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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K

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

For the fiscal year ended December 31, 2014

Commission file number 0-1402

### LINCOLN ELECTRIC HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

|                                                                   |                                      |
|-------------------------------------------------------------------|--------------------------------------|
| Ohio                                                              | 34-1860551                           |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer Identification No.) |
| 22801 St. Clair Avenue, Cleveland, Ohio                           | 44117                                |
| (Address of principal executive offices)                          | (Zip Code)                           |
| (216) 481-8100                                                    |                                      |
| (Registrant's telephone number, including area code)              |                                      |

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

|                                  |                                             |
|----------------------------------|---------------------------------------------|
| Common Shares, without par value | The NASDAQ Stock Market LLC                 |
| (Title of each class)            | (Name of each exchange on which registered) |

#### Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☐

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

☒ 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 ☒

The aggregate market value of the common shares held by non-affiliates as of June 30, 2014 was \$5,428,273,439 (affiliates, for this purpose, have been deemed to be Directors and Executive Officers of the Company and certain significant shareholders).

The number of shares outstanding of the registrant's common shares as of December 31, 2014 was 76,997,161.

#### DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement with respect to the registrant's 2015 Annual Meeting of Shareholders.

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## **PART I**

### **ITEM 1. BUSINESS**

#### **General**

As used in this Annual Report on Form 10-K, the term "Company," except as otherwise indicated by the context, means Lincoln Electric Holdings, Inc. and its wholly-owned and majority-owned subsidiaries for which it has a controlling interest. The Lincoln Electric Company began operations in 1895 and was incorporated under the laws of the State of Ohio in 1906. During 1998, The Lincoln Electric Company reorganized into a holding company structure, and Lincoln Electric Holdings, Inc. became the publicly-held parent of Lincoln Electric subsidiaries worldwide, including The Lincoln Electric Company.

The Company is one of only a few worldwide broad-line manufacturers of welding, cutting and brazing products. Welding products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes and fluxes. The Company's product offering also includes computer numeric controlled ("CNC") plasma and oxy-fuel cutting systems and regulators and torches used in oxy-fuel welding, cutting and brazing. In addition, the Company has a leading global position in the brazing and soldering alloys market.

The arc welding power sources and wire feeding systems manufactured by the Company range in technology from basic units used for light manufacturing and maintenance to highly sophisticated robotic applications for high volume production welding and fabrication. Three primary types of arc welding electrodes are produced: (1) coated manual or stick electrodes; (2) solid electrodes produced in coil, reel or drum forms for continuous feeding in mechanized welding; and (3) cored electrodes produced in coil form for continuous feeding in mechanized welding.

The Company has, through wholly-owned subsidiaries or joint ventures, manufacturing facilities located in the United States, Brazil, Canada, China, Colombia, France, Germany, India, Indonesia, Italy, Mexico, the Netherlands, Poland, Portugal, Russia, Turkey, the United Kingdom and Venezuela.

The Company has aligned its business units into five operating segments to enhance the utilization of the Company's worldwide resources and global end user and sourcing initiatives. The operating segments consist of North America Welding, Europe Welding, Asia Pacific Welding, South America Welding and The Harris Products Group. The North America Welding segment includes welding operations in the United States, Canada and Mexico. The Europe Welding segment includes welding operations in Europe, Russia, Africa and the Middle East. The Asia Pacific Welding segment primarily includes welding operations in China and Australia. The South America Welding segment primarily includes welding operations in Brazil, Colombia and Venezuela. The Harris Products Group includes the Company's global cutting, soldering and brazing businesses as well as the retail business in the United States. See Note 5 to the Company's consolidated financial statements for segment and geographic area information, which is incorporated herein by reference.

#### **Customers**

The Company's products are sold in both domestic and international markets. In North America, products are sold principally through industrial distributors, retailers and also directly to users of welding products. Outside of North America, the Company has an international sales organization comprised of Company employees and agents who sell products from the Company's various manufacturing sites to distributors and product users.

The Company's major end-user markets include:

- general metal fabrication,
- power generation and process industry,
- structural steel construction (buildings and bridges),
- heavy equipment fabrication (farming, mining and rail),
- shipbuilding,
- automotive,
- pipe mills and pipelines, and
- offshore oil and gas exploration and extraction.

The Company is not dependent on a single customer or a few customers and no individual customer currently accounts for more than ten percent of total Net sales. However, the loss of a large customer could have an adverse effect on the Company's business. The Company's operating results are sensitive to changes in general economic conditions. The arc welding and cutting industry is generally a mature industry in developed markets such as North America and Western Europe and is cyclical in nature. Overall demand for arc welding and cutting products is largely determined by economic cycles and the level of capital spending in manufacturing and other industrial sectors. The Company experiences some variability in reported period-to-period results as demand for the Company's products are mildly seasonal with generally higher demand in the second and third quarters. See "Item 1A. Risk Factors" for further discussion regarding risks associated with customers, general economic conditions and demand.

### **Competition**

Conditions in the arc welding and cutting industry are highly competitive. The Company believes it is the world's largest manufacturer of consumables and equipment with relatively few major broad-line competitors worldwide, but numerous smaller competitors in specific geographic markets. The Company continues to pursue strategies to heighten its competitiveness in domestic and international markets, which includes positioning low cost manufacturing facilities in most geographical markets. Competition in the arc welding and cutting industry is based on brand preference, product quality, price, performance, warranty, delivery, service and technical support. The Company believes its performance against these factors has contributed to the Company's position as the leader in the industry.

Most of the Company's products may be classified as standard commercial articles and are manufactured for stock. The Company believes it has a competitive advantage in the marketplace because of its highly trained technical sales force and the support of its welding research and development staff to assist customers in optimizing their welding applications. This allows the Company to introduce its products to new users and to establish and maintain close relationships with its customers. This close relationship between the technical sales force and the direct customers, together with its supportive relationship with its distributors, who are particularly interested in handling the broad range of the Company's products, is an important element of the Company's market success and a valuable asset of the Company.

### **Raw Materials**

The principal raw materials essential to the Company's business are steel, electronic components, engines, brass, copper, silver, aluminum alloys and various chemicals, all of which are normally available for purchase in the open market.

### **Patents and Trademarks**

The Company holds many valuable patents, primarily in arc welding, and has increased the application process as research and development has progressed in both the United States and major international jurisdictions. The Company believes its trademarks are an important asset and aggressively pursues brand management.

### **Environmental Regulations**

The Company's facilities are subject to environmental regulations. To date, compliance with these environmental regulations has not had a material adverse effect on the Company's earnings. The Company is ISO 14001 certified at most significant manufacturing facilities in North America and Europe and is progressing towards certification at its remaining facilities worldwide. In addition, the Company is ISO 9001 certified at 37 facilities worldwide.

### **International Operations**

The Company conducts a significant amount of its business and has a number of operating facilities in countries outside the United States. As a result, the Company is subject to business risks inherent to non-U.S. activities, including political uncertainty, import and export limitations, exchange controls and currency fluctuations.

### **Research and Development**

Research activities, which the Company believes provide a competitive advantage, relate to the development of new products and the improvement of existing products. Research activities are Company-sponsored. Refer to Note 1 to the Company's consolidated financial statements with respect to total costs of research and development, which is incorporated herein by reference.

### **Employees**

The number of persons employed by the Company worldwide at December 31, 2014 was approximately 10,000. See "Part I, Item 1C" for information regarding the Company's executive officers, which is incorporated herein by reference.

## Website Access

The Company's website, [www.lincolnelectric.com](http://www.lincolnelectric.com), is used as a channel for routine distribution of important information, including news releases and financial information. The Company posts its filings as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC, including annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K; proxy statements; and any amendments to those reports or statements. The Company also posts its Code of Corporate Conduct and Ethics on its website. All such postings and filings are available on the Company's website free of charge. In addition, this website allows investors and other interested persons to sign up to automatically receive e-mail alerts when news releases and financial information is posted on the website. The SEC also maintains a website, [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The content on any website referred to in this Annual Report on Form 10-K is not incorporated by reference into this Annual Report unless expressly noted.

## ITEM 1A. RISK FACTORS

From time to time, information we provide, statements by our employees or information included in our filings with the SEC may contain forward-looking statements that are not historical facts. Those statements are "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "forecast," "guidance" or words of similar meaning. Actual results may differ materially from such statements due to a variety of factors that could adversely affect the Company's operating results. Forward-looking statements, and our future performance, operating results, financial position and liquidity, are subject to a variety of factors that could materially affect results, including those risks described below. Any forward-looking statements made in this report or otherwise speak only as of the date of the statement, and, except as required by law, we undertake no obligation to update those statements. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

In the ordinary course of our business, we face various strategic, operating, compliance and financial risks. These risks could have a material impact on our business, financial condition, operating results and cash flows.

Our Enterprise Risk Management ("ERM") process seeks to identify and address significant risks. Our ERM process is a company-wide initiative that is designed with the intent of prioritizing risks and allocating appropriate resources to address such risks. We use the integrated risk framework of the Committee of Sponsoring Organizations to assess, manage and monitor risks.

Management has identified and prioritized critical risks based on the severity and likelihood of each risk and assigned an executive to address each major identified risk area and lead action plans to monitor and mitigate risks, where possible. Our Board of Directors provides oversight of the ERM process and systematically reviews identified critical risks. The Audit Committee also reviews major financial risk exposures and the steps management has taken to monitor and control them.

Our goal is to pro-actively manage risks in a structured approach and in conjunction with the strategic planning process, with the intent to preserve and enhance shareholder value. However, these and other risks and uncertainties could cause our results to vary materially from recent results or from our anticipated future results. The risk factors and uncertainties described below, together with information incorporated by reference or otherwise included elsewhere in this Annual Report on Form 10-K, should be carefully considered. Additional risks and uncertainties of which we are currently unaware or that we currently believe to be immaterial may also adversely affect our business.

### **General economic and market conditions may adversely affect our financial condition, results of operations and access to capital markets.**

Our operating results are sensitive to changes in general economic conditions. Further recessionary economic cycles, higher interest rates, inflation, higher labor costs, trade barriers in the world markets, financial turmoil related to sovereign debt and changes in tax laws or other economic factors affecting the countries and industries in which we do business could adversely affect demand for our products, thereby impacting our results of operations, collection of accounts receivable and our expected cash flow generation from current and acquired businesses, which may adversely impact our financial condition and access to capital markets.

**Economic and supply disruptions associated with events beyond our control, such as war, acts of terror, political unrest, public health concerns, labor disputes or natural disasters could adversely affect our supply chain and distribution channels or result in loss of sales and customers.**

Our facilities and operations, and the facilities and operations of our suppliers and customers, could be disrupted by events beyond our control, such as war, political unrest, public health concerns, labor disputes or natural disasters. Any such disruption could cause delays in the production and distribution of our products and the loss of sales and customers. Insurance proceeds may not adequately compensate the Company for the losses.

**Availability of and volatility in energy costs or raw material prices may adversely affect our performance.**

In the normal course of business, we are exposed to market risks related to the availability of and price fluctuations in the purchase of energy and commodities used in the manufacture of our products (primarily steel, brass, copper, silver, aluminum alloys, electronic components, electricity and natural gas). The availability and prices for energy costs and raw materials, including steel, nonferrous metals and chemicals, are subject to volatility and are influenced by worldwide economic conditions, speculative action, world supply and demand balances, inventory levels, availability of substitute materials, currency exchange rates, our competitors' production costs, anticipated or perceived shortages and other factors.

Increases in the cost of raw materials and components may adversely affect our profitability if we are unable to pass along to our customers these cost increases in the form of price increases or otherwise reduce our cost of goods sold. Although most of the raw materials and components used in our products are commercially available from a number of sources and in adequate supply, any disruption in the availability of such raw materials and components, our inability to timely or otherwise obtain substitutes for such items, or any deterioration in our relationships with or the financial viability of our suppliers could adversely affect our business.

**We are a co-defendant in litigation alleging asbestos induced illness. Liabilities relating to such litigation could reduce our profitability and impair our financial condition.**

At December 31, 2014, we were a co-defendant in cases alleging asbestos induced illness involving claims by approximately 14,634 plaintiffs. In each instance, we are one of a large number of defendants. The asbestos claimants allege that exposure to asbestos contained in welding consumables caused the plaintiffs to develop adverse pulmonary diseases, including mesothelioma and other lung cancers.

Since January 1, 1995, we have been a co-defendant in asbestos cases that have been resolved as follows: 42,296 of those claims were dismissed, 22 were tried to defense verdicts, seven were tried to plaintiff verdicts (one of which was vacated on appeal), one was resolved by agreement for an immaterial amount and 670 were decided in favor of the Company following summary judgment motions.

The long-term impact of the asbestos loss contingency, in the aggregate, on operating results, operating cash flows and access to capital markets is difficult to assess, particularly since claims are in many different stages of development and we benefit significantly from cost-sharing with co-defendants and insurance carriers. While we intend to contest these lawsuits vigorously, and believe we have applicable insurance relating to these claims, there are several risks and uncertainties that may affect our liability for personal injury claims relating to exposure to asbestos, including the future impact of changing cost sharing arrangements or a change in our overall trial experience.

Asbestos use in welding consumables in the U.S. ceased in 1981.

**We may incur material losses and costs as a result of product liability claims that may be brought against us.**

Our business exposes us to potential product liability risks that are inherent in the design, manufacture, sale and application of our products and the products of third-party suppliers that we utilize or resell. Our products are used in a variety of applications, including infrastructure projects such as oil and gas pipelines and platforms, buildings, bridges and power generation facilities, the manufacture of transportation and heavy equipment and machinery and various other construction projects. We face risk of exposure to product liability claims in the event that accidents or failures on these projects result, or are alleged to result, in bodily injury or property damage. Further, our products are designed for use in specific applications, and if a product is used inappropriately, personal injury or property damage may result.

The occurrence of defects in or failures of our products, or the misuse of our products in specific applications, could cause termination of customer contracts, increased costs and losses to us, our customers and other end users. We cannot be assured that we will not experience any material product liability losses in the future or that we will not incur significant costs to defend those claims. Further, we cannot be assured that our product liability insurance coverage will be adequate for any liabilities that we may ultimately incur or that product liability insurance will continue to be available on terms acceptable to us.

**The cyclical nature and maturity of the arc welding and cutting industry in developed markets may adversely affect our performance.**

The arc welding and cutting industry is generally a mature industry in developed markets such as North America and Western Europe and is cyclical in nature. Overall demand for arc welding and cutting products is largely determined by the level of capital spending in manufacturing and other industrial sectors, and the welding industry has historically experienced contraction during periods of slowing industrial activity. If economic, business and industry conditions deteriorate, capital spending in those sectors may be substantially decreased, which could reduce demand for our products, our revenues and our results of operations.

**We may not be able to complete our acquisition strategy or successfully integrate acquired businesses.**

Part of our business strategy is to pursue targeted business acquisition opportunities, including foreign investment opportunities. For example, we have completed and continue to pursue acquisitions in emerging markets including, but not limited to, Brazil, Russia, India and China in order to strategically position resources to increase our presence in growing markets. We cannot be certain that we will be successful in pursuing potential acquisition candidates or that the consequences of any acquisition would be beneficial to us. Future acquisitions may expose us to unexpected liabilities and involve the expenditure of significant funds and management time. Further, we may not be able to successfully integrate any acquired business with our existing businesses or recognize the expected benefits from any completed acquisition.

Depending on the nature, size and timing of future acquisitions, we may be required to raise additional financing, which may not be available to us on acceptable terms. Our current operational cash flow is sufficient to fund our current acquisition plans, but a significant acquisition could require access to the capital markets.

**Our ability to complete the divestiture of assets, or interests in assets, may be subject to factors beyond our control, and in certain cases we may be required to retain liabilities for certain matters.**

We may identify assets for strategic divestitures that would increase capital resources available for other activities and create organizational and operational efficiencies. Various factors could materially affect our ability to dispose of such assets or complete announced divestitures, including the receipt of approvals of governmental agencies or third parties and the availability of purchasers willing to acquire the interests or purchase the assets on terms and at prices acceptable to us.

Sellers typically retain certain liabilities or indemnify buyers for certain matters. The magnitude of any such retained liability or indemnification obligation may be difficult to quantify at the time of the transaction and ultimately may be material. Also, as is typical in divestitures, third parties may be unwilling to release us from guarantees or other credit support provided prior to the sale of the divested assets. As a result, after a divestiture, we may remain secondarily liable for the obligations guaranteed or supported to the extent that the buyer of the assets fails to perform these obligations.

**If we cannot continue to develop, manufacture and market products that meet customer demands, our revenues and gross margins may suffer.**

Our continued success depends, in part, on our ability to continue to meet our customers' needs for welding and cutting products through the introduction of innovative new products and the enhancement of existing product design and performance characteristics. We must remain committed to product research and development and customer service in order to remain competitive. We cannot be assured that new products or product improvements, once developed, will meet with customer acceptance and contribute positively to our operating results, or that we will be able to continue our product development efforts at a pace to sustain future growth. Further, we may lose customers to our competitors if they demonstrate product design, development or manufacturing capabilities superior to ours.

**The competitive pressures we face could harm our revenue, gross margins and prospects.**

We operate in a highly competitive global environment and compete in each of our businesses with other broad-line manufacturers and numerous smaller competitors specializing in particular products. We compete primarily on the basis of brand, product quality, price, performance, warranty, delivery, service and technical support. We have previously initiated, and may in the future initiate significant rationalization activities to align our business to market conditions. Such rationalization activities could fail to deliver the desired competitive cost structure and could result in disruptions in customer service. If our products, services, support and cost structure do not enable us to compete successfully based on any of the criteria listed above, our operations, results and prospects could suffer.

Further, in the past decade, the arc welding industry in the United States and other developed countries has been subject to increased levels of foreign competition as low cost imports have become more readily available. Our competitive position could also be harmed if new or emerging competitors become more active in the arc welding business. For example, while steel manufacturers traditionally have not been significant competitors in the domestic arc welding industry, some foreign integrated steel producers manufacture selected consumable arc welding products. Our sales and results of operations, as well as our plans to expand in some foreign countries, could be adversely affected by this practice.

**The loss of any of our largest customers could adversely affect our revenue, gross margins and profit.**

We have a large and varied customer base due, in part, to our extensive distribution channels in the industries and regions that we serve. Although no individual customer currently accounts for more than ten percent of total net sales, there are customers to which we sell a large amount of product. The loss of any of these customers could have an adverse affect on our revenue, gross margins and profit.

**We conduct our sales and distribution operations on a worldwide basis and maintain manufacturing facilities in a number of foreign countries, which subjects us to risks associated with doing business outside the United States.**

Our long-term strategy is to continue to increase our market share in growing international markets. The share of sales and profits we derive from our international operations and exports from the United States is significant. This trend increases our exposure to the performance of many developing economies in addition to the developed economies outside of the United States. If international economies were to experience significant slowdowns, it could adversely affect our financial condition, results of operations and cash flows.

There are a number of risks in doing business internationally, which may impede our ability to achieve our strategic objectives relating to our foreign operations. Many developing countries have a significant degree of political and economic uncertainty and social turmoil that may impede our ability to implement and achieve our international growth objectives. Conducting business internationally subjects us to corporate governance and management challenges in consideration of the numerous U.S. and foreign laws and regulations, including regulations relating to import-export control, technology transfer restrictions, repatriation of earnings and funds, exchange controls, labor regulations, nationalization, anti-boycott provisions and anti-bribery laws (such as the Foreign Corrupt Practices Act and the Organization for Economic Cooperation and Development Convention). Failure by the Company or its sales representatives, agents or distributors to comply with these laws and regulations could result in administrative, civil or criminal liabilities, all or any of which could negatively impact our business and reputation. Our foreign operations also subject us to the risks of international terrorism and hostilities.

In particular, the economic and political environment in Venezuela exposes us to various risks. Currency exchange restrictions limit our ability to convert bolivars to U.S. dollars, which impacts our ability to repatriate earnings and to purchase goods and services necessary to operate our Venezuelan business. The restrictions could cause a slowdown, temporary shutdown or complete shutdown of operations at our Venezuelan subsidiary, which could negatively affect our earnings and cash flows.

**Our operations depend on maintaining a skilled workforce, and any interruption in our workforce could negatively impact our results of operations and financial condition.**

Our success depends in part on the efforts and abilities of our management team and key employees. Their skills, experience and industry knowledge significantly benefit our operations and performance. Our future success will also depend on our ability to identify, attract, and retain highly qualified managerial, technical (including research and development), sales and marketing, and customer service personnel. Competition for these individuals is intense, and we may not succeed in identifying, attracting, or retaining qualified personnel. With our strategy to expand internationally into developing markets, we may incur additional risks as some developing economies lack a sufficiently trained labor pool.

Any interruption of our workforce, including interruptions due to unionization efforts, changes in labor relations or shortages of appropriately skilled individuals could impact our results of operations and financial condition.

**Our revenues and results of operations may suffer if we cannot continue to enforce the intellectual property rights on which our business depends or if third parties assert that we violate their intellectual property rights.**

We rely upon patent, trademark, copyright and trade secret laws in the United States and similar laws in foreign countries, as well as agreements with our employees, customers, suppliers and other third parties, to establish and maintain our intellectual property rights. However, any of our intellectual property rights could be challenged, invalidated or circumvented, or our intellectual property rights may not be sufficient to provide a competitive advantage. Further, the laws and their application in certain foreign countries do not protect our proprietary rights to the same extent as U.S. laws. Accordingly, in certain countries, we may be unable to protect our proprietary rights against unauthorized third-party copying or use, which could impact our competitive position.

Further, third parties may claim that we or our customers are infringing upon their intellectual property rights. Even if we believe that those claims are without merit, defending those claims and contesting the validity of patents can be time consuming and costly. Claims of intellectual property infringement also might require us to redesign affected products, enter into costly settlements or license agreements, pay costly damage awards or face a temporary or permanent injunction prohibiting us from manufacturing, marketing or selling certain of our products.

**Our defined benefit pension plans are subject to financial market trends, such as changes in discount rates and actual investment return on pension assets, which could adversely affect our results of operations and cash flows.**

The performance of the financial markets and interest rates impact our funding obligations under our defined benefit pension plans. Significant changes in discount rates, decreases in the fair value of plan assets and investment losses on plan assets may increase our benefit obligations and adversely impact our results of operations, shareholders' equity and cash flows through our annual measurement of plan assets and liabilities. For a discussion regarding how the financial statements have been affected by significant changes in 2014, refer to the pension related disclosure under "Part II, Item 7 – Critical Accounting Policies" and Note 11 to the Company's consolidated financial statements.

**We are subject to changes in the U.S. regulatory environment, which could adversely affect our results of operations, cash flows and financial condition.**

Our businesses, results of operations or financial condition could be adversely affected if laws, regulations or standards relating to us, our products or the markets in which we operate are newly implemented or changed. New or revised laws, regulations or standards could increase our cost of doing business or restrict our ability to operate our business and execute our strategies.

**A significant fluctuation between the U.S. dollar and other currencies could adversely impact our operating income.**

Although our financial results are reported in U.S. dollars, a significant portion of our sales and operating costs are realized in other currencies. Our profitability is affected by movements of the U.S. dollar against other foreign currencies in which we generate revenues and incur expenses. Significant fluctuations in relative currency values, in particular an increase in the value of the U.S. dollar against foreign currencies, could have an adverse effect on our profitability and financial condition.

**Changes in tax rates or exposure to additional income tax liabilities could affect profitability.**

Our business is subject to income taxes in the United States and various foreign jurisdictions. Domestic and international tax liabilities are subject to the allocation of income among various tax jurisdictions. Our effective tax rate could be adversely affected by changes in the mix among earnings in countries with differing statutory tax rates, changes in the valuation allowances of deferred tax assets or changes in tax laws.

The amount of income taxes paid is subject to ongoing audits by United States federal, state and local tax authorities and by foreign tax authorities. If these audits result in assessments different from amounts reserved, future financial results may include unfavorable adjustments which could have a material adverse effect on our results of operations.

**We are subject to risks relating to our information technology systems.**

The conduct and management of our business relies extensively on information technology systems. If these systems are damaged, cease to function properly or are subject to a significant cyber security breach, we may suffer an interruption in our ability to manage and operate the business and our results of operations and financial condition could be adversely affected.

**Our global operations are subject to increasingly complex environmental regulatory requirements.**

We are subject to increasingly complex environmental regulations affecting international manufacturers, including those related to air and water emissions, waste management and climate change.

There is a growing political and scientific belief that emissions of greenhouse gases ("GHG") alter the composition of the global atmosphere in ways that are affecting the global climate. Various stakeholders, including legislators and regulators, shareholders and non-governmental organizations, as well as companies in many business sectors, are considering ways to reduce GHG emissions. These concerns may lead to international, national, regional or local legislative or regulatory responses in the future. Such regulation could result in new or additional regulatory or product standard requirements for the Company's global businesses. We are unable, at this time, to predict the significance of these requirements as the impact of any future GHG legislative, regulatory or product standards is dependent on the timing and design of the mandates or standards. Furthermore, the potential physical impacts of theorized climate change on the Company's customers, and therefore on the Company's operations, are speculative and highly uncertain, and would be particular to the circumstances developing in various geographical regions. These potential physical effects may adversely impact the cost, production, sales and financial performance of the Company's operations which we are unable, at this time, to predict.



It is our policy to apply strict standards for environmental protection to all of our operations inside and outside the United States, even when we are not subject to local government regulations. We may incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, liabilities resulting from third-party property damage or personal injury claims, or our products could be enjoined from entering certain jurisdictions, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws.

We also face increasing complexity in our products design and procurement operations as we adjust to new and future requirements relating to the design, production and labeling of our products that are sold worldwide in multiple jurisdictions. The ultimate costs under environmental laws and the timing of these costs are difficult to predict, and liability under some environmental laws relating to contaminated locations can be imposed retroactively and on a joint and several basis.

***ITEM 1B. UNRESOLVED STAFF COMMENTS***

None.

**ITEM 1C. EXECUTIVE OFFICERS OF THE REGISTRANT****EXECUTIVE OFFICERS OF THE REGISTRANT**

| <b>Name</b>           | <b>Age</b> | <b>Position</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Christopher L. Mapes  | 53         | Chairman of the Board effective December 21, 2013. President and Chief Executive Officer effective December 31, 2012; Chief Operating Officer from September 1, 2011 to December 31, 2012; Director since February 2010. Prior to his service with the Company, Mr. Mapes was an Executive Vice President of A.O. Smith Corporation (a global manufacturer with a water heating and water treatment technologies business), a position he held from 2004 through August 2011, and the President of its former Electrical Products unit, a position he held from September 2004 through August 2011. |
| Vincent K. Petrella   | 54         | Executive Vice President, Chief Financial Officer and Treasurer since February 19, 2014; Senior Vice President, Chief Financial Officer and Treasurer from October 7, 2005 to February 19, 2014.                                                                                                                                                                                                                                                                                                                                                                                                    |
| Frederick G. Stueber  | 61         | Executive Vice President, General Counsel and Secretary since February 19, 2014; Senior Vice President, General Counsel and Secretary from 1996 to February 19, 2014.                                                                                                                                                                                                                                                                                                                                                                                                                               |
| George D. Blankenship | 52         | Executive Vice President, President, Lincoln Electric North America since February 19, 2014; Senior Vice President; President, Lincoln Electric North America from July 30, 2009 to February 19, 2014; Senior Vice President, Global Engineering from October 7, 2005 to July 30, 2009; Senior Vice President; President, Lincoln Cleveland of The Lincoln Electric Company from January 8, 2008 to July 30, 2009; Senior Vice President, U.S. Operations of The Lincoln Electric Company from October 7, 2005 to January 8, 2008.                                                                  |
| Gabriel Bruno         | 47         | Executive Vice President, Chief Information Officer since February 19, 2014; Vice President, Chief Information Officer from May 1, 2012 to February 19, 2014; Vice President, Corporate Controller from 2005 to May 1, 2012.                                                                                                                                                                                                                                                                                                                                                                        |
| Gretchen A. Farrell   | 52         | Executive Vice President, Chief Human Resources Officer since February 19, 2014; Senior Vice President, Human Resources and Compliance from July 30, 2009 to February 19, 2014 ; Vice President, Human Resources from May 5, 2005 to July 30, 2009.                                                                                                                                                                                                                                                                                                                                                 |
| Geoffrey P. Allman    | 44         | Senior Vice President, Corporate Controller since January 14, 2014; Corporate Controller from July 1, 2012 to January 14, 2014; Director, Regional Finance North America from October 1, 2009 to June 30, 2012.                                                                                                                                                                                                                                                                                                                                                                                     |
| Thomas A. Flohn       | 54         | Senior Vice President, President, Asia Pacific Region since February 19, 2014; Vice President, Regional President, Lincoln Electric Asia Pacific Region from November 4, 2013 to January 14, 2014. Vice President; President, Lincoln Electric Europe, Middle East & Africa (EMEA) from July 1, 2010 to November 4, 2013; Vice President; President, Lincoln Asia Pacific from January 1, 2005 to June 30, 2010.                                                                                                                                                                                    |
| Mathias Hallmann      | 52         | Senior Vice President, President, LE Europe since February 19, 2014; Vice President; President, Lincoln Electric Europe from November 4, 2013 to February 19, 2014. Prior to his service with the Company, Mr. Hallmann was Chief Executive Officer of Bohler Welding Holding GmbH (a leading manufacturer and provider of auxiliary materials and consumables for industrial welding and soldering applications) from December 2008 to March 2012, and its Chief Operating Officer from April 2008 to November 2008.                                                                               |
| Steven B. Hedlund     | 48         | Senior Vice President and President, Global Automation since January 22, 2015; Senior Vice President, Strategy & Business Development from February 19, 2014 to January 22, 2015; Vice President, Strategy and Business Development from September 15, 2008 to February 19, 2014. Prior to his service with the Company, Mr. Hedlund was the Vice President, Growth and Innovations with Master Lock, LLC (a security products company) from June 1, 2005 to July 1, 2008.                                                                                                                          |
| David J. Nangle       | 58         | Senior Vice President, President, Harris Products Group since February 19, 2014; Vice President, Group President of Brazing, Cutting and Retail Subsidiaries from January 12, 2006 to February 19, 2014.                                                                                                                                                                                                                                                                                                                                                                                            |

The Company has been advised that there is no arrangement or understanding among any one of the officers listed and any other persons pursuant to which he or she was elected as an officer. The executive officers are elected by the Board of Directors normally for a term of one year and/or until the election of their successors.

## ITEM 2. PROPERTIES

The Company's corporate headquarters and principal United States manufacturing facilities are located in the Cleveland, Ohio area. Total Cleveland area property consists of 233 acres, of which present manufacturing facilities comprise an area of approximately 2,940,000 square feet.

The Company has 47 manufacturing facilities, including operations and joint ventures in 19 countries, the significant locations (grouped by operating segment) of which are as follows:

### North America Welding:

|               |                                                                                                                                                       |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| United States | Cleveland and Fort Loramie, Ohio; San Diego and Anaheim, California; Reno, Nevada; Ladson, South Carolina; Chattanooga, Tennessee; Detroit, Michigan. |
| Canada        | Toronto; Mississauga; Hamilton.                                                                                                                       |
| Mexico        | Mexico City; Torreon.                                                                                                                                 |

### Europe Welding:

|                |                                  |
|----------------|----------------------------------|
| France         | Grand-Quevilly.                  |
| Germany        | Essen.                           |
| Italy          | Genoa; Corsalone.                |
| Netherlands    | Nijmegen.                        |
| Poland         | Bielawa; Dzierzoniow.            |
| Portugal       | Lisbon.                          |
| Russia         | Mtsensk.                         |
| Turkey         | Istanbul.                        |
| United Kingdom | Sheffield and Chertsey, England. |

### Asia Pacific Welding:

|           |                                                     |
|-----------|-----------------------------------------------------|
| China     | Shanghai; Jinzhou; Nanjing; Zhengzhou; Luan County. |
| India     | Chennai.                                            |
| Indonesia | Cikarang.                                           |

### South America Welding:

|           |            |
|-----------|------------|
| Brazil    | Sao Paulo. |
| Colombia  | Bogota.    |
| Venezuela | Maracay.   |

### The Harris Products Group:

|               |                                                                  |
|---------------|------------------------------------------------------------------|
| United States | Mason, Ohio; Gainesville, Georgia; Santa Fe Springs, California. |
| Brazil        | Guarulhos.                                                       |
| Mexico        | Tijuana.                                                         |
| Poland        | Dzierzoniow.                                                     |

All properties relating to the Company's Cleveland, Ohio headquarters and manufacturing facilities are owned by the Company. Most of the Company's foreign subsidiaries own manufacturing facilities in the country where they are located. The Company believes that its existing properties are in good condition and are suitable for the conduct of its business.

In addition, the Company maintains operating leases for some manufacturing facilities, distribution centers and sales offices throughout the world. See Note 16 to the Company's consolidated financial statements for information regarding the Company's lease commitments.

**ITEM 3. LEGAL PROCEEDINGS**

The Company is subject, from time to time, to a variety of civil and administrative proceedings arising out of its normal operations, including, without limitation, product liability claims, regulatory claims and health, safety and environmental claims. Among such proceedings are the cases described below.

As of December 31, 2014, the Company was a co-defendant in cases alleging asbestos induced illness involving claims by approximately 14,634 plaintiffs, which is a net decrease of 124 claims from those previously reported. In each instance, the Company is one of a large number of defendants. The asbestos claimants seek compensatory and punitive damages, in most cases for unspecified sums. Since January 1, 1995, the Company has been a co-defendant in other similar cases that have been resolved as follows: 42,296 of those claims were dismissed, 22 were tried to defense verdicts, seven were tried to plaintiff verdicts (one of which was vacated on appeal), one was resolved by agreement for an immaterial amount and 670 were decided in favor of the Company following summary judgment motions.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

The Company's common shares are traded on The NASDAQ Global Select Market under the symbol "LECO." The number of record holders of common shares at December 31, 2014 was 1,766.

The total amount of dividends paid in 2014 was \$73.3 million. During 2014, dividends were paid on January 15, April 15, July 15 and October 15.

Quarterly high and low stock prices and dividends declared per share for the last two years were:

|                | 2014        |          |                    | 2013        |          |                    |
|----------------|-------------|----------|--------------------|-------------|----------|--------------------|
|                | Stock Price |          | Dividends Declared | Stock Price |          | Dividends Declared |
|                | High        | Low      |                    | High        | Low      |                    |
| First quarter  | \$ 76.26    | \$ 66.68 | \$ 0.23            | \$ 57.63    | \$ 49.06 | \$ 0.20            |
| Second quarter | 72.88       | 63.23    | 0.23               | 60.58       | 49.94    | 0.20               |
| Third quarter  | 73.75       | 65.44    | 0.23               | 69.35       | 56.75    | 0.20               |
| Fourth quarter | 75.49       | 61.12    | 0.29               | 74.57       | 65.45    | 0.23               |

Issuer purchases of equity securities for the fourth quarter 2014 were:

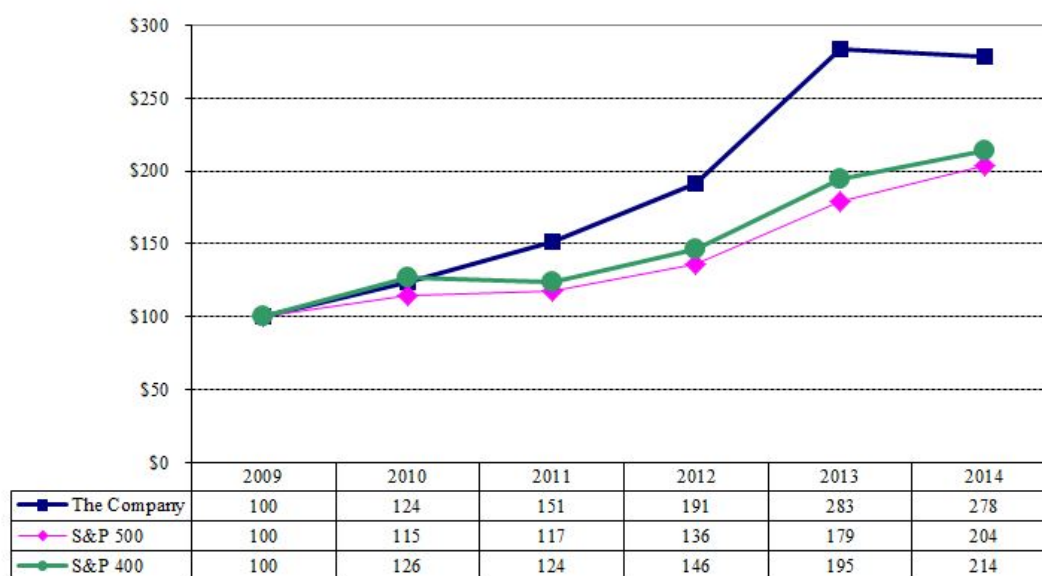
| Period              | Total Number of Shares Repurchased | Average Price Paid Per Share | Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs <sup>(2)</sup> |
|---------------------|------------------------------------|------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| October 1-31, 2014  | 86,845                             | \$ 69.02                     | 86,845                                                                             | 12,028,499                                                                                    |
| November 1-30, 2014 | 229,247                            | 74.01                        | 229,247                                                                            | 11,799,252                                                                                    |
| December 1-31, 2014 | 495,576 <sup>(1)</sup>             | 70.25                        | 493,116                                                                            | 11,306,136                                                                                    |
| Total               | 811,668                            | 71.18                        | 809,208                                                                            |                                                                                               |

(1) Includes the surrender of 2,460 shares of the Company's common shares in connection with the vesting of restricted shares granted pursuant to the Company's 2006 Equity and Performance Incentive Plan.

(2) On July 26, 2013, the Company announced a new share repurchase program, which increased the total number of the Company's common shares authorized to be repurchased to 45 million. Total shares purchased through the share repurchase program were 33,693,864 shares at a cost of \$899.6 million for a weighted average cost of \$26.70 per share through December 31, 2014.

The following line graph compares the yearly percentage change in the cumulative total shareholder return on the Company's common stock against the cumulative total return of the S&P Composite 500 Stock Index ("S&P 500") and the S&P 400 MidCap Index ("S&P 400") for the five-year calendar period commencing January 1, 2010 and ending December 31, 2014. This graph assumes that \$100 was invested on December 31, 2009 in each of the Company's common shares, the S&P 500 and the S&P 400. A peer-group index for the welding industry, in general, was not readily available because the industry is comprised of a large number of privately held competitors and competitors that are smaller parts of large publicly traded companies.

**Five Year Performance Comparison**  
**The Company's Common Shares, S&P 500 and S&P 400 Composite Indices**



**ITEM 6. SELECTED FINANCIAL DATA***(Dollars in thousands, except per share amounts)*

|                                   | Year Ended December 31, |                     |                     |                     |                     |
|-----------------------------------|-------------------------|---------------------|---------------------|---------------------|---------------------|
|                                   | 2014 <sup>(1)</sup>     | 2013 <sup>(2)</sup> | 2012 <sup>(3)</sup> | 2011 <sup>(4)</sup> | 2010 <sup>(5)</sup> |
| Net sales                         | \$ 2,813,324            | \$ 2,852,671        | \$ 2,853,367        | \$ 2,694,609        | \$ 2,070,172        |
| Net income                        | 254,686                 | 293,780             | 257,411             | 217,186             | 130,244             |
| Basic earnings per share          | 3.22                    | 3.58                | 3.10                | 2.60                | 1.54                |
| Diluted earnings per share        | 3.18                    | 3.54                | 3.06                | 2.56                | 1.53                |
| Cash dividends declared per share | 0.980                   | 0.830               | 0.710               | 0.635               | 0.575               |
| Total assets                      | 1,939,215               | 2,151,867           | 2,089,863           | 1,976,776           | 1,783,788           |
| Long-term debt                    | 2,488                   | 3,791               | 1,599               | 1,960               | 84,627              |

- (1) Results for 2014 include net rationalization and asset impairment charges of \$30,053 (\$30,914 after-tax) which primarily include \$32,742 (\$32,706 after-tax) in non-cash asset impairment charges partially offset by gains of \$3,930 (\$2,754 after-tax) related to the sale of assets. Associated with the impairment of long-lived assets is an offsetting special item of \$805 representing portions attributable to non-controlling interests. Results also include charges of \$21,133 (\$21,133 after-tax) related to Venezuelan remeasurement losses.
- (2) Results for 2013 include net rationalization and asset impairment charges of \$8,463 (\$7,573 after-tax) which include \$3,658 (\$2,965 after-tax) in rationalization charges and impairment charges net of gains on disposals of \$4,805 (\$4,608 after-tax). Results also include a charge of \$12,198 (\$12,198 after-tax) related to the devaluation of the Venezuelan currency and a loss of \$705 (\$705 after-tax) related to a loss on the sale of land. Associated with the impairment of long-lived assets and loss on the sale of land is an offsetting special item of \$1,068 representing portions attributable to non-controlling interests.
- (3) Results for 2012 include net rationalization and asset impairment charges of \$9,354 (\$7,442 after-tax) which include \$7,512 (\$6,153 after-tax) in rationalization charges and asset disposal and impairment charges of \$1,842 (\$1,289 after-tax). Results also include a charge of \$1,381 (\$906 after-tax) related to a change in Venezuelan labor law, which provides for increased employee severance obligations.
- (4) Results for 2011 include net rationalization and asset impairment charges of \$282 (\$237 after-tax) resulting from rationalization activities primarily initiated in 2009 and a gain of \$4,844 related to a favorable adjustment for tax audit settlements.
- (5) Results for 2010 include net rationalization and asset impairment gains of \$384 (\$894 after-tax) which include net gains of \$3,684 (\$3,725 after-tax) related to the sale of property and asset disposals, impairment charges of \$883 (\$801 after-tax) and \$2,417 (\$2,030 after-tax) in rationalization charges. Results also include a net charge of \$3,123 (\$3,560 after-tax) related to the change in functional currency and devaluation of the Venezuelan currency, income of \$5,092 was recognized due to an adjustment in tax liabilities for a change in applicable tax regulations, a gain of \$108 after-tax in non-controlling interests related to the impairment of assets for a majority-owned consolidated subsidiary and a charge of \$1,890 after-tax in non-controlling interests related to gains on the disposal of assets in a majority-owned consolidated subsidiary.

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

**(Dollars in thousands, except per share amounts)**

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with "Selected Financial Data," the Company's consolidated financial statements and other financial information included elsewhere in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in the forward-looking statements. See "Item 1A. Risk Factors" for more information regarding forward-looking statements.

### **General**

The Company is the world's largest designer and manufacturer of arc welding and cutting products, manufacturing a broad line of arc welding equipment, consumable welding products and other welding and cutting products.

The Company is one of only a few worldwide broad-line manufacturers of welding, cutting and brazing products. Welding products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes and fluxes. The Company's product offering also includes CNC plasma and oxy-fuel cutting systems and regulators and torches used in oxy-fuel welding, cutting and brazing. In addition, the Company has a leading global position in the brazing and soldering alloys market.

The Company invests in the research and development of arc welding products in order to continue its market leading product offering. The Company continues to invest in technologies that improve the quality and productivity of welding products. In addition, the Company continues to actively increase its patent application process in order to secure its technology advantage in the United States and other major international jurisdictions. The Company believes its significant investment in research and development and its highly trained technical sales force coupled with its extensive distributor network provide a competitive advantage in the marketplace.

The Company's products are sold in both domestic and international markets. In North America, products are sold principally through industrial distributors, retailers and also directly to users of welding products. Outside of North America, the Company has an international sales organization comprised of Company employees and agents who sell products from the Company's various manufacturing sites to distributors and product users.

The Company's major end-user markets include:

- general metal fabrication,
- power generation and process industry,
- structural steel construction (buildings and bridges),
- heavy equipment fabrication (farming, mining and rail),
- shipbuilding,
- automotive,
- pipe mills and pipelines, and
- offshore oil and gas exploration and extraction.

The Company has, through wholly-owned subsidiaries or joint ventures, manufacturing facilities located in the United States, Brazil, Canada, China, Colombia, France, Germany, India, Indonesia, Italy, Mexico, the Netherlands, Poland, Portugal, Russia, Turkey, the United Kingdom and Venezuela.

The Company has aligned its business units into five operating segments to enhance the utilization of the Company's worldwide resources and global end user and sourcing initiatives. The operating segments consist of North America Welding, Europe Welding, Asia Pacific Welding, South America Welding and The Harris Products Group. The North America Welding segment includes welding operations in the United States, Canada and Mexico. The Europe Welding segment includes welding operations in Europe, Russia, Africa and the Middle East. The Asia Pacific Welding segment primarily includes welding operations in China and Australia. The South America Welding segment primarily includes welding operations in Brazil, Colombia and Venezuela. The Harris Products Group includes the Company's global cutting, soldering and brazing businesses as well as the retail business in the United States. See Note 5 to the Company's consolidated financial statements for segment and geographic area information.

The principal raw materials essential to the Company's business are steel, electronic components, engines, brass, copper, silver, aluminum alloys and various chemicals, all of which are normally available for purchase in the open market.



The Company's facilities are subject to environmental regulations. To date, compliance with these environmental regulations has not had a material adverse effect on the Company's earnings. The Company is ISO 14001 certified at most significant manufacturing facilities in North America and Europe and is progressing towards certification at its remaining facilities worldwide. In addition, the Company is ISO 9001 certified at 37 facilities worldwide.

### Key Indicators

Key economic measures relevant to the Company include industrial production trends, steel consumption, purchasing manager indices, capacity utilization within durable goods manufacturers and consumer confidence indicators. Key industries which provide a relative indication of demand drivers to the Company include steel, farm machinery and equipment, construction and transportation, fabricated metals, electrical equipment, ship and boat building, defense, truck manufacturing, energy and railroad equipment. Although these measures provide key information on trends relevant to the Company, the Company does not have available a more direct correlation of leading indicators which can provide a forward-looking view of demand levels in the markets which ultimately use the Company's welding products.

Key operating measures utilized by the operating units to manage the Company include orders, sales, inventory and fill-rates, all of which provide key indicators of business trends. These measures are reported on various cycles including daily, weekly and monthly depending on the needs established by operating management.

Key financial measures utilized by the Company's executive management and operating units in order to evaluate the results of its business and in understanding key variables impacting the current and future results of the Company include: sales; gross profit; selling, general and administrative expenses; operating income; earnings before interest and taxes; earnings before interest, taxes and bonus; net income; adjusted operating income; adjusted earnings before interest and income taxes, adjusted net income; adjusted diluted earnings per share; operating cash flows; and capital expenditures, including applicable ratios such as return on invested capital and average operating working capital to sales. These measures are reviewed at monthly, quarterly and annual intervals and compared with historical periods, as well as objectives established by the Board of Directors of the Company.

### Results of Operations

The following table shows the Company's results of operations:

|                                                 | Year Ended December 31, |            |              |            |              |            |
|-------------------------------------------------|-------------------------|------------|--------------|------------|--------------|------------|
|                                                 | 2014                    |            | 2013         |            | 2012         |            |
|                                                 | Amount                  | % of Sales | Amount       | % of Sales | Amount       | % of Sales |
| Net sales                                       | \$ 2,813,324            | 100.0%     | \$ 2,852,671 | 100.0%     | \$ 2,853,367 | 100.0%     |
| Cost of goods sold                              | 1,864,027               | 66.3%      | 1,910,017    | 67.0%      | 1,986,711    | 69.6%      |
| Gross profit                                    | 949,297                 | 33.7%      | 942,654      | 33.0%      | 866,656      | 30.4%      |
| Selling, general & administrative expenses      | 545,497                 | 19.4%      | 527,206      | 18.5%      | 495,221      | 17.4%      |
| Rationalization and asset impairment charges    | 30,053                  | 1.1%       | 8,463        | 0.3%       | 9,354        | 0.3%       |
| Operating income                                | 373,747                 | 13.3%      | 406,985      | 14.3%      | 362,081      | 12.7%      |
| Interest income                                 | 3,093                   | 0.1%       | 3,320        | 0.1%       | 3,988        | 0.1%       |
| Equity earnings in affiliates                   | 5,412                   | 0.2%       | 4,806        | 0.2%       | 5,007        | 0.2%       |
| Other income                                    | 3,995                   | 0.1%       | 4,194        | 0.1%       | 2,685        | 0.1%       |
| Interest expense                                | (10,434)                | (0.4%)     | (2,864)      | (0.1%)     | (4,191)      | (0.1%)     |
| Income before income taxes                      | 375,813                 | 13.4%      | 416,441      | 14.6%      | 369,570      | 13.0%      |
| Income taxes                                    | 121,933                 | 4.3%       | 124,754      | 4.4%       | 112,354      | 3.9%       |
| Net income including non-controlling interests  | 253,880                 | 9.0%       | 291,687      | 10.2%      | 257,216      | 9.0%       |
| Non-controlling interests in subsidiaries' loss | (806)                   | —          | (2,093)      | (0.1%)     | (195)        | —          |
| Net income                                      | \$ 254,686              | 9.1%       | \$ 293,780   | 10.3%      | \$ 257,411   | 9.0%       |

## **2014 Compared with 2013**

**Net Sales:** Net sales for 2014 decreased 1.4% from 2013. The sales decrease reflects volume decreases of 2.0%, price increases of 1.8%, increases from acquisitions of 1.5% and unfavorable impacts from foreign exchange of 2.6%. Sales volumes decreased primarily as a result of softer volumes in South America Welding. Product pricing increased from prior year levels, reflecting the highly inflationary environment in Venezuela partially offset by pricing declines in The Harris Products Group due to decreases in the costs of silver and copper. Net sales for 2014 include \$71,793 in sales from the Company's Venezuelan operations compared with \$109,139 in sales from the Company's Venezuelan operations in 2013.

**Gross Profit:** Gross profit increased 0.7% to \$949,297 during 2014 compared with \$942,654 in 2013. As a percentage of Net sales, Gross profit increased to 33.7% in 2014 compared with 33.0% in 2013. The increase was the result of geographic mix and operational improvements. Foreign currency exchange rates had a \$28,377 unfavorable translation impact in 2014, which includes \$3,468 related to the liquidation of Venezuelan inventory valued at a historical exchange rate.

**Selling, General & Administrative ("SG&A") Expenses:** SG&A expenses increased 3.5% to \$545,497 during 2014 compared with \$527,206 in 2013. The increase was primarily due to higher foreign exchange transaction losses of \$16,472, incremental SG&A expenses from acquisitions of \$8,051 and higher bonus expense of \$5,511, partially offset by lower foreign currency translation of \$14,627. Foreign exchange transaction losses in 2014 include a charge of \$17,665 relating to a Venezuelan remeasurement loss compared with a charge of \$8,081 in 2013 due to the devaluation of the Venezuelan currency.

**Rationalization and Asset Impairment Charges:** In 2014, the Company recorded \$30,053 in charges primarily related to non-cash long-lived asset impairment charges partially offset by gains on the sale of assets. See "Rationalization and Asset Impairments" for additional information.

**Equity Earnings in Affiliates:** Equity earnings in affiliates were \$5,412 in 2014 compared with earnings of \$4,806 in 2013. The increase was primarily due to an increase in earnings in Turkey.

**Interest Expense:** Interest expense increased to \$10,434 in 2014 from \$2,864 in 2013. The increase was due to an adjustment to the consideration expected to be paid to acquire additional ownership interests of a majority-owned subsidiary and the accretion of the related liability.

**Income Taxes:** The Company recorded \$121,933 of tax expense on pre-tax income of \$375,813, resulting in an effective tax rate of 32.4% for 2014. The effective income tax rate is lower than the Company's statutory rate primarily due to income earned in lower tax rate jurisdictions and the utilization of foreign tax loss carry-forwards for which valuation allowances had been previously provided.

The effective income tax rate of 30.0% for 2013 was lower than the Company's statutory rate primarily due to income earned in lower tax rate jurisdictions and the utilization of foreign tax loss carry-forwards for which valuation allowances had been previously provided.

**Net Income:** Net income for 2014 was \$254,686 compared with \$293,780 in the prior year. Diluted earnings per share for 2014 were \$3.18 compared with diluted earnings of \$3.54 per share in 2013. Net income for 2014 included a loss of \$8,238, or \$0.10 per diluted share, from the Company's Venezuelan operations compared with Net income of \$25,614, or \$0.31 per diluted share, from the Company's Venezuelan operations in 2013. Foreign currency exchange rate movements had an unfavorable translation effect of \$8,258 and \$1,572 on Net income for 2014 and 2013, respectively.

## Segment Results

**Net Sales:** The table below summarizes the impacts of volume, acquisitions, price and foreign currency exchange rates on Net sales for the twelve months ended December 31, 2014:

|                           | Net Sales<br>2013   | Change in Net Sales due to: |                  |                  |                    | Net Sales<br>2014   |  |
|---------------------------|---------------------|-----------------------------|------------------|------------------|--------------------|---------------------|--|
|                           |                     | Volume                      | Acquisitions     | Price            | Foreign Exchange   |                     |  |
| Operating Segments        |                     |                             |                  |                  |                    |                     |  |
| North America Welding     | \$ 1,652,769        | \$ 4,335                    | \$ 42,184        | \$ 13,247        | \$ (11,611)        | \$ 1,700,924        |  |
| Europe Welding            | 429,548             | 8,107                       | —                | (3,722)          | (8,158)            | 425,775             |  |
| Asia Pacific Welding      | 266,282             | (17,516)                    | —                | 1,351            | (6,317)            | 243,800             |  |
| South America Welding     | 195,895             | (59,554)                    | —                | 57,461           | (45,207)           | 148,595             |  |
| The Harris Products Group | 308,177             | 6,722                       | —                | (18,411)         | (2,258)            | 294,230             |  |
| Consolidated              | <u>\$ 2,852,671</u> | <u>\$ (57,906)</u>          | <u>\$ 42,184</u> | <u>\$ 49,926</u> | <u>\$ (73,551)</u> | <u>\$ 2,813,324</u> |  |
| % Change                  |                     |                             |                  |                  |                    |                     |  |
| North America Welding     |                     | 0.3%                        | 2.6%             | 0.8%             | (0.7%)             | 2.9%                |  |
| Europe Welding            |                     | 1.9%                        | —                | (0.9%)           | (1.9%)             | (0.9%)              |  |
| Asia Pacific Welding      |                     | (6.6%)                      | —                | 0.5%             | (2.4%)             | (8.4%)              |  |
| South America Welding     |                     | (30.4%)                     | —                | 29.3%            | (23.1%)            | (24.1%)             |  |
| The Harris Products Group |                     | 2.2%                        | —                | (6.0%)           | (0.7%)             | (4.5%)              |  |
| Consolidated              |                     | (2.0%)                      | 1.5%             | 1.8%             | (2.6%)             | (1.4%)              |  |

Net sales volumes for 2014 decreased for South America Welding due to the lack of available raw materials in Venezuela and Asia Pacific Welding due to lower demand. North America Welding, Europe Welding and The Harris Products Group increased as a result of stronger end market demand in those geographies. Product pricing in North America Welding increased slightly due to the realization of price increases. Product pricing in South America Welding reflects a highly inflationary environment, particularly in Venezuela. Product pricing decreased for The Harris Products Group because of decreases in the costs of silver and copper. The increase in Net sales from acquisitions was due to the acquisitions of Easom Automation Systems, Inc. ("Easom") in October 2014, Robolution GmbH ("Robolution") in November 2013 and Burlington Automation Corporation ("Burlington") in November 2013 (see Note 3 to the consolidated financial statements for additional information regarding the acquisitions). With respect to changes in Net sales due to foreign exchange, all segments decreased due to a stronger U.S. dollar.

*Earnings Before Interest and Income Taxes (“EBIT”), as Adjusted:* Segment performance is measured and resources are allocated based on a number of factors, the primary profit measure being EBIT, as adjusted. The following table presents EBIT, as adjusted for 2014 by segment compared with 2013:

|                             | Twelve Months Ended |              |           |          |
|-----------------------------|---------------------|--------------|-----------|----------|
|                             | December 31,        |              |           |          |
|                             | 2014                | 2013         | \$ Change | % Change |
| North America Welding:      |                     |              |           |          |
| Net sales                   | \$ 1,700,924        | \$ 1,652,769 | 48,155    | 2.9%     |
| Inter-segment sales         | 124,732             | 127,254      | (2,522)   | (2.0%)   |
| Total Sales                 | \$ 1,825,656        | \$ 1,780,023 | 45,633    | 2.6%     |
| EBIT, as adjusted           | \$ 335,465          | \$ 318,507   | 16,958    | 5.3%     |
| As a percent of total sales | 18.4%               | 17.9%        |           | 0.5%     |
| Europe Welding:             |                     |              |           |          |
| Net sales                   | \$ 425,775          | \$ 429,548   | (3,773)   | (0.9%)   |
| Inter-segment sales         | 19,586              | 19,911       | (325)     | (1.6%)   |
| Total Sales                 | \$ 445,361          | \$ 449,459   | (4,098)   | (0.9%)   |
| EBIT, as adjusted           | \$ 48,822           | \$ 36,247    | 12,575    | 34.7%    |
| As a percent of total sales | 11.0%               | 8.1%         |           | 2.9%     |
| Asia Pacific Welding:       |                     |              |           |          |
| Net sales                   | \$ 243,800          | \$ 266,282   | (22,482)  | (8.4%)   |
| Inter-segment sales         | 14,820              | 14,906       | (86)      | (0.6%)   |
| Total Sales                 | \$ 258,620          | \$ 281,188   | (22,568)  | (8.0%)   |
| EBIT, as adjusted           | \$ 1,321            | \$ 1,815     | (494)     | (27.2%)  |
| As a percent of total sales | 0.5%                | 0.6%         |           | (0.1%)   |
| South America Welding:      |                     |              |           |          |
| Net sales                   | \$ 148,595          | \$ 195,895   | (47,300)  | (24.1%)  |
| Inter-segment sales         | 144                 | 233          | (89)      | (38.2%)  |
| Total Sales                 | \$ 148,739          | \$ 196,128   | (47,389)  | (24.2%)  |
| EBIT, as adjusted           | \$ 15,953           | \$ 57,306    | (41,353)  | (72.2%)  |
| As a percent of total sales | 10.7%               | 29.2%        |           | (18.5%)  |
| The Harris Products Group:  |                     |              |           |          |
| Net sales                   | \$ 294,230          | \$ 308,177   | (13,947)  | (4.5%)   |
| Inter-segment sales         | 8,210               | 9,605        | (1,395)   | (14.5%)  |
| Total Sales                 | \$ 302,440          | \$ 317,782   | (15,342)  | (4.8%)   |
| EBIT, as adjusted           | \$ 28,563           | \$ 27,826    | 737       | 2.6%     |
| As a percent of total sales | 9.4%                | 8.8%         |           | 0.6%     |

EBIT, as adjusted as a percent of total sales increased for North America Welding in 2014 as compared with 2013 due to operational improvements and lower pension expense, partially offset by higher SG&A expenses. The increase for Europe Welding is primarily due to volume increases, lower manufacturing costs and improved product mix, partially offset by higher SG&A expenses. The South America Welding decrease was a result of lower volumes related to disruptions of manufacturing operations due to the lack of available raw materials in Venezuela and higher SG&A expenses due to foreign exchange losses in Venezuela.

In 2014, EBIT, as adjusted, excluded net charges primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. Asia Pacific Welding EBIT, as adjusted, also excluded charges of \$32,742 related to impairment of long-lived assets and a gain of \$3,930 related to the sale of assets. South America Welding EBIT, as adjusted, excluded special item charges of \$21,133, related to the adoption of a new foreign exchange mechanism in the first quarter.

In 2013, EBIT, as adjusted, excluded special item charges primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. Asia Pacific Welding EBIT, as adjusted, also excluded charges of \$4,444 related to impairment of long-lived assets and a charge of \$705 related to a loss on the sale of land. South America Welding EBIT, as adjusted, excluded special item charges of \$12,198, related to the devaluation of the Venezuelan currency.

### **2013 Compared with 2012**

*Net Sales:* Net sales for 2013 remained flat with 2012. The sales change reflects volume decreases of 2.7%, price increases of 0.1%, increases from acquisitions of 3.2% and unfavorable impacts from foreign exchange of 0.6%. Sales volumes decreased as a result of soft demand in both domestic and international markets. Product pricing increased from prior year levels reflecting the highly inflationary environment in Venezuela offset by pricing declines in The Harris Products Group due to significant decreases in the costs of silver and copper. Net sales for 2013 include \$109,139 in sales from the Company's Venezuelan operations.

*Gross Profit:* Gross profit increased 8.8% to \$942,654 during 2013 compared with \$866,656 in 2012. As a percentage of Net sales, Gross profit increased to 33.0% in 2013 compared with 30.4% in 2012. The increase was the result of geographic mix and pricing stability in the wake of lower year over year input costs. The 2013 period includes incremental costs of \$4,117 due to the devaluation of the Venezuelan currency and charges of \$2,521 for inventory write-downs, partially offset by a gain of \$1,672 from insurance proceeds. In 2012, the Company recorded charges of \$2,334 related to the initial accounting for recent acquisitions and charges of \$1,039 due to a change in Venezuelan labor law, which provides for increased employee severance obligations. Foreign currency exchange rates had a \$5,622 unfavorable translation impact in 2013.

*Selling, General & Administrative ("SG&A") Expenses:* SG&A expenses increased 6.5% to \$527,206 during 2013 compared with \$495,221 in 2012. The increase was primarily due to incremental SG&A expenses from acquisitions of \$18,620, general and administrative spending primarily related to additional employee compensation costs of \$17,160 and higher foreign exchange transaction losses of \$3,280, which include a charge of \$8,081 due to the devaluation of the Venezuelan currency, partially offset by foreign currency translation of \$3,264, lower bonus expense of \$3,112 and lower U.S. retirement costs of \$1,415.

*Rationalization and Asset Impairment Charges:* In 2013, the Company recorded \$8,463 in charges primarily related to asset impairments and rationalization actions. See "Rationalization and Asset Impairments" for additional information.

*Equity Earnings in Affiliates:* Equity earnings in affiliates were \$4,806 in 2013 compared with earnings of \$5,007 in 2012. The decrease was due to decreased earnings in Chile of \$161 and Turkey of \$40.

*Interest Expense:* Interest expense decreased to \$2,864 in 2013 from \$4,191 in 2012, primarily as a result of lower levels of debt in the current period.

*Income Taxes:* The Company recorded \$124,754 of tax expense on pre-tax income of \$416,441, resulting in an effective tax rate of 30.0% for 2013. The effective income tax rate is lower than the Company's statutory rate primarily due to income earned in lower tax rate jurisdictions and the utilization of foreign tax loss carry-forwards for which valuation allowances had been previously provided.

The effective income tax rate of 30.4% for 2012 was lower than the Company's statutory rate primarily due to income earned in lower tax rate jurisdictions and the utilization of foreign tax loss carry-forwards for which valuation allowances had been previously provided.

*Net Income:* Net income for 2013 was \$293,780 compared with \$257,411 in the prior year. Diluted earnings per share for 2013 were \$3.54 compared with diluted earnings of \$3.06 per share in 2012. Net income for 2013 included \$25,614, or \$0.31 per diluted share, from the Company's Venezuelan operations. Foreign currency exchange rate movements had an unfavorable translation effect of \$1,572 and \$2,879 on Net income for 2013 and 2012, respectively.

## Segment Results

*Net Sales:* The table below summarizes the impacts of volume, acquisitions, price and foreign currency exchange rates on Net sales for the twelve months ended December 31, 2013:

|                           | Net Sales<br>2012   | Change in Net Sales due to: |                  |                 |                     | Net Sales<br>2013   |
|---------------------------|---------------------|-----------------------------|------------------|-----------------|---------------------|---------------------|
|                           |                     | Volume                      | Acquisitions     | Price           | Foreign<br>Exchange |                     |
| Operating Segments        |                     |                             |                  |                 |                     |                     |
| North America Welding     | \$ 1,580,818        | \$ (22,962)                 | \$ 91,442        | \$ 7,785        | \$ (4,314)          | \$ 1,652,769        |
| Europe Welding            | 452,227             | (18,518)                    | —                | (5,696)         | 1,535               | 429,548             |
| Asia Pacific Welding      | 324,482             | (48,964)                    | —                | (4,947)         | (4,289)             | 266,282             |
| South America Welding     | 161,483             | 13,269                      | —                | 29,730          | (8,587)             | 195,895             |
| The Harris Products Group | 334,357             | 1,276                       | —                | (24,748)        | (2,708)             | 308,177             |
| Consolidated              | <u>\$ 2,853,367</u> | <u>\$ (75,899)</u>          | <u>\$ 91,442</u> | <u>\$ 2,124</u> | <u>\$ (18,363)</u>  | <u>\$ 2,852,671</u> |
| % Change                  |                     |                             |                  |                 |                     |                     |
| North America Welding     |                     | (1.5%)                      | 5.8%             | 0.5%            | (0.3%)              | 4.6%                |
| Europe Welding            |                     | (4.1%)                      | —                | (1.3%)          | 0.3%                | (5.0%)              |
| Asia Pacific Welding      |                     | (15.1%)                     | —                | (1.5%)          | (1.3%)              | (17.9%)             |
| South America Welding     |                     | 8.2%                        | —                | 18.4%           | (5.3%)              | 21.3%               |
| The Harris Products Group |                     | 0.4%                        | —                | (7.4%)          | (0.8%)              | (7.8%)              |
| Consolidated              |                     | (2.7%)                      | 3.2%             | 0.1%            | (0.6%)              | —                   |

Net sales volumes for 2013 decreased for all operating segments except for South America Welding and The Harris Products Group, as a result of soft demand in both domestic and international markets. Net sales volumes in South America Welding increased as a result of improved demand in the South American markets. Net sales volumes in The Harris Products Group increased as a result of improved sales volumes on equipment. Product pricing in North America Welding increased slightly due to the realization of price increases and improved pricing management. Product pricing in Europe Welding decreased due to declining raw material costs. Product pricing decreased for Asia Pacific Welding due to lower raw material costs and competitive pricing conditions. Product pricing in South America Welding reflects a highly inflationary environment, particularly in Venezuela. Product pricing decreased for The Harris Products Group because of significant decreases in the costs of silver and copper as compared to the prior year period. The increase in Net sales from acquisitions was due to the acquisitions of Robolution in November 2013, Burlington in November 2013, Tennessee Rand, Inc. ("Tenn Rand") in December 2012, Kaliburn, Burny and Cleveland Motion Control businesses (collectively, "Kaliburn") in November 2012, Wayne Trail Technologies, Inc. ("Wayne Trail") in May 2012 and Weartech International, Inc. ("Weartech") in March 2012 (see Note 3 to the consolidated financial statements for additional information regarding the acquisitions). With respect to changes in Net sales due to foreign exchange, all segments, except for Europe Welding, decreased due to a stronger U.S. dollar.

*Earnings Before Interest and Income Taxes (“EBIT”), as Adjusted:* Segment performance is measured and resources are allocated based on a number of factors, the primary profit measure being EBIT, as adjusted. The following table presents EBIT, as adjusted for 2013 by segment compared with 2012:

|                             | Twelve Months Ended |              |           |          |
|-----------------------------|---------------------|--------------|-----------|----------|
|                             | December 31,        |              |           |          |
|                             | 2013                | 2012         | \$ Change | % Change |
| North America Welding:      |                     |              |           |          |
| Net sales                   | \$ 1,652,769        | \$ 1,580,818 | 71,951    | 4.6%     |
| Inter-segment sales         | 127,254             | 131,062      | (3,808)   | (2.9%)   |
| Total Sales                 | \$ 1,780,023        | \$ 1,711,880 | 68,143    | 4.0%     |
| EBIT, as adjusted           | \$ 318,507          | \$ 293,070   | 25,437    | 8.7%     |
| As a percent of total sales | 17.9%               | 17.1%        |           | 0.8%     |
| Europe Welding:             |                     |              |           |          |
| Net sales                   | \$ 429,548          | \$ 452,227   | (22,679)  | (5.0%)   |
| Inter-segment sales         | 19,911              | 16,048       | 3,863     | 24.1%    |
| Total Sales                 | \$ 449,459          | \$ 468,275   | (18,816)  | (4.0%)   |
| EBIT, as adjusted           | \$ 36,247           | \$ 37,299    | (1,052)   | (2.8%)   |
| As a percent of total sales | 8.1%                | 8.0%         |           | 0.1%     |
| Asia Pacific Welding:       |                     |              |           |          |
| Net sales                   | \$ 266,282          | \$ 324,482   | (58,200)  | (17.9%)  |
| Inter-segment sales         | 14,906              | 14,829       | 77        | 0.5%     |
| Total Sales                 | \$ 281,188          | \$ 339,311   | (58,123)  | (17.1%)  |
| EBIT, as adjusted           | \$ 1,815            | \$ 7,247     | (5,432)   | (75.0%)  |
| As a percent of total sales | 0.6%                | 2.1%         |           | (1.5%)   |
| South America Welding:      |                     |              |           |          |
| Net sales                   | \$ 195,895          | \$ 161,483   | 34,412    | 21.3%    |
| Inter-segment sales         | 233                 | 38           | 195       | 513.2%   |
| Total Sales                 | \$ 196,128          | \$ 161,521   | 34,607    | 21.4%    |
| EBIT, as adjusted           | \$ 57,306           | \$ 18,301    | 39,005    | 213.1%   |
| As a percent of total sales | 29.2%               | 11.3%        |           | 17.9%    |
| The Harris Products Group:  |                     |              |           |          |
| Net sales                   | \$ 308,177          | \$ 334,357   | (26,180)  | (7.8%)   |
| Inter-segment sales         | 9,605               | 8,549        | 1,056     | 12.4%    |
| Total Sales                 | \$ 317,782          | \$ 342,906   | (25,124)  | (7.3%)   |
| EBIT, as adjusted           | \$ 27,826           | \$ 29,477    | (1,651)   | (5.6%)   |
| As a percent of total sales | 8.8%                | 8.6%         |           | 0.2%     |

EBIT, as adjusted as a percent of total sales increased for all segments, except for Asia Pacific Welding, in 2013 as compared with 2012. The North America Welding increase was primarily due to improved pricing management and lower material costs. The increase at Europe Welding was primarily due to cost control on volume decreases of 4.1%. The Asia Pacific Welding decrease was due to lower profitability in China and Australia due to weaker demand. The South America Welding increase was a result of improved pricing management and manufacturing costs in Brazil and Colombia, and pricing increases as a result of the highly inflationary economy in Venezuela. The Harris Products Group growth was primarily a result of improved product mix on equipment sales volume.

In 2013, EBIT, as adjusted, for North America Welding, Europe Welding and Asia Pacific Welding excluded special item charges of \$1,052, \$2,045 and \$922, respectively, primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. Asia Pacific Welding EBIT, as adjusted, also excluded charges of \$4,444 related to impairment of long-lived assets and a charge of \$705 related to a loss on the sale of land. South America Welding EBIT, as adjusted, excluded special item charges of \$12,198, related to the devaluation of the Venezuelan currency.

In 2012, EBIT, as adjusted, for North America Welding, Europe Welding and Asia Pacific Welding excluded special item charges of \$827, \$3,534 and \$4,993, respectively, primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. South America Welding EBIT, as adjusted, excluded a special item charge of \$1,381, related to a change in Venezuelan labor law, which provides for increased employee severance obligations.

### Non-GAAP Financial Measures

The Company reviews Adjusted operating income, Adjusted net income and Adjusted diluted earnings per share, all non-GAAP financial measures, in assessing and evaluating the Company's underlying operating performance. These non-GAAP financial measures exclude the impact of special items on the Company's reported financial results. Non-GAAP financial measures should be read in conjunction with the generally accepted accounting principles in the United States ("GAAP") financial measures, as non-GAAP measures are a supplement to, and not a replacement for, GAAP financial measures.

The following table presents a reconciliation of Operating income as reported to Adjusted operating income:

|                                              | Year Ended December 31, |                   |                   |
|----------------------------------------------|-------------------------|-------------------|-------------------|
|                                              | 2014                    | 2013              | 2012              |
| Operating income as reported                 | \$ 373,747              | \$ 406,985        | \$ 362,081        |
| Special items (pre-tax):                     |                         |                   |                   |
| Rationalization and asset impairment charges | 30,053                  | 8,463             | 9,354             |
| Loss on the sale of land                     | —                       | 705               | —                 |
| Venezuela foreign exchange losses            | 21,133                  | 12,198            | —                 |
| Venezuela statutory severance obligation     | —                       | —                 | 1,381             |
| Adjusted operating income                    | <u>\$ 424,933</u>       | <u>\$ 428,351</u> | <u>\$ 372,816</u> |

Special items included in Operating income during 2014 include net rationalization and asset impairment charges of \$30,053 primarily consisting of non-cash asset impairment charges of \$32,742 offset by gains of \$3,930 related to the sale of assets. Special items for 2014 also include Venezuelan remeasurement losses of \$21,133 related to the adoption of a new foreign exchange mechanism in the first quarter.

Special items included in Operating income during 2013 include net rationalization and asset impairment charges of \$8,463 primarily related to employee severance and other costs associated with the consolidation of manufacturing operations and impairment of long-lived assets and a loss on the sale of land of \$705. Special items for 2013 also include charges of \$12,198 related to the devaluation of the Venezuelan currency.

Special items included in Operating income during 2012 include net rationalization and asset impairment charges of \$9,354 primarily related to employee severance and other costs associated with the consolidation of manufacturing operations initiated in 2012, partially offset by gains on the disposal of assets at rationalized operations and a charge of \$1,381 related to a change in Venezuelan labor law, which provides for increased employee severance obligations.



The following table presents reconciliations of Net income and Diluted earnings per share as reported to Adjusted net income and Adjusted diluted earnings per share:

|                                                         | Year Ended December 31, |            |            |
|---------------------------------------------------------|-------------------------|------------|------------|
|                                                         | 2014                    | 2013       | 2012       |
| Net income as reported                                  | \$ 254,686              | \$ 293,780 | \$ 257,411 |
| Special items (after-tax):                              |                         |            |            |
| Rationalization and asset impairment charges            | 30,914                  | 7,573      | 7,442      |
| Loss on the sale of land                                | —                       | 705        | —          |
| Venezuela foreign exchange losses                       | 21,133                  | 12,198     | —          |
| Venezuela statutory severance obligation                | —                       | —          | 906        |
| Special items attributable to non-controlling interests | (805)                   | (1,068)    | —          |
| Adjusted net income                                     | \$ 305,928              | \$ 313,188 | \$ 265,759 |
| Diluted earnings per share as reported                  | \$ 3.18                 | \$ 3.54    | \$ 3.06    |
| Special items per share                                 | 0.64                    | 0.23       | 0.10       |
| Adjusted diluted earnings per share                     | \$ 3.82                 | \$ 3.77    | \$ 3.16    |

Net income for 2014 includes net rationalization and asset impairment charges of \$30,914 primarily consisting of non-cash asset impairment charges of \$32,706 partially offset by gains of \$2,754 related to the sale of assets. Associated with the impairment of long-lived assets is an offsetting special item of \$805 attributable to non-controlling interests. Special items for 2014 also include Venezuelan remeasurement losses of \$21,133 related to the adoption of a new foreign exchange mechanism in the first quarter. Adjusted net income for 2014 includes \$13,279, or \$0.17 per diluted share, from the Company's Venezuelan operations.

Net income for 2013 includes net rationalization and asset impairment charges of \$7,573 primarily related to employee severance and other costs associated with the consolidation of manufacturing operations and impairment of long-lived assets and a loss on the sale of land of \$705. Associated with the impairment of long-lived assets and loss on the sale of land is an offsetting special item of \$1,068 attributable to non-controlling interests. Special items for 2013 also include charges of \$12,198 related to the devaluation of the Venezuelan currency. Adjusted net income for 2013 includes \$37,812, or \$0.46 per diluted share, from the Company's Venezuelan operations.

Net income for 2012 includes net rationalization and asset impairment charges of \$7,442 primarily related to employee severance and other costs associated with the consolidation of manufacturing operations initiated in 2012 partially offset by gains on the disposal of assets at rationalized operations and a charge of \$906 related to a change in Venezuelan labor law, which provides for increased employee severance obligations.

### Liquidity and Capital Resources

The Company's cash flow from operations can be cyclical. Operational cash flow is a key driver of liquidity, providing cash and access to capital markets. In assessing liquidity, the Company reviews working capital measurements to define areas for improvement. Management anticipates the Company will be able to satisfy cash requirements for its ongoing businesses for the foreseeable future primarily with cash generated by operations, existing cash balances, borrowings under its existing credit facilities and raising debt in capital markets.

The following table reflects changes in key cash flow measures:

|                                                         | Year Ended December 31, |            |            | \$ Change     |               |
|---------------------------------------------------------|-------------------------|------------|------------|---------------|---------------|
|                                                         | 2014                    | 2013       | 2012       | 2014 vs. 2013 | 2013 vs. 2012 |
| Cash provided by operating activities                   | \$ 401,702              | \$ 338,894 | \$ 327,484 | \$ 62,808     | \$ 11,410     |
| Cash used by investing activities:                      | (78,985)                | (129,500)  | (187,471)  | 50,515        | 57,971        |
| Capital expenditures                                    | (72,990)                | (76,015)   | (52,715)   | 3,025         | (23,300)      |
| Acquisition of businesses, net of cash acquired         | (24,230)                | (53,161)   | (134,602)  | 28,931        | 81,441        |
| Proceeds from the sale of property, plant and equipment | 17,457                  | 1,393      | 1,387      | 16,064        | 6             |
| Other investing activities                              | 778                     | (1,717)    | (1,541)    | 2,495         | (176)         |
| Cash used by financing activities:                      | (314,355)               | (194,184)  | (216,838)  | (120,171)     | 22,654        |
| Proceeds from (payments on) short-term borrowings, net  | 47,876                  | (1,451)    | (4,533)    | 49,327        | 3,082         |
| Proceeds from (payments on) long-term borrowings, net   | 5,455                   | (389)      | (84,770)   | 5,844         | 84,381        |
| Proceeds from exercise of stock options                 | 9,116                   | 20,297     | 18,776     | (11,181)      | 1,521         |
| Excess tax benefit from stock-based compensation        | 5,967                   | 10,602     | 7,819      | (4,635)       | 2,783         |
| Purchase of shares for treasury                         | (307,178)               | (167,879)  | (81,018)   | (139,299)     | (86,861)      |
| Cash dividends paid to shareholders                     | (73,261)                | (49,277)   | (73,112)   | (23,984)      | 23,835        |
| Transactions with non-controlling interests             | (2,330)                 | (6,087)    | —          | 3,757         | (6,087)       |
| (Decrease) increase in Cash and cash equivalents        | (21,446)                | 13,361     | (74,637)   |               |               |

Cash and cash equivalents decreased 7.2%, or \$21,446, to \$278,379 during the twelve months ended December 31, 2014, from \$299,825 as of December 31, 2013. This decrease was predominantly due to increases in purchases of common shares for treasury to \$307,178 and cash dividends paid to shareholders of \$73,261.

Cash provided by operating activities increased \$62,808 for the twelve months ended December 31, 2014 compared with the twelve months ended December 31, 2013. The increase was predominantly due to a decrease of \$51,284 in pension contributions and payments and a refund of a Canadian tax deposit of \$50,282 in 2014. Net operating working capital is defined as the sum of Accounts receivable and Total inventory less Trade accounts payable. Net operating working capital to sales, defined as net operating working capital divided by annualized rolling three months of Net sales, decreased to 16.5% at December 31, 2014 compared with 17.6% at December 31, 2013. Days sales in inventory decreased to 92.3 days at December 31, 2014 from 93.2 days at December 31, 2013. Accounts receivable days decreased to 45.7 days at December 31, 2014 from 50.3 days at December 31, 2013. Average days in accounts payable decreased to 45.0 days at December 31, 2014 from 45.5 days at December 31, 2013.

Cash used by investing activities decreased by \$50,515 in the twelve months ended December 31, 2014 compared with the twelve months ended December 31, 2013. The decrease was predominantly due to a decrease in the acquisition of businesses of \$28,931 and an increase in proceeds from the sale of property, plant and equipment of \$16,064. The Company anticipates capital expenditures of \$65,000 to \$75,000 in 2015. Anticipated capital expenditures reflect investments for capital maintenance to improve operational effectiveness and the Company's continuing international expansion. Management critically evaluates all proposed capital expenditures and requires each project to increase efficiency, reduce costs, promote business growth, or to improve the overall safety and environmental conditions of the Company's facilities.

Cash used by financing activities increased \$120,171 in the twelve months ended December 31, 2014 compared with the twelve months ended December 31, 2013. The increase was predominantly due to higher cash dividends paid to shareholders of \$23,984 and higher purchases of common shares for treasury of \$139,299 partially offset by higher proceeds from short-term borrowings of \$49,327. The Company currently anticipates share repurchases of approximately \$400,000 in 2015.

The Company continues to expand globally and periodically looks at transactions that would involve significant investments. The Company can fund its global expansion plans with operational cash flow, but a significant acquisition may require access to capital markets, in particular, the long-term debt market, as well as the syndicated bank loan market. The Company's financing strategy is to fund itself at the lowest after-tax cost of funding. Where possible, the Company utilizes operational cash flows and raises capital in the most efficient market, usually the U.S., and then lends funds to the specific subsidiary that requires funding. If additional acquisitions providing appropriate financial benefits become available, additional expenditures may be made.

The Company's debt levels increased from \$19,087 at December 31, 2013 to \$70,654 at December 31, 2014. Debt to total invested capital increased to 5.2% at December 31, 2014 from 1.2% at December 31, 2013.

The Company paid \$73,261 and \$49,277 in cash dividends to its shareholders in the twelve months ended December 31, 2014 and 2013, respectively.

The Company has a share repurchase program for up to 45 million of the Company's common shares. At management's discretion, the Company repurchases its common shares from time to time in the open market, depending on market conditions, stock price and other factors. During the twelve months ended December 31, 2014, the Company purchased a total of 4.4 million shares at a cost of \$307,178. As of December 31, 2014, 11.3 million shares remained available for repurchase under the stock repurchase program.

The Company made voluntary contributions to its U.S. defined benefit plans of \$21,175, \$75,216 and \$60,277 in 2014, 2013 and 2012, respectively. The Company expects to voluntarily contribute \$21,000 to U.S. plans in 2015. Based on current pension funding rules, the Company does not anticipate that contributions to the plans would be required in 2015.

#### *Canada - Notice of Reassessment*

As discussed in Note 12 to the consolidated financial statements, in July 2012, the Company received a Notice of Reassessment (the "Reassessments") from the Canada Revenue Agency (the "CRA") in respect to its 2004 to 2010 taxation years to disallow the deductibility of inter-company dividends. The Company appealed the Reassessments to the Tax Court of Canada. As part of the appeals process to the Tax Court of Canada, the Company had elected to deposit the entire amount of the dispute in order to suspend continuing interest charges.

In September 2014, the Department of Justice Canada consented to a judgment, wholly in the Company's favor. In vacating the reassessment, this tax litigation is concluded. In December 2014 the Company received a partial refund of the cash deposit with a value of \$50,282. The Company also received interest on the deposit of \$1,236. The Company expects the balance of the cash deposit of \$27,068, recorded in Other current assets as of December 31, 2014, plus 1% annual interest to be received in the first quarter of 2015.

#### **Rationalization and Asset Impairments**

In 2014, the Company recorded net rationalization and asset impairment charges of \$30,053 resulting from rationalization activities primarily initiated in the third quarter 2014. The 2014 net charges include \$1,241 primarily related to employee severance and other related costs and \$32,742 in asset impairment charges, partially offset by gains from sales of assets of \$3,930.

In 2013, the Company recorded net rationalization and asset impairment charges of \$8,463 resulting from rationalization activities primarily initiated in 2012 and the third quarter of 2013. The 2013 net charges include \$3,658 primarily related to employee severance and other related costs and \$4,961 in asset impairment charges, partially offset by gains from sales of assets \$156.

In 2012, the Company recorded net rationalization and asset impairment charges of \$9,354 resulting from rationalization activities primarily initiated in 2012 to align its business to current market conditions. The 2012 net charges include \$7,512 primarily related to employee severance and other related costs, partially offset by gains from sales of assets at rationalized operations and \$1,842 in asset impairment charges.

Fair values of impaired assets were determined using projected discounted cash flows.

#### **Acquisitions**

Refer to Note 3 to the consolidated financial statements for a discussion of the Company's recent acquisitions.

## Debt

At December 31, 2014 and 2013, the fair value of long-term debt, including the current portion, was approximately \$9,323 and \$4,212, respectively, which was determined using available market information and methodologies requiring judgment. Since considerable judgment is required in interpreting market information, the fair value of the debt is not necessarily the amount which could be realized in a current market exchange.

### Revolving Credit Agreement

The Company has a line of credit totaling \$400,000 through the Amended and Restated Credit Agreement (the "Credit Agreement"), which was entered into on September 12, 2014. The Credit Agreement contains customary affirmative, negative and financial covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to liens, investments, distributions, mergers and acquisitions, dispositions of assets, transactions with affiliates and a fixed charges coverage ratio and total leverage ratio. As of December 31, 2014, the Company was in compliance with all of its covenants and had \$50,000 in outstanding borrowings under the Credit Agreement, which was recorded in Amounts due banks. The Credit Agreement has a five-year term and may be increased, subject to certain conditions, by an additional amount up to \$100,000. The interest rate on borrowings is based on either LIBOR or the prime rate, plus a spread based on the Company's leverage ratio, at the Company's election.

### Short-term Borrowings

The Company's short-term borrowings included in Amounts due banks were \$61,155 and \$14,581 at December 31, 2014 and 2013, respectively. Amounts due banks included the outstanding borrowings under the Credit Agreement and the borrowings of foreign subsidiaries at weighted average interest rates of 3.1% and 11.3% at December 31, 2014 and 2013, respectively.

## Contractual Obligations and Commercial Commitments

The Company's contractual obligations and commercial commitments as of December 31, 2014 are as follows:

|                                           | Payments Due By Period |                   |                  |                 |                 |
|-------------------------------------------|------------------------|-------------------|------------------|-----------------|-----------------|
|                                           | Total                  | 2015              | 2016 to 2017     | 2018 to 2019    | 2020 and Beyond |
| Long-term debt, including current portion | \$ 9,301               | \$ 6,938          | \$ 1,751         | \$ 196          | \$ 416          |
| Interest on long-term debt                | 963                    | 760               | 159              | 23              | 21              |
| Capital lease obligations                 | 198                    | 76                | 109              | 13              | —               |
| Short-term debt                           | 61,155                 | 61,155            | —                | —               | —               |
| Interest on short-term debt               | 903                    | 903               | —                | —               | —               |
| Operating leases                          | 44,396                 | 12,372            | 18,567           | 9,551           | 3,906           |
| Purchase commitments <sup>(1)</sup>       | 162,021                | 159,428           | 2,491            | 102             | —               |
| Total                                     | <u>\$ 278,937</u>      | <u>\$ 241,632</u> | <u>\$ 23,077</u> | <u>\$ 9,885</u> | <u>\$ 4,343</u> |

(1) Purchase commitments include contractual obligations for raw materials and services.

As of December 31, 2014, there was \$18,389 of tax liabilities related to unrecognized tax benefits and a \$21,839 liability for deferred compensation. Because of the high degree of uncertainty regarding the timing of future cash outflows associated with these liabilities, the Company is unable to estimate the years in which settlement will occur. See Note 12 and Note 14 to the Company's consolidated financial statements for further discussion. Additionally, in connection with prior acquisitions, there were liabilities with fair values as of December 31, 2014 of \$6,912 for a contingent consideration arrangement and \$25,268 for a forward contract to acquire an additional ownership interest in a majority owned subsidiary. The amount of future cash flows associated with these liabilities will be contingent upon actual results of the acquired entities. See Note 14 to the Company's consolidated financial statements for further discussion.

The Company expects to voluntarily contribute \$21,000 to the U.S. defined benefit plans in 2015.

## **Stock-Based Compensation**

On April 28, 2006, the shareholders of the Company approved the 2006 Equity and Performance Incentive Plan, as amended ("EPI Plan"), which replaced the 1998 Stock Plan, as amended and restated in May 2003. The EPI Plan provides for the granting of options, appreciation rights, restricted shares, restricted stock units and performance-based awards up to an additional 6,000,000 of the Company's common shares. In addition, on April 28, 2006, the shareholders of the Company approved the 2006 Stock Plan for Non-Employee Directors, as amended ("Director Plan"), which replaced the Stock Option Plan for Non-Employee Directors adopted in 2000. The Director Plan provides for the granting of options, restricted shares and restricted stock units up to an additional 600,000 of the Company's common shares. At December 31, 2014, there were 2,330,493 common shares available for future grant under all plans.

Under these plans, options, restricted shares and restricted stock units granted were 22,909 in 2014, 357,494 in 2013 and 567,023 in 2012. The Company issued common shares from treasury upon all exercises of stock options and the granting of restricted stock awards in 2014, 2013 and 2012.

Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. No expense is recognized for any stock options, restricted or deferred shares or restricted stock units ultimately forfeited because recipients fail to meet vesting requirements. Total stock-based compensation expense recognized in the Consolidated Statements of Income for 2014, 2013 and 2012 was \$8,416, \$9,734 and \$8,961, respectively with a related tax benefit of \$3,222, \$3,727 and \$3,409, respectively. As of December 31, 2014, total unrecognized stock-based compensation expense related to non-vested stock options, restricted shares and restricted stock units was \$12,452, which is expected to be recognized over a weighted average period of approximately 3.0 years.

The aggregate intrinsic value of options outstanding and exercisable which would have been received by the optionees had all awards been exercised at December 31, 2014, was \$65,873 and \$64,161, respectively. The total intrinsic value of options exercised during 2014, 2013 and 2012 was \$14,647, \$26,288 and \$25,936 respectively.

## **Product Liability Costs**

Product liability costs have historically been significant particularly with respect to asbestos claims. Costs incurred are volatile and are largely related to trial activity. The costs associated with these claims are predominantly defense costs which are recognized in the periods incurred.

The long-term impact of the asbestos loss contingency, in the aggregate, on operating results, operating cash flows and access to capital markets is difficult to assess, particularly since claims are in many different stages of development and the Company benefits significantly from cost sharing with co-defendants and insurance carriers. Moreover, the Company has been largely successful to date in its defense of these claims.

## **Off-Balance Sheet Arrangements**

The Company utilizes letters of credit to back certain payment and performance obligations. Letters of credit are subject to limits based on amounts outstanding under the Company's Credit Agreement.

## **New Accounting Pronouncements**

Refer to Note 1 to the consolidated financial statements for a discussion of new accounting pronouncements.

## **Critical Accounting Policies**

The Company's consolidated financial statements are based on the selection and application of significant accounting policies, which require management to make estimates and assumptions. These estimates and assumptions are reviewed periodically by management and compared to historical trends to determine the accuracy of estimates and assumptions used. If warranted, these estimates and assumptions may be changed as current trends are assessed and updated. Historically, the Company's estimates have been determined to be reasonable. No material changes to the Company's accounting policies were made during 2014. The Company believes the following accounting policies are some of the more critical judgment areas affecting its financial condition and results of operations.

## *Legal and Tax Contingencies*

The Company, like other manufacturers, is subject from time to time to a variety of civil and administrative proceedings arising in the ordinary course of business. Such claims and litigation include, without limitation, product liability claims, regulatory claims and health, safety and environmental claims, some of which relate to cases alleging asbestos induced illnesses. The costs associated with these claims are predominantly defense costs, which are recognized in the periods incurred. Insurance reimbursements mitigate these costs and, where reimbursements are probable, they are recognized in the applicable period. With respect to costs other than defense costs (i.e., for liability and/or settlement or other resolution), reserves are recorded when it is probable that the contingencies will have an unfavorable outcome. The Company accrues its best estimate of the probable costs, after a review of the facts with management and counsel and taking into account past experience. If an unfavorable outcome is determined to be reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated, disclosure is provided for material claims or litigation. Many of the current cases are in differing procedural stages and information on the circumstances of each claimant, which forms the basis for judgments as to the validity or ultimate disposition of such actions, varies greatly. Therefore, in many situations a range of possible losses cannot be made. Reserves are adjusted as facts and circumstances change and related management assessments of the underlying merits and the likelihood of outcomes change. Moreover, reserves only cover identified and/or asserted claims. Future claims could, therefore, give rise to increases to such reserves.

The Company is subject to taxation from U.S. federal, state, municipal and international jurisdictions. The calculation of current income tax expense is based on the best information available and involves significant management judgment. The actual income tax liability for each jurisdiction in any year can in some instances be ultimately determined several years after the financial statements are published.

The Company maintains reserves for estimated income tax exposures for many jurisdictions. Exposures are settled primarily through the completion of audits within each individual tax jurisdiction or the closing of a statute of limitation. Exposures can also be affected by changes in applicable tax law or other factors, which may cause management to believe a revision of past estimates is appropriate. Management believes that an appropriate liability has been established for income tax exposures; however, actual results may materially differ from these estimates. See Note 12 to the Company's consolidated financial statements for further discussion of tax contingencies.

## *Translation of Foreign Currencies*

Asset and liability accounts are translated into U.S. dollars using exchange rates in effect at the dates of the Consolidated Balance Sheets; revenue and expense accounts are translated at average monthly exchange rates. Translation adjustments are reflected as a component of Total equity. For subsidiaries operating in highly inflationary economies, both historical and current exchange rates are used in translating balance sheet accounts and translation adjustments are included in Net income.

Foreign currency transaction losses are included in Selling, general & administrative expenses and were \$22,351, \$7,759 and \$4,608 in 2014, 2013 and 2012, respectively.

## *Venezuela – Highly Inflationary Economy*

Venezuela is a highly inflationary economy under U.S. GAAP. As a result, the financial statements of the Company's Venezuelan operation are reported under highly inflationary accounting rules as of January 1, 2010. Under highly inflationary accounting, the financial statements of the Company's Venezuelan operation have been remeasured into the Company's reporting currency and exchange gains and losses from the re-measurement of monetary assets and liabilities are reflected in current earnings. On February 8, 2013, the Venezuelan government announced the devaluation of its currency relative to the U.S. dollar. Effective February 13, 2013 the official rate moved from 4.3 to 6.3 bolivars to the U.S. dollar. In 2013, the devaluation of the bolivar resulted in a foreign currency transaction loss of \$8,081 in Selling, general & administrative expenses and higher Cost of goods sold of \$4,117 due to the liquidation of inventory valued at the historical exchange rate.

In January 2014, the Venezuela government announced the formation of the National Center of Foreign Trade ("CENCOEX") to replace the Commission for the Administration of Currency Exchange ("CADIVI"). Effective January 24, 2014, the exchange rate applicable to the settlement of certain transactions through CENCOEX, including payments of dividends and royalties, changed to utilize the Complementary System of Foreign Currency Administration ("SICAD") auction-based exchange rate (the "SICAD I rate") as opposed to the official rate. Further, in January 2014, the Venezuelan government also enacted the "Fair Prices Law" limiting prices and establishing a maximum profit margin on goods and services. In February 2014, the government announced a new market based foreign exchange system, the SICAD II. The exchange rate established through SICAD II fluctuates daily and is significantly higher than both the official rate and the SICAD I rate.

As of March 31, 2014, the Company determined that the rate used in remeasuring the Venezuelan operation's financial statements into U.S. dollars would change to the SICAD I rate as future remittances for dividend payments could be transacted at the SICAD I rate. As of March 31, 2014, the SICAD I rate was 10.7 bolivars to the U.S. dollar, which resulted in a remeasurement loss on the bolivar-denominated monetary net asset position of \$17,665 which was recorded in Selling, general & administrative expenses in the three months ended March 31, 2014. Additionally, the Company incurred higher Cost of goods sold of \$3,468 during the second quarter of 2014 related to the adoption of the SICAD I rate.

The SICAD I rate is determined by periodic auctions which may result in additional losses or gains on a remeasurement of the bolivar-denominated monetary net asset position. In February 2015, the Venezuelan government announced a new exchange market called the Marginal Currency System ("SIMADI"), which will replace the SICAD II exchange and allow for trading based on supply and demand. An initial exchange rate for the SIMADI market was established at approximately 170.0 bolivars to the U.S. dollar. While there remains considerable uncertainty as to the nature and volume of transactions that will flow through the various currency exchange mechanisms, the Company determined that the SICAD I rate remained the most appropriate exchange rate for the Company to utilize in remeasuring the Venezuelan operation's financial statements into U.S. dollars as of December 31, 2014. As of December 31, 2014, the SICAD I rate was 12.0 bolivars to the U.S. dollar. If in the future the Company were to convert bolivars at a rate other than the SICAD I rate the Company may realize additional losses or gains to earnings.

At December 31, 2014, the amount of bolivar requests awaiting government approval to be paid in U.S. dollars at the SICAD I rate include \$8,446 for dividend payments, of which \$4,386 have been outstanding for more than a year, and \$7,904 to be paid at the official rate, of which \$7,661 have been outstanding for more than a year.

In the 2014, the Company's Venezuela operations contributed \$71,793 to Net sales for the Company. Net income included a loss of \$8,238, or \$0.10 per diluted share from Venezuela. Adjusted net income for the 2014 included \$13,279, or \$0.17 per diluted share, from Venezuela. Future impacts to earnings of applying highly inflationary accounting for Venezuela on the Company's consolidated financial statements will be dependent upon the applied currency exchange mechanisms, the movements in the applicable exchange rates between the bolivar and the U.S. dollar and the amount of monetary assets and liabilities included in the Company's Venezuelan operation's balance sheet. The bolivar-denominated monetary net liability position was \$1,264 at December 31, 2014, which includes \$2,124 of cash and cash equivalents and the bolivar-denominated monetary net asset position was \$38,633 at December 31, 2013, which includes \$50,642 of cash and cash equivalents.

The Company's ability to effectively manage sales and profit levels in Venezuela will be impacted by several factors. In addition to those factors previously mentioned, these include the Company's ability to mitigate the effect of any potential future devaluation and Venezuelan government price or exchange controls. For example, a future devaluation in the Venezuelan currency to the SIMADI rate would result in the Company realizing additional charges of approximately \$22,000 to Cost of goods sold based on December 31, 2014 inventory levels and gains of approximately \$1,000 to Selling, general and administrative expenses based upon the December 31, 2014 bolivar-denominated monetary net liability position. The various restrictions on the distribution of foreign currency by the Venezuelan government could also affect the Company's ability to pay obligations and maintain normal productions levels in Venezuela.

#### *Deferred Income Taxes*

Deferred income taxes are recognized at currently enacted tax rates for temporary differences between the GAAP and income tax basis of assets and liabilities and operating loss and tax credit carry-forwards. The Company does not provide deferred income taxes on unremitted earnings of certain non-U.S. subsidiaries, which are deemed permanently reinvested. It is not practicable to calculate the deferred taxes associated with the remittance of these earnings. Deferred income taxes associated with earnings of \$16,032 that are not expected to be permanently reinvested were not significant. At December 31, 2014, the Company had approximately \$94,797 of gross deferred tax assets related to deductible temporary differences and tax loss and credit carry-forwards which may reduce taxable income in future years.

In assessing the realizability of deferred tax assets, the Company assesses whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. The Company considers the scheduled reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income in making this assessment. At December 31, 2014, a valuation allowance of \$48,840 was recorded against these deferred tax assets based on this assessment. The Company believes it is more likely than not that the tax benefit of the remaining net deferred tax assets will be realized. The amount of net deferred tax assets considered realizable could be increased or reduced in the future if the Company's assessment of future taxable income or tax planning strategies changes.

## *Pensions*

The Company maintains a number of defined benefit and defined contribution plans to provide retirement benefits for employees. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA"), local statutory law or as determined by the Board of Directors. The plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for a domestic non-qualified pension plan for certain key employees and certain foreign plans.

A substantial portion of the Company's pension amounts relate to its defined benefit plan in the United States. The fair value of plan assets is determined at December 31 of each year.

A significant element in determining the Company's pension expense is the expected return on plan assets. At the end of each year, the expected return on plan assets is determined based on the weighted average expected return of the various asset classes in the plan's portfolio and the targeted allocation of plan assets. The asset class return is developed using historical asset return performance as well as current market conditions such as inflation, interest rates and equity market performance. The Company determined this rate to be 7.3% and 7.4% at December 31, 2014 and 2013, respectively. The assumed long-term rate of return on assets is applied to the market value of plan assets. This produces the expected return on plan assets included in pension expense. The difference between this expected return and the actual return on plan assets is deferred and amortized over the average remaining service period of active employees expected to receive benefits under the plan. The amortization of the net deferral of past losses will increase future pension expense. During 2014, investment returns were 11.5% compared with a return of 12.4% in 2013. A 25 basis point change in the expected return on plan assets would increase or decrease pension expense by approximately \$2,100.

Another significant element in determining the Company's pension expense is the discount rate for plan liabilities. To develop the discount rate assumption, the Company refers to the yield derived from matching projected pension payments with maturities of a portfolio of available non-callable bonds rated AA or an equivalent quality. The Company determined this rate to be 4.1% at December 31, 2014 and 4.7% at December 31, 2013. A 10 basis point change in the discount rate would increase or decrease pension expense by approximately \$1,200.

Pension expense relating to the Company's defined benefit plans was \$12,395, \$29,908 and \$36,258 in 2014, 2013 and 2012, respectively. The Company expects 2015 defined benefit pension expense to increase by a range of approximately \$10,000 to \$12,000.

The Accumulated other comprehensive loss, excluding tax effects, recognized on the Consolidated Balance Sheet was \$314,411 as of December 31, 2014 and \$256,260 as of December 31, 2013. The increase is primarily the result of actuarial losses recorded during the year. Actuarial losses arising during 2014 are primarily attributable to a lower discount rate and the adoption of new mortality tables.

The Company made voluntary contributions to its U.S. defined benefit plans of \$21,175, \$75,216 and \$60,277 in 2014, 2013 and 2012, respectively. The Company expects to voluntarily contribute \$21,000 to the U.S. plans in 2015. Based on current pension funding rules, the Company does not anticipate that contributions to the plans would be required in 2015.

## *Inventories*

Inventories are valued at the lower of cost or market. Fixed manufacturing overhead costs are allocated to inventory based on normal production capacity and abnormal manufacturing costs are recognized as period costs. For most domestic inventories, cost is determined principally by the last-in, first-out ("LIFO") method, and for non-U.S. inventories, cost is determined by the first-in, first-out ("FIFO") method. The valuation of LIFO inventories is made at the end of each year based on inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Actual year-end costs and inventory levels may differ from interim LIFO inventory valuations. The excess of current cost over LIFO cost was \$71,311 at December 31, 2014 and \$70,882 at December 31, 2013.

The Company reviews the net realizable value of inventory on an on-going basis, with consideration given to deterioration, obsolescence and other factors. If actual market conditions differ from those projected by management, and the Company's estimates prove to be inaccurate, write-downs of inventory values and adjustments to Cost of goods sold may be required. Historically, the Company's reserves have approximated actual experience.

## *Accounts Receivable*

The Company maintains an allowance for doubtful accounts for estimated losses from the failure of its customers to make required payments for products delivered. The Company estimates this allowance based on the age of the related receivable, knowledge of the financial condition of customers, review of historical receivables and reserve trends and other pertinent information. If the financial condition of customers deteriorates or an unfavorable trend in receivable collections is experienced in the future, additional allowances may be required. Historically, the Company's reserves have approximated actual experience.



## *Goodwill and Intangibles*

The Company performs an annual impairment test of goodwill and indefinite-lived intangible assets in the fourth quarter using the same dates each year or more frequently if changes in circumstances or the occurrence of events indicate potential impairment. The fair value of each indefinite-lived intangible asset is compared to its carrying value and an impairment charge is recorded if the carrying value exceeds the fair value. Goodwill is tested by comparing the fair value of each reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the implied value of goodwill is compared to its carrying value and impairment is recognized to the extent that the carrying value exceeds the implied fair value.

Fair values are determined using established business valuation multiples and models developed by the Company that incorporate allocations of certain assets and cash flows among reporting units, estimates of market participant assumptions of future cash flows, future growth rates and the applicable discount rates to value estimated cash flows. Changes in economic and operating conditions impacting these assumptions could result in asset impairments in future periods.

The fair value of goodwill for all of the Company's operating business units exceeded its carrying value by at least 10% as of the testing date during the fourth quarter of 2014. Key assumptions in estimating the reporting unit's fair value include assumed market participant assumptions of revenue growth, operating margins and the rate used to discount future cash flows. Actual revenue growth and operating margins below the assumed market participant assumptions or an increase in the discount rate would have a negative impact on the fair value of the reporting unit that could result in a goodwill impairment charge in a future period.

## *Long-Lived Assets*

The Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, a loss is recognized to the extent that carrying value exceeds fair value. Fair value is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows.

During 2014, the Company identified long-lived assets for planned divestiture. In anticipation of the divestiture, the Company reviewed the carrying values and future cash flows of certain long-lived assets for potential impairment. The Company determined that for certain assets, including the planned divestiture, the carrying values of the assets exceeded the fair values resulting in non-cash impairment charges of \$32,617 recorded in Rationalization and asset impairment charges. As of December 31, 2014, the assets identified for divestiture were classified as held for sale.

## *Stock-Based Compensation*

The Company utilizes the Black-Scholes option pricing model for estimating fair values of options. The Black-Scholes model requires assumptions regarding the volatility of the Company's common shares, the expected life of the stock award and the Company's dividend yield. The Company utilizes historical data in determining these assumptions. An increase or decrease in the assumptions or economic events outside of management's control could have an impact on the Black-Scholes model.

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

The Company's primary financial market risks include fluctuations in currency exchange rates, commodity prices and interest rates. The Company manages these risks by using derivative financial instruments in accordance with established policies and procedures. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes.

Included below is a sensitivity analysis based upon a hypothetical 10% weakening or strengthening in the U.S. dollar compared to foreign currency exchange rates at December 31, 2014, a 10% change in commodity prices, and a 100 basis point increase in effective interest rates. The contractual derivative, borrowing and investment arrangements in effect at December 31, 2014 were compared to the hypothetical foreign exchange, commodity price, or interest rates in the sensitivity analysis to determine the effect on income before taxes, interest expense, or accumulated other comprehensive loss. The analysis takes into consideration any offset that would result from changes in the value of the hedged asset or liability.

### *Foreign Currency Exchange Risk*

The Company enters into forward foreign exchange contracts principally to hedge the currency fluctuations in transactions denominated in foreign currencies, thereby limiting the Company's risk that would otherwise result from changes in exchange rates. At December 31, 2014, the Company hedged certain third-party and inter-company purchases and sales. At December 31, 2014, the Company had foreign exchange contracts with a notional value of approximately \$87,999, which includes net investment hedges. At December 31, 2014, a hypothetical 10% weakening of the U.S. dollar would not materially affect the Company's financial statements.

### *Commodity Price Risk*

From time to time, the Company uses various hedging arrangements to manage exposures to price risk from commodity purchases. These hedging arrangements have the effect of fixing for specified periods the prices the Company will pay for the volume to which the hedge relates. A hypothetical 10% adverse change in commodity prices on the Company's open commodity futures at December 31, 2014 would not materially affect the Company's financial statements.

### *Interest Rate Risk*

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. A hypothetical 1.0% increase in interest rates would not materially affect the Company's financial statements. The Company uses interest rate derivatives to manage interest rate risk. The Company had no interest rate derivatives outstanding during 2014 or 2013.

The Company's return on cash and cash equivalents are also subject to interest rate risk. As of December 31, 2014, the Company had \$278,379 in cash and cash equivalents. A hypothetical change of 1.0% in interest rates would not materially affect the Company's financial statements. The fair value of the Company's Cash and cash equivalents at December 31, 2014 approximated carrying value. The Company's financial instruments are subject to concentrations of credit risk. The Company has minimized this risk by entering into investments with a number of major banks and financial institutions and investing in high-quality instruments. The Company does not expect any counter-parties to fail to meet their obligations.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The response to this item is submitted in a separate section of this Annual Report on Form 10-K following the signature page.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Exchange Act. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K.

### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting as of December 31, 2014 based on the 2013 framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the Company's evaluation under such framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included elsewhere in this Annual Report on Form 10-K and is incorporated herein by reference.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2014 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

### ***ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The Company is expected to file its 2015 proxy statement pursuant to Regulation 14A of the Exchange Act prior to April 30, 2015.

Except for the information set forth within Part I, Item 1C section of this Annual Report on Form 10-K concerning our Executive Officers, the information required by this item is incorporated by reference from the 2015 proxy statement.

### ***ITEM 11. EXECUTIVE COMPENSATION***

The information required by this item is incorporated by reference from the 2015 proxy statement.

### ***ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

The information required by this item is incorporated by reference from the 2015 proxy statement.

For further information on the Company's equity compensation plans, see Note 1 and Note 9 to the Company's consolidated financial statements.

### ***ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required by this item is incorporated by reference from the 2015 proxy statement.

### ***ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES***

The information required by this item is incorporated by reference from the 2015 proxy statement.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

#### (a)(1) Financial Statements

The following consolidated financial statements of the Company are included in a separate section of this report following the signature page and certifications:

Report of Independent Registered Public Accounting Firm  
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting  
Consolidated Balance Sheets – December 31, 2014 and 2013  
Consolidated Statements of Income – Years ended December 31, 2014, 2013 and 2012  
Consolidated Statements of Comprehensive Income – Years ended December 31, 2014, 2013 and 2012  
Consolidated Statements of Equity – Years ended December 31, 2014, 2013 and 2012  
Consolidated Statements of Cash Flows – Years ended December 31, 2014, 2013 and 2012  
Notes to Consolidated Financial Statements

#### (a)(2) Financial Statement Schedules

The following consolidated financial statement schedule of the Company is included in a separate section of this report following the signature page:

Schedule II – Valuation and Qualifying Accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore, have been omitted.

#### (a)(3) Exhibits

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1         | Amended and Restated Code of Regulations of Lincoln Electric Holdings, Inc. (filed as Exhibit 3.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on April 29, 2014, SEC file No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                                                                                                                                                                      |
| 3.2         | Amended and Restated Articles of Incorporation of Lincoln Electric Holdings, Inc. (filed as Exhibit 3.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on September 27, 2011, SEC file No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                                                                                                                                                            |
| 10.1        | Amended and Restated Credit Agreement, dated as of September 12, 2014, by and among Lincoln Electric Holdings, Inc., The Lincoln Electric Company, Lincoln Electric International Holding Company, J.W. Harris Co., Inc., Techalloy, Inc., Wayne Trail Technologies, Inc., Lincoln Global, Inc., the Lenders and KeyBank National Association (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on September 17, 2014, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).               |
| 10.2*       | 1998 Stock Plan (Amended, Restated and Renamed as of May 1, 2003) (filed as Appendix B to the Lincoln Electric Holdings, Inc. proxy statement dated March 31, 2003, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                                                                                                                                                                            |
| 10.3*       | Amendment No. 1 to the 1998 Stock Plan (Amended, Restated and Renamed Effective May 1, 2003) dated October 20, 2006 (filed as Exhibit 10.6 to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2007, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                                                                                                               |
| 10.4*       | 1988 Incentive Equity Plan (filed as Exhibit 28 to the Form S-8 Registration Statement of The Lincoln Electric Company, SEC File No. 33-25209 and incorporated herein by reference and made a part hereof) as adopted and amended by Lincoln Electric Holdings, Inc. pursuant to an Instrument of Adoption and Amendment dated December 29, 1998 (filed as Exhibit 10(d) to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 1998, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof). |
| 10.5*       | Amendment No. 2 to the 1988 Incentive Equity Plan dated October 20, 2006 (filed as Exhibit 10.8 to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2007, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                                                                                                                                                          |
| 10.6*       | Supplemental Executive Retirement Plan (Amended and Restated as of December 31, 2008) (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                                                                                                                                                          |

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                                                                              |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.7*       | Deferred Compensation Plan for Certain Retention Agreements and Other Contractual Arrangements (Amended and Restated as of January 1, 2004) (filed as Exhibit 10(i) to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2003, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                              |
| 10.8*       | Non-Employee Directors' Deferred Compensation Plan (Amended and Restated as of December 31, 2008) (filed as Exhibit 10.3 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                      |
| 10.9*       | 2005 Deferred Compensation Plan for Executives (Amended and Restated as of August 1, 2011) (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on August 4, 2011, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                              |
| 10.10*      | Description of Management Incentive Plan (filed as Exhibit 10(e) to Form 10-K of The Lincoln Electric Company for the year ended December 31, 1995, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                    |
| 10.11*      | Description of Long-Term Performance Plan (filed as Exhibit 10(f) to Form 10-K of The Lincoln Electric Company for the year ended December 31, 1997, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                   |
| 10.12*      | Form of Severance Agreement (as entered into by the Company and the following executive officers: Messrs. Stropki, Mapes, Petrella, Stueber, LeBlanc and Blankenship) (filed as Exhibit 10.1 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended June 30, 2009, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof). |
| 10.13*      | Stock Option Plan for Non-Employee Directors (filed as Exhibit 10(p) to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended March 31, 2000, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                        |
| 10.14*      | Amendment No. 1 to the Stock Option Plan for Non-Employee Directors dated October 20, 2006 (filed as Exhibit 10.26 to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2007, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                               |
| 10.15*      | Summary of Cash Long-Term Incentive Plan, as amended (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on April 6, 2005, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                     |
| 10.16*      | 2006 Equity and Performance Incentive Plan (Restated as of March 3, 2011) (filed as Annex A to the Lincoln Electric Holdings, Inc. proxy statement dated March 18, 2011, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                               |
| 10.17*      | 2006 Stock Plan for Non-Employee Directors (filed as Appendix C to the Lincoln Electric Holdings, Inc. proxy statement dated March 28, 2006, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                                                           |
| 10.18*      | Amendment No. 1 to the 2006 Stock Plan for Non-Employee Directors dated October 20, 2006 (filed as Exhibit 10.2 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended March 31, 2007, SEC file No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                             |
| 10.19*      | Amendment No. 2 to the 2006 Stock Plan for Non-Employee Directors dated July 26, 2007 (filed as Exhibit 10.1 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended September 30, 2007, SEC file No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                            |
| 10.20*      | Amendment No. 3 to the 2006 Stock Plan for Non-Employee Directors dated February 17, 2015.                                                                                                                                                                                                                                                                               |
| 10.21*      | 2007 Management Incentive Compensation Plan (Amended and Restated as of December 31, 2008) (filed as Exhibit 10.4 to Form 8-K of Lincoln Electric Holdings, Inc. filed on January 7, 2009, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                             |
| 10.22*      | Form of Restricted Shares Agreement for Non-Employee Directors (filed as Exhibit 10.1 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended September 30, 2010, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                   |
| 10.23*      | Form of Restricted Shares Agreement for Executive Officers (filed as Exhibit 10.2 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended September 30, 2010, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                       |
| 10.24*      | Form of Stock Option Agreement for Non-Employee Directors (filed as Exhibit 10.3 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended September 30, 2010, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                        |
| 10.25*      | Form of Stock Option Agreement for Executive Officers (filed as Exhibit 10.4 to Form 10-Q of Lincoln Electric Holdings, Inc. for the three months ended September 30, 2010, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                                                                            |

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                       |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.26*      | Form of Restricted Shares Agreement for Non-Employee Directors (for awards made on or after December 1, 2010) (filed as Exhibit 10.35 to Form 10-K of the Lincoln Electric Holdings, Inc. for the year ended December 31, 2010, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof). |
| 10.27*      | Form of Restricted Shares Agreement for Executive Officers (for awards made on or after December 1, 2010) (filed as Exhibit 10.36 to Form 10-K of the Lincoln Electric Holdings, Inc. for the year ended December 31, 2010, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).     |
| 10.28*      | Form of Stock Option Agreement for Executive Officers (for awards made on or after December 1, 2010) (filed as Exhibit 10.37 to Form 10-K of the Lincoln Electric Holdings, Inc. for the year ended December 31, 2010, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).          |
| 10.29*      | Form of Restricted Stock Unit Agreement for Executive Officers (filed as Exhibit 10.2 to Form 8-K of Lincoln Electric Holdings, Inc. filed on August 4, 2011, SEC File No. 0-1402 and incorporated herein by reference and made a part thereof).                                                                  |
| 10.30*      | Form of Officer Indemnification Agreement (effective February 23, 2012) (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on February 29, 2012, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                       |
| 10.31*      | Form of Director Indemnification Agreement (effective February 23, 2012) (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on February 29, 2012, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).                                                      |
| 10.32*      | Form of Amendment to Restricted Shares Agreement for Executive Officers (for awards granted prior to December 2013) (filed as Exhibit 10.1 to Form 8-K of Lincoln Electric Holdings, Inc. filed on December 20, 2013, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).           |
| 10.33*      | Form of Amendment to Restricted Stock Unit Agreement for Executive Officers (for awards granted prior to December 2013) (filed as Exhibit 10.2 to Form 8-K of Lincoln Electric Holdings, Inc. filed on December 20, 2013, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof).       |
| 10.34*      | Form of Restricted Stock Unit Agreement for Executive Officers (for awards granted on or after December 16, 2013) (filed as Exhibit 10.33 to Form 10-K of Lincoln Electric Holdings, Inc. for the year ended December 31, 2013, SEC File No. 0-1402 and incorporated herein by reference and made a part hereof). |
| 21          | Subsidiaries of the Registrant.                                                                                                                                                                                                                                                                                   |
| 23          | Consent of Independent Registered Public Accounting Firm.                                                                                                                                                                                                                                                         |
| 24          | Powers of Attorney.                                                                                                                                                                                                                                                                                               |
| 31.1        | Certification by the Chairman, President and Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.                                                                                                                                                                           |
| 31.2        | Certification by the Executive Vice President, Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.                                                                                                                                                           |
| 32.1        | Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                          |
| 101.INS     | XBRL Instance Document                                                                                                                                                                                                                                                                                            |
| 101.SCH     | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                                                           |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                                                             |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                                                                                   |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                                                                            |
| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                                                                              |

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\* Reflects management contract or other compensatory arrangement required to be filed as an exhibit pursuant to Item 15(b) of this report.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LINCOLN ELECTRIC HOLDINGS, INC.

By: /s/ VINCENT K. PETRELLA

Vincent K. Petrella  
Executive Vice President, Chief Financial  
Officer and Treasurer  
(principal financial and accounting officer)  
February 20, 2015



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

/s/ CHRISTOPHER L. MAPES

Christopher L. Mapes,  
Chairman, President and Chief Executive Officer  
(principal executive officer)  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella,  
Executive Vice President, Chief Financial Officer and  
Treasurer (principal financial and accounting officer)  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
Harold L. Adams, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
Curtis E. Espeland, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
David H. Gunning, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
Stephen G. Hanks, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
Robert J. Knoll, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
G. Russell Lincoln, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
Kathryn Jo Lincoln, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
William E. MacDonald, III, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
Phillip J. Mason, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
Hellene S. Runtagh, Director  
February 20, 2015

/s/ VINCENT K. PETRELLA

Vincent K. Petrella as  
Attorney-in-Fact for  
George H. Walls, Jr., Director  
February 20, 2015

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Lincoln Electric Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Lincoln Electric Holdings, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index as Item 15 (a) (2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lincoln Electric Holdings, Inc. and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Lincoln Electric Holdings, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio  
February 20, 2015

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Lincoln Electric Holdings, Inc.

We have audited Lincoln Electric Holdings, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Lincoln Electric Holdings, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Lincoln Electric Holdings, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Lincoln Electric Holdings, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2014 of Lincoln Electric Holdings, Inc. and subsidiaries and our report dated February 20, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Cleveland, Ohio  
February 20, 2015

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(Dollars in thousands)*

|                                                                                                | <b>December 31,</b> |                     |
|------------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                                | <b>2014</b>         | <b>2013</b>         |
| <b>ASSETS</b>                                                                                  |                     |                     |
| <b>Current Assets</b>                                                                          |                     |                     |
| Cash and cash equivalents                                                                      | \$ 278,379          | \$ 299,825          |
| Accounts receivable (less allowance for doubtful accounts of \$7,734 in 2014; \$8,398 in 2013) | 321,862             | 367,134             |
| Inventories                                                                                    |                     |                     |
| Raw materials                                                                                  | 109,210             | 112,478             |
| Work-in-process                                                                                | 40,927              | 38,963              |
| Finished goods                                                                                 | 180,703             | 198,522             |
| Total inventory                                                                                | 330,840             | 349,963             |
| Deferred income taxes                                                                          | 9,164               | 10,922              |
| Other current assets                                                                           | 158,432             | 102,931             |
| <b>Total Current Assets</b>                                                                    | <b>1,098,677</b>    | <b>1,130,775</b>    |
| <b>Property, Plant and Equipment</b>                                                           |                     |                     |
| Land                                                                                           | 46,553              | 48,369              |
| Buildings                                                                                      | 361,846             | 373,373             |
| Machinery and equipment                                                                        | 694,203             | 723,715             |
|                                                                                                | 1,102,602           | 1,145,457           |
| Less accumulated depreciation                                                                  | 665,393             | 661,452             |
| <b>Property, Plant and Equipment, Net</b>                                                      | <b>437,209</b>      | <b>484,005</b>      |
| <b>Other Assets</b>                                                                            |                     |                     |
| Prepaid pensions                                                                               | 1,240               | 36,116              |
| Equity investments in affiliates                                                               | 27,481              | 26,618              |
| Intangibles, net                                                                               | 132,361             | 147,012             |
| Goodwill                                                                                       | 179,517             | 174,715             |
| Long-term investments                                                                          | 31,119              | 32,763              |
| Deferred income taxes                                                                          | 2,940               | 3,556               |
| Other non-current assets                                                                       | 28,671              | 116,307             |
| <b>Total Other Assets</b>                                                                      | <b>403,329</b>      | <b>537,087</b>      |
| <b>TOTAL ASSETS</b>                                                                            | <b>\$ 1,939,215</b> | <b>\$ 2,151,867</b> |

See notes to these consolidated financial statements.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
*(Dollars in thousands)*

|                                                                                                                                                                                                                        | <b>December 31,</b> |                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                                                                                                                                                        | <b>2014</b>         | <b>2013</b>         |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                                                          |                     |                     |
| <b>Current Liabilities</b>                                                                                                                                                                                             |                     |                     |
| Amounts due banks                                                                                                                                                                                                      | \$ 61,155           | \$ 14,581           |
| Trade accounts payable                                                                                                                                                                                                 | 202,482             | 212,799             |
| Accrued employee compensation and benefits                                                                                                                                                                             | 64,718              | 68,263              |
| Accrued expenses                                                                                                                                                                                                       | 29,634              | 29,613              |
| Accrued taxes, including income taxes                                                                                                                                                                                  | 18,626              | 46,109              |
| Accrued pensions                                                                                                                                                                                                       | 2,971               | 10,564              |
| Dividends payable                                                                                                                                                                                                      | 22,329              | 18,619              |
| Accrued bonuses                                                                                                                                                                                                        | 29,955              | 30,206              |
| Customer advances                                                                                                                                                                                                      | 26,468              | 24,319              |
| Other current liabilities                                                                                                                                                                                              | 27,070              | 1,129               |
| Current portion of long-term debt                                                                                                                                                                                      | 7,011               | 715                 |
| <b>Total Current Liabilities</b>                                                                                                                                                                                       | <b>492,419</b>      | <b>456,917</b>      |
| <b>Long-Term Liabilities</b>                                                                                                                                                                                           |                     |                     |
| Long-term debt, less current portion                                                                                                                                                                                   | 2,488               | 3,791               |
| Accrued pensions                                                                                                                                                                                                       | 32,803              | 26,999              |
| Deferred income taxes                                                                                                                                                                                                  | 40,761              | 48,103              |
| Accrued taxes                                                                                                                                                                                                          | 25,571              | 36,149              |
| Other long-term liabilities                                                                                                                                                                                            | 59,392              | 49,220              |
| <b>Total Long-Term Liabilities</b>                                                                                                                                                                                     | <b>161,015</b>      | <b>164,262</b>      |
| <b>Shareholders' Equity</b>                                                                                                                                                                                            |                     |                     |
| Preferred shares, without par value – at stated capital amount;<br>authorized – 5,000,000 shares; issued and outstanding – none                                                                                        | —                   | —                   |
| Common shares, without par value – at stated capital amount;<br>authorized – 240,000,000 shares; issued – 98,581,434 shares in 2014 and 2013;<br>outstanding – 76,997,161 shares in 2014 and 81,010,084 shares in 2013 | 9,858               | 9,858               |
| Additional paid-in capital                                                                                                                                                                                             | 258,816             | 240,519             |
| Retained earnings                                                                                                                                                                                                      | 2,086,174           | 1,908,462           |
| Accumulated other comprehensive loss                                                                                                                                                                                   | (288,622)           | (151,941)           |
| Treasury shares, at cost – 21,584,273 shares in 2014 and 17,571,350 shares in 2013                                                                                                                                     | (783,677)           | (480,296)           |
| <b>Total Shareholders' Equity</b>                                                                                                                                                                                      | <b>1,282,549</b>    | <b>1,526,602</b>    |
| Non-controlling interests                                                                                                                                                                                              | 3,232               | 4,086               |
| <b>Total Equity</b>                                                                                                                                                                                                    | <b>1,285,781</b>    | <b>1,530,688</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                                                                                                                                                    | <b>\$ 1,939,215</b> | <b>\$ 2,151,867</b> |

See notes to these consolidated financial statements.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
*(In thousands, except per share amounts)*

|                                                 | Year Ended December 31, |                   |                   |
|-------------------------------------------------|-------------------------|-------------------|-------------------|
|                                                 | 2014                    | 2013              | 2012              |
| Net sales                                       | \$ 2,813,324            | \$ 2,852,671      | \$ 2,853,367      |
| Cost of goods sold                              | 1,864,027               | 1,910,017         | 1,986,711         |
| Gross profit                                    | 949,297                 | 942,654           | 866,656           |
| Selling, general & administrative expenses      | 545,497                 | 527,206           | 495,221           |
| Rationalization and asset impairment charges    | 30,053                  | 8,463             | 9,354             |
| Operating income                                | 373,747                 | 406,985           | 362,081           |
| Other income (expense):                         |                         |                   |                   |
| Interest income                                 | 3,093                   | 3,320             | 3,988             |
| Equity earnings in affiliates                   | 5,412                   | 4,806             | 5,007             |
| Other income                                    | 3,995                   | 4,194             | 2,685             |
| Interest expense                                | (10,434)                | (2,864)           | (4,191)           |
| Total other income (expense)                    | 2,066                   | 9,456             | 7,489             |
| Income before income taxes                      | 375,813                 | 416,441           | 369,570           |
| Income taxes                                    | 121,933                 | 124,754           | 112,354           |
| Net income including non-controlling interests  | 253,880                 | 291,687           | 257,216           |
| Non-controlling interests in subsidiaries' loss | (806)                   | (2,093)           | (195)             |
| Net income                                      | <u>\$ 254,686</u>       | <u>\$ 293,780</u> | <u>\$ 257,411</u> |
| Basic earnings per share                        | <u>\$ 3.22</u>          | <u>\$ 3.58</u>    | <u>\$ 3.10</u>    |
| Diluted earnings per share                      | <u>\$ 3.18</u>          | <u>\$ 3.54</u>    | <u>\$ 3.06</u>    |
| Cash dividends declared per share               | <u>\$ 0.98</u>          | <u>\$ 0.83</u>    | <u>\$ 0.71</u>    |

See notes to these consolidated financial statements.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(In thousands)*

|                                                                                                                                                      | <b>Year Ended December 31,</b> |             |             |
|------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-------------|-------------|
|                                                                                                                                                      | <b>2014</b>                    | <b>2013</b> | <b>2012</b> |
| Net income including non-controlling interests                                                                                                       | \$ 253,880                     | \$ 291,687  | \$ 257,216  |
| Other comprehensive income, net of tax:                                                                                                              |                                |             |             |
| Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges, net of tax of \$(121) in 2014; \$(141) in 2013; \$(201) in 2012 | (378)                          | 289         | (832)       |
| Defined pension plan activity, net of tax of \$(20,951) in 2014; \$60,556 in 2013; \$(3,492) in 2012                                                 | (37,200)                       | 101,151     | (6,475)     |
| Currency translation adjustment                                                                                                                      | (98,365)                       | (19,955)    | 19,635      |
| Transactions with non-controlling interests                                                                                                          | (4)                            | 155         | —           |
| Other comprehensive income (loss)                                                                                                                    | (135,947)                      | 81,640      | 12,328      |
| Comprehensive income                                                                                                                                 | 117,933                        | 373,327     | 269,544     |
| Comprehensive (loss) income attributable to non-controlling interests                                                                                | (72)                           | (3,912)     | (348)       |
| Comprehensive income attributable to shareholders                                                                                                    | \$ 118,005                     | \$ 377,239  | \$ 269,892  |

See notes to these consolidated financial statements.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
*(In thousands, except per share amounts)*

|                                                                                                 | <b>Common<br/>Shares<br/>Outstanding</b> | <b>Common<br/>Shares</b> | <b>Additional<br/>Paid-In<br/>Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Treasury<br/>Shares</b> | <b>Non-<br/>controlling<br/>Interests</b> | <b>Total</b>        |
|-------------------------------------------------------------------------------------------------|------------------------------------------|--------------------------|-------------------------------------------|------------------------------|------------------------------------------------------------------|----------------------------|-------------------------------------------|---------------------|
| Balance at December 31, 2011                                                                    | 83,757                                   | \$ 9,858                 | \$ 179,104                                | \$ 1,484,393                 | \$ (247,881)                                                     | \$ (248,528)               | \$ 16,296                                 | \$ 1,193,242        |
| Net income                                                                                      |                                          |                          |                                           | 257,411                      |                                                                  |                            | (195)                                     | 257,216             |
| Unrecognized amounts from defined benefit pension plans, net of tax                             |                                          |                          |                                           |                              | (6,475)                                                          |                            |                                           | (6,475)             |
| Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges, net of tax |                                          |                          |                                           |                              | (832)                                                            |                            |                                           | (832)               |
| Currency translation adjustment                                                                 |                                          |                          |                                           |                              | 19,788                                                           |                            | (153)                                     | 19,635              |
| Cash dividends declared – \$0.71 per share                                                      |                                          |                          |                                           | (59,136)                     |                                                                  |                            |                                           | (59,136)            |
| Issuance of shares under benefit plans                                                          | 985                                      |                          | 26,020                                    |                              |                                                                  | 9,669                      |                                           | 35,689              |
| Purchase of shares for treasury                                                                 | (1,797)                                  |                          |                                           |                              |                                                                  | (81,018)                   |                                           | (81,018)            |
| Balance at December 31, 2012                                                                    | 82,945                                   | 9,858                    | 205,124                                   | 1,682,668                    | (235,400)                                                        | (319,877)                  | 15,948                                    | 1,358,321           |
| Net income                                                                                      |                                          |                          |                                           | 293,780                      |                                                                  |                            | (2,093)                                   | 291,687             |
| Unrecognized amounts from defined benefit pension plans, net of tax                             |                                          |                          |                                           |                              | 101,151                                                          |                            |                                           | 101,151             |
| Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges, net of tax |                                          |                          |                                           |                              | 289                                                              |                            |                                           | 289                 |
| Currency translation adjustment                                                                 |                                          |                          |                                           |                              | (18,136)                                                         |                            | (1,819)                                   | (19,955)            |
| Cash dividends declared – \$0.83 per share                                                      |                                          |                          |                                           | (67,986)                     |                                                                  |                            |                                           | (67,986)            |
| Issuance of shares under benefit plans                                                          | 787                                      |                          | 33,693                                    |                              |                                                                  | 7,460                      |                                           | 41,153              |
| Purchase of shares for treasury                                                                 | (2,722)                                  |                          |                                           |                              |                                                                  | (167,879)                  |                                           | (167,879)           |
| Transactions with non-controlling interests                                                     |                                          |                          | 1,702                                     |                              | 155                                                              |                            | (7,950)                                   | (6,093)             |
| Balance at December 31, 2013                                                                    | 81,010                                   | 9,858                    | 240,519                                   | 1,908,462                    | (151,941)                                                        | (480,296)                  | 4,086                                     | 1,530,688           |
| Net income                                                                                      |                                          |                          |                                           | 254,686                      |                                                                  |                            | (806)                                     | 253,880             |
| Unrecognized amounts from defined benefit pension plans, net of tax                             |                                          |                          |                                           |                              | (37,200)                                                         |                            |                                           | (37,200)            |
| Unrealized gain (loss) on derivatives designated and qualifying as cash flow hedges, net of tax |                                          |                          |                                           |                              | (378)                                                            |                            |                                           | (378)               |
| Currency translation adjustment                                                                 |                                          |                          |                                           |                              | (99,099)                                                         |                            | 734                                       | (98,365)            |
| Cash dividends declared – \$0.98 per share                                                      |                                          |                          |                                           | (76,974)                     |                                                                  |                            |                                           | (76,974)            |
| Issuance of shares under benefit plans                                                          | 385                                      |                          | 19,781                                    |                              |                                                                  | 3,797                      |                                           | 23,578              |
| Purchase of shares for treasury                                                                 | (4,398)                                  |                          |                                           |                              |                                                                  | (307,178)                  |                                           | (307,178)           |
| Transactions with non-controlling interests                                                     |                                          |                          | (1,484)                                   |                              | (4)                                                              |                            | (782)                                     | (2,270)             |
| Balance at December 31, 2014                                                                    | <u>76,997</u>                            | <u>\$ 9,858</u>          | <u>\$ 258,816</u>                         | <u>\$ 2,086,174</u>          | <u>\$ (288,622)</u>                                              | <u>\$ (783,677)</u>        | <u>\$ 3,232</u>                           | <u>\$ 1,285,781</u> |

See notes to these consolidated financial statements.



**LINCOLN ELECTRIC HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In thousands)*

|                                                                                                                       | Year Ended December 31, |                   |                   |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------|-------------------|
|                                                                                                                       | 2014                    | 2013              | 2012              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                           |                         |                   |                   |
| Net income                                                                                                            | \$ 254,686              | \$ 293,780        | \$ 257,411        |
| Non-controlling interests in subsidiaries' loss                                                                       | (806)                   | (2,093)           | (195)             |
| Net income including non-controlling interests                                                                        | 253,880                 | 291,687           | 257,216           |
| Adjustments to reconcile Net income including non-controlling interests to Net cash provided by operating activities: |                         |                   |                   |
| Rationalization and asset impairment charges                                                                          | 29,574                  | 5,092             | 1,740             |
| Depreciation and amortization                                                                                         | 69,607                  | 68,883            | 65,334            |
| Equity (earnings) loss in affiliates, net                                                                             | (1,848)                 | (1,660)           | 160               |
| Deferred income taxes                                                                                                 | 17,887                  | 17,817            | (2,137)           |
| Stock-based compensation                                                                                              | 8,416                   | 9,734             | 8,961             |
| Pension expense                                                                                                       | 12,395                  | 29,774            | 35,515            |
| Pension contributions and payments                                                                                    | (36,072)                | (87,356)          | (69,646)          |
| Foreign exchange loss (gain)                                                                                          | 13,586                  | (3,976)           | 3,506             |
| Other, net                                                                                                            | 4,509                   | 5,886             | (818)             |
| Changes in operating assets and liabilities, net of effects from acquisitions:                                        |                         |                   |                   |
| Decrease (increase) in accounts receivable                                                                            | 5,876                   | (5,437)           | 57,759            |
| (Increase) decrease in inventories                                                                                    | (5,718)                 | 13,310            | 28,286            |
| Decrease (increase) in other current assets                                                                           | 32,081                  | 2,811             | (9,506)           |
| Increase in accounts payable                                                                                          | 2,135                   | 794               | 16,110            |
| (Decrease) increase in other current liabilities                                                                      | (3,736)                 | (7,785)           | 21,887            |
| Net change in other long-term assets and liabilities                                                                  | (870)                   | (680)             | (86,883)          |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                                                      | <b>401,702</b>          | <b>338,894</b>    | <b>327,484</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                                           |                         |                   |                   |
| Capital expenditures                                                                                                  | (72,990)                | (76,015)          | (52,715)          |
| Acquisition of businesses, net of cash acquired                                                                       | (24,230)                | (53,161)          | (134,602)         |
| Proceeds from sale of property, plant and equipment                                                                   | 17,457                  | 1,393             | 1,387             |
| Other investing activities                                                                                            | 778                     | (1,717)           | (1,541)           |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>                                                                          | <b>(78,985)</b>         | <b>(129,500)</b>  | <b>(187,471)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                                           |                         |                   |                   |
| Proceeds from short-term borrowings                                                                                   | 11,124                  | 1,230             | 2,518             |
| Payments on short-term borrowings                                                                                     | (12,226)                | (2,164)           | (4,293)           |
| Amounts due banks, net                                                                                                | 48,978                  | (517)             | (2,758)           |
| Proceeds from long-term borrowings                                                                                    | 8,754                   | 61                | 918               |
| Payments on long-term borrowings                                                                                      | (3,299)                 | (450)             | (85,688)          |
| Proceeds from exercise of stock options                                                                               | 9,116                   | 20,297            | 18,776            |
| Excess tax benefit from stock-based compensation                                                                      | 5,967                   | 10,602            | 7,819             |
| Purchase of shares for treasury                                                                                       | (307,178)               | (167,879)         | (81,018)          |
| Cash dividends paid to shareholders                                                                                   | (73,261)                | (49,277)          | (73,112)          |
| Transactions with non-controlling interests                                                                           | (2,330)                 | (6,087)           | —                 |
| <b>NET CASH USED BY FINANCING ACTIVITIES</b>                                                                          | <b>(314,355)</b>        | <b>(194,184)</b>  | <b>(216,838)</b>  |
| Effect of exchange rate changes on cash and cash equivalents                                                          | (29,808)                | (1,849)           | 2,188             |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>                                                               | <b>(21,446)</b>         | <b>13,361</b>     | <b>(74,637)</b>   |
| Cash and cash equivalents at beginning of year                                                                        | 299,825                 | 286,464           | 361,101           |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                                                       | <b>\$ 278,379</b>       | <b>\$ 299,825</b> | <b>\$ 286,464</b> |

See notes to these consolidated financial statements.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
*(Dollars in thousands, except share and per share amounts)*

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The consolidated financial statements include the accounts of Lincoln Electric Holdings, Inc. and its wholly-owned and majority-owned subsidiaries for which it has a controlling interest (the "Company") after elimination of all inter-company accounts, transactions and profits.

**General Information**

The Company is a manufacturer of welding, cutting and brazing products. Welding products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes and fluxes. The Company's product offering also includes computer numeric controlled ("CNC") plasma and oxy-fuel cutting systems, regulators and torches used in oxy-fuel welding, cutting and brazing and consumables used in the brazing and soldering alloys market.

**Translation of Foreign Currencies**

Asset and liability accounts are translated into U.S. dollars using exchange rates in effect at the dates of the Consolidated Balance Sheets; revenue and expense accounts are translated at average monthly exchange rates. Translation adjustments are reflected as a component of Total equity. For subsidiaries operating in highly inflationary economies, both historical and current exchange rates are used in translating balance sheet accounts and translation adjustments are included in Net income.

The translation of assets and liabilities originally denominated in foreign currencies into U.S. dollars is for consolidation purposes, and does not necessarily indicate that the Company could realize or settle the reported value of those assets and liabilities in U.S. dollars. Additionally, such a translation does not necessarily indicate that the Company could return or distribute the reported U.S. dollar value of the net equity of its foreign operations to shareholders.

Foreign currency transaction losses are included in Selling, general & administrative expenses and were \$22,351, \$7,759 and \$4,608 in 2014, 2013 and 2012, respectively.

*Venezuela – Highly Inflationary Economy*

Venezuela is a highly inflationary economy under U.S. generally accepted accounting principles ("GAAP"). As a result, the financial statements of the Company's Venezuelan operation are reported under highly inflationary accounting rules as of January 1, 2010. Under highly inflationary accounting, the financial statements of the Company's Venezuelan operation have been remeasured into the Company's reporting currency and exchange gains and losses from the re-measurement of monetary assets and liabilities are reflected in current earnings. On February 8, 2013, the Venezuelan government announced the devaluation of its currency relative to the U.S. dollar. Effective February 13, 2013 the official rate moved from 4.3 to 6.3 bolivars to the U.S. dollar. In 2013, the devaluation of the bolivar resulted in a foreign currency transaction loss of \$8,081 in Selling, general & administrative expenses and higher Cost of goods sold of \$4,117 due to the liquidation of inventory valued at the historical exchange rate.

In January 2014, the Venezuela government announced the formation of the National Center of Foreign Trade ("CENCOEX") to replace the Commission for the Administration of Currency Exchange ("CADIVI"). Effective January 24, 2014, the exchange rate applicable to the settlement of certain transactions through CENCOEX, including payments of dividends and royalties, changed to utilize the Complementary System of Foreign Currency Administration ("SICAD") auction-based exchange rate (the "SICAD I rate") as opposed to the official rate. Further, in January 2014, the Venezuelan government also enacted the "Fair Prices Law" limiting prices and establishing a maximum profit margin on goods and services. In February 2014, the government announced a new market based foreign exchange system, the SICAD II. The exchange rate established through SICAD II fluctuates daily and is significantly higher than both the official rate and the SICAD I rate.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

As of March 31, 2014, the Company determined that the rate used in remeasuring the Venezuelan operation's financial statements into U.S. dollars would change to the SICAD I rate as future remittances for dividend payments could be transacted at the SICAD I rate. As of March 31, 2014, the SICAD I rate was 10.7 bolivars to the U.S. dollar, which resulted in a remeasurement loss on the bolivar-denominated monetary net asset position of \$17,665 which was recorded in Selling, general & administrative expenses in the three months ended March 31, 2014. Additionally, the Company incurred higher Cost of goods sold of \$3,468 during the second quarter of 2014 related to the adoption of the SICAD I rate.

The SICAD I rate is determined by periodic auctions which may result in additional losses or gains on a remeasurement of the bolivar-denominated monetary net asset position. In February 2015, the Venezuelan government announced a new exchange market called the Marginal Currency System ("SIMADI"), which will replace the SICAD II exchange and allow for trading based on supply and demand. An initial exchange rate for the SIMADI market was established at approximately 170.0 bolivars to the U.S. dollar. While there remains considerable uncertainty as to the nature and volume of transactions that will flow through the various currency exchange mechanisms, the Company determined that the SICAD I rate remained the most appropriate exchange rate for the Company to utilize in remeasuring the Venezuelan operation's financial statements into U.S. dollars as of December 31, 2014. As of December 31, 2014, the SICAD I rate was 12.0 bolivars to the U.S. dollar. If in the future the Company were to convert bolivars at a rate other than the SICAD I rate the Company may realize additional losses or gains to earnings.

Future impacts to earnings of applying highly inflationary accounting for Venezuela on the Company's consolidated financial statements will be dependent upon the applied currency exchange mechanisms, the movements in the applicable exchange rates between the bolivar and the U.S. dollar and the amount of monetary assets and liabilities included in the Company's Venezuelan operation's balance sheet. The bolivar-denominated monetary net liability position was \$1,264 at December 31, 2014, which includes \$2,124 of cash and cash equivalents and the bolivar-denominated monetary net asset position was \$38,633 at December 31, 2013, which includes \$50,642 of cash and cash equivalents.

#### **Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **Accounts Receivable**

The Company maintains an allowance for doubtful accounts for estimated losses from the failure of its customers to make required payments for products delivered. The Company estimates this allowance based on the age of the related receivable, knowledge of the financial condition of customers, review of historical receivables and reserve trends and other pertinent information. If the financial condition of customers deteriorates or an unfavorable trend in receivable collections is experienced in the future, additional allowances may be required. Historically, the Company's reserves have approximated actual experience.

#### **Inventories**

Inventories are valued at the lower of cost or market. Fixed manufacturing overhead costs are allocated to inventory based on normal production capacity and abnormal manufacturing costs are recognized as period costs. For most domestic inventories, cost is determined principally by the last-in, first-out ("LIFO") method, and for non-U.S. inventories, cost is determined by the first-in, first-out ("FIFO") method.

Reserves are maintained for estimated obsolescence or excess inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Historically, the Company's reserves have approximated actual experience.

#### **Equity Investments**

Investments in businesses in which the Company does not have a controlling interest and holds between a 20% and 50% ownership interest are accounted for using the equity method of accounting. The Company's 50% ownership interest in equity investments includes investments in Turkey and Chile. The amount of retained earnings that represents undistributed earnings of 50% or less owned equity investments was \$18,542 at December 31, 2014 and \$16,694 at December 31, 2013.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

**Property, Plant and Equipment**

Property, plant and equipment are stated at cost and include improvements which significantly increase capacities or extend the useful lives of existing plant and equipment. Depreciation and amortization are computed using a straight-line method over useful lives ranging from three to 20 years for machinery, tools and equipment, and up to 50 years for buildings. Net gains or losses related to asset dispositions are recognized in earnings in the period in which dispositions occur.

Routine maintenance, repairs and replacements are expensed as incurred. The Company capitalizes interest costs associated with long-term construction in progress.

**Goodwill and Intangibles**

Goodwill is recorded when the cost of acquired businesses exceeds the fair value of the identifiable net assets acquired. Intangible assets other than goodwill are recorded at fair value at the time acquired or at cost, if applicable. Intangible assets that do not have indefinite lives are amortized in line with the pattern in which the economic benefits of the intangible asset are consumed. If the pattern of economic benefit cannot be reliably determined, the intangible assets are amortized on a straight-line basis over the shorter of the legal or estimated life.

Goodwill and indefinite-lived intangibles assets are not amortized, but are tested for impairment in the fourth quarter using the same dates each year or more frequently if changes in circumstances or the occurrence of events indicate potential impairment. The fair value of each indefinite-lived intangible asset is compared to its carrying value and an impairment charge is recorded if the carrying value exceeds the fair value. Goodwill is tested by comparing the fair value of each reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the implied value of goodwill is compared to its carrying value and impairment is recognized to the extent that the carrying value exceeds the implied fair value.

Fair values are determined using established business valuation multiples and models developed by the Company that incorporate allocations of certain assets and cash flows among reporting units, estimates of market participant assumptions of future cash flows, future growth rates and the applicable discount rates to value estimated cash flows. Changes in economic and operating conditions impacting these assumptions could result in asset impairments in future periods.

**Long-Lived Assets**

The Company periodically evaluates whether current facts or circumstances indicate that the carrying value of its depreciable long-lived assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, a loss is recognized to the extent that carrying value exceeds fair value. Fair value is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows.

**Fair Value Measurements**

Financial assets and liabilities, such as the Company's defined benefit pension plan assets and derivative contracts, are valued at fair value using the market and income valuation approaches. 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 (exit price). The Company uses the market approach to value similar assets and liabilities in active markets and the income approach that consists of discounted cash flow models that take into account the present value of future cash flows under the terms of the contracts using current market information as of the reporting date. The following hierarchy is used to classify the inputs used to measure fair value:

Level 1    Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2    Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specific (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3    Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

**Product Warranties**

The Company accrues for product warranty claims based on historical experience and the expected material and labor costs to provide warranty service. Warranty services are provided for periods up to three years from the date of sale. The accrual for product warranty claims is included in "Accrued expenses."

**Revenue Recognition**

Substantially all of the Company's revenues are recognized when the risks and rewards of ownership and title to the product have transferred to the customer which generally occurs at point of shipment. The Company recognizes any discounts, credits, returns, rebates and incentive programs based on reasonable estimates as a reduction of Sales to arrive at Net sales at the same time the related revenue is recorded.

For contracts accounted for under the percentage of completion method, revenue recognition is based upon the ratio of costs incurred to date compared with estimated total costs to complete. The cumulative impact of revisions to total estimated costs is reflected in the period of the change, including anticipated losses.

**Distribution Costs**

Distribution costs, including warehousing and freight related to product shipments, are included in Cost of goods sold.

**Stock-Based Compensation**

Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. No expense is recognized for any stock options, restricted or deferred shares or restricted stock units ultimately forfeited because the recipients fail to meet vesting requirements.

Common stock issuable upon the exercise of employee stock options is excluded from the calculation of diluted earnings per share when the calculation of option equivalent shares is anti-dilutive.

**Financial Instruments**

The Company uses forward contracts to hedge exposures to commodity prices and exchange rate fluctuations on certain purchase and sales transactions, balance sheet and net investment exposures. Contracts are generally written on a short-term basis but may cover exposures for up to two years and are not held for trading or speculative purposes. The Company uses interest rate swaps from time to time to hedge changes in the fair value of debt. The Company recognizes derivative instruments as either assets or liabilities at fair value. The accounting for changes in the fair value of derivative instruments depends on whether it has been designated and qualifies as part of a hedging relationship and on the type of hedging relationship.

For derivative instruments that qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability), the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item are recognized in earnings. For derivative instruments that qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows), the effective portion of the unrealized gain or loss on the derivative instrument is reported as a component of Accumulated other comprehensive income with offsetting amounts recorded as Other current assets, Other non-current assets, Other current liabilities or Other long-term liabilities depending on the position and the duration of the contract. At settlement, the realized gain or loss is reflected in earnings in the same period or periods during which the hedged transaction affects earnings. Any remaining gain or loss on the derivative instrument is recognized in earnings. For derivative instruments that qualify as a net investment hedge (i.e., hedging the foreign currency exposure of a net investment in a foreign operation), the effective portion of the gain or loss on this derivative instrument is recognized in Accumulated other comprehensive loss with offsetting amounts recorded as Other current assets, Other non-current assets, Other current liabilities or Other long-term liabilities depending on the position and the duration of the contract. The gain or loss is subsequently reclassified to Selling, general, and administrative expenses, as the underlying hedged investment is liquidated. For derivative instruments not designated as hedges, the gain or loss from changes in the fair value of the instruments is recognized in earnings.

**Research and Development**

Research and development costs are charged to Selling, general & administrative expenses as incurred and totaled \$43,256, \$42,126 and \$37,305 in 2014, 2013 and 2012, respectively.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

**Bonus**

Included in Selling, general & administrative expenses are the costs related to the Company's discretionary employee bonus programs, which for certain U.S.-based employees are net of hospitalization costs. Bonus costs were \$128,478 in 2014, \$123,571 in 2013 and \$124,947 in 2012.

**Income Taxes**

Deferred income taxes are recognized at currently enacted tax rates for temporary differences between the GAAP and income tax basis of assets and liabilities and operating loss and tax credit carry-forwards. In assessing the realizability of deferred tax assets, the Company assesses whether it is more likely than not that a portion or all of the deferred tax assets will not be realized.

**Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and notes. Actual results could differ from these estimates.

**Reclassification**

Certain reclassifications have been made to prior year financial statements to conform to current year classifications.

**New Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, *"Revenue from Contracts with Customers (Topic 606)."* ASU 2014-09 requires an entity to recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the amendment provides five steps that an entity should apply when recognizing revenue. The amendment also specifies the accounting of some costs to obtain or fulfill a contract with a customer and expands the disclosure requirements around contracts with customers. An entity can either adopt this amendment retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of initial application. The amendment is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company's financial statements.

**NOTE 2 - EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share:

|                                                          | Year Ended December 31, |            |            |
|----------------------------------------------------------|-------------------------|------------|------------|
|                                                          | 2014                    | 2013       | 2012       |
| <b>Numerator:</b>                                        |                         |            |            |
| Net income                                               | \$ 254,686              | \$ 293,780 | \$ 257,411 |
| <b>Denominator:</b>                                      |                         |            |            |
| Basic weighted average shares outstanding                | 79,185                  | 81,978     | 83,087     |
| Effect of dilutive securities - Stock options and awards | 911                     | 1,064      | 1,088      |
| Diluted weighted average shares outstanding              | 80,096                  | 83,042     | 84,175     |
| Basic earnings per share                                 | \$ 3.22                 | \$ 3.58    | \$ 3.10    |
| Diluted earnings per share                               | \$ 3.18                 | \$ 3.54    | \$ 3.06    |

For the years ended December 31, 2014, 2013 and 2012, common shares subject to equity-based awards of 260,090, 45,850 and 107,814, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

**NOTE 3 – ACQUISITIONS**

During October 2014, the Company acquired substantially all of the assets of Easom Automation Systems, Inc. ("Easom"). Easom, based in Detroit, Michigan, is an integrator and manufacturer of automation and positioning solutions, serving heavy fabrication, aerospace and automotive OEMs and suppliers. The acquisition advances the Company's leadership position in automated welding and cutting solutions. Easom has annual sales of approximately \$30,000. In addition, during 2014, the Company acquired the remaining interest in its majority-owned joint venture, Harris Soldas Especiais S.A.

During November 2013, the Company completed the acquisition of Robolution GmbH ("Robolution"). Robolution, based outside of Frankfurt, Germany, is a leading European provider of robotic arc welding systems. The acquisition added to the Company's growing automation business and will enable the Company to better support automation customers across three continents.

During November 2013, the Company acquired an ownership interest in Burlington Automation Corporation ("Burlington"). Burlington, based in Hamilton, Ontario, Canada, is a leader in the design and manufacture of 3D robotic plasma cutting systems whose products are sold under the brand name Python X<sup>®</sup>. The acquisition broadens the Company's portfolio of automated cutting and welding process solutions.

Combined revenues for Robolution and Burlington in 2013 were approximately \$35,000. In addition, during 2013, the Company acquired a greater interest in its majority-owned joint venture, Lincoln Electric Heli (Zhengzhou) Welding Materials Company Ltd.

During 2012, the Company completed the acquisitions of Tennessee Rand, Inc. ("Tenn Rand"), Kaliburn, Burny and Cleveland Motion Control businesses (collectively, "Kaliburn"), Wayne Trail Technologies, Inc. ("Wayne Trail"), and Weartech International, Inc. ("Weartech").

Tenn Rand, based in Chattanooga, Tennessee, is a leader in the design and manufacture of tooling and robotic systems for welding applications. The acquisition added tool design, system building and machining capabilities that will enable the Company to further expand its welding automation business.

Kaliburn, headquartered in Ladson, South Carolina, is a designer and manufacturer of shape cutting solutions, producer of shape cutting control systems and manufacturer of web tension transducers and engineered machine systems. The acquisitions added to the Company's cutting business portfolio.

Wayne Trail, based in Fort Loramie, Ohio, is a manufacturer of automated systems and tooling, serving a wide range of applications in the metal processing market. The acquisition added to the Company's welding and automated solutions portfolio.

Weartech, based in Anaheim, California, is a producer of cobalt-based hard facing and wear-resistant welding consumables. The acquisition added to the Company's consumables portfolio.

Combined annual revenues for Tenn Rand, Kaliburn, Wayne Trail and Weartech at the dates of acquisition were approximately \$161,000.

Pro forma information related to these acquisitions has not been presented because the impact on the Company's Consolidated Statements of Income is not material. Acquired companies are included in the Company's consolidated financial statements as of the date of acquisition.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**NOTE 4 – GOODWILL AND INTANGIBLES**

The changes in the carrying amount of goodwill by reportable segments for the years ended December 31, 2014 and 2013 were as follows:

|                                 | North<br>America<br>Welding | Europe<br>Welding | Asia<br>Pacific<br>Welding | South<br>America<br>Welding | The Harris<br>Products<br>Group | Consolidated |
|---------------------------------|-----------------------------|-------------------|----------------------------|-----------------------------|---------------------------------|--------------|
| Balance at December 31, 2012    | \$ 86,277                   | \$ 25,357         | \$ 5,248                   | \$ 614                      | \$ 15,407                       | \$ 132,903   |
| Additions and adjustments       | 44,446                      | —                 | —                          | —                           | (1,027)                         | 43,419       |
| Foreign currency translation    | (284)                       | (927)             | 111                        | (52)                        | (455)                           | (1,607)      |
| Balance as of December 31, 2013 | 130,439                     | 24,430            | 5,359                      | 562                         | 13,925                          | 174,715      |
| Additions and adjustments       | 18,014                      | —                 | (610)                      | —                           | (381)                           | 17,023       |
| Foreign currency translation    | (3,859)                     | (7,700)           | (97)                       | (106)                       | (459)                           | (12,221)     |
| Balance as of December 31, 2014 | \$ 144,594                  | \$ 16,730         | \$ 4,652                   | \$ 456                      | \$ 13,085                       | \$ 179,517   |

Additions to goodwill primarily reflect goodwill recognized in the acquisitions of Easom in 2014 and Robolution and Burlington in 2013 (see Note 3). The reductions to goodwill result from the tax benefit attributable to the amortization of tax deductible goodwill in excess of goodwill recorded for financial reporting purposes and amounts reclassified as held for sale assets attributable to a planned divestiture.

Gross and net intangible assets other than goodwill by asset class as of December 31, 2014 and 2013 were as follows:

|                            | Weighted<br>Average Life | December 31, 2014 |                             |                            |                          |
|----------------------------|--------------------------|-------------------|-----------------------------|----------------------------|--------------------------|
|                            |                          | Gross<br>Amount   | Accumulated<br>Amortization | Indefinite<br>Lived Assets | Total Intangible,<br>Net |
| Trademarks and trade names | 12                       | \$ 32,358         | \$ 12,547                   | \$ 16,273                  | \$ 36,084                |
| Customer relationships     | 14                       | 70,658            | 19,923                      | —                          | 50,735                   |
| Patents                    | 20                       | 24,195            | 6,509                       | —                          | 17,686                   |
| Other                      | 13                       | 54,502            | 26,646                      | —                          | 27,856                   |
| Total                      |                          | \$ 181,713        | \$ 65,625                   | \$ 16,273                  | \$ 132,361               |

|                            | December 31, 2013 |                             |                            |                          |
|----------------------------|-------------------|-----------------------------|----------------------------|--------------------------|
|                            | Gross<br>Amount   | Accumulated<br>Amortization | Indefinite<br>Lived Assets | Total Intangible,<br>Net |
| Trademarks and trade names | \$ 38,566         | \$ 11,898                   | \$ 18,310                  | \$ 44,978                |
| Customer relationships     | 74,935            | 16,837                      | —                          | 58,098                   |
| Patents                    | 23,861            | 6,205                       | —                          | 17,656                   |
| Other                      | 49,578            | 23,298                      | —                          | 26,280                   |
| Total                      | \$ 186,940        | \$ 58,238                   | \$ 18,310                  | \$ 147,012               |

Decreases in gross and net intangible assets primarily reflect amounts reclassified as held for sale assets attributable to a planned divestiture and the impairment of intangible assets in 2014 (see Note 6). The Company recognized non-cash impairment losses of \$10,484 within Rationalization and asset impairment charges, related to customer relationships, definite and indefinite lived trademarks and other definite lived intangible assets. Aggregate amortization expense was \$13,869, \$13,342 and \$10,641 for 2014, 2013 and 2012, respectively. Estimated annual amortization expense for intangible assets for each of the next five years is \$13,837 in 2015, \$13,482 in 2016, \$12,581 in 2017, \$11,939 in 2018 and \$11,320 in 2019.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**NOTE 5 – SEGMENT INFORMATION**

The Company's primary business is the design and manufacture of arc welding and cutting products, manufacturing a broad line of arc welding equipment, consumable welding products and other welding and cutting products. The Company also has a leading global position in the brazing and soldering alloys market. The Company has aligned its business units into five operating segments to enhance the utilization of the Company's worldwide resources and global end user and sourcing initiatives. The operating segments consist of North America Welding, Europe Welding, Asia Pacific Welding, South America Welding and The Harris Products Group. The North America Welding segment includes welding operations in the United States, Canada and Mexico. The Europe Welding segment includes welding operations in Europe, Russia, Africa and the Middle East. The Asia Pacific Welding segment primarily includes welding operations in China and Australia. The South America Welding segment primarily includes welding operations in Brazil, Colombia and Venezuela. The Harris Products Group includes the Company's global cutting, soldering and brazing businesses as well as the retail business in the United States.

Segment performance is measured and resources are allocated based on a number of factors, the primary profit measure being earnings before interest and income taxes ("EBIT"), as adjusted. Segment EBIT is adjusted for special items as determined by management such as the impact of rationalization activities, certain asset impairment charges and gains or losses on disposals of assets. The accounting principles applied at the operating segment level are generally the same as those applied at the consolidated financial statement level with the exception of LIFO. Segment assets include inventories measured on a FIFO basis while consolidated inventories include inventories reported on a LIFO basis. Segment and consolidated income before interest and income taxes include the effect of inventories reported on a LIFO basis. At December 31, 2014, 2013 and 2012, approximately 40%, 38% and 34%, respectively, of total inventories were valued using the LIFO method. LIFO is used for certain domestic inventories included in the North America Welding segment. Inter-segment sales are recorded at agreed upon prices that approximate arm's length prices and are eliminated in consolidation. Certain corporate-level expenses are allocated to the operating segments.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
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Financial information for the reportable segments follows:

|                                                 | North<br>America<br>Welding | Europe<br>Welding | Asia<br>Pacific<br>Welding | South<br>America<br>Welding | The Harris<br>Products<br>Group | Corporate /<br>Eliminations | Consolidated        |
|-------------------------------------------------|-----------------------------|-------------------|----------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------|
| <b>For the Year Ended<br/>December 31, 2014</b> |                             |                   |                            |                             |                                 |                             |                     |
| Net sales                                       | \$ 1,700,924                | \$ 425,775        | \$ 243,800                 | \$ 148,595                  | \$ 294,230                      | \$ —                        | \$ 2,813,324        |
| Inter-segment sales                             | 124,732                     | 19,586            | 14,820                     | 144                         | 8,210                           | (167,492)                   | \$ —                |
| Total                                           | <u>\$ 1,825,656</u>         | <u>\$ 445,361</u> | <u>\$ 258,620</u>          | <u>\$ 148,739</u>           | <u>\$ 302,440</u>               | <u>\$ (167,492)</u>         | <u>\$ 2,813,324</u> |
| EBIT, as adjusted                               | \$ 335,465                  | \$ 48,822         | \$ 1,321                   | \$ 15,953                   | \$ 28,563                       | \$ 4,216                    | \$ 434,340          |
| Special items charge (gain)                     | (68)                        | 904               | 28,635                     | 21,715                      | —                               | —                           | \$ 51,186           |
| EBIT                                            | <u>\$ 335,533</u>           | <u>\$ 47,918</u>  | <u>\$ (27,314)</u>         | <u>\$ (5,762)</u>           | <u>\$ 28,563</u>                | <u>\$ 4,216</u>             | <u>\$ 383,154</u>   |
| Interest income                                 |                             |                   |                            |                             |                                 |                             | 3,093               |
| Interest expense                                |                             |                   |                            |                             |                                 |                             | (10,434)            |
| Income before income taxes                      |                             |                   |                            |                             |                                 |                             | <u>\$ 375,813</u>   |
| Total assets                                    | \$ 1,111,065                | \$ 359,337        | \$ 284,573                 | \$ 138,114                  | \$ 147,990                      | \$ (101,864)                | \$ 1,939,215        |
| Equity investments in affiliates                | —                           | 23,902            | —                          | 3,579                       | —                               | —                           | \$ 27,481           |
| Capital expenditures                            | 51,691                      | 5,619             | 3,959                      | 10,896                      | 825                             | —                           | \$ 72,990           |
| Depreciation and amortization                   | 43,659                      | 10,823            | 9,799                      | 2,085                       | 3,512                           | (271)                       | \$ 69,607           |
| <b>For the Year Ended<br/>December 31, 2013</b> |                             |                   |                            |                             |                                 |                             |                     |
| Net sales                                       | \$ 1,652,769                | \$ 429,548        | \$ 266,282                 | \$ 195,895                  | \$ 308,177                      | \$ —                        | \$ 2,852,671        |
| Inter-segment sales                             | 127,254                     | 19,911            | 14,906                     | 233                         | 9,605                           | (171,909)                   | \$ —                |
| Total                                           | <u>\$ 1,780,023</u>         | <u>\$ 449,459</u> | <u>\$ 281,188</u>          | <u>\$ 196,128</u>           | <u>\$ 317,782</u>               | <u>\$ (171,909)</u>         | <u>\$ 2,852,671</u> |
| EBIT, as adjusted                               | \$ 318,507                  | \$ 36,247         | \$ 1,815                   | \$ 57,306                   | \$ 27,826                       | \$ (4,350)                  | \$ 437,351          |
| Special items charge (gain)                     | 1,052                       | 2,045             | 6,071                      | 12,198                      | —                               | —                           | \$ 21,366           |
| EBIT                                            | <u>\$ 317,455</u>           | <u>\$ 34,202</u>  | <u>\$ (4,256)</u>          | <u>\$ 45,108</u>            | <u>\$ 27,826</u>                | <u>\$ (4,350)</u>           | <u>\$ 415,985</u>   |
| Interest income                                 |                             |                   |                            |                             |                                 |                             | 3,320               |
| Interest expense                                |                             |                   |                            |                             |                                 |                             | (2,864)             |
| Income before income taxes                      |                             |                   |                            |                             |                                 |                             | <u>\$ 416,441</u>   |
| Total assets                                    | \$ 1,048,412                | \$ 403,094        | \$ 325,656                 | \$ 169,027                  | \$ 162,496                      | \$ 43,182                   | \$ 2,151,867        |
| Equity investments in affiliates                | —                           | 23,315            | —                          | 3,303                       | —                               | —                           | \$ 26,618           |
| Capital expenditures                            | 41,181                      | 10,305            | 2,073                      | 20,840                      | 3,931                           | (2,315)                     | \$ 76,015           |
| Depreciation and amortization                   | 39,086                      | 10,933            | 13,559                     | 1,893                       | 3,636                           | (224)                       | \$ 68,883           |
| <b>For the Year Ended<br/>December 31, 2012</b> |                             |                   |                            |                             |                                 |                             |                     |
| Net sales                                       | \$ 1,580,818                | \$ 452,227        | \$ 324,482                 | \$ 161,483                  | \$ 334,357                      | \$ —                        | \$ 2,853,367        |
| Inter-segment sales                             | 131,062                     | 16,048            | 14,829                     | 38                          | 8,549                           | (170,526)                   | \$ —                |
| Total                                           | <u>\$ 1,711,880</u>         | <u>\$ 468,275</u> | <u>\$ 339,311</u>          | <u>\$ 161,521</u>           | <u>\$ 342,906</u>               | <u>\$ (170,526)</u>         | <u>\$ 2,853,367</u> |
| EBIT, as adjusted                               | \$ 293,070                  | \$ 37,299         | \$ 7,247                   | \$ 18,301                   | \$ 29,477                       | \$ (4,886)                  | \$ 380,508          |
| Special items charge (gain)                     | 827                         | 3,534             | 4,993                      | 1,381                       | —                               | —                           | \$ 10,735           |
| EBIT                                            | <u>\$ 292,243</u>           | <u>\$ 33,765</u>  | <u>\$ 2,254</u>            | <u>\$ 16,920</u>            | <u>\$ 29,477</u>                | <u>\$ (4,886)</u>           | <u>\$ 369,773</u>   |
| Interest income                                 |                             |                   |                            |                             |                                 |                             | 3,988               |
| Interest expense                                |                             |                   |                            |                             |                                 |                             | (4,191)             |
| Income before income taxes                      |                             |                   |                            |                             |                                 |                             | <u>\$ 369,570</u>   |
| Total assets                                    | \$ 980,093                  | \$ 451,654        | \$ 350,189                 | \$ 134,650                  | \$ 195,881                      | \$ (22,604)                 | \$ 2,089,863        |
| Equity investments in affiliates                | —                           | 21,798            | —                          | 2,808                       | —                               | —                           | \$ 24,606           |
| Capital expenditures                            | 36,834                      | 5,372             | 8,833                      | 899                         | 831                             | (54)                        | \$ 52,715           |
| Depreciation and amortization                   | 33,479                      | 11,008            | 15,102                     | 1,878                       | 3,934                           | (67)                        | \$ 65,334           |

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In 2014, special items include net gains of \$68 and \$184 in the North America Welding and Asia Pacific Welding segments, and net charges of \$911 and \$582 in the Europe Welding and South America Welding segments, respectively, primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. The Asia Pacific Welding segment special items also include charges of \$32,742 related to impairment of long-lived assets and a gain of \$3,923 related to the sale of assets. The South America Welding segment special items also include Venezuelan foreign exchange remeasurement losses of \$21,133 related to the adoption of a new foreign exchange mechanism in the first quarter.

In 2013, special items include net charges of \$1,052, \$2,045 and \$922 in the North America Welding, Europe Welding and Asia Pacific Welding segments, respectively, primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. The Asia Pacific Welding segment special items also include charges of \$4,444 related to the impairment of long-lived assets and a charge of \$705 related to a loss on the sale of land. The South America Welding segment special items represents a charge of \$12,198 related to the devaluation of the Venezuelan currency.

In 2012, special items include net charges of \$827, \$3,637 and \$3,151 for rationalization actions in the North America Welding, Europe Welding and Asia Pacific Welding segments, respectively, primarily related to employee severance and other costs associated with the consolidation of manufacturing operations. The Asia Pacific Welding segment special items also include a charge of \$1,842 related to asset impairments. The South America Welding segment special item represents a charge of \$1,381 related to a change in Venezuelan labor law, which provides for increased employee severance obligations.

Export sales (excluding inter-company sales) from the United States were \$210,325 in 2014, \$260,195 in 2013 and \$268,331 in 2012. No individual customer comprised more than 10% of the Company's total revenues for any of the three years ended December 31, 2014.

The geographic split of the Company's Net sales, based on the location of the customer, and property, plant and equipment were as follows:

|                                     | Year Ended December 31, |                     |                     |
|-------------------------------------|-------------------------|---------------------|---------------------|
|                                     | 2014                    | 2013                | 2012                |
| Net sales:                          |                         |                     |                     |
| United States                       | \$ 1,417,750            | \$ 1,350,309        | \$ 1,283,066        |
| China                               | 190,035                 | 219,490             | 229,996             |
| Other foreign countries             | 1,205,539               | 1,282,872           | 1,340,305           |
| Total                               | <u>\$ 2,813,324</u>     | <u>\$ 2,852,671</u> | <u>\$ 2,853,367</u> |
|                                     |                         |                     |                     |
|                                     | December 31,            |                     |                     |
|                                     | 2014                    | 2013                | 2012                |
| Property, plant and equipment, net: |                         |                     |                     |
| United States                       | \$ 171,746              | \$ 162,357          | \$ 170,831          |
| China                               | 56,247                  | 83,416              | 92,744              |
| Other foreign countries             | 209,640                 | 238,685             | 223,050             |
| Eliminations                        | (424)                   | (453)               | (389)               |
| Total                               | <u>\$ 437,209</u>       | <u>\$ 484,005</u>   | <u>\$ 486,236</u>   |

**LINCOLN ELECTRIC HOLDINGS, INC.**  
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**NOTE 6 – RATIONALIZATION AND ASSET IMPAIRMENTS**

The Company recorded rationalization net charges of \$30,053, \$8,463 and \$9,354 for the years ended December 31, 2014, 2013 and 2012, respectively. The 2014 net charges include \$1,241 primarily related to employee severance and \$32,742 in asset impairment charges, partially offset by gains of \$3,930 related to the sale of assets. A description of each restructuring plan and the related costs follows:

*North America Welding Plans:*

During 2012, the Company initiated various rationalization plans within the North America Welding segment. Plans for the segment include consolidating its Oceanside, California operations and its Reno, Nevada operations to another facility in Reno, Nevada and consolidating its Baltimore, Maryland manufacturing operations into its current manufacturing operations in Cleveland, Ohio. During the year ended December 31, 2014, the Company recorded credits of \$68, which represent employee severance and other related costs. The Company does not expect further costs associated with these actions as they were substantially completed and paid during 2014.

*Europe Welding Plans:*

During 2014, the Company initiated a rationalization plan within the Europe Welding segment. The plan includes headcount restructuring to better align the cost structure with current economic conditions and operating needs. These actions impacted 16 employees within the Europe Welding segment. During the year ended December 31, 2014, the Company recorded charges of \$701 which represent employee severance costs.

During 2013, the Company initiated a rationalization plan within the Europe Welding segment to consolidate certain consumable manufacturing operations. During the year ended December 31, 2014, the Company recorded net charges of \$347 which primarily represent employee severance costs.

During 2012, the Company initiated various rationalization plans within the Europe Welding segment. Plans for the segment include the consolidation of manufacturing facilities in Russia, relocation of its Italian machine manufacturing operations to current facilities in Poland and headcount restructuring at various other manufacturing operations within the segment to better align the cost structure and capacity requirements with current economic needs and conditions. During the year ended December 31, 2014, the Company recorded net credits of \$144 related to these activities.

At December 31, 2014, liabilities relating to the Europe Welding plans were immaterial. Additional charges related to the completion of these plans are expected to be immaterial.

*Asia Pacific Welding Plans:*

During 2014, the Company identified assets within the segment for planned divestiture. In anticipation of the divestiture, the Company reviewed the carrying values and future cash flows of certain long-lived assets and indefinite-lived intangible assets for potential impairment. The Company determined that for certain assets, including the planned divestiture, the carrying values of the assets exceeded the fair values resulting in non-cash impairment charges of \$32,617 recorded in Rationalization and asset impairment charges. This result was considered a possible indication of goodwill impairment. As such, the Company performed a goodwill impairment test for the Asia Pacific reporting unit ahead of the annual impairment tests, which resulted in no impairment to the carrying value of goodwill. As of December 31, 2014, the assets identified for divestiture were classified as held for sale. As of December 31, 2014, \$30,437 and \$11,345 of assets and liabilities held for sale were recorded in Other current assets and Other current liabilities, respectively.

During 2012, the Company initiated various rationalization plans within the Asia Pacific Welding segment. Plans for the segment include the rationalization of its Australian manufacturing operations and headcount restructuring at various other manufacturing operations within the segment to better align the cost structure and capacity requirements with current economic needs and conditions. During the year ended December 31, 2014, the Company recorded net gains of \$3,982, which primarily represent a gain of \$3,911 on the sale of real estate, a net reversal of \$184 of previously accrued costs and \$125 in asset impairment charges. Additional charges related to the completion of this plan are expected to be immaterial.

*South America Welding Plans:*

During 2014, the Company initiated a rationalization plan within the South America Welding segment to restructure headcount to better align the cost structure with current economic conditions and operating needs. These actions impacted 15 employees within the South America Welding segment. During the year ended December 31, 2014, the Company recorded net charges of \$582, which primarily represents employee severance and other related costs. The Company does not expect further costs associated with these actions as they were substantially completed and paid during 2014.

The Company continues evaluating its cost structure and additional rationalization actions may result in charges in future periods.

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*(Dollars in thousands, except share and per share amounts)*

The following tables summarize the activity related to the rationalization liabilities by segment for the year ended December 31, 2014:

|                                | North America<br>Welding | Europe<br>Welding | Asia<br>Pacific<br>Welding | South America<br>Welding | Consolidated |
|--------------------------------|--------------------------|-------------------|----------------------------|--------------------------|--------------|
| Balance at December 31, 2012   | \$ —                     | \$ 2,013          | \$ 1,044                   | \$ —                     | \$ 3,057     |
| Payments and other adjustments | (586)                    | (1,343)           | (1,510)                    | —                        | (3,439)      |
| Charged (credited) to expense  | 1,052                    | 1,765             | 841                        | —                        | 3,658        |
| Balance at December 31, 2013   | \$ 466                   | \$ 2,435          | \$ 375                     | \$ —                     | \$ 3,276     |
| Payments and other adjustments | (398)                    | (3,041)           | (191)                      | (582)                    | (4,212)      |
| Charged (credited) to expense  | (68)                     | 911               | (184)                      | 582                      | 1,241        |
| Balance at December 31, 2014   | \$ —                     | \$ 305            | \$ —                       | \$ —                     | \$ 305       |

**NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) ("AOCI")**

The following tables set forth the total changes in AOCI by component, net of taxes, for the years ended December 31, 2014 and 2013:

|                                                           | Unrealized (loss) gain<br>on derivatives<br>designated and<br>qualifying as cash<br>flow hedges | Defined benefit<br>pension plan activity | Currency translation<br>adjustment | Total        |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------|------------------------------------------|------------------------------------|--------------|
| Balance at December 31, 2012                              | \$ 80                                                                                           | \$ (261,844)                             | \$ 26,364                          | \$ (235,400) |
| Other comprehensive income (loss) before reclassification | (681)                                                                                           | 82,050 <sup>2</sup>                      | (17,981) <sup>3</sup>              | 63,388       |
| Amounts reclassified from AOCI                            | 970 <sup>1</sup>                                                                                | 19,101 <sup>2</sup>                      | —                                  | 20,071       |
| Net current-period other comprehensive income (loss)      | 289                                                                                             | 101,151                                  | (17,981)                           | 83,459       |
| Balance at December 31, 2013                              | \$ 369                                                                                          | \$ (160,693)                             | \$ 8,383                           | \$ (151,941) |
| Other comprehensive income (loss) before reclassification | (720)                                                                                           | (48,803) <sup>2</sup>                    | (99,103) <sup>3</sup>              | (148,626)    |
| Amounts reclassified from AOCI                            | 342 <sup>1</sup>                                                                                | 11,603 <sup>2</sup>                      | —                                  | 11,945       |
| Net current-period other comprehensive income (loss)      | (378)                                                                                           | (37,200)                                 | (99,103)                           | (136,681)    |
| Balance at December 31, 2014                              | \$ (9)                                                                                          | \$ (197,893)                             | \$ (90,720)                        | \$ (288,622) |

- During 2014, this AOCI reclassification is a component of Net sales of \$(80) (net of tax of \$(65)) and Cost of goods sold of \$422 (net of tax of \$205); during 2013, the reclassification is a component of Net sales of \$619 (net of tax of \$99), Cost of goods sold of \$418 (net of tax of \$295) and SG&A of \$(67) with no tax effect. (See Note 13 - Derivatives for additional details.)
- This AOCI component is included in the computation of net periodic pension costs (net of tax of \$(20,951) and \$60,556 during the years ended December 31, 2014 and 2013, respectively). (See Note 11 - Retirement and Postretirement Benefit Plans for additional details.)
- The Other comprehensive income before reclassifications excludes \$734 and \$(1,819) attributable to Non-controlling interests in the years ended December 31, 2014 and 2013, respectively. The reclassified AOCI component is included in the computation of Non-controlling interests. (See Consolidated Statements of Equity for additional details.)

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**NOTE 8 – DEBT**

At December 31, 2014 and 2013, debt consisted of the following:

|                                                           | December 31, |           |
|-----------------------------------------------------------|--------------|-----------|
|                                                           | 2014         | 2013      |
| <i>Long-term debt</i>                                     |              |           |
| Capital leases due through 2019, interest at 0.3% to 8.0% | \$ 198       | \$ 236    |
| Other borrowings due through 2023, interest up to 18.0%   | 9,301        | 4,270     |
|                                                           | 9,499        | 4,506     |
| Less current portion                                      | 7,011        | 715       |
| Long-term debt, less current portion                      | 2,488        | 3,791     |
| <i>Short-term debt</i>                                    |              |           |
| Amounts due banks, interest at 3.1% (11.3% in 2013)       | 61,155       | 14,581    |
| Current portion long-term debt                            | 7,011        | 715       |
| Total short-term debt                                     | 68,166       | 15,296    |
| Total debt                                                | \$ 70,654    | \$ 19,087 |

At December 31, 2014 and 2013, the fair value of long-term debt, including the current portion, was approximately \$9,323 and \$4,212, respectively, which was determined using available market information and methodologies requiring judgment. Since considerable judgment is required in interpreting market information, the fair value of the debt is not necessarily the amount which could be realized in a current market exchange.

*Revolving Credit Agreement*

The Company has a line of credit totaling \$400,000 through the Amended and Restated Credit Agreement (the “Credit Agreement”), which was entered into on September 12, 2014. The Credit Agreement contains customary affirmative, negative and financial covenants for credit facilities of this type, including limitations on the Company and its subsidiaries with respect to liens, investments, distributions, mergers and acquisitions, dispositions of assets, transactions with affiliates and a fixed charges coverage ratio and total leverage ratio. As of December 31, 2014, the Company was in compliance with all of its covenants and had \$50,000 in outstanding borrowings under the Credit Agreement, which was recorded in Amounts due banks. The Credit Agreement has a five-year term and may be increased, subject to certain conditions, by an additional amount up to \$100,000. The interest rate on borrowings is based on either LIBOR or the prime rate, plus a spread based on the Company’s leverage ratio, at the Company’s election.

*Short-term Borrowings*

The Company's short-term borrowings included in Amounts due banks were \$61,155 and \$14,581 at December 31, 2014 and 2013, respectively. Amounts due banks included the outstanding borrowings under the Credit Agreement and the borrowings of foreign subsidiaries at weighted average interest rates of 3.1% and 11.3% at December 31, 2014 and 2013, respectively.

*Capital Leases*

At December 31, 2014 and 2013, \$198 and \$236 of capital lease indebtedness was secured by property, plant and equipment, respectively.

*Other*

Maturities of long-term debt, including payments under capital leases and amounts due banks, for the five years succeeding December 31, 2014 are \$68,169 in 2015, \$1,684 in 2016, \$176 in 2017, \$106 in 2018, \$104 in 2019 and \$416 thereafter. Total interest paid was \$2,190 in 2014, \$2,864 in 2013 and \$4,423 in 2012. The primary difference between interest expense and interest paid in 2014 is due to an adjustment to the consideration expected to be paid to acquire additional ownership interests of a majority-owned subsidiary and the accretion of the related liability. The difference in 2012 is due to the amortization of gains on terminated interest rate swaps.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

**NOTE 9 – STOCK PLANS**

On April 28, 2006, the shareholders of the Company approved the 2006 Equity and Performance Incentive Plan, as amended ("EPI Plan"), which replaced the 1998 Stock Plan, as amended and restated in May 2003. The EPI Plan provides for the granting of options, appreciation rights, restricted shares, restricted stock units and performance-based awards up to an additional 6,000,000 of the Company's common shares. In addition, on April 28, 2006, the shareholders of the Company approved the 2006 Stock Plan for Non-Employee Directors, as amended ("Director Plan"), which replaced the Stock Option Plan for Non-Employee Directors adopted in 2000. The Director Plan provides for the granting of options, restricted shares and restricted stock units up to an additional 600,000 of the Company's common shares. At December 31, 2014, there were 2,330,493 common shares available for future grant under all plans.

*Stock Options*

The following table summarizes stock option activity for the years ended December 31, 2014, 2013 and 2012, under all Plans:

|                              | Year Ended December 31, |                                 |                  |                                 |                  |                                 |
|------------------------------|-------------------------|---------------------------------|------------------|---------------------------------|------------------|---------------------------------|
|                              | 2014                    |                                 | 2013             |                                 | 2012             |                                 |
|                              | Options                 | Weighted Average Exercise Price | Options          | Weighted Average Exercise Price | Options          | Weighted Average Exercise Price |
| Balance at beginning of year | 2,452,648               | \$ 36.52                        | 3,060,944        | \$ 30.98                        | 3,632,463        | \$ 26.05                        |
| Options granted              | 5,121                   | 69.61                           | 273,105          | 70.88                           | 412,980          | 47.66                           |
| Options exercised            | (329,986)               | 27.63                           | (774,783)        | 26.20                           | (962,029)        | 19.52                           |
| Options canceled             | (40,590)                | 47.21                           | (106,618)        | 40.54                           | (22,470)         | 24.07                           |
| Balance at end of year       | <u>2,087,193</u>        | <u>37.80</u>                    | <u>2,452,648</u> | <u>36.52</u>                    | <u>3,060,944</u> | <u>30.98</u>                    |
| Exercisable at end of year   | 1,818,218               | 33.89                           | 1,837,014        | 29.93                           | 2,208,455        | 27.19                           |

Options granted under both the EPI Plan and its predecessor plans may be outstanding for a maximum of 10 years from the date of grant. The majority of options granted vest ratably over a period of three years from the grant date. The exercise prices of all options were equal to the quoted market price of the Company's common shares at the date of grant. The Company issued shares of common stock from treasury upon all exercises of stock options in 2014, 2013 and 2012.

The Company uses the Black-Scholes option pricing model for estimating fair values of options. In estimating the fair value of options granted, the expected option life is based on the Company's historical experience. The expected volatility is based on historical volatility. The weighted average assumptions for each of the three years ended December 31, 2014 were as follows:

|                                                                | Year Ended December 31, |          |          |
|----------------------------------------------------------------|-------------------------|----------|----------|
|                                                                | 2014                    | 2013     | 2012     |
| Expected volatility                                            | 32.21%                  | 32.97%   | 45.67%   |
| Dividend yield                                                 | 1.41%                   | 1.40%    | 1.66%    |
| Risk-free interest rate                                        | 1.61%                   | 1.52%    | 0.70%    |
| Expected option life (years)                                   | 4.4                     | 4.4      | 4.5      |
| Weighted average fair value per option granted during the year | \$ 17.52                | \$ 18.14 | \$ 15.87 |

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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The following table summarizes non-vested stock options for the year ended December 31, 2014:

|                              | Year Ended December 31, 2014 |                                           |
|------------------------------|------------------------------|-------------------------------------------|
|                              | Number of Options            | Weighted Average Fair Value at Grant Date |
| Balance at beginning of year | 615,634                      | \$ 16.32                                  |
| Granted                      | 5,121                        | 17.52                                     |
| Vested                       | (326,596)                    | 15.63                                     |
| Forfeited                    | (25,184)                     | 13.17                                     |
| Balance at end of year       | 268,975                      | 17.48                                     |

The aggregate intrinsic value of options outstanding and exercisable which would have been received by the optionees had all awards been exercised at December 31, 2014 was \$65,873 and \$64,161, respectively. The total intrinsic value of awards exercised during 2014, 2013 and 2012 was \$14,647, \$26,288 and \$25,936, respectively. The total fair value of options that vested during 2014, 2013 and 2012 was \$5,104, \$5,131 and \$4,791, respectively.

The following table summarizes information about awards outstanding as of December 31, 2014:

| Exercise Price Range | Outstanding             |                                 | Exercisable             |                                 | Weighted Average Remaining Life (years) |
|----------------------|-------------------------|---------------------------------|-------------------------|---------------------------------|-----------------------------------------|
|                      | Number of Stock Options | Weighted Average Exercise Price | Number of Stock Options | Weighted Average Exercise Price |                                         |
| Under \$29.99        | 572,351                 | \$ 24.14                        | 572,351                 | \$ 24.14                        | 4.2                                     |
| \$30.00 - \$39.99    | 917,607                 | 33.21                           | 917,272                 | 33.21                           | 5.4                                     |
| Over \$40.00         | 597,235                 | 57.94                           | 328,595                 | 52.75                           | 8.1                                     |
|                      | 2,087,193               |                                 | 1,818,218               |                                 | 5.5                                     |

*Restricted Share Awards ("RSAs")*

The following table summarizes restricted share award activity for the years ended December 31, 2014, 2013 and 2012, under all Plans:

|                              | Year Ended December 31, |                                        |           |                                        |          |                                        |
|------------------------------|-------------------------|----------------------------------------|-----------|----------------------------------------|----------|----------------------------------------|
|                              | 2014                    |                                        | 2013      |                                        | 2012     |                                        |
|                              | Shares                  | Weighted Average Grant Date Fair Value | Shares    | Weighted Average Grant Date Fair Value | Shares   | Weighted Average Grant Date Fair Value |
| Balance at beginning of year | 115,316                 | \$ 39.55                               | 336,808   | \$ 28.49                               | 379,233  | \$ 28.06                               |
| Shares granted               | 14,927                  | 66.32                                  | 14,464    | 70.88                                  | 20,099   | 47.81                                  |
| Shares vested                | (80,753)                | 31.88                                  | (224,021) | 25.68                                  | (62,524) | 32.10                                  |
| Shares forfeited             | —                       | —                                      | (11,935)  | 25.76                                  | —        | —                                      |
| Balance at end of year       | 49,490                  | 60.14                                  | 115,316   | 39.55                                  | 336,808  | 28.49                                  |

RSAs are valued at the quoted market price on the grant date. The majority of RSAs vest over a period of three to five years. The Company issued common shares from treasury upon the granting of RSAs in 2014, 2013 and 2012. All restricted shares issued in 2014, 2013 and 2012, were under the the Director Plan. The remaining weighted average life of all non-vested RSAs is 1.8 years as of December 31, 2014.



**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

*Restricted Stock Units ("RSUs")*

The following table summarizes restricted stock unit activity for the years ended December 31, 2014, 2013 and 2012, under all Plans:

|                              | Year Ended December 31, |                                        |                |                                        |                |                                        |
|------------------------------|-------------------------|----------------------------------------|----------------|----------------------------------------|----------------|----------------------------------------|
|                              | 2014                    |                                        | 2013           |                                        | 2012           |                                        |
|                              | Units                   | Weighted Average Grant Date Fair Value | Units          | Weighted Average Grant Date Fair Value | Units          | Weighted Average Grant Date Fair Value |
| Balance at beginning of year | 283,944                 | \$ 47.38                               | 288,669        | \$ 40.83                               | 166,519        | \$ 34.55                               |
| Units granted                | 2,861                   | 70.71                                  | 69,925         | 67.17                                  | 133,944        | 47.97                                  |
| Units vested                 | (40,035)                | 36.59                                  | (33,698)       | 39.20                                  | (10,499)       | 33.06                                  |
| Units forfeited              | (5,274)                 | 52.19                                  | (40,952)       | 41.70                                  | (1,295)        | 35.55                                  |
| Balance at end of year       | <u>241,496</u>          | <u>49.34</u>                           | <u>283,944</u> | <u>47.38</u>                           | <u>288,669</u> | <u>40.83</u>                           |

RSUs are valued at the quoted market price on the grant date. The majority of RSUs vest over a period of three to five years. The Company will issue shares of common stock from treasury upon the vesting of RSUs and any earned dividend equivalents. Conversion of 17,131 RSUs to common shares in 2014 were deferred as part of the 2005 Deferred Compensation Plan for Executives (the "2005 Plan"). As of December 31, 2014, 46,375 RSUs, including related dividend equivalents, have been deferred under the 2005 Plan. These units are reflected within dilutive shares in the calculation of earnings per share. All RSUs issued in 2014, 2013 and 2012, were under the the EPI Plan. The remaining weighted average life of all non-vested RSUs is 3.2 years as of December 31, 2014.

*Stock-Based Compensation Expense*

Expense is recognized for all awards of stock-based compensation by allocating the aggregate grant date fair value over the vesting period. No expense is recognized for any stock options, restricted or deferred shares or restricted stock units ultimately forfeited because recipients fail to meet vesting requirements. Total stock-based compensation expense recognized in the Consolidated Statements of Income for 2014, 2013 and 2012 was \$8,416, \$9,734 and \$8,961, respectively. The related tax benefit for 2014, 2013 and 2012 was \$3,222, \$3,727 and \$3,409, respectively. As of December 31, 2014, total unrecognized stock-based compensation expense related to non-vested stock options, restricted shares and restricted stock units was \$12,452, which is expected to be recognized over a weighted average period of approximately 3.0 years.

*Lincoln Stock Purchase Plan*

The 1995 Lincoln Stock Purchase Plan provides employees the ability to purchase open market shares on a commission-free basis up to a limit of ten thousand dollars annually. Under this plan, 800,000 shares have been authorized to be purchased. Shares purchased were 5,511 in 2014, 4,653 in 2013 and 4,908 in 2012.

**NOTE 10 – COMMON STOCK REPURCHASE PROGRAM**

The Company has a share repurchase program for up to 45 million of the Company's common shares. At management's discretion, the Company repurchases its common shares from time to time in the open market, depending on market conditions, stock price and other factors. During the year ended December 31, 2014, the Company purchased a total of 4.4 million shares at an average cost per share of \$69.84. As of December 31, 2014, 11.3 million shares remained available for repurchase under the stock repurchase program. The treasury shares have not been retired.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

**NOTE 11 – RETIREMENT ANNUITY AND GUARANTEED CONTINUOUS EMPLOYMENT PLANS**

The Company maintains a number of defined benefit and defined contribution plans to provide retirement benefits for employees. These plans are maintained and contributions are made in accordance with the Employee Retirement Income Security Act of 1974 ("ERISA"), local statutory law or as determined by the Board of Directors. The plans generally provide benefits based upon years of service and compensation. Pension plans are funded except for a domestic non-qualified pension plan for certain key employees and certain foreign plans. The Company uses a December 31 measurement date for its plans.

The Company does not have, and does not provide for, any postretirement or postemployment benefits other than pensions and certain non-U.S. statutory termination benefits.

**Defined Benefit Plans**

Contributions are made in amounts sufficient to fund current service costs on a current basis and to fund past service costs, if any, over various amortization periods.

*Obligations and Funded Status*

|                                                | <b>December 31,</b> |              |
|------------------------------------------------|---------------------|--------------|
|                                                | <b>2014</b>         | <b>2013</b>  |
| <i>Change in benefit obligations</i>           |                     |              |
| Benefit obligations at beginning of year       | \$ 941,442          | \$ 1,033,725 |
| Service cost                                   | 19,062              | 23,188       |
| Interest cost                                  | 42,485              | 37,225       |
| Plan participants' contributions               | 215                 | 221          |
| Plan amendments                                | 45                  | 1,623        |
| Actuarial loss (gain)                          | 117,881             | (91,851)     |
| Benefits paid                                  | (60,582)            | (59,296)     |
| Settlements/curtailments                       | (7,172)             | (1,390)      |
| Currency translation                           | (7,905)             | (2,003)      |
| Benefit obligations at end of year             | 1,045,471           | 941,442      |
| <i>Change in plan assets</i>                   |                     |              |
| Fair value of plan assets at beginning of year | 939,995             | 813,897      |
| Actual return on plan assets                   | 108,060             | 101,044      |
| Employer contributions                         | 27,550              | 85,456       |
| Plan participants' contributions               | 215                 | 221          |
| Benefits paid                                  | (59,196)            | (57,644)     |
| Settlement                                     | —                   | (1,390)      |
| Currency translation                           | (5,687)             | (1,589)      |
| Fair value of plan assets at end of year       | 1,010,937           | 939,995      |
| Funded status at end of year                   | (34,534)            | (1,447)      |
| Unrecognized actuarial net loss                | 316,296             | 258,781      |
| Unrecognized prior service cost                | (1,930)             | (2,547)      |
| Unrecognized transition assets, net            | 45                  | 26           |
| Net amount recognized                          | \$ 279,877          | \$ 254,813   |

The actuarial loss arising during 2014 was primarily attributable to a lower discount rate and the adoption of new mortality tables for the Company's U.S. defined benefit plans.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

The after-tax amounts of unrecognized actuarial net loss, prior service costs and transition assets included in Accumulated other comprehensive loss at December 31, 2014 were \$199,786, \$(1,931) and \$38, respectively. The actuarial loss represents changes in the estimated obligation not yet recognized in the Consolidated Income Statement. The pre-tax amounts of unrecognized actuarial net loss, prior service credits and transition obligations expected to be recognized as components of net periodic benefit cost during 2015 are \$22,657, \$(625) and \$3, respectively.

Amounts Recognized in Consolidated Balance Sheets

|                                                             | December 31,      |                   |
|-------------------------------------------------------------|-------------------|-------------------|
|                                                             | 2014              | 2013              |
| Prepaid pensions                                            | \$ 1,240          | \$ 36,116         |
| Accrued pension liability, current                          | (2,971)           | (10,564)          |
| Accrued pension liability, long-term                        | (32,803)          | (26,999)          |
| Accumulated other comprehensive loss, excluding tax effects | 314,411           | 256,260           |
| Net amount recognized in the balance sheets                 | <u>\$ 279,877</u> | <u>\$ 254,813</u> |

Components of Pension Cost for Defined Benefit Plans

|                                        | Year Ended December 31, |                  |                  |
|----------------------------------------|-------------------------|------------------|------------------|
|                                        | 2014                    | 2013             | 2012             |
| Service cost                           | \$ 19,062               | \$ 23,188        | \$ 21,538        |
| Interest cost                          | 42,485                  | 37,225           | 41,584           |
| Expected return on plan assets         | (67,953)                | (61,244)         | (58,754)         |
| Amortization of prior service cost     | (616)                   | (613)            | (90)             |
| Amortization of net loss               | 17,644                  | 30,929           | 31,085           |
| Settlement/curtailment loss            | 1,773                   | 423              | 895              |
| Pension cost for defined benefit plans | <u>\$ 12,395</u>        | <u>\$ 29,908</u> | <u>\$ 36,258</u> |

The Company's defined benefit plans costs decreased in 2014 primarily as a result of a lower amortization of net loss and a higher expected return on plan assets.

Pension Plans with Accumulated Benefit Obligations in Excess of Plan Assets

|                                | December 31, |           |
|--------------------------------|--------------|-----------|
|                                | 2014         | 2013      |
| <i>U.S. pension plans</i>      |              |           |
| Projected benefit obligation   | \$ 34,066    | \$ 37,355 |
| Accumulated benefit obligation | 30,202       | 33,416    |
| Fair value of plan assets      | 11,638       | 10,028    |
| <i>Non-U.S. pension plans</i>  |              |           |
| Projected benefit obligation   | \$ 5,573     | \$ 7,587  |
| Accumulated benefit obligation | 3,372        | 3,804     |

The total accumulated benefit obligation for all plans was \$1,003,296 as of December 31, 2014 and \$891,397 as of December 31, 2013.

Contributions to Plans

The Company expects to contribute \$21,000 to the defined benefit plans in the United States in 2015. The actual amounts to be contributed in 2015 will be determined at the Company's discretion.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

**Benefit Payments for Plans**

Benefits expected to be paid for the U.S. plans are as follows:

**Estimated Payments**

|                   |    |         |
|-------------------|----|---------|
| 2015              | \$ | 65,434  |
| 2016              |    | 72,631  |
| 2017              |    | 65,459  |
| 2018              |    | 63,777  |
| 2019              |    | 64,457  |
| 2020 through 2024 |    | 317,919 |

**Assumptions**

Weighted average assumptions used to measure the benefit obligation for the Company's significant defined benefit plans as of December 31, 2014 and 2013 were as follows:

|                                  | December 31, |      |
|----------------------------------|--------------|------|
|                                  | 2014         | 2013 |
| Discount Rate                    | 4.1%         | 4.7% |
| Rate of increase in compensation | 2.8%         | 4.2% |

Weighted average assumptions used to measure the net periodic benefit cost for the Company's significant defined benefit plans for each of the three years ended December 31, 2014 were as follows:

|                                  | December 31, |      |      |
|----------------------------------|--------------|------|------|
|                                  | 2014         | 2013 | 2012 |
| Discount rate                    | 4.7%         | 3.8% | 4.2% |
| Rate of increase in compensation | 4.1%         | 4.1% | 4.0% |
| Expected return on plan assets   | 7.3%         | 7.4% | 7.7% |

To develop the discount rate assumption to be used for U.S. plans, the Company refers to the yield derived from matching projected pension payments with maturities of bonds rated AA or an equivalent quality. The expected long-term rate of return assumption is based on the weighted average expected return of the various asset classes in the plans' portfolio and the targeted allocation of plan assets. The asset class return is developed using historical asset return performance as well as current market conditions such as inflation, interest rates and equity market performance. The rate of compensation increase is determined by the Company based upon annual reviews.

**Pension Plans' Assets**

The primary objective of the pension plans' investment policy is to ensure sufficient assets are available to provide benefit obligations when such obligations mature. Investment management practices must comply with ERISA or any other applicable regulations and rulings. The overall investment strategy for the defined benefit pension plans' assets is to achieve a rate of return over a normal business cycle relative to an acceptable level of risk that is consistent with the long-term objectives of the portfolio. During 2014, the Company changed the target allocation for plan assets to 45% to 55% equity securities and 45% to 55% debt securities. The Company expects a 100 basis point decrease in the expected rate of return on plan assets in 2015 related to this change.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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The following table sets forth, by level within the fair value hierarchy, the pension plans' assets as of December 31, 2014:

| Pension Plans' Assets at Fair Value as of December 31, 2014 |                                                                            |                                                     |                                                    |              |
|-------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|--------------|
|                                                             | Quoted Prices<br>in Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total        |
| Cash and cash equivalents                                   | \$ 4,873                                                                   | \$ —                                                | \$ —                                               | \$ 4,873     |
| Fixed income securities (1)                                 |                                                                            |                                                     |                                                    |              |
| U.S. government bonds                                       | 27,305                                                                     | —                                                   | —                                                  | 27,305       |
| Corporate debt and other obligations                        | —                                                                          | 212,326                                             | —                                                  | 212,326      |
| Common trusts and 103-12 investments (2)                    |                                                                            |                                                     |                                                    |              |
| Cash and cash equivalents                                   | —                                                                          | 7,499                                               | —                                                  | 7,499        |
| Common trusts and 103-12 investments                        | —                                                                          | 720,919                                             | —                                                  | 720,919      |
| Private equity funds (3)                                    | —                                                                          | —                                                   | 38,015                                             | 38,015       |
| Total assets at fair value                                  | \$ 32,178                                                                  | \$ 940,744                                          | \$ 38,015                                          | \$ 1,010,937 |

The following table sets forth, by level within the fair value hierarchy, the pension plans' assets as of December 31, 2013:

| Pension Plans' Assets at Fair Value as of December 31, 2013 |                                                                            |                                                     |                                                    |            |
|-------------------------------------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|------------|
|                                                             | Quoted Prices<br>in Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total      |
| Common trusts and 103-12 investments (2)                    |                                                                            |                                                     |                                                    |            |
| Cash and cash equivalents                                   | \$ —                                                                       | \$ 4,686                                            | \$ —                                               | \$ 4,686   |
| Common trusts and 103-12 investments                        | —                                                                          | 902,746                                             | —                                                  | 902,746    |
| Private equity funds (3)                                    | —                                                                          | —                                                   | 32,563                                             | 32,563     |
| Total assets at fair value                                  | \$ —                                                                       | \$ 907,432                                          | \$ 32,563                                          | \$ 939,995 |

- (1) Fixed income securities are primarily comprised of governmental and corporate bonds directly held by the plans. Governmental and corporate bonds are valued using both market observable inputs for similar assets that are traded on an active market and the closing price on the active market on which the individual securities are traded.
- (2) Common trusts and 103-12 investments (collectively "Trusts") are comprised of a number of investment funds that invest in a diverse portfolio of assets including equity securities, corporate and governmental bonds, equity and credit indexes, and money markets. Trusts are valued at the net asset value ("NAV") as determined by their custodian. NAV represents the accumulation of the unadjusted quoted close prices on the reporting date for the underlying investments divided by the total shares outstanding at the reporting dates.
- (3) Private equity funds consist of four funds seeking capital appreciation by investing in private equity investment partnerships and venture capital companies. Funds are comprised of unrestricted and restricted publicly traded securities and privately held securities. Unrestricted securities are valued at the closing market price on the reporting date. Restricted securities may be valued at a discount from such closing public market price, depending on facts and circumstances. Privately held securities are valued at fair value as determined by the fund directors and general partners.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
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*(Dollars in thousands, except share and per share amounts)*

The table below sets forth a summary of changes in the fair value of the Level 3 pension plans' assets for the year ended December 31, 2014:

|                                                                                                                                                            | <b>Private<br/>Equity<br/>Funds</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|
| Balance at the beginning of year                                                                                                                           | \$ 32,563                           |
| Purchases, sales, issuances and settlements                                                                                                                | (283)                               |
| Realized and unrealized gains                                                                                                                              | 5,735                               |
| Balance at the end of year                                                                                                                                 | \$ 38,015                           |
| The amount of total gains during the period attributable to the change in unrealized gains relating to Level 3 net assets still held at the reporting date | \$ 4,887                            |

**Supplemental Executive Retirement Plan**

The Company maintains a domestic unfunded supplemental executive retirement plan ("SERP") under which non-qualified supplemental pension benefits are paid to certain employees in addition to amounts received under the Company's qualified retirement plan which is subject to Internal Revenue Service ("IRS") limitations on covered compensation. The annual cost of this program has been included in the determination of total net pension costs shown above and was \$3,012, \$2,329 and \$2,254 in 2014, 2013 and 2012, respectively. The projected benefit obligation associated with this plan is also included in the pension disclosure shown above and was \$17,953, \$22,877 and \$25,646 at December 31, 2014, 2013 and 2012, respectively.

**Defined Contribution Plans**

Substantially all U.S. employees are covered under defined contribution plans. The Lincoln Electric Employee Savings Plan, a 401(k) savings plan which represents a majority of defined contribution plan expense, allows employees to invest 1% or more of eligible compensation, limited to maximum amounts as determined by the IRS. For most participants the plan provides for Company matching contributions of 35% of the first 6% of employee compensation contributed to the plan.

The plan also includes a feature in which all participants hired after November 1, 1997 receive an annual Company contribution of 2% of their base pay. The plan allowed employees hired before November 1, 1997, at their election, to receive this contribution in exchange for forfeiting certain benefits under the pension plan. In 2006, the plan was amended to include a feature in which all participants receive an annual Company contribution ranging from 4% to 10% of base pay based on years of service.

The annual costs recognized for defined contribution plans were \$11,088, \$10,812 and \$9,405 in 2014, 2013 and 2012, respectively.

**Multi-Employer Plans**

The Company participates in multi-employer plans for several of its operations in Europe. Costs for these plans are recognized as contributions are funded. The Company's risk of participating in these plans is limited to the annual premium as determined by the plan. The annual costs of these programs were \$1,068, \$1,048 and \$942 in 2014, 2013 and 2012, respectively.

**Other Benefits**

The Cleveland, Ohio, area operations have a Guaranteed Continuous Employment Plan covering substantially all employees which, in general, provides that the Company will provide work for at least 75% of every standard work week (presently 40 hours). This plan does not guarantee employment when the Company's ability to continue normal operations is seriously restricted by events beyond the control of the Company. The Company has reserved the right to terminate this plan effective at the end of a calendar year by giving notice of such termination not less than six months prior to the end of such year.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

**NOTE 12 – INCOME TAXES**

The components of income before income taxes for the three years ended December 31, 2014 were as follows:

|          | Year Ended December 31, |                   |                   |
|----------|-------------------------|-------------------|-------------------|
|          | 2014                    | 2013              | 2012              |
| U.S.     | \$ 303,933              | \$ 281,724        | \$ 243,382        |
| Non-U.S. | 71,880                  | 134,717           | 126,188           |
| Total    | <u>\$ 375,813</u>       | <u>\$ 416,441</u> | <u>\$ 369,570</u> |

The components of income tax expense (benefit) for the three years ended December 31, 2014 were as follows:

|                 | Year Ended December 31, |                   |                   |
|-----------------|-------------------------|-------------------|-------------------|
|                 | 2014                    | 2013              | 2012              |
| Current:        |                         |                   |                   |
| Federal         | \$ 71,601               | \$ 58,099         | \$ 72,809         |
| Non-U.S.        | 24,210                  | 40,348            | 33,510            |
| State and local | 8,235                   | 8,490             | 8,172             |
|                 | <u>104,046</u>          | <u>106,937</u>    | <u>114,491</u>    |
| Deferred:       |                         |                   |                   |
| Federal         | 15,175                  | 21,946            | (1,673)           |
| Non-U.S.        | 1,370                   | (5,734)           | (750)             |
| State and local | 1,342                   | 1,605             | 286               |
|                 | <u>17,887</u>           | <u>17,817</u>     | <u>(2,137)</u>    |
| Total           | <u>\$ 121,933</u>       | <u>\$ 124,754</u> | <u>\$ 112,354</u> |

The differences between total income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes for the three years ended December 31, 2014 were as follows:

|                                                                                                                                                                              | Year Ended December 31, |                   |                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------|-------------------|
|                                                                                                                                                                              | 2014                    | 2013              | 2012              |
| Statutory rate of 35% applied to pre-tax income                                                                                                                              | \$ 131,534              | \$ 145,754        | \$ 129,350        |
| Effect of state and local income taxes, net of federal tax benefit                                                                                                           | 6,694                   | 7,124             | 5,598             |
| Asset impairments                                                                                                                                                            | 11,674                  | 1,735             | 645               |
| Taxes less than the U.S. tax rate on non-U.S. earnings, including utilization of tax loss carry-forwards, losses with no benefit and changes in non-U.S. valuation allowance | (11,348)                | (19,087)          | (11,908)          |
| Manufacturing deduction                                                                                                                                                      | (7,316)                 | (6,386)           | (6,287)           |
| U.S. tax cost (benefit) of foreign source income                                                                                                                             | (514)                   | 745               | (5,290)           |
| Resolution and adjustments to uncertain tax positions                                                                                                                        | (4,501)                 | (313)             | (1,493)           |
| Other                                                                                                                                                                        | (4,290)                 | (4,818)           | 1,739             |
| Total                                                                                                                                                                        | <u>\$ 121,933</u>       | <u>\$ 124,754</u> | <u>\$ 112,354</u> |
| Effective tax rate                                                                                                                                                           | <u>32.45%</u>           | <u>29.96%</u>     | <u>30.40%</u>     |

The 2014 effective tax rate is impacted by impairment charges, the geographic mix of earnings and taxes at lower rates in foreign jurisdictions, including Canada, Mexico, Poland and the United Kingdom, as well as loss utilization in other foreign jurisdictions. Total income tax payments, net of refunds, were \$119,102 in 2014, \$84,567 in 2013 and \$78,506 in 2012.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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*Deferred Taxes*

Significant components of deferred tax assets and liabilities at December 31, 2014 and 2013, were as follows:

|                                    | December 31, |             |
|------------------------------------|--------------|-------------|
|                                    | 2014         | 2013        |
| Deferred tax assets:               |              |             |
| Tax loss and credit carry-forwards | \$ 46,112    | \$ 51,762   |
| Inventory                          | 1,931        | 1,277       |
| Other accruals                     | 15,427       | 15,709      |
| Employee benefits                  | 20,750       | 18,909      |
| Pension obligations                | 4,969        | 4,643       |
| Other                              | 5,608        | 9,828       |
| Deferred tax assets, gross         | 94,797       | 102,128     |
| Valuation allowance                | (48,840)     | (49,684)    |
| Deferred tax assets, net           | 45,957       | 52,444      |
| Deferred tax liabilities:          |              |             |
| Property, plant and equipment      | 37,352       | 38,653      |
| Intangible assets                  | 18,642       | 24,014      |
| Inventory                          | 9,623        | 7,311       |
| Pension obligations                | 1,731        | 7,315       |
| Other                              | 10,018       | 8,777       |
| Deferred tax liabilities           | 77,366       | 86,070      |
| Total deferred taxes               | \$ (31,409)  | \$ (33,626) |

At December 31, 2014, certain subsidiaries had tax loss carry-forwards of approximately \$103,036 that will expire in various years from 2015 through 2030, plus \$75,398 for which there is no expiration date.

In assessing the realizability of deferred tax assets, the Company assesses whether it is more likely than not that a portion or all of the deferred tax assets will not be realized. The Company considers the scheduled reversal of deferred tax liabilities, tax planning strategies, and projected future taxable income in making this assessment. At December 31, 2014, a valuation allowance of \$48,840 was recorded against certain deferred tax assets based on this assessment. The Company believes it is more likely than not that the tax benefit of the remaining net deferred tax assets will be realized. The amount of net deferred tax assets considered realizable could be increased or reduced in the future if the Company's assessment of future taxable income or tax planning strategies changes.

The Company does not provide deferred income taxes on unremitted earnings of certain non-U.S. subsidiaries which are deemed permanently reinvested. It is not practicable to calculate the deferred taxes associated with the remittance of these earnings. Deferred income taxes associated with earnings of \$16,032 that are not expected to be permanently reinvested were not significant.

*Unrecognized Tax Benefits*

Liabilities for unrecognized tax benefits are classified as "Accrued taxes" non-current unless expected to be paid in one year. The Company recognizes interest and penalties related to unrecognized tax benefits in "Income taxes." Current income tax expense included income of \$1,406 for the year ended December 31, 2014 and an expense of \$492 for the year ended December 31, 2013 for interest and penalties. For those same years, the Company's accrual for interest and penalties related to unrecognized tax benefits totaled \$8,019 and \$10,257, respectively.



**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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The following table summarizes the activity related to unrecognized tax benefits:

|                                                                   | 2014             | 2013             |
|-------------------------------------------------------------------|------------------|------------------|
| Balance at January 1                                              | \$ 25,907        | \$ 25,255        |
| Increase related to current year tax provisions                   | 700              | 1,990            |
| (Decrease) increase related to prior years' tax positions         | (848)            | 208              |
| Increase related to acquisitions                                  | —                | 3,528            |
| Decrease related to settlements with taxing authorities           | (1,216)          | (95)             |
| Resolution of and other decreases in prior years' tax liabilities | (3,727)          | (3,491)          |
| Other                                                             | (2,427)          | (1,488)          |
| Balance at December 31                                            | <u>\$ 18,389</u> | <u>\$ 25,907</u> |

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$9,132 at December 31, 2014 and \$13,739 at December 31, 2013.

The Company files income tax returns in the U.S. and various state, local and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2010. The Company is currently subject to various U.S. state audits and non-U.S. income tax audits.

The Company is generally not able to precisely estimate the ultimate settlement amounts or timing until after the close of an audit. The Company evaluates its tax positions and establishes liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained.

Unrecognized tax benefits are reviewed on an ongoing basis and are adjusted for changing facts and circumstances, including progress of tax audits and closing of statutes of limitations. Based on information currently available, management believes that additional audit activity could be completed and/or statutes of limitations may close relating to existing unrecognized tax benefits. It is reasonably possible there could be a further reduction of \$3,901 in prior years' unrecognized tax benefits in 2015.

In July 2012, the Company received a Notice of Reassessment (the "Reassessments") from the Canada Revenue Agency (the "CRA") in respect to its 2004 to 2010 taxation years to disallow the deductibility of inter-company dividends. The Company appealed the Reassessments to the Tax Court of Canada. As part of the appeals process to the Tax Court of Canada, the Company had elected to deposit the entire amount of the dispute in order to suspend continuing interest charges.

In September 2014, the Department of Justice Canada consented to a judgment, wholly in the Company's favor. In vacating the reassessment, this tax litigation is concluded. In December 2014 the Company received a partial refund of the cash deposit with a value of \$50,282. The Company also received interest on the deposit of \$1,236. The Company expects the balance of the cash deposit of \$27,068, recorded in Other current assets as of December 31, 2014, plus 1% annual interest to be received in the first quarter of 2015.

### **NOTE 13 – DERIVATIVES**

The Company uses derivatives to manage exposures to currency exchange rates, interest rates and commodity prices arising in the normal course of business. Derivative contracts to hedge currency and commodity exposures are generally written on a short-term basis but may cover exposures for up to two years while interest rate contracts may cover longer periods consistent with the terms of the underlying debt. The Company does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized at fair value on the Company's Consolidated Balance Sheets. The accounting for gains and losses resulting from changes in fair value depends on the use of the derivative and whether it is designated and qualifies for hedge accounting. The Company formally documents the relationship of the hedge with the hedged item as well as the risk-management strategy for all designated hedges. Both at inception and on an ongoing basis, the hedging instrument is assessed as to its effectiveness, when applicable. If and when a derivative is determined not to be highly effective as a hedge, the underlying hedged transaction is no longer likely to occur, or the derivative is terminated, hedge accounting is discontinued. The cash flows from settled derivative contracts are recognized in operating activities in the Company's Consolidated Statements of Cash Flows. Hedge ineffectiveness was immaterial for the three years ended December 31, 2014.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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The Company is subject to the credit risk of the counterparties to derivative instruments. Counterparties include a number of major banks and financial institutions. The Company manages individual counterparty exposure by monitoring the credit rating of the counterparty and the size of financial commitments and exposures between the Company and the counterparty. None of the concentrations of risk with any individual counterparty was considered significant at December 31, 2014. The Company does not expect any counterparties to fail to meet their obligations.

*Cash flow hedges*

Certain foreign currency forward contracts are qualified and designated as cash flow hedges. The dollar equivalent gross notional amount of these short-term contracts was \$27,265 at December 31, 2014 and \$36,880 at December 31, 2013. The effective portions of the fair value gains or losses on these cash flow hedges are recognized in Accumulated other comprehensive income ("AOCI") and subsequently reclassified to Cost of goods sold or Sales for hedges of purchases and sales, respectively, as the underlying hedged transactions affected earnings.

*Net investment hedges*

The Company has foreign currency forward contracts that qualify and are designated as net investment hedges. The dollar equivalent gross notional amount of these short-term contracts was \$60,734 at December 31, 2014. The effective portions of the fair value gains or losses on these net investment hedges are recognized in AOCI and subsequently reclassified to Selling, general and administrative expenses, as the underlying hedged investment is liquidated.

*Derivatives not designated as hedging instruments*

The Company has certain foreign exchange forward contracts which are not designated as hedges. These derivatives are held as economic hedges of certain balance sheet exposures. The dollar equivalent gross notional amount of these contracts was \$280,949 at December 31, 2014 and \$186,158 at December 31, 2013. The fair value gains or losses from these contracts are recognized in Selling, general and administrative expenses, offsetting the losses or gains on the exposures being hedged.

The Company has short-term silver and copper forward contracts with notional amounts of 275,000 troy ounces and 375,000 pounds, respectively, at December 31, 2014 and notional amounts of 290,000 troy ounces and 375,000 pounds, respectively, at December 31, 2013. Realized and unrealized gains and losses on these contracts were recognized in Cost of goods sold.

Fair values of derivative instruments in the Company's Consolidated Balance Sheets follow:

|                                         | December 31, 2014          |                                 | December 31, 2013          |                                 |
|-----------------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
|                                         | Other<br>Current<br>Assets | Other<br>Current<br>Liabilities | Other<br>Current<br>Assets | Other<br>Current<br>Liabilities |
| <b>Derivatives by hedge designation</b> |                            |                                 |                            |                                 |
| Designated as hedging instruments:      |                            |                                 |                            |                                 |
| Foreign exchange contracts              | \$ 461                     | \$ 935                          | \$ 706                     | \$ 219                          |
| Net investment Contracts                | 1,091                      | 469                             | —                          | —                               |
| Not designated as hedging instruments:  |                            |                                 |                            |                                 |
| Foreign exchange contracts              | 482                        | 3,638                           | 766                        | 228                             |
| Commodity contracts                     | 47                         | 69                              | 262                        | 47                              |
| <b>Total derivatives</b>                | <b>\$ 2,081</b>            | <b>\$ 5,111</b>                 | <b>\$ 1,734</b>            | <b>\$ 494</b>                   |

The effects of undesignated derivative instruments on the Company's Consolidated Statements of Income for the years ended December 31, 2014 and 2013 consisted of the following:

| Derivatives by hedge designation | Classification of gains (losses)           | Year Ended December 31, |        |
|----------------------------------|--------------------------------------------|-------------------------|--------|
|                                  |                                            | 2014                    | 2013   |
| Not designated as hedges:        |                                            |                         |        |
| Foreign exchange contracts       | Selling, general & administrative expenses | \$ (10,427)             | \$ 215 |
| Commodity contracts              | Cost of goods sold                         | 702                     | 2,882  |

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

The effects of designated cash flow hedges on AOCI and the Company's Consolidated Statements of Income for the years ended December 31, 2014 and 2013 consisted of the following:

|                                                         | December 31, |        |
|---------------------------------------------------------|--------------|--------|
|                                                         | 2014         | 2013   |
| <b>Total (loss) gain recognized in AOCI, net of tax</b> |              |        |
| Foreign exchange contracts                              | \$ (9)       | \$ 369 |

The Company expects a loss of \$9 related to existing contracts to be reclassified from AOCI, net of tax, to earnings over the next 12 months as the hedged transactions are realized.

| Derivative type            | Gain (loss) reclassified from AOCI to:     | Year Ended December 31, |        |
|----------------------------|--------------------------------------------|-------------------------|--------|
|                            |                                            | 2014                    | 2013   |
| Foreign exchange contracts | Sales                                      | \$ (80)                 | \$ 619 |
|                            | Cost of goods sold                         | 422                     | 418    |
| Net investment contracts   | Selling, general & administrative expenses | —                       | (67)   |

**NOTE 14 – FAIR VALUE**

The following table provides a summary of fair value assets and liabilities as of December 31, 2014 measured at fair value on a recurring basis:

| Description                | Balance as of December 31,<br>2014 | Quoted Prices in<br>Active Markets for<br>Identical Assets or<br>Liabilities<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) |
|----------------------------|------------------------------------|-------------------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|
| <b>Assets:</b>             |                                    |                                                                                           |                                                     |                                                 |
| Foreign exchange contracts | \$ 943                             | \$ —                                                                                      | \$ 943                                              | \$ —                                            |
| Commodity contracts        | 47                                 | —                                                                                         | 47                                                  | —                                               |
| Net investment contracts   | 1,091                              | —                                                                                         | 1,091                                               | —                                               |
| <b>Total assets</b>        | <b>\$ 2,081</b>                    | <b>\$ —</b>                                                                               | <b>\$ 2,081</b>                                     | <b>\$ —</b>                                     |
| <b>Liabilities:</b>        |                                    |                                                                                           |                                                     |                                                 |
| Foreign exchange contracts | \$ 4,573                           | \$ —                                                                                      | \$ 4,573                                            | \$ —                                            |
| Commodity contracts        | 69                                 | —                                                                                         | 69                                                  | —                                               |
| Net investment contracts   | 469                                | —                                                                                         | 469                                                 | —                                               |
| Contingent consideration   | 6,912                              | —                                                                                         | —                                                   | 6,912                                           |
| Forward contract           | 25,268                             | —                                                                                         | —                                                   | 25,268                                          |
| Deferred compensation      | 21,839                             | —                                                                                         | 21,839                                              | —                                               |
| <b>Total liabilities</b>   | <b>\$ 59,130</b>                   | <b>\$ —</b>                                                                               | <b>\$ 26,950</b>                                    | <b>\$ 32,180</b>                                |

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

The following table provides a summary of fair value assets and liabilities as of December 31, 2013 measured at fair value on a recurring basis:

| Description                | Balance as of December 31, 2013 | Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------|---------------------------------|-------------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| <b>Assets:</b>             |                                 |                                                                               |                                               |                                           |
| Foreign exchange contracts | \$ 1,472                        | \$ —                                                                          | \$ 1,472                                      | \$ —                                      |
| Commodity contracts        | 262                             | —                                                                             | 262                                           | —                                         |
| Total assets               | <u>\$ 1,734</u>                 | <u>\$ —</u>                                                                   | <u>\$ 1,734</u>                               | <u>\$ —</u>                               |
| <b>Liabilities:</b>        |                                 |                                                                               |                                               |                                           |
| Foreign exchange contracts | \$ 447                          | \$ —                                                                          | \$ 447                                        | \$ —                                      |
| Commodity contracts        | 47                              | —                                                                             | 47                                            | —                                         |
| Contingent consideration   | 5,375                           | —                                                                             | —                                             | 5,375                                     |
| Forward contract           | 16,974                          | —                                                                             | —                                             | 16,974                                    |
| Deferred compensation      | 20,132                          | —                                                                             | 20,132                                        | —                                         |
| Total liabilities          | <u>\$ 42,975</u>                | <u>\$ —</u>                                                                   | <u>\$ 20,626</u>                              | <u>\$ 22,349</u>                          |

The Company's derivative contracts are valued at fair value using the market approach. The Company measures the fair value of foreign exchange contracts using Level 2 inputs based on observable spot and forward rates in active markets. The Company measures the fair value of commodity contracts using Level 2 inputs through observable market transactions in active markets provided by financial institutions. During the year ended December 31, 2014, there were no transfers between Levels 1, 2 or 3.

In connection with an acquisition, the Company recorded a contingent consideration fair valued at \$6,912 as of December 31, 2014, which reflects a \$1,537 increase in the liability from December 31, 2013. The contingent consideration is based upon estimated sales for the five-year period ending December 31, 2015 and will be paid in 2016 based on actual sales during the period. The fair value of the contingent consideration is a Level 3 valuation and fair valued using a probability weighted discounted cash flow analysis.

In connection with an acquisition, the Company obtained a controlling financial interest in the acquired entity and at the same time entered into a contract to obtain the remaining financial interest in the entity over a three-year period. The amount to be paid to obtain the remaining financial interest will be based upon actual financial results of the acquired entity. A liability was recorded for the Canadian dollar denominated forward contract at a fair value of \$25,268 as of December 31, 2014. The change in the liability resulted in \$8,244 being recognized in interest expense in the twelve months ended December 31, 2014. The fair value of the contract is a Level 3 valuation and is based on the present value of the expected future payments. The expected future payments are based on a multiple of forecast earnings and cash flows over the three-year period ending December 31, 2016, present valued utilizing a risk based discount rates of 3.5% reflective of the Company's cost of debt and 15.9% as a risk adjusted cost of capital and annual earnings before interest and taxes with growth rates ranging from 16.5% to 37.8%.

The deferred compensation liability is the Company's obligation under its executive deferred compensation plan. The Company measures the fair value of the liability using the market values of the participants' underlying investment fund elections.

During 2014, the Company identified assets for planned divestiture. As of December 31, 2014, the assets identified for divestiture were classified as held for sale and recorded at their fair value as determined using a Level 3 discounted cash flow valuation model. As of December 31, 2014, \$30,437 and \$11,345 of assets and liabilities held for sale were recorded in Other current assets and Other current liabilities, respectively.

The Company has various financial instruments, including cash and cash equivalents, short-and long-term debt and forward contracts. While these financial instruments are subject to concentrations of credit risk, the Company has minimized this risk by entering into arrangements with a number of major banks and financial institutions and investing in several high-quality instruments. The Company does not expect any counterparties to fail to meet their obligations. The fair value of "Cash and cash equivalents," "Accounts receivable," "Amounts due banks" and "Trade accounts payable" approximated book value due to the short-term nature of these instruments at both December 31, 2014 and December 31, 2013. See Note 8 for the fair value estimate of debt.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
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**NOTE 15 – INVENTORY**

For most domestic inventories, cost is determined principally by the LIFO method, and for non-U.S. inventories, cost is determined by the FIFO method. The valuation of LIFO inventories is made at the end of each year based on inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Because these estimates are subject to many factors beyond management's control, annual results may differ from interim results as they are subject to the final year-end LIFO inventory valuation. At December 31, 2014 and 2013, approximately 40% and 38%, respectively, of total inventories were valued using the LIFO method. The excess of current cost over LIFO cost was \$71,311 at December 31, 2014 and \$70,882 at December 31, 2013.

**NOTE 16 – LEASES**

The Company leases sales offices, manufacturing facilities, warehouses and distribution centers, transportation equipment, office equipment and information technology equipment. Such leases, some of which are noncancelable and, in many cases, include renewals, expire at various dates. The Company pays most insurance, maintenance and taxes relating to leased assets. Rental expense was \$18,103 in 2014, \$18,642 in 2013 and \$17,751 in 2012.

At December 31, 2014, total future minimum lease payments for noncancelable operating leases were \$12,372 in 2015, \$10,672 in 2016, \$7,895 in 2017, \$5,425 in 2018, \$4,126 in 2019 and \$3,906 thereafter. Assets held under capital leases are included in property, plant and equipment and are immaterial.

**NOTE 17 – CONTINGENCIES**

The Company, like other manufacturers, is subject from time to time to a variety of civil and administrative proceedings arising in the ordinary course of business. Such claims and litigation include, without limitation, product liability claims, regulatory claims and health, safety and environmental claims, some of which relate to cases alleging asbestos induced illnesses. The claimants in the asbestos cases seek compensatory and punitive damages, in most cases for unspecified amounts. The Company believes it has meritorious defenses to these claims and intends to contest such suits vigorously.

The Company accrues its best estimate of the probable costs, after a review of the facts with management and counsel and taking into account past experience. If an unfavorable outcome is determined to be reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated, disclosure is provided for material claims or litigation. Many of the current cases are in differing procedural stages and information on the circumstances of each claimant, which forms the basis for judgments as to the validity or ultimate disposition of such actions, varies greatly. Therefore, in many situations a range of possible losses cannot be made. Reserves are adjusted as facts and circumstances change and related management assessments of the underlying merits and the likelihood of outcomes change. Moreover, reserves only cover identified and/or asserted claims. Future claims could, therefore, give rise to increases to such reserves.

Based on the Company's historical experience in litigating product liability claims, including a significant number of dismissals, summary judgments and defense verdicts in many cases and immaterial settlement amounts, as well as the Company's current assessment of the underlying merits of the claims and applicable insurance, the Company believes resolution of these claims and proceedings, individually or in the aggregate, will not have a material effect on the Company's consolidated financial statements.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
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**NOTE 18 – PRODUCT WARRANTY COSTS**

The changes in product warranty accruals for 2014, 2013 and 2012 were as follows:

|                              | December 31,     |                  |                  |
|------------------------------|------------------|------------------|------------------|
|                              | 2014             | 2013             | 2012             |
| Balance at beginning of year | \$ 15,180        | \$ 15,304        | \$ 15,781        |
| Accruals for warranties      | 12,368           | 12,786           | 10,872           |
| Settlements                  | (11,676)         | (12,794)         | (11,477)         |
| Foreign currency translation | (474)            | (116)            | 128              |
| Balance at end of year       | <u>\$ 15,398</u> | <u>\$ 15,180</u> | <u>\$ 15,304</u> |

**NOTE 19 – QUARTERLY FINANCIAL DATA (UNAUDITED)**

|                            | First      | Second     | Third      | Fourth     |
|----------------------------|------------|------------|------------|------------|
| <u>2014</u>                |            |            |            |            |
| Net sales                  | \$ 685,062 | \$ 728,531 | \$ 715,777 | \$ 683,954 |
| Gross profit               | 226,336    | 250,267    | 241,609    | 231,085    |
| Income before income taxes | 82,426     | 114,866    | 77,785     | 100,736    |
| Net income                 | 56,453     | 77,332     | 45,689     | 75,212     |
| Basic earnings per share   | \$ 0.70    | \$ 0.97    | \$ 0.58    | \$ 0.97    |
| Diluted earnings per share | \$ 0.69    | \$ 0.96    | \$ 0.57    | \$ 0.96    |
| <u>2013</u>                |            |            |            |            |
| Net sales                  | \$ 718,573 | \$ 727,432 | \$ 691,875 | \$ 714,791 |
| Gross profit               | 226,572    | 240,338    | 232,697    | 243,047    |
| Income before income taxes | 90,679     | 106,534    | 97,840     | 121,388    |
| Net income                 | 66,806     | 72,606     | 66,044     | 88,324     |
| Basic earnings per share   | \$ 0.81    | \$ 0.88    | \$ 0.81    | \$ 1.09    |
| Diluted earnings per share | \$ 0.80    | \$ 0.87    | \$ 0.80    | \$ 1.07    |

The quarter ended December 31, 2014 includes net rationalization and impairment charges of \$166 (\$167 after-tax) primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in Europe Welding and Asia Pacific Welding segments.

The quarter ended September 30, 2014 includes net rationalization and asset impairment charges of \$29,068 (\$30,056 after-tax), respectively. The net impairment charges during the quarter primarily consist of non-cash asset impairment charges of \$32,448 partially offset by a gain of \$3,911 related to the sale of real estate at a rationalized operation. Associated with the impairment of long-lived assets is an offsetting special item of \$805 attributable to non-controlling interests.

The quarter ended June 30, 2014 includes net rationalization and asset impairment charges of \$836 (\$698 after-tax) primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in North America Welding, Europe Welding and Asia Pacific Welding segments and charges of \$3,468 related to a Venezuelan remeasurement loss in the South America Welding segment.

The quarter ended March 31, 2014 includes net rationalization and asset impairment credits of \$17 (\$7 after-tax) primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in North America Welding, Europe Welding and Asia Pacific Welding segments and charges of \$17,665 related to a Venezuelan remeasurement loss in the South America Welding segment.

The quarter ended December 31, 2013 includes net rationalization and asset impairment charges of \$259 (\$223 after-tax) primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in North America Welding, Europe Welding and Asia Pacific Welding segments and a charge of \$705 related to a loss on the sale of land in the Asia Pacific Welding segment. Associated with the loss on the sale of land is a charge of \$47 attributable to non-controlling interests.

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
*(Dollars in thousands, except share and per share amounts)*

The quarter ended September 30, 2013 includes net rationalization and asset impairment charges of \$1,627 (\$1,595 after-tax) primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in North America Welding, Europe Welding and Asia Pacific Welding segments and a charge of \$4,675 (\$4,503 after-tax) related to impairment of long-lived assets in the Asia Pacific Welding segment. Associated with impairment of long-lived assets is a charge of \$1,021 attributable to non-controlling interests.

The quarter ended June 30, 2013 includes net rationalization charges of \$851 (\$579 after-tax) primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in North America Welding, Europe Welding and Asia Pacific Welding segments and charges of \$2,538 related to devaluation of Venezuelan currency in the South America Welding segment.

The quarter ended March 31, 2013 includes net rationalization and asset impairment charges of \$1,051 (\$673 after-tax) primarily related to employee severance and other costs associated with the consolidation of manufacturing operations in North America Welding, Europe Welding and Asia Pacific Welding segments and charges of \$9,660 related to devaluation of Venezuelan currency in the South America Welding segment.

The quarterly earnings per share ("EPS") amounts are each calculated independently. Therefore, the sum of the quarterly EPS amounts may not equal the annual totals.

**SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS**  
**LINCOLN ELECTRIC HOLDINGS, INC.**  
*(In thousands)*

| Description                      | Balance at<br>Beginning<br>of Period | Additions                           |                                        | (2)<br>Deductions | Balance at End of<br>Period |
|----------------------------------|--------------------------------------|-------------------------------------|----------------------------------------|-------------------|-----------------------------|
|                                  |                                      | Charged to<br>Costs and<br>Expenses | (1)<br>Charged to<br>Other<br>Accounts |                   |                             |
| Allowance for doubtful accounts: |                                      |                                     |                                        |                   |                             |
| Year Ended December 31, 2014     | \$ 8,398                             | \$ 2,064                            | \$ (867)                               | \$ 1,861          | \$ 7,734                    |
| Year Ended December 31, 2013     | 8,654                                | 2,671                               | 49                                     | 2,976             | 8,398                       |
| Year Ended December 31, 2012     | 7,079                                | 3,368                               | 68                                     | 1,861             | 8,654                       |

(1) Currency translation adjustment.

(2) Uncollectible accounts written-off, net of recoveries.



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**AMENDMENT NO. 3**  
**TO THE**  
**LINCOLN ELECTRIC HOLDINGS, INC.**  
**2006 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS**

**Recitals**

WHEREAS, Lincoln Electric Holdings, Inc. (the "Company") maintains the 2006 Stock Plan for Non-Employee Directors, as amended by amendment No. 1 and amendment No. 2 thereto (as so amended, the "Plan");

WHEREAS, the Company now desires to amend the Plan to allow for book entry of, in lieu of certificates for, Restricted Shares;

WHEREAS, the Nominating and Corporate Governance Committee has approved this Amendment No. 3 to the Plan ("Amendment No. 3"); and

WHEREAS, unless otherwise defined in Amendment No. 3, terms used in Amendment No. 3 with initial capital letters will have the meanings assigned to them in the Plan.

**Amendment**

NOW, THEREFORE, the Plan is hereby amended by this Amendment No. 3, effective as of December 15, 2014, as follows:

1. The text of Section 7(e) of the Plan is amended and restated in its entirety to read as follows:  
"Unless otherwise directed by the Committee, (i) certificates representing Restricted Shares will be held in custody by the Company until all restrictions thereon will have lapsed, together with a stock power or powers executed by the Participant in whose name such certificates are registered, endorsed in blank and covering such Restricted Shares or (ii) all Restricted Shares will be held at the Company's transfer agent in book entry form with appropriate restrictions relating to the transfer of such Restricted Shares."
2. Except as amended by Amendment No. 3, the Plan shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the undersigned has executed this Amendment No. 3 effective as of the date first written above.

LINCOLN ELECTRIC HOLDINGS, INC.

By: /s/ FREDERICK G. STUEBER  
Name: Frederick G. Stueber  
Title: Executive Vice President, General  
Counsel & Secretary

**LINCOLN ELECTRIC HOLDINGS, INC.**  
**SUBSIDIARIES OF THE REGISTRANT**

The Company's subsidiaries and joint ventures are listed in the following table:

| <b><u>Name</u></b>                                               | <b><u>Country of<br/>Incorporation</u></b> |
|------------------------------------------------------------------|--------------------------------------------|
| A. B. Arriendos S.A.                                             | Chile                                      |
| Arc Products, Inc.                                               | United States                              |
| Burlington Automation Corporation                                | Canada                                     |
| Easom Automation Systems, Inc.                                   | United States                              |
| Electro-Arco S.A.                                                | Portugal                                   |
| Harris Calorific GmbH                                            | Germany                                    |
| Harris Calorific International Sp. z o.o.                        | Poland                                     |
| Harris Calorific S.r.l.                                          | Italy                                      |
| Harris Euro S.L.                                                 | Spain                                      |
| Harris Soldas Especiais S.A.                                     | Brazil                                     |
| Inversiones LyL S.A.                                             | Chile                                      |
| J.W. Harris Co., Inc.                                            | United States                              |
| Jinzhou Zheng Tai Welding and Metal Co., Ltd.                    | China                                      |
| Kaliburn, Inc.                                                   | United States                              |
| Kaynak Teknigi Sanayi ve Ticaret A.S.                            | Turkey                                     |
| Lincoln Canada Finance ULC                                       | Canada                                     |
| Lincoln Canada Holdings ULC                                      | Canada                                     |
| Lincoln Electric Bester Sp. z o.o.                               | Poland                                     |
| Lincoln Electric Company of Canada LP                            | Canada                                     |
| Lincoln Electric Company (India) Private Limited                 | India                                      |
| Lincoln Electric Cutting Systems, Inc.                           | United States                              |
| Lincoln Electric do Brasil Industria e Comercio Ltda.            | Brazil                                     |
| Lincoln Electric Europe B.V.                                     | The Netherlands                            |
| Lincoln Electric Europe, S.L.                                    | Spain                                      |
| Lincoln Electric France S.A.S.                                   | France                                     |
| Lincoln Electric Heli (Zhengzhou) Welding Materials Company Ltd. | China                                      |
| Lincoln Electric Holdings S.ar.l.                                | Luxembourg                                 |
| Lincoln Electric Iberia, S.L.                                    | Spain                                      |
| Lincoln Electric International Holding Company                   | United States                              |
| Lincoln Electric Italia S.r.l.                                   | Italy                                      |
| Lincoln Electric Japan K.K.                                      | Japan                                      |
| Lincoln Electric (Jinzhou) Welding Materials Co., Ltd.           | China                                      |
| Lincoln Electric Luxembourg S.ar.l.                              | Luxembourg                                 |
| Lincoln Electric Management (Shanghai) Co., Ltd.                 | China                                      |
| Lincoln Electric Manufactura, S.A. de C.V.                       | Mexico                                     |
| Lincoln Electric Maquinas, S. de R.L. de C.V.                    | Mexico                                     |
| Lincoln Electric Mexicana, S.A. de C.V.                          | Mexico                                     |

| <b><u>Name</u></b>                                           | <b><u>Country of<br/>Incorporation</u></b> |
|--------------------------------------------------------------|--------------------------------------------|
| Lincoln Electric Middle East FZE                             | United Arab Emirates                       |
| Lincoln Electric North America, Inc.                         | United States                              |
| Lincoln Electric S.A.                                        | Argentina                                  |
| Lincoln Electric (Tangshan) Welding Materials Co., Ltd.      | China                                      |
| Lincoln Electric (U.K.) Ltd.                                 | United Kingdom                             |
| Lincoln Global Holdings LLC                                  | United States                              |
| Lincoln Global, Inc.                                         | United States                              |
| Lincoln Smitweld B.V.                                        | The Netherlands                            |
| Lincoln Soldaduras de Colombia Ltda.                         | Colombia                                   |
| Lincoln Soldaduras de Venezuela C.A.                         | Venezuela                                  |
| Metrode Products Limited                                     | United Kingdom                             |
| OAo Mezhgosmetiz – Mtsensk                                   | Russia                                     |
| OOO Torgovyi Dom Mezhgosmetiz                                | Russia                                     |
| OOO Severstal – metiz: Welding Consumables                   | Russia                                     |
| PT Lincoln Electric Indonesia                                | Indonesia                                  |
| Robolution GmbH                                              | Germany                                    |
| Smart Force, LLC                                             | United States                              |
| Tennessee Rand, Inc.                                         | United States                              |
| Tenwell Development Pte. Ltd.                                | Singapore                                  |
| The Lincoln Electric Company                                 | United States                              |
| The Lincoln Electric Company (Asia Pacific) Pte. Ltd.        | Singapore                                  |
| The Lincoln Electric Company (Australia) Proprietary Limited | Australia                                  |
| The Lincoln Electric Company (New Zealand) Limited           | New Zealand                                |
| The Lincoln Electric Company of South Africa (Pty) Ltd.      | South Africa                               |
| The Nanjing Lincoln Electric Co., Ltd.                       | China                                      |
| The Shanghai Lincoln Electric Co., Ltd.                      | China                                      |
| Uhrhan & Schwill Schweisstechnik GmbH                        | Germany                                    |
| Wayne Trail Technologies, Inc.                               | United States                              |
| Weartech International, Inc.                                 | United States                              |
| Weartech International Limited                               | United Kingdom                             |
| Welding, Cutting, Tools & Accessories, LLC                   | United States                              |

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following registration statements:

Form S-8 Registration Statement of Lincoln Electric Holdings, Inc. for the Stock Option Plan for Non-Employee Directors (Form S-8 No. 333-49976),

Form S-8 Registration Statement of Lincoln Electric Holdings, Inc. for the 1998 Stock Plan, including Post-Effective Amendment No. 1 (Form S-8 No. 333-58305),

Form S-8 Registration Statement of Lincoln Electric Holdings, Inc. for The Lincoln Electric Company Employee Savings Plan (Form S-8 Nos. 333-107114 and 333-132036),

Form S-8 Registration Statement of Lincoln Electric Holdings, Inc. (as successor to The Lincoln Electric Company) for The Lincoln Electric Company Employee Savings Plan, including Post-Effective Amendment No. 1 (Form S-8 No. 033-64187),

Form S-8 Registration Statement of Lincoln Electric Holdings, Inc. (as successor to The Lincoln Electric Company) for the 1995 Lincoln Stock Purchase Plan, including Post-Effective Amendment No. 1 (Form S-8 No. 033-64189),

Form S-8 Registration Statement of Lincoln Electric Holdings, Inc. for the 2006 Equity and Performance Incentive Plan (Form S-8 No. 333-134212), and

Form S-8 Registration Statement of Lincoln Electric Holdings, Inc. for the 2006 Stock Plan for Non-Employee Directors (Form S-8 No. 333-134210),

of our reports dated February 20, 2015, with respect to the consolidated financial statements and schedule of Lincoln Electric Holdings, Inc. and subsidiaries, and the effectiveness of internal control over financial reporting of Lincoln Electric Holdings, Inc. and subsidiaries, included in this Annual Report (Form 10-K) of Lincoln Electric Holdings, Inc. for the year ended December 31, 2014.

/s/ Ernst & Young LLP

Cleveland, Ohio

February 20, 2015

## POWER OF ATTORNEY

Directors of Lincoln Electric Holdings, Inc.

Each of the undersigned Directors of Lincoln Electric Holdings, Inc. hereby appoints Christopher L. Mapes, Vincent K. Petrella and Frederick G. Stueber, and each of them, as attorneys for the undersigned, for and in the name, place and stead of the undersigned in the capacity specified, to prepare or cause to be prepared, to execute and to file with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Act"), an Annual Report on Form 10-K for the year ended December 31, 2014 relating to Lincoln Electric Holdings, Inc., such other periodic reports as may be required pursuant to the Act, amendments and exhibits to any of the foregoing and any and all other documents to be filed with the Securities and Exchange Commission or elsewhere pertaining to such reports, with full power and authority to take any other action deemed necessary or appropriate to effect the filing of the documents.

Executed the date set forth below.

/s/ Christopher L. Mapes

Christopher L. Mapes, Director

February 5, 2015

/s/ Harold L. Adams

Harold L. Adams, Director

February 5, 2015

/s/ Curtis E. Espeland

Curtis E. Espeland, Director

February 5, 2015

/s/ David H. Gunning

David H. Gunning, Director

February 5, 2015

/s/ Stephen G. Hanks

Stephen G. Hanks, Director

February 5, 2015

/s/ Robert J. Knoll

Robert J. Knoll, Director

February 5, 2015

/s/ G. Russell Lincoln

G. Russell Lincoln, Director

February 5, 2015

/s/ Kathryn Jo Lincoln

Kathryn Jo Lincoln, Director

February 5, 2015

/s/ William E. MacDonald, III

William E. MacDonald, III, Director

February 5, 2015

/s/ Phillip J. Mason

Phillip J. Mason, Director

February 5, 2015

/s/ Hellene S. Runtagh

Hellene S. Runtagh, Director

February 5, 2015

/s/ George H. Walls, Jr.

George H. Walls, Jr., Director

February 5, 2015

## CERTIFICATION

I, Christopher L. Mapes, certify that:

1. I have reviewed this annual report on Form 10-K of Lincoln Electric Holdings, Inc.;
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 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: February 20, 2015

/s/ Christopher L. Mapes

Christopher L. Mapes

Chairman, President and Chief Executive Officer

**CERTIFICATION**

I, Vincent K. Petrella, certify that:

1. I have reviewed this annual report on Form 10-K of Lincoln Electric Holdings, Inc.;
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 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: February 20, 2015

/s/ Vincent K. Petrella

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Vincent K. Petrella  
Executive Vice President, Chief Financial  
Officer and Treasurer



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Lincoln Electric Holdings, Inc. (the "Company") for the year ended December 31, 2014, as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The 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 Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: February 20, 2015

/s/ Christopher L. Mapes

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Christopher L. Mapes  
Chairman, President and Chief Executive Officer

/s/ Vincent K. Petrella

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Vincent K. Petrella  
Executive Vice President, Chief Financial  
Officer and Treasurer