).**

10.5 Supplemental Pension Plan for Salaried Employees was filed with the Commission as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**

10.6 Flowserve Corporation amended and restated Director Deferral Plan was filed as Attachment A to the Company's definitive 1996 Proxy Statement filed with the Commission on March 10, 1996.**

10.7 Form of Change in Control Agreement between all executive officers and the Company was filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**

10.8 First Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**

10.9 Amendment No. 1 to the first Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.10 Amendment No. 2 to First Master Benefit Trust Agreement was filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.11 Second Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**

10.12 First Amendment to Second Master Benefit Trust Agreement was filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.13 Long-Term Incentive Plan (the "Long-Term Plan"), as amended and restated effective November 1, 1993 was filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.14 Amendment No. 1 to the Long-Term Plan was filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.15 Flowserve Corporation 1989 Stock Option Plan as amended and restated effective January 1, 1997 was filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**

10.16 Flowserve Corporation Second Amendment to the 1989 Stock Option Plan as previously amended and restated was filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.**

10.17 Flowserve Corporation 1989 Restricted Stock Plan (the "1989 Restricted Stock Plan") as amended and restated effective January 1, 1997 was filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**

10.18 Flowserve Corporation Retirement Compensation Plan for Directors ("Director Retirement Plan") was filed as Exhibit 10.15 to the Company's Annual Report to Form 10-K for the year ended December 31, 1988.**

10.19 Amendment No. 1 to Director Retirement Plan was filed as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.20 The Company's Benefit Equalization Pension Plan (the "Equalization Plan") was filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.**

10.21 Amendment # 1 dated December 15, 1992 to the Equalization Plan was filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.**

10.22 The Company's Equity Incentive Plan as amended and restated effective July 21, 1995 was filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.23 Supplemental Pension Agreement between the Company and William M. Jordan dated January 18, 1993 was filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.**

10.24 1979 Stock Option Plan, as amended and restated April 23, 1991, and Amendment #1 thereto dated December 15, 1992, was filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.**

10.25 Flowserve Corporation Deferred Compensation Plan for Executives was filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.**

10.26 Executive Life Insurance Plan of Flowserve Corporation was filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.27 Executive Long-Term Disability Plan of The Duriron Company, Inc. was filed as Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.28 Employee Protection Plan, as revised effective March 1, 1997 (which provides certain severance benefits to employees upon a change of control of the Company) was filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**

10.29 Flowserve Corporation 1997 Stock Option Plan was included as Exhibit A to the Company's 1997 Proxy Statement which was filed with the Commission on March 17, 1997.**

10.30 Flowserve Corporation First Amendment to 1997 Stock Option Plan was filed as Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998. **

10.31 BW/IP International, Inc. Supplemental Executive Retirement Plan as amended and restated was filed as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.**

10.32 Flowserve Corporation 1998 Restricted Stock Plan was included as Exhibit A to the Company's 1998 Proxy Statement which was filed with the Commission on April 9, 1998.**

10.33 Form of Employment Agreement between the Company and certain executive officers was filed as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997. **

10.34 Amendment No. 1 to the amended and restated Director Deferral Plan was filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997. **

10.35 Amendment No. 2 to the amended and restated Director Deferral Plan was filed as Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.**

10.36 Amendment No. 1 to the 1989 Restricted Stock Plan as amended and restated was filed as Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.**

10.37 Employment Agreement, effective July 22, 1997, between the Company and Bernard G. Rethore was filed as Exhibit 10.53 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997. **

10.38 Employment Agreement, effective July 22, 1997, between the Company and William M. Jordan was filed as Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997. **

10.39 Amendment No. 1 to Employment Agreement between the Company and William M. Jordan was filed as Exhibit 10.38 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.**

13.1 1998 Annual Report to Shareholders (filed herewith as part of this report to the extent incorporated herein by reference).

18.1 Letter from Ernst & Young LLP regarding change in accounting principles (filed herewith).

21.1 Subsidiaries of the Company (filed herewith).

23.1 Consent of Ernst & Young LLP (filed herewith).

23.2 Consent of PricewaterhouseCoopers LLP (filed herewith).

27.1 Financial Data Schedule submitted to the SEC in electronic format (filed herewith).

27.2 Restated Financial Data Schedule submitted to the SEC in electronic format (filed herewith).

"*" For exhibits of the Company incorporated by reference into this Annual Report on Form 10-K from a previous filing with the Commission, the Company's file number with the Commission since July 1997 is "1-13179" and the previous file number was "0-325". All filings of BW/IP, Inc. incorporated by reference in this Annual Report on Form 10-K cover the periods prior to July 22, 1997.

"**" Management contracts and compensatory plans and arrangements required to be filed as exhibits to this Annual Report on Form 10-K.

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 on this 19th day of February 1999.

FLOWSERVE CORPORATION
(Registrant)

By: /s/ Bernard G. Rethore
Bernard G. Rethore
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ BERNARD G. RETHORE Bernard G. Rethore	Chairman, President and Chief Executive Officer (Principal Executive Officer)	February 19, 1999
/s/ RENEE J. HORNBAKER Renee J. Hornbaker	Vice President and Chief Financial Officer (Principal Financial Officer)	February 19, 1999
/s/ RICK L. JOHNSON Rick L. Johnson	Vice President Business Development And Controller (Principal Accounting Officer)	February 19, 1999
/s/ WILLIAM C. RUSNACK William C. Rusnack	Director, Chairman of Audit/Finance Committee	February 19, 1999
/s/ DIANE C. HARRIS Diane C. Harris	Director, Member Audit/Finance Committee	February 19, 1999
/s/ CHARLES M. RAMPACEK Charles M. Rampacek	Director, Member Audit/Finance Committee	February 19, 1999
/s/ JAMES O. ROLLANS James O. Rollans	Director, Member Audit/Finance Committee	February 19, 1999
/s/ R. ELTON WHITE R. Elton White	Director, Member Audit/Finance Committee	February 19, 1999

FLOWSERVE CORPORATION

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

ITEM 14(a)(1) AND (2)

Financial statement schedules not included in this Annual Report on Form 10-K have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of BW/IP, Inc.

In our opinion, the consolidated statements of income and retained earnings and of cash flows of BW/IP, Inc. (not presented separately herein) present fairly, in all material respects, the results of operations and cash flows of BW/IP, Inc. and its subsidiaries for the year ended December 31, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audit provides a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

Los Angeles, California
January 28, 1997

REPORT OF INDEPENDENT AUDITORS
ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders
Flowserve Corporation

We have audited the consolidated financial statements of Flowserve Corporation and subsidiaries as of December 31, 1998 and 1997, and for each of the three years in the period ending December 31, 1998, and have issued our report thereon dated February 9, 1999 appearing on page 13 of the 1998 Annual Report (which report and consolidated financial statements are incorporated by reference in this Form 10-K). Our audits also included the financial statement schedule listed in Item 14(a) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the schedule based on our audits. We did not audit the 1996 financial statements of BW/IP, Inc., a wholly owned subsidiary, which statements reflect total assets constituting 49% of the related consolidated total as of December 31, 1996, and total revenues constituting 45% of the related totals for the year ended December 31, 1996. We have been furnished with the report of other auditors with respect to the financial statement schedule listed in item 14(a) of the Form 10-K of BW/IP, Inc.

In our opinion, based on our audits and the report of other auditors, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/Ernst & Young LLP

Dallas, Texas
February 9, 1999

REPORT OF INDEPENDENT ACCOUNTANTS
ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors of BW/IP, Inc.

Our audit of the consolidated financial statements (not presented separately herein) referred to in our report dated January 28, 1997, of BW/IP, Inc. appearing on page F-2 of this Annual Report on Form 10-K also included an audit of the Financial Statement Schedules of BW/IP, Inc. for the year ended December 31, 1996 (not presented separately herein). In our opinion, these Financial Statement Schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE LLP

Los Angeles, California
January 28, 1997

FLOWSERVE CORPORATION
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(DOLLARS IN THOUSANDS)

Column A	Column B Balance at beginning of year	Column C Additions Charged to Earnings	Column D Deductions from reserve	Column E Balance at end of year
Description				
Year ended December 31, 1998:				
Allowance for doubtful accounts (a):	$ 5,059	$ 333	$ 859	$ 4,533
Year ended December 31, 1997:				
Allowance for doubtful accounts (a):	$ 4,826	$ 2,458	$ 2,225	$ 5,059
Year ended December 31, 1996:				
Allowance for doubtful accounts (a):	$ 5,183	$ 1,786	$ 2,143	$ 4,826
Year ended December 31, 1998:				
Inventory reserves (b):	$17,045	$ 3,388	$ 4,742	$16,051
Year ended December 31, 1997:				
Inventory reserves (b):	$13,716	$ 4,308	$ 619	$17,405
Year ended December 31, 1996:				
Inventory reserves (b):	$16,252	$ 860	$ 3,396	$13,716

(a) Deductions from reserve represent accounts written off net of recoveries.

(b) Deductions from reserve represent inventory written off.

INDEX TO EXHIBITS*

EXHIBIT NO.	DESCRIPTION

2.1 Agreement and Plan of Merger dated as of May 6, 1997, among the Company, Bruin Acquisition Corp. and BW/IP, Inc. ("BW/IP") was filed as Annex 1 to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997.

3.1 1988 Restated Certificate of Incorporation of The Duriron Company, Inc. was filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988.

3.2 1989 Amendment to Certificate of Incorporation was filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.

3.3 By-Laws of The Duriron Company, Inc. (as restated) were filed as

Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.

3.4 1996 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

3.5 Amendment No. 1 to Restated Bylaws was filed as Exhibit 3.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

3.6 April 1997 Certificate of Amendment of Certificate of Incorporation was filed as part of Annex VI to the Joint Proxy Statement/Prospectus which is part of the Registration Statement on Form S-4, dated June 19, 1997.

3.7 July 1997 Certificate of Amendment of Certificate of Incorporation was filed as Exhibit 3.6 to the Company's Quarterly Report on Form 10-Q, for the Quarter ended June 30, 1997.

4.1 Lease agreement and indenture, dated as of January 1, 1995 and bond purchase agreement dated January 27, 1995, in connection with an 8% Taxable Industrial Development Revenue Bond, City of Albuquerque, New Mexico. (Relates to a class of indebtedness that does not exceed 10% of the total assets of the Company. The Company will furnish a copy of the documents to the Commission upon request.)

4.2 Rights Agreement dated as of August 1, 1986 between the Company and BankOne, N.A., as Rights Agent, which includes as Exhibit B thereto the Form of Rights Certificate which was filed as Exhibit 1 to the Company's Registration Statement on Form 8-A on August 13, 1986.

4.3 Amendment dated August 1, 1996, to Rights Agreement was filed as

Exhibit 4.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.

4.4 Amendment No. 2 dated as of June 1, 1998, to the Rights Agreement dated as of August 13, 1986, and amended as of August 1, 1996, was filed as Exhibit 1 to the Company's Form 8-A/A dated June 11, 1998.

4.5 Interest Rate and Currency Exchange Agreement between the Company and Barclays Bank PLC dated November 17, 1992 in the amount of $25,000,000 was filed as Exhibit 4.9 to Company's Annual Report on Form 10-K for year ended December 31, 1992.

4.6 Credit Agreement dated as of November 26, 1997, among Flowserve Corporation, Bank of America National Trust and Savings Association as Agent and Letter of Credit Issuing Bank and the other Financial Institutions Party thereto was filed as Exhibit 4.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

4.7 Material Subsidiary Guarantee, dated as of November 26, 1997, by BW/IP International, Inc. in favor of and for the benefit of Bank of America National Trust and Savings Association, as Agent, was filed as Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

4.8 Rate Swap Agreement in the amount of $25,000,000 between the Company and National City Bank dated November 14, 1996 was filed as Exhibit 4.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

4.9 Rate Swap Agreement in the amount of $25,000,000 between the Company and Key Bank National Association dated October 28, 1996 was filed as

Exhibit 4.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

4.10 Guaranty, dated August 1, 1997 between Flowserve Corporation and ABN-AMRO Bank N.V. was filed as Exhibit 4.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997.

4.11 Credit Agreement, dated as of September 10, 1993, between BW/IP International B.V. and ABN/AMRO was filed as Exhibit 10.dd to BWIP's Annual Report on Form 10-K for the year ended December 31, 1993.

4.12 Note Agreement, dated as of November 15, 1996, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to $30,000,000 principal amount of 7.14% Senior Notes, Series A, due November 15, 2006, and $20,000,000 principal amount of 7.17% Senior Notes, Series B, due March 31, 2007, was filed as Exhibit 4.1 to BW/IP's Registration Statement on Form S-8 (Registration No. 333-21637) as filed February 12, 1997.

4.13 Note Agreement, dated as of April 15, 1992, between BW/IP International, Inc. and the Note Purchasers named therein, with respect to $50,000,000 principal amount of 7.92% Senior Notes due May 15, 1999, filed as Exhibit 4.a to BW/IP's Quarterly Report on Form 10-Q for the quarter ended June 30, 1992.

10.1 Flowserve Corporation Incentive Compensation Plan (the "Incentive Plan") for Senior Executives, as amended and restated effective January 1, 1994, was filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1993.**

10.2 Amendment No. 1 to the Incentive Plan was filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.**

10.3 Amendment No. 2 to the Incentive Plan was filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.**

10.4 Amendment No. 3 to the Incentive Plan (filed herewith).**

10.5 Supplemental Pension Plan for Salaried Employees was filed with the Commission as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**

10.6 Flowserve Corporation amended and restated Director Deferral Plan was filed as Attachment A to the Company's definitive 1996 Proxy Statement filed with the Commission on March 10, 1996.**

10.7 Form of Change in Control Agreement between all executive officers and the Company was filed as Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.**

10.8 First Master Benefit Trust Agreement dated October 1, 1987 was filed as Exhibit 10.24 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.**

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"*" For exhibits of the Company incorporated by reference into this Annual Report on Form 10-K from a previous filing with the Commission, the Company's file number with the Commission since July 1997 is "1-13179" and the previous file number was "0-325". All filings of BW/IP, Inc. incorporated by reference in this Annual Report on Form 10-K cover the periods prior to July 22, 1997.

"**" Management contracts and compensatory plans and arrangements required to be filed as exhibits to this Annual Report on Form 10-K.

Exhibit 10.4

AMENDMENT NO. 3
TO THE FLOWSERVE CORPORATION
ANNUAL INCENTIVE PLAN FOR SENIOR EXECUTIVES
(AS RESTATED JANUARY 1, 1994)

The second sentence of Section VIII (B) shall be revised and restated in its entirety as follows:

> "Effective January 1, 1998, any Award so elected by the Participant to be paid in the form of Shares or such deferred shares shall be increased by fifteen per cent (15%) over an Award otherwise payable in cash."

The remainder of the Plan shall remain in full force and effect as currently stated.

Date: February 19, 1998.

/s/ Ronald F. Shuff

Ronald F. Shuff
Vice President, Secretary and
General Manager

EXHIBIT 13

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Flowserve Corporation

We have audited the accompanying consolidated balance sheets of Flowserve Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 1996 financial statements of BW/IP, Inc., a wholly owned subsidiary, which statements reflect total revenues constituting 45% of the related totals for the year ended December 31, 1996. Those statements were audited by other auditors whose report thereon dated January 28, 1997, has been furnished to us, and our opinion, insofar as it relates to data included for BW/IP, Inc., is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Flowserve Corporation and subsidiaries at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

In 1998, as discussed in Note 5 to the consolidated financial statements, the Company changed its method of accounting for costing its inventory, and as discussed in Note 7, changed its method of accounting for certain defined compensation arrangements.

/s/ ERNST & YOUNG LLP

Ernst & Young LLP
Dallas, Texas
February 9, 1999

REPORT OF MANAGEMENT

The Company's management is responsible for preparation of the accompanying consolidated financial statements. These statements have been prepared in conformity with generally accepted accounting principles and include amounts that are based on management's best estimates and business judgment. Management maintains a system of internal controls, which in management's opinion provides reasonable assurance that assets are safeguarded and transactions properly recorded and executed in accordance with management's authorization. The internal control system is supported by internal audits and is tested and evaluated by the independent accountants in connection with their annual audit. The Board of Directors pursues its responsibility for financial information through an Audit and Finance Committee consisting entirely of independent directors. This committee regularly meets not only with management, but also separately with representatives of the independent accountants.

/s/ BERNARD G. RETHORE

Bernard G. Rethore
Chairman, President and
Chief Executive Officer

/s/ RENEE J. HORNBAKER

Renee J. Hornbaker
Vice President and
Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The following discussion and analysis are provided to increase understanding of, and should be read in conjunction with, the consolidated financial statements and accompanying notes.

Flowserve Corporation was created on July 22, 1997, through a merger of equals between BW/IP, Inc. and Durco International Inc., which was accounted for under the "pooling of interests" method of accounting. Accordingly, all historical information has been restated, giving effect to the transaction as if the two companies had been combined at the beginning of all periods presented.

Flowserve produces engineered pumps, precision mechanical seals, automated and manual quarter-turn valves, control valves and valve actuators, and provides a range of related flow management services worldwide, primarily for the process industries. Equipment manufactured and serviced by the Company is used in industries that deal with difficult-to-handle and often corrosive fluids in environments with extreme temperature, pressure, horsepower and speed. Flowserve's businesses are affected by economic conditions in the United States and other countries where its products are sold and serviced, by the relationship of the U.S. dollar to other currencies and by the demand and pricing for customers' products. The impact of these conditions is somewhat mitigated by the strength and diversity of Flowserve's product lines and geographic coverage.

RESULTS OF OPERATIONS

In general, 1998 results were lower than those of the two previous years due to the downturn of economic conditions in the global markets in which the Company participates. The economic turmoil that started in Asia in the second half of 1997 spread to other parts of the world, including Latin America. The profitability of our chemical and petroleum customers, which collectively represent about two-thirds of our business, was negatively impacted by the economic weakness. This economic weakness contributed to a supply/demand imbalance of chemicals and an oil price that averaged $11.12 per barrel in 1998, compared with $17.78 per barrel in 1997 and $18.46 per barrel in 1996. As a result, our customers reduced expenditures by delaying or canceling new projects and reducing maintenance spending.

	BOOKINGS	SALES
1998	$1,083	$1,083
1997	$1,172	$1,152
1996	$1,142	$1,098

Bookings (incoming orders for which there are purchase commitments) were lower in 1998 at $1,082.5 million, compared with $1,172.4 million in 1997 and $1,141.6

million in 1996. Sales decreased to $1,083.1 million in 1998 from $1,152.2 million in 1997 and $1,097.6 million in 1996. Bookings and sales declines in 1998 were largely a result of the economic and market factors previously discussed.

There were several other factors that affected the comparisons. A stronger U.S. dollar, in relation to other currencies in which the Company conducts its business, had the effect of reducing both bookings and sales when compared with the prior year. The negative translation effect reduced 1998 bookings and sales by about 2% and 1997 bookings and sales by about 4%.

Comparisons are also impacted by the divestitures of several businesses in 1997 that contributed approximately $18 million to both bookings and sales in 1997 and $24 million in 1996. Several acquisitions affected the comparability as well. Acquisitions made in 1998 added approximately $14 million to 1998 bookings and sales, compared with 1997 and 1996. Acquisitions made in late 1996 and early 1997 added about $45 million to 1997 bookings and sales compared with 1996.

In total, sales outside the United States were 42% in 1998, compared with 48% in 1997 and 52% in 1996. These sales declined due to weaker economies in Asia and Latin America and negative currency translation effect.

BUSINESS SEGMENTS

Flowserve manages its operations through three business segments: Rotating Equipment Division (RED) for engineered pumps; Flow Control Division (FCD) for automated quarter-turn valves, control valves and valve actuators; and Flow Solutions Division (FSD) for precision mechanical seals and flow management services.

Sales and operating income before special items, as defined below, for each of the three business segments are:

	ROTATING EQUIPMENT DIVISION		
(in millions of dollars)	1998	1997	1996
Sales	$ 375.5	$ 412.8	$ 402.8
Operating income	41.1	51.0	49.0

Sales of pumps and pump parts for the Rotating Equipment Division (RED) decreased to $375.5 million from $412.8 million in 1997 and $402.8 million in 1996. The sales decline was generally due to reduced demand for chemical process pumps as our chemical industry customers lowered their capital and maintenance spending in response to weaker demand and pricing for their products. The Company believes that the chemical market will continue to be weak in 1999. RED sales were also lower due to reduced demand for nuclear parts and replacements. RED sales increased in 1997 from 1996 due to the acquisition of the engineered pump business of Stork Pompen, B.V. in January 1997.

Operating income before special items, as a percentage of RED sales, declined to approximately 11% in 1998 from about 12% in the previous two years. The decline was due to the lower volume of more profitable chemical process pumps, nuclear products and other parts and replacement business that more than offset the benefits of the merger integration program.

(in millions of dollars)	FLOW CONTROL DIVISION 1998	1997	1996
Sales	$ 303.0	$ 317.2	$ 286.4
Operating income	41.7	47.0	37.1

Sales of valves and valve automation products for the Flow Control Division (FCD) declined to $303.0 million in 1998 from $317.2 million in 1997. The decrease was due to the weaker chemical market that reduced demand and placed downward pressure on selling prices. The sales decrease was partly offset by the acquisition of Valtek Engineering (United Kingdom licensee) in July 1998. FCD sales were higher in 1997 than the $286.4 million recorded in 1996 due to internal growth from control valves and the acquisition of Anchor/Darling Valves in December 1996.

Operating income before special items, as a percentage of sales, was 13.8% in 1998, compared with 14.8% in 1997 and 13.0% in 1996. The decline in 1998 was generally due to the lower sales volume. Operating income in 1998 was also affected by lower selling prices and a reduced volume of higher-profit spare parts. The improvement in 1997 over 1996 was due to sales growth and higher margins from control valves and the Anchor/Darling Valves business.

(in millions of dollars)	FLOW SOLUTIONS DIVISION 1998	1997	1996
Sales	$ 433.6	$ 430.1	$ 421.9
Operating income	66.1	62.7	55.5

Sales of services and seal products for the Flow Solutions Division (FSD) increased to $433.6 million in 1998, compared with $430.1 million in 1997 and $421.9 million in 1996. Sales related to service activities increased about 11% in 1998 and 9% in 1997, despite the challenging market environment, due to an increased focus on this business. These increases were partly offset by reduced demand for seals due to economic weakness in Asia and Latin America, softness in the chemical and petroleum markets and technological improvements in the Company's seals that have reduced their mean time between failure.

Operating income before special items, as a percentage of sales, increased to 15.2% from 14.6% in 1997 and 13.2% in 1996. The improved margins were generally due to the leveraging of a higher volume of sales and the benefits of the merger integration program, partly offset by a seal product mix change to lower margin products.

EARNINGS PER SHARE

	AFTER SPECIAL ITEMS	SPECIAL ITEMS	TOTAL
1998	$1.23	$0.65	$1.88
1997	$1.26	$0.75	$2.01
1996	$1.72	$0.07	$1.79

Earnings after special items were $48.9 million ($1.23 per share) in 1998, compared with $51.6 million ($1.26 per share) in 1997 and $71.1 million ($1.72

per share) in 1996. Special items included restructuring charges, merger integration expense, merger transaction expense, costs associated with an obligation under an executive employment agreement, a gain on the sale of a subsidiary and the cumulative effect of a change in accounting principle. Earnings before special items were $74.9

million ($1.88 per share) in 1998, compared with $82.1 million ($2.01 per share) in 1997 and $74.1 million ($1.79 per share) in 1996. The decline in earnings in 1998 was largely due to the decline in sales and a lower gross profit margin. The Company's share repurchase program contributed about $0.03 per share to earnings in 1998, compared with the two prior years.

The restructuring charges of $32.6 million in 1997 were related to the Company's merger integration program, and the restructuring charges of $5.8 million in 1996 were related to the consolidation of certain operations in Europe and Asia. Merger integration expense was $38.3 million in 1998 and $7.0 million in 1997. Merger integration expense was principally related to the consolidation of the business units and headquarters, plant closings and the formation of the Services Group of the Flow Solutions Division. Merger transaction expense of $11.9 million in 1997 was for severance and other expenses triggered by the merger, and investment banking, legal and other costs required to effect the merger. In 1998, the Company recognized an obligation under an executive employment agreement of $3.8 million recorded in selling and administrative expense. In 1997, the Company sold its Metal Fab subsidiary and realized a pretax gain of $11.4 million. The change in accounting principle resulted in a one-time cumulative net-of-tax benefit of $1.2 million in 1998. The accounting change was due to the required adoption of EITF 97-14, "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested."

Gross profit margin, gross profit as a percentage of sales, declined to 38.3% in 1998 from 39.0% in 1997 and 39.1% in 1996. The lower margin in 1998 was generally related to valve price discounting and a seal product mix change toward lower margin products. These reductions were partly offset by savings related to the Company's merger integration program that reduced cost of sales by approximately $9 million. These factors and lower sales contributed to a decline in gross profit dollars to $415.3 million in 1998 from $448.9 million in 1997 and $428.9 million in 1996.

Selling and administrative expense declined to $265.6 million in 1998 from $285.9 million in 1997 and $283.4 million in 1996. Selling and administrative expense in 1998 included $3.8 million in one-time costs associated with an obligation under an executive employment agreement. As a percentage of sales, selling and administrative expense was 24.5% (24.2% when adjusted for the executive employment agreement) in 1998, compared with 24.8% in 1997 and 25.8% in 1996. Reductions in selling and administrative expense were generally due to savings from merger integration activities of about $12 million and lower sales.

Research, engineering and development expense was $26.4 million in 1998, compared with $26.9 million in 1997 and $24.5 million in 1996. The slight decline in this expense in 1998 was principally due to savings realized from merger integration activities.

Interest expense was $13.2 million in 1998, compared with $13.3 million in 1997 and $12.1 million in 1996. Interest expense in 1998 was essentially the same as the 1997 amount as the additional expense due to increased borrowings throughout the year was offset by lower interest rates on the Company's variable rate debt. The increase in 1997 over 1996 was primarily related to a full year of expense on borrowings entered into during 1996.

The effective tax rate before special items was 34.9% in 1998, compared with 36.9% in 1997 and 34.4% in 1996. The decrease in 1998 was due to the geographic mix of earnings and post-merger restructuring of operations. The effective tax rate after special items in 1998 was the same as the effective tax rate excluding special items. In 1997, the effective tax rate after special items was 42.6% due to the nondeductibility of certain merger transaction expenses, partly offset by certain tax benefits realized from the sale of a subsidiary. The rate in 1996, after special items, was 34.4% due to one-time benefits associated with the restructuring of certain European operations and utilization of tax loss carryforwards.

MERGER INTEGRATION PROGRAM

In 1997, the Company developed a program designed to achieve the synergies planned for the merger of BW/IP and Durco. The program included facility rationalizations in North America and Europe, organizational realignments at the corporate and division levels, procurement initiatives, investments in training and support for service operations. In the fourth quarter of 1997, the Company recognized a one-time restructuring charge of $32.6 million in connection with this program. Other nonrecurring expenses related to the merger were incurred in 1998 and 1997 in order to achieve the planned synergies. These expenses of $38.3 million in 1998 and $7.0 million in 1997 were principally costs for consultants, relocations and training. In 1998, the Company also spent $11.0 million in capital expenditures related to this program.

In 1998, the Company realized approximately $21 million of operating income benefit related to the merger. In the fourth quarter of 1998, the Company realized operating income benefits at a $28 million annualized rate. By 2001, the Company expects to achieve the $45 million to $55 million of annual operating income benefit planned from this program. The benefits result from eliminating cost redundancies, capturing procurement savings and realizing earnings increases from sales synergies.

BUSINESS PROCESS IMPROVEMENT INITIATIVE (FLOWSERVER)

In July 1998, the Company's Board of Directors approved an $18 million expenditure for the first phase of Flowserver, a business process improvement initiative. This program has costs and benefits incremental to the initial merger integration program. The Flowserver initiative includes the standardization of the Company's processes and the implementation of a global information system to facilitate common best practices. The investment in this business process improvement initiative is expected to approximate $120 million over a four-year period. Approximately half of the expenditures associated with this initiative are expected to be capitalized, with the balance expensed. Completion of Flowserver is expected to result in more than $40 million of annual operating income benefit in the first full year following completion of the program and about a $100 million reduction in working capital requirements.

In 1998, the Company incurred costs associated with this project of $5.1 million recorded as merger integration expense and $1.5 million as capital expenditures.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM OPERATIONS
(in millions of dollars)

AFTER SPECIAL ITEMS	SPECIAL ITEMS	TOTAL

1998	$54.1	$ 23.7	$ 77.8
1997	$90.0	$ 25.3	$115.3
1996	$88.4	$ 3.7	$ 92.1

Cash flows from operations and financing available under existing credit agreements are the Company's primary sources of short-term liquidity. Cash flows from operating activities in 1998 decreased to $54.1 million, compared with $90.0 million in 1997 and $88.4 million in 1996. The decrease in cash flows in 1998 was primarily due to cash expended for restructuring and lower operating profits. The increase in 1997 cash flows over 1996 resulted primarily from increased earnings (before the noncash portion of the restructuring reserve).

CAPITAL EXPENDITURES
(in millions of dollars)

1998	$38.2
1997	$39.6
1996	$35.7

Capital expenditures, net of disposals, were $38.2 million in 1998, compared with $39.6 million in 1997 and $35.7 million in 1996. Capital expenditures were funded by operating cash flows. For each of the three years, capital expenditures were invested in machinery and equipment, replacements and upgrades. Capital expenditures in 1998 included about $11.0 million related to the merger integration projects and $1.5 million related to Flowserver. In 1997, the amount increased over 1996 predominately due to investments in low-cost manufacturing facilities in India.

During the second quarter of 1998, the Company initiated a $100 million share repurchase program. In 1998, the Company spent approximately $64.5 million to repurchase approximately 2.8 million, or 7.1%, of its outstanding shares. The Company generally used credit facilities to fund the purchases. The timing of future repurchases depends on market conditions, the market price of Flowserve's common stock and management's assessment of the Company's liquidity and cash flow needs.

The Company has a $150 million revolving credit agreement of which $124 million was utilized at December 31, 1998. The Company also had other short-term credit facilities under which $55.0 million was available for borrowing. At December 31, 1998, total debt was 37.2% of the Company's capital structure, compared with 27.1% at December 31, 1997. The ratio increased as planned due to the share repurchase program. The interest coverage ratio of the Company's indebtedness was 6.6 times interest at December 31, 1998, compared with 7.8 times interest at December 31, 1997.

The Company believes that internally generated funds, together with access to external capital resources, will be sufficient to satisfy existing commitments and plans, and to provide adequate financial flexibility to take advantage of potential strategic business opportunities should they arise.

The return on average net assets based on results for 1998, before special items, was 12.6%, compared with 13.7% for 1997. The decline is due to the lower earnings discussed previously. Including the impact of special items, the return on average net assets was 8.6% for 1998, compared with 9.0% for 1997. The return on average shareholders' equity, before special items, was 20.0% in 1998, compared with 20.4% in 1997. Return on shareholders' equity, including special items, was 13.1% for 1998 and 13.0% for 1997.

Acquisitions are an important part of the Company's strategy to increase its earnings and build shareholder value. Accordingly, in 1998 the Company acquired 100% of its joint venture in Singapore (previously 51% owned by the Company), acquired certain assets and liabilities related to the business of two licensees located in the United Kingdom and Australia and acquired the outstanding shares of a valve-repair organization with operations in Belgium and the Netherlands. Payments for acquisitions, net of cash acquired, were $20.0 million in 1998.

Inflation during the past three years had little impact on the Company's consolidated financial performance. Foreign currency translation had the effect of reducing the Company's sales and earnings by 2% in 1998 and 4% in 1997.

MARKET RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Company has certain market-sensitive financial instruments, including long-term debt and investments in foreign subsidiaries. To evaluate the risks associated with these instruments, the Company considered the impact of unfavorable changes in the rates or values of these instruments as of December 31, 1998. The market changes, assumed to occur as of December 31, 1998, to measure potential risk, are a 100 basis-point increase in market interest rates, a 10% adverse change in all foreign currency exchange rates and a 10% decline in the value of the Company's net investment in foreign subsidiaries.

The Company considered the impact of a 100 basis-point increase in interest rates and determined such an increase would not materially affect the Company's earnings.

The Company employs a foreign currency hedging strategy to minimize potential losses in earnings or cash flows from unfavorable foreign currency exchange rate movements. Foreign currency exposures arise from transactions, including firm commitments and anticipated transactions, denominated in a currency other than an entity's functional currency and from foreign denominated revenues and profits translated back into U.S. dollars. The primary currencies to which the Company has exposures are the German mark, British pound, Dutch guilder and other European currencies; the Canadian dollar; the Mexican peso; the Japanese yen; the Singapore dollar; and, the Australian dollar.

Exposures are hedged primarily with foreign currency forward contracts that generally have maturity dates less than one year. Company policy allows foreign currency coverage only for identifiable foreign currency exposures and, therefore, the Company does not enter into foreign currency contracts for trading purposes where the objective is to generate profits. The potential loss in fair value at December 31, 1998, based on year-end positions of outstanding foreign currency contracts resulting from a hypothetical 10% adverse change in all foreign currency exchange rates would not be material. The potential loss would exclude hedges of existing balance sheet exposures. The losses in these contracts would be offset by exchange gains in the underlying net monetary exposures for which the contracts are designated as hedges.

The Company generally views its investments in foreign subsidiaries from a long-term perspective and, therefore, does not generally hedge these investments. The Company uses capital structuring techniques to manage its investment in foreign subsidiaries as deemed necessary. The Company's net investment in foreign subsidiaries and affiliates, translated into U.S. dollars using year-end exchange rates, was $106.4 million at December 31,1998. A potential loss in value of the Company's net investment in foreign subsidiaries resulting from a hypothetical 10% adverse change in quoted foreign exchange rates at the end of 1998 would approximate $10.6 million.

EURO CONVERSION

On January 1, 1999, 11 European Union member states (Germany, France, the Netherlands, Austria, Italy, Spain, Finland, Ireland, Belgium, Portugal and Luxembourg) adopted the Euro as their common national currency. Until January 1, 2002, either the Euro or a participating country's national currency will be accepted as legal tender. Beginning on January 1, 2002, Euro-denominated bills and coins will be issued, and by July 1, 2002, only the Euro will be accepted as legal tender. The Company does not expect future balance sheets, statements of earnings or statements of cash flows to be materially impacted by the Euro conversion.

YEAR 2000 COSTS

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer systems that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices or engage in normal business activities.

The Company has assessed how it might be impacted by the Year 2000 issue and has formulated and commenced implementation of a comprehensive plan to address all known aspects of the issue.

The Company's plan encompasses its information systems and production and other equipment that utilize date or time-oriented software or computer chips, products, vendors and customers. The plan is being carried out in four phases: 1) assessment and plan development; 2) remediation; 3) testing; and, 4) implementation. The Company's plan includes the use of independent experts as considered necessary. The Company has engaged independent experts to evaluate its Year 2000 plan and to assist in related issue identification, assessment, remediation and testing efforts.

With regard to information systems, production, and other equipment and products, the Company is 100 percent complete with the assessment and plan development phase. Planned remediation efforts are approximately 80 percent complete. Testing is about 65 percent complete and implementation is about 50 percent complete. The Company expects that efforts in these areas will be substantially complete by July 1999.

The Company also is working with its vendors and customers to ensure Year 2000 compliance throughout its supply chain. The Company developed a questionnaire that is used to survey vendors regarding compliance. In addition, the Company has prepared a standard letter outlining the importance of, and commitment to, resolving the Year 2000 issue in a timely manner, and this letter is used to respond to inquiries from customers. Although the review is continuing, the Company is not currently aware of any vendor or customer circumstances that may have a material adverse impact on the Company. The Company will seek alternative suppliers where circumstances warrant. The Company can provide no assurance that Year 2000 compliance plans will be successfully completed by suppliers and customers in a timely manner.

The Company's preliminary estimate of the total cost for Year 2000 compliance is approximately $7.0 million, of which approximately $5.6 million had been incurred through December 31, 1998. Virtually all of the amounts spent to date relate to the cost to repair or replace software and associated hardware. The Company's cost estimates include the amount specifically related to remedying Year 2000 issues, as well as costs for improved systems that are Year 2000 compliant and would have been acquired in the ordinary course of business, but whose acquisition has been accelerated to ensure compliance by the Year 2000.

Incremental spending in addition to the $7.0 million has not been, and is not expected to be, material because most Year 2000 compliance costs include items that are part of the standard procurement and maintenance of the Company's information systems and production and facilities equipment. Other non-Year 2000 efforts have not been materially delayed or impacted by the Company's Year 2000 initiatives.

The Company has begun, but has not yet completed, a comprehensive analysis of the operational problems and costs (including loss of revenues) that would be likely to result from the failure by the Company and certain third parties to complete efforts necessary to achieve Year 2000 compliance on a timely basis. A contingency plan has not been developed for dealing with the most likely worst-case scenario, as such a scenario has not yet been clearly identified. The Company plans to complete such analysis and contingency planning by April 1999.

The Company believes that the Year 2000 issue will not pose significant operational problems for the Company. However, if all Year 2000 issues are not properly identified, or assessment, remediation and testing are not completed in a timely manner with respect to problems that are identified, there can be no assurance that the Year 2000 issue will not have a material adverse impact on the Company's results of operations or relationships with customers, vendors or others. Additionally, there can be no assurance that the Year 2000 issues of other entities will not have a material adverse impact on the Company's systems or results of operations.

ACCOUNTING DEVELOPMENTS

In 1998, the Company adopted Statement of Financial Accounting Standards, (SFAS) No. 130, "Reporting Comprehensive Income"; SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information"; and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 130 established standards for the presentation and display of comprehensive income. SFAS No. 131 required public enterprises to disclose information about their reporting segments consistent with the way management operates the business. SFAS No. 132 consolidated the disclosures about pensions, settlement and curtailment of pension plans and retirement benefits other than pensions into a single set of requirements. In addition, the Company adopted EITF 97-14, "Accounting for Defined Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested."

In 1998, the Financial Accounting Standards Board also issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard is effective for fiscal periods beginning after June 15, 1999. It establishes accounting and reporting standards for derivative instruments and hedging activities and is not expected to materially impact Flowserve's reported financial position, results of operations or cash flows.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This 1998 Annual Report, including Management's Discussion and Analysis and the Letter to Shareholders, contains various forward-looking statements and includes assumptions about Flowserve's future market conditions, operations and results. These statements are based on current expectations and are subject to significant risks and uncertainties. They are made pursuant to safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Among the many factors that could cause actual results to differ materially from the forward-looking statements are: further changes in the already competitive environment for the Company's products or competitors' responses to Flowserve's strategies; political risks or trade embargoes affecting important country markets; the health of the petroleum, chemical and power industries; economic turmoil in areas outside the United States; continued economic growth within the

United States; unanticipated difficulties or costs or reduction in benefits associated with the implementation of the Company's "Flowserver" business process improvement initiative, including software; the impact of the "Year 2000" computer issue; and the recognition of significant expenses associated with adjustments to realign the combined Company's facilities and other capabilities with its strategic and business conditions. The Company undertakes no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)	Year ended December 31, 1998	1997	1996
Sales	$ 1,083,086	$ 1,152,196	$ 1,097,645
Cost of sales	667,753	703,319	668,718
Gross profit	415,333	448,877	428,927
Selling and administrative expense	265,556	285,890	283,360
Research, engineering and development expense	26,372	26,893	24,522
Restructuring and merger transaction expenses	--	44,531	5,778
Merger integration expense	38,326	6,982	--
Operating income	85,079	84,581	115,267
Interest expense	13,175	13,275	12,144
Other income, net	(1,253)	(7,107)	(5,228)
Gain on sale of subsidiary	--	(11,376)	--
Earnings before income taxes	73,157	89,789	108,351
Provision for income taxes	25,502	38,223	37,254
Earnings before cumulative effect of change in accounting principle	47,655	51,566	71,097
Cumulative effect of change in accounting principle, net	(1,220)	--	--
Net earnings	$ 48,875	$ 51,566	$ 71,097
Earnings per share (diluted and basic)			
Before cumulative effect of change in accounting principle	$ 1.20	$ 1.26	$ 1.72
Cumulative effect of change in accounting principle, net	.03	--	--
Net earnings per share	$ 1.23	$ 1.26	$ 1.72
Average shares outstanding	39,898	40,896	41,363

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)	Year ended December 31, 1998	1997	1996
Net earnings	$48,875	$51,566	$71,097
Other comprehensive expense			
Foreign currency translation adjustments	9,861	24,002	8,918
Nonqualified pension plan adjustment	--	--	229
Other comprehensive expense	9,861	24,002	9,147
Comprehensive income	$39,014	$27,564	$61,950

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share data)	December 31, 1998	December 31, 1997
ASSETS		
Current assets		
Cash and cash equivalents	$ 24,928	$ 58,602
Accounts receivable, net	234,191	234,437
Inventories	199,286	184,944
Prepaids and other current assets	28,885	36,681
Total current assets	487,290	514,664
Property, plant and equipment, net	209,032	209,509
Intangible assets, net	91,384	79,748
Other assets	82,491	76,104
Total assets	$ 870,197	$ 880,025
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 76,745	$ 68,241
Notes payable	3,488	5,644
Income taxes	17,472	15,548
Accrued liabilities	107,028	128,802
Long-term debt due within one year	14,393	12,209
Total current liabilities	219,126	230,444
Long-term debt due after one year	186,292	128,936
Post-retirement benefits and deferred items	120,015	125,372
Commitments and contingencies		
Shareholders' equity		
Serial preferred stock, $1.00 par value, no shares issued	--	--
Common shares, $1.25 par value		
Shares authorized - 120,000		
Shares issued and outstanding - 41,484	51,856	51,856
Capital in excess of par value	70,698	70,655
Retained earnings	353,249	326,681
	475,803	449,192
Treasury stock, at cost - 3,817 and 881 shares	(90,404)	(23,145)
Accumulated other comprehensive expense	(40,635)	(30,774)
Total shareholders' equity	344,764	395,273
Total liabilities and shareholders' equity	$ 870,197	$ 880,025

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	1998		1997		1996	
(Amounts in thousands)	Shares	Amount	Shares	Amount	Shares	Amount
Common shares						
Beginning balance - January 1	41,484	$ 51,856	41,482	$ 51,854	41,320	$ 51,650
Stock activity under stock plans	--	--	2	2	162	204
Ending balance - December 31	41,484	$ 51,856	41,484	$ 51,856	41,482	$ 51,854
Capital in excess of par value						
Beginning balance - January 1		$ 70,655		$ 72,434		$ 70,669
Stock activity under stock plans		43		(1,779)		1,765
Ending balance - December 31		$ 70,698		$ 70,655		$ 72,434
Retained earnings						
Beginning balance - January 1		$ 326,681		$ 298,563		$ 250,762
Stock activity under stock plans		--		3		--
Net earnings		48,875		51,566		71,097
Cash dividends declared		(22,307)		(23,451)		(23,296)
Ending balance - December 31		$ 353,249		$ 326,681		$ 298,563
Treasury stock						
Beginning balance - January 1	(881)	$ (23,145)	(1,081)	$ (27,455)	(8)	$ (210)
Stock activity under stock plans	184	4,782	200	4,310	--	--
Treasury stock repurchases	(2,841)	(64,508)	--	--	(1,073)	(27,245)
Rabbi Trust adjustment	(279)	(7,533)	--	--	--	--
Ending balance - December 31	(3,817)	$ (90,404)	(881)	$ (23,145)	(1,081)	$ (27,455)
Accumulated other comprehensive expense						
Beginning balance - January 1		$ (30,774)		$ (6,772)		$ 2,375
Foreign currency translation adjustment		(9,861)		(24,002)		(8,918)
Nonqualified pension plan adjustment		--		--		(229)
Ending balance - December 31		$ (40,635)		$ (30,774)		$ (6,772)
Total Shareholders' Equity						
Beginning balance - January 1	40,603	$ 395,273	40,401	$ 388,624	41,312	$ 375,246
Net changes in shareholders' equity	(2,936)	(50,509)	202	6,649	(911)	13,378
Ending balance - December 31	37,667	$ 344,764	40,603	$ 395,273	40,401	$ 388,624

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
(Amounts in thousands)	1998	1997	1996
Cash flows - Operating activities:			
Net earnings	$ 48,875	$ 51,566	$ 71,097
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	35,110	35,277	33,452
Amortization	4,189	3,656	3,213
Gain on sale of subsidiary, net of income taxes	--	(7,417)	--
Loss on the sale of fixed assets	57	33	551
Cumulative effect of change in accounting principle	(1,220)	--	--
Change in assets and liabilities, net of effects of acquisitions and dispositions:			
Accounts receivable	3,015	(18,401)	(8,645)
Inventories	(11,507)	(9,943)	(1,565)
Prepaid expenses	8,718	(10,287)	(1,014)
Other assets	(11,066)	(13,232)	103
Accounts payable	5,654	1,574	(7,239)
Accrued liabilities	(25,848)	48,806	(5,677)
Income taxes	1,051	(2,005)	147
Post-retirement benefits and deferred items	(3,709)	13,195	5,855
Net deferred taxes	1,033	(1,477)	1,901
Other	(248)	(1,342)	(3,824)
Net cash provided by operating activities	54,104	90,003	88,355
Cash flows - Investing activities:			
Capital expenditures, net of disposals	(38,249)	(39,560)	(35,691)
Payments for acquisitions, net of cash acquired	(19,951)	(10,461)	(13,240)
Proceeds from sale of subsidiary	--	18,793	--
Other	(427)	1,777	(258)
Net cash flows used by investing activities	(58,627)	(29,451)	(49,189)

Cash flows - Financing activities:			
Net repayments under lines of credit	(2,314)	576	(12,720)
Payments on long-term debt	(20,212)	(15,760)	(71)
Proceeds from long-term debt	76,950	929	36,296
Repurchase of common stock	(64,508)	--	(27,838)
Proceeds from issuance of common stock	4,764	2,584	2,467
Dividends paid	(22,307)	(26,121)	(23,296)
Net cash flows used by financing activities	(27,627)	(37,792)	(25,162)
Effect of exchange rate changes	(1,524)	(3,091)	(3,667)
Net change in cash and cash equivalents	(33,674)	19,669	10,337
Cash and cash equivalents at beginning of year	58,602	38,933	28,596
Cash and cash equivalents at end of year	$ 24,928	$ 58,602	$ 38,933
Taxes paid	$ 23,579	$ 27,636	$ 31,493
Interest paid	$ 11,190	$ 13,420	$ 12,269

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands, except per share data)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries. Intercompany profits, transactions and balances have been eliminated. Investments in unconsolidated affiliated companies, which represent all nonmajority ownership interests, are carried on the equity basis, which approximates the Company's equity interest in their underlying net book value.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

BASIS OF COMPARISON

Certain amounts in 1997 and 1996 have been reclassified to conform with the 1998 presentation.

BUSINESS COMBINATIONS

Business combinations accounted for under the pooling of interests method of accounting combine the assets, liabilities and shareholders' equity of the acquired entity with the Company's respective accounts at recorded values. Prior-period financial statements have been restated to give effect to the transactions as if they had occurred at the beginning of all periods presented.

Business combinations accounted for under the purchase method of accounting include the results of operations of the acquired business from the date of acquisition. Net assets of the companies acquired are recorded at their fair value to the Company at the date of acquisition and any excess of purchase price over fair value is recorded as goodwill.

REVENUE RECOGNITION

Revenues and costs are generally recognized as units are shipped. Revenue for certain longer-term contracts is recognized based on the percentage of completion. Progress billings are generally shown as a reduction of inventory unless such billings are in excess of accumulated costs, in which case such balances are included in accrued liabilities.

SHORT-TERM INVESTMENTS AND CREDIT RISK

The Company places its temporary cash investments with financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. These investments, with an original maturity of three months or less when purchased, are classified as cash equivalents. They are highly liquid with principal values not subject to significant risk of change due to interest rate fluctuations. Credit risk related to accounts receivable is also limited due to the large number of customers in the Company's customer base, the Company's diverse product line and the dispersion of the Company's customers across many geographic regions. As of December 31, 1998, the Company does not believe that it had significant concentrations of credit risk.

ACCOUNTS RECEIVABLE

Accounts receivable are stated net of the allowance for doubtful accounts of $4,533 and $5,059 at December 31, 1998 and 1997, respectively.

INVENTORIES

Inventories are stated at lower of cost or market. Cost is determined for certain inventories by the last-in, first-out (LIFO) method and for other inventories by the first-in, first-out (FIFO) method.

PROPERTY, PLANT AND EQUIPMENT, AND DEPRECIATION

Property, plant and equipment are stated on the basis of cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the depreciable assets for financial statement purposes and by accelerated methods for income tax purposes. The estimated useful lives of the assets are:

Buildings, improvements, furniture and fixtures	5 to 35 years
Machinery and equipment	3 to 12 years
Capital leases	5 to 25 years

INTANGIBLES

The excess cost over the fair value of net assets acquired (goodwill) is amortized on a straight-line basis over 15 to 40 years. The carrying value of goodwill is reviewed as the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of the goodwill will be adjusted accordingly. Intangibles are stated net of accumulated amortization of $6,426 and $5,266 as of December 31, 1998 and 1997, respectively.

HEDGING/FORWARD CONTRACTS

The Company is party to forward contracts for purposes of hedging certain transactions denominated in foreign currencies. The Company has a risk-management and derivatives policy statement outlining the conditions in which the Company can enter into hedging or forward transactions. Gains and losses on forward contracts qualifying as hedges are deferred and included in the measurement of the related foreign currency transaction. Gains and losses on hedges of existing assets or liabilities are included in the carrying amounts of those assets or liabilities and are ultimately recognized in income as part of those carrying amounts. Gains and losses related to hedges of anticipated transactions are recognized in income as the transactions occur. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it expects all counterparties to meet their obligations given their high credit ratings. As of December 31, 1998, the Company had no significant outstanding hedges or forward contracts with third parties. The carrying amounts of the financial instruments (primarily accounts receivable and long-term debt), approximate fair value as defined under Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosures about Fair Value of Financial Instruments." Fair value is estimated by reference to quoted prices by financial institutions.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's foreign affiliates, other than those located in highly inflationary countries, are translated at current exchange rates, while income and expenses are translated at average rates for the period. For entities in highly inflationary countries, a combination of current and historical rates is used to determine currency gains and losses resulting from financial-statement translation and those resulting from transactions. Translation gains and losses are reported as a component of shareholders' equity, except for those associated with highly inflationary countries, which are reported directly in the consolidated statements of income.

ACCOUNTING DEVELOPMENTS

In 1998, the Company adopted Statement of Financial Accounting Standards, (SFAS) No. 130, "Reporting Comprehensive Income"; SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information"; and SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 130 established standards for the presentation and display of comprehensive income. SFAS No. 131 required public enterprises to disclose information about their reporting segments consistent with the way management operates the business. SFAS No. 132 consolidated the disclosures about pensions, settlement and curtailment of pension plans and retirement benefits other than pensions into a single set of requirements. In addition, the Company adopted EITF 97-14, "Accounting for Defined Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested."

In 1998, the Financial Accounting Standards Board also issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard is effective for fiscal periods beginning after June 15, 1999. It establishes accounting and reporting standards for derivative instruments and hedging activities and is not expected to materially impact Flowserve's reported financial position, results of operations or cash flows.

EARNINGS PER SHARE

In 1997, the Company adopted SFAS No. 128, "Earnings Per Share," that established standards for computing and presenting earnings per share. SFAS 128 requires dual presentation of basic and diluted earnings per share on the face of the income statement and requires a reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation. The Company's potentially dilutive common stock equivalents have been immaterial for all periods presented. Accordingly, basic earnings per share is equal to diluted earnings per share and is presented on the same line for income statement presentation.

INCOME TAXES

The Company accounts for income taxes under the asset and liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

STOCK-BASED COMPENSATION

The Company follows Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and related interpretations in accounting for its employee stock options. Under APB No. 25, no compensation expense is recorded if the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant. Accordingly, the Company has no compensation expense recorded.

NOTE 2: MERGER

On July 22, 1997, shareholders of Durco International Inc. (Durco) and BW/IP, Inc. (BW/IP) voted to approve a merger of the companies in a stock-for-stock merger of equals that was accounted for as a pooling of interests transaction (the merger). As part of the merger agreement, the Company changed its name from Durco to Flowserve Corporation. The Company issued approximately 16,914,000 shares of common stock in connection with the merger. BW/IP shareholders received 0.6968 shares of the Company's common stock for each previously owned share of BW/IP stock.

The consolidated financial statements, including the accompanying notes thereto, have been restated for all periods prior to the merger to include the financial position, results of operations, and cash flows of BW/IP and Durco as if the merger had occurred at the beginning of all periods presented.

In connection with the merger, the Company recorded a one-time charge of $11,900 for merger-related expenses in 1997. These expenses included severance and other expenses triggered by the merger and investment banking fees, legal fees and other costs related to the merger, which were primarily nondeductible for tax purposes.

In 1997, the Company developed a merger integration program that includes facility rationalizations in North America and Europe, organizational realignments at the corporate and division levels, procurement initiatives, investments in training and support for the service operations. In the fourth quarter of 1997, the Company recognized a one-time restructuring charge of $32,600 related to this program. Other nonrecurring expenses related to the merger (merger integration expense) were incurred in 1998 and 1997 in order to achieve the planned synergies. These expenses of $38,300 in 1998 and $7,000 in 1997 were principally for costs for consultants, relocation and training. In 1998, the Company also spent $11,000 in capital expenditures related to this program.

Merger-related transactions were:

Year ended December 31,	1998	1997
Integration expense	$38,300	$ 7,000
Restructuring expense	--	32,600
Transaction expense	--	11,900
Capital expenditures	11,000	--

Through December 31, 1998, the Company paid severance relating to approximately 275 employees.

Expenditures charged to the restructuring reserve were:

	Severance	Other Exit Costs	Total
Balance at October 27, 1997	$ 22,400	$ 10,200	$ 32,600
Cash expenditures	(3,400)	(500)	(3,900)
Noncash expenditures	--	(1,200)	(1,200)
Balance at December 31, 1997	19,000	8,500	27,500
Cash expenditures	(16,300)	(3,100)	(19,400)
Noncash expenditures	--	(5,400)	(5,400)
Balance at December 31, 1998	$ 2,700	$ --	$ 2,700

In July 1998, the Company's Board of Directors approved an $18 million expenditure for the first phase of "Flowserver." This business process improvement program has costs and benefits incremental to the initial merger integration program. Flowserver includes the standardization of the Company's processes and the implementation of a global information system to facilitate common best practices. The investment in this business process improvement initiative is expected to approximate $120 million over a four-year period. Approximately half of the costs associated with this program are expected to be capitalized, with the balance expensed.

In 1998, the Company incurred costs associated with this project of $5.1 million recorded as merger integration expense and $1.5 million as capital expenditures.

NOTE 3: ACQUISITIONS AND DISPOSITIONS

In July 1998, the Company purchased certain assets and liabilities of the Valtek Engineering Division of Allen Power Engineering, Limited, from Rolls-Royce plc. The Valtek Engineering Division was the British licensee for many of Flowserve's control valve products, with exclusive territorial rights for portions of Europe, the Middle East and Africa since 1971.

In September 1998, the Company acquired the remaining 49% ownership interest in Durametallic Asia Pte. Ltd., a fluid sealing manufacturer in Singapore, from its joint-venture partner. Also in 1998, the Company acquired the outstanding shares of ARS Lokeren NV, a Belgian company, and ZAR Beheer BV, a Dutch company, which specialize in the service and repair of industrial valves, with service and repair facilities near Rotterdam, the Netherlands, and Ghent and Antwerp, Belgium.

In 1997, the Company purchased the 49% remaining shares of its joint venture in Argentina, Byron Jackson Argentina I.C.S.A., and purchased the engineered pump business of Stork Pompen, B.V. In 1996, the Company acquired certain assets and liabilities of Anchor/Darling Valves.

The Company sold its wholly owned subsidiary, Metal Fab Machine Corporation, for $18,793 in December 1997, and realized a pretax gain of $11,376. In addition, in 1997, the Company sold its Filtration Systems Division.

NOTE 4: STOCK PLANS

The Company maintains a shareholder-approved stock option plan, which provides for the grant of 1,500,000 options to purchase shares of the Company's common stock. At December 31, 1998, approximately 439,000 options were available for grant. Options have been granted to officers and employees to purchase shares of common stock at a price equal to fair market value at the date of grant. Generally, these options, whether granted from the current or prior plans, become exercisable over staggered periods, but may not be exercised after 10 years from the date of the grant. The aggregate number of shares exercisable was 1,703,171 at December 31, 1998; 1,707,677 at December 31, 1997; and 915,509 at December 31, 1996.

Stock options issued to officers and other employees were:

	1998		1997		1996	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Number of shares under option:						
Outstanding at beginning of year	2,246,557	$ 25.05	1,842,239	$ 22.83	1,558,119	$ 20.98
Granted	794,240	18.50	690,270	26.53	433,591	24.85
Exercised	(167,867)	20.32	(285,952)	14.30	(149,471)	9.37
Cancelled	(41,316)	25.80	--	--	--	--
Outstanding at end of year	2,831,614	$ 23.49	2,246,557	$ 25.05	1,842,239	$ 22.83

The weighted average contractual life of options outstanding is 8.6 years. Additional information relating to the range of options outstanding at December 31, 1998, is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share	Weighted Average Remaining Contractual Life	Number Outstanding	Weighted Average Exercise Price Per Share	Number Exercisable at December 31, 1998	Weighted Average Exercise Price Per Share
$ 5.95 - $11.76	2.4	49,205	$ 8.57	49,205	$ 8.57
$11.76 - $27.44	7.3	2,001,860	$20.76	1,103,757	$21.99
$27.44 - $39.20	6.5	780,549	$31.43	550,209	$32.05
		2,831,614		1,703,171	

Pro forma information regarding net earnings and earnings per share is required by SFAS No. 123, which also requires that the information be determined as if the Company had accounted for its stock options granted subsequent to December 31, 1994, under the fair value method of that Statement. The "fair value" for these options at the date of grant was estimated using a binomial option pricing model (a modified Black-Scholes model). The assumptions used in this valuation are as follows:

Year ended December 31,	1998	1997	1996
Risk-free interest rate	5.6%	5.5%	6.2%
Dividend yield	3.3%	2.0%	2.1%
Stock volatility	34.1%	35.5%	36.6%
Average expected life (years)	8.6	8.1	6.7

The options granted had a weighted average "fair value" per share on date of grant of $6.14 in 1998, $10.69 in 1997 and $10.42 in 1996. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the options vesting periods. The Company's pro forma information is as follows:

Year ended December 31,	1998	1997	1996
Net earnings			
As reported	$ 48,875	$ 51,566	$ 71,097
Pro forma	47,030	48,224	69,156
Earnings per share (diluted and basic)			
As reported	$ 1.23	$ 1.26	$ 1.72
Pro forma	1.18	1.18	1.67

Because the determination of the fair value of all options granted includes an expected volatility factor and because additional option grants are expected to be made each year, the above pro forma disclosures are not representative of pro forma effects for future years.

The restricted stock plan approved by shareholders in 1998 authorized the grant of up to 800,000 shares of the Company's common stock. The 1989 restricted stock plan, which expired following the 1998 annual meeting of shareholders, authorized the grant of up to 337,500 shares of the Company's common stock. In general, the shares cannot be transferred for a period of at least one but not more than 10 years and are subject to forfeiture during the restriction period. The fair value of the shares is amortized to compensation expense over the periods in which the restrictions lapse. Restricted stock grants were 10,165 shares in 1998, 21,700 shares in 1997 and 29,900 shares in 1996. The weighted average fair value of the restricted stock grants at date of grant was $24.07 in 1998, $27.73 in 1997 and $25.84 in 1996. Total compensation expense recognized in the income statement for all stock-based awards was $485 in 1998, $510 in 1997 and $584 in 1996.

NOTE 5: DETAILS OF CERTAIN CONSOLIDATED BALANCE SHEET CAPTIONS

INVENTORIES

Inventories and the method of determining cost were:

December 31,	1998	1997
Raw materials	$ 26,088	$ 18,082
Work in process and finished goods	226,843	216,377
Less: Progress billings	(15,024)	(10,903)
	237,907	223,556
LIFO reserve	(38,621)	(38,612)
Net inventory	$ 199,286	$ 184,944
Percent of inventory accounted for by LIFO	61%	43%
Percent of inventory accounted for by FIFO	39%	57%

The percentage of inventory accounted for by the last-in first-out (LIFO) method increased in 1998 as the U.S. operations of the former BW/IP changed its method of accounting for inventories to LIFO during the year. Because the December 31, 1997, BW/IP inventory valued at FIFO is the opening LIFO inventory, there is neither a cumulative effect to January 1, 1998, nor pro forma amounts of retroactively applying the change to LIFO. The effect of the change in 1998 was not significant.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment were:

December 31,	1998	1997
Land	$ 17,856	$ 18,703
Buildings, improvements, furniture and fixtures	179,588	151,004
Machinery, equipment, capital leases and construction in progress	290,730	291,559
	488,174	461,266
Less: Accumulated depreciation	(279,142)	(251,757)
Net property, plant and equipment	$ 209,032	$ 209,509

OTHER ASSETS

Other assets were:

December 31,	1998	1997
Pension assets	$ 11,461	$ 8,695
Deferred tax assets	22,098	25,903
Deferred compensation funding	10,408	9,299
Investments in unconsolidated affiliates	5,331	3,844
Patents and other intangibles	8,491	4,431
Long-term notes receivable	2,914	3,363
Other	21,788	20,569
Total	$ 82,491	$ 76,104

ACCRUED LIABILITIES

Accrued liabilities were:

December 31,	1998	1997

Wages and other compensation	$ 62,249	$ 66,208
Accrued restructuring, current portion	2,730	18,048
Accrued commissions and royalties	7,494	3,386
Other	34,555	41,160
Total	$107,028	$128,802

POST-RETIREMENT BENEFITS AND DEFERRED ITEMS

Post-retirement benefits and deferred items were:

December 31,	1998	1997
Post-retirement benefits	$ 64,311	$ 65,028
Deferred compensation	13,231	8,246
Deferred taxes	16,977	15,946
Other	25,496	36,152
Total	$120,015	$125,372

NOTE 6: DEBT AND LEASE OBLIGATIONS

Long-term debt, including capital lease obligations, consisted of:

December 31,	1998	1997
Senior Notes, interest of 7.14% to 7.92%	$ 58,333	$ 66,667
Revolving credit agreement, interest at 5.5% in 1998 and 7.04% in 1997	124,000	50,000
Loan, due annually through 2002, interest at 8.94%	12,321	14,438
Floating rate revolving notes	--	5,952
Credit agreements, average interest rate 6.2% in 1998 and 6.0% in 1997	2,935	678
Capital lease obligations and other	3,096	3,410
	200,685	141,145
Less amounts due within one year	14,393	12,209
Total long-term debt	$186,292	$128,936

Maturities of long-term debt, including capital lease obligations, for the next five years are:

1999	$ 14,393
2000	3,125
2001	3,125
2002	8,946

2003	10,000
Thereafter	161,096

Total	$200,685
	========

In 1997, the Company entered into a $150,000 revolving credit agreement with the option to increase borrowings up to $200,000. As of December 31, 1998, $124,000 was outstanding. The Company has an interest-rate swap that fixes $50,000 usage of the revolving credit facility at 6.74%.

In connection with a German acquisition, the Company converted a deutsche-mark obligation through a currency swap agreement against its U.S. dollar private placement to fund the acquisition. The effective rate on the loan swap was 8.94%. The maturity and repayment terms of the swap match precisely the maturity and repayment term of the underlying debt.

In 1992, the Company issued $50,000 Senior Notes requiring annual payments of $8,333 through 1999, bearing interest at 7.92%, of which $8,333 was outstanding at December 31, 1998. In 1996, the Company issued $30,000 Senior Notes requiring annual principal payments of $6,000 commencing in 2002, bearing interest of 7.14%. In 1997, the Company issued $20,000 in Senior Notes, bearing interest of 7.17% with principal payments of $4,000 due annually, commencing in 2003.

The provisions of the credit agreements require the Company to meet or exceed specified financial covenants that are defined in the agreements. The agreements also contain limitations or restrictions relating to new indebtedness and liens, disposition of assets and payment of dividends or other distributions. All such covenants were met in each of the years presented. The most restrictive of these include a debt-to-capital ratio and a minimum tangible net worth requirement.

As of December 31, 1998, the Company had $9,897 of contingent obligations relating to bank guarantees and performance bonds outstanding.

At December 31, 1998 and 1997, the Company had short-term credit facilities available from banks under which it could borrow at local market rates up to $58,500 and $61,521, respectively. These facilities are presented as notes payable on the Company's consolidated balance sheets. Under these facilities, the Company had borrowings outstanding of $3,488 at December 31, 1998, and $5,644 at December 31, 1997. The weighted average interest rate on these borrowings was 6.0% at December 31, 1998, and was 4.8% at December 31, 1997. Borrowings against these facilities were primarily to support the operations of foreign subsidiaries.

The Company has noncancelable operating leases for certain offices, service and quick response centers, certain manufacturing and operations facilities, and machinery, equipment and automobiles. Rental expense relating to operating leases was $11,798 in 1998, $15,000 in 1997 and $15,100 in 1996.

The future minimum lease payments under noncancelable operating leases are:

1999	$10,345
2000	7,520
2001	5,480
2002	2,524

2003	1,940
Thereafter	3,778
Total	$31,587

NOTE 7: DEFERRED COMPENSATION - RABBI TRUST

In September 1998, the Company adopted the provisions of EITF No. 97-14 "Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested." This standard established new guidelines for deferred compensation arrangements where amounts earned by an employee are invested in the employer's stock that is placed in a Rabbi Trust. The EITF requires that the Company's stock held in the trust be recorded at historical cost, the corresponding deferred compensation liability recorded at the current fair value of the Company's stock and the stock held in the Rabbi Trust classified as treasury stock. The difference between the historical cost of the stock and the fair value of the liability at September 30, 1998, has been recorded as a cumulative effect of a change in accounting principle of $1,220, net of tax. Prior-year financial statements have not been restated to reflect the change in accounting principle. The effect of the change on 1997 income before the cumulative effect would have been a reduction of $490. The effect of the change on 1996 income would not have been material.

NOTE 8: RETIREMENT BENEFITS

The Company sponsors several noncontributory defined benefit pension plans, covering approximately 60% of U.S. employees, which provide benefits based on years of service and compensation. Retirement benefits for all other employees are provided through defined contribution pension plans and government-sponsored retirement programs. All defined benefit pension plans are funded 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.

Net defined benefit pension expense (including both qualified and nonqualified plans) was:

Year ended December 31,	1998	1997	1996
Service cost-benefits earned during the period	$ 6,411	$ 5,627	$ 5,481
Interest cost on projected benefit obligations	14,704	13,931	13,179
Expected gain on plan assets	(18,086)	(16,284)	(21,908)
Unrecognized prior service cost	537	(427)	7,001
Unrecognized net (asset) obligation	(499)	576	(541)
Net defined benefit pension expense	$ 3,067	$ 3,423	$ 3,212

The following table reconciles the plans' funded status to amounts recognized in the Company's consolidated balance sheets:

December 31,	1998	1997
Projected benefit obligations	$ 226,463	$ 210,878
Plan assets, at fair value	225,260	219,860
Plan assets (less than) in excess of projected benefit obligations	(1,203)	8,982
Unrecognized net transition asset	(942)	(1,735)
Unrecognized net gain	(622)	(10,047)
Unrecognized prior service benefit	2,612	2,932
Net pension (liability) asset	$ (155)	$ 132
Discount rate	6.75%	7.25%
Rate of increase in compensation levels	4.0%-8.0%	4.0%-8.0%
Long-term rate of return on assets	9.5%	8.0%-10.0%

Following is a reconciliation of the defined benefit pension obligations:

December 31,	1998	1997
Beginning benefit obligation	$ 210,878	$ 183,220
Service cost	6,410	6,156
Interest cost	14,704	13,766
Plan amendments	--	607
Actuarial loss	7,726	19,784
Benefits paid	(13,154)	(12,383)
Curtailments	(101)	(272)
Ending benefit obligation	$ 226,463	$ 210,878

Following is a reconciliation of the defined benefit pension assets:

December 31,	1998	1997
Beginning plan assets	$ 219,860	$ 197,523
Return on plan assets	18,093	34,282
Company contributions	462	438
Benefits paid	(13,155)	(12,383)
Ending plan assets	$ 225,260	$ 219,860

The Company sponsors several defined contribution pension plans covering substantially all U.S. and Canadian employees and certain other foreign employees. Employees may contribute to these plans, and these contributions are matched in varying amounts by the Company. The Company may also make additional contributions for eligible employees. Defined contribution pension expense for the Company was $7,309 in 1998, $7,733 in 1997 and $6,903 in 1996.

The Company also sponsors several defined benefit post-retirement health care plans covering approximately 77% of future retirees and most current retirees in the United States. These plans are for medical and dental benefits and are provided 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. The plans are funded as insured benefits and health maintenance organization premiums are incurred.

Net post-retirement benefit expense comprised:

Year ended December 31,	1998	1997	1996
Service cost - benefits earned during the period	$ 882	$ 916	$ 843
Interest cost on accumulated post-retirement benefit obligations	3,749	3,652	3,556
Amortization of unrecognized prior service cost	(1,497)	(2,012)	(1,613)
Net post-retirement benefit expense	$ 3,134	$ 2,556	$ 2,786

Following is a reconciliation of the accumulated post-retirement benefits obligations:

December 31,	1998	1997
Beginning accumulated post-retirement benefit obligation	$ 53,072	$ 49,703
Service cost	882	916
Interest cost	3,749	3,652
Actuarial loss	3,460	1,977
Benefits paid	(3,850)	(3,176)
Ending accumulated post-retirement benefit obligation	$ 57,313	$ 53,072

The following table presents the components of post-retirement benefit amounts recognized in the Company's consolidated balance sheet:

December 31,	1998	1997
Actuarial present value of accumulated		

post-retirement benefit obligations:	$ 57,313	$ 53,072
Unrecognized prior service benefit	7,369	8,866
Unrecognized net (loss) gain	(371)	3,090
Accrued post-retirement benefits	$ 64,311	$ 65,028
Discount rate	6.75%	7.25%

The assumed annual rates of increase in per capita costs for periods prior to Medicare were 8.0% for 1998 with a gradual decrease to 6.0% for 2002 and future years, and for periods after Medicare, 6.0% for 1998 with a gradual decrease to 5.0% for 2000 and future years.

Increasing the assumed rate of increase in post-retirement benefit costs by 1.0% in each year would increase net post-retirement benefit expense by approximately $297 and accumulated post-retirement benefit obligations by $3,689. Reducing the assumed rate of decrease in post-retirement benefit costs by 1.0% in each year would reduce net post-retirement benefit expense by approximately $273 and accumulated benefit obligations by $3,553. The Company made contributions to the defined benefit post-retirement plan of $3,849 in 1998 and $3,176 in 1997.

NOTE 9: CONTINGENCIES

As of December 31, 1998, the Company was involved as a "potentially responsible party" (PRP) at six former public waste disposal sites that may be subject to remediation under pending government procedures. The sites are in various stages of evaluation by federal and state environmental authorities. The projected cost of remediating these sites, as well as the Company's alleged "fair share" allocation, is uncertain and speculative 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 been similarly identified, and the identification and location of additional parties is continuing under applicable federal or state law. 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 the Company's preliminary information about the waste disposal practices at these sites and the environmental regulatory process in general, the Company believes 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.

The Company is a defendant in numerous pending lawsuits (which include, in many cases, multiple claimants) that seek to recover damages for personal injury allegedly resulting from exposure to asbestos-containing products formerly manufactured and distributed by the Company. All such products were used within self-contained process equipment, and management does not believe that there was any emission of ambient asbestos fiber during the use of this equipment.

The Company is also a defendant in several other products liability lawsuits that are insured, subject to the applicable deductibles, and certain other noninsured lawsuits received in the ordinary course of business. Management believes that the Company has adequately accrued estimated losses for such lawsuits. No insurance recovery has been projected for any of the insured claims, because management currently believes that all will be resolved within applicable deductibles. The Company is also a party to other noninsured litigation that is incidental to its business, and, in management's opinion, will be resolved without a material impact on the Company's financial statements.

Although none of the aforementioned gives rise to any additional liability that can now be reasonably estimated, the Company believes such costs will be immaterial. The Company will continue to evaluate these contingent loss exposures and, if they develop, recognize expense as soon as such losses can be reasonably estimated.

NOTE 10: SHAREHOLDERS' EQUITY

In 1997, the Company increased its authorized $1.25 par value common stock from 60,000,000 to 120,000,000 shares. The authorized shares were increased in connection with the merger of Durco and BW/IP resulting in the formation of Flowserve Corporation. At both December 31, 1998 and 1997, the Company had authorized 1,000,000 shares of $1.00 par value preferred stock.

Each share of the Company's common stock contains a preferred stock purchase right. These rights are not currently exercisable and trade in tandem with the common stock. The rights become exercisable and trade separately in the event of certain significant changes in common stock ownership or on the commencement of certain tender offers that, in either case, may lead to a change of control of the Company. Upon becoming exercisable, the rights provide shareholders the opportunity to acquire a new series of Company preferred stock to be then automatically issued at a pre-established price. In the event of certain forms of acquisition of the Company, the rights also provide Company shareholders the opportunity to purchase shares of the acquiring company's common stock from the acquirer at a 50% discount from the current market value. The rights are redeemable for $0.022 per right by the Company at any time prior to becoming exercisable and will expire in August 2006.

At December 31, 1998, approximately 3,511,000 shares of common stock were reserved for exercise of stock options and for grants of restricted stock.

NOTE 11: INCOME TAXES

The provision for taxes on income consisted of the following:

Year ended December 31,	1998	1997	1996
Current:			
U.S. federal	$ 1,226	$ 30,461	$ 15,009
Non-U.S.	13,798	17,752	15,643
State and local	438	5,485	4,127
Total current	15,462	53,698	34,779
Deferred:			
U.S. federal	7,915	(15,585)	3,446
Non-U.S.	1,409	1,012	(895)
State and local	716	(902)	(76)
Total deferred	10,040	(15,475)	2,475
Total provision	$ 25,502	$ 38,223	$ 37,254

The provision for taxes on income differed from the U.S. federal statutory tax rate due to the following:

Year ended December 31,	1998	1997	1996

U.S. federal income tax rate	35.0%	35.0%	35.0%
Non-U.S. tax rate differential and utilization of operating loss carryforwards	2.6	2.2	(0.5)
Merger transaction expenses	--	3.7	--
State and local income taxes, net	1.4	3.2	2.4
Utilization of tax credits	(1.5)	(2.7)	(1.4)
Foreign sales corporation	(2.6)	(1.8)	(1.0)
Other net	--	3.0	(0.1)
Effective tax rate	34.9%	42.6%	34.4%

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 Company's consolidated deferred tax assets and liabilities were:

December 31,	1998	1997
Deferred tax assets related to:		
Post-retirement benefits	$ 17,556	$ 24,824
Net operating loss carryforwards	11,553	7,370
Compensation accruals	8,131	9,849
Inventories	7,892	1,278
Credit carryforwards	3,679	614
Loss on dispositions	2,462	2,437
Warranty and accrued liabilities	1,258	4,666
Restructuring charge	988	9,413
Other	9,914	6,135
Total deferred tax assets	63,433	66,586
Less valuation allowances	8,655	9,007
Net deferred tax assets	54,778	57,579
Deferred tax liabilities related to:		
Property, plant and equipment	13,563	13,511
Goodwill	12,225	5,071
Pension benefits	--	2,444
Other	5,376	3,692
Total deferred tax liabilities	31,164	24,718
Deferred tax assets, net	$ 23,614	$ 32,861

The Company has recorded valuation allowances to reflect the estimated amount of deferred tax assets that may not be realized due to the expiration of net operating loss and foreign tax credit carryforwards. The net changes in the valuation allowances were attributable to utilization and expiration of net operating loss carryforwards partially offset by an increase in expected nonutilization of net operating loss and credit carryforwards. The Company had approximately $26,400 of net operating loss carryforwards at December 31, 1998, the majority of which were generated in non-U.S. jurisdictions in which net operating losses do not expire.

Earnings before income taxes comprised:

Year ended December 31,	1998	1997	1996
U.S.	$ 27,326	$ 48,897	$ 63,238
Non-U.S.	45,831	40,892	45,113
	$ 73,157	$ 89,789	$108,351

Undistributed earnings of the Company's non-U.S. subsidiaries amounted to approximately $187,000 at December 31, 1998. These earnings are considered to be indefinitely reinvested and, accordingly, no additional U.S. income taxes or non-U.S. withholding taxes have been provided. Determination of the amount of additional taxes that would be payable if such earnings were not considered indefinitely reinvested is not practical.

NOTE 12: SEGMENT INFORMATION

Flowserve is principally engaged in the worldwide design, manufacture, distribution and service of industrial flow management equipment. The Company provides pumps, valves, mechanical seals and service primarily for the refinery and pipeline segments of the petroleum industry, the chemical-processing industry, the power-generation industry and other industries requiring flow management products.

The Company has three divisions, each of which constitutes a business segment. Each division manufactures different products and is defined by the type of products and services provided. Each division has a president, who reports directly to the Chief Executive Officer of the Company, and a division controller. For decision-making purposes, the Chief Executive Officer, Chief Financial Officer and other members of upper management use financial information generated and reported at the division level.

The Rotating Equipment Division designs, manufactures and distributes pumps and related equipment. The Flow Control Division designs, manufactures and distributes automated and manual quarter-turn valves, control valves and valve actuators, and related components. The Flow Solutions Division designs, manufactures and distributes mechanical seals and sealing systems and provides service and repair for flow control equipment used in process industries. The Company also has a corporate headquarters that does not constitute a separate division or business segment. Amounts classified as All Other include minor entities that are not considered separate segments and businesses subsequently divested. See Note 3: Acquisitions and Dispositions.

The Company evaluates segment performance and allocates resources based on operating income or loss before special items and taxes. The accounting policies of the reportable segments are the same as described in Note 1: Significant Accounting Policies. Intersegment sales and transfers are recorded at cost plus a profit margin. This intersegment profit is eliminated in consolidation.

YEAR ENDED DECEMBER 31, 1998	ROTATING EQUIPMENT	FLOW CONTROL	FLOW SOLUTIONS	ALL OTHER	CONSOLIDATED TOTAL
Sales to external customers	$ 368,451	$ 295,371	$ 418,953	$ 311	$1,083,086
Intersegment sales	7,000	7,626	14,671	(29,297)	--
Segment operating income (before special items)	41,058	41,732	66,124	(25,509)	123,405
Depreciation and amortization	11,535	11,290	13,186	3,288	39,299
Identifiable assets	$ 285,990	$ 234,551	$ 266,485	$ 83,171	$ 870,197
Capital expenditures	13,416	9,284	15,049	500	38,249

Year ended December 31, 1997	Rotating Equipment	Flow Control	Flow Solutions	All Other	Consolidated Total
Sales to external customers	$ 403,801	$ 305,150	$ 415,321	$ 27,924	$1,152,196
Intersegment sales	9,000	12,001	14,780	(35,781)	--
Segment operating income (before special items)	50,969	46,981	62,728	(24,584)	136,094
Depreciation and amortization	9,767	9,160	13,286	6,720	38,933
Identifiable assets	$ 301,176	$ 219,074	$ 257,531	$ 102,244	$ 880,025
Capital expenditures	14,623	8,140	11,733	5,064	39,560

Year ended December 31, 1996	Rotating Equipment	Flow Control	Flow Solutions	All Other	Consolidated Total
Sales to external customers	$ 395,824	$ 274,641	$ 405,303	$ 21,877	$1,097,645
Intersegment sales	7,000	11,798	16,634	(35,432)	--
Segment operating income (before special items)	48,973	37,103	55,500	(20,531)	121,045
Depreciation and amortization	9,933	8,841	14,064	3,827	36,665
Identifiable assets	$ 284,840	$ 201,373	$ 263,314	$ 80,249	$ 829,776
Capital expenditures	17,117	3,758	12,433	2,383	35,691

RECONCILIATION OF SEGMENT INFORMATION TO CONSOLIDATED AMOUNTS

Significant items from the Company's reportable segments can be reconciled to the consolidated amounts as follows:

	Year Ended December 31,		
Sales	1998	1997	1996
Total sales for reportable segments	$1,082,775	$ 1,124,272	$ 1,075,768
Total intersegment sales for reportable segments	29,297	35,781	35,432
Other sales	311	27,924	21,877
Elimination of intersegment sales	(29,297)	(35,781)	(35,432)
Total sales	$ 1,083,086	$ 1,152,196	$ 1,097,645

	Year Ended December 31,		
Profit or Loss	1998	1997	1996
Total segment operating income (before special items)	$ 148,914	$ 160,678	$ 141,576
Corporate expenses and other	25,509	24,584	20,531
Merger restructuring and transaction expenses	--	44,531	5,778
Merger integration expense	38,326	6,982	--

Interest expense	13,175	13,275	12,144
Other income	(1,253)	(7,107)	(5,228)
Gain on sale of subsidiary	--	(11,376)	--
Earnings before income taxes	$ 73,157	$ 89,789	$ 108,351

	Year Ended December 31,		
Assets	1998	1997	1996
Total assets for reportable segments	$ 787,026	$ 777,781	$ 749,527
Other assets	104,749	125,826	99,737
Elimination of intercompany receivables	(21,578)	(23,582)	(19,488)
Total assets	$ 870,197	$ 880,025	$ 829,776

Geographic Information

The Company attributes sales to different geographic areas based on the point of sale. Long-lived assets are classified based on the geographic area in which the assets are located. Sales related to and investment in long-lived assets by geographic area are as follows:

YEAR ENDED DECEMBER 31, 1998	SALES	LONG-LIVED ASSETS
United States	$ 629,117	$ 250,999
Europe	279,117	81,058
Other(1)	174,852	28,751
Consolidated total	$1,083,086	$ 360,808

Year ended December 31, 1997	Sales	Long-lived Assets
United States	$ 691,337	$ 228,056
Europe	261,289	78,400
Other(1)	199,570	32,991
Consolidated total	$1,152,196	$ 339,447

Long-lived

Year ended December 31, 1996	Sales	Assets
United States	$ 654,581	$ 226,672
Europe	257,889	92,694
Other(1)	185,175	24,932
Consolidated total	$1,097,645	$ 344,298

(1) Includes Canada, Latin America and Asia/Pacific. No individual geographic segment within this group represents 10% or more of consolidated totals.

MAJOR CUSTOMER INFORMATION

The Company has not received revenues from any customer that represent 10% or more of consolidated revenues for any of the years presented.

NOTE 13: UNAUDITED QUARTERLY FINANCIAL DATA

(Amounts in millions, except per share data)	1998(a)				1997(b)			
Quarter	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Net sales	$ 279.3	$ 264.8	$ 280.7	$ 258.3	$ 307.2	$ 282.0	$ 300.5	$ 262.5
Gross profit	108.5	99.6	106.0	101.2	116.2	107.4	121.2	104.1
Net earnings before special items	19.0	17.6	20.2	18.1	23.2	17.3	24.8	16.8
Net earnings	7.2	16.1	12.5	13.1	2.9	7.1	24.8	16.8
Earnings per share before special items (diluted and basic)	$ 0.50	$ 0.44	$ 0.50	$ 0.44	$ 0.57	$ 0.42	$ 0.61	$ 0.41
Earnings per share (diluted and basic)	0.20	0.40	0.31	0.32	0.07	0.17	0.61	0.41

(a) Net earnings in 1998 included the following special items: merger expenses of $38.3 million before tax and an obligation under an executive employment agreement of $3.8 million (included in selling and administrative expense), before tax; and the benefit of the cumulative effect of an accounting change of $1.2 million, net of tax. These special items resulted in a reduction in net earnings of $26.0 million, or $0.65 per share after tax.

(b) Net earnings in the third quarter of 1997 included restructuring and merger expenses of $10.2 million before tax, or $0.25 per share after tax. Net earnings in the fourth quarter of 1997 included merger-related expenses and a gain on the sale of a subsidiary that totaled $30.0 million before tax, or $0.50 per share after tax. Excluding special items, net earnings for the year ended December 31, 1997, were $82.1 million, or $2.01 per share.

FIVE-YEAR SELECTED FINANCIAL DATA

(Amounts in thousands, except per share data and ratios)	December 31, 1998	1997	1996	1995	1994
Results of Operations					
Sales	$ 1,083,086	$ 1,152,196	$ 1,097,645	$ 983,917	$ 909,226
Cost of sales	667,753	703,319	668,718	591,550	554,707
Gross profit	415,333	448,877	428,927	392,367	354,519
Selling and administrative expense	265,556	285,890	283,360	264,426	241,131
Research, engineering and development expense	26,372	26,893	24,522	24,649	24,528
Merger transaction and restructuring expenses	--	44,531	5,778	5,042	--
Merger integration expense	38,326	6,982	--	--	--
Operating income	85,079	84,581	115,267	98,250	88,860
Interest expense	13,175	13,275	12,144	12,293	12,214
Other income	(1,253)	(7,107)	(5,228)	(2,455)	(4,187)
Gain on sale of subsidiary	--	(11,376)	--	--	--
Earnings before income taxes	73,157	89,789	108,351	88,412	80,833

Provision for income taxes	25,502	38,223	37,254	34,391	29,601
Earnings from continuing operations	47,655	51,566	71,097	54,021	51,232
Cumulative effect of change in accounting principle	(1,220)	--	--	--	--
Net earnings	$ 48,875	$ 51,566	$ 71,097	$ 54,021	$ 51,232
Average shares outstanding	39,898	40,896	41,363	41,652	41,626
Net earnings per share (diluted and basic)	$ 1.23	$ 1.26	$ 1.72	$ 1.30	$ 1.23
Dividends paid per share	0.56	0.65	0.57	0.51	0.45
Bookings	1,082,484	1,172,431	1,141,614	1,013,861	930,863
Ending backlog	291,082	291,568	287,076	249,562	237,598
Performance Ratios (as a percent of sales)					
Gross profit margin	38.3%	39.0%	39.1%	39.9%	39.0%
Selling and administrative expense	24.5%	24.8%	25.8%	26.9%	26.5%
Research, engineering and development expense	2.4%	2.3%	2.2%	2.5%	2.7%
Operating income	7.9%	7.3%	10.5%	10.0%	9.8%
Net earnings	4.5%	4.5%	6.5%	5.5%	5.6%
Financial Condition					
Cash and cash equivalents	$ 24,928	$ 58,602	$ 38,933	$ 28,596	$ 28,777
Working capital	268,164	284,220	279,972	251,774	222,798
Net property, plant and equipment	209,032	209,509	211,738	209,974	197,844
Intangibles and other assets	173,875	155,852	149,003	139,204	113,824
Total assets	870,197	880,025	829,776	801,120	712,160
Capital expenditures	38,249	39,560	35,691	39,928	26,506
Depreciation and amortization	39,299	38,933	36,665	34,451	34,054
Long-term debt	186,292	128,936	143,962	125,931	95,971
Post-retirement benefits and deferred items	120,015	125,372	108,127	99,775	98,228
Shareholders' equity	344,764	395,273	388,624	375,246	340,267
Financial Ratios					
Return on average shareholders' equity	13.1%	13.0%	18.6%	15.1%	15.8%
Return on average net assets	8.6%	9.0%	12.5%	10.4%	11.2%
Debt to capital ratio	37.2%	27.1%	30.0%	27.9%	25.9%
Cash dividends paid as a percent of ending shareholders' equity	6.5%	6.6%	6.0%	5.6%	5.5%
Current ratio	2.2	2.2	2.5	2.3	2.3
Interest coverage ratio	6.6	7.8	9.9	8.2	7.6

BOARD OF DIRECTORS

Left to right:

[PICTURE OF BOARD OF DIRECTORS]

DIANE C. HARRIS((2)), President, Hypotenuse Enterprises, Inc.; HUGH K. COBLE(1),(3), Vice Chairman Emeritus, Fluor Corporation; BERNARD G. RETHORE(3), Chairman, President and Chief Executive Officer, Flowserve Corporation; GEORGE T. HAYMAKER, JR.(1), Chairman and Chief Executive Officer, Kaiser Aluminum Corporation; CHARLES M. RAMPACEK(2), President and Chief Executive Officer, Lyondell-Citgo Refining LP; WILLIAM C. RUSNACK(2),(3), President and Chief Executive Officer, Clark Refining & Marketing, Inc.; R. ELTON WHITE(2), Former President, NCR Corporation; KEVIN E. SHEEHAN(1),(3), General Partner, CID Equity Partners; JAMES O. ROLLANS(2), Senior Vice President and Chief Financial Officer, Fluor Corporation; and MICHAEL F. JOHNSTON(1), President, Americas Automotive Group, Johnson Controls, Inc.

(1) Compensation Committee

(2) Audit and Finance Committee

(3) Executive Committee

OFFICERS

Left to right:

[PICTURE OF OFFICERS]

MICHAEL S. DUNN, Assistant Vice President and Director of Taxes; RICK L. JOHNSON, Vice President, Business Development and Corporate Controller; CHERYL D. MCNEAL, Vice President, Human Resources; HOWARD D. WYNN, Vice President, Division President, Rotating Equipment Division; RORY E. MACDOWELL, Vice President and Chief Information Officer; SCOTT E.

MESSEL, Corporate Treasurer; RENEE J. HORNBAKER, Vice President and Chief Financial Officer; BERNARD G. RETHORE, Chairman, President and Chief Executive Officer; RONALD F. SHUFF, Vice President, Secretary and General Counsel; MARK E. VERNON, Vice President, Division President, Flow Control Division; and GEORGE A. SHEDLARSKI, Vice President, Division President, Flow Solutions Division.

Exhibit 18.1

February 9, 1999

Board of Directors and Shareholders
The Flowserve Corporation
222 West Las Colinas Blvd.
Irving, Texas 75039

Dear Sirs:

Note 5 of Notes to the Consolidated Financial Statements of the Flowserve Corporation and Subsidiaries (the "Company" or "Flowserve") incorporated by reference in its Annual Report on Form 10-K for the year ended December 31, 1998 describes a change in the method of accounting for inventories at certain of the Company's domestic locations. The Company has changed from the first-in, first-out to the last-in first-out ("LIFO") method of accounting for these inventories representing twenty-three percent of the Company's inventories on a FIFO basis at December 31, 1998. You have advised us that you believe that the change is to a preferable method in your circumstances because:

1) The LIFO method will provide for a better matching of current production costs with current revenues as the most recently incurred costs will be expensed as inventory is sold.

2) Adoption of LIFO at the former BW/IP, Inc. locations will improve consistency among the domestic operations of Flowserve, as all U.S. operations will then be using the LIFO method.

There are no authoritative criteria for determining a preferable inventory cost-flow method based on the particular circumstances; however, we conclude that the change in the method of accounting for inventories at the former BW/IP, Inc. locations is an acceptable alternative method which, based on your business judgment to make this change for the reasons cited above, is preferable in your circumstances.

Very truly yours,

/s/ Ernst & Young LLP

Exhibit 21.1

FLOWSERVE CORPORATION
LIST OF SUBSIDIARIES

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION	PERCENTAGE OWNED
Byron Jackson Argentina I.C.S.A.	Argentina	100%
Durametallic Argentina S.A.	Argentina	100%
Flowserve FSD Pty. Ltd.	Australia	100%
Flowserve Australia Pty. Ltd.	Australia	100%
Flowserve Pty. Ltd.	Australia	100%
Flowserve Dichtungstechnik Gesellschaft m.b.H	Austria	100%
Flowserve (Barbados), Ltd. Foreign Sales Corporation	Barbados	100%
Flowserve SRD S.A.	Belgium	100%
Flowserve FSD N.V.	Belgium	100%
Durco Europe S.A. Coordination Center	Belgium	100%
Flowserve RED S.A.	Belgium	100%
Flowserve Ltda	Brazil	100%
Flowserve Inc.	Canada	100%
Flowserve S.A.S	France	100%
Flowserve Essen GmbH	Germany	100%
Flowserve Dortmund Verwaltungs GmbH	Germany	100%
Flowserve Dortmund GmbH & Co. KG	Germany	100%
Flowserve Ahaus GmbH	Germany	100%
Flowserve Microfinish Pumps Pvt. Ltd.	India	76%
Flowserve India Controls Pvt. Ltd.	India	95%
Flowserve Microfinish Valves Pvt. Ltd.	India	76%
PT Flowserve	Indonesia	75%
Flowserve Ireland Limited	Ireland	100%
Flowserve Spa	Italy	100%
Byron Jackson K.K.	Japan	100%
Flowserve Japan K.K.	Japan	100%
Ebara-ByronJackson K.K.	Japan	50%
Flowserve Sdn. Bhd.	Malaysia	70%
Flowserve (Mauritius) Corporation	Mauritius	100%
Flowserve S.A. de C.V.	Mexico	100%
Flowserve B.V.	Netherlands	100%

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION	PERCENTAGE OWNED
Flowserve Services B.V.	Netherlands	100%
Flowserve International B.V.	Netherlands	100%
Flowserve New Zealand Limited	New Zealand	100%
Flowserve Abahsain Co.Ltd.	Saudi Arabia	60%
Flowserve Pte. Ltd.	Singapore	100%
Valtek South Africa (Proprietary) Limited	South Africa	100%
Flowserve, S.A.	Spain	100%
Flowserve S.A.	Switzerland	100%
Flowserve Siam Co., Ltd.	Thailand	60%
Flowserve International Limited	United Kingdom	100%
Flowserve Limited.	United Kingdom	100%
Flowserve International, Inc.	U.S. - Delaware	100%
Flowserve FSD Corporation	U.S. - Delaware	100%
Flowserve FCD Corporation	U.S. - Delaware	100%
Flowserve RED Corporation	U.S.- Delaware	100%
Flowserve Holdings, Inc.	U. S. - Delaware	100%
Flowserve Management Company (Business Trust)	U. S. - Delaware	100%
Durametallic Australia Holding Company	U.S. - Michigan	100%
Flowserve New Mexico, Inc.	U.S. - New Mexico	100%
Durametallic Uruguary	Uruguay	100%
Flowserve Venezuela S.A.	Venezuela	100%

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Flowserve Corporation of our report dated February 9, 1999, included in the 1998 Annual Report to Shareholders of Flowserve Corporation.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-28497) pertaining to the 1989 Stock Option Plan, (Form S-8 No. 33-28497) pertaining to the Duriron Company, Inc. Savings and Thrift Plan, (Form S-8 No. 33-72372) pertaining to the Valtek Incorporated Retirement Plan and Trust, (Form S-8 No. 333-50667) pertaining to the BW/IP, Inc. 1996 Long-Term Incentive Plan, the BW/IP, Inc. 1996 Directors' Stock and Deferred Compensation Plan, the BW/IP International, Inc. 1992 Long-Term Incentive Plan, the BW/IP Holding, Inc. Non-Employee Directors' Stock Option Plan, and the BW/IP International, Inc. Capital Accumulation Plan, and (Form S-8 No. 333-57773) pertaining to The Duriron Company, Inc. Pump and Foundry Divisions Hourly Employees Savings and Thrift Plan of our reports dated February 9, 1999, with respect to the consolidated financial statements and schedule of Flowserve Corporation included or incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 1998.

/s/Ernst & Young LLP

Dallas, Texas
March 12, 1999

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-28497, 33-72372, 333-50667 and 333-57773) of Flowserve Corporation of our report (relating to BW/IP, Inc. and its subsidiaries) dated January 28, 1997 appearing on page F-2 in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report (relating to BW/IP, Inc. and its subsidiaries) on the Financial Statement Schedules, which appears on page F-4 of this Form 10-K.

PRICEWATERHOUSECOOPERS LLP

Los Angeles, California
March 12, 1999

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