
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ to _____.

Commission File No. 1-13179

FLOWERVE CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State or other jurisdiction of incorporation or organization)

31-0267900

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

5215 N. O'Connor Blvd., Suite 2300, Irving, Texas

(Address of principal executive offices)

75039

(Zip Code)

(972) 443-6500

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (do not check if a smaller reporting company)

Smaller reporting company ☐

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

As of October 23, 2012, there were 49,984,225 shares of the issuer's common stock outstanding.

FLOWSERVE CORPORATION
FORM 10-Q
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

FLOWERVE CORPORATION **CONDENSED CONSOLIDATED STATEMENTS OF INCOME** **(Unaudited)**

(Amounts in thousands, except per share data)

	Three Months Ended September 30,	
	2012	2011
Sales	\$ 1,165,923	\$ 1,121,813
Cost of sales	(776,319)	(745,227)
Gross profit	389,604	376,586
Selling, general and administrative expense	(227,797)	(225,996)
Net earnings from affiliates	3,899	4,367
Operating income	165,706	154,957
Interest expense	(12,144)	(8,544)
Interest income	208	216
Other expense, net	(9,167)	(6,621)
Earnings before income taxes	144,603	140,008
Provision for income taxes	(37,769)	(32,052)
Net earnings, including noncontrolling interests	106,834	107,956
Less: Net earnings attributable to noncontrolling interests	(538)	(185)
Net earnings attributable to Flowserve Corporation	\$ 106,296	\$ 107,771
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$ 2.09	\$ 1.94
Diluted	2.07	1.92
Cash dividends declared per share	\$ 0.36	\$ 0.32

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME **(Unaudited)**

(Amounts in thousands)

	Three Months Ended September 30,	
	2012	2011
Net earnings, including noncontrolling interests	\$ 106,834	\$ 107,956
Other comprehensive income (expense):		
Foreign currency translation adjustments, net of taxes of \$(19,147) and \$61,131, respectively	31,641	(107,740)
Pension and other postretirement effects, net of taxes of \$(463) and \$(1,302), respectively	180	2,797
Cash flow hedging activity, net of taxes of \$(130) and \$293, respectively	215	(516)
Other comprehensive income (expense)	32,036	(105,459)
Comprehensive income, including noncontrolling interests	138,870	2,497
Comprehensive (income) loss attributable to noncontrolling interests	(700)	110
Comprehensive income attributable to Flowserve Corporation	\$ 138,170	\$ 2,607

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	2012	2011
Sales	\$ 3,423,128	\$ 3,244,772
Cost of sales	(2,289,739)	(2,151,153)
Gross profit	1,133,389	1,093,619
Selling, general and administrative expense	(673,578)	(681,618)
Net earnings from affiliates	13,214	13,314
Operating income	473,025	425,315
Interest expense	(29,876)	(26,684)
Interest income	727	1,100
Other (expense) income, net	(22,151)	7,852
Earnings before income taxes	421,725	407,583
Provision for income taxes	(112,864)	(103,908)
Net earnings, including noncontrolling interests	308,861	303,675
Less: Net earnings attributable to noncontrolling interests	(2,124)	(191)
Net earnings attributable to Flowserve Corporation	\$ 306,737	\$ 303,484
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$ 5.77	\$ 5.45
Diluted	5.73	5.40
Cash dividends declared per share	\$ 1.08	\$ 0.96

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30,	
	2012	2011
Net earnings, including noncontrolling interests	\$ 308,861	\$ 303,675
Other comprehensive income (expense):		
Foreign currency translation adjustments, net of taxes of \$(4,891) and \$17,944, respectively	8,082	(31,625)
Pension and other postretirement effects, net of taxes of \$(2,125) and \$(1,946), respectively	2,726	3,256
Cash flow hedging activity, net of taxes of \$29 and \$539, respectively	(89)	(945)
Other comprehensive income (expense)	10,719	(29,314)
Comprehensive income, including noncontrolling interests	319,580	274,361
Comprehensive income attributable to noncontrolling interests	(2,173)	(322)
Comprehensive income attributable to Flowserve Corporation	\$ 317,407	\$ 274,039

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Amounts in thousands, except per share data)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 217,420	\$ 337,356
Accounts receivable, net of allowance for doubtful accounts of \$21,546 and \$20,351, respectively	1,105,641	1,060,249
Inventories, net	1,155,725	1,008,379
Deferred taxes	128,611	121,905
Prepaid expenses and other	113,673	100,465
Total current assets	2,721,070	2,628,354
Property, plant and equipment, net of accumulated depreciation of \$767,392 and \$719,992, respectively	605,360	598,746
Goodwill	1,047,729	1,045,077
Deferred taxes	19,659	17,843
Other intangible assets, net	151,891	163,482
Other assets, net	198,039	169,112
Total assets	\$ 4,743,748	\$ 4,622,614
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 516,500	\$ 597,342
Accrued liabilities	836,330	808,601
Debt due within one year	48,861	53,623
Deferred taxes	8,748	10,755
Total current liabilities	1,410,439	1,470,321
Long-term debt due after one year	879,135	451,593
Retirement obligations and other liabilities	426,949	422,470
Shareholders' equity:		
Common shares, \$1.25 par value	73,664	73,664
Shares authorized – 120,000		
Shares issued – 58,931 and 58,931, respectively		
Capital in excess of par value	548,748	621,083
Retained earnings	2,455,401	2,205,524
	3,077,813	2,900,271
Treasury shares, at cost – 8,901 and 5,025 shares, respectively	(866,289)	(424,052)
Deferred compensation obligation	10,711	9,691
Accumulated other comprehensive loss	(205,427)	(216,097)
Total Flowserve Corporation shareholders' equity	2,016,808	2,269,813
Noncontrolling interest	10,417	8,417
Total equity	2,027,225	2,278,230
Total liabilities and equity	\$ 4,743,748	\$ 4,622,614

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30,	
	2012	2011
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 308,861	\$ 303,675
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	66,027	67,166
Amortization of intangible and other assets	14,751	12,385
Loss on early extinguishment of debt	1,293	—
Net gain on disposition of assets	(10,461)	(484)
Excess tax benefits from stock-based compensation arrangements	(11,056)	(5,201)
Stock-based compensation	25,942	23,655
Net earnings from affiliates, net of dividends received	(5,798)	472
Change in assets and liabilities:		
Accounts receivable, net	(45,566)	(201,636)
Inventories, net	(149,254)	(206,079)
Prepaid expenses and other	(8,968)	(21,606)
Other assets, net	(11,609)	(2,019)
Accounts payable	(75,169)	(101,671)
Accrued liabilities and income taxes payable	26,057	(43,648)
Retirement obligations and other liabilities	(6,737)	13,635
Net deferred taxes	4,251	11,271
Net cash flows provided (used) by operating activities	122,564	(150,085)
Cash flows – Investing activities:		
Capital expenditures	(84,180)	(71,164)
Proceeds from disposal of assets	11,473	3,530
Payments for acquisitions, net of cash acquired	(3,996)	(890)
Affiliate investing activity	(3,825)	—
Net cash flows used by investing activities	(80,528)	(68,524)
Cash flows – Financing activities:		
Excess tax benefits from stock-based compensation arrangements	11,056	5,201
Payments on long-term debt	(475,000)	(18,750)
Proceeds from issuance of senior notes	498,075	—
Proceeds from issuance of long-term debt	400,000	—
Proceeds from short-term financing	475,000	—
Payments on short-term financing	(475,000)	—
Borrowings (payments) under other financing arrangements, net	294	(1,747)
Repurchases of common shares	(533,864)	(41,088)
Payments of dividends	(55,569)	(51,794)
Payments of deferred loan costs	(9,657)	—
Other	(248)	(1,858)
Net cash flows used by financing activities	(164,913)	(110,036)
Effect of exchange rate changes on cash	2,941	(1,049)
Net change in cash and cash equivalents	(119,936)	(329,694)
Cash and cash equivalents at beginning of period	337,356	557,579
Cash and cash equivalents at end of period	\$ 217,420	\$ 227,885

See accompanying notes to condensed consolidated financial statements.

FLOWERVE CORPORAION
(Unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet as of September 30, 2012, the related condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2012 and 2011, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2012 and 2011, of Flowserve Corporation, are unaudited. In management's opinion, all adjustments comprising normal recurring adjustments necessary for a fair presentation of such condensed consolidated financial statements have been made.

The accompanying condensed consolidated financial statements and notes in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2012 ("Quarterly Report") are presented as permitted by Regulation S-X and do not contain certain information included in our annual financial statements and notes thereto. Accordingly, the accompanying condensed consolidated financial information should be read in conjunction with the consolidated financial statements presented in our Annual Report on Form 10-K for the year ended December 31, 2011 ("2011 Annual Report").

European Sovereign Debt Crisis – At September 30, 2012, we had no direct investments in European sovereign or non-sovereign debt. However, certain of our defined benefit plans hold investments in European equity and fixed income securities as discussed in Note 12 to our consolidated financial statements included in our 2011 Annual Report. Other than broad, macro-level economic impacts, including foreign exchange rate impacts, we did not experience any direct or measurable disruptions during the three and nine months ended September 30, 2012 related to the European sovereign debt. We will continue to monitor and evaluate the impact of any future developments in the region on our current business, our customers and suppliers and the state of the global economy.

Events in North Africa and Middle East – As previously disclosed in our 2011 Annual Report, during 2011, political and economic conditions in North Africa caused us to experience shipment delays to this region. For the three and nine months ended September 30, 2012, there was no impact to operating income due to delayed shipments to this region. The preponderance of our physical assets in the region are located in the Kingdom of Saudi Arabia and the United Arab Emirates and have, to date, not been significantly affected by the unrest elsewhere in the region.

Accounting Policies

Significant accounting policies, for which no significant changes have occurred in the nine months ended September 30, 2012, are detailed in Note 1 to our consolidated financial statements included in our 2011 Annual Report.

Accounting Developments

Pronouncements Implemented

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," which clarifies the requirements in accounting principles generally accepted in the United States ("U.S. GAAP") for measuring fair value and for disclosing information about fair value measurements in order to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards ("IFRSs"). The amendments do not result in a major change in the application of the requirements in Topic 820, but clarify the application of existing fair value measurement requirements and change particular principles or requirements for measuring fair value and for disclosing information about fair value measurements. Our adoption of ASU No. 2011-04, effective January 1, 2012, had no impact on our consolidated financial condition and results of operations.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Accounting Standards Codification ("ASC") 220): Presentation of Comprehensive Income," which specifies that an entity has the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This amendment also requires an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. In December 2011, the FASB issued ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," to defer the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. Our adoption of ASU Nos. 2011-05 and 2011-12, effective January 1, 2012, had no impact on our consolidated financial condition and results of operations.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles - Goodwill and Other (ASC 350): Testing Goodwill for Impairment," which specifies that an entity has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. Our adoption of ASU No. 2011-08, effective January 1, 2012, had no impact on our consolidated financial condition and results of operations.

Pronouncements Not Yet Implemented

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," which requires enhanced disclosures about financial instruments and derivative instruments that are either (1) offset in accordance with either ASC 210-20-45, "Balance Sheet - Offsetting," or ASC 815-10-45, "Derivatives and Hedging - Overall," or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either ASC 210-20-45 or ASC 815-10-45. ASU No. 2011-11 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2012. The disclosure requirements shall be applied retrospectively for all periods presented. The adoption of ASU No. 2011-11 will not have an impact on our consolidated financial condition and results of operations.

In July 2012, the FASB issued ASU No. 2012-02, "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment," which specifies that an entity has the option to first assess qualitative factors to determine whether it is more likely than not that the asset is impaired. Unless an entity determines that it is more likely than not that the fair value of such an asset is less than its carrying amount, it would not need to calculate the fair value of the asset in that year. ASU No. 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of ASU No. 2012-02 will not have an impact on our consolidated financial condition and results of operations.

2. Acquisition

Lawrence Pumps, Inc.

As discussed in Note 2 to our consolidated financial statements included in our 2011 Annual Report, effective October 28, 2011, we acquired for inclusion in Engineered Product Division ("EPD"), 100% of Lawrence Pumps, Inc. ("LPI"), a privately-owned, U.S.-based pump manufacturer. The final purchase price of \$88.2 million reflects immaterial adjustments to goodwill and current liabilities during the nine months ended September 30, 2012. LPI specializes in the design, development and manufacture of engineered centrifugal slurry pumps for critical services within the petroleum refining, petrochemical, pulp and paper and energy markets. No pro forma financial information has been presented due to immateriality.

3. Stock-Based Compensation Plans

We established the Flowserve Corporation Equity and Incentive Compensation Plan (the "2010 Plan") effective January 1, 2010. This shareholder-approved plan authorizes the issuance of up to 2,900,000 shares of our common stock in the form of incentive stock options, non-statutory stock options, restricted shares, restricted share units and performance-based units (collectively referred to as "Restricted Shares"), stock appreciation rights and bonus stock. Of the 2,900,000 shares of common stock authorized under the 2010 Plan, 2,149,479 were available for issuance as of September 30, 2012. In addition to the 2010 Plan, we also maintain the Flowserve Corporation 2004 Stock Compensation Plan (the "2004 Plan"), which was established on April 21, 2004. The 2004 Plan authorizes the issuance of up to 3,500,000 shares of common stock through grants of Restricted Shares, stock options and other equity-based awards. Of the 3,500,000 shares of common stock authorized under the 2004 Plan, 275,945 were available for issuance as of September 30, 2012. No stock options have been granted since 2006.

Restricted Shares – Awards of Restricted Shares are valued at the closing market price of our common stock on the date of grant. The unearned compensation is amortized to compensation expense over the vesting period of the restricted shares. We had unearned compensation of \$38.7 million and \$27.0 million at September 30, 2012 and December 31, 2011, respectively, which is expected to be recognized over a weighted-average period of approximately one year. These amounts will be recognized into net earnings in prospective periods as the awards vest. The total fair value of Restricted Shares vested during the three months ended September 30, 2012 and 2011 was \$0.1 million and \$0.2 million, respectively. The total fair value of Restricted Shares vested during the nine months ended September 30, 2012 and 2011 was \$36.4 million and \$35.0 million, respectively.

We recorded stock-based compensation expense of \$6.9 million (\$10.5 million pre-tax) and \$4.9 million (\$7.4 million pre-tax) for the three months ended September 30, 2012 and 2011, respectively. We recorded stock-based compensation expense of \$17.1 million (\$25.9 million pre-tax) and \$15.9 million (\$23.7 million pre-tax) for the nine months ended September 30, 2012 and 2011, respectively.

The following table summarizes information regarding Restricted Shares:

	Nine Months Ended September 30, 2012	
	Shares	Weighted Average Grant-Date Fair Value
Number of unvested shares:		
Outstanding - January 1, 2012	1,052,199	\$ 84.62
Granted	355,417	115.54
Vested	(576,648)	63.04
Cancelled	(28,750)	115.12
Outstanding - September 30, 2012	802,218	\$ 112.74

Unvested Restricted Shares outstanding as of September 30, 2012, includes approximately 325,000 units with performance-based vesting provisions. Performance-based units are issuable in common stock and vest upon the achievement of pre-defined performance targets, primarily based on our average annual return on net assets over a three-year period as compared with the same measure for a defined peer group for the same period. Most units were granted in three annual grants since January 1, 2010 and have a vesting percentage between 0% and 200% depending on the achievement of the specific performance targets. Compensation expense is recognized ratably over a cliff-vesting period of 36 months, based on the fair market value of our common stock on the date of grant, as adjusted for anticipated forfeitures. During the performance period, earned and unearned compensation expense is adjusted based on changes in the expected achievement of the performance targets. Vesting provisions range from 0 to approximately 644,000 shares based on performance targets. As of September 30, 2012, we estimate vesting of approximately 502,000 shares based on expected achievement of performance targets.

4. Derivative Instruments and Hedges

Our risk management and derivatives policy specifies the conditions under which we may enter into derivative contracts. See Notes 1 and 6 to our consolidated financial statements included in our 2011 Annual Report and Note 7 of this Quarterly Report for additional information on our derivatives. We enter into forward exchange contracts to hedge our cash flow risks associated with transactions denominated in currencies other than the local currency of the operation engaging in the transaction. At September 30, 2012 and December 31, 2011, we had \$571.2 million and \$481.2 million, respectively, of notional amount in outstanding forward exchange contracts with third parties. At September 30, 2012, the length of forward exchange contracts currently in place ranged from one day to 15 months. Also as part of our risk management program, we enter into interest rate swap agreements to hedge exposure to floating interest rates on certain portions of our debt. At September 30, 2012 and December 31, 2011, we had \$300.0 million and \$330.0 million, respectively, of notional amount in outstanding interest rate swaps with third parties. All interest rate swaps are highly effective. At September 30, 2012, the maximum remaining length of any interest rate swap contract in place was approximately 33 months.

We are exposed to risk from credit-related losses resulting from nonperformance by counterparties to our financial instruments. We perform credit evaluations of our counterparties under forward exchange contracts and interest rate swap agreements and expect all counterparties to meet their obligations. If necessary, we would adjust the values of our derivative contracts for our or our counterparties' credit risks. We have not experienced credit losses from our counterparties.

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

(Amounts in thousands)	September 30, 2012	December 31, 2011
Current derivative assets	\$ 3,995	\$ 2,330
Noncurrent derivative assets	250	10
Current derivative liabilities	7,339	11,196
Noncurrent derivative liabilities	15	516

The fair value of interest rate swaps in cash flow hedging relationships are summarized below:

(Amounts in thousands)	September 30, 2012	December 31, 2011
Current derivative assets	\$ —	\$ 33
Noncurrent derivative assets	—	71
Current derivative liabilities	1,598	761
Noncurrent derivative liabilities	564	547

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

The impact of net changes in the fair values of forward exchange contracts not designated as hedging instruments are summarized below:

(Amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
(Loss) gain recognized in income	\$ (855)	\$ (9,892)	\$ (6,496)	\$ 211

The impact of net changes in the fair values of interest rate swaps in cash flow hedging relationships are summarized below:

(Amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Loss reclassified from accumulated other comprehensive income into income for settlements, net of tax	\$ (237)	\$ (396)	\$ (636)	\$ (1,203)
Loss recognized in other comprehensive income, net of tax	(22)	(912)	(725)	(2,149)

Gains and losses recognized in our condensed consolidated statements of income for forward exchange contracts and interest rate swaps are classified as other (expense) income, net, and interest expense, respectively. At September 30, 2012, we expect to recognize losses of \$1.1 million, net of deferred taxes, into earnings in the next twelve months related to interest rate swap agreements based on their fair values at September 30, 2012.

5. Debt

Debt, including capital lease obligations, consisted of:

(Amounts in thousands, except percentages)	September 30, 2012	December 31, 2011
3.50% Senior Notes due September 15, 2022 (net of unamortized discount)	\$ 498,084	\$ —
Term Loan Facility, interest rate of 1.86% at September 30, 2012	400,000	—
Prior Term Loan Facility, interest rate of 2.58% at December 31, 2011	—	475,000
Capital lease obligations and other borrowings	29,912	30,216
Debt and capital lease obligations	927,996	505,216
Less amounts due within one year	48,861	53,623
Total debt due after one year	\$ 879,135	\$ 451,593

Senior Notes

On September 11, 2012, we completed a public offering of \$500.0 million in aggregate principal amount of senior notes due September 15, 2022 ("Senior Notes"). The Senior Notes bear an interest rate of 3.50% per year, payable on March 15 and September 15 of each year, commencing on March 15, 2013. The Senior Notes were priced at 99.615% of par value, reflecting a discount to the aggregate principal amount.

At any time prior to June 15, 2022, we have the right to redeem the Senior Notes, in whole or in part, at our option, at a redemption price equal to the greater of: (1) 100% of the principal amount of the Senior Notes being redeemed; or (2) the sum of the present values of the remaining scheduled payments of principal and interest in respect of the Senior Notes being redeemed discounted to the redemption date on a semi-annual basis, at the applicable Treasury Rate plus 30 basis points. In addition, at any time on or after June 15, 2022, we may redeem the Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes being redeemed. In each case, we will also pay the accrued and unpaid interest on the principal amount being redeemed to the redemption date.

The Senior Notes are unsecured and are jointly and severally and fully and unconditionally guaranteed by certain of our domestic subsidiaries that are guarantors under our primary credit facility. The guarantees will be automatically and unconditionally released and discharged when: the subsidiary is sold or sells all of its assets; the requirement for legal or covenant defeasance or to discharge our obligations has been satisfied; or upon the delivery of an officer's

certificate to the trustee that such guarantor does not guarantee our obligations under our primary bank credit facility. The Senior Notes rank equally in right of payment with all of our other unsecured indebtedness.

We used a portion of the net proceeds of the Senior Notes offering to repay the \$250.0 million outstanding principal balance on the Bridge Loan (described below). We used the remaining portion of the net proceeds for general corporate purposes, including repayment of the outstanding balance on the Prior Revolving Credit Facility (described below) and the repurchase of shares of our common stock (as discussed in Note 13).

Senior Credit Facility

On August 20, 2012, we entered into a credit agreement with Bank of America, N.A., as swingline lender, letter of credit issuer and administrative agent, and the other lenders party thereto (together, the "Lenders"), providing for term debt and a revolving credit facility. The credit agreement provides for an aggregate commitment of \$1.25 billion, including a \$400.0 million term loan facility with a maturity date of August 20, 2017 ("Term Loan Facility") and an \$850.0 million revolving credit facility with a maturity date of August 20, 2017 ("Revolving Credit Facility" and, together with the Term Loan Facility, the "Senior Credit Facility"). The Revolving Credit Facility includes a \$300.0 million sublimit for the issuance of letters of credit and a \$30.0 million sublimit for swingline loans. Subject to certain conditions, we have the right to increase the amount of the Term Loan Facility or the Revolving Credit Facility by an aggregate amount not to exceed \$250.0 million. Our obligations under the Senior Credit Facility are guaranteed by certain of our domestic subsidiaries. The Lenders have agreed to release such guarantees if we achieve certain credit ratings. We had not achieved these ratings as of September 30, 2012.

We used all of the \$400.0 million proceeds advanced under the Term Loan Facility, along with approximately \$217 million advanced under the Revolving Credit Facility, to repay all outstanding indebtedness under our then-existing term loan ("Prior Term Loan Facility") and revolving credit facility ("Prior Revolving Credit Facility") pursuant to our then-existing credit agreement dated as of December 14, 2010, as amended (the "Prior Credit Agreement"). In connection with this repayment, our outstanding letters of credit under the Prior Credit Agreement were transferred to the Revolving Credit Facility, and we terminated the Prior Credit Agreement on August 20, 2012. Future borrowings under the Revolving Credit Facility will be subject to various conditions, including the absence of any default under the Senior Credit Facility.

At September 30, 2012 and December 31, 2011, we had no amounts outstanding under the Revolving Credit Facility or the Prior Revolving Credit Facility, respectively. We had outstanding letters of credit of \$156.3 million and \$147.4 million at September 30, 2012 and December 31, 2011, respectively, which reduced our borrowing capacity under the Revolving Credit Facility and Prior Revolving Credit Facility to \$693.7 million and \$352.6 million, respectively.

The Senior Credit Facility contains, among other things, covenants defining our and our subsidiaries' ability to dispose of assets, merge, pay dividends, repurchase or redeem capital stock and indebtedness, incur indebtedness and guarantees, create liens, enter into agreements with negative pledge clauses, make certain investments or acquisitions, enter into transactions with affiliates or engage in any business activity other than our existing business. The Senior Credit Facility also contains covenants requiring us to deliver certificates of compliance to the Lenders regarding our financial statements for each fiscal quarter and fiscal year. The Senior Credit Facility requires us to have a maximum permitted leverage ratio of 3.25 times debt to total Consolidated EBITDA (as defined in the Senior Credit Facility) and a minimum interest coverage of 3.25 times Consolidated EBITDA to total interest expense. Our compliance with these financial covenants under the Senior Credit Facility is tested quarterly.

We may prepay loans under our Senior Credit Facility in whole or in part, without premium or penalty, at any time. A commitment fee, which is payable quarterly on the daily unused portions of the Senior Credit Facility, was 0.225% during the period ended September 30, 2012. During the nine months ended September 30, 2012, we made scheduled repayments of \$12.5 million under our Prior Credit Agreement. We made no mandatory repayment or optional payments under the Prior Credit Agreement as of September 30, 2012, with the exception of the repayment of all outstanding indebtedness under the Prior Credit Agreement at August 20, 2012 with proceeds advanced under the Senior Credit Facility. We have scheduled repayments of \$5.0 million due in each of the next four quarters under our Senior Credit Facility. Our Senior Credit Facility bears a floating rate of interest, and we have entered into \$300.0 million of notional amount of interest rate swaps at September 30, 2012 to hedge exposure to floating interest rates.

Bridge Loan

On June 15, 2012, we entered into a loan agreement with JPMorgan Chase Bank, N.A., as administrative agent, and the other lenders party thereto, providing for a term loan with an aggregate commitment of \$250.0 million for a term of 364 days ("Bridge Loan"). The proceeds from the Bridge Loan were used to fund our share repurchase program described in Note 13 to our condensed consolidated financial statements included in this Quarterly Report. The Bridge Loan was repaid in its entirety in the third quarter of 2012 using a portion of the net proceeds from the Senior Notes offering.

European Letter of Credit Facilities

On October 30, 2009, we entered into a 364-day unsecured European Letter of Credit Facility ("European LOC Facility") with an initial commitment of €125.0 million. The European LOC Facility is renewable annually and is used for contingent obligations in respect of surety and performance bonds, bank guarantees and similar obligations with maturities up to five years. We renewed the European LOC Facility in October 2012 for an additional 364-day period and amended certain provisions to conform to those in our Senior Credit Facility and Senior Notes. We had outstanding letters of credit drawn on the European LOC Facility of €62.0 million (\$79.7 million) and €81.0 million (\$105.0 million) as of September 30, 2012 and December 31, 2011, respectively.

Our ability to issue additional letters of credit under our previous European Letter of Credit Facility ("Old European LOC Facility"), which had a commitment of €110.0 million, expired November 9, 2009. We had outstanding letters of credit written against the Old European LOC Facility of €3.4 million (\$4.4 million) and €12.2 million (\$15.8 million) as of September 30, 2012 and December 31, 2011, respectively.

Certain banks are parties to both facilities and are managing their exposures on an aggregated basis. As such, the commitment under the European LOC Facility is reduced by the face amount of existing letters of credit written against the Old European LOC Facility prior to its expiration. After consideration of outstanding commitments under both facilities, the available capacity under the European LOC Facility was €122.7 million (\$157.8 million) as of September 30, 2012, of which €62.0 million (\$79.7 million) has been utilized.

6. Supplemental Guarantor Financial Information

On September 11, 2012, we completed a public offering of Senior Notes that are fully and unconditionally and jointly and severally guaranteed by certain of our 100% owned domestic subsidiaries. In accordance with Rule 3-10 of Regulation S-X promulgated under the Securities Act of 1933, the

following condensed consolidating financial statements present the financial position, results of operations and cash flows of Flowserve Corporation (referred to as “Parent” for the purpose of this note only) on a Parent-only (Issuer) basis, the combined guarantor subsidiaries on a guarantor-only basis, the combined non-guarantor subsidiaries on a non-guarantor-only basis and elimination adjustments necessary to arrive at the information for the Parent, guarantor subsidiaries and non-guarantor subsidiaries on a consolidated basis. Investments in subsidiaries have been accounted for using the equity method for this presentation.

FLOWERVE CORPORATION
CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Three Months Ended September 30, 2012				
	Parent (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
(Amounts in thousands)					
Sales	\$ —	\$ 444,206	\$ 807,668	\$ (85,951)	\$ 1,165,923
Cost of sales	—	(290,892)	(571,378)	85,951	(776,319)
Gross profit	—	153,314	236,290	—	389,604
Selling, general and administrative expense	325	(95,054)	(133,068)	—	(227,797)
Net earnings from affiliates	—	1,199	2,700	—	3,899
Net earnings from consolidated subsidiaries, net of tax	109,165	60,848	—	(170,013)	—
Operating income	109,490	120,307	105,922	(170,013)	165,706
Interest expense, net	(4,428)	(4,958)	(2,550)	—	(11,936)
Other expense, net	—	(1,176)	(7,991)	—	(9,167)
Earnings before income taxes	105,062	114,173	95,381	(170,013)	144,603
Provision for income taxes	1,234	(5,008)	(33,995)	—	(37,769)
Net earnings, including noncontrolling interests	106,296	109,165	61,386	(170,013)	106,834
Less: Net earnings attributable to noncontrolling interests	—	—	(538)	—	(538)
Net earnings attributable to Flowserve Corporation	\$ 106,296	\$ 109,165	\$ 60,848	\$ (170,013)	\$ 106,296
Comprehensive income attributable to Flowserve Corporation	\$ 138,170	\$ 140,824	\$ 90,871	\$ (231,695)	\$ 138,170

	Three Months Ended September 30, 2011				
	Parent (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
(Amounts in thousands)					
Sales	\$ —	\$ 428,789	\$ 779,744	\$ (86,720)	\$ 1,121,813
Cost of sales	—	(271,212)	(560,735)	86,720	(745,227)
Gross profit	—	157,577	219,009	—	376,586
Selling, general and administrative expense	(383)	(94,200)	(131,413)	—	(225,996)
Net earnings from affiliates	—	1,030	3,337	—	4,367
Net earnings from consolidated subsidiaries, net of tax	108,197	61,396	—	(169,593)	—
Operating income	107,814	125,803	90,933	(169,593)	154,957
Interest expense, net	(230)	(4,693)	(3,405)	—	(8,328)
Other expense, net	—	(1,508)	(5,113)	—	(6,621)
Earnings before income taxes	107,584	119,602	82,415	(169,593)	140,008
Provision for income taxes	187	(11,405)	(20,834)	—	(32,052)
Net earnings, including noncontrolling interests	107,771	108,197	61,581	(169,593)	107,956
Less: Net earnings attributable to noncontrolling interests	—	—	(185)	—	(185)
Net earnings attributable to Flowserve Corporation	\$ 107,771	\$ 108,197	\$ 61,396	\$ (169,593)	\$ 107,771
Comprehensive income attributable to Flowserve Corporation	\$ 2,607	\$ 3,546	\$ (44,838)	\$ 41,292	\$ 2,607

Nine Months Ended September 30, 2012					
	Parent (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
(Amounts in thousands)					
Sales	\$ —	\$ 1,337,117	\$ 2,343,241	\$ (257,230)	\$ 3,423,128
Cost of sales	—	(880,848)	(1,666,121)	257,230	(2,289,739)
Gross profit	—	456,269	677,120	—	1,133,389
Selling, general and administrative expense	(2,655)	(290,428)	(380,495)	—	(673,578)
Net earnings from affiliates	—	3,154	10,060	—	13,214
Net earnings from consolidated subsidiaries, net of tax	312,681	195,451	—	(508,132)	—
Operating income	310,026	364,446	306,685	(508,132)	473,025
Interest expense, net	(5,776)	(14,334)	(9,039)	—	(29,149)
Other income (expense), net	—	673	(22,824)	—	(22,151)
Earnings before income taxes	304,250	350,785	274,822	(508,132)	421,725
Provision for income taxes	2,487	(38,104)	(77,247)	—	(112,864)
Net earnings, including noncontrolling interests	306,737	312,681	197,575	(508,132)	308,861
Less: Net earnings attributable to noncontrolling interests	—	—	(2,124)	—	(2,124)
Net earnings attributable to Flowserve Corporation	\$ 306,737	\$ 312,681	\$ 195,451	\$ (508,132)	\$ 306,737
Comprehensive income attributable to Flowserve Corporation	\$ 317,407	\$ 323,427	\$ 202,268	\$ (525,695)	\$ 317,407

Nine Months Ended September 30, 2011					
	Parent (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
(Amounts in thousands)					
Sales	\$ —	\$ 1,264,002	\$ 2,228,441	\$ (247,671)	\$ 3,244,772
Cost of sales	—	(808,936)	(1,589,888)	247,671	(2,151,153)
Gross profit	—	455,066	638,553	—	1,093,619
Selling, general and administrative expense	(4,417)	(274,034)	(403,167)	—	(681,618)
Net earnings from affiliates	—	3,072	10,242	—	13,314
Net earnings from consolidated subsidiaries, net of tax	307,808	186,215	—	(494,023)	—
Operating income	303,391	370,319	245,628	(494,023)	425,315
Interest expense, net	(874)	(13,466)	(11,244)	—	(25,584)
Other (expense) income, net	—	(4,280)	12,132	—	7,852
Earnings before income taxes	302,517	352,573	246,516	(494,023)	407,583
Provision for income taxes	967	(44,765)	(60,110)	—	(103,908)
Net earnings, including noncontrolling interests	303,484	307,808	186,406	(494,023)	303,675
Less: Net earnings attributable to noncontrolling interests	—	—	(191)	—	(191)
Net earnings attributable to Flowserve Corporation	\$ 303,484	\$ 307,808	\$ 186,215	\$ (494,023)	\$ 303,484
Comprehensive income attributable to Flowserve Corporation	\$ 274,039	\$ 279,308	\$ 153,932	\$ (433,240)	\$ 274,039

FLOWERVE CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEETS

	September 30, 2012				
	Parent (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
(Amounts in thousands)					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 23,808	\$ —	\$ 193,612	\$ —	\$ 217,420
Accounts receivable, net	—	264,717	840,924	—	1,105,641
Intercompany receivables	13,217	136,812	37,632	(187,661)	—
Inventories, net	—	382,732	772,993	—	1,155,725
Other current assets, net	2,037	135,061	105,186	—	242,284
Total current assets	39,062	919,322	1,950,347	(187,661)	2,721,070
Property, plant and equipment, net	—	192,058	413,302	—	605,360
Goodwill	—	671,858	375,871	—	1,047,729
Intercompany receivables	475,000	33,476	1,145	(509,621)	—
Investment in consolidated subsidiaries	2,401,573	1,524,919	—	(3,926,492)	—
Other assets, net	15,729	189,261	164,599	—	369,589
Total assets	\$ 2,931,364	\$ 3,530,894	\$ 2,905,264	\$ (4,623,774)	\$ 4,743,748
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	\$ —	\$ 140,702	\$ 375,798	\$ —	\$ 516,500
Intercompany payables	23	50,826	136,812	(187,661)	—
Accrued liabilities	7,593	260,776	567,961	—	836,330
Debt due within one year	20,000	196	28,665	—	48,861
Deferred taxes	—	—	8,748	—	8,748
Total current liabilities	27,616	452,500	1,117,984	(187,661)	1,410,439
Long-term debt due after one year	878,084	20	1,031	—	879,135
Intercompany payables	1,145	475,000	33,476	(509,621)	—
Retirement obligations and other liabilities	7,711	201,801	217,437	—	426,949
Total liabilities	914,556	1,129,321	1,369,928	(697,282)	2,716,523
Total Flowserve Corporation shareholders' equity	2,016,808	2,401,573	1,524,919	(3,926,492)	2,016,808
Noncontrolling interest	—	—	10,417	—	10,417
Total equity	2,016,808	2,401,573	1,535,336	(3,926,492)	2,027,225
Total liabilities and equity	\$ 2,931,364	\$ 3,530,894	\$ 2,905,264	\$ (4,623,774)	\$ 4,743,748

	December 31, 2011				
	Parent (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
(Amounts in thousands)					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 150,308	\$ —	\$ 187,048	\$ —	\$ 337,356
Accounts receivable, net	—	271,571	788,678	—	1,060,249
Intercompany receivables	—	118,292	33,883	(152,175)	—
Inventories, net	—	357,870	650,509	—	1,008,379
Other current assets, net	1,530	94,413	126,427	—	222,370
Total current assets	151,838	842,146	1,786,545	(152,175)	2,628,354
Property, plant and equipment, net	—	194,671	404,075	—	598,746
Goodwill	—	673,013	372,064	—	1,045,077
Intercompany receivables	475,000	14,697	1,144	(490,841)	—
Investment in consolidated subsidiaries	2,122,734	1,336,856	—	(3,459,590)	—
Other assets, net	10,039	184,855	155,543	—	350,437
Total assets	\$ 2,759,611	\$ 3,246,238	\$ 2,719,371	\$ (4,102,606)	\$ 4,622,614
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	\$ —	\$ 153,137	\$ 444,205	\$ —	\$ 597,342
Intercompany payables	223	33,660	118,292	(152,175)	—
Accrued liabilities	6,143	271,535	530,923	—	808,601
Debt due within one year	25,000	5	28,618	—	53,623
Deferred taxes	—	—	10,755	—	10,755
Total current liabilities	31,366	458,337	1,132,793	(152,175)	1,470,321
Long-term debt due after one year	450,000	40	1,553	—	451,593
Intercompany payables	1,144	475,000	14,697	(490,841)	—
Retirement obligations and other liabilities	7,288	190,127	225,055	—	422,470
Total liabilities	489,798	1,123,504	1,374,098	(643,016)	2,344,384
Total Flowserve Corporation shareholders' equity	2,269,813	2,122,734	1,336,856	(3,459,590)	2,269,813
Noncontrolling interest	—	—	8,417	—	8,417
Total equity	2,269,813	2,122,734	1,345,273	(3,459,590)	2,278,230
Total liabilities and equity	\$ 2,759,611	\$ 3,246,238	\$ 2,719,371	\$ (4,102,606)	\$ 4,622,614

FLOWERVE CORPORAION
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30, 2012				
	Parent (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
(Amounts in thousands)					
Net cash flows provided (used) by operating activities	\$ 49,256	\$ 74,283	\$ 50,767	\$ (51,742)	\$ 122,564
Cash flows — Investing activities:					
Capital expenditures	—	(25,366)	(58,814)	—	(84,180)
Payments for acquisitions, net of cash acquired	—	—	(3,996)	—	(3,996)
Intercompany loan proceeds	—	7,869	—	(7,869)	—
Intercompany loan payments	—	(26,648)	—	26,648	—
Intercompany return of capital	—	1,982	—	(1,982)	—
Intercompany capital contribution	—	(483)	—	483	—
Proceeds from disposition of assets	—	87	11,386	—	11,473
Affiliate investment activity, net	—	—	(3,825)	—	(3,825)
Net cash flows used by investing activities	—	(42,559)	(55,249)	17,280	(80,528)
Cash flows — Financing activities:					
Excess tax benefits from stock-based payment arrangements	—	8,837	2,219	—	11,056
Payments on long-term debt	(475,000)	—	—	—	(475,000)
Proceeds from issuance of senior notes	498,075	—	—	—	498,075
Proceeds from issuance of long-term debt	400,000	—	—	—	400,000
Proceeds from short-term financing	475,000	—	—	—	475,000
Payments on short-term financing	(475,000)	—	—	—	(475,000)
Borrowings under other financing arrangements, net	9	171	114	—	294
Repurchases of common shares	(533,864)	—	—	—	(533,864)
Payments of dividends	(55,569)	—	—	—	(55,569)
Payments of deferred loan costs	(9,657)	—	—	—	(9,657)
Intercompany loan proceeds	—	—	26,648	(26,648)	—
Intercompany loan payments	—	—	(7,869)	7,869	—
Intercompany distributions of capital	—	—	(1,982)	1,982	—
Intercompany capital contribution	—	—	483	(483)	—
Intercompany dividends	—	(40,732)	(11,010)	51,742	—
All other financing, net	250	—	(498)	—	(248)
Net cash flows (used) provided by financing activities	(175,756)	(31,724)	8,105	34,462	(164,913)
Effect of exchange rate changes on cash	—	—	2,941	—	2,941
Net change in cash and cash equivalents	(126,500)	—	6,564	—	(119,936)
Cash and cash equivalents at beginning of period	150,308	—	187,048	—	337,356
Cash and cash equivalents at end of period	\$ 23,808	\$ —	\$ 193,612	\$ —	\$ 217,420

Nine Months Ended September 30, 2011					
	Parent (Issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated Total
(Amounts in thousands)					
Net cash flows (used) provided by operating activities	\$ (18,148)	\$ 37,570	\$ (151,665)	\$ (17,842)	\$ (150,085)
Cash flows — Investing activities:					
Capital expenditures	—	(20,734)	(50,430)	—	(71,164)
Payments for acquisitions, net of cash acquired	—	(890)	—	—	(890)
Intercompany loan proceeds	—	36,912	—	(36,912)	—
Intercompany loan payments	—	(75,431)	—	75,431	—
Intercompany return of capital	—	18,971	—	(18,971)	—
Proceeds from disposition of assets	—	118	3,412	—	3,530
Net cash flows used by investing activities	—	(41,054)	(47,018)	19,548	(68,524)
Cash flows — Financing activities:					
Excess tax benefits from stock-based payment arrangements	—	3,499	1,702	—	5,201
Payments on long-term debt	(18,750)	—	—	—	(18,750)
Payments under other financing arrangements, net	—	(15)	(1,732)	—	(1,747)
Repurchases of common shares	(41,088)	—	—	—	(41,088)
Payments of dividends	(51,794)	—	—	—	(51,794)
Intercompany loan proceeds	—	—	75,431	(75,431)	—
Intercompany loan payments	—	—	(36,912)	36,912	—
Intercompany distributions of capital	—	—	(18,971)	18,971	—
Intercompany dividends	—	—	(17,842)	17,842	—
All other financing, net	310	—	(2,168)	—	(1,858)
Net cash flows (used) provided by financing activities	(111,322)	3,484	(492)	(1,706)	(110,036)
Effect of exchange rate changes on cash	—	—	(1,049)	—	(1,049)
Net change in cash and cash equivalents	(129,470)	—	(200,224)	—	(329,694)
Cash and cash equivalents at beginning of period	211,507	—	346,072	—	557,579
Cash and cash equivalents at end of period	<u>\$ 82,037</u>	<u>\$ —</u>	<u>\$ 145,848</u>	<u>\$ —</u>	<u>\$ 227,885</u>

7. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied. Assets and liabilities recorded at fair value in our condensed consolidated balance sheets are categorized by hierarchical levels based upon the level of judgment associated with the inputs used to measure their fair values. Recurring fair value measurements are limited to investments in derivative instruments and certain equity securities. The fair value measurements of our derivative instruments are determined using models that maximize the use of the observable market inputs including interest rate curves and both forward and spot prices for currencies, and are classified as Level II under the fair value hierarchy. The fair values of our derivatives are included in Note 4. The fair value measurements of our investments in equity securities are determined using quoted market prices and are classified as Level I. The fair values of our investments in equity securities, and changes thereto, are immaterial to our consolidated financial position and results of operations.

The fair value of our debt, excluding the Senior Notes, was estimated using interest rates on similar debt recently issued by companies with credit metrics similar to ours and is classified as Level II under the fair value hierarchy. The carrying value of our debt is included in Note 5 and, except for the Senior Notes, approximates fair value. The estimated fair value of our Senior Notes at September 30, 2012 was \$507.8 million compared to the carrying value of \$498.1 million. The estimated fair value of the Senior Notes is based on Level I quoted market rates. The carrying amounts of our other financial instruments (i.e., accounts receivable, net and accounts payable) approximated fair value at September 30, 2012 and December 31, 2011.

8. Inventories

Inventories, net consisted of the following:

(Amounts in thousands)	September 30, 2012	December 31, 2011
Raw materials	\$ 361,151	\$ 329,120
Work in process	872,156	793,053
Finished goods	313,212	279,267
Less: Progress billings	(312,985)	(320,934)
Less: Excess and obsolete reserve	(77,809)	(72,127)
Inventories, net	<u>\$ 1,155,725</u>	<u>\$ 1,008,379</u>

9. Equity Method Investments

As of September 30, 2012, we had investments in eight joint ventures (one located in each of Japan, Saudi Arabia, South Korea, and the United Arab Emirates and two located in each of China and India) that were accounted for using the equity method. Summarized below is the combined financial statement information of the joint ventures, based on the most recent financial information (unaudited) for those joint ventures:

(Amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$ 72,690	\$ 91,832	\$ 223,598	\$ 243,688
Gross profit	19,928	21,356	64,679	68,966
Income before provision for income taxes	12,747	14,772	45,180	47,607
Provision for income taxes	(3,539)	(4,189)	(13,345)	(14,237)
Net income	<u>\$ 9,208</u>	<u>\$ 10,583</u>	<u>\$ 31,835</u>	<u>\$ 33,370</u>

The \$19.1 million and \$20.0 million reduction in revenues for the three and nine months ended September 30, 2012 compared with the same periods in 2011 was primarily attributed to our Engineered Product Division ("EPD") joint venture in Japan and our Flow Control Division ("FCD") joint venture in India.

The provision for income taxes is based on the tax laws and rates in the countries in which our investees operate. The taxation regimes vary not only by their nominal rates, but also by the allowability of deductions, credits and other benefits. Our share of net income is reflected in our condensed consolidated statements of income.

10. Earnings Per Share

The following is a reconciliation of net earnings of Flowserve Corporation and weighted average shares for calculating net earnings per common share. Earnings per weighted average common share outstanding was calculated as follows:

	Three Months Ended September 30,	
	2012	2011
(Amounts in thousands, except per share data)		
Net earnings of Flowserve Corporation	\$ 106,296	\$ 107,771
Dividends on restricted shares not expected to vest	4	4
Earnings attributable to common and participating shareholders	\$ 106,300	\$ 107,775
Weighted average shares:		
Common stock	50,706	55,381
Participating securities	264	262
Denominator for basic earnings per common share	50,970	55,643
Effect of potentially dilutive securities	315	518
Denominator for diluted earnings per common share	51,285	56,161
Earnings per common share:		
Basic	\$ 2.09	\$ 1.94
Diluted	2.07	1.92

	Nine Months Ended September 30,	
	2012	2011
(Amounts in thousands, except per share data)		
Net earnings of Flowserve Corporation	\$ 306,737	\$ 303,484
Dividends on restricted shares not expected to vest	11	11
Earnings attributable to common and participating shareholders	\$ 306,748	\$ 303,495
Weighted average shares:		
Common stock	52,883	55,407
Participating securities	262	275
Denominator for basic earnings per common share	53,145	55,682
Effect of potentially dilutive securities	382	565
Denominator for diluted earnings per common share	53,527	56,247
Earnings per common share:		
Basic	\$ 5.77	\$ 5.45
Diluted	5.73	5.40

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

For the three and nine months ended both September 30, 2012 and 2011, no options to purchase common stock were excluded from the computation of potentially dilutive securities.

11. Legal Matters and Contingencies

Asbestos-Related Claims

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

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

indemnities from other companies, and we believe that a substantial majority of existing claims should continue to be covered by insurance or indemnities. Accordingly, we have recorded a liability for our estimate of the most likely settlement of asserted claims and a related receivable from insurers or other companies for our estimated recovery, to the extent we believe that the amounts of recovery are probable and not otherwise in dispute. While unfavorable rulings, judgments or settlement terms regarding these claims could have a material adverse impact on our business, financial condition, results of operations and cash flows, we currently believe the likelihood is remote. Additionally, we have claims pending against certain insurers that, if resolved more favorably than reflected in the recorded receivables, would result in discrete gains in the applicable quarter. We are currently unable to estimate the impact, if any, of unasserted asbestos-related claims, although future claims would also be subject to then existing indemnities and insurance coverage.

United Nations Oil-for-Food Program

In mid-2006, French authorities began an investigation of over 170 French companies, of which our French subsidiary was included, concerning suspected inappropriate activities conducted in connection with the United Nations Oil for Food Program. As anticipated and as previously disclosed, the French investigation of our French subsidiary was formally opened in the first quarter of 2010, and our French subsidiary has filed a formal response with the French court. In July 2012, the French court ruled against our procedural motions to challenge the constitutionality of the charges and quash the indictment, and the French Court ruling is currently proceeding through a formal review process. We currently do not expect to incur additional case resolution costs of a material amount in this matter; however, if the French authorities take enforcement action against our French subsidiary regarding its investigation, we may be subject to monetary and non-monetary penalties, which we currently do not believe will have a material adverse financial impact on our company.

In addition to the governmental investigation referenced above, on June 27, 2008, the Republic of Iraq filed a civil suit in federal court in New York against 93 participants in the United Nations Oil-for-Food Program, including us and our two foreign subsidiaries that participated in the program. There have been no material developments in this case since it was initially filed. We intend to vigorously contest the suit, and we believe that we have valid defenses to the claims asserted. While we cannot predict the outcome of the suit at the present time, we do not currently believe the resolution of this suit will have a material adverse financial impact on our company.

Other

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

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

Although none of the aforementioned potential liabilities can be quantified with absolute certainty except as otherwise indicated above, we have established reserves covering exposures relating to contingencies, to the extent believed to be reasonably estimable and probable based on past experience and available facts. While additional exposures beyond these reserves could exist, they currently cannot be estimated. We will continue to evaluate and update the reserves as necessary and appropriate.

12. Retirement and Postretirement Benefits

Components of the net periodic cost for retirement and postretirement benefits for the three months ended September 30, 2012 and 2011 were as follows:

(Amounts in millions)	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Postretirement Medical Benefits	
	2012	2011	2012	2011	2012	2011
Service cost	\$ 5.3	\$ 4.9	\$ 1.2	\$ 1.3	\$ —	\$ —
Interest cost	4.1	4.3	3.4	3.3	0.4	0.5
Expected return on plan assets	(5.3)	(5.4)	(2.1)	(2.1)	—	—
Amortization of prior service benefit	(0.3)	(0.3)	—	—	—	(0.4)
Amortization of unrecognized net loss (gain)	3.1	2.7	0.9	0.5	(0.4)	(0.4)
Net periodic cost (benefit) recognized	\$ 6.9	\$ 6.2	\$ 3.4	\$ 3.0	\$ —	\$ (0.3)

Components of the net periodic cost for retirement and postretirement benefits for the nine months ended September 30, 2012 and 2011 were as follows:

(Amounts in millions)	U.S. Defined Benefit Plans		Non-U.S. Defined Benefit Plans		Postretirement Medical Benefits	
	2012	2011	2012	2011	2012	2011
Service cost	\$ 15.9	\$ 14.8	\$ 3.5	\$ 3.8	\$ —	\$ —
Interest cost	12.3	12.9	10.1	9.9	1.1	1.4
Expected return on plan assets	(15.9)	(16.3)	(6.3)	(6.1)	—	—
Amortization of prior service benefit	(0.9)	(0.9)	—	—	—	(1.2)
Amortization of unrecognized net loss (gain)	9.2	8.1	2.9	1.5	(1.2)	(1.1)
Net periodic cost (benefit) recognized	\$ 20.6	\$ 18.6	\$ 10.2	\$ 9.1	\$ (0.1)	\$ (0.9)

After consideration of our intent to maintain fully funded status, we currently anticipate our contribution to our U.S. pension plan in 2012 will remain at the currently contributed amount of \$7.0 million, excluding direct benefits paid. See additional discussion of our retirement and postretirement benefits in Note 12 to our consolidated financial statements included in our 2011 Annual Report.

13. Shareholders' Equity

Dividends – On February 20, 2012, our Board of Directors authorized an increase in the payment of quarterly dividends on our common stock from \$0.32 per share to \$0.36 per share payable quarterly beginning on April 13, 2012. Generally, our dividend date-of-record is in the last month of the quarter and the dividend is paid the following month.

Share Repurchase Program – On May 31, 2012, we announced that our Board of Directors endorsed an updated capital structure strategy. A part of this capital structure strategy includes returning additional capital more quickly to shareholders through an expanded share repurchase program of \$1.0 billion. The \$1.0 billion share repurchase program authorization included approximately \$233 million of remaining capacity under our prior share repurchase program, which was originally approved by our Board of Directors on September 12, 2011 and replenished on December 15, 2011. Our share repurchase program does not have an expiration date, and we reserve the right to limit or terminate the repurchase program at anytime without notice.

As a part of the \$1.0 billion share repurchase program, on June 14, 2012, we entered into an accelerated share repurchase program (“ASR Program”) with J.P. Morgan Securities LLC, as agent for JPMorgan Chase Bank, N.A., London Branch, under which we agreed to repurchase an aggregate of \$300.0 million of our common stock. Under the ASR Program, we paid \$300.0 million and received an initial delivery of 2,260,738 shares, representing 80% of the ASR Program's value at the then-current price of \$106.16 per share. The remaining 20% of the ASR Program's value will be delivered at program settlement, with the final number of shares to be repurchased based on the volume-weighted average price of our common stock during the repurchase period, less an agreed upon discount and adjusted for the initial share delivery. Under the terms of the ASR Program, at settlement, we could either receive additional shares from the counterparty or be required to deliver additional shares or cash, at our option, to the counterparty. The ASR Program will be complete by the end of 2012.

The ASR Program was accounted for as two separate transactions: (i) as shares of common stock acquired in a treasury stock transaction and (ii) as a forward contract indexed to our own common stock. The initial delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted net earnings per share from the effective date of the ASR Program. We have determined that the forward contract indexed to our common stock met all of the applicable criteria for equity classification. The ASR Program was initially funded through a combination of cash on hand, existing capacity on our revolving credit facility and proceeds from the \$250.0 million Bridge Loan.

We repurchased 826,082 shares of our outstanding common stock for \$101.0 million, and 168,750 shares for \$15.1 million, during the three months ended September 30, 2012 and 2011, respectively. Inclusive of the ASR Program's 2,260,738 initial share delivery, representing 80% of the program's value, we repurchased 4,318,085 shares of our outstanding common stock for \$473.9 million, and 381,250 shares for \$41.1 million, during the nine months ended September 30, 2012 and 2011, respectively. As of September 30, 2012, we have \$523.7 million of remaining capacity under our current share repurchase program, after consideration of the full \$300.0 million value of the ASR Program.

14. Income Taxes

For the three months ended September 30, 2012, we earned \$144.6 million before taxes and provided for income taxes of \$37.8 million, resulting in an effective tax rate of 26.1%. For the nine months ended September 30, 2012, we earned \$421.7 million before taxes and provided for income taxes of \$112.9 million resulting in an effective tax rate of 26.8%. The effective tax rate varied from the U.S. federal statutory rate for the three and nine months ended September 30, 2012 primarily due to the net impact of foreign operations and a net reduction of our reserve for uncertain tax positions due to the lapse of the statute of limitations in certain jurisdictions.

For the three months ended September 30, 2011, we earned \$140.0 million before taxes and provided for income taxes of \$32.1 million, resulting in an effective tax rate of 22.9%. For the nine months ended September 30, 2011, we earned \$407.6 million before taxes and provided for income taxes of \$103.9 million, resulting in an effective tax rate of 25.5%. The effective tax rate varied from the U.S. federal statutory rate for the three months ended September 30, 2011 primarily due to the net impact of foreign operations and a net reduction of our reserve for uncertain tax positions due to the lapse of the statute of limitations in certain jurisdictions. The effective tax rate varied from the U.S. federal statutory rate for the nine months ended September 30, 2011 primarily due to the net impact of foreign operations and a net reduction of our reserve for uncertain tax positions due to the lapse of the statute of limitations in certain jurisdictions.

As of September 30, 2012, the amount of unrecognized tax benefits decreased by \$10.1 million from December 31, 2011, due to the net impacts of currency translation adjustments and expiration of statutes. With limited exception, we are no longer subject to U.S. federal, state and local income tax audits for years through 2007 or non-U.S. income tax audits for years through 2004. We are currently under examination for various years in China, Germany, India, Italy, Japan, Singapore, South Africa, the U.S., Venezuela and Vietnam.

It is reasonably possible that within the next 12 months the effective tax rate will be impacted by the resolution of some or all of the matters audited by various taxing authorities. It is also reasonably possible that we will have the statute of limitations close in various taxing jurisdictions within the next 12 months. As such, we estimate we could record a reduction in our tax expense of between \$7.8 million and \$22.6 million within the next 12 months.

15. Segment Information

We are principally engaged in the worldwide design, manufacture, distribution and service of industrial flow management equipment. We provide long lead-time, highly engineered pumps, shorter lead-time engineered pumps, standardized, general purpose pumps, mechanical seals, industrial valves and related automation products and solutions primarily for oil and gas, chemical, power generation, water management and other general industries requiring flow management products and services.

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

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

- EPD for long lead-time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services;
- Industrial Product Division ("IPD") for engineered and pre-configured industrial pumps and pump systems and related products and services; and
- FCD for engineered and industrial valves, control valves, actuators and controls and related services.

For decision-making purposes, our CEO and other members of senior executive management use financial information

generated and reported at the reportable segment level. Our corporate headquarters does not constitute a separate division or business segment. We evaluate segment performance and allocate resources based on each reportable segment's operating income. Amounts classified as "Eliminations and All Other" include corporate headquarters costs and other minor entities that do not constitute separate segments. Intersegment sales and transfers are recorded at cost plus a profit margin, with the sales and related margin on such sales eliminated in consolidation.

The following is a summary of the financial information of the reportable segments reconciled to the amounts reported in the condensed consolidated financial statements:

Three Months Ended September 30, 2012				Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
	EPD	IPD	FCD			
Sales to external customers	\$ 551,589	\$ 221,787	\$ 392,547	\$ 1,165,923	\$ —	\$ 1,165,923
Intersegment sales	15,898	21,770	2,160	39,828	(39,828)	—
Segment operating income	87,019	26,615	68,313	181,947	(16,241)	165,706

Three Months Ended September 30, 2011				Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
	EPD	IPD	FCD			
Sales to external customers	\$ 554,708	\$ 200,190	\$ 366,915	\$ 1,121,813	\$ —	\$ 1,121,813
Intersegment sales	19,549	15,449	1,407	36,405	(36,405)	—
Segment operating income	91,921	16,532	63,769	172,222	(17,265)	154,957

Nine Months Ended September 30, 2012				Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
	EPD	IPD	FCD			
Sales to external customers	\$ 1,641,925	\$ 627,522	\$ 1,153,681	\$ 3,423,128	\$ —	\$ 3,423,128
Intersegment sales	47,027	60,900	6,457	114,384	(114,384)	—
Segment operating income	274,249	67,796	184,359	526,404	(53,379)	473,025

Nine Months Ended September 30, 2011				Subtotal– Reportable Segments	Eliminations and All Other	Consolidated Total
	EPD	IPD	FCD			
Sales to external customers	\$ 1,593,681	\$ 563,586	\$ 1,087,505	\$ 3,244,772	\$ —	\$ 3,244,772
Intersegment sales	61,640	52,895	5,498	120,033	(120,033)	—
Segment operating income	270,363	39,225	171,239	480,827	(55,512)	425,315

EPD's operating income for the nine months ended September 30, 2012, included a \$10.4 million gain from the sale of a manufacturing facility in Rio de Janeiro, Brazil, in preparation for opening a new manufacturing facility there later in 2012.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements, and notes thereto, and the other financial data included elsewhere in this Quarterly Report. The following discussion should also be read in conjunction with our audited consolidated financial statements, and notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") included in our 2011 Annual Report.

EXECUTIVE OVERVIEW

Our Company

We believe that we are a world-leading manufacturer and aftermarket service provider of comprehensive flow control systems. We develop and manufacture precision-engineered flow control equipment integral to the movement, management and protection of the flow of materials in our customers' critical processes. Our product portfolio of pumps, valves, seals, automation and aftermarket services supports global infrastructure industries, including oil and gas, chemical, power generation and water management, as well as general industrial markets, on an integrated basis where our products and services add value. Through our manufacturing platform and global network of Quick Response Centers ("QRCs"), we offer a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting. We currently employ approximately 17,000 employees in more than 50 countries.

Our business model is significantly influenced by the capital spending of global infrastructure industries for the placement of new products into service and aftermarket services for existing operations. The worldwide installed base of our products is an important source of aftermarket revenue, where products are expected to ensure the maximum operating time of many key industrial processes. Over the past several years, we have significantly invested in our aftermarket strategy to provide local support to maximize our customers' investment in our offerings, as well as to provide business stability during various economic cycles. The aftermarket business, which is served by our network of 175 QRCs located around the globe, provides a variety of service offerings for our customers including spare parts, service solutions, product life cycle solutions and other value-added services, and is generally a higher margin business and a key component of our profitable growth strategy.

Our operations are conducted through three business segments that are referenced throughout this MD&A:

- EPD for long lead-time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services;
- IPD for engineered and pre-configured industrial pumps and pump systems and related products and services; and
- FCD for engineered and industrial valves, control valves, actuators and controls and related services.

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

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

We continue to build on our geographic breadth through our QRC network with the goal to be positioned as near to customers as possible for service and support in order to capture this important aftermarket business. Along with ensuring that we have the local capability to sell, install and service our equipment in remote regions, it is equally imperative to continuously improve our global operations. We continue to expand our global supply chain capability to meet global customer demands and ensure the quality and timely delivery of our products. We continue to devote resources to improving the supply chain processes across our divisions to find areas of synergy and cost reduction and to improve our supply chain management capability to ensure it can meet global customer demands. We continue to focus on improving on-time delivery and quality, while managing warranty costs as a percentage of sales across our global operations, through the assistance of a focused Continuous Improvement Process ("CIP") initiative. The goal of the CIP initiative, which includes lean manufacturing, six sigma business management strategy and value engineering, is to maximize service fulfillment to customers through on-time delivery, reduced cycle time and quality at the highest internal productivity.

During the first nine months of 2012, we experienced improved bookings despite an environment of continued global macroeconomic uncertainty. The oil and gas industry experienced stable conditions, while the chemical industry saw increased activity, driven by Asia Pacific and Middle Eastern countries accelerating investment in their chemical processing capabilities, and also in North America, as producers invested to utilize natural gas as a low-cost feedstock. We experienced a modest decline in bookings into Europe, as economic conditions in the region remain challenged. In the power generation industry, we experienced a slowing in the level of investment during the period as the industry awaits further clarity on the environmental regulations to take effect in the U.S. and certain other countries.

We continue to experience favorable conditions in our aftermarket business, which has been driven by our customers' need to maintain continuing operations across several industries and the expansion of our aftermarket capabilities through our integrated solutions offerings. Our pursuit of major capital projects globally and our investment in our ability to serve our customers in a local manner remain key components of our long-term growth strategy, and also provide stability during various economic periods. We believe that our commitment to localize service support capabilities close to our customers' operations through our QRC network has provided us with the opportunity to grow our market share in the aftermarket portion of our business.

We believe that with our customer relationships, global presence and highly-regarded technical capabilities, we will continue to have opportunities in our core industries; however, we face challenges affecting many companies in our industry with a significant multinational presence, such as economic, political, currency and other risks.

As previously disclosed in our 2011 Annual Report, during 2011, political and economic conditions in North Africa caused us to experience shipment delays to this region. For the three and nine months ended September 30, 2012, there was no impact to operating income due to delayed shipments to the region. The preponderance of our physical assets in the region are located in the Kingdom of Saudi Arabia and the United Arab Emirates and have, to date, not been significantly affected by the unrest elsewhere in the region.

At September 30, 2012, we had no direct investments in European sovereign or non-sovereign debt. However, certain of our defined benefit plans hold investments in European equity and fixed income securities as discussed in Note 12 to our consolidated financial statements included in our 2011 Annual Report. Other than broad, macro-level economic impacts, including foreign exchange rate impacts, we did not experience any direct or measurable disruptions during the three and six months ended September 30, 2012 due to the European sovereign debt crisis. We will continue to monitor and evaluate the impact of any future developments in the region on our current business, our customers and suppliers and the state of the global economy.

RESULTS OF OPERATIONS — Three and nine months ended September 30, 2012 and 2011

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

As discussed in Note 2 to our condensed consolidated financial statements included in this Quarterly Report, we acquired LPI, a privately-owned, U.S.-based pump manufacturer, for inclusion in EPD, effective October 28, 2011. LPI's results of operations have been consolidated since the date of acquisition. No pro forma information has been provided for the acquisition due to immateriality.

Consolidated Results

Bookings, Sales and Backlog

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Bookings	\$ 1,186.1	\$ 1,159.7
Sales	1,165.9	1,121.8
	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Bookings	\$ 3,635.4	\$ 3,526.6
Sales	3,423.1	3,244.8

We define a booking as the receipt of a customer order that contractually engages us to perform activities on behalf of our customer with regard to manufacturing, service or support. Bookings recorded and subsequently canceled within the year-to-date period are excluded from year-to-date bookings. Bookings for the three months ended September 30, 2012 increased by \$26.4 million, or 2.3%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$78 million. The increase was primarily driven by the oil and gas industry in EPD and IPD, partially offset by a decrease in the power generation industry in EPD and the chemical industry in FCD. The increase was also driven by original equipment bookings in IPD, partially offset by reduced original equipment bookings in FCD and reduced aftermarket bookings in EPD, and included the impact of IPD orders in excess of \$90 million to supply offshore oil and gas platform equipment over the next five years.

Bookings for the nine months ended September 30, 2012 increased by \$108.8 million, or 3.1%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$189 million. The increase was primarily driven

by the oil and gas and chemical industries in EPD and IPD, partially offset by the power generation industry in EPD. The increase was also attributable to original equipment bookings in IPD, and to a lesser extent aftermarket bookings in EPD, partially offset by reduced original equipment bookings in FCD.

Sales for the three months ended September 30, 2012 increased by \$44.1 million, or 3.9%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$75 million. The increase was primarily due to increased original equipment sales in IPD and FCD. Net sales to international customers, including export sales from the U.S., were approximately 71% and 74% of total sales for the three months ended September 30, 2012 and 2011, respectively.

Sales for the nine months ended September 30, 2012 increased by \$178.3 million, or 5.5%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$185 million. The increase was primarily due to increased original equipment sales in IPD and FCD, and aftermarket sales in EPD. Net sales to international customers, including export sales from the U.S., were approximately 70% and 73% of total sales for the nine months ended September 30, 2012 and 2011, respectively.

Backlog represents the aggregate value of booked but uncompleted customer orders and is influenced primarily by bookings, sales, cancellations and currency effects. Backlog of \$2,881.0 million at September 30, 2012 increased by \$190.9 million, or 7.1%, as compared with December 31, 2011. Currency effects provided a decrease of approximately \$2 million. Approximately 25% of the backlog at September 30, 2012 was related to aftermarket orders. Aftermarket backlog of \$713.5 million at September 30, 2012 increased by \$80.6 million, or 12.7% as compared to December 31, 2011.

Gross Profit and Gross Profit Margin

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Gross profit	\$ 389.6	\$ 376.6
Gross profit margin	33.4%	33.6%

	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Gross profit	\$ 1,133.4	\$ 1,093.6
Gross profit margin	33.1%	33.7%

Gross profit for the three months ended September 30, 2012 increased by \$13.0 million, or 3.5%, as compared with the same period in 2011. Gross profit margin for the three months ended September 30, 2012 of 33.4% decreased from 33.6% for the same period in 2011. The decrease was attributed to a mix shift from aftermarket sales to original equipment sales, and, to a lesser extent, by a larger effect on revenue of certain large, lower margin projects that shipped from backlog, partially offset by the effects of lower costs as a result of operational improvements, as compared with the same period in 2011. Aftermarket sales decreased to approximately 39% of total sales, as compared with approximately 41% of total sales for the same period in 2011. Aftermarket sales generally carry a higher margin compared to original equipment sales.

Gross profit for the nine months ended September 30, 2012 increased by \$39.8 million, or 3.6%, as compared with the same period in 2011. Gross profit margin for the nine months ended September 30, 2012 of 33.1% decreased from 33.7% for the same period in 2011. The decrease was primarily attributable to the effect on revenue of certain large, lower margin projects that shipped from backlog in EPD and a mix shift from aftermarket sales to original equipment sales. Aftermarket sales decreased to approximately 40% of total sales, as compared to 41% of total sales for the same period in 2011.

Selling, General and Administrative Expense ("SG&A")

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
SG&A	\$ 227.8	\$ 226.0
SG&A as a percentage of sales	19.5%	20.1%

	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
SG&A	\$ 673.6	\$ 681.6
SG&A as a percentage of sales	19.7%	21.0%

SG&A for the three months ended September 30, 2012 increased by \$1.8 million, or 0.8%, as compared with the same period in 2011. Currency effects yielded a decrease of approximately \$11 million. SG&A as a percentage of sales for the three months ended September 30, 2012 improved 60 basis points as compared with the same period in 2011 due in part to a continued focus on cost management.

SG&A for the nine months ended September 30, 2012 decreased by \$8.0 million, or 1.2%, as compared with the same period in 2011. Currency effects yielded a decrease of approximately \$26 million. The decrease included a \$10.4 million gain in the first quarter of 2012 from the sale of our manufacturing facility in Rio de Janeiro, Brazil, in preparation for opening a new manufacturing facility there later in 2012, partially offset by increased selling-related expenses in FCD in support of increased sales and EPD in support of increased bookings and sales. SG&A as a percentage of sales for the nine months ended September 30, 2012 improved 130 basis points as compared with the same period in 2011 due in part to a continued focus on cost management.

Net Earnings from Affiliates

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Net earnings from affiliates	\$ 3.9	\$ 4.4

	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Net earnings from affiliates	\$ 13.2	\$ 13.3

Net earnings from affiliates represents our net income from investments in eight joint ventures (one located in each of Japan, Saudi Arabia, South Korea and the United Arab Emirates and two located in each of China and India) that are accounted for using the equity method of accounting. Net earnings from affiliates for the three months ended September 30, 2012 decreased \$0.5 million, or 11.4%, as compared with the same period in 2011, primarily due to our FCD joint venture in India.

Net earnings from affiliates for the nine months ended September 30, 2012, was comparable with the same period in 2011.

Operating Income and Operating Margin

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Operating income	\$ 165.7	\$ 155.0
Operating income as a percentage of sales	14.2%	13.8%

	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Operating income	\$ 473.0	\$ 425.3
Operating income as a percentage of sales	13.8%	13.1%

Operating income for the three months ended September 30, 2012 increased by \$10.7 million, or 6.9%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$12 million. The increase was primarily a result of the \$13.0 million increase in gross profit. The improvement in operating income as a percentage of sales was primarily due to SG&A as a percentage of sales decreasing to 19.5% from 20.1% for the same period in 2011, slightly offset by the decrease in gross profit margin.

Operating income for the nine months ended September 30, 2012 increased by \$47.7 million, or 11.2%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$33 million. The increase was primarily a result of the \$39.8 million increase in gross profit. The improvement in operating income as a percentage of sales was primarily

due to SG&A as a percentage of sales decreasing to 19.7% from 21.0% for the same period in 2011, partially offset by the decrease in gross profit margin.

Interest Expense and Interest Income

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Interest expense	\$ (12.1)	\$ (8.5)
Interest income	0.2	0.2
	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Interest expense	\$ (29.9)	\$ (26.7)
Interest income	0.7	1.1

Interest expense for the three and nine months ended September 30, 2012 increased by \$3.6 million and \$3.2 million, respectively, as compared with the same periods in 2011. The increase was primarily attributable to interest expense associated with our Bridge Loan and Senior Notes, and \$1.3 million in unamortized deferred loan costs related to our Prior Credit Agreement that were expensed in the third quarter of 2012. Approximately 75% of our Term Loan Facility was at fixed rates at September 30, 2012, including the effects of \$300.0 million of notional interest rate swaps.

Interest income for the three months ended September 30, 2012 was consistent with the same period in 2011. Interest income for the nine months ended September 30, 2012 decreased by \$0.4 million as compared with the same period in 2011. The small decrease was primarily attributable to lower average cash balances in the nine months ended September 30, 2012 as compared with the same period in 2011.

Other (Expense) Income, Net

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Other expense, net	\$ (9.2)	\$ (6.6)
	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Other (expense) income, net	\$ (22.2)	\$ 7.9

Other expense, net for the three months ended September 30, 2012 increased \$2.6 million to \$9.2 million as compared with the same period in 2011, primarily due to a \$11.4 increase in losses (due to a \$7.6 million loss in the current period, primarily due to the Mexican peso, Indian rupee and Euro, as compared with a \$3.8 million gain in the prior period) arising from transactions in currencies other than our sites' functional currencies, partially offset by a \$9.0 million decrease in losses (due to a \$0.9 million loss in the current period as compared with a \$9.9 million loss in the prior period) on foreign exchange contracts. The foreign exchange contract losses reflect the strengthening of the Euro versus the U.S. dollar during the three months ended September 30, 2012, as compared with a weakening during the same period in 2011.

Other (expense) income, net for the nine months ended September 30, 2012 decreased \$30.1 million to other expense, net of \$22.2 million as compared with the same period in 2011, primarily due to a \$22.8 million increase in losses (due to a \$15.1 million loss in the current period, primarily due to the Euro and Mexican peso, as compared with a \$7.7 million gain in the prior period) arising from transactions in currencies other than our sites' functional currencies, as well as a \$6.7 million increase in losses (due to a \$6.5 million loss in the current period as compared with a \$0.2 million gain in the prior period) on foreign exchange contracts. The foreign exchange contract losses reflect the continued weakening of the Euro versus the U.S. dollar during the nine months ended September 30, 2012, as compared with the same period in 2011.

Tax Expense and Tax Rate

(Amounts in millions, except percentages)

Provision for income taxes

Effective tax rate

Three Months Ended September 30,	
2012	2011
\$ 37.8	\$ 32.1
26.1%	22.9%

(Amounts in millions, except percentages)

Provision for income taxes

Effective tax rate

Nine Months Ended September 30,	
2012	2011
\$ 112.9	\$ 103.9
26.8%	25.5%

Our effective tax rate of 26.1% for the three months ended September 30, 2012 increased from 22.9% for the same period in 2011. The effective tax rate varied from the U.S. federal statutory rate for the three months ended September 30, 2012 primarily due to the net impact of foreign operations and a net reduction of our reserve for uncertain tax positions due to the lapse of the statute of limitations in certain jurisdictions.

Our effective tax rate of 26.8% for the nine months ended September 30, 2012 increased from 25.5% for the same period in 2011. The effective tax rate varied from the U.S. federal statutory rate for the nine months ended September 30, 2012 primarily due to the net impact of foreign operations and a net reduction of our reserve for uncertain tax positions due to the lapse of the statute of limitations in certain jurisdictions.

Other Comprehensive (Expense) Income

(Amounts in millions)

Other comprehensive income (expense)

Three Months Ended September 30,	
2012	2011
\$ 32.0	\$ (105.5)

(Amounts in millions)

Other comprehensive income (expense)

Nine Months Ended September 30,	
2012	2011
\$ 10.7	\$ (29.3)

Other comprehensive income (expense) for the three months ended September 30, 2012 increased \$137.5 million to income of \$32.0 million as compared with the same period in 2011. The increase was primarily due to the strengthening of the Euro versus the U.S. dollar during the three months ended September 30, 2012, as compared with the same period in 2011.

Other comprehensive income (expense) for the nine months ended September 30, 2012 increased \$40.0 million to income of \$10.7 million as compared with the same period in 2011. The increase was primarily due to the strengthening of the Mexican peso, Indian rupee and British pound versus the U.S. dollar during the nine months ended September 30, 2012, as compared with the same period in 2011.

Business Segments

We conduct our operations through three business segments based on type of product and how we manage the business. We evaluate segment performance and allocate resources based on each segment's operating income. See Note 15 to our condensed consolidated financial statements included in this Quarterly Report for further discussion of our segments. The key operating results for our three business segments, EPD, IPD and FCD, are discussed below.

Engineered Product Division Segment Results

Our largest business segment is EPD, through which we design, manufacture, distribute and service custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts (collectively referred to as "original equipment"). EPD includes longer lead-time, highly-engineered pump products and shorter cycle engineered pumps and mechanical seals that are generally manufactured more quickly. EPD also manufactures replacement parts and related equipment and provides a full array of replacement parts, repair and support services (collectively referred to as "aftermarket"). EPD primarily operates in the oil and gas, power generation, chemical, water management and general industries. EPD operates in 40 countries with 29 manufacturing facilities worldwide, nine of which are located in Europe, 11 in North America, four in Asia and five in Latin America, and it has 125 QRCs, including those co-located in manufacturing facilities.

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Bookings	\$ 553.7	\$ 567.6
Sales	567.5	574.3
Gross profit	192.3	193.1
Gross profit margin	33.9%	33.6%
Segment operating income	87.0	91.9
Segment operating income as a percentage of sales	15.3%	16.0%

	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Bookings	\$ 1,818.2	\$ 1,753.7
Sales	1,689.0	1,655.3
Gross profit	571.4	573.3
Gross profit margin	33.8%	34.6%
Segment operating income	274.2	270.4
Segment operating income as a percentage of sales	16.2%	16.3%

Bookings for the three months ended September 30, 2012 decreased by \$13.9 million, or 2.4%, as compared with the same period in 2011. The decrease included negative currency effects of approximately \$37 million. The decrease in customer bookings was primarily driven by the power generation industry, partially offset by the oil and gas industry. Decreased customer bookings of \$21.6 million into Europe and \$7.6 million into Asia Pacific were partially offset by an increase of \$13.2 million into the Middle East. The decrease was primarily driven by customer aftermarket bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$4.7 million.

Bookings for the nine months ended September 30, 2012 increased by \$64.5 million, or 3.7%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$98 million. The increase in customer bookings was primarily driven by the oil and gas, chemical and general industries, partially offset by the power generation industry. Increased customer bookings of \$104.3 million into Asia Pacific and \$71.5 million into North America were partially offset by a decrease of \$115.9 million into the Middle East. The increase was also driven by aftermarket bookings. The increase included the impact of an order in the first quarter of 2011 in excess of \$80 million to supply a variety of pumps for a refinery that did not recur. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$8.6 million.

Sales for the three months ended September 30, 2012 decreased \$6.8 million, or 1.2%, as compared with the same period in 2011. The decrease included negative currency effects of approximately \$37 million. The decrease was primarily driven by decreased original equipment sales, resulting from decreased sales of \$19.5 million into Europe and \$8.2 million into Latin America, partially offset by increased sales of \$13.1 million into Asia Pacific and \$12.1 million into North America. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) decreased \$3.7 million.

Sales for the nine months ended September 30, 2012 increased \$33.7 million, or 2.0%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$94 million. The increase was more heavily weighted towards aftermarket sales, primarily resulting from increased customer sales of \$39.4 million into the Middle East and \$33.6 million into North America, partially offset by decreased sales of \$47.0 million into Europe. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) decreased \$14.6 million.

Gross profit for the three months ended September 30, 2012 decreased by \$0.8 million, or 0.4%, as compared with the same period in 2011. Gross profit margin for the three months ended September 30, 2012 of 33.9% increased from 33.6% for the same period in 2011. The increase was primarily attributed to a sales mix shift to higher margin aftermarket sales and the effects of lower costs associated with operational execution improvements, partially offset by a larger effect on revenue of certain large, lower margin projects that shipped from backlog, as compared with the same period in 2011.

Gross profit for the nine months ended September 30, 2012 decreased by \$1.9 million, or 0.3%, as compared with the same period in 2011. Gross profit margin for the nine months ended September 30, 2012 of 33.8% decreased from 34.6% for the same period in 2011. The decrease was primarily attributed to the effect on revenue of certain large, lower margin projects that shipped from backlog.

Operating income for the three months ended September 30, 2012 decreased by \$4.9 million, or 5.3%, as compared with the same period in 2011. The decrease included negative currency effects of approximately \$6 million. The decrease was due primarily to increased SG&A of \$4.9 million. The increase in SG&A was primarily due to increased selling-related expenses.

Operating income for the nine months ended September 30, 2012 increased by \$3.8 million, or 1.4%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$18 million. The increase was due primarily to decreased SG&A of \$4.3 million, partially offset by decreased gross profit of \$1.9 million. The decrease in SG&A included a \$10.4 million gain from the sale of our manufacturing facility in Rio de Janeiro, Brazil, in preparation for opening a new manufacturing facility there later in 2012, partially offset by increased selling-related expenses.

Backlog of \$1,551.2 million at September 30, 2012 increased by \$109.6 million, or 7.6%, as compared with December 31, 2011. Currency effects provided a decrease of approximately \$1 million. Backlog at September 30, 2012 and December 31, 2011 included \$16.7 million and \$19.9 million, respectively, of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above).

Industrial Product Division Segment Results

Through IPD, we design, manufacture, distribute and service engineered, pre-configured industrial pumps and pump systems, including submersible motors (collectively referred to as "original equipment"). Additionally, IPD manufactures replacement parts and related equipment, and provides a full array of support services (collectively referred to as "aftermarket"). IPD primarily operates in the oil and gas, chemical, water management, power generation and general industries. IPD operates 12 manufacturing facilities, three of which are located in the U.S and six in Europe, and it operates 21 QRCs worldwide, including 11 sites in Europe and four in the U.S., including those co-located in manufacturing facilities.

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Bookings	\$ 283.5	\$ 223.2
Sales	243.6	215.6
Gross profit	59.1	50.9
Gross profit margin	24.3%	23.6%
Segment operating income	26.6	16.5
Segment operating income as a percentage of sales	10.9%	7.7%

	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Bookings	\$ 758.1	\$ 674.5
Sales	688.4	616.5
Gross profit	164.6	140.4
Gross profit margin	23.9%	22.8%
Segment operating income	67.8	39.2
Segment operating income as a percentage of sales	9.8%	6.4%

Bookings for the three months ended September 30, 2012 increased by \$60.3 million, or 27.0%, as compared with the same period in 2011. This increase included negative currency effects of approximately \$17 million. The increase was primarily driven by increased customer bookings in the oil and gas industry. The increase included the impact of orders in excess of \$90 million to supply offshore oil and gas platform equipment over the next five years primarily to an end customer in Latin America. Increased bookings of \$85.8 million into Latin America were partially offset by a decrease of \$15.0 million into Europe. The increase was driven by customer original equipment bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$5.3 million.

Bookings for the nine months ended September 30, 2012 increased by \$83.6 million, or 12.4%, as compared with the same period in 2011. This increase included negative currency effects of approximately \$33 million. The increase was primarily driven by increased customer bookings in the oil and gas and chemical industries, partially offset by the water management industry. The increase included the impact of orders in excess of \$90 million to supply offshore oil and gas platform equipment over the next five years primarily to an end customer in Latin America. Increased bookings of \$98.8 million into Latin America and \$31.3 million into North America were partially offset by a decrease of \$30.4 million into Europe. The increase was driven by customer original equipment bookings. Interdivision bookings (which are eliminated and are not included in consolidated bookings as disclosed above) decreased \$5.3 million.

disclosed above) decreased \$10.3 million.

Sales for the three months ended September 30, 2012 increased by \$28.0 million, or 13.0%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$12 million. The increase was primarily driven by increased customer original equipment sales. Increased sales of \$14.9 million into Asia Pacific, \$8.0 million into North America and \$7.7 million into Latin America were partially offset by decreased sales of \$9.0 million into Europe. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) increased \$6.3 million.

Sales for the nine months ended September 30, 2012 increased by \$71.9 million, or 11.7%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$29 million. The increase in customer sales was primarily driven by original equipment sales. Increased sales of \$39.0 million into North America, \$18.8 million into the Middle East and \$16.8 million into Asia Pacific were partially offset by decreased sales of \$12.4 million into Europe. Interdivision sales (which are eliminated and are not included in consolidated sales as disclosed above) increased \$8.0 million.

Gross profit for the three months ended September 30, 2012 increased by \$8.2 million, or 16.1%, as compared with the same period in 2011. Gross profit margin for the three months ended September 30, 2012 of 24.3% increased from 23.6% for the same period in 2011. The increase was primarily attributable to lower costs resulting from operational improvements and continued realization of realignment savings, partially offset by a mix shift to lower margin original equipment sales.

Gross profit for the nine months ended September 30, 2012 increased by \$24.2 million, or 17.2%, as compared with the same period in 2011. Gross profit margin for the nine months ended September 30, 2012 of 23.9% increased from 22.8% for the same period in 2011. The increase was primarily attributable to \$7.1 million of IPD recovery plan realignment charges incurred in the second quarter of 2011, lower costs resulting from operational improvements and continued realization of realignment savings.

Operating income for the three months ended September 30, 2012 increased by \$10.1 million, or 61.2%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$2 million. The increase was due to the \$8.2 million increase in gross profit discussed above and a \$1.8 million decrease in SG&A.

Operating income for the nine months ended September 30, 2012 increased by \$28.6 million, or 73.0%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$4 million. The increase was due to the \$24.2 million increase in gross profit discussed above and a \$4.3 million decrease in SG&A due to disciplined cost management.

Backlog of \$640.4 million at September 30, 2012 increased by \$72.6 million, or 12.8%, as compared with December 31, 2011. Currency effects provided an increase of approximately \$2 million. Backlog at September 30, 2012 and December 31, 2011 included \$55.0 million and \$56.7 million, respectively, of interdivision backlog (which is eliminated and not included in consolidated backlog as disclosed above).

Flow Control Division Segment Results

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

	Three Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Bookings	\$ 381.4	\$ 409.9
Sales	394.7	368.3
Gross profit	139.6	131.3
Gross profit margin	35.4%	35.7%
Segment operating income	68.3	63.8
Segment operating income as a percentage of sales	17.3%	17.3%

	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions, except percentages)		
Bookings	\$ 1,173.0	\$ 1,227.1
Sales	1,160.1	1,093.0
Gross profit	399.1	378.8
Gross profit margin	34.4%	34.7%
Segment operating income	184.4	171.2
Segment operating income as a percentage of sales	15.9%	15.7%

Bookings for the three months ended September 30, 2012 decreased \$28.5 million, or 7.0%, as compared with the same period in 2011. The decrease included negative currency effects of approximately \$24 million. The decrease in customer bookings was primarily attributable to the chemical, general and oil and gas industries, partially offset by an increase in the power generation industry. Decreased customer bookings of \$26.0 million into the Middle East and \$11.3 million into Latin America were partially offset by an increase of \$13.3 million into Europe, primarily Russia. The decrease was also driven by reduced customer original equipment bookings.

Bookings for the nine months ended September 30, 2012 decreased \$54.1 million, or 4.4%, as compared with the same period in 2011. The decrease included negative currency effects of approximately \$58 million. The decrease in customer bookings was primarily attributable to the general, oil and gas and chemical industries, partially offset by an increase in the power generation industry. Decreased customer bookings of \$44.7 million into Europe and \$18.8 million into Latin America were partially offset by an increase of \$15.6 million into North America. The decrease was also driven by reduced original equipment bookings.

Sales for the three months ended September 30, 2012 increased \$26.4 million, or 7.2%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$26 million. The increase was primarily driven by customer original equipment sales and was primarily attributable to growth in the oil and gas industry. Increased sales of \$28.8 million into Asia Pacific and \$19.5 million into North America were partially offset by decreases of \$19.6 million into Europe.

Sales for the nine months ended September 30, 2012 increased \$67.1 million, or 6.1%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$62 million. The increase was primarily driven by customer original equipment sales and the oil and gas and chemical industries. Increased sales of \$71.1 million into Asia Pacific and \$45.1 million into North America were partially offset by a decrease of \$41.2 million into Europe.

Gross profit for the three months ended September 30, 2012 increased \$8.3 million or 6.3%, as compared with the same period in 2011. Gross profit margin for the three months ended September 30, 2012 of 35.4% decreased from 35.7% for the same period in 2011. The decrease was attributable to a shift in product line mix and a less favorable sales mix between original equipment and aftermarket.

Gross profit for the nine months ended September 30, 2012 increased by \$20.3 million, or 5.4%, as compared with the same period in 2011. Gross profit margin for the nine months ended September 30, 2012 of 34.4% decreased from 34.7% for the same period in 2011. The decrease was attributable to a shift in product line mix and a less favorable sales mix between original equipment and aftermarket.

Operating income for the three months ended September 30, 2012 increased by \$4.5 million, or 7.1%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$5 million. The increase was primarily attributable to the \$8.3 million improved gross profit, partially offset by a \$2.5 million increase in SG&A.

Operating income for the nine months ended September 30, 2012 increased by \$13.2 million, or 7.7%, as compared with the same period in 2011. The increase included negative currency effects of approximately \$11 million. The increase was principally attributable to the \$20.3 million increase in gross profit as discussed above, partially offset by a \$5.5 million increase in SG&A. Increased SG&A was primarily attributable to increased selling and administrative costs.

Backlog of \$766.3 million at September 30, 2012 increased by \$6.4 million, or 0.8%, as compared with December 31, 2011. Currency effects provided a decrease of approximately \$3 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow and Liquidity Analysis

	Nine Months Ended September 30,	
	2012	2011
(Amounts in millions)		
Net cash flows provided (used) by operating activities	\$ 122.6	\$ (150.1)
Net cash flows used by investing activities	(80.5)	(68.5)
Net cash flows used by financing activities	(164.9)	(110.0)

Existing cash, cash generated by operations and borrowings available under our existing revolving credit facility are our primary sources of short-term liquidity. We monitor the depository institutions that hold our cash and cash equivalents on a regular basis, and we believe that we have placed our deposits with creditworthy financial institutions. Our sources of operating cash generally include the sale of our products and services and the conversion of our working capital, particularly accounts receivable and inventories. Our cash balance at September 30, 2012 was \$217.4 million, as compared with \$337.4 million at December 31, 2011.

Our cash balance decreased by \$120.0 million to \$217.4 million as of September 30, 2012 as compared with December 31, 2011. The cash used in the first nine months of 2012 included \$533.9 million of share repurchases, the funding of increased working capital requirements discussed below, \$84.2 million in capital expenditures, \$75.0 million in net payments on long-term debt and \$55.6 million in dividend payments, partially offset by \$498.1 million in proceeds from the issuance of Senior Notes.

For the nine months ended September 30, 2012, our cash provided by operating activities was \$122.6 million as compared with a use of \$150.1 million for the same period in 2011, and provided cash to support short-term and cyclical working capital needs. Working capital increased for the nine months ended September 30, 2012, due primarily to higher inventory of \$149.3 million and lower accounts payable of \$75.2 million. Working capital increased for the nine months ended September 30, 2011, due primarily to higher inventory of \$206.1 million and higher accounts receivable of \$201.6 million.

Increases in accounts receivable used \$45.6 million of cash flow for the nine months ended September 30, 2012 as compared with a cash use of \$201.6 million for the same period in 2011. The use of cash for accounts receivable in 2012 was primarily attributable to the increase in sales during the period, partially offset by the collection of payments from certain EPC firms and end-users resulting from the resolution of certain previous shipment delays and disputes over project documentation that were outstanding as of December 31, 2011. As of September 30, 2012, our days' sales outstanding ("DSO") was 85 days as compared with 82 days as of September 30, 2011. For reference purposes based on 2012 sales, an improvement of one day could provide approximately \$13 million in cash flow. We have not experienced a significant increase in customer payment defaults.

Increases in inventory used \$149.3 million of cash flow for the nine months ended September 30, 2012 as compared with a cash use of \$206.1 million for the same period in 2011. The use of cash for inventory in 2012 was primarily due to cyclically higher raw material and work in process inventory to support higher end of period backlog and certain shipment delays. Inventory turns were 2.7 times as of September 30, 2012 and 2.8 times as of September 30, 2011. Our calculation of inventory turns does not reflect the impact of advanced cash received from our customers. For reference purposes based on 2012 data, an improvement of one-tenth of a turn could yield approximately \$31 million in cash flow.

Decreases in accounts payable used \$75.2 million of cash flow for the nine months ended September 30, 2012 as compared with a cash use of \$101.7 million for the same period in 2011. The reduction in cash used for accounts payable in 2012 compared to 2011 was primarily due to accounts payable balances related to certain inventory and equipment purchases and corporate-level expenses at December 31, 2010 that required payment during the first quarter of 2011 based on contractual payment terms, that were more significant compared to the same period in 2012.

Cash flows used by investing activities during the nine months ended September 30, 2012 were \$80.5 million as compared with \$68.5 million for the same period in 2011. Capital expenditures during the nine months ended September 30, 2012 were \$84.2 million, an increase of \$13.0 million as compared with the same period in 2011. In 2012, our capital expenditures are focused on strategic initiatives to pursue new markets, geographic and capacity expansion, information technology infrastructure and cost reduction opportunities, and total capital expenditures are expected to be between \$125 million and \$135 million, before consideration of any potential acquisition activity.

Cash flows used by financing activities during the nine months ended September 30, 2012 were \$164.9 million as compared with \$110.0 million for the same period in 2011. Cash outflows during the nine months ended September 30, 2012 resulted primarily from the repurchase of \$533.9 million of common shares (including the \$300.0 million ASR Program payment), \$75.0 million in net payments on long-term debt and \$55.6 million of dividend payments, partially offset by \$498.1 million in net proceeds from the issuance of Senior Notes. Cash outflows for the same period in 2011 resulted primarily from the payment of \$51.8 million in dividends, \$41.1 million for the repurchase of common shares and \$18.8 million for payments on long-term debt.

Approximately 1% of our Term Loan Facility is due to mature in the remainder of 2012 and 6% in 2013. As noted above, our Senior Credit Facility matures in August 2017. After the effects of \$300.0 million of notional interest rate swaps, approximately 75% of our term loan was at fixed rates at September 30, 2012. As of September 30, 2012, we had a borrowing capacity of \$693.7 million on our \$850.0 million Revolving Credit Facility (including outstanding letters of credit), and we had net available capacity under the European LOC Facility of €60.7 million (\$78.1 million). Our Revolving Credit Facility and our European LOC Facility are committed and are held by a diversified group of financial institutions.

During the nine months ended September 30, 2012 and 2011, we contributed \$7.0 million and \$8.3 million, respectively, to our U.S. pension plan. At December 31, 2011, as a result of increases in values of the plan's assets and our contributions to the plan, our U.S. pension plan was fully funded as defined by applicable law. After consideration of our funded status, we currently do not anticipate making any additional contributions to the U.S. pension plan in 2012. We continue to maintain an asset allocation consistent with our strategy to maximize total return, while reducing portfolio risks through asset class diversification.

At September 30, 2012, \$199.1 million of our total cash balance of \$217.4 million was held by foreign subsidiaries, \$152.4 million of which we consider permanently reinvested outside the U.S. Based on the expected near-term liquidity needs of our various geographies and our currently available sources of domestic short-term liquidity, we currently do not anticipate the need to repatriate any permanently reinvested cash to fund domestic operations. However, in the event this cash is needed to fund domestic operations, we estimate the full \$152.4 million could be repatriated without resulting in a material tax liability.

Considering our current debt structure and cash needs, we currently believe cash flows from operating activities combined with availability under our Revolving Credit Facility and our existing cash balance will be sufficient to meet our cash needs for the next 12 months. Cash flows from operations could be adversely affected by economic, political and other risks associated with sales of our products, operational factors, competition, fluctuations in foreign exchange rates and fluctuations in interest rates, among other factors. See "Cautionary Note Regarding Forward-Looking Statements" below.

On May 31, 2012, we announced that our Board of Directors endorsed an updated capital structure strategy designed to make our financial structure more efficient. This capital structure strategy includes: (i) targeting a long-term gross leverage ratio of 1.0x-2.0x total debt to EBITDA through the business cycle, versus then-current gross leverage ratio of 0.7x; and (ii) an expanded share repurchase program of \$1.0 billion, including approximately \$233 million remaining under the previous repurchase authorization. The expanded share repurchase program includes amounts incremental to our previously-announced policy of annually returning 40% to 50% of running two-year average net earnings to shareholders, which we intend to maintain after attaining the announced target leverage ratio. While we intend to adhere to this policy for the foreseeable future, any future returns of cash, whether through any combination of dividends or share repurchases, will be reviewed individually, declared by our Board of Directors and implemented by management at its discretion, depending on our financial condition, business opportunities at the time and market conditions.

As a part of the \$1.0 billion share repurchase program, on June 14, 2012, we entered into an ASR Program with J.P. Morgan Securities LLC, as agent for JPMorgan Chase Bank, N.A., London Branch, under which we agreed to repurchase an aggregate of \$300.0 million of our common stock. The ASR Program was funded through a combination of cash on hand, existing capacity on our Prior Revolving Credit Facility and proceeds from a \$250.0 million Bridge Loan, which is described in further detail in Note 5 to our condensed consolidated financial statements included in this Quarterly Report and was repaid in full in the third quarter of 2012 with a portion of the proceeds received from the Senior Notes offering. Note 13 to our condensed consolidated financial statements included in this Quarterly Report includes a discussion of our ASR Program, share repurchase program and payments of quarterly dividends on our common stock.

As a part of our continuing effort to execute our capital structure strategy, we entered into a new \$1.25 billion Senior Credit Facility on August 20, 2012 (see Note 5 to our condensed consolidated financial statements included in this Quarterly Report), which provides additional debt capacity to execute on our growth initiatives, while also enhancing our operating flexibility and reducing our borrowing costs after attaining investment grade status with all three rating agencies. Additionally, on September 11, 2012, we issued \$500.0 million in aggregate principal amount of Senior Notes due September 15, 2022 (see Note 5 to our condensed consolidated financial statements included in this Quarterly Report).

Acquisitions and Dispositions

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

Note 2 to our condensed consolidated financial statements included in this Quarterly Report contains a discussion of acquisitions.

Financing

Credit Facilities

A discussion of our newly refinanced Senior Credit Facility and our European LOC facility is included in Note 5 to our condensed consolidated financial statements included in this Quarterly Report.

We have entered into interest rate swap agreements to hedge our exposure to variable interest payments related to our Senior Credit Facility. These agreements are more fully described in Note 4 to our condensed consolidated financial statements included in this Quarterly Report, and in "Item 3. Quantitative and Qualitative Disclosures about Market Risk" below.

See Note 11 to our consolidated financial statements included in our 2011 Annual Report and Note 5 to our condensed consolidated financial statements included in this Quarterly Report for a discussion of covenants related to our European LOC facility. We complied with all covenants through September 30, 2012.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are based on our condensed consolidated financial statements and related footnotes contained within this Quarterly Report. Our critical accounting policies used in the preparation of our condensed consolidated financial statements were discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2011 Annual Report. These critical policies, for which no significant changes have occurred in the nine months ended September 30, 2012, include:

- Revenue Recognition;
- Deferred Taxes, Tax Valuation Allowances and Tax Reserves;
- Reserves for Contingent Loss;
- Retirement and Postretirement Benefits; and
- Valuation of Goodwill, Indefinite-Lived Intangible Assets and Other Long-Lived Assets.

The process of preparing condensed consolidated financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions to determine certain of the assets, liabilities, revenues and expenses. These estimates and assumptions are based upon what we believe is the best information available at the time of the estimates or assumptions. The estimates and assumptions could change materially as conditions within and beyond our control change. Accordingly, actual results could differ materially from those estimates. The significant estimates are reviewed quarterly with the Audit Committee of our Board of Directors.

Based on an assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our condensed consolidated financial statements provide a meaningful and fair perspective of our consolidated financial condition and results of operations. This is not to suggest that other general risk factors, such as changes in worldwide demand, changes in material costs, performance of acquired businesses and others, could not adversely impact our consolidated financial condition, results of operations and cash flows in future periods. See "Cautionary Note Regarding Forward-Looking Statements" below.

ACCOUNTING DEVELOPMENTS

We have presented the information about pronouncements not yet implemented in Note 1 to our condensed consolidated financial statements included in this Quarterly Report.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Words or phrases such as, "may," "should," "expects," "could," "intends," "plans," "anticipates," "estimates," "believes," "predicts" or other similar expressions are intended to identify forward-looking statements, which include, without limitation, statements concerning our future financial performance, future debt and financing levels, investment objectives, implications of litigation and regulatory investigations and other management plans for future operations and performance.

The forward-looking statements included in this Quarterly Report are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements, and include, without limitation, the following:

- a portion of our bookings may not lead to completed sales, and our ability to convert bookings into revenues at acceptable profit margins;
- changes in the global financial markets and the availability of capital and the potential for unexpected cancellations or delays of customer orders in

our reported backlog;

- our dependence on our customers' ability to make required capital investment and maintenance expenditures;
- risks associated with cost overruns on fixed fee projects and in accepting customer orders for large complex custom engineered products;
- the substantial dependence of our sales on the success of the oil and gas, chemical, power generation and water management industries;
- the adverse impact of volatile raw materials prices on our products and operating margins;
- economic, political and other risks associated with our international operations, including military actions or trade embargoes that could affect customer markets, particularly North African and Middle Eastern markets and global oil and gas producers, and non-compliance with U.S. export/reexport control, foreign corrupt practice laws, economic sanctions and import laws and regulations;
- adverse macroeconomic conditions in the European Union, including problems arising from a European Union national member's termination of use of the Euro as its national currency;
- our exposure to fluctuations in foreign currency exchange rates, particularly the Euro and British pound and in hyperinflationary countries such as Venezuela;
- our furnishing of products and services to nuclear power plant facilities and other critical applications;
- potential adverse consequences resulting from litigation to which we are a party, such as litigation involving asbestos-containing material claims;
- a foreign government investigation regarding our participation in the United Nations Oil-For-Food Program;
- expectations regarding acquisitions and the integration of acquired businesses;
- our relative geographical profitability and its impact on our utilization of deferred tax assets, including foreign tax credits;
- the potential adverse impact of an impairment in the carrying value of goodwill or other intangible assets;
- our dependence upon third-party suppliers whose failure to perform timely could adversely affect our business operations;
- the highly competitive nature of the markets in which we operate;
- environmental compliance costs and liabilities;
- potential work stoppages and other labor matters;
- access to public and private sources of debt financing;
- our inability to protect our intellectual property in the U.S., as well as in foreign countries; and
- obligations under our defined benefit pension plans.

These and other risks and uncertainties are more fully discussed in the risk factors identified in "Item 1A. Risk Factors" in Part I of our 2011 Annual Report, and may be identified in our Quarterly Reports on Form 10-Q and our other filings with the U.S. Securities and Exchange Commission ("SEC") and/or press releases from time to time. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Interest Rate Risk

Our earnings are impacted by changes in short-term interest rates as a result of borrowings under our Senior Credit Facility, which bear interest based on floating rates. At September 30, 2012, after the effect of interest rate swaps, we had \$100.0 million of variable rate debt obligations outstanding under our Senior Credit Facility with a weighted average interest rate of 1.86%. A hypothetical change of 100 basis points in the interest rate for these borrowings, assuming constant variable rate debt levels, would have changed interest expense by \$0.8 million for the nine months ended September 30, 2012. At September 30, 2012 and December 31, 2011, we had \$300.0 million and \$330.0 million, respectively, of notional amount in outstanding interest rate swaps with third parties with varying maturities through June 2015.

Foreign Currency Exchange Rate Risk

A substantial portion of our operations are conducted by our subsidiaries outside of the U.S. in currencies other than the U.S. dollar. Almost all of our non-U.S. subsidiaries conduct their business primarily in their local currencies, which are also their functional currencies. Foreign currency exposures arise from translation of foreign-denominated assets and liabilities into U.S. dollars and from transactions, including firm commitments and anticipated

transactions, denominated in a currency other than a non-U.S. subsidiary's functional currency. Generally, we view our investments in foreign subsidiaries from a long-term perspective and, therefore, do not hedge these investments. We use capital structuring techniques to manage our investment in foreign subsidiaries as deemed necessary. We realized net gains (losses) associated with foreign currency translation of \$31.6 million and \$(107.7) million for the three months ended September 30, 2012 and 2011, respectively, and \$8.1 million and \$(31.6) million for the nine months ended September 30, 2012 and 2011, respectively, which are included in our other comprehensive income (expense).

We employ a foreign currency risk management strategy to minimize potential changes in cash flows from unfavorable foreign currency exchange rate movements. The use of forward exchange contracts allows us to mitigate transactional exposure to exchange rate fluctuations as the gains or losses incurred on the forward exchange contracts will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. Our policy allows foreign currency coverage only for identifiable foreign currency exposures. As of September 30, 2012, we had a U.S. dollar equivalent of \$571.2 million in aggregate notional amount outstanding in forward exchange contracts with third parties, as compared with \$481.2 million at December 31, 2011. Transactional currency gains and losses arising from transactions outside of our sites' functional currencies and changes in fair value of certain forward exchange contracts are included in our consolidated results of operations. We recognized foreign currency net (losses) gains of \$(8.5) million and \$(6.1) million for the three months ended September 30, 2012 and 2011, respectively, and \$(21.6) million and \$7.9 million for the nine months ended September 30, 2012 and 2011, respectively, which are included in other (expense) income, net in the accompanying condensed consolidated statements of income.

Based on a sensitivity analysis at September 30, 2012, a 10% change in the foreign currency exchange rates for the nine months ended September 30, 2012 would have impacted our net earnings by approximately \$22 million, due primarily to the Euro. This calculation assumes that all currencies change in the same direction and proportion relative to the U.S. dollar and that there are no indirect effects, such as changes in non-U.S. dollar sales volumes or prices. This calculation does not take into account the impact of the foreign currency forward exchange contracts discussed above.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) are controls and other procedures that are designed to ensure that the information that we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report, our management, under the supervision and with the participation of our principal executive officer and principal financial officer, carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2012. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2012.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are party to the legal proceedings that are described in Note 10 to our condensed consolidated financial statements included in "Item 1. Financial Statements" of this Quarterly Report, and such disclosure is incorporated by reference into this "Item 1. Legal Proceedings." In addition to the foregoing, we and our subsidiaries are named defendants in certain other ordinary routine lawsuits incidental to our business and are involved from time to time as parties to governmental proceedings, all arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings involving us and our subsidiaries cannot be predicted with certainty, and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, management does not currently expect the amount of any liability that could arise with respect to these matters, either individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There are numerous factors that affect our business and results of operations, many of which are beyond our control. In addition to other information set forth in this Quarterly Report, careful consideration should be given to "Item 1A. Risk Factors" in Part I and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our 2011 Annual Report, which contain descriptions of significant factors that might cause the actual results of operations in future periods to differ materially from those currently expected or desired.

There have been no material changes in the risk factors discussed in our 2011 Annual Report and subsequent SEC filings. The risks described in this Quarterly Report, our 2011 Annual Report and in our other SEC filings or press releases from time to time are not the only risks we face. Additional risks and uncertainties are currently deemed immaterial based on management's assessment of currently available information, which remains subject to change; however, new risks that are currently unknown to us may surface in the future that materially adversely affect our business, financial condition, results of operations or cash flows.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Note 13 to our condensed consolidated financial statements included in this Quarterly Report includes a comprehensive discussion of our share repurchase program and payment of quarterly dividends on our common stock.

During the quarter ended September 30, 2012, we repurchased a total of 826,082 shares of our common stock for \$101.0 million (representing an average cost of \$122.22 per share). As of September 30, 2012, we have \$523.7 million of remaining capacity under our current share repurchase program, which reflects the reduction of the full \$300.0 million value of the ASR Program. The following table sets forth the repurchase data for each of the three months during the quarter ended September 30, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares (or Approximate Dollar Value) That May Yet Be Purchased Under the Program (in millions)
July 1 - 31	364,764	\$ 112.46	364,764	\$ 583.7
August 1 - 31	69,353 (1)	117.99	67,900	575.7
September 1 - 30	393,493 (2)	132.03	393,418	523.7 (3)
Total	827,610	\$ 122.23	826,082	

(1) Includes 196 shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares at an average price per share of \$127.87, and includes 1,257 shares purchased at a price of \$125.21 per share by a rabbi trust that we established in connection with our director deferral plans, pursuant to which non-employee directors may elect to defer directors' quarterly cash compensation to be paid at a later date in the form of common stock.

(2) Includes 75 shares that were tendered by employees to satisfy minimum tax withholding amounts for Restricted Shares at an average price per share of \$131.29.

(3) Reflects the reduction of the ASR Program, under which we agreed to repurchase \$300.0 million of our common stock. 2,260,738 shares had been

delivered under the ASR Program, representing 80% of the program's value at inception.

Item 5. Other Information.

On October 26, 2012, we entered into a third amendment and restatement of our European LOC Facility (the “Third Amendment”), which renews the European LOC Facility for an additional 364-day period. Under the terms of the Third Amendment, certain provisions of the European LOC Facility, including Clause 25, “General Undertakings”, and Clause 26, “Events of Default”, were materially amended to conform such provisions to the negative covenants and events of default contained in our Senior Credit Facility and Senior Notes.

Additionally, the Third Amendment reduced the annual commitment fee on the aggregate unutilized commitments of the issuing banks to 35 basis points, and it reduced the letter of credit utilization fee to 110 basis points per annum up to 75% utilization of the facility and to 100 basis points per annum for utilization beyond 75%. As of October 26, 2012, our annual fees under the European LOC Facility equaled 1.10%.

Except as described above, all other terms and conditions of the European LOC Facility remain the same in all material respects. Other material terms of the European LOC Facility are described in our Current Report on Form 8-K filed on November 5, 2009, and the European LOC Facility is described in further detail under Note 5 to our condensed consolidated financial statements included in this Quarterly Report. The foregoing description of the Third Amendment is a summary description and is qualified in its entirety by reference to the Third Amendment, a copy of which is filed as Exhibit 10.1 to this Quarterly Report.

Item 6. Exhibits.

A list of exhibits filed or furnished as part of this Quarterly Report on Form 10-Q is set forth on the Exhibits Index immediately following the signature page of this report and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements 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.

Date: October 29, 2012

FLOWERVE CORPORATION

/s/ Mark A. Blinn

Mark A. Blinn

President and Chief Executive Officer
(Principal Executive Officer)

Date: October 29, 2012

/s/ Michael S. Taff

Michael S. Taff

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibits Index

Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Flowserve Corporation (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
3.2	Flowserve Corporation By-Laws, as amended and restated effective May 18, 2012 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012).
4.1	Senior Indenture, dated September 11, 2012, by and between Flowserve Corporation and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated September 11, 2012).
4.2	First Supplemental Indenture, dated September 11, 2012, by and among Flowserve Corporation, certain of its subsidiaries and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K dated September 11, 2012).
10.1+	Third Amendment to Letter of Credit Agreement, dated October 26, 2012, among Flowserve Corporation, Flowserve B.V. and the other company subsidiaries party thereto, Credit Agricole Corporate and Investment Bank (f/k/a Calyon) as Mandated Lead Arranger, Administrative Agent and Issuing Bank, and the other financial institutions party thereto.
31.1+	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1++	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2++	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

+ Filed herewith.

++ Furnished herewith.

€125,000,000

LETTER OF CREDIT FACILITY AGREEMENT

dated 30 October 2009

(as amended by an amendment agreement dated 18 October 2010, amendment agreement dated 28 October 2011 and amendment agreement dated 26 October 2012)

among

FLOWSERVE CORPORATION
FLOWSERVE B.V.
FLOWSERVE HAMBURG GMBH
FLOWSERVE POMPES S.A.S.
FLOWSERVE GB LIMITED
WORTHINGTON S.R.L.
FLOWSERVE SPAIN S.L.U.
as Original LG Users

and

FLOWSERVE CORPORATION
as Guarantor

and

CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK

(formerly known as Calyon)
as Mandated Lead Arranger

and

CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK

(formerly known as Calyon)
as Administrative Agent

and

CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK

(formerly known as Calyon)

as Issuing Bank

and

THE FINANCIAL INSTITUTIONS NAMED HEREIN

as Participating Banks

THIS AGREEMENT is dated 30 October 2009 and made between:

- (1) **FLOWERVE CORPORATION**, a publicly-traded corporation organized and existing under the laws of the State of New York and having its address at 5215 N. O'Connor Blvd., Suite 2300, Irving, Texas USA 75039, as Original LG User and Guarantor (the “**Company**”);
- (2) **THE SUBSIDIARIES** of the Company listed in Part I (*The Original LG Users*) of Schedule 1 (*The Original Parties*) as Original LG Users (together with the Company as Original LG User, the “**Original LG Users**”);
- (3) **CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK** (formerly known as Calyon), a French a *société anonyme* with a share capital of €7,254,575,271, organized and existing under the laws of the French Republic, whose registered office is 9, quai du Président Paul Doumer, 92920 Paris La Défense Cedex, France, registered with the trade registry of Nanterre under number 304 187 701 RCS Nanterre, as mandated lead arranger (the “**Arranger**”);
- (4) **THE FINANCIAL INSTITUTIONS** listed in Part II (*The Original Participating Banks*) of Schedule 1 (*The Original Parties*) as Participating Banks (the “**Original Participating Banks**”);
- (5) **CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK** (formerly known as Calyon), a French a *société anonyme* with a share capital of €7,254,575,271, organized and existing under the laws of the French Republic, whose registered office is 9, quai du Président Paul Doumer, 92920 Paris La Défense Cedex, France, registered with the trade registry of Nanterre under number 304 187 701 RCS Nanterre, as administrative agent of the Finance Parties (the “**Administrative Agent**”); and
- (6) **CRÉDIT AGRICOLE CORPORATE AND INVESTMENT BANK** (formerly known as Calyon), a French a *société anonyme* with a share capital of €7,254,575,271, organized and existing under the laws of the French Republic, whose registered office is 9, quai du Président Paul Doumer, 92920 Paris La Défense Cedex, France, registered with the trade registry of Nanterre under number 304 187 701 RCS Nanterre, as issuing bank (the “**Issuing Bank**”).

IT IS AGREED as follows:

SECTION 1 - INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

“**Acceptable Bank**” means a bank or financial institution which is rated by a Rating Agency and which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A or higher by S&P or A2 or higher by Moody’s.

“Accession Letter” means a document substantially in the form set out in Schedule 7 (*Form of Accession Letter*).

“Accounting Principles” means:

- (a) with respect to the financial statements of Flowserve Group Member incorporated in the United States of America, the United States of America generally accepted accounting principles applied on a consistent basis (hereafter, in this definition, a “Recommendation”), and when a matter is not covered by a Recommendation, other accounting principles that either:
 - (i) are generally accepted by virtue of their use in similar circumstances by a significant number of profit-oriented entities in the United States of America; or
 - (ii) are consistent with the Recommendations and are developed through the exercise of professional judgment and the application of the concepts described in the accounting principles referred to above,provided that, in the case of either subparagraph (i) or (ii) above, the Auditors will have concurred in the use of such other accounting principles; and
- (b) with respect to the financial statements of any other Flowserve Group Member, generally accepted accounting principles applicable to that person and in effect from time to time in the jurisdiction of incorporation of that person; provided, however, for purposes of determining compliance with any covenant (including the computation of any financial covenant) contained herein, Indebtedness for Borrowed Money of the Obligors and their Subsidiaries shall be deemed to be carried at 100% of the outstanding principal amount thereof, and the effects of FASB ASC (as defined in the Bank of America Credit Agreement) 825 and FASB ASC 470-20 on financial liabilities shall be disregarded.

“Accounting Reference Date” means 31 December.

“Additional Cost Rate” has the meaning given to that term in Schedule 5 (*Mandatory Cost Formula*).

“Additional LG User” means a company which becomes a LG User in accordance with Clause 28 (*Changes to the Obligors*).

“Additional TEG Letter” means the additional TEG Letter dated 18 October 2010 executed by the Obligors’ Administrative Agent and the Administrative Agent in connection with the First Amendment Agreement.

“Administrative Agent’s Spot Rate of Exchange” means the Administrative Agent’s spot rate of exchange for the purchase of the relevant currency with the Base Currency in the Paris foreign exchange market on the relevant Reuters screen at or about 5:00 p.m, Paris time on a particular day or, in respect of the definition of Dollar Exchange Rate, for the purchase of the relevant currency with Dollars in Paris at 5:00 p.m, Paris time on a particular day.

“Affected LG User” has the meaning given to such term in Clause 10.2 (*Obligors’ Liabilities*).

“Affiliate” means, with respect to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

“Agreement” means the Original Letter of Credit Facility Agreement as modified by the First Amendment Agreement, the Second Amendment Agreement and the Third Amendment Agreement.

“Amount of the Claim” has the meaning given to such term in Clause 10.2 (*Obligors’ Liabilities*).

“Annual Consolidated Financial Statement” has the meaning given to it in Clause 23 (*Information Undertakings*).

“Applicable Law” means, for any person, all applicable provisions of all (i) constitutions, treaties, statutes, laws, rules, regulations and ordinances of any Governmental Authority, (ii) authorisation of any Governmental Authority and (iii) orders, decisions, judgments, awards and decrees of any Governmental Authority, in each case, applicable to or binding upon such person or any of its properties.

“Asset Sale” has the meaning given to such term in the Bank of America Credit Agreement.

“Auditors” means Price Waterhouse Coopers LLP and its Affiliates or any other firm approved in advance by the Majority Participating Banks (such approval not to be unreasonably withheld or delayed).

“Authorisation” means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

“Availability Period” means the period from and including the Effective Date of the Third Amendment to and including the date falling 364 days after the Effective Date of the Third Amendment.

“Available Commitment” means, in relation to a Participating Bank, its Commitment minus:

(a) the Base Currency Amount of its participation in any outstanding Letter of Credit; and

(b) in relation to any proposed Utilisation, the Base Currency Amount of its participation in any other Utilisations that are due to be made on or before the proposed Issuance Date,

as adjusted in accordance with Clause 8 (*Existing Letters of Credit*).

For the purposes of calculating a Participating Bank’s Available Commitment in relation to any proposed Utilisation, that Participating Bank’s participation in Letters of Credit that are due to be cancelled on or before the proposed Issuance Date shall not be deducted from that Participating Bank’s Commitment.

“Available Facility” means the aggregate for the time being of each Participating Bank’s Available Commitment.

“Banking Facility” means:

(a) any agreement, deed, indenture or other document providing for or evidencing Indebtedness for Borrowed Money;

(b) a letter of credit facility (including a facility in respect of documentary letters of credit), letter of guarantee facility or facility for the issue of similar instruments (but not including any facility for the issuance of bonds by a surety or an insurance

company); and

- (c) any agreement, deed, indenture or other document providing for the issue of any guarantee or indemnity in respect of any liability under or relating to any of the foregoing.

“Bank of America Credit Agreement” means the credit agreement dated as of 20 August 2012 entered into between the Company, Bank of America N.A. and the financial institutions named therein and any amendments or modifications thereto which have been consented to, in writing, by the Agent and the Majority Participating Banks.

“Base Currency” means the euro.

“Base Currency Amount” means the amount specified in the Issuance Request delivered by a LG User for that Utilisation (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Administrative Agent’s Spot Rate of Exchange on the date which is three Business Days before the Issuance Date or, if later, on the date the Administrative Agent receives the Issuance Request in accordance with the terms of this Agreement), as adjusted under Clause 6 (Reduction of a Letter of Credit) at three monthly intervals.

“BBVA” means Banco Bilbao, Vizcaya Argentaria, S.A., whose registered office is located at Plaza San Nicolas, nº4 -48005 Bilbao-Vizcaya, Spain.

“Beneficiary” means a beneficiary under a Letter of Credit as identified therein.

“Board” shall mean the Board of Governors of the Federal Reserve System of the United States of America.

“Budget” means any budget delivered by the Company to the Administrative Agent in respect of that period pursuant to Clause 23.5 (*Budget*).

“Business Day” means a day (other than a Saturday or Sunday) on which banks are open for general business in Paris and:

(a)(in relation to any date for payment or purchase of a currency other than euro) the principal financial centre of the country of that currency; or

(b)(in relation to any date for payment or purchase of euro) any TARGET Day.

“CACIB” means Crédit Agricole Corporate and Investment Bank (formerly known as Calyon), a French *société anonyme* with a share capital of €7,254,575,271, organized and existing under the laws of the French Republic, whose registered office is 9, quai du Président Paul Doumer, 92920 Paris La Défense Cedex, France, registered with the trade registry of Nanterre under number 304 187 701 RCS Nanterre.

“Capital Lease Obligation” means any obligation to pay rent or other amounts under any lease of (other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital lease on a balance sheet in accordance with the Accounting Principles, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with the Accounting Principles.

“Capital Stock” of any person means any and all common shares, preferred shares or other equivalent equity interests, howsoever

designated, in the capital stock of a body corporate, equity preferred or common interests

in a limited liability company, limited or general partnership interests in a partnership or any other equivalent ownership interest, or the interest of a beneficiary under a trust), in each case, whether outstanding on the Signing Date or issued thereafter, and any rights, warrants or options exchangeable for or convertible into such Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“Cash and Cash Equivalent Investments” means the sum of cash on hand and any Cash Equivalent Investments.

“Cash Equivalent Investments” means:

- (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the government of the United States of America or an Eligible Country (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America or an Eligible Country, as the case may be), in each case maturing within one year of the date of acquisition;
- (b) marketable general obligations issued by any state of the United States of America or any state or territory of an Eligible Country or any political subdivision of any such province, state or territory or any corporation or public instrumentality thereof maturing within one year of the date of acquisition and having a credit rating of at least A-1 from S&P or P-1 from Moody's;
- (c) investments in commercial paper or other similar marketable promissory notes maturing no longer than twelve (12) Months from the date of acquisition and having a credit rating of at least A-1 from S&P or P-1 from Moody's;
- (d) investments in certificates of deposit, banker's acceptance and time deposits of the United States of America or an Eligible Country maturing within twelve (12) Months of the date of acquisition, issued, guaranteed by or placed with, and money market deposit accounts issued by any commercial bank or trust company organized or licensed under the laws of the United States of America or an Eligible Country, or any province, state or territory thereof, in each case having a credit rating of at least A-1 from S&P or P-1 from Moody's; and
- (e) investments in money market funds or other mutual funds that invest in, or repurchase obligations that are comprised of the types of Cash Equivalent Investments described in paragraphs (a) to (d) above and which themselves have a credit rating rated at least equal to that applicable to the relevant type of Cash Equivalent Investments referred to in paragraphs (a) to (d) above which are comprised in such fund.

“Change of Control” has the meaning given to it in Clause 26.15 (*Change of Control*).

“Claim” has the meaning given to such term in Clause 10.1 (*Issuing Bank Liabilities*).

“Claim Notification” has the meaning given to such term in Clause 10.2 (*Obligors' Liabilities*).

“Closing Date” means the date on which the first Utilisation is made.

“**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“**Commitment**” means:

- (a) in relation to an Original Participating Bank, the amount in the Base Currency set opposite its name under the heading “Commitment” in Part II (*The Original Participating Banks*) of Schedule 1 (*The Original Parties*) and the amount of any other Commitment transferred to it under this Agreement; and
- (b) in relation to any other Participating Bank, the amount in the Base Currency of any Commitment transferred to it under this Agreement,

as it may be cancelled, reduced or transferred under this Agreement.

“**Compliance Certificate**” means a certificate substantially in the form set out in Schedule 8 (*Form of Compliance Certificate*) or otherwise in form and substance satisfactory to the Administrative Agent (acting reasonably).

“**Confidential Information**” means all information relating to the Company, any other Obligor, the Flowserve Group, the Finance Documents or the Facility in respect of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or a Facility from either:

- (a) any Flowserve Group Member or any of its advisers, or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any Flowserve Group Member or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 39 (*Confidentiality*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any Obligor, any Flowserve Group Member or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Obligors or the Flowserve Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

“**Confidentiality Undertaking**” means either a confidentiality undertaking substantially in the latest recommended LMA form or any other form agreed between the Company and the Administrative Agent.

“Consolidated EBITDA” has the meaning given to such term in Clause 24.1 (*Financial definitions*).

“Consolidated Interest Expense” has the meaning given to such term in Clause 24.1 (*Financial definitions*).

“Consolidated Net Income” has the meaning given to such term in Clause 24.1 (*Financial definitions*).

“Consolidated Tangible Assets” means, as of any date, total assets (excluding treasury stock, unamortized debt discount and expense, goodwill, trademarks, trade names, patents, deferred charges and other intangible assets) of the Company and its Subsidiaries on a consolidated basis, as determined in accordance with Accounting Principles.

“Debt Rating” means, as of any date of determination, the rating as determined by either S&P or Moody’s of the Company’s non-credit-enhanced, senior unsecured long-term debt.

“Default” means an Event of Default or any event or circumstance which would (with the expiry of a grace period, the giving of notice, the making of any determination in each case under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

“Defaulting Participating Bank” means any Participating Bank:

- (a) which has repudiated its obligations under a Finance Document in violation of the provisions of the Finance Documents;
- (b) with respect to which an Insolvency Event has occurred and is continuing; or
- (c) has failed to make (or has notified the Administrative Agent that it will not make) a payment to be made by it under Clause 10.3 (*Participating Banks’ Liabilities*) or Clause 19.4 (*Indemnity to the Administrative Agent*) or any other payment to be made by it under the Finance Documents to or for the account of any other Finance Party in its capacity as Participating Bank by the due date for payment;

unless, in the case of paragraph (c) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event; and

payment is made within 5 Business Days of its due date; or

- (ii) the Participating Bank is disputing in good faith whether it is contractually obliged to make the payment in question.

“Designated Website” has the meaning given to such term in Clause 34.7 (*Use of websites*).

“Deutsche Bank AG, Paris Branch” means Deutsche Bank AG, whose registered office is located at Theodor-Heuss-Allee 70, D 60486 Frankfurt am Main, Germany registered with RC / HRB Frankfurt No.

30.000, acting, for the purposes of this Agreement, through its Paris branch located at 3 avenue de Friedland, 75008 Paris, France.

“Dispute” has the meaning given to such term in Clause 41 (*Enforcement - Jurisdiction of French Courts*).

“Disruption Event” means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Facility (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (iv) from performing its payment obligations under the Finance Documents; or
 - (v) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“Dollar” or **“\$”** means the United States of America dollar.

“Dollar Equivalent” means the amount in any currency (other than Dollars) converted in Dollars, at the time a determination is made in accordance with this Agreement, using the Dollar Exchange Rate.

“Dollar Exchange Rate” means, on any day with respect to any currency (other than Dollars), the rate at which such currency (other than Dollars) may be exchanged into Dollars (or, for purposes of any provision of this Agreement requiring or permitting the conversion of an currency (other than Dollars) to Dollars, the rate at which Dollars may be exchanged into a currency (other than Dollars)), based on the Administrative Agent’s Spot Rate of Exchange.

“Effective Date of the First Amendment” means 29 October 2010, subject to the satisfaction of the conditions precedent of the entry into force of the First Amendment Agreement.

“Effective Date of the Second Amendment” means 28 October 2011, subject to the satisfaction of the conditions precedent of the entry into force of the Second Amendment Agreement.

“Effective Date of the Third Amendment” means 26 October 2012, subject to the satisfaction of the conditions precedent of the entry into force of the Third Amendment Agreement.

“Eligible Country” means:

- (a) any country, other than the United States of America, which is a member of the OECD; or

- (b) any member state of the European Union that has adopted the Base Currency as its lawful currency in accordance with EMU Legislation,
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and in each case, whose long term debt is rated AA- or higher by S&P or Aa3 or higher by Moody's.

“EMU Legislation” means the legislative measures of the European Union for the introduction of, change over to, or operation of the euro in one or more member states.

“Environmental Laws” shall mean all applicable laws (including common law), treaties, regulations, rules, ordinances, codes, decrees, judgments and orders (including consent orders), in each case, relating to protection of the environment, natural resources, human health and safety as related to Hazardous Materials or the presence, Release of, or exposure to, Hazardous Materials, or the generation, manufacture, processing, distribution, use, treatment, storage, transport, recycling or handling of, or the arrangement for such activities with respect to, Hazardous Materials.

“Environmental Liability” shall mean liabilities, obligations, claims, actions, suits, judgments or orders under or relating to any Environmental Law for any damages, injunctive relief, losses, fines, penalties, fees, expenses (including fees and expenses of attorneys and consultants) or costs, including those arising from or relating to:

- (a) any action to address the on-or off-site presence, Release of, or exposure to, Hazardous Materials;
- (b) permitting and licensing, administrative oversight, insurance premiums and financial assurance requirements;
- (c) any personal injury (including death), property damage (real or personal) or natural resource damage; and
- (d) the compliance or non-compliance with any Environmental Law.

“Equity Notes Payable” means notes payable or similar instructions issued by a foreign Subsidiary to its parent to evidence a distribution of retained earnings or return of capital to such parent or a reclassification of an earlier equity investment by such parent in such foreign Subsidiary, in each case entered into for repatriation planning purposes and not issued or created in connection with a substantially concurrent Investment (as such term is defined in the Bank of America Credit Agreement) by the parent to such foreign Subsidiary.

“ERISA” shall mean the U.S. Employee Retirement Income Security Act of 1974, as the same may be amended from time to time, together with all rules, regulations, and interpretations thereunder or related thereto.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Company, is treated as a single employer under Section 414(b) or (c) of the Code, or solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means any one or more of the following:

- (a) any “reportable event,” as defined in Section 4043 of ERISA, with respect to a Plan (other than an event for which the 30-day notice period is waived;
- (b) the determination that any Plan is considered an at-risk plan within the meaning of Section 430 of the Internal Revenue Code or Section 303 of ERISA;
- (c) the filing pursuant to Section 412(c) of the Code or Section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan;
- (d) the imposition on the Company or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of, or withdrawal from, any Plan or the withdrawal or partial withdrawal of the Company or any of its ERISA Affiliates from any Multiemployer Plan;
- (e) the receipt by the Company or any of its ERISA Affiliates from the PBGC or a plan administrator of any notice relating to the intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan;
- (f) the receipt by the Company or any of its ERISA Affiliates of any notice from any Multiemployer Plan concerning the imposition of Withdrawal Liability (as such term is defined in the Bank of America Credit Agreement) or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA that results in any additional contributions by or the imposition of any excise taxes on the Company or any of its ERISA Affiliates;
- (g) the occurrence of a “prohibited transaction” (within the meaning of Section 4975 of the Code) with respect to which the Company or any such Subsidiary incurs liability; or
- (h) any Foreign Benefit Event.

“EONIA” means, in relation to any amount to be owing by an Obligor under a Finance Document in euro on which interest is to accrue on a specific day:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for the relevant period) the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Administrative Agent at its request quoted by the Reference Banks to leading banks in the European interbank market,

as of the Specified Time on the Target Day immediately following such specific day.

“EU Regulation” has the meaning given to such term in Clause 22.25 (*Centre of main interests and establishments*).

“Event of Default” means any event or circumstance specified as such in Clause 26 (*Events of Default*).

“Existing Credit Agreement” means, as amended, the letter of credit agreement dated as of 14 September 2007 entered into between the Company and the financial institutions named therein.

“Existing Guarantees” has the meaning given to such term in paragraph (i) of the definition of Permitted Security.

“Existing Letter of Credit” has the meaning given to such term in Clause 8 (*Existing Letters of Credit*).

“Existing Participating Bank” has the meaning given to such term in Clause 27.1 (*Assignments and transfers by the Participating Banks*).

“Expiry Date” means, for a Letter of Credit, the last day of its Term.

“Extension Fee Letter” means the fee letter(s) dated 18 October 2010 between the Company and the Administrative Agent setting out the fees to be paid to the Arranger and the Participating Banks in connection with the entry into of the First Amendment Agreement.

“Extension Request” means a written notice, substantially in the form set out in Schedule 4 (*Extension Request*), requesting an extension of a Letter of Credit.

“Facility” has the meaning given to that term in Clause 2.1 (*The Facility*).

“Facility Office” means:

- (a) in respect of a Participating Bank or the Issuing Bank, the office notified by that Participating Bank or the Issuing Bank to the Administrative Agent in writing on or before the date it becomes a Participating Bank or the Issuing Bank (or, following that date, by not less than five Business Days’ written notice) as the office through which it will perform its obligations under this Agreement; or
- (b) in respect of any other Finance Party, the office in the jurisdiction in which it is resident for tax purposes.

“Fair Market Value” means, with respect to any asset or property, the sale value that would be obtained in an arm's-length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy.

“Fee Letter” means any letter or letters dated on or about the Signing Date between the Arranger and the Company and/or the Administrative Agent and the Company setting out any of the fees referred to in Clause 16 (*Fees*) including the Extension Fee Letter, the Second Extension Fee letter and the Third Extension Fee letter.

“Finance Document” means this Agreement, any Accession Letter, the TEG Letter, the Flowserve Corporation Guarantee, any Compliance Certificate, any Fee Letter, any Issuance Request, each Letter of Credit, any Extension Request and any other document designated as a “Finance Document” by the Administrative Agent (acting on the instructions of the Majority Participating Banks) and the Company.

“Finance Parties” means the Administrative Agent, the Arranger, the Participating Banks and the Issuing Bank, and “ **Finance Party**” shall mean any of them.

“Financial Covenants” means the Interest Coverage Ratio and the Leverage Ratio.

“Financial Quarter” means a period of three months beginning on the first day of January, April, July or October in each Financial Year.

“Financial Semester” means either of the six-Month periods of each Financial Year commencing on the first day of the Financial Year and ending on 30 June.

“Financial Year” means the annual accounting period of the Flowserve Group ending on the Accounting Reference Date in each year.

“Finsub” means any bankruptcy-remote, wholly owned subsidiary of the Company, organized and existing solely for the purpose of engaging in the Receivables Program.

“First Amendment Agreement” means the first amendment agreement in respect of the Original Letter of Credit Facility Agreement dated 18 October 2010, together with its annexes.

“First Amendment Flowserve Corporation Guarantee” means the French language first demand guarantee (garantie à première demande) dated 18 October 2010 issued by the Company in connection with the entry into of the First Amendment Agreement, (an English translation for information of which is set out in Schedule 16 (*Form of First Amendment Flowserve Corporation Guarantee*)) which replaces and supersedes as of the Effective Date of the First Amendment, the Original Flowserve Corporation Guarantee.

“First Currency” has the meaning given to such term in Clause 19.1 (*Currency Indemnity*).

“Flowserve (Austria) GmbH” means Flowserve (Austria) GmbH, a private company organized and existing under the laws of Austria and having its address at Industriestrasse B/6, 2345 Brunn am Gebirge, Austria.

“Flowserve B.V.” has the meaning given to such term in Part I (*The Original LG Users*) of Schedule 1 (*The Original Parties*).

“Flowserve Corporation” means Flowserve Corporation a publicly-traded corporation organized and existing under the laws of the State of New York and having its address at 5215 N. O’Connor Blvd., Suite 2300, Irving, Texas USA 75039.

“Flowserve Corporation Guarantee” means until the Effective Date of the Third Amendment Agreement, the Second Amendment Flowserve Corporation Guarantee and as of the Effective Date of the Third Amendment Agreement, the Third Amendment Flowserve Corporation Guarantee.

“Flowserve GB Limited” means Flowserve GB Limited a private company organized and existing under the laws of the United Kingdom and having its address at P.O. Box 17, Lowfield Works, Newark, Notts NG24 3EN, United Kingdom.

“Flowserve Group” means, from time to time, the Company, the other Obligor, and each of their respective consolidated Subsidiaries on a combined basis.

“Flowserve Group Indebtedness” has the meaning given to such term in Clause 24.1 (*Financial definitions*).

“Flowserve Group Member” means an entity part of the Flowserve Group.

“Flowserve Hamburg GmbH” means Flowserve Hamburg GmbH a limited liability company organized and existing under the laws of Germany and having its address at Friedrich-Ebert-Damm 105, 22047 Hamburg, Germany.

“Flowserve Pompes SAS” means Flowserve Pompes SAS a French “*société par actions simplifiée*” organized and existing under the laws of France and having its address at Route d’Angers, 72230 Arnage, France.

“Flowserve Spain S.L.U” means Flowserve Spain S.L.U. a private company organized and existing under the laws of Spain and having its address at Av. Fuentemar, 26-28, Poligono Industrial, 28820 Coslada (Madrid), Spain.

“Flowserve US Inc” means Flowserve US Inc., a private company organized and existing under the laws of the Delaware and having its address at 5215 N. O’Connor Blvd., Suite 2300, Irving, Texas USA 75039.

“Foreign Benefit Event” shall mean, with respect to any Foreign Pension Plan:

- (a) the existence of unfunded liabilities in excess of the amount permitted under any Applicable Law, or in excess of the amount that would be permitted absent a waiver from a Governmental Authority;
- (b) the failure to make the required contributions or payments, under any Applicable Law, on or before the due date for such contributions or payments;
- (c) the receipt of a notice by a Governmental Authority relating to the intention to terminate any such Foreign Pension Plan or to appoint a trustee or similar official to administer any such Foreign Pension Plan, or alleging the insolvency of any such Foreign Pension Plan in any such case that results in the incurrence of any liability by the Company or any of its Subsidiaries, or the imposition on the Company or any of its Subsidiaries of any fine, excise tax or penalty in each case in excess of \$10,000,000 (or the Dollar Equivalent thereof in another currency); and
- (d) the incurrence of any liability in excess of \$10,000,000 (or the Dollar Equivalent thereof if in another currency) by the Company or any of its Subsidiaries under Applicable Law on account of the complete or partial termination of such Foreign Pension Plan or the complete or partial withdrawal of any participating employer therein, or
- (e) the occurrence of any transaction that is prohibited under any Applicable Law that results in the incurrence of any liability by the Company or any of its Subsidiaries, or the imposition on the Company or any of its Subsidiaries of any fine, excise tax or penalty resulting from any noncompliance with any Applicable Law, in each case in excess of \$10,000,000 (or if in another currency, its Dollar Equivalent).

“Foreign Pension Plan” shall mean any benefit plan fund or similar program established, contributed to, or maintained outside the United States by the Company or any of its Subsidiaries primarily for the benefit of employees of the Company or such Subsidiaries residing outside the United States, which plan, fund or other similar program, other than a trust or funding vehicle maintained exclusively by a Governmental Authority, is not subject to ERISA or the Code.

“Governmental Authority” shall mean, as the case may be, any federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body of France, the United State, the Netherlands, Germany and Spain or other foreign governmental authority having jurisdiction over any Party or any of their respective businesses, operations, assets or properties.

“Guarantees” means, without duplication, any obligation (whatever called) of any person to pay, guarantee, stand as surety for, purchase, provide funds (whether by the advance of money, the purchase of or subscription for shares or other securities, the purchase of assets or services, the indemnification in respect of letters of credit and letters of guarantee issued in respect of Indebtedness for Borrowed Money, or otherwise) for the payment of, or to indemnify against the consequences of default in the payment of, or otherwise be responsible for, any Indebtedness for Borrowed Money of any other person.

“Guarantor” means the Company and any other entity becoming a “guarantor” under the terms of this Agreement.

“Hazardous Materials” means (a) any petroleum products or byproducts and all other hydrocarbons, coal ash, radon gas, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, chlorofluorocarbons and all other ozone-depleting substances, in each case regulated by any Environmental Law, and (b) any chemical, material, substance or waste that is prohibited, limited or regulated by or pursuant to any Environmental Law.

“Holding Company” means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

“Impaired Administrative Agent” means the Administrative Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Administrative Agent otherwise repudiates its obligations under a Finance Document in violation of the provisions of the Finance Documents;
- (c) (if the Administrative Agent is also a Participating Bank) it is a Defaulting Participating Bank under paragraph (a) or (d) of the definition of “Defaulting Participating Bank”; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Administrative Agent;

unless, in the case of paragraph (a) or (c) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event; and

payment is made within 5 Business Days of its due date; or

- (ii) the Administrative Agent is disputing in good faith whether it is contractually obliged to make the payment in question.
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“Increased Costs” has the meaning given to such term in Clause 18.1 (*Increased costs*).

“Indebtedness for Borrowed Money” means any obligation (whether present or future, actual or contingent, secured or unsecured, as principal, surety or otherwise) of a person for the payment or repayment of money borrowed or raised (whether or not for a cash consideration), by whatever means, including, without limitation, obligations under or in respect of:

- (a) deposits and financial leasing;
- (b) promissory notes, certificates of deposit or like instruments (whether negotiable or otherwise);
- (c) acceptance credit, note purchase or bill acceptance or discounting facilities; or
- (d) like arrangements entered into by any person in order to enable it to finance its operations or capital requirements;

but excluding reimbursement obligations in respect of advance payments made by or on behalf of third party customers in relation to purchase orders to any Flowserve Group Member. The Indebtedness for Borrowed Money of any Person shall (i) include the Indebtedness for Borrowed Money of any partnership in which such Person is a general partner, except to the extent the terms of such Indebtedness for Borrowed Money provide that such Indebtedness for Borrowed Money is not recourse to such Person and (ii) shall exclude Equity Notes Payable.

“Insolvency Event” means with respect to any person, the occurrence of any of the following events:

- (a) an order is made that such person be wound up (other than in connection with a permitted consolidation, amalgamation or merger), and such proceeding shall remain undismissed or unstayed for 60 days; or
- (b) an order appointing a liquidator, an administrator or a provisional liquidator in respect of such person is made, or one of them is appointed; or
- (c) a receiver, receiver and manager, statutory manager, trustee, sequestrator or similar official, is appointed in respect of such person or all or substantially all of its assets; or
- (d) the person enters into, or resolves to enter into, an arrangement or reconstruction or composition with, or assignment for the benefit of, all or any class of its creditors, or it enters into a reorganization, moratorium or other administration involving any of them for reasons relating to financial difficulty; or
- (e) the person suspends making payments on all or any class of its debts or announces an intention to do so, or a moratorium is declared with respect to any part of its indebtedness without the consent of the relevant creditors; or
- (f) the person (i) is declared in a final judgment to be, (ii) is, or is deemed for the purposes of any law to be, (iii) states that it is, insolvent or unable to pay its debts generally when they fall due or (iv) for person located in France such person is in state of “cessation des payments”; or

- (g) the person resolves to wind itself up, assigns itself into bankruptcy (including by filing a voluntary petition under Title 11 of the United States Code) or in any other similar legislation of any jurisdiction applicable to such person, or gives notice of its intention to do so for reasons relating to insolvency; or
- (h) the commencement of an involuntary proceeding against the person (i) seeking bankruptcy, liquidation, reorganization, dissolution, winding up, a composition or arrangement with creditors, a readjustment of debts, or other relief with respect to it or its debts under any bankruptcy laws or other customary insolvency actions or (ii) seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its assets, the issuance of a writ of attachment, execution, or similar process, or like relief if, in each such case mentioned in (i) or (ii) above, none of subparagraphs (b), (c) or (d) of this subsection (i) apply and such involuntary proceeding shall remain undismissed and unstayed for a period of sixty (60) days,

for the purposes of this paragraph (h), the occurrence any of the events mentioned in subparagraphs (i) to (iii) below shall not constitute an Insolvency Event:

- (i) a vexatious or frivolous petition or filing presented against a Finance Party by a creditor or other step against a Finance Party which is being contested by such Finance Party in good faith and with due diligence and is discharged or struck out within 60 days; or
- (ii) any other petition or filing presented against a Finance Party by a creditor or other step against a Finance Party in relation to a claim for an amount of less than three (3) percent of the shareholders' fund ; and
- (iii) any action against a Finance Party taken as part of a solvent winding-up, administration, dissolution or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise),
- (i) an order for relief is entered against the person under applicable insolvency, bankruptcy or fraudulent conveyance laws, or similar statutes or common law, including, without limitation, as applicable, Title 11 of the United States Code as now or hereafter in effect, or
- (j) the filing by the person of an answer admitting the material allegations of a petition filed against it in any involuntary proceeding (of the type referred to in sub-paragraph (i) but not of the type referred to in sub-paragraphs (h)(i), (ii) or (iii)) commenced against it, or
- (k) consent by the person to any relief referred to in this subsections (i) to (j) above or to the appointment of or taking possession by any such official in any involuntary proceeding (of the type referred to in sub-paragraph (i)) commenced against it; or
- (l) anything analogous or having a substantially similar effect to any of the events specified above happens under the Law of any applicable jurisdiction.

“Interest Coverage Ratio” has the meaning given to such term in Clause 24.1 (*Financial definitions*).

“IRS” means the U.S. Internal Revenue Service.

“Issuance Date” means the date on which a Letter of Credit is issued under this Agreement.

“Issuance Request” means a written notice, substantially in the form set out in Schedule 3 (*Issuance Request*), requesting an Utilisation.

“Issuing Bank” means with respect to the Letters of Credit issued under this Agreement, CACIB.

“Legal Opinion” means any legal opinion delivered to the Administrative Agent under Clause 3.1 (*Conditions precedent to Signing*) or Clause 28 (*Changes to the Obligors*).

“Legal Reservations” means the limitation of enforcement by laws relating to bankruptcy, insolvency, liquidation, reorganisation, court schemes, moratoria, administration and other laws generally affecting the rights of creditors;

“Letter of Credit” means any performance stand by letter of credit subject to RUU 600 (ICC Revision 2007) or ISP 98 (ICC Publication 590), documentary credit, letters of guarantee, bid bonds, performance bonds, performance guarantees, advance payment bonds, retention money bonds, with the exception of non-trade related instruments, issued pursuant to this Agreement by the Issuing Bank at the request of and for the account of a LG User pursuant to an Issuance Request, in the form agreed upon pursuant to Clause 4.6 (*Issuance of Letters of Credit*). For the avoidance of doubt, Letters of Credit do not comprise Existing Letters of Credit.

“Leverage Ratio” has the meaning given to such term in Clause 24.1 (*Financial definitions*).

“LG Users” means the Original LG Users, Valbart Srl as from the Effective Date of the Second Amendment, Flowserve US Inc as from the date on which the Administrative Agent confirms to the Company the satisfaction of the conditions provided for in clause 4.2 of the Third Amendment Agreement and Flowserve (Austria) GmbH as from the date on which the Administrative Agent confirms to the Company the satisfaction of the conditions provided for in clause 4.3 of the Third Amendment Agreement and any Subsidiary of the Company acceding to this Agreement in accordance with Clause 28.2 (*Additional LG Users*) as Additional LG User.

“Lloyds TSB Bank plc” means Lloyds TSB Bank plc, whose registered office is located at 25 Gresham St, London, EC2V 7HN, United Kingdom

“LMA” means the Loan Market Association.

“Majority Participating Banks” means:

- (a) for the purposes of (i) paragraph (a) of Clause 38.1 (Required consents) in the context of a waiver in relation to a proposed Utilisation (other than a Utilisation on the Closing Date) of the condition in Clause 3.2 (Conditions Precedent), a Participating Bank or Participating Banks whose Commitments aggregate more than 66⅔ per cent. of the Total Commitment; and
- (b) (in any other case), a Participating Bank or Participating Banks whose Commitments aggregate more than 66⅔ per cent. of the Total Commitment (or, if the Total Commitment have been reduced to zero, whose participations in the outstanding Utilisations aggregated more than 66⅔ per cent. of the Total Commitments immediately prior to that reduction).

“Mandatory Cost” means the percentage rate per annum calculated by the Administrative Agent in accordance with Schedule 5 (*Mandatory Cost Formula*).

“Margin Regulations” means Regulations T, U and X of the Board as from time to time in effect and all official rulings and interpretations thereunder or thereof.

“Margin Stock” means “margin stock” as defined in the Margin Regulations.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent) or financial condition of the Company and its Subsidiaries taken as a whole; (b) a material impairment of the ability of any Obligor to perform its obligations under any Finance Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Obligor of any Finance Document to which it is a party.

“Material Subsidiary” means:

(a) an Obligor (other than the Company); or

(b) a Subsidiary of the Company which is:

(i) listed in Schedule 12 (Material Subsidiaries); or

(ii) whose total assets represent more than 10 per cent of Flowserve Group's combined assets; or

(iii) whose total sales and operating revenues represent more than 10 per cent of Flowserve Group's combined sales and operating revenues; or

(iv) if the aggregate assets or sales and operating revenues of the Company and all Material Subsidiaries at any time is less than 80 per cent of the combined assets or combined sales and operating revenues of the Flowserve Group (as applicable) (the **“80 per cent. Test”**), the next largest Subsidiaries of the Company by assets and/or sales and operating revenues (in order) will, until the 80 per cent. Test is satisfied, be deemed to be Material Subsidiaries.

Compliance with the conditions set out in paragraphs (b) (ii) and (b) (iii) shall be determined by reference to the latest Annual Consolidated Financial Statements of the Company.

A report by the Auditors of the Company that a Subsidiary is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all Parties.

“Maturity Date” means the date falling five (5) years after the Effective Date of the Third Amendment.

“Month” means a period starting on one day in a calendar Month and ending on the numerically corresponding day in the next calendar Month, except that:

- (a) if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that calendar Month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day; and
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- (b) if there is no numerically corresponding day in the calendar Month in which that period is to end, that period shall end on the last Business Day in that calendar Month.

The above rules will only apply to the last Month of any period. “monthly” shall be construed accordingly.

“**Moody’s**” means Moody’s Investors Service, Inc.

“**Multiemployer Plan**” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“**New Participating Bank**” has the meaning given to such term in Clause 27.1 (*Assignments and transfers by the Participating Banks*).

“**Non-Acceptable Participating Bank**” means a Defaulting Participating Bank.

“**Non-Consenting Participating Bank**” has the meaning given to such term in Clause 38.4 (*Replacement of Participating Banks*).

“**Obligations**” has the meaning given to such term in Clause 32.2 (*Distributions by the Administrative Agent*).

“**Obligor**” means a LG User or the Guarantor.

“**Obligors’ Administrative Agent**” means the Company, appointed to act on behalf of each Obligor in relation to the Finance Documents pursuant to Clause 2.3 (*Obligors’ Administrative Agent*).

“**OECD**” means the Organization for Economic Cooperation and Development.

“**Optional Currency**” means a currency (other than the Base Currency) which complies with the conditions set out in Clause 4.4 (*Conditions relating to Optional Currencies*).

“**Original Financial Statements**” means:

- (a) in relation to the Company, (i) the audited consolidated financial statements for its Financial Year ended 31 December 2008 and (ii) the unaudited consolidated financial statements for the Financial Semester ended 30 June 2009; and
- (b) in relation to each other Obligor, its audited unconsolidated financial statements for its Financial Year ended 31 December 2008.

“**Original Flowserve Corporation Guarantee**” means the French language first demand guarantee (*garantie à première demande*) issued by the Company on the Signing Date an English translation (for information) of which is set out in Schedule 11 (*Form of Flowserve Corporation Guarantee*).

“**Original Letter of Credit Facility Agreement**” means the letter of credit facility agreement, together with its annexes, dated 30 October 2009 entered into between, inter alios, Flowserve Corporation as Original LG User and Guarantor, CACIB as Mandated Lead Arranger, Administrative Agent and Issuing Bank and the financial institutions listed therein as Participating Banks.

“**Original LG Users**” means the Company in such capacity, Flowserve B.V., Flowserve Hamburg GMBH, Flowserve Pompes S.A.S., Flowserve GB Limited, Worthington S.R.L. and Flowserve Spain S.L.U.

“Original Obligor” means an Original LG User or the Guarantor.

“Original Participating Bank” means a Participating Bank having signed this Agreement on the Signature Date and appearing as such under the heading “Commitment” in Part II (*The Original Participating Banks*) of Schedule 1 (*The Original Parties*)

“Ownership Threshold Event” means that the Company ceases to beneficially own, directly or indirectly, and free and clear of any Security (other than a Permitted Security) shares or other participation interests carrying the right to exercise 100 per cent of the total voting power attached to all classes of the outstanding Voting Capital Stock of each other Obligor.

“Paper Form Participating Bank” has the meaning given to such term in Clause 34.7 (*Use of websites*).

“Participating Bank” means:

- (a) any Participating Bank mentioned as “Original Participating Bank” in Schedule 1 (The Original Parties); and
- (b) any bank, financial institution, trust, fund or other entity which has become a Party as a Participating Bank in accordance with Clause 27 (Changes to the Participating Banks),

which in each case has not ceased to be a Participating Bank in accordance with the terms of this Agreement.

“Participating Member State” means any member state of the European Communities that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Union relating to Economic and Monetary Union.

“Party” means a party to this Agreement.

“Payment Date” has the meaning given to such term in Clause 10.2 (*Obligors’ Liabilities*).

“PBGC” shall mean the U.S. Pension Benefit Guaranty Corporation referred to and defined in ERISA, or any successor thereto.

“Permitted Acquisition” shall have the meaning assigned to such term in the Bank of America Credit Agreement.

“Permitted Investments” means, at any time, any one or more of the following:

- (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;
- (b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, one of the three highest credit ratings obtainable from S&P or from Moody’s;

- (c) investments in certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any agent or any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than \$500,000,000;
- (d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria of clause (c) above;
- (e) investments in "money market funds" within the meaning of Rule 2a-7 of the Investment Company Act of 1940, as amended, substantially all of whose assets are invested in investments of the type described in clauses (a) through (d) above; and
- (f) other short-term investments utilized by a Subsidiary of the Company incorporated in a jurisdiction other than the United States of America in accordance with normal investment practices for cash management in investments of a type analogous to the foregoing.

"Permitted Security" means, as at any time, any one or more of the following:

- (a) any Security existing at the time of acquisition (or created within 90 days after such acquisition) on any asset acquired by any Flowserve Group Member after the Signing Date and not created in contemplation of that acquisition and any substitute Security created on that asset in connection with the refinancing of the Indebtedness for Borrowed Money secured on that asset (but in any such case the principal amount secured by any such Security may not be increased);
 - (b) any Security securing indebtedness consisting of Capital Lease Obligations being Security over the asset which is the subject of the relevant capital lease and created for the sole purpose of financing all or any part of the acquisition of that asset and provided that the amount secured shall not exceed the Capital Lease Obligations and provided also that such Security is created substantially contemporaneously with acquisition (or created within 90 days after such Capital Lease Obligation is incurred) the relevant capital lease (provided that the principal amount secured by any such Security may not be increased);
 - (c) any Security subsisting over any asset of any Subsidiary of the Company prior to the date of such Subsidiary becoming a Subsidiary and not created in contemplation of such Subsidiary becoming a Subsidiary and any substitute Security created on that asset in connection with the refinancing of the Indebtedness for Borrowed Money secured on that asset (but in any such case the principal amount secured by such Security may not be increased);
 - (d) any Security (other than a floating charge over assets) arising by reason solely of the consolidation, amalgamation or merger of any Obligor with any other corporation as permitted pursuant to Clause 23 (Information Undertakings) or of any Subsidiary of any Obligor with any other corporation, and in any such case arising automatically by operation of mandatory statutory provisions of law or (in the case of the consolidation, amalgamation or merger of Obligors, of Subsidiaries an Obligor, or of any Obligor with any Subsidiary of an Obligor, present or future) arising by virtue of the provisions of any Security outstanding immediately prior to such consolidation, amalgamation or merger, not
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being, in any such case, Security created, or provisions in relation thereto entered into, in contemplation of such consolidation, amalgamation or merger (but the principal amount secured by such Security may not be increased);

- (e) any Security created in the ordinary course of business in connection with any arrangement (whether a deferred purchase, sale and purchase, sale and leaseback, leasing or other arrangement), the direct or indirect purpose of which is to allow the purchaser or user of a product marketed by any Flowserve Group Member to finance the acquisition or rental thereof, in whole or in part, provided that such Security is created on the product the acquisition or rental of which is so financed or on the rights of the Flowserve Group Member under any lease or other agreements relating to such products or arrangements;
- (f) in relation to Flowserve Hamburg GmbH, a pledge over bank accounts held with a German bank in Germany in favour of the relevant account holding bank arising under the general terms and conditions (Allgemeine Geschäftsbedingungen) of the account holding bank, provided that such pledge relates to Indebtedness for Borrowed Money permitted under this Agreement and limited to Euros 10,000,000 at any time;
- (g) in relation to Flowserve B.V., a pledge over bank accounts held with a bank in The Netherlands in favour of the relevant account holding bank arising under the general conditions drawn up by the Netherlands Bankers' Association (Nederlandse Vereniging van Banken) and the Consumers Union (Consumentbond) of the account holding bank, provided that such pledge relates to Indebtedness for Borrowed Money permitted under this Agreement and limited to Euros 10,000,000 at any time;
- (h) a Statutory Security;
- (i) any Security not falling within any of paragraphs (a) to (e) above existing on the Signing Date (including the Guarantees listed in Schedule 15 (Existing Guarantees) (the "Existing Guarantees")) to secure Indebtedness for Borrowed Money and any substitute Security created in connection with the refinancing of the Indebtedness for Borrowed Money secured by such Security including, but not limited to, any Security existing or granted under the Bank of America Credit Agreement provided that no new Security over shares or other participation interest is granted in connection with the refinancing of the Bank of America Credit Agreement and provided further that the principal amount of the Indebtedness for Borrowed Money secured by any substitute Security does not exceed the initial principal amount of Indebtedness for Borrowed Money (including unfunded commitments) secured by Security granted under the Bank of America Credit Agreement before the date of such refinancing; and
- (j) Security on the property of Finsub incurred pursuant to the Receivables Program Documentation; and
- (k) Security securing other Indebtedness for Borrowed Money, so long as the aggregate principal amount of Priority Debt does not exceed 15% of Consolidated Tangible Assets (determined as of the most recently ended Financial Semester for which financial statements are available).

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Company or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA..

“Priority Debt” shall have the meaning set forth in the Bank of America Credit Agreement.

“Pro Forma Basis” means, with respect to any acquisition, incurrence of Indebtedness for Borrowed Money, Restricted Payment or Asset Sale (as the context requires), that for purposes of calculating the financial covenants set forth in Clause 24.2 (*Financial condition*), such transaction (and all other such acquisitions, incurrences of Indebtedness for Borrowed Money, Restricted Payments and Asset Sales consummated during the applicable period) shall be deemed to have occurred as of the first day of the most recently completed period of four consecutive fiscal quarters ending prior to such transaction for which the financial statements and certificates required by Clause 23.1 (*Financial Statements*) have been delivered or for which comparable financial statements have been filed with the SEC. All calculations referred to in this definition shall (i) with respect to any acquisition or Asset Sale, include only those adjustments that would be permitted or required by Regulation S-X under the Securities Act of 1933, are reviewed by the Company’s independent certified public accountants and are based on reasonably detailed written assumptions reasonably acceptable to the Administrative Agent and (ii) be certified to by a financial officer as having been prepared in good faith based upon reasonable assumptions.

“Program Receivables” shall mean all trade receivables and related contract rights originated and owned by the Company or any Subsidiary and sold pursuant to the Receivables Program.

“Proportion” means in relation to a Participating Bank in respect of any Letter of Credit, the proportion (expressed as a percentage) borne by that Participating Bank’s Available Commitment to the Available Facility immediately prior to the issuance of that Letter of Credit, adjusted to reflect any assignment or transfer under this Agreement to or by that Participating Bank.

“Qualified Capital Stock” means any Capital Stock other than Redeemable Capital Stock.

“Qualifying Participating Bank” has the meaning given to that term in Clause 17 (*Tax Gross Up and Indemnities*).

“Quotation Day” means, in relation to any period (or day) for which an interest rate or an exchange rate is to be determined:

- (a) (if the currency is sterling) one day before the first day of that period (or such day);
- (b) (if the currency is euro) one TARGET Day before the first day of that period (or such day); or
- (c) (for any other currency) one Business Day before the first day of that period (or such day),

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Administrative Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

“Rating Agency” shall mean each of S&P and Moody’s.

“Receivables Program” shall mean the Program Receivables facility established pursuant to the Receivables Program Documentation.

“Receivables Program Documentation” means any facility or arrangement involving (a) the sale of, or transfer of interests in, Program Receivables to Finsub in a “true sale” transaction and (b) the financing by Finsub of such Program Receivables, either through the sale of, or transfer of interests in, Indebtedness for Borrowed Money by Finsub or otherwise; provided that the terms and conditions of such other facility or arrangement (including those providing for recourse to the Company or any of its Subsidiaries other than Finsub) shall be subject to the prior written approval of the Administrative Agent (not to be unreasonably withheld.)

“Receivables Program Indebtedness” means all consideration or other amounts received by Finsub from the purchaser or financier of Program Receivables under the Receivables Program less any amounts collected with respect to the Program Receivables sold or transferred to or financed by such purchaser or financier, regardless of whether such amount is required to be reflected as a liability on the consolidated balance sheet of the Company and its Subsidiaries in accordance with Accounting Principles (it being the intent of the parties that the amount of Receivables Program Indebtedness at any time outstanding approximates as closely as possible the principal amount of Indebtedness for Borrowed Money that would be outstanding at such time under the Receivables Program if the same were structured as a secured lending agreement).

“Recovering Finance Party” has the meaning given to such term in Clause 31.1 (*Payments to Finance Parties*).

“Redeemable Capital Stock” means any Capital Stock that, either by its terms or by the terms of any security into which it is convertible or exchangeable or otherwise, matures or is, or upon the happening of an event or passage of time would be, required to be redeemed prior to the Maturity Date or is redeemable at the option of the holder thereof at any time prior to the Maturity Date, or is convertible into or exchangeable for debt securities at any time prior to the Maturity Date at the option of the holder thereof.

“Reference Banks” means, in relation to EONIA the principal Paris offices of HSBC, Société Générale and BNP Paribas or such other banks as may be appointed by the Administrative Agent in consultation with the Company.

“Regulation S-X” means Regulation S-X promulgated by the Securities and Exchange Commission as in effect on the date hereof.

“Related Business” means the business and activities currently or formerly engaged in by any of the Obligors or their respective Subsidiaries and any business, activity or service that is complementary, incidental, related, ancillary or similar thereto or is a reasonable extension, development or expansion thereof or of the technologies, know-how or processes developed or used therein.

“Related Fund” in relation to a fund (the **“first fund”**), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

“Release” mean any release, spill, emission, leaking, dumping, injection, pouring, deposit, disposal, discharge, dispersal, leaching or migration into or through the environment or within or upon any building, structure, facility or fixture.

“Relevant Interbank Market” means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

“Relevant Jurisdiction” means, in relation to an Obligor:

- (a) its jurisdiction of incorporation; and
- (b) any jurisdiction where it conducts its business.

“Relevant Period” means each period of twelve (12) Months ending on the last day of the Financial Year and each period of six (6) Months ending on the last day of each Financial Semester.

“Repeating Representations” has the meaning given to that term in Clause 22.29 (*Times when representations made*).

“Replacement Participating Bank” has the meaning given to such term in Clauses 38.4 (*Replacement of Participating Banks*) and 38.6 (*Replacement of a Non-Acceptable Participating Bank*).

“Representative” means any delegate, Administrative Agent, manager, administrator, nominee, attorney, trustee or custodian.

“Residual Value Guarantee” means any obligation of any Flowserve Group Member to provide funds to indemnify another person against a loss or deficiency suffered by such person in the stipulated value of a product manufactured or supplied by any Flowserve Group Member.

“Restricted Payment” means any payment or transfer in cash or in kind by any Flowserve Group Member to any non-Flowserve Group Affiliate in respect of the following:

- (a) any dividend, share premium or share capital repayment, or other distribution (whether made in cash, securities or other property) declared or paid on or with respect to any shares of Capital Stock of the Company (including any payment in connection with any merger or consolidation by any person other than a Flowserve Group Member with or into the Company), except for any dividend or distribution payable solely in shares of Qualified Capital Stock of the Company;
- (b) the purchase, repurchase, redemption, acquisition or retirement for value of any Capital Stock of the Company (other than (i) from the Company or a Subsidiary of the Company, or (ii) in respect of dissenters' rights as determined in accordance with Applicable Law) or any securities exchangeable for or convertible into any such Capital Stock, including the exercise of any option to exchange any Capital Stock (other than for or into Qualified Capital Stock of the Company);
- (c) the purchase, repurchase, redemption, acquisition or retirement for value, prior to the date for any scheduled maturity, sinking fund or amortization or other instalment payment, of any Subordinated Debt; or

- (d) any loan, advance, subscription, purchase or other provision of funds howsoever constituted, as a result of which, and to extent that, a Flowserve Group Member becomes a creditor in respect of Indebtedness for Borrowed Money of, or under other Banking Facilities with, any non-Flowserve Group Member.

“Screen Rate” means, in relation to the European Overnight Index Average (EONIA), the percentage rate per annum determined daily for deposits in Euros by the European Central Bank and currently displayed on the immediately following Target Day on page EONIA of the Reuters Monitor Rates Services. If this page is replaced or service ceases to be available, the Administrative Agent may specify another page or service displaying the appropriate rate after consultation with the Company and the Participating Banks.

“Second Amendment Agreement” means the second amendment agreement dated 26 October 2011 in respect of the Original Letter of Credit Facility Agreement, together with its annexes.

“Second Amendment Flowserve Corporation Guarantee” means the French language first demand guarantee (garantie à première demande) dated 26 October 2011 issued by the Company in connection with the entry into of the Second Amendment Agreement, (an English translation for information of which is set out in Schedule 17 (*Form of Second Amendment Flowserve Corporation Guarantee*)) which replaces and supersedes as of the Effective Date of the Second Amendment, the First Amendment Flowserve Corporation Guarantee.

“Second Currency” has the meaning given to such term in Clause 19.1 (*Currency indemnity*).

“Second Extension Fee Letter” means the fee letter(s) dated 26 October 2011 entered into between the Company and the Administrative Agent setting out the fees to be paid to the Arranger and the Participating Banks in connection with the entry into of the Second Amendment Agreement.

“Securities Act of 1933” means the Securities Act of 1933 enacted by the Congress of the United States of America on 27 May 1933, as amended.

“Securities and Exchange Commission” or **“SEC”** means the Securities and Exchange Commission of the United States of America.

“Security” means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

“Sharing Payment” has the meaning given to such term in Clause 31.1 (*Payments to Finance Parties*).

“Signing Date” means the date of signature of this Agreement.

“S&P” means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.

“Specified Time” means a time determined in accordance with Schedule 9 (*Timetables*).

“Standard Securitization Undertakings” means representations, warranties, covenants and indemnities entered into by any Obligor or any of its respective Subsidiaries that are reasonably customary in receivables or inventory financing facilities, including, without

limitation, servicing of the obligations thereunder.

“Statutory Security” means, as at any time, any one or more of the following:

- (a) any Security arising by operation of law on assets for taxes, assessments or other governmental charges or levies or in favour of workmen's compensation board or similar agencies (including deposits to secure the performance of bids, trade contracts (other than for Indebtedness for Borrowed Money), leases (other than Capital Lease Obligations), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;
- (b) carriers', warehousemen's, mechanics', materialmen's, repairmen's Security;
- (c) pledges and deposits made in the ordinary course of business in compliance with workmen's compensation, unemployment insurance and other social security laws or regulations; and
- (d) zoning restrictions, easements, rights-of-way, restrictions on use of real property and other similar encumbrances incurred in the ordinary course of business which, in the aggregate are not substantial in amount and do not materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Company or any of its Subsidiaries:
 - (iii) which liabilities are not yet due; or
 - (iv) which liabilities are due, but the validity of such tax, assessment, charge or levy is being contested diligently and in good faith by or on behalf of the person allegedly liable and for which such person has set aside appropriate reserves in its books as and if required by the Accounting Principles,

and provided that, in each case, no enforcement action has been taken in respect of such Security; or

- (e) any Security arising by operation of law for any judgment rendered or claim filed against a person that does not constitute an Event of Default under Clause 26.9 (Creditors' Process) or if such person (or others on its behalf) will be contesting diligently and in good faith, and for which such person has set aside appropriate reserves on its books, as and if required by the Accounting Principles.

“Structure Chart” means the group structure chart in the agreed form.

“Subordinated Debt” means Indebtedness for Borrowed Money of any Flowserve Group Member which either:

- (a) is unsecured, is not guaranteed by any person and is fully and effectively subordinated in point of priority, in all relevant jurisdictions, to the obligations of the Obligors towards the Finance Parties under the Finance Documents, it is being understood that:
 - (i) such Indebtedness for Borrowed Money may not be enforced against the relevant Flowserve Group Member or its assets during any period (a “Blockage Period”) whilst an Event of Default is continuing;
 - (ii) interest on such Indebtedness for Borrowed Money is not payable during a Blockage Period; and

- (iii) the creditors in respect of such Indebtedness for Borrowed Money are required to hold on trust for and turn over to the Finance Parties, any amounts received by them from the Obligor during a Blockage Period; or
- (b) is mandatorily or automatically convertible into non-redeemable share capital of the relevant Flowserve Group Member, including on the bankruptcy or insolvency of that Flowserve Group Member.

“**Subsidiary**” of a person means any company a majority of whose Voting Capital Stock, is owned directly or indirectly, beneficially or otherwise, by such person (but excluding a trust with respect to which such person does not have the ability to appoint a majority of the trustees) and a person will be deemed to be a Subsidiary of another person if it is a Subsidiary of a person that is that other person's Subsidiary.

“**Sum**” has the meaning given to such term in Clause 19.1 (*Currency indemnity*).

“**TARGET2**” means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

“**TARGET Day**” means any day on which TARGET2 is open for the settlement of payments in euro.

“**Tax**” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

“**TEG Letter**” has the meaning given to that term in Clause 15.2 (*Effective Global Rate (Taux Effectif Global)*).

“**Term**” means each period for which the Issuing Bank is under a liability under a Letter of Credit, which will be the term of the relevant Letter of Credit, and which shall not be longer than 5 years and in any case shall not extend beyond sixty (60) Business Days before the Maturity Date.

“**Third Anti-Money Laundering European Directive**” means the European Union directive No. 2005/60/CE dated 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

“**Third Amendment Agreement**” means the third amendment agreement dated 26 October 2012 in respect of the Original Letter of Credit Facility Agreement, together with its annexes.

“**Third Amendment Flowserve Corporation Guarantee**” means the French language first demand guarantee (garantie à première demande) dated 26 October 2012 issued by the Company in connection with the entry into of the Third Amendment Agreement (an English translation for information of which is set out in Schedule 18 (*Form of Third Amendment Flowserve Corporation Guarantee*)) which replaces and supersedes as of the Effective Date of the Third Amendment, the Second Amendment Flowserve Corporation Guarantee.

“**Third Extension Fee Letter**” means the fee letter(s) dated 26 October 2012 entered into between the Company and the Administrative Agent setting out the fees to be paid to the Arranger and the Participating Banks in connection with the entry into of the Third Amendment Agreement.

“**Total Commitment**” means the sum, in the Base Currency Amount, of the Commitments of all the Participating Banks being the amount set forth in the line “Total Commitment”, in Part II (*The Original Participating Banks*) of Schedule 1 (*The Original Parties*) and as it may be cancelled or reduced pursuant to this Agreement.

“**Transfer Agreement**” means an agreement substantially in the form set out in Schedule 6 (*Form of Transfer Agreement*) or any other form agreed between the Administrative Agent and the Company.

“**Transfer Date**” means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Agreement; and
- (b) the date on which the Administrative Agent executes the relevant Transfer Agreement.

“**Treaty**” has the meaning given to such term in Clause 17.1 (*Definitions*).

“**Unfunded Pension Liability**” of any Plan shall mean the amount, if any, by which the value of the accumulated plan benefits under the Plan, determined on a plan termination basis in accordance with actuarial assumptions at such time consistent with those prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds the fair market value of all plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions).

“**Unpaid Sum**” means any sum due and payable but unpaid on its due date by an Obligor under the Finance Documents.

“**Unreimbursed Amount**” has the meaning given to such term in Clause 10.3 (*Participating Banks’ Liabilities*).

“**Utilisation**” means the issuance of a Letter of Credit.

“**Valbart Srl**” means Valbart Srl, a company organized and existing under the laws of Italy, having its registered office at N°9/5 via delle Industrie, 20050 Mezzago, Milano, Italy and registration number n°03941350963.

“**VAT**” means any tax imposed in accordance with the Council directive of 28 November 2006 on the Common System of the value added tax (EC Directive 2006/112), whether imposed in a member State of the European Union or elsewhere in substitution for or levied in addition to such tax.

“**Voting Capital Stock**” means the capital stock (whether common shares, preferred shares or other equivalent equity interests, howsoever designated, in the capital stock of a body corporate, equity preferred or common interests in a limited liability company, limited or general partnership interests in a partnership or any other equivalent ownership interest, or the interest of a beneficiary under a trust) of a company which carries voting rights, provided that capital stock which carries the right to vote conditionally upon the happening of an event shall not be considered Voting Capital Stock until the occurrence of such event and then only during the continuance of such event.

“**Worthington S.R.L.**” means Worthington S.R.L. a private company organized and existing under the laws of Italy and having its address at Via Rossini 90/92, 20033 Desio (Milan), Italy.

1.2 Construction

- (a) Unless a contrary indication appears, a reference in this Agreement to:
- (i) the “**Administrative Agent**”, any “**Arranger**”, any “**Finance Party**”, the “**Issuing Bank**”, any “**Participating Bank**”, any “**Obligor**”, any “**Party**” or any other person shall be construed so as to include its successors in title, permitted assigns and permitted transferees in accordance with the Finance Documents;
 - (ii) a document in “**agreed form**” is a document which is previously agreed in writing by or on behalf of the Company and the Administrative Agent;
 - (iii) “**assets**” includes present and future properties, revenues and rights of every description;
 - (iv) a “**Finance Document**” or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended, novated, supplemented, extended or restated;
 - (v) “**gross negligence**” means “faute lourde”;
 - (vi) a “**guarantee**” includes any guarantee, any “cautionnement”, “aval”, any “garantie” and any indemnity or similar assurance against loss which is independent from the debt to which it relates;
 - (vii) “**indebtedness**” includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
 - (viii) “**merger**” includes any “fusion” implemented in accordance with articles L.236-1 to L.236.24 of the French Code de commerce or any equivalent provision under any Applicable Law (including, without limitation, Luxembourg law);
 - (ix) a Participating Bank’s “**participation**” in relation to a Letter of Credit, shall be construed as a reference to the relevant amount that is or may be payable by a Participating Bank in relation to that Letter of Credit;
 - (x) a “**person**” includes any individual, firm, company, corporation, government, state or agency of a state or any grouping (whether or not having separate legal personality);
 - (xi) a “**regulation**” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organization;
 - (xii) a “**security interest**” includes any type of security (“sûreté réelle”) and transfer by way of security;
 - (xiii) “**trustee, fiduciary and fiduciary duty**” has in each case the meaning given to such term under any Applicable Law;
 - (xiv) “**willful misconduct**” means “dol”;

(xv) a provision of law is a reference to that provision as amended or re-enacted; and

(xvi) unless a contrary indication appears, a time of day is a reference to Paris time.

(b) Section, Clause and Schedule headings are for ease of reference only.

(c) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.

(d) A LG User providing “cash cover” for a Letter of Credit means a LG User (or the Company):

(iv) paying an amount in the currency of the Letter of Credit to an interest-bearing account opened in the name of the LG User (or the Company) and the following conditions being met: (x) the account is with the Issuing Bank or the Administrative Agent and (y) the LG User (or the Company on its behalf) has executed a security document over that account, in form and substance reasonably satisfactory to the Administrative Agent, creating a first ranking security interest over that account; or

(v) providing to the Issuing Bank letter(s) of credit (in form and substance satisfactory for and in favour of the Issuing Bank) issued by Acceptable Bank(s),

in each case subject to paragraphs (c) and (d) of Clause 11.1 (*Cash cover by LG User in the event of occurrence of an Event of Default*), until no amount is or may be outstanding under that Letter of Credit, withdrawals from the account mentioned in paragraph (i) above or call under the letter(s) of credit mentioned in paragraph (ii) above may only be made to pay a Finance Party amounts due and payable to it under this Agreement in respect of that Letter of Credit.

(e) A Default is “continuing” if it has not been remedied or waived.

(f) A LG User “repaying” or “prepaying” a Letter of Credit means:

(i) that LG User (or the Company) providing cash cover for that Letter of Credit;

(ii) the maximum amount payable under the Letter of Credit being reduced or cancelled in accordance with its terms; or

(iii) the Issuing Bank being satisfied that it has no further liability under that Letter of Credit,

and the amount by which a Letter of Credit is repaid or prepaid under paragraphs (f)(i) and (f)(ii) above is the amount of the relevant cash cover or reduction.

(g) An outstanding amount of a Letter of Credit at any time is the maximum amount that is or may be payable by the Issuing Bank in respect of that Letter of Credit.

(h) Where the character or amount of any asset, liability or indebtedness or item of income or expense, or any consolidation or other

accounting computation is required to be made for any purpose hereunder, it shall be done in accordance with the Accounting Principles with respect to the Financial Covenants, as in effect on the Signing Date, and for all other purposes, as in effect on the date of, or

at the end of the period covered by, the financial statements from which such asset, liability, item of income, or item of expense, is derived, or, in the case of any such computation, as in effect on the date as of which such computation is required to be determined; provided, however, that any concepts that would not be included in or excluded from such term as used herein will be deemed to include or exclude such amounts, items or concepts as set forth herein, and provided, further, that references to “combined”, “consolidated” or “consolidation”, as the case may be, shall in all events mean as defined with reference solely to the Accounting Principles.

- (i) Except the Company to the extent provided for in the Finance Documents, each Obligor shall have obligations hereunder only for itself and for its Subsidiaries and is not jointly and severally liable (obligation conjointe et non solidaire) with the other Obligors.
- (j) Except as otherwise specifically prescribed herein, all accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, Accounting Principles applied on a consistent basis, as in effect from time to time. Notwithstanding the foregoing, for purposes of determining compliance with any covenant (including the computation of any financial covenant) contained herein, Indebtedness for Borrowed Money of Company and their Subsidiaries shall be deemed to be carried at 100% of the outstanding principal amount thereof, and the effects of FASB ASC 825 and FASB ASC 470-20 on financial liabilities shall be disregarded.
- (k) If at any time any change in accounting terms (including the adoption of IFRS) would affect the computation of any financial ratio or requirement set forth in any Finance Document, and either the Company or the Majority Participating Banks shall so request, the Administrative Agent, the Participating Banks and the Company shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in Accounting Terms (subject to the approval of the Majority Participating Banks); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with Accounting Terms prior to such change therein and (ii) the Company shall provide to the Administrative Agent and the Participating Banks financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in accounting terms.
- (l) For purposes of calculations made pursuant to the terms of this Agreement, Accounting Principles will be deemed to treat operating leases in a manner consistent with their current treatment under generally accepted accounting principles as in effect on the Effective Date of the Third Amendment, notwithstanding any modifications or interpretive changes thereto that may occur thereafter

2. THE FACILITY

2.1 The Facility

Subject to the terms of this Agreement, the Participating Banks make available to the LG Users a multicurrency letter of credit facility in an aggregate amount not to exceed the Base Currency Amount which is equal to the Total Commitment (the “**Facility**”) and pursuant to which Facility, the Issuing Bank agrees to issue, on account of the relevant LG Users, Letters of Credit in favour of certain Beneficiaries.

2.2 Finance Parties' rights and obligations

- (a) The obligations of each Finance Party under the Finance Documents are several (conjointes et non solidaires). Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- (b) The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from an Obligor shall be a separate and independent debt.
- (c) A Finance Party may, except as otherwise stated in the Finance Documents, separately enforce its rights under the Finance Documents.

2.3 Obligor's Administrative Agent

- (a) Each Obligor (other than the Company) by its execution of this Agreement or an Accession Letter irrevocably appoints the Company to act on its behalf as its agent ("mandataire") in relation to the Finance Documents and irrevocably authorises:
 - (i) the Company on its behalf to supply all information concerning itself contemplated by this Agreement to the Finance Parties and to give all notices and instructions (including, in the case of a LG User, Issuance Requests), to execute on its behalf any Accession Letter, to make such agreements and to effect the relevant amendments, supplements and variations capable of being given, made or effected by any Obligor notwithstanding that they may affect the Obligor (including, without limitation, by increasing the obligations of such Obligor howsoever fundamentally, whether by increasing the liabilities guaranteed by it or otherwise), without further reference to or the consent of that Obligor; and
 - (ii) each Finance Party to give any notice, demand or other communication to that Obligor pursuant to the Finance Documents to the Company,

and in each case the Obligor shall be bound as though the Obligor itself had given the notices and instructions (including, without limitation, any Issuance Requests) or executed or made the agreements or effected the amendments, supplements or variations, or received the relevant notice, demand or other communication.

- (b) Every act, omission, agreement, undertaking, settlement, waiver, amendment, supplement, variation, notice or other communication given or made by the Obligor's Administrative Agent or given to the Obligor's Administrative Agent under any Finance Document on behalf of another Obligor or in connection with any Finance Document (whether or not known to any other Obligor and whether occurring before or after such other Obligor became an Obligor under any Finance Document) shall be binding for all purposes on that Obligor as if that Obligor had expressly made, given or concurred with it. In the event of any conflict between any notices or other communications of the Obligor's Administrative Agent and any other Obligor, those of the Obligor's Administrative Agent shall prevail.

2.4 Purpose

The LG Users shall apply each Letter of Credit issued under the Facility towards guaranteeing the contractual obligations (other than Indebtedness for Borrowed Money), owed by the LG Users in the ordinary course of business, towards the relevant Beneficiaries.

2.5 Monitoring

No Finance Party is bound to monitor or verify the application of any Letter of Credit issued pursuant to this Agreement.

3. CONDITIONS OF UTILISATION

3.1 Conditions precedent to Signing

The Participating Banks acknowledge that all of the documents and other evidence listed in Schedule 2 (*Conditions Precedent*) have been delivered to the Administrative Agent in form and substance satisfactory to the Participating Banks.

3.2 Conditions Precedent to each Utilisation

Subject to Clause 3.1 (*Conditions precedent to Signing*), the Issuing Bank will only be obliged to issue any Letter of Credit, if on the date of the Issuance Request and on the proposed Issuance Date:

- (a) the relevant LG User (or the Company on its behalf) has delivered a duly completed Issuance Request;
- (b) the Administrative Agent has received evidence that the fees, costs and expenses then due by the Company and/or the relevant LG Users to the Finance Parties have been paid or will be paid on the Issuance Date;
- (c) in the case of a Letter of Credit to be renewed in accordance with Clause 5 (Extension of a Letter of Credit) no Event of Default is continuing or would result from the proposed Utilisation and, in the case of any other proposed issuance of an Utilisation, no Default is continuing or would result from the proposed Utilisation; and
- (d) in relation to any Utilisation on the Closing Date, all the representations and warranties in Clause 22 (Representations) or, in relation to any other Utilisation, the Repeating Representations to be made by each Obligor are true and correct in all material respects.

4. ISSUANCE OF LETTER OF CREDIT

4.1 The Facility

The Facility shall only be utilised by way of issuance of Letters of Credit.

4.2 Delivery of an Issuance Request

A LG User (or the Company on its behalf) may request a Letter of Credit to be issued by delivery to the Administrative Agent of a duly completed Issuance Request not later than the Specified Time. The Issuance Request may be sent by an authorised representative of the

LG User (or the Company on its behalf) by fax, email or by posting the Issuance Request onto an electronic website designated by the Issuing Bank.

4.3 Completion of an Issuance Request

- (a) Each Issuance Request for a Letter of Credit is irrevocable and will not be regarded as having been duly completed unless:
 - (i) it identifies the LG User of that Letter of Credit;
 - (ii) the proposed Issuance Date is a Business Day within the Availability Period;
 - (iii) the currency and amount of the Letter of Credit comply with Clause 4.5 (Currency and amount);
 - (iv) the maximum aggregate Base Currency Amount of all Letters of Credit issued and outstanding does not exceed the Total Commitment at any time;
 - (v) the amount in the Base Currency of the proposed Letter of Credit does not exceed the Available Facility;
 - (vi) the Expiry Date of the Letter of Credit falls on or before the Maturity Date;
 - (vii) the delivery instructions for the Letter of Credit are specified; and
 - (viii) the identity of the Beneficiary and the country in which the Beneficiary is registered are approved by the Issuing Bank and in conformity with the restrictions defined under the European Union embargo list or any similar list issued by application of the Third Anti-Money Laundering European Directive.
- (b) Only the issuance of one Letter of Credit may be requested in each Issuance Request.
- (c) The number of Letters of Credit issued in a Month may not exceed 30.
- (d) The Letter of Credit must not be assignable or transferable to any third party unless the transferability provisions of the Letter of Credit, when issued, have been authorized by the Issuing Bank. Should the Letter of Credit be transferable in accordance with applicable law, the Letter of Credit shall provide that:
 - (i) either the rights of the Beneficiary under the Letter of Credit cannot be transferred or assigned, or that the rights of the Beneficiary under the Letter of Credit can only be assigned or transferred with the prior written consent of the Issuing Bank;
 - (ii) the Issuing Bank shall not be obliged to pay any Claim under the relevant Letter of Credit, if the latter has been transferred in breach of the provisions of paragraph (i) above.
- (e) If the details and instructions in the Issuance Request are not sufficiently specific, the Issuing Bank shall inform the Company within two (2) Business Days following receipt of the Issuance Request and the Letter Credit will not be issued unless and until the Issuing Bank is satisfied that it has received the necessary additional details and instructions.

4.4 Conditions relating to Optional Currencies

- (a) A currency will constitute an Optional Currency in relation to a Utilisation if:
 - (i) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Issuance Date for that Utilisation; and
 - (ii) is Dollars, Pounds Sterling or has been approved by the Administrative Agent on or prior to receipt by the Administrative Agent of the relevant Issuance Request for that Utilisation and for which the Administrative Agent provides a rate of exchange with Euros.
- (b) If the Administrative Agent has received a written request from the Company for a currency to be approved under paragraph (a)(ii) above, the Administrative Agent will confirm to the Company by the Specified Time:
 - (i) whether or not the Participating Banks have granted their approval; and
 - (ii) if approval has been granted, the minimum amount for any subsequent Utilisation in that currency.

4.5 Currency and amount

- (a) The currency specified in an Issuance Request must be the Base Currency or an Optional Currency.
- (b) Subject to paragraph (c) below, the amount of the proposed Letter of Credit must be an amount whose Base Currency Amount is not more than the Available Facility.
- (c) The maximum aggregate Base Currency Amount of all Letters of Credit shall not exceed the Total Commitment at any time.

4.6 Issuance of Letters of Credit

- (a) If the conditions set out in this Agreement have been met and the form of the Letter of Credit has been agreed by the Issuing Bank and the Administrative Agent, at their discretion, the Issuing Bank shall issue the Letter of Credit on the Issuance Date.
- (b) The amount of each Participating Bank's participation in each Letter of Credit will be equal to its Proportion and for the avoidance of doubt a Participating Bank's participation in a Letter of Credit shall not exceed its Available Commitment.
- (c) The Administrative Agent shall determine the Base Currency Amount of each Letter of Credit which is to be issued in an Optional Currency and shall notify the Issuing Bank and each Participating Bank of the details of the requested Letter of Credit and its participation (which shall equal its Proportion) in that Letter of Credit by the Specified Time.
- (d) As from the Closing Date, the Administrative Agent shall send to each Participating Bank, on a monthly basis, a report containing the following information in respect of the Letters of Credit issued during the preceding month: (i) name of the LG Users for the account of which such Letters of Credit have been issued, (ii) Issuance Date, Term, internal reference, amount and currency of such Letters

of Credit, (iii) type of such Letter of Credit and (iv) name and address of the Beneficiaries of such Letters of Credit.

4.7 Cancellation of Commitments

The Available Commitments, which, at that time, are unutilized shall be immediately cancelled at the end of the Availability Period.

5. EXTENSION OF A LETTER OF CREDIT

- (a) A LG User (or the Company on its behalf) may request that any Letter of Credit (other than an Existing Letter of Credit) issued on behalf of that LG User be extended by delivery to the Administrative Agent of an Extension Request by the Specified Time.
- (b) The Finance Parties shall treat any such Extension Request in the same way as an Issuance Request.
- (c) The terms of each extended Letter of Credit shall be the same as those of the relevant Letter of Credit immediately prior to its extension, except that:
 - (i) its amount may be less than the amount of the Letter of Credit immediately prior to its extension; and
 - (ii) its Term shall end on the proposed Expiry Date specified in the relevant Extension Request.
- (d) If the conditions set out in this Agreement have been met, the Issuing Bank shall amend any Letter of Credit pursuant to the relevant Extension Request.

6. REDUCTION OF A LETTER OF CREDIT

- (a) If, on the proposed Utilisation Date of a Letter of Credit, any of the Participating Banks under the Facility is a Non-Acceptable Participating Bank and:

either:

- (A) the Issuing Bank has not required the LG Users to provide cash cover pursuant to Clause 11.2; or
- (B) the LG Users have failed to provide cash cover to the Issuing Bank in accordance with Clause 11.2,

the Issuing Bank may, after written notice to the Obligors, reduce the amount of that Letter of Credit by an amount equal to the amount of the participation of that Non-Acceptable Participating Bank in respect of that Letter of Credit and that Non-Acceptable Participating Bank shall be deemed not to have any participation (or obligation to indemnify the Issuing Bank) in respect of that Letter of Credit for the purposes of the Finance Documents.

- (b) The Issuing Bank shall notify the Administrative Agent of each reduction made pursuant to this Clause 6.

- (c) This Clause 6 shall not affect the participation of each other Participating Bank in that Letter of Credit.

7. REVALUATION OF LETTERS OF CREDIT

- (a) If any Letters of Credit are denominated in an Optional Currency, the Administrative Agent shall at three monthly intervals after the Signing Date recalculate the Base Currency Amount of each Letter of Credit by notionally converting into the Base Currency the outstanding amount of that Letter of Credit on the basis of the Administrative Agent's Spot Rate of Exchange on the date of calculation.
- (b) The Company shall, if requested by the Administrative Agent, within 3 Business Days of any calculation under paragraph (a) above, ensure that sufficient Letters of Credits are prepaid by providing cash cover in accordance with Clause 1.2(d)(i) or in accordance with Clause 1.2(d)(ii) to prevent the Base Currency Amount of the Letters of Credits exceeding the Total Commitment following any adjustment to a Base Currency Amount under paragraph (a) of this Clause 7.

8. EXISTING LETTERS OF CREDIT

- (a) Schedule 10 (Existing Letters of Credit) hereto contains on the Signing Date a description of certain letters of credit issued (or deemed issued) under the Existing Credit Agreement under which the Issuing Bank and Deutsche Bank AG, New-York branch, in their capacity as participating banks under the Existing Credit Agreement, have remaining liabilities and which shall be outstanding on the Signing Date (and setting forth, with respect to each such letters of credit, (i) the letters of credit number, (ii) the name(s) of the account party or account parties, (iii) the face amount (including the currency in which such letters of credit is denominated), (iv) the name of the beneficiary, (v) the amounts of CACIB and Deutsche Bank AG, New-York branch participations (expressed in the Base Currency) in such letters of credit and (vi) the expiry date thereof) (each, an "Existing Letter of Credit"). As a consequence of the Existing Letters of Credit, Schedule 1 (The Original Parties) hereto identifies the Available Commitment of each Participating Bank on the Signing Date.
 - (b) Thereafter, on a monthly basis, the Administrative Agent shall, on the basis of information provided by The Royal Bank of Scotland Plc, revise Schedule 10 (Existing Letters of Credit) in compliance with mutatis mutandis the calculation method described in Clause 7(a) above.
 - (c) Upon receipt of such monthly update the Administrative Agent shall send the update to CACIB and to Deutsche Bank AG - Paris Branch. Within five (5) Business Days of such receipt, and save if CACIB disagrees with the calculations set forth in such monthly update within such time period, the Administrative Agent shall recalculate the Available Commitment as at such date for each Participating Bank as follows:
 - (d) CACIB's Available Commitment shall be increased by an amount representing the share of CACIB (as determined by the Administrative Agent on the basis of the above mentioned monthly update) in the repayment or payment of all or part of the Existing Letters of Credit which occurred during the monthly period to which relates the above mentioned monthly update. Deutsche Bank AG - Paris Branch's Available Commitment shall be increased by an amount representing the share of Deutsche Bank AG - Paris Branch (as determined by the Administrative Agent on the basis of the above mentioned monthly update) in the repayment or payment of all or part of the Existing Letters of Credit which occurred during the monthly period to which relates the above mentioned monthly update.
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The other Participating Banks Available Commitments shall, simultaneously, each be increased in such an amount so that the Proportion of each Participating Bank be the same as it was immediately before making the adjustments provided for in this paragraph.

- (e) In case CACIB has objected to the calculation set forth in the above mentioned monthly update, CACIB will provide the Administrative Agent and the Company with a revised update. Such update shall be conclusive, save manifest error.
- (f) After the Signing Date, the Administrative Agent shall at a three monthly interval send to each Participating Bank (other than CACIB) an update of its Available Commitment.
- (g) For the purpose of this Clause, “repayment” or “payment” of an Existing Letter of Credit shall be construed in accordance with, mutatis mutandis, paragraphs (d) and (f) of Clause 1.2 (Construction).
- (h) For the sake of clarity, the Commitment of a Participating Bank shall not be increased by any adjustment made to CACIB’s Available Commitment in accordance with this Clause 8 (Existing Letters of Credit). However, the Parties acknowledge that their Proportion (expressed as a percentage) as at the Signing Date set out in item 2 (Available Commitment) of paragraph Part II of Schedule 1 (The Original Parties) may vary following an adjustment made to CACIB’s Available Commitment and Deutsche Bank AG - Paris Branch’s Available Commitment in accordance with this Clause 8 (Existing Letters of Credit).

9. EXTENSION OF THE AVAILABILITY PERIOD

- (a) The Company may, by notice to the Administrative Agent (which shall promptly deliver a copy thereof to each Participating Bank) not less than 45 days and not more than 60 days before the end of the Availability Period, request that the Availability Period be extended to the date which is 364 days after the end of the Availability Period.
 - (b) Upon receipt of the notice of the Company, each Participating Bank shall, within twenty-five (25) days before the end of the Availability Period, notify the Administrative Agent, of its decision to approve or reject, in its sole discretion, the proposed extension of the Availability Period. Any Participating Bank who fails to notify the Administrative Agent, within such time period, shall be deemed to have rejected the proposed extension of the Availability Period.
 - (c) The Administrative Agent shall notify the Company of the decision of each Participating Bank no later than twenty (20) days before the end of the Availability Period.
 - (d) Subject to the provisions of Clause 38.4 (Replacement of Participating Banks), if any Participating Bank rejects the proposed extension of the Availability Period, such request shall be deemed to have been rejected.
 - (e) If all Participating Banks have agreed to the proposed extension of the Availability Period, the Administrative Agent and the Company shall, within ten (10) days before the end of the Availability Period, negotiate the terms and conditions and the legal documentation required for the extension of the Availability Period; provided further that the term of the Flowserve Corporation Guarantee shall be extended to the satisfaction of the Participating Banks.
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- (f) No provision of this Clause 9 shall oblige a Participating Bank to agree on a proposed extension of the Availability Period. In considering whether or not to approve such an extension, each Participating Bank shall make its own independent appraisal of the creditworthiness of the Company and each Obligor and its own independent investigation and assessment into the financial condition and affairs of the Company.
- (g) Any proposed extension of the Availability Period shall be subject to the delivery to the Administrative Agent of documents, each in form and substance satisfactory to the Administrative Agent, evidencing that each of the Obligors and, as the case maybe, any contemplated additional LG User has a positive Net Worth.

10. CLAIM UNDER A LETTER OF CREDIT

10.1 Issuing Bank Liabilities

- (a) Each of the Parties irrevocably and unconditionally authorises the Issuing Bank to pay any claim made or purported to be made under a Letter of Credit requested under this Agreement and which appears on its face to be in order (a “Claim”).
- (b) Each of the Parties acknowledges that the Issuing Bank:
 - (i) is not obliged to carry out any investigation or seek any confirmation from any other person before paying a Claim;
 - (ii) is not obliged to pay any Claim if the transfer or assignment of the relevant Letter of Credit has been made in breach of the provisions of Article 4.3(d) above; and
 - (iii) deals in documents only and will not be concerned with the legality of a Claim or any underlying transaction or any available set-off, counterclaim or other defence of any person.

10.2 Obligors’ Liabilities

- (a) If a Letter of Credit or any amount outstanding under a Letter of Credit becomes due and payable, the LG User that requested (or on behalf of which the Company requested) the issue of that Letter of Credit (the “Affected LG User”) shall repay or prepay that amount immediately in the manner set out below.
- (b) Upon receipt by the Issuing Bank from a Beneficiary of any notice of Claim under a Letter of Credit, the Issuing Bank shall promptly send to the Affected LG User, the Guarantor, the Administrative Agent and the Participating Banks a notice (a “Claim Notification”) setting out:
 - (i) the amount and currency of the payment which the Issuing Bank is required to make under that Letter of Credit (the “Amount of the Claim”); and
 - (ii) the latest date on which such payment must be made (the “Payment Date”).
- (c) The Affected LG User shall by no later than 10:00 a.m. on the later of:

- (i) the Business Day preceding the Payment Date;

(ii) the second Business Day following the receipt by the Affected LG User of the Claim Notification,

pay to the Administrative Agent, for the account of the Issuing Bank, the Amount of the Claim.

(d) The obligations of the Affected LG User under this Clause 10.2 will not be affected by:

(i) the sufficiency, accuracy or genuineness of any Claim or any other document; or

(ii) any incapacity of, or limitation on the powers of, any person signing a Claim or other document.

10.3 Participating Banks' Liabilities

- (a) In the event of a failure of the Affected LG User to reimburse the Issuing Bank in full for the amount of any Claim pursuant to Clause 10.2 (Obligors' Liabilities) above, the Issuing Bank shall promptly notify the Administrative Agent and, upon receipt of such notice, the Administrative Agent shall promptly notify each Participating Bank of the unreimbursed amount by the Affected LG User (the "Unreimbursed Amount"), the amount of such Participating Bank's Proportion thereof and the date on which payment must be made by such Participating Bank, which date shall not be less than five (5) Business Days of the date of such notice.
- (b) Each Participating Bank shall, upon any notice pursuant to paragraph (a) above, pay to the Administrative Agent for the account of the Issuing Bank an amount equal to its Proportion of any Unreimbursed Amount not later than the day specified in the notice sent by the Administrative Agent pursuant to (a) above. Upon making any such payment to the Issuing Bank pursuant to Clause 10.1(b) above, each Participating Bank shall be deemed to have taken, on the date such Letter of Credit is issued (or if later, on the date the Participating Bank's participation in the Letter of Credit is transferred or assigned to the Participating Bank in accordance with the terms of this Agreement), an undivided interest and participation in such Letter of Credit in an amount equal to its Proportion of that Letter of Credit.
- (c) The Affected LG User shall, within five (5) Business Days as from the receipt a notice of the Administrative Agent to that effect, reimburse the Administrative Agent (for the account of such Participating Bank) for any payment it made to the Issuing Bank under paragraph (b) of this Clause 10.3 in respect of a Letter of Credit. In this respect, each Obligor shall be deemed to incur a direct obligation and liability vis-à-vis each Participating Bank up to the amounts paid by each such Participating Bank in accordance with paragraph (b) above. Each Participating Bank shall promptly notify the Issuing Bank and the Administrative Agent upon receiving any payment from the Affected LG User pursuant to this paragraph (c).
- (d) Whenever the Issuing Bank receives a payment of a reimbursement obligation from the Affected LG User or the Guarantor for which it has received payments from the Administrative Agent (for the account of such Participating Bank) pursuant to paragraph (b) above, the Issuing Bank shall pay to the Administrative Agent for the account of each such Participating Bank which has paid its Proportion thereof (and which has not been reimbursed directly by the Affected LG User or the Guarantor therefore pursuant to paragraph (c) above) an amount equal to such Participating Bank's share (based upon the proportionate aggregate amount originally funded by such Participating Bank to the
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aggregate amount funded by all Participating Banks) of the principal amount of such reimbursement obligation and interest thereon accruing after the purchase of the respective participations in accordance with paragraph (b) above.

- (e) To the effect of this Clause, each Participating Bank as primary obligor, guarantees the due performance by each relevant LG User of its payment obligations in respect of each Letter of Credit issued for the account of such LG User. The obligations of each Participating Bank under this Clause are continuing obligations and will extend to the ultimate balance of sums payable by that Participating Bank pursuant to paragraph (b) above in respect of any Letter of Credit, regardless of any intermediate payment or discharge in whole or in part.

10.4 Indemnities

- (a) The Affected LG User shall, within 10 Business Days as from any notice of the Administrative Agent to that effect, indemnify the Issuing Bank against any cost, loss or liability incurred by the Issuing Bank (otherwise than by reason of the Issuing Bank's gross negligence or willful misconduct) in acting as the Issuing Bank under any Letter of Credit requested by (or on behalf of) the Affected LG User.
 - (b) Each Participating Bank shall (according to its Proportion), within 5 Business Days as from any notice of the Administrative Agent to that effect and unless the Issuing Bank has been reimbursed by the Affected LG User or the Guarantor pursuant to the Flowserve Corporation Guarantee, indemnify the Issuing Bank against any cost, loss or liability incurred by that Issuing Bank (including, without limitation, any losses as a result of the failure of an Affected LG User or the Guarantor to reimburse the Issuing Bank in full for the amount of any Claim pursuant to Clause 10.3(a) (otherwise than by reason of the Issuing Bank's gross negligence or willful misconduct) in acting as the Issuing Bank under any Letter of Credit.
 - (c) The Affected LG User shall immediately on demand reimburse any Participating Bank for any payment it makes to the Issuing Bank under this Clause in respect of a Letter of Credit.
 - (d) The obligations of any Participating Bank or an Obligor under this Clause will not be affected by any act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any of its obligations under this Clause (without limitation and whether or not known to it or any other person) including:
 - (i) any time, waiver or consent granted to, or composition with, any Obligor, any Beneficiary or any other person;
 - (ii) the release of any other Obligor or any other person under the terms of any composition or arrangement with any creditor or any member of the Flowserve Group;
 - (iii) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, any Obligor, any Beneficiary or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
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- (iv) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of an Obligor, any Beneficiary or any other person;
- (v) any amendment (however fundamental) or replacement of a Finance Document, any Letter of Credit or any other document or security;
- (vi) any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document, any Letter of Credit or any other document or security;
- (vii) any insolvency or similar proceedings;
- (viii) the existence of any claim, setoff, defense, counterclaim or other right which an Obligor or any member of the Flowserve Group may have at any time against a beneficiary named in a Letter of Credit, any transferee of any Letter of Credit (or any person for whom any such transferee may be acting), the Administrative Agent, any Participating Bank, or any other person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transaction between the Affected LG User, the Guarantor or any member of the Flowserve Group);
- (ix) the occurrence of any Default.

11. CASH COVER

11.1 Cash Cover by LG User in the event of occurrence of an Event of Default

- (a) Upon the occurrence of an Event of Default, the LG Users shall within two (2) Business Days from the notice sent by the Administrative Agent pursuant to Clause 26.18 ([Reserved])
- (b) Prepayment and cancellation) provide cash cover in accordance with Clause 1.2(d)(i) to the Issuing Bank (for the account of the Finance Parties) in an amount equal to all the amount owed by the LG Users to the Finance Parties under the Finance Documents as set forth in Clause 26.18 ([Reserved])
- (c) Prepayment and cancellation).
- (d) Alternatively, upon the occurrence of an Event of Default, the Company may in accordance with Clause 1.2(d)(ii) provide to the Issuing Bank letter(s) of credit (in form and substance satisfactory for the Issuing Bank) issued by Acceptable Bank(s) to guarantee to the Issuing Bank the payment of all amounts due by the LG Users to the Finance Parties under the Finance Documents as set forth in Clause 26.18 ([Reserved])
- (e) Prepayment and cancellation).
- (f) If cash cover has been provided in accordance with Clause 1.2(d)(i) and that no amount is or may be outstanding under the relevant Letters of Credit, the Company may by notice to the Administrative Agent request that an amount equal to the amount of the cash provided by the LG Users standing to the credit of the relevant account held with the Issuing Bank or the

Administrative Agent in accordance with paragraph (a) above, be returned to the LG Users and the Issuing Bank (or the Administrative Agent on its behalf) shall pay that amount to the LG Users within 10 Business Days after the request

from the Company (and shall cooperate with the Company in order to procure that the relevant security or collateral arrangement is released and discharged).

- (g) Alternatively, if cash cover has been provided in accordance with Clause 1.2(d)(ii) and that no amount is or may be outstanding under the relevant Letters of Credit, the Company may by notice to the Administrative Agent request that such letter(s) of credit are returned to the LG Users and the Issuing Bank (or the Administrative Agent on its behalf) shall return such letter(s) of credit to the LG Users within 10 Business Days after the request from the Company.

11.2 Cash Cover by LG Users in case of a Non-Acceptable Participating Bank

- (a) If, at any time, a Participating Bank is or becomes a Non-Acceptable Participating Bank and that Non-Acceptable Participating Bank's Commitment and Proportion of the outstanding amount of the outstanding Letters of Credit have not been transferred and assigned to an Acceptable Participating Bank in accordance with the provisions of Clause 38.6 (Replacement of a Non-Acceptable Participating Bank), and the Issuing Bank notifies the Company (with a copy to the Administrative Agent) that it requires the LG Users to provide cash cover in accordance with Clause 1.2(d)(i) or in accordance with Clause 1.2(d)(ii) in an amount equal to that Non-Acceptable Participating Bank's Proportion of the outstanding amount of the outstanding Letters of Credit and in the currency of each such Letter of Credit, then the LG Users shall do so within 10 Business Days after the notice is given.
 - (b) If the relevant Participating Bank's obligations in respect of the relevant Letter(s) of Credit are transferred to an Acceptable Bank in accordance with Clause 27 (Changes to the Participating Banks), the Issuing Bank :
 - (i) shall, in the event that a cash cover has been provided in accordance with Clause 1.2(d)(i), agree to the withdrawal of amounts from the relevant account up to the level of that cash cover; or
 - (ii) shall, in the event that a cash cover has been provided in accordance with Clause 1.2(d)(ii), agree to return the relevant letter(s) of credit it received under such Clause 1.2(d)(ii) to the LG Users.
 - (c) To the extent that the LG Users have complied with their obligations to provide cash cover in accordance with this Clause 11.2, the relevant Participating Bank's Proportion in respect of the relevant Letter(s) of Credit will remain (but that Participating Bank's obligations in relation to each such Letter of Credit may be satisfied in accordance with paragraph (d)(ii) of Clause 1.2 (Construction)). However, the LG Users' obligation to pay any Letter of Credit fee in relation to the relevant Letter of Credit to the Administrative Agent (for the account of that Participating Bank) in accordance with paragraph (b) of Clause 16.4 will be reduced proportionately as from the date on which it complies with that obligation to provide cash cover (and for so long as the relevant amount of cash cover continues to stand as collateral).
 - (d) The Issuing Bank shall promptly notify the Administrative Agent of the extent to which the LG Users provides cash cover pursuant to this Clause 11.2 and of any change in the amount of cash cover so provided.
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- (e) Each Participating Bank under the Facility shall notify the Administrative Agent, the Issuing Bank and the Company:
- (i) on the Signing Date or on any later date on which it becomes such a Participating Bank in accordance with Clause 27 (Changes to the Participating Banks) whether it is a Non-Acceptable Participating Bank; and
 - (ii) as soon as practicable upon becoming aware of the same, that it has become a Non-Acceptable Participating Bank,
- and an indication in Part II (*The Original Participating Banks*) of Schedule 1 (*The Original Parties*) or in a Transfer Agreement to that effect will constitute a notice under paragraph (d)(i) to the Administrative Agent and, upon delivery in accordance with Clause 27.6 (*Copy of Transfer Agreement to Company*), to the Company.
- (f) Any notice received by the Administrative Agent pursuant to paragraph (e) above shall constitute notice to the Issuing Bank of that Participating Bank's status and the Administrative Agent shall, upon receiving each such notice, promptly notify the Issuing Bank of that Participating Bank's status as specified in that notice.
- (g) If a Participating Bank is or becomes a Non-Acceptable Participating Bank, its Available Commitment, upon notification by the Issuing Bank in accordance with paragraph (a) of this Clause 11.2 and notification in writing to the Obligors, shall be reduced to zero and the Total Commitment shall be reduced by an amount equal to such reduction of such Available Commitment.

11.3 Rights of contribution

No Obligor will be entitled to any right of contribution or indemnity from any Finance Party in respect of any payment it may make under this Clause 11.

SECTION 2 - REPAYMENT AND CANCELLATION

12. REPAYMENT

All Letters of Credit shall be repaid in full no later than their Expiry Date and in any case on the Maturity Date.

13. ILLEGALITY, VOLUNTARY PREPAYMENT AND CANCELLATION

13.1 Illegality in relation to Participating Banks

If it becomes unlawful in any applicable jurisdiction for a Participating Bank to perform any of its obligations as contemplated by this Agreement or to fund or maintain its participation in any Letter of Credit:

- (a) that Participating Bank, shall promptly notify the Administrative Agent upon becoming aware of that event;
- (b) upon the Administrative Agent notifying the Company, the Commitment of that Participating Bank will be immediately cancelled; and

- (c) each LG User and/or the Company shall repay that Participating Bank's participation in the outstanding relevant Letters of Credit made to that LG User within five (5) Business Days after the Administrative Agent has notified the Company or, if earlier, the date specified by the Participating Bank in the notice delivered to the Administrative Agent (being no earlier than the last day of any applicable grace period permitted by law).

13.2 Illegality in relation to Issuing Bank

If it becomes unlawful for the Issuing Bank to issue or leave outstanding any Letter of Credit, then:

- (a) the Issuing Bank shall promptly notify the Administrative Agent upon becoming aware of that event;
- (b) upon the Administrative Agent notifying the Company, the Issuing Bank shall not be obliged to issue any Letter of Credit;
- (c) the Company shall (and shall procure that each other Obligor shall) use its best endeavours to procure the release of each Letter of Credit issued by the Issuing Bank and outstanding at such time; and
- (d) unless any other Participating Bank has agreed to be an Issuing Bank pursuant to the terms of this Agreement, the Facility shall cease to be available for the issue of Letters of Credit.

13.3 Voluntary cancellation of the Available Facility

- (a) The Company may, if it gives the Administrative Agent not less than 10 Business Days' (or such shorter period as the Majority Participating Bank may agree) prior notice, cancel the whole or any part (being, if in part, a minimum amount of €5,000,000 and a multiple of €1,000,000) of the Available Facility.
- (b) Any cancellation under this Clause 13.3 shall reduce the Commitments of the Participating Banks ratably under the Facility.

13.4 Voluntary Prepayment of a Letter of Credit

The Company may, if it gives the Administrative Agent not less than 10 Business Days' (or such shorter period as the Majority Participating Bank may agree) prior notice, prepay the whole of Participating Banks' outstanding liabilities under a Letter of Credit by providing cash collateral to the Administrative Agent in an amount equal to the Participating Banks' liabilities under such Letter of Credit.

13.5 Right of cancellation and repayment in relation to a single Participating Bank

- (a) If:
 - (i) any sum payable to any Participating Bank by an Obligor is required to be increased under paragraph (c) of Clause 17.2 (Tax gross-up); or
 - (ii) any Participating Bank claims indemnification from an Obligor under Clause 17.3 (Tax indemnity) or Clause 18.1

(Increased costs),

the Company may, whilst the circumstance giving rise to the requirement for increased payment or indemnification continues, give the Administrative Agent notice of cancellation of the Commitment of that Participating Bank and its intention to procure the repayment of that Participating Bank's participation in the Letters of Credit issued.

- (b) On receipt of a notice referred to in paragraph (a) above in relation to a Participating Bank, the Commitment of that Participating Bank shall immediately be reduced to zero.
- (c) Within five (5) Business Days as from the giving of the notice referred to in paragraph (a) above by the Company in relation to a Participating Bank (or, if earlier, the date specified by that Obligor in that notice), each LG User to which a Letter of Credit is outstanding shall repay that Participating Bank's participation in that Utilisation together with all interest and other amounts accrued under the Finance Documents.

13.6 Right of cancellation and repayment in relation to a Defaulting Participating Bank

- (a) If any Participating Bank becomes a Defaulting Participating Bank, the Company may, at any time whilst the Participating Bank continues to be a Defaulting Participating Bank, give the Administrative Agent 5 Business Days' prior notice of cancellation of the Available Commitment of that Participating Bank.
- (b) On the notice referred to in paragraph (a) above becoming effective, the Commitment of that Defaulting Participating Bank shall immediately be reduced to zero.
- (c) Within five (5) Business Days as from the giving of the notice referred to in paragraph (a) above by the Company in relation to a Participating Bank (or, if earlier, the date specified by the Company in that notice), each LG User to which a Letter of Credit is outstanding shall repay that Participating Bank's participation in that Utilisation together with all interest and other amounts accrued under the Finance Documents.
- (d) The Administrative Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the other Participating Banks.

14. RESTRICTIONS

14.1 Notices of Cancellation or Prepayment

Any notice of cancellation, prepayment or authorisation given by any Party under Clause 13 (*Illegality, Voluntary Prepayment and Cancellation*) shall (subject to the terms of this Clause) be irrevocable and, unless a contrary indication appears in this Agreement, any such notice shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.

14.2 Interest and other amounts

Any prepayment under this Agreement shall be made together with accrued interest and fees on the amount prepaid but otherwise without premium or penalty.

14.3 Prepayment in accordance with Agreement

No LG User shall repay or prepay all or any part of the Letters of Credit or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.

14.4 No reinstatement of Commitments

No amount of the Commitments or of the Total Commitment cancelled under this Agreement may be subsequently reinstated.

14.5 Administrative Agent's receipt of Notices

If the Administrative Agent receives a notice under Clause 13 (*Illegality, Voluntary Prepayment and Cancellation*), it shall promptly forward a copy of that notice or election to either the Company or the affected Participating Bank, as appropriate.

14.6 Effect of Repayment and Prepayment on Commitments

- (a) If all or part of a Letter of Credit under the Facility is repaid or prepaid and is not available for redrawing (other than by operation of Clause 3.2 (Conditions Precedent to each Utilisation), an amount of the Commitments (equal to the Base Currency Amount of the amount of the Letter of Credit which is repaid or prepaid) will be deemed to be cancelled on the date of repayment or prepayment. For the sake of clarity, except as otherwise provided for in this Agreement, the Commitments of the Participating Banks shall not be reduced ratably by the amounts of any repayment or prepayment of the Facility made during the Availability Period.
- (b) Save in the circumstances contemplated in Clauses 11.2 (Cash Cover by LG Users in case of a Non-Acceptable Participating Bank) 13.1 (Illegality in relation to Participating Banks), 13.2 (Illegality in relation to Issuing Bank), 13.5 (Right of cancellation and repayment in relation to a single Participating Bank) and 13.6 (Right of cancellation and repayment in relation to a Defaulting Participating Bank), any cancellation under this Clause 14.6 shall reduce the Commitments of the Participating Banks ratably.

SECTION 3 -COSTS OF UTILISATION

15. INTEREST

15.1 Default Interest

- (a) Interest shall accrue on any Unpaid Sum to the fullest extent permitted by law on the amount of such Unpaid Sum from the date the payment is due up to the date of actual payment (both before and after judgment) at a rate per annum which is the sum, from time to time, of two (2) per cent plus EONIA and the Mandatory Cost during the period of non-payment. Any interest accruing under this Clause 15.1 shall be immediately payable by the Obligor on demand by the Administrative Agent.
- (b) Default interest (if unpaid) arising on an overdue amount will be compounded with the overdue amount in accordance with article 1154 of the French Code Civil.

15.2 Effective Global Rate (Taux Effectif Global)

For the purposes of articles L.313-1 *et seq.*, R.313-1 and R.313-2 of the French *Code de la consommation*, the Parties acknowledge that by virtue of certain characteristics of the Facility the *taux effectif global* cannot be calculated at the Signing Date. However, the LG Users acknowledge that they have received from the Administrative Agent a letter containing an indicative calculation of the *taux effectif global*, based on examples calculated on assumptions as to the *taux de période* and *durée de période* set out in the letter (the “**TEG Letter**”). The Parties acknowledge that such letter forms part of this Agreement.

16. FEES

16.1 Commitment fee

- (a) The Company shall pay to the Administrative Agent (for the account of each Participating Bank) a fee in the Base Currency computed at the rate of 0.35 per cent. per annum on that Participating Bank’s Commitment for the Availability Period.
- (b) The accrued commitment fee is payable on the first day of each March, June, September and December in each year (the first of which shall be the first such day after the date hereof) from the Signing Date until the last day of the Availability Period.
- (c) No commitment fee is payable to the Administrative Agent (for the account of a Participating Bank) on any Available Commitment of that Participating Bank for any day on which that Participating Bank is a Defaulting Participating Bank.

16.2 Participation fee

The Company shall pay to the Administrative Agent (for the account of each Participating Bank) a participation fee at the rate of 0.35 per cent on such Participating Bank Commitment up front at the Signing Date.

16.3 Agency fee

The Company shall pay to the Administrative Agent (for its own account) an agency fee in the amount and at the times agreed in a Fee Letter.

16.4 Arrangement fee

The Company shall pay to the Arranger an arrangement fee in the amount and at the times agreed in a Fee Letter.

16.5 Fees payable in respect of Letters of Credit

- (a) The Company shall pay to the Issuing Bank (who shall transfer such amounts to the Administrative Agent) (for the account of each Participating Bank) a Letter of Credit fee in the Base Currency computed at the rate per annum equal to:
- (b) for any Letter of Credit issued before 31 December 2011, 1.35 per cent. per annum on the outstanding amount of each Letter of Credit requested by the LG Users for the period from the issue of that Letter of Credit until its full repayment;

- (i) for any Letter of Credit issued on or after 31 December 2011:
 - (A) if at the end of a Financial Quarter, the maximum aggregate Base Currency Amount of all Letters of Credit issued and outstanding at that time does not exceed 75% of the Total Commitment, 1.20 per cent. per annum on the outstanding amount of each Letter of Credit to be issued during the next immediate Financial Quarter for the period from the issue of that Letter of Credit until its full repayment;
 - (B) if at the end of a Financial Quarter, the maximum aggregate Base Currency Amount of all Letters of Credit issued and outstanding at that time exceeds 75% of the Total Commitment, 1.10 per cent. per annum on the outstanding amount of each Letter of Credit to be issued during the next immediate Financial Quarter for the period from the issue of that Letter of Credit until its full repayment;
- (ii) for any Letter of Credit issued on or after 31 December 2012:
 - (A) if at the end of a Financial Quarter, the maximum aggregate Base Currency Amount of all Letters of Credit issued and outstanding at that time does not exceed 75% of the Total Commitment, 1.10 per cent. per annum on the outstanding amount of each Letter of Credit to be issued during the next immediate Financial Quarter for the period from the issue of that Letter of Credit until its full repayment;
 - (B) if at the end of a Financial Quarter, the maximum aggregate Base Currency Amount of all Letters of Credit issued and outstanding at that time exceeds 75% of the Total Commitment, 1.00 per cent. per annum on the outstanding amount of each Letter of Credit to be issued during the next immediate Financial Quarter for the period from the issue of that Letter of Credit until its full repayment;

This fee shall be distributed according to each Participating Bank's Proportion of that Letter of Credit.

- (c) The accrued Letter of Credit fee on a Letter of Credit shall be payable on the first day of each March, June, September and December in each year, the first of which shall be the first such day after the Issuance Date of that Letter of Credit.

16.6 Issuance Fee

Each LG User shall pay to the Issuing Bank (for its own account), in respect of the Letters of Credit issued at such LG User's request, an issuance fee in the amount and at the times agreed in a Fee Letter. This issuance fee does not take into account the local reissuing bank and stamps fees that may be paid by the Issuing Bank to the local reissuing bank in the case of an issuance of a Letter of Credit made through a local bank and charged to the Issuing Bank which shall be added to the Issuance fee and paid by the Company.

SECTION 4 -ADDITIONAL PAYMENT OBLIGATIONS

17. TAX GROSS UP AND INDEMNITIES

17.1 Definitions

(a) In this Agreement:

“Protected Party” means a Finance Party or any Affiliate of a Finance Party which is or will be subject to any liability, or required to make any payment, for or on account of Tax in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document.

“Qualifying Participating Bank” means a Participating Bank which:

- (i) has its Facility Office in the jurisdiction of residence of the Company or, as the case may be, of the relevant Obligor; or
- (ii) fulfils the conditions imposed by Applicable Law in order for a payment not to be subject to (or as the case may be, to be exempt from) any Tax Deduction; or
- (iii) is a Treaty Participating Bank.

“Recipient” has the meaning given to such term in Clause 17.6 (*Value added tax*).

“Subject Party” has the meaning given to such term in Clause 17.6 (*Value added tax*).

“Supplier” has the meaning given to such term in Clause 17.6 (*Value added tax*).

“Tax Credit” means a credit against, relief or remission for, or repayment of any Tax.

“Tax Deduction” means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

“Tax Payment” means either the increased in a payment made by the Company or an Obligor to a Finance Party under Clause 17.2 (*Tax gross-up*) or a payment under Clause 17.3 (*Tax indemnity*).

“Treaty Participating Bank” means a Participating Bank which:

- (i) is treated as resident of a Treaty State for the purpose of the Treaty;
- (ii) does not carry on business in the jurisdiction in which the Company or, as the case may be, the relevant Obligor is resident through a permanent establishment with which that Participating Bank’s participation in the Facility is effectively connected;
- (iii) is acting from a Facility Office situated in its jurisdiction of incorporation; and
- (iv) fulfils any other conditions which must be fulfilled under the Treaty by residents of the Treaty State for such residents to obtain exemption from Tax imposed by the jurisdiction in which the Company or, as the case may be, the relevant Obligor is resident subject to the completion of any necessary procedural formalities.

“Treaty State” means a jurisdiction having a double taxation agreement with the jurisdiction in which the Company or, as the case may be, the relevant Obligor is resident (the **“Treaty”**), which makes

provision for full exemption from Tax imposed by that jurisdiction on payments under a Finance Document.

- (b) Unless a contrary indication appears, in this Clause 17 a reference to “determines” or “determined” means a determination made in the absolute discretion of the person making the determination and applying the relevant tax law and regulations.

17.2 Tax gross-up

- (a) The Company or the relevant Obligor shall make all payments to be made by it under the Finance Documents without any Tax Deduction, unless a Tax Deduction is required by law.
 - (b) The Company or the relevant Obligor’s Administrative Agent shall promptly upon becoming aware that the Company or the relevant Obligor must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Administrative Agent accordingly. Similarly, a Participating Bank or the Issuing Bank shall notify the Administrative Agent on becoming so aware in respect of a payment payable to that Participating Bank or to the Issuing Bank. If the Administrative Agent receives such notification from a Participating Bank or from the Issuing Bank it shall notify the Company and that Obligor.
 - (c) If a Tax Deduction is required by law to be made by the Company or the relevant Obligor (or, as the case may be, by the Administrative Agent), the amount of the payment due from the Company or that Obligor shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
 - (d) A payment shall not be increased under paragraph (c) above by reason of Tax Deduction on account of Tax, if on the date on which the payment falls due:
 - (i) the payment could have been made to the relevant Participating Bank without a Tax Deduction if the Participating Bank had been a Qualifying Participating Bank, but on that date that Participating Bank is not or has ceased to be a Qualifying Participating Bank other than as a result of any change after the date it became a Participating Bank under this Agreement in (or in the interpretation, administration, or application of) any law or double taxation agreement, or any published practice or published concession of any relevant taxing authority; or
 - (ii) the relevant Participating Bank is a Treaty Participating Bank and the Company or the relevant Obligor making the payment is able to demonstrate that the payment could have been made to the Participating Bank without the Tax Deduction had that Participating Bank complied with its obligations under paragraph (g) below.
 - (e) If the Company or, as the case may be, the relevant Obligor is required to make a Tax Deduction, the Company or that Obligor shall make that Tax Deduction and any payment required in connection with that Tax Deduction to the relevant taxing authority within the time allowed and in the minimum amount required by law.
 - (f) Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company or the relevant Obligor making that Tax Deduction shall deliver to the
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Administrative Agent for the Finance Party entitled to the payment certified copies of tax receipts evidencing such payment or, if the practice or the relevant taxing authority is not to supply such receipts, evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

- (g) A Treaty Participating Bank and the Company or the relevant Obligor which makes a payment to which that Treaty Participating Bank is entitled shall co-operate in completing any procedural formalities necessary for that Obligor to obtain authorisation to make that payment without a Tax Deduction; provided, however, that nothing in this Clause 17.2 (g) (Tax gross-up) shall require a Treaty Participating Bank to disclose any confidential information (including, without limitation, its tax returns or its calculations).

17.3 Tax indemnity

- (a) The Company shall (within three Business Days of demand by the Administrative Agent) pay (or procure that the relevant Obligor pays) to a Protected Party an amount equal to the loss, liability or cost which that Protected Party determines will be or has been (directly or indirectly) suffered for or on account of Tax by that Protected Party in respect of a Finance Document.

- (b) Paragraph (a) above shall not apply:

- (i) with respect to any Tax assessed on a Finance Party:

(A) under the law of the jurisdiction in which that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or

(B) under the law of the jurisdiction in which that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax (other than tax deducted or withheld from any payments) is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by that Finance Party; or

- (ii) to the extent a loss, liability or cost:

(A) is compensated for by an increased payment under Clause 17.2 (Tax gross-up); or

(B) would have been compensated for by an increased payment under Clause 17.2 (Tax gross-up) but was not so compensated solely because one of the exclusions in paragraph (d) of Clause 17.2 (Tax gross-up) applied.

- (c) A Protected Party making, or intending to make a claim under paragraph (a) above shall promptly notify the Administrative Agent of the event which will give, or has given, rise to the claim, following which the Administrative Agent shall notify the Guarantor.

- (d) A Protected Party shall, on receiving a payment from an Obligor under this Clause 17.3, notify the Administrative Agent.

17.4 Tax Credit

If the Company or the relevant Obligor makes a Tax Payment and the relevant Finance Party determines that:

- (a) a Tax Credit is attributable either to an increased payment of which that Tax Payment forms part; or
- (b) that Finance Party has obtained, utilised and retained that Tax Credit,

the Finance Party shall (to the extent that that Finance Party can do so without prejudicing the amount of the Tax Credit and the right of that Finance Party to obtain any other benefit, relief or allowance which may be available to it) pay an amount to the Company or the relevant Obligor which that Finance Party determines will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been required to be made by the Obligor.

17.5 Stamp taxes

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that such Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document.

17.6 Value added tax

- (a) All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is such supply or supplies, and accordingly, subject to paragraph (b) below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).
 - (b) If VAT is or becomes chargeable on any supply made by any Finance Party (the “Supplier”) to any other Finance Party (the “Recipient”) under a Finance Document, and any Party other than the Recipient (the “Subject Party”) is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party). The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines in respect of such VAT.
 - (c) Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect
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of such VAT from the relevant tax authority in respect of the VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

18. INCREASED COSTS

18.1 Increased costs

- (a) Subject to Clause 18.3 (Exceptions) the Company shall, within three Business Days of a demand by the Administrative Agent, pay for the account of a Finance Party the amount of any Increased Costs incurred by that Finance Party or any of its Affiliates as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation or (ii) compliance with any law or regulation made after the Signing Date.
- (b) In this Agreement “Increased Costs” means:
 - (i) a reduction in the rate of return from the Facility or on a Finance Party’s (or its Affiliate’s) overall capital;
 - (ii) an additional or increased cost; or
 - (iii) a reduction of any amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates to the extent that it is attributable to that Finance Party having entered into its Commitment or funding or performing its obligations under any Finance Document or Letter of Credit.

18.2 Increased cost claims

- (a) A Finance Party intending to make a claim pursuant to Clause 18.1 (*Increased costs*) shall notify the Administrative Agent of the event giving rise to the claim, following which the Administrative Agent shall promptly notify the Company.
- (b) Each Finance Party shall, as soon as practicable after a demand by the Administrative Agent, provide a certificate confirming the amount of its Increased Costs.

18.3 Exceptions

- (a) Clause 18.1 (*Increased costs*) does not apply to the extent any Increased Cost is:
 - (i) attributable to a Tax Deduction required by law to be made by an Obligor;
 - (ii) compensated for by Clause 17.3 (*Tax indemnity*) (or would have been compensated for under Clause 17.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in paragraph (b) of Clause 17.3 (*Tax indemnity*) applied); or
 - (iii) compensated for by the payment of the Mandatory Cost; or

- (iv) attributable to the willful breach by the relevant Finance Party or its Affiliates of any law or regulation.
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- (b) In this Clause 18.3 reference to a “**Tax Deduction**” has the same meaning given to the term in Clause 17.1 (*Definitions*).

19. OTHER INDEMNITIES

19.1 Currency indemnity

- (a) If any sum due from an Obligor under the Finance Documents (a “**Sum**”), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the “**First Currency**”) in which that Sum is payable into another currency (the “**Second Currency**”) for the purpose of:
- (i) making or filing a claim or proof against that Obligor; or
 - (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings, that Obligor shall as an independent obligation, within three Business Days of demand, indemnify (to the extent permitted by law) the Arranger and each other Finance Party to whom that Sum is due against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.
- (b) Each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

19.2 Other indemnities

The Company shall (or shall procure that an Obligor will), within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability incurred by it as a result of:

- (a) the occurrence of any Event of Default;
- (b) a failure by an Obligor to pay any amount due under a Finance Document on its due date, including without limitation, any cost, loss or liability arising as a result of Clause 31 (Sharing among the Finance Parties);
- (c) funding, or making arrangements to fund, its participation in a Letter of Credit requested by a LG User in a Issuance Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by that Finance Party alone);
- (d) issuing or making arrangements to issue a Letter of Credit requested by the Company or a LG User in a Issuance Request but not issued by reason of the operation of any one or more of the provisions of this Agreement; or
- (e) a Letter of Credit (or part of a Letter of Credit) not being prepaid in accordance with a notice of prepayment given by a LG User or the Company.

19.3 Hold Harmless Provisions

Each Obligor agrees to indemnify the Administrative Agent, each Participating Bank and the Issuing Bank, each Affiliate of any of the foregoing persons and each of their respective directors, officers, employees, agents, trustees, attorneys, Affiliates and advisors (each such person being called an “**Indemnities**”) against, and to hold each Indemnities harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements, incurred by or asserted against any Indemnities arising out of, in any way connected with, or as a result of:

- (a) the execution or delivery of this Agreement or any other Finance Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations hereunder, the underwriting or arrangement of the credit extensions made hereunder or the consummation of the transactions contemplated by the Finance Documents and the other transactions contemplated thereby,
- (b) the issuance of Letters of Credit, the use or intended use of the proceeds thereof,
- (c) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnatee is a party thereto, or
- (d) any actual or alleged presence or Release of Hazardous Materials on or from any property currently or formerly owned or operated by the Obligors or any of their Subsidiaries, or any Environmental Liability related in any way to the Obligors or any of their Subsidiaries,

in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnatee; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and non-appealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnatee.

To the extent permitted by Applicable Law, each Obligor waives any claim against any Indemnatee under any theory of liability for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of or in connection with the Finance Documents, the transactions contemplated by the Finance Documents, any Letter of Credit or the use of the proceeds thereof.

19.4 Indemnity to the Administrative Agent

The Company shall promptly indemnify the Administrative Agent against any cost, loss or liability incurred by the Administrative Agent (acting reasonably) as a result of:

- (a) investigating any event which it reasonably believes is a Default; or
- (b) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised.

20. MITIGATION BY THE FINANCE PARTIES

20.1 Mitigation

- (a) Each Finance Party shall, in consultation with the Company, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of Clause 13.1 (*Illegality*) (or, in respect of the Issuing Bank, Clause 13.2 (*Illegality in relation to Issuing Bank*)), Clause 17 (*Tax Gross Up and Indemnities*) or Clause 18 (*Increased Costs*) or Schedule 5 (Mandatory Cost Formula) including (but not limited to) transferring its rights and obligations under the Finance Documents to another Affiliate or Facility Office.
- (b) Paragraph (a) above does not in any way limit the obligations of any Obligor under the Finance Documents.

20.2 Limitation of liability

- (a) The Company shall promptly indemnify each Finance Party for all costs and expenses reasonably incurred by that Finance Party as a result of steps taken by it under Clause 20.1 (Mitigation).
- (b) A Finance Party is not obliged to take any steps under Clause 20.1 (*Mitigation*) if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

21. COSTS AND EXPENSES

21.1 Transaction expenses

The Company shall promptly on demand pay the Administrative Agent, the Arranger and the Issuing Bank the amount of all costs and expenses (including legal fees) reasonably incurred by any of them in connection with the negotiation, preparation, printing, execution, syndication and perfection of:

- (a) this Agreement and any other documents referred to in this Agreement; and
- (b) any other Finance Documents executed after the Signing Date.

21.2 Amendment costs

If (a) an Obligor requests an amendment, waiver or consent or (b) an amendment is required pursuant to Clause 32.10 (*Change of currency*), the Company shall, within three Business Days of demand, reimburse the Administrative Agent for the amount of all costs and expenses (including legal fees) reasonably incurred by the Administrative Agent in responding to, evaluating, negotiating or complying with that request or requirement.

21.3 Enforcement and preservation costs

The Company shall, within three Business Days of demand, pay to the Arranger and each other Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of or the preservation of any rights under any Finance Document.

SECTION 5 - REPRESENTATIONS, UNDERTAKINGS AND EVENTS OF DEFAULT

22. REPRESENTATIONS

22.1 General

Each Obligor makes the representations and warranties set out in this Clause 22 to each Finance Party.

22.2 Organization and Powers

- (a) The Company and each of the other Obligors:
 - (i) is duly organized, validly existing and, in case such concept exists under the laws of the jurisdiction of its organization, in good standing under the laws of the jurisdiction of its organization;
 - (ii) has all requisite power and authority to own its property and assets and to carry on its business as now conducted and as proposed to be conducted, and
 - (iii) is qualified to do business in, and, in case such concept exists under the laws of the jurisdiction of its organization, is in good standing in, every jurisdiction where such qualification is required, except where any such failure, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.
- (b) The Company and each of the other Obligors has the power and authority to execute, deliver and perform its obligations under each of the Finance Documents to which it is a party and each other agreement or instrument contemplated hereby to which it is or will be a party and to request Letters of Credit hereunder and in the case of the Company, to guaranty the obligations of the other Obligors towards the Finance Parties pursuant to the Flowserve Corporation Guarantee.
- (c) each Flowserve Group Member is engaged only in a business activity similar to that of the Company, except to such extent as would not in aggregate be material to the Flowserve Group taken as a whole.

22.3 No Conflict

- (a) The entry into and performance by it of, and the transactions contemplated by, the Finance Documents have been duly authorized by all requisite corporate and, if required, stockholder action and will not violate any provision of Applicable Law, or of the certificate or articles of incorporation or other constitutive documents or by-laws of the Company or any other Obligor.
- (b) The entry into and performance by it of, and the transactions contemplated by, the Finance Documents and the granting of the Flowserve Corporation Guarantee do not and will not :
 - (i) conflict with, result in a breach of any provision of any agreement or other instrument or indenture or debt instrument to which the Company or any other Obligor is a party or by which any of them or any of their property is or may be bound, be in conflict with, or
 - (ii) constitute (alone or with notice or lapse of time or both) a default under, or give rise to any right to accelerate or to require the prepayment, repurchase or redemption of any obligation under any indenture, agreement or other instrument, or

- (iii) result in the creation or imposition of any Security upon or with respect to any property or assets now owned or hereafter acquired by the Company or any other Obligor.

22.4 Enforceability

This Agreement has been duly executed and delivered by the Company and the other Obligors party hereto and constitutes, and each other Finance Document when executed and delivered by each Obligor thereto will, subject to the Legal Reservations, constitute, a legal, valid and binding obligation of such Obligor enforceable against such Obligor in accordance with its terms and subject to any general principles of law limiting such obligations which are specifically referred to in a Legal Opinion.

22.5 Government Approvals

No Authorisation by any Governmental Authority is or will be required in connection with the entry into and performance by an Obligor of, and the transactions contemplated by, the Finance Documents and the granting of the Flowserve Corporation Guarantee, except for such as have been made or obtained and are in full force and effect.

22.6 Financial Statements

- (a) Its Original Financial Statements were prepared in accordance with the Accounting Principles, consistently applied.
- (b) Its Original Financial Statements give a true and fair view of its financial condition and results of operations (consolidated in the case of the Company) during the relevant Financial Year.
- (c) There has been no material adverse change in its assets, business or financial condition (or the assets, business or consolidated financial condition of the Flowserve Group, in the case of the Company) since December 31, 2011.
- (d) Its most recent financial statements delivered pursuant to Clause 23.1 (*Financial statements*) :
 - (i) have been prepared in accordance with the Accounting Principles as applied to the Original Financial Statements; and
 - (ii) give a true and fair view of its financial condition as at the end of, and consolidated results of operations for, the period to which they relate.
- (e) Since the date of the most recent financial statements delivered pursuant to Clause 23.1 (*Financial statements*) there has been no material adverse change in the business, assets or financial condition of the Flowserve Group taken as a whole.

22.7 No Material Adverse Change

Since 31 December 2011, no event, change or condition has occurred that has had, or could reasonably be expected to have, a Material Adverse Effect.

22.8 Title to Properties; Possession Under Leases

- (a) Each Obligor has valid title to, or valid leasehold interests in, all its material properties and assets, except for defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes.
- (b) Each Obligor has complied with all material obligations under all material leases to which it is a party and to each Obligor's knowledge, all such leases are in full force and effect.

22.9 Subsidiaries

- (a) Schedule 13 (*Subsidiaries*) sets forth as of the Signing Date a list of all Subsidiaries of the Company and the percentage ownership interest of the Company therein. The shares of capital stock or other ownership interests so indicated on Schedule 13 (*Subsidiaries*) are fully paid and nonassessable and as of the Signing Date are owned by the Company, directly or indirectly, free and clear of all Security (other than Security made in connection with the Existing Credit Agreement or as may be required by the Bank of America Credit Agreement).
- (b) Each Subsidiary of the Company is engaged in business and operations similar to those of the Company, except where any such failure in the aggregate would not be material to the Flowserve Group taken as a whole.
- (c) Each Original LG User (other than the Company) is, at the Signing Date a wholly-owned Subsidiary of the Company.
- (d) As at the Signing Date, all entities accounted for within the Original Financial Statements of the Company are Subsidiaries of the Company.

22.10 Litigation; Compliance with Laws

- (a) There are no action, suit or proceeding at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of each Obligor, threatened against or affecting the Company or any Subsidiary of the Company or any business, property or rights of any such person (i) that involves any Finance Document or the transactions contemplated herein or (ii) which could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.
- (b) None of the Company or any of its Subsidiaries or any of their respective material properties or assets is in violation of any law, rule or regulation (including any zoning, building, Environmental Law, ordinance, code or approved or any building permits), or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where such violation or default could reasonably be expected to result in a Material Adverse Effect.

22.11 Agreements - Existing Credit Agreement

- (a) Neither the Company, nor any of its Subsidiaries is a party to any agreement or instrument or subject to any corporate restriction that has resulted or could reasonably be expected to result in a Material Adverse Effect.
- (b) Neither the Company, nor any of its Subsidiaries is in default in any manner under any provision of the Existing Credit Agreement or any provision of any other indenture or other agreement or

instrument evidencing Indebtedness, or any other material agreement or instrument to which it is a party or by which it or any of its properties or assets are or may be bound, where such default could reasonably be expected to result in a Material Adverse Effect.

- (c) In respect of the Existing Credit Agreement, the period during which the Company or any Flowserve Group Member party thereto was entitled to request issuance of a letter of credit (or similar instrument) or any advance or loan thereunder, has expired and has not been renewed or prorogated.

22.12 Federal Reserve Regulations

- (a) Neither the Company, nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying Margin Stock.
- (b) No part of the proceeds of any Letter of Credit will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately, for any purpose that entails a violation of, or that is inconsistent with, the provisions of the Regulations of the Board, including the Margin Regulations.

22.13 Investment Company Act

Neither the Company nor any Other Obligor is an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940.

22.14 Use of Letter of Credit

The Obligors will request the issuance of Letters of Credit linked to performance obligations pursuant to commercial contracts (other than Indebtedness for Borrowed Money) permitted under this Agreement and incurred by the Obligors in the ordinary course of business.

22.15 Tax Returns

The Company and each of its Subsidiaries:

- (a) have filed or caused to be filed all United States of America and foreign tax returns or materials required to have been filed by it except for foreign filings the delinquency of which could not reasonably be expected to have a Material Adverse Effect, and
- (b) has paid or caused to be paid all taxes due and payable by it and all material written assessments received by it, except taxes that are being contested in good faith by appropriate proceedings and for which the Company or such Subsidiary, as applicable, shall have set aside on its books adequate reserves.

22.16 No Material Misstatements

None of any information, report, financial statement, exhibit or schedule furnished by or on behalf of the Company or any other Obligor to the Administrative Agent or any Participating Bank in connection with the negotiation of any Finance Document or included therein

or delivered pursuant thereto contained, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or

will be made, not misleading; provided that to the extent any such information, report, financial statement, exhibit or schedule was based upon or constitutes a forecast or projection, the Company and each other Obligor represents only that it acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, report, financial statement, exhibit or schedule.

22.17 Employee Benefit Plans

Each Plan is in compliance in all respects in form and operation with its terms and with the applicable provisions of ERISA and the Code, and the regulations and published interpretations thereunder, except where such non-compliance, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other ERISA Events, could reasonably be expected to result in a Material Adverse Effect.

22.18 Environmental Matters

Except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Company, nor any of its Subsidiaries:

- (a) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law;
- (b) has received written notice of any claim with respect to any Environmental Liability; or
- (c) knows of any Release of any Hazardous Materials at any property owned or operated by the Company or any of its Subsidiaries requiring any reporting, investigative, cleanup, removal or response action pursuant to any applicable Environmental Law, which action has not been completed, except for Releases occurring pursuant to permits, licenses or approvals issued pursuant to Environmental Laws.

22.19 Insurance

The Company and its Subsidiaries have insurance in such amounts and covering such risks and liabilities as are in accordance with normal industry practice.

22.20 Labor Matters

- (a) As of the Signing Date and the Closing Date, there are no strikes, lockouts or slowdowns against the Company or any Subsidiary of the Company pending or, to the knowledge of the Company and each other Obligor, threatened.
- (b) Except with respect to any violations that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, the hours worked by and payments made to employees of the Company and the Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable United States of America law or foreign law dealing with such matters.
- (c) All payments due from the Company or any Subsidiary, or for which any claim may be made against the Company or any Subsidiary, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a

liability on the books of the Company or such Subsidiary

except where the failure to make or accrue any such payments, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

- (d) The consummation of the transactions contemplated by the Finance Documents will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which the Company or any Subsidiary is bound.

22.21 Insolvency

On the Signing Date and immediately following the issuance of each Letter of Credit and after giving effect to the drawing of each Letter of Credit, (a) the fair value of the assets of each Obligor, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the property of each Obligor will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) each Obligor will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) each Obligor will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Signing Date.

22.22 Subordination of Intercompany Debt

All Indebtedness for Borrowed Money owed by an Obligor (other than an Obligor incorporated in the United States of America) to the Company or to another Obligor is Subordinated Debt.

22.23 Structure Chart

The Structure Chart delivered to the Administrative Agent pursuant to Schedule 2 (*Conditions Precedent*) is true, complete and accurate in all material respects as at the Signing Date.

22.24 Accounting reference date

The Accounting Reference Date of each member of the Flowserve Group is 31 December.

22.25 Centre of main interests and establishments

For the purposes of The Council of the European Union Regulation No. 1346/2000 on Insolvency Proceedings (the “ **EU Regulation**”), the centre of main interest (as that term is used in Article 3(1) of the EU Regulation) of the Obligors incorporated in the European Union, is situated in its jurisdiction of incorporation and it has no “establishment” (as that term is used in Article 2(h) of the EU Regulations) in any other jurisdiction.

22.26 Validity and admissibility in evidence - Authorisations

- (a) All Authorisations required or desirable:

- (i) to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents to which it is a party; and
 - (ii) to make the Finance Documents to which it is a party admissible in evidence in its Relevant Jurisdictions,
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have been obtained or effected by the Company and the other Obligor and are in full force and effect.

- (b) All Authorisations necessary for the conduct of the business, trade and ordinary activities of members of the Flowserve Group have been obtained or effected and are in full force and effect if failure to obtain or effect those Authorisations has or is reasonably likely to have a Material Adverse Effect.

22.27 Governing law and enforcement

Subject to the Legal Reservations:

- (a) The choice of French law as the governing law of the Finance Documents will be recognised and enforced in its Relevant Jurisdiction.
- (b) Any judgment obtained in France in relation to a Finance Document will be recognised and enforced in its Relevant Jurisdiction.

22.28 No adverse consequences

- (a) It is not necessary under the laws of its Relevant Jurisdictions:
 - (i) in order to enable any Finance Party to enforce its rights under any Finance Document; or
 - (ii) by reason of the execution of any Finance Document or the performance by it of its obligations under any Finance Document,

that any Finance Party should be licensed, qualified or otherwise entitled to carry on business in any of its Relevant Jurisdictions.

- (b) No Finance Party is or will be deemed to be resident, domiciled or carrying on business in its Relevant Jurisdictions by reason only of the execution, performance and/or enforcement of any Finance Document.

22.29 Times when representations made

- (a) All the representations and warranties in this Clause 22 are made by each relevant Original Obligor on the Signing Date.
- (b) The representations and warranties set out in Clauses 22.2 (Organization and Powers) through 22.5 (Government Approvals), Clauses 22.6(d) and 22.6(e), Clause 22.10 (Litigation; Compliance with Laws), Clauses 22.11(a) and 22.10(b), Clause 22.12 (Federal Reserve Regulations), Clause 22.13 (Investment Company Act), Clause 22.15 (Tax Returns) to Clause 0 (Each Plan is in compliance in all respects in form and operation with its terms and with the applicable provisions of ERISA and the Code, and the regulations and published interpretations thereunder, except where such non-compliance, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other ERISA Events, could reasonably be expected to result in a Material Adverse Effect.

- (c) Environmental Matters), Clause 22.20 (Labor Matters) to Clause 22.22 (Subordination of *Intercompany Debt*), Clause 22.25 (*Centre of main interests and establishments*) to Clause 22.28 (*No adverse consequences*) (the “**Repeating Representations**”) are deemed to be made by each Obligor on the date of each Issuance Request and on each Issuance Date.
- (d) Each representation or warranty deemed to be made after the Signing Date shall be deemed to be made by reference to the facts and circumstances existing at the date the representation or warranty is deemed to be made.

23. INFORMATION UNDERTAKINGS

The undertakings in this Clause 23 shall remain in force from the Signing Date for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

In this Clause 23:

“**Annual Financial Statements**” means the financial statement delivered pursuant to Clause 23.1 (*Financial statements*).

“**Annual Consolidated Financial Statements**” means the financial statement delivered pursuant to Clause 23.1 (*Financial statements*).

“**Semester Consolidated Financial Statements**” means the financial statement delivered pursuant to Clause 23.1 (*Financial statements*).

“**Semester Financial Statements**” means the financial statement delivered pursuant to Clause 23.1 (*Financial statements*).

23.1 Financial statements

The Company shall supply to the Administrative Agent in sufficient copies for all the Participating Banks and the Issuing Bank:

- (a) as soon as they are available, but in any event within 120 days after the end of each of its Financial Years or Financial Semester, its audited Annual Consolidated Financial Statements and its unaudited Semester Consolidated Financial Statements for that Financial Year or that Financial Semester; and
- (b) as soon as they are available, but in any event within 120 days after the end of each of its Financial Years, the unaudited Annual Financial Statements of each Obligor (other than the Company).

23.2 Provision and contents of Compliance Certificate

- (a) The Company shall supply a Compliance Certificate to the Administrative Agent with each set of its Annual or Semester Consolidated Financial Statements for each Financial Year and each Financial Semester.
- (b) The Compliance Certificate shall, amongst other things, set out (in reasonable detail) computations as to compliance with Clause 24 (Financial Covenants).

- (c) Each Compliance Certificate shall be signed by one legal representative of the Company.

23.3 Requirements as to Financial Statements

- (a) The Company shall procure that each set of:
 - (i) consolidated financial statements delivered pursuant to this Clause 23 includes a balance sheet, profit and loss account and cashflow statement; and
 - (ii) unconsolidated financial statements delivered pursuant to this Clause 23 includes a balance sheet and profit and loss account.
- (b) Each set of financial statements delivered pursuant to Clause 23.1 (*Financial statements*):
 - (i) shall be certified by a legal representative of the relevant company as giving a true and fair view of (in the case of the Annual Financial Statements for any Financial Year), or fairly representing (in other cases), its financial condition and operations as at the date as at which those financial statements were drawn up and, in the case of the Annual Financial Statements of the Company;
 - (ii) shall be prepared using the Accounting Principles, accounting practices and financial reference periods consistent with those applied in the preparation of the Original Financial Statements for that Obligor,

unless, in relation to any set of financial statements, the Company notifies the Administrative Agent that there has been a change in the Accounting Principles or the accounting practices and its Auditors (or, if appropriate, the Auditors of the relevant Obligor) deliver to the Administrative Agent:

- (A) a description of any change necessary for those financial statements to reflect the Accounting Principles or accounting practices upon which that Obligor's Original Financial Statements were prepared; and
- (B) sufficient information, in form and substance as may be reasonably required by the Administrative Agent, to enable the Participating Banks and the Issuing Bank to determine whether Clause 24 (*Financial Covenants*) has been complied with and to make an accurate comparison between the financial position indicated in those financial statements and that Obligor's Original Financial Statements.

Any reference in this Agreement to any financial statements shall be construed as a reference to those financial statements as adjusted to reflect the basis upon which the Original Financial Statements were prepared.

23.4 Year-end

The Obligors shall not change the Flowserve Group's Financial Year and shall procure that each member of the Flowserve Group's Financial Year end will not change.

23.5 Budget

- (a) If the Company fails to maintain its Debt Ratings, the Company shall supply to the Administrative Agent in sufficient copies for all the Participating Banks, as soon as the same become available but in any event within 30 days after the end of each of its Financial Years, an annual Budget for that Financial Year.
- (b) The Company shall ensure that each Budget:
 - (i) includes a projected consolidated profit and loss, balance sheet and cashflow statement for the Flowserve Group and projected financial covenant calculations;
 - (ii) is prepared in accordance with the Accounting Principles and the accounting practices and financial reference periods applied to financial statements under Clause 23.1 (*Financial statements*); and
 - (iii) has been approved by the legal representative of the Company.
- (c) If the Company materially modifies the Budget, it shall within not more than 10 Business Days of the modification being made deliver to the Administrative Agent, in sufficient copies for each of the Finance Parties, such modified Budget together with a written explanation of the main changes in that Budget.

23.6 Information: miscellaneous

The Company shall supply to the Administrative Agent (in sufficient copies for all the Participating Banks and the Issuing Bank, if the Administrative Agent so requests) or notify the Administrative Agent of:

- (a) at the same time as they are dispatched, copies of all documents required by Applicable Law to be dispatched by the Company or any other Obligors to their creditors whose claim against the Company or any other Obligors exceeds \$35,000,000 (or the Dollar Equivalent thereof if in other currencies) or whose commitment under any credit facility between such creditor and the Company or any other Obligors exceeds \$35,000,000 (or the Dollar Equivalent thereof if in other currencies);
- (b) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened in writing or pending against any Flowserve Group Member, and which, if adversely determined, are reasonably likely to have a Material Adverse Effect;
- (c) [Reserved];
- (d) promptly upon becoming aware of it, the occurrence of any ERISA Event that, along or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Company and its Subsidiaries in an aggregate amount exceeding \$10,000,000;
- (e) [Reserved];
- (f) any notice from S&P or Moody's indicating the possibility of an adverse change in the credit ratings applicable to the Company or any of its Indebtedness for Borrowed Money assigned by S&P or Moody's and promptly after the Company obtains knowledge of any change in the rating established by S&P or Moody's, as applicable, with respect to the debt rating of the Company, a notice

of such

change, which notice shall specify the new rating, the date on which such change was publicly announced, and such other information with respect to such change as the Administrative Agent may reasonably request;

- (g) any development that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect;
- (h) [Reserved]; and
- (i) promptly (i) any change of an Obligor's corporate name or in any trade name used to identify an Obligor in the conduct of its business or in the ownership of its properties, (b) any change of jurisdiction of organization of any Obligor, (iii) any change in any Obligor's legal corporate structure; or (iii) in the case of an Obligor incorporated in the United State of America, any change in the relevant Obligor's federal taxpayer identification number.

23.7 Notification of default

- (a) Each Obligor shall notify the Administrative Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence (unless that Obligor has proven that a notification has already been provided by another Obligor).
- (b) Promptly upon a request by the Administrative Agent, the Company shall supply to the Administrative Agent a certificate signed by two legal representatives on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

23.8 "Know your customer" checks

- (a) If:
 - (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the Signing Date;
 - (ii) any change in the status of an Obligor or the composition of the shareholders of an Obligor after the Signing Date; or
 - (iii) a proposed assignment or transfer by a Participating Bank of any of its rights and/or obligations under this Agreement to a party that is not a Participating Bank prior to such assignment or transfer,

obliges the Administrative Agent or any Participating Bank (or, in the case of paragraph (iii) above, any prospective new Participating Bank) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, each Obligor shall promptly upon the request of the Administrative Agent or any Participating Bank supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Administrative Agent (for itself or on behalf of any Participating Bank) or any Participating Bank (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Participating Bank) in order for the Administrative Agent, such Participating

Bank or, in the case of the event described in paragraph (iii) above, any prospective new Participating Bank to carry out and be satisfied with the results of all necessary “know your customer” or other similar checks under all Applicable Laws and regulations pursuant to the transactions contemplated in the Finance Documents.

- (b) Each Participating Bank shall promptly upon the request of the Administrative Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Administrative Agent (for itself) in order for the Administrative Agent to carry out and be satisfied with the results of all necessary “know your customer” or other similar checks under all Applicable Laws and regulations pursuant to the transactions contemplated in the Finance Documents.
- (c) The Company shall, by not less than 10 Business Days’ prior written notice to the Administrative Agent, notify the Administrative Agent (which shall promptly notify the Participating Banks) of (i) its intention to request that one of its Subsidiaries becomes an Additional LG User pursuant to Clause 28 (*Changes to the Obligors*) or (ii) that a person has become a Holding Company (not later than 30 calendar days after such occurrence) and that such person is to become an additional Guarantor in accordance with Clause 28 (*Changes to the Obligors*).
- (d) Following the giving of any notice pursuant to paragraph (c) above, if the accession of such Additional LG User obliges the Administrative Agent or any Participating Bank to comply with “know your customer” or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Administrative Agent or any Participating Bank supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Administrative Agent (for itself or on behalf of any Participating Bank) or any Participating Bank (for itself or on behalf of any prospective new Participating Bank) in order for the Administrative Agent or such Participating Bank or any prospective new Participating Bank to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all Applicable Laws and regulations pursuant to the accession of such an Additional LG User.

24. FINANCIAL COVENANTS

24.1 Financial definitions

“**Consolidated EBITDA**” means, in relation to any person, for any Relevant Period (i) the annual Consolidated Net Income for such period determined in accordance with the Accounting Principles, plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) Consolidated Interest Expenses for such period, (ii) consolidated income tax expense for such period, (iii) all amounts attributable to depreciation and amortization for such period, (iv) any extraordinary losses or extraordinary non-cash charges for such period, (v) the amount of premium payments paid by the Company or its Subsidiaries, and charges in respect of unamortized fees and expenses, in each case associated with the repayment of Indebtedness for Borrowed Money, and (vi) charges in respect of unamortized fees and expenses associated with the prepayment of loans and termination of commitments under the Bank of America Credit Agreement (as defined prior to giving effect to the Second Amendment Agreement), (vii) the amount of post-retirement health benefits accrued in such period less the amount of post-retirement health benefits paid in such period, in an amount of up to \$5,000,000 and (viii) expenses relating to stock-based compensation

plans resulting from the application of Financial Accounting Standards Board Statement No. 123R and minus (b) without duplication and to the extent included in determining such Consolidated Net Income, any extraordinary gains for such period, all determined on a consolidated basis in accordance with Accounting Principles. With respect to Flowserve Group, EBITDA is calculated on each Financial Year, and “special items” means extraordinary items in accordance with the Accounting Principles, and items reported as special items in the Annual or Semester Consolidated Financial Statement to the extent that such items are non cash and non recurring.

“Consolidated Interest Expense” for any Relevant Period, means all interest expense, plus without duplication, all fees, discounts, premiums, expenses or similar amounts incurred by the Company or any of its Subsidiaries in connection with the Receivables Program for such period, including purchase discounts (net of any loss reserves), purchase premiums, operating expense fees, structuring fees, collection agent fees, unutilized purchase limit fees and other similar fees and expenses in each case calculated on a consolidated basis and otherwise in accordance with the Accounting Principles.

“Consolidated Net Income” for any Relevant Period means, the net income or loss of the Company and its Subsidiaries for such Relevant Period determined on a consolidated basis in accordance with the Accounting Principles’ provided that there shall be excluded (a) the income of any Subsidiary to the extent that the declaration or payment of dividends or similar distributions by the Subsidiary of that income is not at the time permitted by operation of the terms of its organization documents or any agreement, instrument, judgment, decree, statute, rule or regulation applicable to such Subsidiary, (b) the income or loss of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Company or any Subsidiary or the date that such Person’s assets are acquired by the Company or any Subsidiary, and (c) after tax gains and losses attributable to sales of assets outside of the ordinary course of business.

“Flowserve Group Indebtedness” means the aggregate amount of Indebtedness for Borrowed Money of the Flowserve Group on a consolidated basis.

“Leverage Ratio” means the ratio of Flowserve Group Indebtedness to Consolidated EBITDA; provided, however, if as of any date the Leverage Ratio is being determined, the Company or any Subsidiary shall have completed a Permitted Acquisition or an Asset Sale (as defined in the Bank of America Credit Agreement) during the relevant four fiscal quarter period, Consolidated EBITDA shall be computed (for purposes of such determination) on a Pro Forma Basis as if such transaction(s) and any related incurrence of Indebtedness for Borrowed Money, had occurred at the beginning of such period.

“Interest Coverage Ratio” means the ratio of Consolidated EBITDA to Consolidated Interest Expense in respect of any Relevant Period; provided, however, if as of any date the Interest Coverage Ratio is being determined, the Company or any Subsidiary shall have completed a Permitted Acquisition or an Asset Sale (as defined in the Bank of America Credit Agreement) during the relevant four fiscal quarter period, Consolidated EBITDA shall be computed (for purposes of such determination) on a Pro Forma Basis as if such transaction(s) and any related incurrence of Indebtedness for Borrowed Money, had occurred at the beginning of such period.

“Net Worth” means total shareholder’s equity (including capital stock, additional paid in capital and retained earnings after deducting treasury stock) that would appear on the balance sheet of the respective Obligor and its Affiliates on a consolidated basis in accordance with the Accounting Principles.

24.2 Financial condition

The Company shall ensure that:

- (a) Interest Coverage Ratio: the Interest Coverage Ratio for any Relevant Period shall not be less than 3.25x.;
- (b) Leverage Ratio: the Leverage Ratio for any Relevant Period shall not be higher than 3.25x;

24.3 Financial testing

The financial covenants set out in Clause 24.2 shall be calculated in accordance with the Accounting Principles and tested by reference to each of the consolidated financial statements of the Company delivered pursuant to paragraph (a) of Clause 23.1 (*Financial statements*) and/or each Compliance Certificate delivered pursuant to Clause 23.2 (*Provision and contents of Compliance Certificate*).

25. GENERAL UNDERTAKINGS

The undertakings in this Clause 25 shall remain in force from the Signing Date for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

25.1 Existence; Businesses and Properties

Each Obligor shall (and shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*)) that each of its Subsidiaries will):

- (a) do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except with respect to any Subsidiary, where the failure to do so could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect;
- (b) do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business and its Subsidiaries taken as a whole; maintain and operate such business in substantially the manner in which it is presently conducted and operated; comply in all material respects with all Applicable Laws, rules and regulations, whether now in effect or hereafter enacted, except where the failure to do so could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition and from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times, except where the failure to do so could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

25.2 Insurance

Each Obligor shall (and shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*)) that each of its Subsidiaries will):

- (a) keep its insurable properties adequately insured at all times by financially sound and reputable insurers (after giving effect to any self-insurance in amounts customary in the Company's industry);
- (b) maintain such other insurance, to such extent and against such risks, including fire and other risks insured against by extended coverage, as is customary with companies in the same or similar businesses operating in the same or similar locations, including public liability insurance against claims for personal injury or death or property damage occurring upon, in, about or in connection with the use of any properties owned, occupied or controlled by it; and
- (c) maintain such other insurance as may be required by Applicable Law.

25.3 Obligations and Taxes

Each Obligor shall (and shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that each of its Subsidiaries will) pay its Indebtedness for Borrowed Money promptly and in accordance with their terms and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Security upon such properties or any part thereof; provided, however, that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as:

- (a) the validity or amount thereof shall be contested in good faith by appropriate proceedings;
- (b) the Company or such other Obligor shall have set aside on its books adequate reserves with respect thereto in accordance with Accounting Principles; and
- (c) such contest operates to suspend collection of the contested obligation, tax, assessment or charge and enforcement of a Security.

25.4 Maintaining Records; Access to Properties and Inspections

Each Obligor shall (and shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that each of its Subsidiaries will):

- (a) keep proper books of record and account in which full, true and correct entries in conformity with Accounting Principles and all requirements of law are made of all dealings and transactions in relation to its business and activities;
- (b) permit any representative designated by the Administrative Agent or any representative designated by the Majority Participating Banks to visit and inspect the financial records and the properties of the relevant Obligors or any of its Subsidiaries at reasonable times and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any representatives designated by the Administrative Agent or any Participating Bank to discuss the affairs, finances and condition of that Obligor or any of its Subsidiaries with the officers thereof and independent accountants therefor; provided that any such visit or inspection does not interfere with the normal operation of such business conducted at the properties, and provided further the reasonable prior notice of any discussions with that Obligor's independent accountants shall be given to that Obligor

and that Obligor shall have the opportunity to be present and participate in any such discussions. The Obligors shall only be required to reimburse the Administrative Agent's and such Participating Bank's and/or representative's costs and expenses for two (2) visits and inspections during any fiscal year so long as no Event of Default has occurred and is continuing.

25.5 Use of Proceeds

The Obligors undertake to request the issuance of Letters of Credit for contingent obligations (including obligations as an account party under any letter of credit) solely in respect of surety and performance bonds, bank guarantees and similar obligations in respect of contractual obligations of the Obligors or of the contractual obligations of a wholly-owned Subsidiary of the relevant LG User other than Indebtedness for Borrowed Money, provided that in all cases:

- (i) such contractual obligations of the Obligors or of the relevant wholly-owned Subsidiary are incurred in the ordinary course of business; and
- (ii) in case of contractual obligations of a wholly-Subsidiary of the relevant LG User, such Subsidiary remains, notwithstanding any provision of this Agreement, a wholly-owned Subsidiary of the relevant LG User as long there remain outstanding amounts under the Letter(s) of Credit issued hereunder in respect of the contractual obligations of such Subsidiary.

25.6 Bank Accounts

Each Obligor shall (and shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that each of its Subsidiaries will) maintain its bank accounts segregated from, and not commingled with, any bank accounts of a non-Flowserve Group Member.

25.7 Further Assurances

Each Obligor undertakes to execute and/or deliver any and all further documents, agreements and instruments, and take (or authorize) all further action (including delivery local counsel opinions) that may be required under Applicable Law in order to effectuate the transactions contemplated by the Finance Documents.

25.8 Debt Ratings.

In the case of the Company, maintain Debt Ratings.

25.9 Nature of Business

No Obligor shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Subsidiaries will) engage in any business other than a Related Business, including any activities permitted hereunder, which, in the case of Finsub, shall be limited solely to performing its obligations under the Receivables Program Documentation, except to such extent as would not be material to the LG Users or the Flowserve Group, taken as a whole.

25.10 Security in connection with Banking Facility

No Obligor shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Subsidiaries will) create, incur, assume or allow to subsist any Security over any of its present or future assets so as to secure any of its obligations under or in connection with any Banking Facility, other than Permitted Security.

25.11 Other Security

Without prejudice to any other provisions of this Agreement, the Company, in its capacity as the Company, shall not (and shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Affiliate will) create, incur, assume or allow to subsist any Security on or over the Capital Stock of any Flowserve Corporation Affiliate if such Security would cause an Event of Default under Clause 25.10 (*Security* in connection with Banking Facility) above.

25.12 Restricted Payments

- (a) No Obligor shall (and the Guarantor shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Subsidiaries will) make, directly or indirectly, any Restricted Payment except Restricted Payments so long as at the time of, and after giving pro forma effect to, such Restricted Payment (i) no Default shall have occurred and be continuing, and (ii) each of the Leverage Ratio as set forth in Clause 24.2 (b) (*Financial Condition*) would be complied with if tested immediately following the making of the relevant Restricted Payment, on a pro forma basis as set forth in paragraph (b) below.
- (b) For the purposes of the pro forma tests referred to in paragraph (a) above:
 - (i) the Leverage Ratio shall be determined using the calculation of EBITDA on a twelve (12) Months rolling basis at the end of the most recently completed Financial Semester and the actual value of Flowserve Group Indebtedness as at the date of the relevant pro forma test, all adjusted to give pro forma effect to the Restricted Payment as if it had been made at the end of such most recently completed Financial Semester;
 - (ii) the amount of any non-cash Restricted Payment shall be deemed to be equal to the Fair Market Value thereof at the date of the making of such Restricted Payment.
- (c) The Company shall provide calculations of each of the Financial Covenants on the basis of the above pro forma tests to the Administrative Agent together with the relevant semi-annual or annual, as the case may be, Compliance Certificates in respect of such period.

25.13 Disposals, Consolidation and Merger

- (a) No Obligor shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Subsidiaries will)), whether by a single transaction or a number of related or unrelated transactions and whether at the same time or over a period of time, sell, convey, transfer, lease out, lend or otherwise dispose of all or any of their assets or properties, save for:
 - (i) disposals of stock-in-trade for a commercial consideration in the normal course of trading of the disposing entity;

- (ii) disposals of obsolete or redundant assets;
 - (iii) disposals to Flowserve Group Members (provided, in the case of disposal by the Company or a Material Subsidiary, that the Company's ownership interest, directly or indirectly, in the receiving company is not less than that in the disposing company);
 - (iv) other disposals of assets as permitted by Section 8.05 of the Bank of America Credit Agreement.
- (b) For the purposes of paragraph (a) above, no disposal may be made under paragraph (a)(iv) above, if the relevant disposal would result in the Company ceasing to beneficially own, directly or indirectly, shares or other participation interests carrying the right to exercise 100 per cent. or more of the total voting power attached to all classes of the outstanding Voting Capital Stock of any Obligor or any Material Subsidiary or otherwise ceasing to control any Obligor or Material Subsidiary.
- (c) No Obligor shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de portefort)*) that none of its Material Subsidiaries will) consolidate with, amalgamate with or merge into any other corporation except:
- (i) A Guarantor (other than the Company) may consolidate with, amalgamate with or merge into another Flowserve Group Member or any other corporation, in each case which is incorporated in the same jurisdiction or in an Eligible Country, provided that such Guarantor is the surviving entity;
 - (ii) a Material Subsidiary may consolidate with, amalgamate with or merge into another Flowserve Group Member in which the ownership interest of the Company, directly or indirectly, is no less than that in such Material Subsidiary;
 - (iii) an Obligor (other than the Company) may consolidate with, amalgamate with or merge into another Flowserve Group Member (incorporated in the same jurisdiction or in an Eligible Country) and in which the ownership interest of the Company, directly or indirectly, is no less than that in such Obligor.
- (d) Any *transaction* permitted under paragraph (c) above is subject to the following conditions:
- (i) the transaction will not result in an Ownership Threshold Event;
 - (ii) the transaction would not cause a breach of paragraph (a) above or otherwise result in a Default occurring immediately after the consummation of the transaction; and
 - (iii) legal opinions in form and substance satisfactory to the Majority Participating Banks as to the Obligor being the surviving entity and as to the survival of that Obligor's obligations under the Finance Documents, and as to such other matters as they require, in relation to any transaction referred to in paragraph (c) above involving an Obligor, are obtained prior to any material step in the consolidation, amalgamation or merger occurring.

25.14 Change of Year-End

No Obligor shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Material Subsidiaries will) change its Accounting Reference Date or the end of any of its fiscal quarters.

25.15 Transactions with non-Flowserve Group Members

- (a) Each Obligor will ensure that all material transactions of whatever nature, and whether entered into directly or indirectly, between a Flowserve Group Member and a non-Flowserve Group Member, are made on arm's-length commercial terms.
 - (b) For the avoidance of doubt, paragraph (a) above does not permit transactions which are not otherwise permitted under Clauses 25.9 (*Nature of Business*) to 25.14 (*Change of Year-End*) and Clauses 25.16 (*Subsidiary Share Issuance*) to 25.19(a) (*receivables created in the ordinary course of business and payable or dischargeable in accordance with customary trade terms*);
 - (c) investments in Permitted Investments and those listed on Schedule 8.04 of the Bank of America Credit Agreement;
 - (d) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;
 - (e) each Obligor's (other than the Company) investments from time to time in its Subsidiaries, and investments made from time to time by an Obligor (other than the Company) in one or more of its Subsidiaries; and
 - (f) intercompany advances made from time to time from any Obligor (other than the Company) to any one or more of its wholly-owned Subsidiaries or a wholly-owned Subsidiary of the Company, to the extent, in all cases, permitted under Applicable Law;
 - (g) Permitted Acquisitions;
 - (h) investments in the form of promissory notes and other non-cash consideration received in connection with any asset disposition or transfer permitted by this Agreement;
 - (i) Investments consisting of loans and advances in the ordinary course of business to employees so long as the aggregate principal amount thereof at any time outstanding shall not exceed \$5,000,000;
 - (j) Swap Contracts (as defined in the Bank of America Credit Agreement) that are not speculative in nature, are entered into in the ordinary course of business and are related to interest rate hedging for floating interest rate exposure or hedging (including currency and commodity hedging) of bookings, sales, income and dividends derived from the foreign operations of the Company or any Subsidiary or otherwise related to purchases from suppliers;
 - (k) investments consisting of guarantees of loans, in an aggregate amount outstanding at any time not to exceed \$30,000,000, made by third parties to employees who are participants in the Company's stock purchase program, if implemented, to enable such employees to purchase common stock of the Company;
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- (l) other investments so long as at the time such investment is made and immediately after giving effect thereto, the aggregate amount of such investments does not exceed 5% of Consolidated Tangible Assets (determined as of the most recently ended fiscal quarter for which financial statements are available) in the aggregate at any time outstanding.
- (m) Undertaking to Fund).
- (n) For the purposes of paragraph (a) above, a “material transaction” means a transaction which is material to the Flowserve Group Member involved in it (or any of them if more than one).

25.16 Subsidiary Share Issuance

The Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Material Subsidiaries will issue any Capital Stock to any person other than to the Company or a wholly-owned Subsidiary of the Company.

25.17 Cash Pooling Agreement

No Obligor shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Subsidiaries will) enter into cash pooling transaction, cash management or other netting agreement except if all other parties to such agreements are Flowserve Group Members or banks (*établissements de crédit*).

25.18 Indebtedness

No Company or Obligor shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de porte-fort)*) that none of its Subsidiaries will) contract, create, incur, assume or suffer to exist any Indebtedness for Borrowed Money, except;

- (a) the Obligations of such Obligor and its Subsidiaries hereunder;
- (b) the obligations of the Company and its Subsidiaries under the Bank of America Credit Agreement;
- (c) intercompany Indebtedness for Borrowed Money among the Obligors and their Subsidiaries to the extent permitted by Clause (a);
- (d) Capital Lease Obligations and other Indebtedness for Borrowed Money incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including any Indebtedness for Borrowed Money assumed in connection with the acquisition of any such assets or secured by a Security on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Indebtedness for Borrowed Money that do not increase the outstanding principal amount thereof; provided that the aggregate principal amount of Indebtedness for Borrowed Money shall not exceed \$200,000,000 at any time outstanding;
- (e) Indebtedness for Borrowed Money under industrial revenue bonds in an aggregate principal amount not to exceed \$20,000,000 at any time outstanding;

- (f) Receivables Program Indebtedness in an amount not exceeding \$200,000,000 in the aggregate at any time outstanding;
- (g) Investments by any non-wholly Subsidiary in any other non-wholly owned Subsidiary;
- (h) Indebtedness for Borrowed Money solely in respect of surety and performance bonds, bank guarantees, letters of credit and similar obligations in respect of contractual obligations of the Company or its Subsidiaries, provided that such obligations are (i) incurred in the ordinary course of business of the Company and the Subsidiaries and (ii) except as expressly permitted under the Bank of America Credit Agreement;
- (i) Other Indebtedness for Borrowed Money, so long as the aggregate principal amount of Priority Debt does not exceed 15% of Consolidated Tangible Assets (determined as of the most recently ended fiscal quarter for which financial statements are available); and
- (j) Guarantees with respect to Indebtedness for Borrowed Money permitted under this Clause 25.18.

25.19 Advances, Investments and Loans

No Obligor (other than the Company) shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil* (*promesse de porte-fort*) that none of its Subsidiaries will) directly or indirectly, make loans or advances to or make, retain or have outstanding any investments (whether through purchase of equity interests or obligations or otherwise) in, any person or enter into any partnerships or joint ventures, or purchase or own a futures contract or otherwise become liable for the purchase or sale of currency or other commodities at a future date in the nature of a futures contract, except that this Clause shall not prevent:

- (a) receivables created in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;
- (b) investments in Permitted Investments and those listed on Schedule 8.04 of the Bank of America Credit Agreement;
- (c) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;
- (d) each Obligor's (other than the Company) investments from time to time in its Subsidiaries, and investments made from time to time by an Obligor (other than the Company) in one or more of its Subsidiaries; and
- (e) intercompany advances made from time to time from any Obligor (other than the Company) to any one or more of its wholly-owned Subsidiaries or a wholly-owned Subsidiary of the Company, to the extent, in all cases, permitted under Applicable Law;
- (f) Permitted Acquisitions;
- (g) investments in the form of promissory notes and other non-cash consideration received in connection with any asset disposition or transfer permitted by this Agreement;

- (h) Investments consisting of loans and advances in the ordinary course of business to employees so long as the aggregate principal amount thereof at any time outstanding shall not exceed \$5,000,000;
- (i) Swap Contracts (as defined in the Bank of America Credit Agreement) that are not speculative in nature, are entered into in the ordinary course of business and are related to interest rate hedging for floating interest rate exposure or hedging (including currency and commodity hedging) of bookings, sales, income and dividends derived from the foreign operations of the Company or any Subsidiary or otherwise related to purchases from suppliers;
- (j) investments consisting of guarantees of loans, in an aggregate amount outstanding at any time not to exceed \$30,000,000, made by third parties to employees who are participants in the Company's stock purchase program, if implemented, to enable such employees to purchase common stock of the Company;
- (k) other investments so long as at the time such investment is made and immediately after giving effect thereto, the aggregate amount of such investments does not exceed 5% of Consolidated Tangible Assets (determined as of the most recently ended fiscal quarter for which financial statements are available) in the aggregate at any time outstanding.

25.20 Undertaking to Fund

- (a) No Obligor shall (and the Company shall procure (in accordance with article 1120 of the French *Code civil (promesse de portefort)*) that none of its Subsidiaries will) enter into an agreement or instrument by virtue of which an Obligor (or its Subsidiaries) undertakes in favour of a creditor of any person, to invest funds in that person (whether by way of loan, equity investment or otherwise) in order to ensure compliance with one or more undertakings toward such creditor, to the effect of maintaining certain thresholds or ratios in relation to the person concerned.
- (b) Without prejudice of any other provision of this Agreement, paragraph (a) above shall not apply to any agreement or instrument by virtue of which an Obligor (or its Subsidiaries) undertakes (i) to guarantee the payment of Indebtedness for Borrowed Money, or (ii) to perform an obligation of such person if such person fails to perform that obligation to honour its pension funding obligations in the United States of America, Great Britain and Netherlands.

25.21 Additional Guarantor

Without prejudice of the rights and remedies of the Finance Parties under this Agreement, the Company shall procure that, as soon as it becomes aware of it (and in compliance with the provisions of Clause 23.8 ("*Know your customer*" checks), paragraph (c), any person becoming a Holding Company of the Guarantor accede as additional Guarantor in compliance with and subject to the provisions of Clause 28 (*Changes to the Obligors*).

25.22 Financial Statements

Before the 30th November 2009, the Company shall provide to the Administrative Agent a certified copy of the audited Financial Statements of Flowserve BV for the Financial Year ended 31 December 2008, together

with the Auditor report relating thereto and such report shall not reveal qualification(s) made by the Auditors having a Material Adverse Effect.

25.23 Refinancing of the Bank of America Credit Agreement

The Company shall provide to the Administrative Agent, no later than two (2) months before the contemplated date of such refinancing, the following information in relation to the refinancing of the Bank of America Credit Agreement: (i) the proposed amount of the refinancing, (ii) the maturity date of the proposed facility and (iii) the type of Guarantee to be granted by the Flowserve Group Members in connection with such refinancing.

26. EVENTS OF DEFAULT

Each of the events or circumstances set out in this Clause 26 is an Event of Default (save for Clause 26.18).

26.1 Non-payment

An Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place at and in the currency in which it is expressed to be payable (except to the extent the same is paid by the Guarantor) unless payment (other than payment in respect of a Claim) is made within seven Business Days of its due date.

26.2 Financial covenants and other obligations

- (a) Any requirement of Clause 24 (*Financial Covenants*) is not satisfied or an Obligor does not comply with the provisions of Clause 23 (*Information Undertakings*).
- (b) The Company does not comply with any provision of the Flowserve Corporation Guarantee.

26.3 Other obligations

- (a) An Obligor does not comply with any provision of the Finance Documents (other than those referred to in Clause 26.1 (*Non-payment*), Clause 26.2 (*Financial covenants and other obligations*)), Clause 26.4 (*ERISA*) and in Clause 26.5 (*Restricted Payments*).
- (b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within 20 Business Days of the earlier of (i) the Administrative Agent giving notice to the Company or the relevant Obligor and (ii) the Company or such Obligor becoming aware of the failure to comply.

26.4 ERISA

An ERISA Event shall have occurred that, in the reasonable opinion of the Majority Participating Banks, when taken together with all other such ERISA Events, could reasonably be expected to result in a Material Adverse Effect.

26.5 Restricted Payment

- (a) An Obligor does not comply with any provision of Clause 25.12 (*Restricted Payments*).
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- (b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within 7 Business Days of the earlier of (i) the Administrative Agent giving notice to the Company or the relevant Obligor and (ii) the Company or such Obligor becoming aware of the failure to comply.

26.6 Insolvency Proceedings

Any Obligor or a Material Subsidiary is subject to an Insolvency Event.

26.7 Cross-Default

- (a) any Obligor or any Subsidiary of any Obligor fails to pay at maturity or, in the event a period of grace is provided, within any such applicable period of grace, any payment due under any Banking Facility or Indebtedness for Borrowed Money (other than under any Finance Document) or any Obligor or any Subsidiary of any Obligor is in default under or fails to observe or perform any term, covenant or agreement contained in any Banking Facility or in any agreement securing its obligations under any Banking Facility (other than under the Finance Documents) by which it is bound and any grace period provided in such agreement to remedy such default has expired, or its payment obligations under any such Banking Facility are accelerated or cash collateralisation is required by reason of an event of default (however described);
- (b) any Obligor or any Subsidiary of any Obligor fails to pay within 60 days of demand the amount demanded under any Security (other than a Security provided under the Finance Documents) given by such Obligor or its Subsidiary to secure Indebtedness for Borrowed Money of any person;
- (c) No Event of Default under paragraphs (a) and (b) above will occur:
 - (i) if the aggregate amount in respect of the relevant Banking Facility or Indebtedness for Borrowed Money which is not so paid and/or with respect to which such default or failure to observe or perform has occurred and/or which is accelerated and/or for which cash cover is required, is less than US\$ 60,000,000 (or the Dollar Equivalent thereof if in other currencies); or
 - (ii) if the failure to pay or perform under the relevant agreement is permanently waived, rescinded or annulled in writing by the relevant creditor(s).

26.8 Misrepresentation

Any representation or statement made or deemed to be made by an Obligor in the Finance Documents or any other document delivered by or on behalf of any Obligor under or in connection with any Finance Document is or proves to have been materially incorrect or misleading when made or deemed to be made, unless the failure to comply is capable of remedy and is remedied within 15 Business Days of the earlier of the Administrative Agent giving written notice to the Company or to the relevant Obligor.

26.9 Creditors' Process

There is entered against an Obligor or its Subsidiaries (a) one or more final judgments or orders for the payment of money in an aggregate amount (as to all such judgments or orders) for an amount in excess of

(a) US\$60,000,000 (or the Dollar Equivalent thereof if in other currencies) (to the extent not covered by independent third-party insurance as to which the insurer has been notified of the claim and does not dispute coverage) or (b) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (i) enforcement proceedings are commenced by any creditor upon such judgment or order, or (ii) there is a period of thirty consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect.

26.10 [Reserved]

26.11 Ineffectiveness of the Guarantee

- (a) The Flowserve Corporation Guarantee is void, unenforceable or ineffective or is alleged by any Obligor to be void, unenforceable or ineffective for any reason or to any extent.
- (b) The Company gives notice of termination of, or otherwise attempts to terminate or deny its liability under the Flowserve Corporation Guarantee.

26.12 Ownership

Any Obligor (other than the Company) is not or ceases to be, directly or indirectly, a wholly-owned Subsidiary of the Company unless:

- (a) the payment obligations of the relevant Obligor towards the Finance Parties under the Finance Documents are fully repaid (whether through assumption by another Obligor under the Agreement or otherwise) within 7 Business Days of the date of such cessation; and
- (b) the contingent obligations and other obligations of the relevant Obligor towards the Finance Parties under the Finance Documents are validly assumed by another Obligor within 7 Business Days of the date of such cessation; and
- (c) the relevant LG User ceases to be an LG User under the Agreement within 7 Business Days of such date of cessation.

26.13 [Reserved]

26.14 Unlawfulness and invalidity

- (a) Any material provisions of a Finance Document is invalid, not binding or unenforceable as a result of a judgment or order of a competent court or due to the entry into force of an Applicable Law.
- (b) Any Finance Document ceases to be in full force and effect and valid and enforceable.
- (c) No Event of Default under paragraphs (a) and (b) above will occur if such matter is (in the opinion of the Administrative Agent) capable of being remedied and the relevant Finance Document is replaced with a new agreement on terms and conditions substantially no less favourable to the Finance Parties remedying the above mentioned defects (in the opinion of the Administrative Agent) within twenty (20) days of the occurrence of the events mentioned in paragraphs (a) and (b) above.

26.15 Change of Control

- (a) A Change of Control of the Company occurs and, at any time thereafter, the Administrative Agent (acting on instruction of the Majority Participating Banks) has given notice to the Company and 30 days have elapsed from the date of that notice.
- (b) For the purposes of paragraph (a) above; a “**Change of Control**” means an event or series of events by which: (a) any person or group (within the meaning of Rule 13d-5 of the Securities Exchange Act of 1934 as in effect on the Effective Date of the Third Amendment) shall own directly or indirectly, beneficially or of record, shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Company; (b) a majority of the seats (other than vacant seats) on the board of directors of the Company shall at any time be occupied by persons who were neither (i) nominated by the board of directors of the Company, nor (ii) appointed by directors so nominated; or (c) any change in control (or similar event, however denominated) with respect to the Company or any Subsidiary shall occur under and as defined in any indenture or agreement in respect of Material Indebtedness (as defined in the Bank of America Credit Agreement) to which the Company or any Subsidiary is a party.

26.16 Ownership Thresholds Event

An Ownership Thresholds Event occurs and, at any time thereafter, the Administrative Agent (acting on instruction of the Majority Participating Banks) has given notice to the Company and 30 days have elapsed from the date of that notice.

26.17 Security

The Company or any of its Subsidiaries creates, incurs, assumes or allows to subsist any Security (other than a Permitted Security under paragraphs (h) and (i)) of the definition of Permitted Security) over shares or other participation interest held by it, directly or indirectly carrying the right to exercise any voting power attached to any class of the outstanding Voting Capital Stock of the Company or another Obligor or so as to result in an Ownership Thresholds Event.

26.18 [Reserved]

26.19 Prepayment and cancellation

On and at any time after the occurrence of an Event of Default which is continuing, the Issuing Bank (in the case of paragraph (a) below) or the Administrative Agent may without *mise en demeure* or any other judicial or extra judicial step, and shall if so directed by the Majority Participating Banks, by notice to the Company:

- (a) refuse to issue any new Letter of Credit for the account of any of or all of the LG Users;
- (b) cancel the Total Commitment at which time it shall immediately be cancelled;
- (c) declare that all or part of the Utilisations, together with accrued interest, fees and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, at which time they shall become immediately due and payable; and/or

- (d) declare that cash cover in respect of each Letter of Credit is immediately due and payable at which time it shall become immediately due and payable in accordance with Clause 11.1 (*Cash cover by LG User in the event of occurrence of an Event of Default*).

SECTION 6 - CHANGES TO PARTIES

27. CHANGES TO THE PARTICIPATING BANKS

27.1 Assignments and transfers by the Participating Banks

- (a) Subject to this Clause 27, a Participating Bank (the “**Existing Participating Bank**”) may:

- (i) assign any of its rights; or
- (ii) transfer any of its rights (including such as relate to that Participating Bank's participation in each Loan) and obligations,

under any Finance Document to another bank or financial institution or to a trust, fund (including CDOs and CLOs) or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets having a minimum rating of A/A 2 (or equivalent) (the “**New Participating Bank**”);

provided that any assignment or transfer made to a New Participating Bank (including any assignment of a Commitment) shall at least include, without prejudice of Clause 27.2(f) hereafter, an assignment or transfer of a part of a principal amount outstanding at that time of at least Euros 50,000, unless it is made to any person which qualifies as a professional market party (*professionele marktpartij*) under the Dutch Financial Markets Supervision Act (*Wet op het financieel toezicht*).

- (b) Save as otherwise provided herein, the consent of the Finance Parties is hereby given to a transfer by an Existing Participating Bank to a New Participating Bank.

27.2 Conditions of assignment or transfer

- (a) The consent of the Company is required for an assignment or transfer by an Existing Participating Bank, provided that no such consent shall be required if the assignment or transfer is:
 - (i) to another Participating Bank or an Affiliate of a Participating Bank (which shall include, for the purposes of this Clause 27 and for the avoidance of doubt, in the case of CACIB, any company Caisses Régionales du Crédit Agricole Mutuel or CACIB) ; or
 - (ii) to the Issuing Bank or an Affiliate of the Issuing Bank; or
 - (iii) made at a time when a Default is continuing;
- (b) The consent of the Company to an assignment or transfer must not be unreasonably withheld or delayed. The Company will be

deemed to have given its consent ten Business Days after the Existing Participating Bank has requested it unless consent is expressly refused in writing by the Company within that time.

- (c) An assignment will only be effective as among the Finance Parties on:
- (i) receipt by the Administrative Agent of written confirmation from the New Participating Bank (in form and substance satisfactory to the Administrative Agent) that the New Participating Bank has become entitled to the same rights and will assume the same obligations to the other Finance Parties as it would have been under if it was an Original Participating Bank; and
 - (ii) performance by the Administrative Agent of all necessary “know your customer” or other similar checks under all Applicable Laws in relation to such assignment to a New Participating Bank, the completion of which the Administrative Agent shall promptly notify to the Existing Participating Bank and the New Participating Bank.
- (d) A transfer will only be effective if the procedure set out in Clause 27.5 (*Procedure for transfer*) is complied with.
- (e) If:
- (i) a Participating Bank assigns or transfers any of its rights or obligations under the Finance Documents or changes its Facility Office; and
 - (ii) as a result of circumstances existing at the date the assignment, transfer or change occurs, an Obligor would be obliged to make a payment to the New Participating Bank or Participating Bank acting through its new Facility Office under Clause 17 (*Tax Gross Up and Indemnities*) or Clause 18 (*Increased Costs*),
- then the New Participating Bank or Participating Bank acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Participating Bank or Participating Bank acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred.
- (f) The Facility may be assigned or transferred in amounts of not less than €5,000,000 (or if less, the remaining amount held by such Participating Bank).

27.3 Assignment or transfer fee

The New Participating Bank shall, on the date upon which an assignment or transfer takes effect, pay to the Administrative Agent (for its own account) a fee of €2,500.

27.4 Limitation of responsibility of Existing Participating Banks

- (a) Unless expressly agreed to the contrary, an Existing Participating Bank makes no representation or warranty and assumes no responsibility to a New Participating Bank for:
- (i) the legality, validity, effectiveness, adequacy or enforceability of the Finance Documents or any other documents;
 - (ii) the financial condition of any Obligor;

- (iii) the performance and observance by any Obligor or any other member of the Flowserve Group of its obligations under the Finance Documents or any other documents; or
- (iv) the accuracy of any statements (whether written or oral) made in or in connection with any Finance Document or any other document,

and any representations or warranties implied by law are excluded.

- (b) Each New Participating Bank confirms to the Existing Participating Bank and the other Finance Parties that it:
 - (i) has made (and shall continue to make) its own independent investigation and assessment of the financial condition and affairs of each Obligor and its related entities in connection with its participation in this Agreement and has not relied exclusively on any information provided to it by the Existing Participating Bank or any other Finance Party in connection with any Finance Document; and
 - (ii) will continue to make its own independent appraisal of the creditworthiness of each Obligor and its related entities whilst any amount is or may be outstanding under the Finance Documents or any Commitment is in force.
- (c) Nothing in any Finance Document obliges an Existing Participating Bank to:
 - (i) accept a re-transfer or re-assignment from a New Participating Bank of any of the rights and obligations assigned or transferred under this Clause 27; or
 - (ii) support any losses directly or indirectly incurred by the New Participating Bank by reason of the non-performance by any Obligor of its obligations under the Finance Documents or otherwise.

27.5 Procedure for transfer

- (a) Subject to the conditions set out in Clause 27.2 (*Conditions of assignment or transfer*) a transfer is effected in accordance with paragraph (c) below when the Administrative Agent executes an otherwise duly completed Transfer Agreement delivered to it by the Existing Participating Bank and the New Participating Bank, and the Company if its consent is required pursuant to Clause 27.2(b), at least ten (10) Business Days prior to the proposed Transfer Date. The Administrative Agent shall, subject to paragraph (b) below, as soon as reasonably practicable after receipt by it of a duly completed Transfer Agreement appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Agreement.
 - (b) The Administrative Agent shall only be obliged to execute a Transfer Agreement delivered to it by the Existing Participating Bank and the New Participating Bank once it is satisfied it has complied with all necessary “know your customer” or other similar checks under all Applicable Laws in relation to the transfer to such New Participating Bank.
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- (c) By virtue of the execution of a Transfer Agreement, as from the Transfer Date:
- (i) to the extent that in the Transfer Agreement the Existing Participating Bank seeks to transfer its rights and obligations under the Finance Documents, the Existing Participating Bank shall be discharged to the extent provided for in the Transfer Agreement from further obligations towards each of the Obligors and the other Finance Parties under the Finance Documents;
 - (ii) the rights and obligations of the Existing Participating Bank with respect to the Obligors shall be transferred to the New Participating Bank, to the extent provided for in the Transfer Agreement;
 - (iii) the Administrative Agent, the Arranger, the New Participating Bank, the other Participating Banks, the Issuing Bank shall have the same rights and obligations between themselves as they would have had had the New Participating Bank been an Original Participating Bank with the rights and/or obligations to which it is entitled and subject as a result of the transfer and to that extent the Administrative Agent, the Arranger, the Issuing Bank and the Existing Participating Bank shall each be released from further obligations to each other under the Finance Documents; and
 - (iv) the New Participating Bank shall become a Party as a “**Participating Bank**”.

27.6 Copy of Transfer Agreement to Company

The Administrative Agent shall, as soon as reasonably practicable after it has executed a Transfer Agreement, send to the Company a copy of that Transfer Agreement.

27.7 Security on Participating Banks' rights

Without prejudice to the rights granted to the Participating Banks pursuant to this Clause 27, each Participating Bank may, at any time, without consulting with or obtaining any authorization from an Obligor, pledge, grant a Security over or assign as a security in any manner whatsoever (by way of assignment as security or by any other mean) all or part of its rights pursuant to any Finance Document in order to secure the obligations of such Participating Bank, including:

- (a) any pledge, assignment as security or other Security granted in order to guarantee its obligations *vis a vis* a central bank; and
- (b) when the Participating Bank is an instrument vehicle, any pledge, assignment as security or other Security granted to any holder (or trustee or Administrative Agent of holders) of bonds or other capital market instruments issued by such Participating Bank in order to secure such bonds or capital market instruments.

Provided that such pledge, assignment security or other Security cannot have the effect to:

- (i) release a Participating Bank from its obligations pursuant to the Finance Documents or make the beneficiary of such pledge, assignment as security or Security party to any Finance Document; or

- (ii) oblige any Obligor to make any payment or grant to any person broader rights than the payments or rights to which the relevant Participating Bank is entitled to pursuant to the Finance Documents.

28. CHANGES TO THE OBLIGORS

28.1 Assignment and transfers by Obligors

No Obligor may assign any of its rights or transfer any of its rights or obligations under the Finance Documents, except in accordance with Clause 25.13(c) and subject to the provisions of Clause 25.13(d).

28.2 Additional LG Users

- (a) Subject to compliance with the provisions of paragraphs (c) and (d) of Clause 23.8 (*“Know your customer” checks*), the Company may request that any of its wholly owned Subsidiaries becomes a LG User. That Subsidiary shall become a LG User if:
 - (i) all the Participating Banks and the Issuing Bank acting reasonably approve the addition of that Subsidiary;
 - (ii) the Company and that Subsidiary deliver to the Administrative Agent a duly completed and executed Accession Letter;
 - (iii) the Company confirms that no Default is continuing or would occur as a result of that Subsidiary becoming an Additional LG User; and
 - (iv) the Administrative Agent has received all of the documents and other evidence listed in Schedule 14 (*Conditions precedent required to be delivered by an Additional LG User*) in relation to that Additional LG User, each in form and substance satisfactory to the Administrative Agent.
- (b) The Administrative Agent shall notify the Company and the Finance Parties promptly upon being satisfied that it has received (in form and substance satisfactory to it) all the documents and other evidence listed in Schedule 14 (*Conditions precedent required to be delivered by an Additional LG User*).

28.3 Additional Guarantor

- (a) Subject to compliance with the provisions of paragraphs (c) and (d) of Clause 23.8 (*“Know your customer” checks*), the Company shall procure that upon any person becoming the Holding Company of the Guarantor such person shall accede as an additional Guarantor (but not as Additional LG User unless the terms and conditions set forth in Clause 28.2 (*Additional LG Users*) are complied with) under the Agreement. To effect such accession:
 - (i) the Company and that Holding Company shall deliver to the Administrative Agent a duly completed and executed Accession Letter;
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- (ii) the Company and that Holding Company shall do all such other things as may be necessary to give effect to such accession (including delivery of a guarantee agreement or legal opinion in form and substance satisfactory to the Participating Banks); and
 - (iii) the Administrative Agent has received all of the documents and other evidence listed in Schedule 14 (*Conditions precedent required to be delivered by an Additional LG User*) in relation to that Holding Company, each in form and substance satisfactory to the Administrative Agent.
- (b) The Administrative Agent shall notify the Company and the Finance Parties promptly upon being satisfied that it has received (in form and substance satisfactory to it) all the documents and other evidence listed in Schedule 14 (*Conditions precedent required to be delivered by an Additional LG User*).
- (c) The foregoing is without prejudice of the rights and remedies of the Finance Parties under this Agreement concerning the ownership of the Company or of the Flowserve Group.

28.4 Repetition of Representations

Delivery of an Accession Letter constitutes confirmation by the relevant Subsidiary that the representations and warranties referred to in paragraph (a) of Clause 22.29 (*Times when representations made*) are true and correct in relation to it as at the date of delivery as if made by reference to the facts and circumstances then existing.

SECTION 7 - THE FINANCE PARTIES

29. ROLE OF THE ADMINISTRATIVE AGENT, THE ARRANGER, THE ISSUING BANK AND OTHERS

29.1 Appointment of the Administrative Agent

- (a) Subject to the provisions of paragraph (b) below, each of the Arranger, the Participating Banks and the Issuing Bank appoints the Administrative Agent to act as its Administrative Agent under and in connection with the Finance Documents and each of the Arranger, the Participating Banks and the Issuing Bank authorises the Administrative Agent to exercise the rights, powers, authorities and discretions specifically given to the Administrative Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.
- (b) The Parties hereby acknowledge that the mandate granted by BBVA, as Participating Bank, to the Administrative Agent pursuant to paragraph (a) above does not authorise the Administrative Agent to:
- (i) execute and deliver Finance Documents in the name and on behalf of BBVA;
 - (ii) enforce the Flowserve Corporation Guarantee in the name and on behalf of BBVA; provided, however, that the Administrative Agent may send to the Guarantor, in accordance with paragraph (a) above, the notice referred to in Annex 1 to the Flowserve Corporation Guarantee; and

- (iii) present petitions for winding up of any Obligor in the name and on behalf of BBVA.

29.2 Duties of the Administrative Agent

- (a) Subject to paragraph (b) below, the Administrative Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Administrative Agent for that Party by any other Party.
- (b) Without prejudice to Clause 27.6 (*Copy of Transfer Agreement to Company*), paragraph (a) above shall not apply to any Transfer Agreement.
- (c) Except where a Finance Document specifically provides otherwise, the Administrative Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- (d) If the Administrative Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the other Finance Parties.
- (e) If the Administrative Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Administrative Agent or the Arranger) under this Agreement it shall promptly notify the other Finance Parties.
- (f) The Administrative Agent's duties under the Finance Documents are solely mechanical and administrative in nature.

29.3 Role of the Arranger

Except as specifically provided in the Finance Documents, the Arranger has no obligations of any kind to any other Party under or in connection with any Finance Document.

29.4 No fiduciary duties

- (a) Nothing in this Agreement constitutes the Administrative Agent, the Arranger and/or the Issuing Bank as a trustee or fiduciary (*fiduciaire*), including within the meaning of articles 2011 and seq. of the French *Code Civil*, of any other person.
- (b) None of the Administrative Agent, the Arranger or the Issuing Bank shall be bound to account to any Participating Bank for any sum or the profit element of any sum received by it for its own account.

29.5 Business with the Flowserve Group

The Administrative Agent, the Arranger and the Issuing Bank may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Flowserve Group.

29.6 Rights and discretions

(a) The Administrative Agent and the Issuing Bank may rely on:

- (i) any representation, notice or document believed by it to be genuine, correct and appropriately authorised; and
 - (ii) any statement made by a director, authorised signatory or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.
- (b) The Administrative Agent may assume (unless it has received notice to the contrary in its capacity as Administrative Agent for the Participating Banks) that:
 - (i) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 26.1 (Non-payment));
 - (ii) any right, power, authority or discretion vested in any Party or the Majority Participating Banks has not been exercised; and
 - (iii) any notice or request made by the Company (other than an Issuance Request) is made on behalf of and with the consent and knowledge of all the Obligors.
- (c) The Administrative Agent may engage, pay for and rely on the advice or services of any lawyers, accountants, surveyors or other experts.
- (d) The Administrative Agent may act in relation to the Finance Documents through its personnel and agents.
- (e) The Administrative Agent may disclose to any other Party any information it reasonably believes it has received as Administrative Agent under this Agreement.
- (f) Without prejudice to the generality of paragraph (e) above, the Administrative Agent may disclose the identity of a Defaulting Participating Bank to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Participating Banks.
- (g) Notwithstanding any other provision of any Finance Document to the contrary, none of the Administrative Agent, the Arranger or the Issuing Bank is obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.

29.7 Majority Participating Banks' instructions

- (a) Unless a contrary indication appears in any Finance Document, the Administrative Agent shall (i) exercise any right, power, authority or discretion vested in it as Administrative Agent in accordance with any instructions given to it by the Majority Participating Banks (or, if so instructed by the Majority Participating Banks, refrain from exercising any right, power, authority or discretion vested in it as Administrative Agent) and (ii) not be liable for any act (or omission) if it acts (or refrains from taking any action) in accordance with an instruction of the Majority Participating Banks.
- (b) Unless a contrary indication appears in a Finance Document, any instructions given by the Majority Participating Banks will be binding on all the Finance Parties.

- (c) The Administrative Agent may refrain from acting in accordance with the instructions of the Majority Participating Banks (or, if appropriate, the Participating Banks) until it has received such security as it may require for any cost, loss or liability (together with any associated VAT) which it may incur in complying with the instructions.
- (d) In the absence of instructions from the Majority Participating Banks, (or, if appropriate, the Participating Banks) the Administrative Agent may act (or refrain from taking action) as it considers to be in the best interest of the Participating Banks.
- (e) The Administrative Agent is not authorised to act on behalf of a Participating Bank in any legal or arbitration proceedings relating to any Finance Document, without having first obtained that Participating Bank's authority to act on its behalf in those proceedings. This paragraph (e) shall not apply to any legal or arbitration proceeding relating to the perfection, preservation or protection of rights under the Flowserve Corporation Guarantee or enforcement of the Flowserve Corporation Guarantee.
- (f) BBVA undertakes so long as it is a Participating Bank to:
 - (a) join the Administrative Agent in any legal or arbitration proceedings relating to any Finance Document instructed by the Majority Participating Banks, in accordance with clause paragraph (e) above or, if required, to the extent possible, to grant powers of attorney in favour of the Administrative Agent so that it can take in the name and on behalf of BBVA such legal or arbitration proceedings; and
 - (b) abide by and act in accordance with, any decision of the Majority Participating Banks made in accordance with this Agreement.

29.8 Responsibility for documentation

None of the Administrative Agent, the Arranger or the Issuing Bank:

- (a) is responsible for the adequacy, accuracy and/or completeness of any information (whether oral or written) supplied by the Administrative Agent, the Arranger, the Issuing Bank, an Obligor or any other person given in or in connection with any Finance Document or the transactions contemplated in the Finance Documents;
- (b) is responsible for the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of or in connection with any Finance Document; or
- (c) is responsible for any determination as to whether any information provided or to be provided to any Finance Party is non-public information the use of which may be regulated or prohibited by Applicable Law relating to insider dealing or otherwise.

29.9 Exclusion of liability

- (a) Without limiting paragraph (b) below (and without prejudice to the provisions of paragraph (e) of Clause 32.11 (*Disruption to Payment Systems etc.*)), none of the Administrative Agent and the Issuing

Bank will be liable (including, without limitation, for negligence or any other category of liability whatsoever) for any action taken by it under or in connection with any Finance Document, unless directly caused by its gross negligence or willful misconduct.

- (b) No Party (other than the Administrative Agent or an Issuing Bank (as applicable)) may take any proceedings against any officer, employee or agent of the Administrative Agent or of the Issuing Bank, in respect of any claim it might have against the Administrative Agent or the Issuing Bank or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Administrative Agent or of the Issuing Bank may rely on this Clause.
- (c) The Administrative Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Administrative Agent if the Administrative Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Administrative Agent for that purpose.
- (d) Nothing in this Agreement shall oblige the Administrative Agent or the Arranger to carry out any “know your customer” or other checks in relation to any person on behalf of any Participating Bank and each Participating Bank confirms to the Administrative Agent and the Arranger that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Administrative Agent or the Arranger.

29.10 Participating Banks’ indemnity to the Administrative Agent

Each Participating Bank shall (in proportion to its share of the Total Commitment or, if the Commitments are then zero, to its share of the Total Commitment and outstanding Utilisations) indemnify the Administrative Agent, within three Business Days of demand, against any duly documented cost, loss or liability (including, without limitation, for negligence or any other category of liability whatsoever) incurred by the Administrative Agent (otherwise than by reason of the Administrative Agent’s gross negligence or willful misconduct) (or, in the case of any cost, loss or liability pursuant to Clause 32.11 (*Disruption to Payment Systems etc.*) notwithstanding the Administrative Agent’s negligence, gross negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Administrative Agent in acting as Administrative Agent under the Finance Documents (unless the Administrative Agent has been reimbursed by an Obligor pursuant to a Finance Document)).

29.11 Resignation of the Administrative Agent

- (a) The Administrative Agent may resign and appoint one of its Affiliates acting through an office in France as successor by giving notice to the Participating Banks and the Company.
 - (b) Alternatively the Administrative Agent may resign by giving notice to the Participating Banks and the Company, in which case the Majority Participating Banks (after consultation with the Company) may appoint a successor Administrative Agent.
 - (c) If the Majority Participating Banks have not appointed a successor Administrative Agent in accordance with paragraph (b) above within thirty (30) days after notice of resignation was given,
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the retiring Administrative Agent (after consultation with the Company) may appoint a successor Administrative Agent (acting through an office in France).

- (d) The retiring Administrative Agent shall, at its own cost, make available to the successor Administrative Agent such documents and records and provide such assistance as the successor Administrative Agent may reasonably request for the purposes of performing its functions as Administrative Agent under the Finance Documents.
- (e) The Administrative Agent's resignation notice shall only take effect upon the appointment of a successor.
- (f) Upon the appointment of a successor, the retiring Administrative Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 29. Any successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

29.12 Replacement of the Administrative Agent

- (a) After consultation with the Company, the Majority Participating Banks may, by giving 30 days' notice to the Administrative Agent (or, at any time the Administrative Agent is an Impaired Administrative Agent, by giving any shorter notice determined by the Majority Participating Banks) replace the Administrative Agent by appointing a successor Administrative Agent (acting through an office in France).
- (b) The retiring Administrative Agent shall (at its own cost if it is an Impaired Administrative Agent and otherwise at the expense of the Participating Banks) make available to the successor Administrative Agent such documents and records and provide such assistance as the successor Administrative Agent may reasonably request for the purposes of performing its functions as Administrative Agent under the Finance Documents.
- (c) The appointment of the successor Administrative Agent shall take effect on the date specified in the notice from the Majority Participating Banks to the retiring Administrative Agent. As from this date, the retiring Administrative Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 29 (and any agency fees for the account of the retiring Administrative Agent shall cease to accrue from (and shall be payable on) that date).
- (d) Any successor Administrative Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

29.13 Confidentiality

- (a) In acting as Administrative Agent for the Finance Parties, the Administrative Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.
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- (b) If information is received by another division or department of the Administrative Agent, it may be treated as confidential to that division or department and the Administrative Agent shall not be deemed to have notice of it.
- (c) Notwithstanding any other provision of any Finance Document to the contrary, neither the Administrative Agent nor any Arranger is obliged to disclose to any other person (i) any confidential information or (ii) any other information if the disclosure would or might in its reasonable opinion constitute a breach of any law or a breach of a fiduciary duty.

29.14 Relationship with the Participating Banks

- (a) The Administrative Agent may treat each Participating Bank as a Participating Bank, entitled to payments under this Agreement and acting through its Facility Office unless it has received not less than five Business Days' prior notice from that Participating Bank to the contrary in accordance with the terms of this Agreement.
- (b) Each Participating Bank shall supply the Administrative Agent with any information required by the Administrative Agent in order to calculate the Mandatory Cost in accordance with Schedule 5 (*Mandatory Cost Formula*).
- (c) Any Participating Bank may by notice to the Administrative Agent appoint a person to receive on its behalf all notices, communications, information and documents to be made or dispatched to that Participating Bank under the Finance Documents. Such notice shall contain the address, fax number and (where communication by electronic mail or other electronic means is permitted under Clause 34.6 (*Electronic communication*)) electronic mail address and/or any other information required to enable the sending and receipt of information by that means (and, in each case, the department or officer, if any, for whose attention communication is to be made) and be treated as a notification of a substitute address, fax number, electronic mail address, department and officer by that Participating Bank for the purposes of Clause 34.2 (*Addresses*) and paragraph (a)(iii) of Clause 34.6 (*Electronic communication*) and the Administrative Agent shall be entitled to treat such person as the person entitled to receive all such notices, communications, information and documents as though that person were that Participating Bank.

29.15 Credit appraisal by the Participating Banks and the Issuing Bank

Without affecting the responsibility of any Obligor for information supplied by it or on its behalf in connection with any Finance Document, each Participating Bank and the Issuing Bank confirms to the Administrative Agent, the Arranger and the Issuing Bank that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- (a) the financial condition, status and nature of each member of the Flowserve Group;
 - (b) the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
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- (c) whether that Finance Party has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- (d) the adequacy, accuracy and/or completeness of any information provided by the Administrative Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

29.16 Administrative Agent's management time

Any amount payable to the Administrative Agent under Clause 19.4 (*Indemnity to the Administrative Agent*), Clause 21 (*Costs and Expenses*) and Clause 29.10 (*Participating Banks' indemnity to the Administrative Agent*) shall include the cost of utilising the Administrative Agent's management time or other resources and will be calculated on the basis of such reasonable and documented daily or hourly rates as the Administrative Agent may notify to the Company and the Participating Banks, and is in addition to any fee paid or payable to the Administrative Agent under Clause 16 (*Fees*).

29.17 Deduction from amounts payable by the Administrative Agent

If any Party owes an amount to the Administrative Agent under the Finance Documents the Administrative Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Administrative Agent would otherwise be obliged to make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

29.18 Reliance and engagement letters

Each Finance Party confirms that each of the Arranger and the Administrative Agent has authority to accept on its behalf (and ratifies the acceptance on its behalf of any letters or reports already accepted by the Arranger or Administrative Agent) the terms of any reliance letter or engagement letters relating to any reports or letters provided by accountants in connection with the Finance Documents or the transactions contemplated in the Finance Documents and to bind it in respect of those reports or letters and to sign such letters on its behalf and further confirms that it accepts the terms and qualifications set out in such letters.

30. CONDUCT OF BUSINESS BY THE FINANCE PARTIES

No provision of this Agreement will:

- (a) interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- (b) oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- (c) oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

31. SHARING AMONG THE FINANCE PARTIES

31.1 Payments to Finance Parties

If a Finance Party (a “**Recovering Finance Party**”) receives or recovers any amount from an Obligor (including following a set-off) other than in accordance with Clause 32 (*Payment Mechanics*) and applies that amount to a payment due under the Finance Documents then:

- (a) the Recovering Finance Party shall, within three Business Days, notify details of the receipt or recovery, to the Administrative Agent;
- (b) the Administrative Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received or made by the Administrative Agent and distributed in accordance with Clause 32 (*Payment Mechanics*), without taking account of any Tax which would be imposed on the Administrative Agent in relation to the receipt, recovery or distribution; and
- (c) the Recovering Finance Party shall, within three Business Days of demand by the Administrative Agent, pay to the Administrative Agent an amount (the “**Sharing Payment**”) equal to such receipt or recovery less any amount which the Administrative Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 32.6 (*Partial payments*).

31.2 Redistribution of payments

The Administrative Agent shall treat the Sharing Payment as if it had been paid by the relevant Obligor and distribute it between the Finance Parties (other than the Recovering Finance Party) in accordance with Clause 32.6 (*Partial payments*).

31.3 Recovering Finance Party’s rights

- (a) On a distribution by the Administrative Agent under Clause 31.2 (*Redistribution of payments*), the Recovering Finance Party will be subrogated to the rights of the Finance Parties which have shared in the redistribution which Finance Parties agree that they will in that connection waive the benefit of article 1252 of the French *Code civil*.
- (b) If and to the extent that the Recovering Finance Party is not able to rely on its rights under paragraph (a) above, the relevant Obligor shall be liable to the Recovering Finance Party for a debt equal to the Sharing Payment which is immediately due and payable.

31.4 Reversal of redistribution

If any part of the Sharing Payment received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

- (a) each Finance Party which has received a share of the relevant Sharing Payment pursuant to Clause 31.2 (*Redistribution of payments*) shall, upon request of the Administrative Agent, pay to the Administrative Agent for the account of that Recovering

Finance Party an amount equal to the

appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment which that Recovering Finance Party is required to pay); and

- (b) that Recovering Finance Party's rights of subrogation in respect of any reimbursement shall be cancelled and the relevant Obligor will be liable to the reimbursing Finance Party for the amount so reimbursed.

31.5 Exceptions

- (a) This Clause 31 shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the relevant Obligor.
- (b) A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of taking legal (including for the avoidance of doubt an insolvency legal proceedings against an Obligor) or arbitration proceedings, if:
 - (i) it notified the other Finance Party of the legal or arbitration proceedings; and
 - (ii) the other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice and did not take separate legal or arbitration proceedings.

SECTION 8 - ADMINISTRATION

32. PAYMENT MECHANICS

32.1 Payments to the Administrative Agent

- (a) On each date on which an Obligor or a Participating Bank is required to make a payment under a Finance Document, that Obligor or Participating Bank shall make the same available to the Administrative Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Administrative Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (b) Payment shall be made to such account in the principal financial centre of the country of that currency (or, in relation to euro, in a principal financial centre in a Participating Member State or London) with such bank as the Administrative Agent specifies.

32.2 Distributions by the Administrative Agent

- (a) Except as otherwise provided in this Agreement, the Administrative Agent agrees that promptly after its receipt of each payment from or on behalf of any LG User in respect of any of the obligations hereunder (principal, interest and other sums) (the "**Obligations**"), the Administrative Agent shall distribute such payment to the Participating Banks entitled thereto (other than any Participating Bank that has consented in writing to waive its pro rata share of any such payment) pro rata based upon their respective shares, if any, of the Obligations with respect to which such payment was received.

- (b) Each payment received by the Administrative Agent under the Finance Documents for another Party shall, subject to Clause 32.3 (*Distributions to an Obligor*) and Clause 32.4 (*Clawback*) be made available by the Administrative Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement (in the case of a Participating Bank, for the account of its Facility Office), to such account as that Party may notify to the Administrative Agent by not less than five Business Days' notice with a bank in the principal financial centre of the country of that currency (or, in relation to euro, in the principal financial centre of a Participating Member State or London).
- (c) Notwithstanding anything to the contrary contained herein, the provisions of the preceding paragraph (a) shall be subject to the express provisions of this Agreement which require, or permit, differing payments to be made to Participating Banks which are not Defaulting Participating Banks as opposed to Defaulting Participating Banks.

32.3 Distributions to an Obligor

The Administrative Agent may (with the consent of the Obligor or in accordance with Clause 33 (*Set-Off*)) apply any amount received by it for that Obligor in or towards payment (on the date and in the currency and funds of receipt) of any amount due from that Obligor under the Finance Documents or in or towards purchase of any amount of any currency to be so applied.

32.4 Clawback

- (a) Where a sum is to be paid to the Administrative Agent under the Finance Documents for another Party, the Administrative Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.
- (b) If the Administrative Agent pays an amount to another Party and it proves to be the case that the Administrative Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Administrative Agent shall on demand refund the same to the Administrative Agent together with interest on that amount from the date of payment to the date of receipt by the Administrative Agent, calculated by the Administrative Agent to reflect its cost of funds.

32.5 Impaired Administrative Agent

- (a) If, at any time, the Administrative Agent becomes an Impaired Administrative Agent, an Obligor or a Participating Bank which is required to make a payment under the Finance Documents to the Administrative Agent in accordance with Clause 32.1 (*Payments to the Administrative Agent*) may instead either pay that amount directly to the required recipient or pay that amount to an interest-bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Obligor or the Participating Bank making the payment and designated as an account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
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- (b) All interest accrued on the amount standing to the credit of the account shall be for the benefit of the beneficiaries of that account pro rata to their respective entitlements.
- (c) A Party which has made a payment in accordance with this Clause 32.5 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the account.
- (d) Promptly upon the appointment of a successor Administrative Agent in accordance with Clause 29.12 (*Replacement of the Administrative Agent*), each Party which has made a payment to an account in accordance with this Clause 32.5 shall give all requisite instructions to the bank with whom such account is held to transfer the amount (together with any accrued interest) to the successor Administrative Agent for distribution in accordance with Clause 32.2 (*Distributions by the Administrative Agent*).

32.6 Partial payments

- (a) If the Administrative Agent receives a payment for application against amounts due in respect of any Finance Documents that is insufficient to discharge all the amounts then due and payable by an Obligor under those Finance Documents, the Administrative Agent shall apply that payment towards the obligations of that Obligor under those Finance Documents in the following order:
 - (i) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Agent and the Issuing Bank under those Finance Documents;
 - (ii) **secondly**, in or towards payment pro rata of any accrued interest, other fee or commission due but unpaid under those Finance Documents;
 - (iii) **thirdly**, in or towards payment pro rata of any principal due but unpaid under those Finance Documents and any amount due but unpaid under Clause 10 (*Claim Under a Letter of Credit*) and Clause 10.4 (*Indemnities*); and
 - (iv) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- (b) The Administrative Agent shall, if so directed by the Majority Participating Banks, vary the order set out in paragraphs (a)(ii) to (iv) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by an Obligor.

32.7 No set-off by Obligor

All payments to be made by an Obligor under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

32.8 Business Days

- (a) Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar Month (if there is one) or the preceding Business Day (if there is not).
- (b) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

32.9 Currency of account

- (a) Subject to paragraphs (b) to (e) below, euro is the currency of account and payment for any sum due from an Obligor under any Finance Document.
- (b) A repayment of a Letter of Credit or Unpaid Sum or a part of a Letter of Credit or Unpaid Sum shall be made in the currency in which that Letter of Credit or Unpaid Sum is denominated on its due date.
- (c) Each payment of interest and fee in respect of a Letter of Credit shall be made in the currency in which the sum in respect of which the interest or fee is payable was denominated when that interest or fee accrued.
- (d) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- (e) Any amount expressed to be payable in a currency other than euro shall be paid in that other currency.

32.10 Change of currency

- (a) Unless otherwise prohibited by law, if more than one currency or currency unit are at the same time recognised by the central bank of any country as the lawful currency of that country, then:
 - (i) any reference in the Finance Documents to, and any obligations arising under the Finance Documents in, the currency of that country shall be translated into, or paid in, the currency or currency unit of that country designated by the Administrative Agent (after consultation with the Company); and
 - (ii) any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Administrative Agent (acting reasonably).
- (b) If a change in any currency of a country occurs, this Agreement will, to the extent the Administrative Agent (acting reasonably and after consultation with the Company) specifies to be necessary, be amended to comply with any generally accepted conventions and market practice in the Relevant Interbank Market and otherwise to reflect the change in currency.

32.11 Disruption to Payment Systems etc.

If either the Administrative Agent determines (in its discretion) that a Disruption Event has occurred or the Administrative Agent is notified by the Company that a Disruption Event has occurred:

- (a) the Administrative Agent may, and shall if requested to do so by the Company, consult with the Company with a view to agreeing with the Company such changes to the operation or administration of the Facility as the Administrative Agent may deem necessary in the circumstances;
- (b) the Administrative Agent shall not be obliged to consult with the Company in relation to any changes mentioned in paragraph (a) if, in its opinion, it is not practicable to do so in the circumstances and, in any event, shall have no obligation to agree to such changes;
- (c) the Administrative Agent may consult with the Finance Parties in relation to any changes mentioned in paragraph (a) but shall not be obliged to do so if, in its opinion, it is not practicable to do so in the circumstances;
- (d) any such changes agreed upon by the Administrative Agent and the Company shall (whether or not it is finally determined that a Disruption Event has occurred) be binding upon the Parties as an amendment to (or, as the case may be, waiver of) the terms of the Finance Documents notwithstanding the provisions of Clause 38 (*Amendments and Waivers*);
- (e) the Administrative Agent shall not be liable for any damages, costs or losses whatsoever (including, without limitation for negligence, gross negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Administrative Agent) arising as a result of its taking, or failing to take, any actions pursuant to or in connection with this Clause 32.11; and
- (f) the Administrative Agent shall notify the Finance Parties of all changes agreed pursuant to paragraph (d) above.

33. SET-OFF

A Finance Party may set off any matured obligation due from an Obligor under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

34. NOTICES

34.1 Communications in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

34.2 Addresses

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

- (a) in the case of the Company, that identified with its name below;

- (b) in the case of each Participating Bank, the Issuing Bank or any other Obligor, that notified in writing to the Administrative Agent on or prior to the date on which it becomes a Party; and
- (c) in the case of the Administrative Agent, that identified with its name below,

or any substitute address, fax number or department or officer as the Party may notify to the Administrative Agent (or the Administrative Agent may notify to the other Parties, if a change is made by the Administrative Agent) by not less than five Business Days' notice.

34.3 Delivery

- (a) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:
 - (i) if by way of fax, when received in legible form; or
 - (ii) if by way of letter, when it has been left at the relevant address or five Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address,

and, if a particular department or officer is specified as part of its address details provided under Clause 34.2 (*Addresses*), if addressed to that department or officer.

- (b) Any communication or document to be made or delivered to the Administrative Agent will be effective only when actually received by the Administrative Agent and then only if it is expressly marked for the attention of the department or officer identified with the Administrative Agent's signature below (or any substitute department or officer as the Administrative Agent shall specify for this purpose).
- (c) All notices from or to an Obligor shall be sent through the Administrative Agent.
- (d) Any communication or document made or delivered to the Company in accordance with this Clause 34.3 will be deemed to have been made or delivered to each of the Obligors.

34.4 Notification of address and fax number

Promptly upon receipt of notification of an address or fax number or change of address or fax number pursuant to Clause 34.2 (*Addresses*) or changing its own address or fax number, the Administrative Agent shall notify the other Parties.

34.5 Communication when Administrative Agent is Impaired Administrative Agent

If the Administrative Agent is an Impaired Administrative Agent the Parties may, instead of communicating with each other through the Administrative Agent, communicate with each other directly and (while the Administrative Agent is an Impaired Administrative Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Administrative Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall

not operate after a replacement Administrative Agent has been appointed.

34.6 Electronic communication

- (a) Any communication to be made between the Administrative Agent and a Participating Bank under or in connection with the Finance Documents may be made by electronic mail or other electronic means, if the Administrative Agent and the relevant Participating Bank:
 - (i) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;
 - (ii) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and
 - (iii) notify each other of any change to their address or any other such information supplied by them.
- (b) Any electronic communication made between the Administrative Agent and a Participating Bank will be effective only when actually received in readable form and in the case of any electronic communication made by a Participating Bank to the Administrative Agent only if it is addressed in such a manner as the Administrative Agent shall specify for this purpose.

34.7 Use of websites

- (a) The Company may satisfy its obligation under this Agreement to deliver any information in relation to those Participating Banks (the “Website Participating Banks”) who accept this method of communication by posting (through the Administrative Agent) this information onto an electronic website designated by the Company and the Administrative Agent (the “Designated Website”) if:
 - (i) the Administrative Agent expressly agrees (after consultation with each of the Participating Banks) that it will accept communication of the information by this method;
 - (ii) both the Company and the Administrative Agent are aware of the address of and any relevant password specifications for the Designated Website; and
 - (iii) the information is in a format previously agreed between the Company and the Administrative Agent.

If any Participating Bank (a “**Paper Form Participating Bank**”) does not agree to the delivery of information electronically then the Administrative Agent shall notify the Company accordingly and the Company shall at its own cost supply the information to the Administrative Agent (in sufficient copies for each Paper Form Participating Bank) in paper form. In any event the Company shall at its own cost supply the Administrative Agent with at least one copy in paper form of any information required to be provided by it.

- (b) The Administrative Agent shall supply each Website Participating Bank with the address of and any relevant password specifications for the Designated Website following designation of that website by the Company and the Administrative Agent.
- (c) The Company shall promptly upon becoming aware of its occurrence notify the Administrative Agent if:

- (i) the Designated Website cannot be accessed due to technical failure;
- (ii) the password specifications for the Designated Website change;
- (iii) any new information which is required to be provided under this Agreement is posted onto the Designated Website;
- (iv) any existing information which has been provided under this Agreement and posted onto the Designated Website is amended; or
- (v) the Company becomes aware that the Designated Website or any information posted onto the Designated Website is or has been infected by any electronic virus or similar software.

If the Company notifies the Administrative Agent under paragraph (c)(i) or paragraph (c)(v) above, all information to be provided by the Company under this Agreement after the date of that notice shall be supplied in paper form unless and until the Administrative Agent and each Website Participating Bank is satisfied that the circumstances giving rise to the notification are no longer continuing.

- (d) Any Website Participating Bank may request, through the Administrative Agent, one paper copy of any information required to be provided under this Agreement which is posted onto the Designated Website. The Company shall at its own cost comply with any such request within ten Business Days.

34.8 English language

- (a) Any notice given under or in connection with any Finance Document must be in English.
- (b) All other documents provided under or in connection with any Finance Document must be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Administrative Agent, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

35. CALCULATIONS AND CERTIFICATES

35.1 Accounts

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Finance Party are *prima facie* evidence of the matters to which they relate.

35.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

35.3 Day count convention

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days or, in any case where the practice in the Relevant Interbank Market differs, in accordance with that market practice.

36. PARTIAL INVALIDITY

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

37. REMEDIES AND WAIVERS

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

38. AMENDMENTS AND WAIVERS

38.1 Required consents

- (a) Subject to Clauses 38.2 (*Technical Amendments*) and 38.3 (*Exceptions*), any term of the Finance Documents may be amended or waived only with the consent of the Majority Participating Banks and the Company and any such amendment or waiver will be binding on all Parties.
- (b) The Administrative Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause 38.
- (c) Each Obligor agrees to any such amendment or waiver permitted by this Clause 38 which is agreed to by the Company. This includes any amendment or waiver which would, but for this paragraph (c), require the consent of an Obligor.

38.2 Technical Amendments

Notwithstanding the provisions of this Clause 38 but subject to Clause 29.1(b), the Administrative Agent may without consulting the Participating Banks, decide upon purely administrative matters and, without referring to the Participating Banks, enter into amendments of a purely technical nature to fix errors which are manifest upon reading this Agreement.

38.3 Exceptions

- (a) An amendment or waiver that has the effect of changing or which relates to:
 - (i) the definition of “Majority Participating Banks” in Clause 1.1 (*Definitions*);

- (ii) the definition of “Availability Period” in Clause 1.1 (*Definitions*);
-

- (iii) the definition of “Maturity Date” in Clause 1.1 (*Definitions*);
- (iv) a waiver of any payment default by an Obligor under the Finance Documents or the release of an Obligor of its payments obligations under the Finance Documents other than in accordance with this Agreement;
- (v) an extension to the date of payment of any amount under the Finance Documents or the Term of any Letter of Credit;
- (vi) a reduction in the amount of any payment of principal, interest, fees or commission payable under the Finance Documents;
- (vii) a change in currency of payment of any amount under the Finance Documents;
- (viii) an increase in or an extension of any Commitment or the Total Commitment;
- (ix) a change to the LG Users or Guarantor other than in accordance with Clause 28 (*Changes to the Obligors*);
- (x) any provision which expressly requires the consent of all the Participating Banks;
- (xi) Clause 27 (*Changes to the Participating Banks*), Clause 31 (*Sharing among the Finance Parties*) or this Clause 38 (*Amendments and Waivers*);

shall not be made without the prior consent of all the Participating Banks.

- (b) An amendment or waiver which relates to the rights or obligations of the Administrative Agent, the Arranger and the Issuing Bank (each in their capacity as such) may not be effected without the consent of the Administrative Agent, the Arranger or the Issuing Bank.

38.4 Replacement of Participating Banks

- (a) If at any time:
 - (i) any Participating Bank becomes a Non-Consenting Participating Bank (as defined in paragraph (c) below); or
 - (ii) an Obligor becomes obliged to repay any amount in accordance with Clause 13.1 (*Illegality*) or to pay additional amounts pursuant to Clause 18.1 (*Increased costs*) or Clause 17.2 (*Tax gross-up*) to any Participating Bank in excess of amounts payable to the other Participating Banks generally,

then the Company may, on five (5) Business Days' prior written notice to the Administrative Agent and such Participating Bank, replace such Participating Bank by requiring such Participating Bank to (and such Participating Bank shall) transfer pursuant to Clause 27 (*Changes to the Participating Banks*) all (and not part only) of its rights and obligations under this Agreement to a Participating Bank or other bank, financial institution, trust, fund or other entity (a “**Replacement Participating Bank**”) selected by the Company, and which is an Acceptable Bank, and is acceptable to the Administrative Agent and the Issuing Bank

(acting reasonably), which confirms its willingness to

assume and does assume all the obligations of the transferring Participating Bank (including the assumption of the transferring Participating Bank's participations on the same basis as the transferring Participating Bank including in respect of outstanding Letters of Credit) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Participating Bank's participation in the payments made by the Participating Bank hereunder and not yet refunded to it, together with all accrued interest and/or Letter of Credit fees and other amounts payable in relation thereto under the Finance Documents.

- (b) The replacement of a Participating Bank pursuant to this Clause shall be subject to the following conditions:
 - (i) the Company shall have no right to replace the Administrative Agent;
 - (ii) neither the Administrative Agent nor the Participating Bank shall have any obligation to the Company to find a Replacement Participating Bank;
 - (iii) in the event of a replacement of a Non-Consenting Participating Bank such replacement must take place no later than fifteen (15) Business Days after the date the Non-Consenting Participating Bank notifies the Company and the Administrative Agent of its failure or refusal to give a consent in relation to, or agree to any waiver or amendment to the Finance Documents requested by the Company; and
 - (iv) in no event shall the Participating Bank replaced under this paragraph (b) be required to pay or surrender to such Replacement Participating Bank any of the fees received by such Participating Bank pursuant to the Finance Documents.
- (c) In the event that:
 - (i) the Company or the Administrative Agent (at the request of the Company) has requested the Participating Banks to give a consent in relation to, or to agree to a waiver or amendment of, any provisions of the Finance Documents;
 - (ii) the consent, waiver or amendment in question requires the approval of all the Participating Banks; and
 - (iii) Participating Banks whose Commitments aggregate more than 76 per cent. of the Total Commitment (or, if the Total Commitment have been reduced to zero, whose participations in the outstanding Utilisations aggregated more than 76 per cent. of the Total Commitment immediately prior to that reduction) have consented or agreed to such waiver or amendment,

then any Participating Bank who does not and continues not to consent or agree to such waiver or amendment shall be deemed a **“Non-Consenting Participating Bank”**.

38.5 Disenfranchisement of Defaulting Participating Banks

- (a) For so long as a Defaulting Participating Bank has any Available Commitment, in ascertaining the Majority Participating Banks or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitment has been obtained to approve any request for a consent, waiver,

amendment or other vote under the Finance Documents, that Defaulting Participating Bank's Commitments will be reduced by the amount of its Available Commitments.

- (b) For the purposes of this Clause 38.4, the Administrative Agent may assume that the following Participating Banks are Defaulting Participating Banks:
- (i) any Participating Bank which has notified the Administrative Agent that it has become a Defaulting Participating Bank;
 - (ii) any Participating Bank in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b), (c) or (d) of the definition of "Defaulting Participating Bank" has occurred,

unless it has received notice to the contrary from the Participating Bank concerned (together with any supporting evidence reasonably requested by the Administrative Agent) or the Administrative Agent is otherwise aware that the Participating Bank has ceased to be a Defaulting Participating Bank

38.6 Replacement of a Non-Acceptable Participating Bank

- (a) The Administrative Agent may, at any time a Participating Bank has become and continues to be a Non-Acceptable Participating Bank, by giving five (5) Business Days' prior written notice (if it is a Defaulting Participating Bank) and 60 days' prior written notice (if it is not a Defaulting Participating Bank) to such Participating Bank and the Company:
- (i) replace such Participating Bank by requiring such Participating Bank to (and such Participating Bank shall) transfer pursuant to Clause 27 (Changes to the Participating Banks) all (and not part only) of its rights and obligations under this Agreement;
 - (ii) require such Participating Bank to (and such Participating Bank shall) transfer pursuant to Clause 27 (*Changes to the Participating Banks*) all (and not part only) of the Available Commitment of that Participating Bank ; or
 - (iii) require such Participating Bank to (and such Participating Bank shall) transfer pursuant to Clause 27 (*Changes to the Participating Banks*) all (and not part only) of its rights and obligations in respect of the Facility,

to a Participating Bank or other bank, financial institution, trust, fund or other entity (a "**Replacement Participating Bank**") selected by the Company, which is an Acceptable Bank and which is acceptable to the Issuing Bank (acting reasonably), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Participating Bank (including the assumption of the transferring Participating Bank's participations or unfunded participations (as the case may be) on the same basis as the transferring Participating Bank including in respect of outstanding Letters of Credit) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Participating Bank's participation in the payments made by the Participating Bank hereunder and not yet refunded to it, together with all accrued interest and/or Letter of Credit fees and other amounts payable in relation thereto under the Finance Documents.

- (b) Any transfer of rights and obligations of a Non-Acceptable Participating Bank pursuant to this Clause shall be subject to the following conditions:
- (i) the transfer must take place no later than ten (10) Business Days' after the relevant notice referred to in paragraph (a) above; and
 - (ii) in no event shall the Non-Acceptable Participating Bank be required to pay or surrender to the Replacement Participating Bank any of the fees received by the Non-Acceptable Participating Bank pursuant to the Finance Documents.

39. CONFIDENTIALITY

39.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 39.2 (*Disclosure of Confidential Information*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

39.2 Disclosure of Confidential Information

Any Finance Party may disclose:

- (a) to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;
- (b) to any person:
 - (i) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (ii) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or one or more Obligors and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (iii) appointed by any Finance Party or by a person to whom paragraph (b)(i) or (ii) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf (including, without limitation, any person appointed under paragraph (d) of Clause 29.14 (*Relationship with the Participating Banks*));

- (iv) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in paragraph (b)(i) or (ii) above;
- (v) to whom information is required or requested to be disclosed by any court of competent jurisdiction, governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any Applicable Law;
- (vi) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates Security (or may do so) pursuant to Clause 27.7 (*Security on Participating Banks' rights*);
- (vii) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (viii) who is a Party; or
- (ix) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (A) in relation to paragraphs (b)(i), (b)(ii) and b(iii) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (B) in relation to paragraph (b)(iv) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (C) in relation to paragraphs (b)(v), (b)(vi) and (b)(vii) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances.

39.3 Entire agreement

This Clause 39 (*Confidentiality*) constitutes the entire agreement between the Parties in relation to the obligations of the Finance Parties under the Finance Documents regarding Confidential Information and supersedes any previous agreement, whether express or implied, regarding Confidential Information.

SECTION 9 - GOVERNING LAW AND ENFORCEMENT

40. GOVERNING LAW

This Agreement is governed by French law.

41. ENFORCEMENT - JURISDICTION OF FRENCH COURTS

- (a) Subject to paragraph (b) below, the *Tribunal de Commerce* of Paris has exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute relating to the existence, validity or termination of this Agreement) (a “**Dispute**”).
- (b) Paragraph (a) above is for the benefit of the Finance Parties only. As a result, no Finance Party shall be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

42. ELECTION OF DOMICILE

Without prejudice to any other mode of service allowed under any relevant law, each Obligor (other than an Obligor otherwise domiciled in France) irrevocably elects domicile at c/o Flowserve Pompes SAS, 13 rue Maurice Trintignant, 72234 Arnage, France, for the purpose of serving any judicial or extra-judicial documents in relation to any action or proceedings referred to above.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

SIGNATURES

THE COMPANY

FLOWSERVE CORPORATION

By: _____

Dean P. Freeman

Title: Vice President – Treasurer

THE LG USERS

FLOWSERVE CORPORATION

By: _____

Dean P. Freeman

Title: Vice President – Treasurer

FLOWSERVE HAMBURG GMBH

By: _____

John M. Nanos

Title: Director

FLOWSERVE POMPES S.A.S.

By: _____

John M. Nanos

Title: Director

FLOWSERVE GB LIMITED

By: _____

John M. Nanos

Duly authorized for and on behalf of Flowserve GB Limited

Title: Director

WORTHINGTON S.R.L.

By: _____

John M. Nanos

Title: Director

FLOWSERVE SPAIN S.L.U.

By: _____

John M. Nanos

Title: Sole Administrator

FLOWSERVE B.V.

By: _____

John M. Nanos

THE GUARANTOR

FLOWSERVE CORPORATION

By: _____
Dean P. Freeman

Title: Vice President – Treasurer

THE ARRANGER

Calyon

By: Agnès Huret

Title: Relationship Manager

By: Frédéric Desfossez

Title: Head of Calyon West Pole

THE ADMINISTRATIVE AGENT

Calyon

By: Agnès Huret

Title: Relationship Manager

By: Frédéric Desfossez

Title: Head of Calyon West Pole

THE ISSUING BANK

Calyon

By: Agnès Huret

Title: Relationship Manager

By: Frédéric Desfossez

Title: Head of Calyon West Pole

THE ORIGINAL PARTICIPATING BANKS

Calyon

By: Agnès Huret

Title: Relationship Manager

By: Frédéric Desfossez

Title: Head of Calyon West Pole

BBVA

By: Stephane Possot

Title:

Deutsche Bank AG, Paris Branch

By: Christophe Baumann

Title:

By: Inge François

Title:

Lloyds TSB Bank plc

By: Gareth Narinesingh

Title:

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark A. Blinn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2012 of Flowserve Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2012

/s/ Mark A. Blinn

Mark A. Blinn

President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael S. Taff, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2012 of Flowserve Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the consolidated financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2012

/s/ Michael S. Taff

Michael S. Taff

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark A. Blinn, President and Chief Executive Officer of Flowserve Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Quarterly Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Quarterly Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: October 29, 2012

/s/ Mark A. Blinn

Mark A. Blinn

President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael S. Taff, Senior Vice President and Chief Financial Officer of Flowserve Corporation (the “Company”), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Quarterly Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Quarterly Report fairly presents, in all material respects, the consolidated financial condition and results of operations of the Company.

Date: October 29, 2012

/s/ Michael S. Taff

Michael S. Taff

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

