Flowserve Q2 2014 Earnings Conference Call

July 24, 2014

Experience In Motion

Special Note

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All forward-looking statements included in this presentation are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

Q2 2014 Financial Highlights

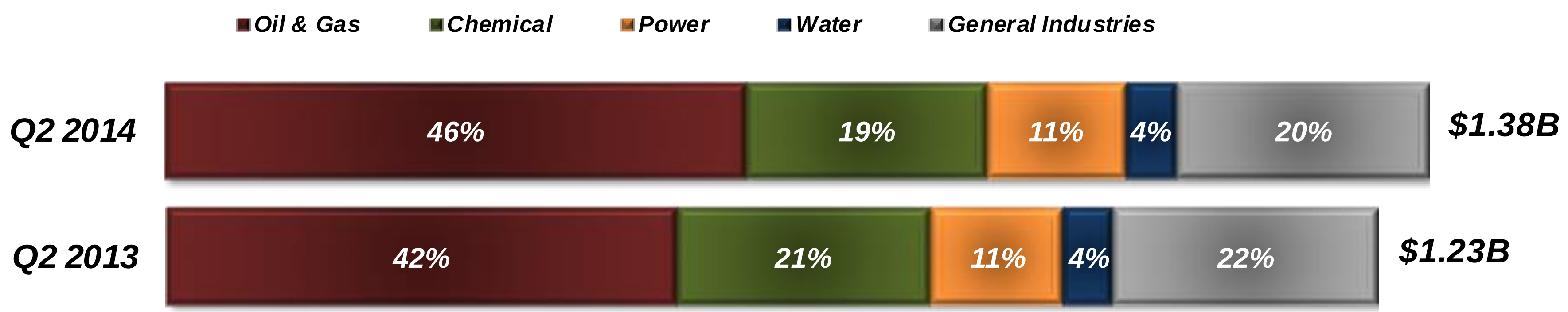
- Reported EPS* of $0.90, up 7.1%, including $0.03 per share of negative currency impact below-the-line, severance and realignment expenses
- Strong bookings of $1.38 billion, up 12.6% versus prior year, or 12.8% on a constant currency basis
  - Original equipment bookings increased 17.7% over prior year, 25.9% sequentially
  - Broad based strength across all regions and end markets, particularly the oil and gas industry
  - Record aftermarket bookings of $532 million, an increase of 5.3% and the third consecutive quarter of over $500 million in bookings
- Gross margin improvement across all segments drove 110 basis point increase to 35.1%
- Operating margin of 15.9%, increased 110 basis points versus prior year

* Calculated using Q2 2014 fully diluted shares of 138.0 million

Business Outlook

- Accelerating energy markets support expected project activity and growth
- Continued internal focus and success of ***One Flowserve*** strategies driving strong, consistent execution
  - Proven capabilities to meet and exceed customer requirements have us well positioned to capitalize on ramping large project cycle
  - Solid platform supports inorganic growth opportunities, lowering integration risk
- Diverse end-market and geographic exposures continue to dampen risk and volatility and provide opportunities across our global energy markets
- Disciplined focus on return on assets drives capital allocation, portfolio optimization and return for shareholders
- Backlog increased $292.9 million, or 11.5% versus Q4 2013 to $2.85 billion – supports anticipated 2014 full year targets

Q2 2014 Bookings & Industry Outlook



OIL & GAS

- ✓ *Market conditions support price levels that encourage investment; ongoing signs of increased discipline in some upstream capital expenditures*
- ✓ *Geopolitical conflicts in key energy producing regions cause uncertainties; potential to drive capital deployment toward stable countries*
- ✓ *New refining capacity additions in the Middle East and other developing economies; clean fuels initiatives also prompt spending*

POWER

- ✓ *Coal-fired power investment in Europe driven by favorable economics and the region's partial retreat away from nuclear power generation*
- ✓ *China accounts for the largest share of new nuclear opportunities; US nuclear fleet may benefit from newly proposed carbon emissions policy*
- ✓ *The Middle East & North Africa planning to develop significant solar power capacity to diversify its power mix*

CHEMICAL

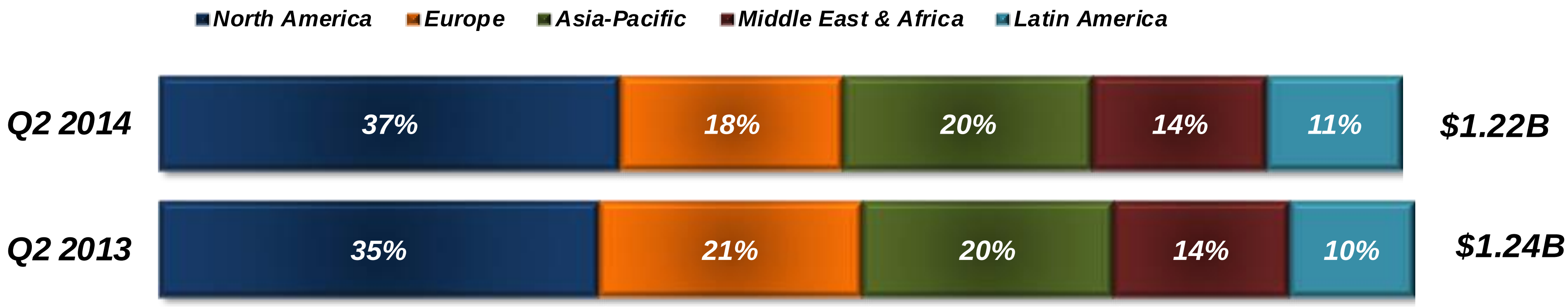
- ✓ *Strong North American market conditions for petrochemicals and derivatives given low-cost natural gas feedstock*
- ✓ *Majority of new chemical capacity still being developed in BRIC countries and other developing economies*

GENERAL INDUSTRIES

- ✓ *Mining down cycle continues; pockets of opportunity exist and fundamental growth drivers persist for the long-term*
- ✓ *Good levels of business activity through distribution channels to general industries*

Sources: *GlobalData, Industrial Info Resources, American Chemistry Council, Global Water Intelligence, ITR Economics, IMF, Flowserve internal data*

Q2 2014 Sales & Regional Outlook



NORTH AMERICA

- ✓ *Continued focus on North American unconventional resources with opportunities upstream, midstream and downstream*
- ✓ *Strong momentum in petrochemicals with additional project announcements, EPC awards and equipment orders*
- ✓ *Power market in flux due to pending environmental regulations and changing economics of power generation technologies*

EUROPE

- ✓ *Western Europe turning the corner from recession to recovery, but political volatility in Eastern Europe and Russia*
- ✓ *Refining and chemical in Western Europe squeezed by the Middle East, US and Asia Pacific capacity additions*

MIDDLE EAST

- ✓ *Numerous opportunities in oil & gas upstream and downstream, particularly in Persian Gulf, but conflict in Iraq a concern*
- ✓ *Ongoing activity in power generation, desalination and water infrastructure to support economic development in the region*

ASIA-PACIFIC

- ✓ *Growth opportunities throughout energy and industrial markets given the region's economic and environmental development goals*
- ✓ *Over half of global chemical capacity additions planned for China, India and other Asia Pacific countries over the next five years*

LATIN AMERICA

- ✓ *Both Brazil deep water oil & gas and Mexico's proposed energy reforms promising for growth in the region*
- ✓ *Latin America a key mining market, particularly for copper; industry spending on projects restrained*

Sources: *GlobalData, Industrial Info Resources, American Chemistry Council, Global Water Intelligence, ITR Economics, IMF, Flowserve internal data*

Engineered Product Division
Q2 2014 Segment Results

($ millions)	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter Delta ($)	2nd Quarter Delta (%)	2nd Quarter Constant FX (%)*	Year to Date 2014	Year to Date 2013	Year to Date Delta ($)	Year to Date Delta (%)	Year to Date Constant FX (%)*
Bookings	$ 744.3	$ 606.5	$ 137.8	22.7%	25.0%	$ 1,338.5	$ 1,182.3	$ 156.2	13.2%	16.8%
Sales	$ 609.2	$ 625.0	$ (15.8)	(2.5%)	(1.1%)	$ 1,114.4	$ 1,164.6	$ (50.2)	(4.3%)	(1.9%)
Gross Profit	$ 209.9	$ 210.0	$ (0.1)	(0.0%)		$ 388.4	$ 398.2	$ (9.8)	(2.5%)	
Gross Margin (%)	34.5%	33.6%		90 bps		34.9%	34.2%		70 bps	
SG&A	$ 108.5	$ 114.2	$ (5.7)	(5.0%)	(4.1%)	$ 211.2	$ 220.3	$ (9.1)	(4.1%)	(1.8%)
SG&A (%)	17.8%	18.3%		(50 bps)		19.0%	18.9%		10 bps	
Income from Affiliates	$ 2.4	$ 2.3	$ 0.1	4.3%		$ 5.9	$ 4.9	$ 1.0	20.4%	
Operating Income	$ 103.8	$ 98.2	$ 5.6	5.7%	7.7%	$ 183.1	$ 182.8	$ 0.3	0.2%	2.9%
Operating Margin (%)	17.0%	15.7%		130 bps		16.4%	15.7%		70 bps	

Continued operating improvement drove gross and operating margin improvement while strong bookings supports growth

* Constant FX represents the year over year variance assuming 2014 results at 2013 FX rates

FLOWSERVE

Engineered Product Division
Q2 2014 Bookings and Sales

($ millions)		2nd Quarter 2014	2nd Quarter 2013	2nd Quarter Delta (%)	2nd Quarter Constant FX (%)*	Year to Date 2014	Year to Date 2013	Year to Date Delta (%)	Year to Date Constant FX (%)*
Bookings Mix **	OE	342 46%	237 39%	44% 700 bps	48%	535 40%	461 39%	16% 100 bps	21%
	AM	402 54%	370 61%	9% (700 bps)	10%	803 60%	721 61%	11% (100 bps)	14%
Sales Mix **	OE	231 38%	256 41%	(10%) (300 bps)	(8%)	401 36%	454 39%	(12%) (300 bps)	(9%)
	AM	378 62%	369 59%	2% 300 bps	4%	713 64%	710 61%	0% 300 bps	2%

Strong original equipment orders as cycle begins to accelerate

* Constant FX represents the year over year variance assuming 2014 results at 2013 FX rates
** Gross bookings and sales do not include interdivision eliminations

Engineered Product Division Q2 Overview

- Bookings increased 22.7%, or 25.0% on a constant currency basis, on strong original equipment
  - Growth driven by oil and gas and power industries, partially offset by general industries
  - Strong growth in all regions with the exception of Asia Pacific, which was relatively flat
- Sales decreased 2.5%, or 1.1% on a constant currency basis, due primarily to decreased sales into Europe, Latin America and Asia Pacific, partially offset by increased sales into North America and the Middle East
- Gross margin increased 90 basis points to 34.5%, primarily due to a mix shift to aftermarket, operational execution improvements and disciplined selectivity of customer bookings
- Operating margin increased 130 basis points to 17.0%

Industrial Product Division Q2 2014 Segment Results

($ millions)	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter Delta ($)	2nd Quarter Delta (%)	2nd Quarter Constant FX (%)*	Year to Date 2014	Year to Date 2013	Year to Date Delta ($)	Year to Date Delta (%)	Year to Date Constant FX (%)*
Bookings	$ 248.0	$ 209.1	$ 38.9	18.6%	16.7%	$ 476.7	$ 416.2	$ 60.5	14.5%	13.1%
Sales	$ 238.1	$ 238.9	$ (0.8)	(0.3%)	(2.4%)	$ 449.9	$ 450.2	$ (0.3)	(0.1%)	(1.6%)
Gross Profit	$ 66.7	$ 62.2	$ 4.5	7.2%		$ 121.9	$ 115.2	$ 6.7	5.8%	
Gross Margin (%)	28.0%	26.0%		200 bps		27.1%	25.6%		150 bps	
SG&A	$ 35.1	$ 31.7	$ 3.4	10.7%	7.5%	$ 67.0	$ 63.3	$ 3.7	5.8%	4.1%
SG&A (%)	14.7%	13.3%		140 bps		14.9%	14.1%		80 bps	
Operating Income	$ 31.6	$ 30.5	$ 1.1	3.6%	0.2%	$ 54.9	$ 51.8	$ 3.1	6.0%	3.9%
Operating Margin (%)	13.3%	12.8%		50 bps		12.2%	11.5%		70 bps	

Solid operating improvement continued operating margin progress towards long-term goal of 14 – 15%

* Constant FX represents the year over year variance assuming 2014 results at 2013 FX rates

Industrial Product Division
Q2 2014 Bookings and Sales

($ millions)		2nd Quarter 2014	2nd Quarter 2013	2nd Quarter Delta (%)	2nd Quarter Constant FX (%)*	Year to Date 2014	Year to Date 2013	Year to Date Delta (%)	Year to Date Constant FX (%)*
Bookings Mix **	OE	171 69%	134 64%	28% 500 bps	27%	324 68%	271 65%	20% 300 bps	19%
	AM	77 31%	75 36%	3% (500 bps)	(1%)	153 32%	146 35%	5% (300 bps)	2%
Sales Mix **	OE	162 68%	170 71%	(5%) (300 bps)	(7%)	306 68%	315 70%	(3%) (200 bps)	(5%)
	AM	76 32%	69 29%	10% 300 bps	7%	144 32%	135 30%	7% 200 bps	5%

Strong bookings reflect increased focus on growth while operational improvements continue

* Constant FX represents the year over year variance assuming 2014 results at 2013 FX rates
** Gross bookings and sales do not include interdivision eliminations

Industrial Product Division Q2 Overview

- Bookings increased 18.6%, or 16.7% on a constant currency basis, on strong original equipment activity
  - Growth driven primarily by general and oil and gas industries
  - Regional strength into Asia Pacific, Europe and North America was partially offset by bookings into the Middle East
- Sales were essentially flat versus prior year, with increased sales into Europe, offset by decreased sales into the Middle East and North America
- Gross margin increased 200 basis points to 28.0%, primarily attributable to a mix shift to aftermarket and lower manufacturing costs resulting from execution of operational improvements and disciplined selectivity of customer bookings
- Operating margin increased 50 bps to 13.3%, primarily due to gross margin improvement, partially offset in part by increased R&D costs

Flow Control Division
Q2 2014 Segment Results

($ millions)	2nd Quarter 2014	2nd Quarter 2013	Delta ($)	Delta (%)	Constant FX (%)*	Year to Date 2014	Year to Date 2013	Delta ($)	Delta (%)	Constant FX (%)*
Bookings (1)	$ 422.2	$ 447.0	$ (24.8)	(5.5%)	(7.3%)	$ 835.9	$ 877.6	$ (41.7)	(4.8%)	(5.9%)
Sales (1)	$ 406.4	$ 411.2	$ (4.8)	(1.2%)	(2.9%)	$ 789.3	$ 795.2	$ (5.9)	(0.7%)	(2.0%)
Gross Profit	$ 152.7	$ 147.1	$ 5.6	3.8%		$ 297.1	$ 281.0	$ 16.1	5.7%	
Gross Margin (%)	37.6%	35.8%		180 bps		37.6%	35.3%		230 bps	
SG&A (2)	$ 73.5	$ 74.1	$ (0.6)	(0.8%)	(2.2%)	$ 134.6	$ 150.0	$ (15.4)	(10.3%)	(11.6%)
SG&A (%)	18.1%	18.0%		10 bps		17.0%	18.9%		(190 bps)	
Income from Affiliates (3)	$ (0.1)	$ (0.1)	$ -	0.0%		$ (0.2)	$ 29.0	$ (29.2)	(100.7%)	
Operating Income (4)	$ 79.1	$ 72.9	$ 6.2	8.5%	7.2%	$ 162.3	$ 160.0	$ 2.3	1.4%	1.4%
Operating Margin (%)	19.5%	17.7%		180 bps		20.6%	20.1%		50 bps	

Impressive gross margin improvement reflects continued strong of operating performance and cost control

* Constant FX represents the year over year variance assuming 2014 results at 2013 FX rates

(1) Q2 2014 vs. Q2 2013 compare includes approximately 3% of negative impact from the sale of the Naval business in Q1 2014
(2) YTD 2014 includes $12.6 million impact of net gain from sale of the Naval business
(3) YTD 2013 includes $28.3 million impact of net gain from joint venture transactions
(4) Excluding Naval gain in Q1 2014 and joint venture transactions net gain in Q1 2013, YTD operating income increased 13.7%

Flow Control Division
Q2 2014 Bookings and Sales

($ millions)		2nd Quarter 2014	2nd Quarter 2013	2nd Quarter Delta (%)	2nd Quarter Constant FX (%)*	Year to Date 2014	Year to Date 2013	Year to Date Delta (%)	Year to Date Constant FX (%)*
Bookings (1) Mix **	OE	355 84%	371 83%	(4%) 100 bps	(6%)	702 84%	737 84%	(5%) 0 bps	(6%)
	AM	68 16%	76 17%	(11%) (100 bps)	(12%)	134 16%	140 16%	(4%) 0 bps	(4%)
Sales (1) Mix **	OE	337 83%	341 83%	(1%) 0 bps	(3%)	655 83%	660 83%	(1%) 0 bps	(2%)
	AM	69 17%	70 17%	(1%) 0 bps	(2%)	134 17%	135 17%	(1%) 0 bps	(1%)

Accelerating project business drove strong EPD/IPD bookings in Q2, should impact later cycle valve products in the near term

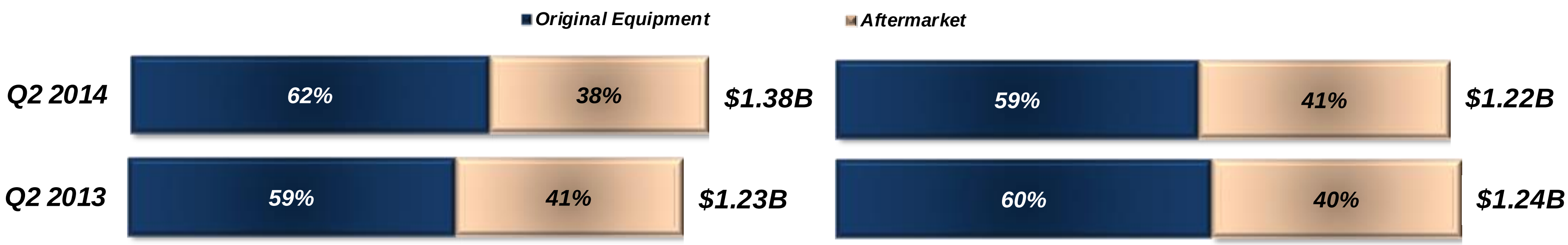
* Constant FX represents the year over year variance assuming 2014 results at 2013 FX rates
** Gross bookings and sales do not include interdivision eliminations
(1) Q2 2014 vs. Q2 2013 compares include approximately 3% of negative impact from the sale of the Naval business in Q1 2014

Flow Control Division Q2 Overview

- Bookings decreased 5.5%, or 7.3% on a constant currency basis, including approximately 3% of negative impact from the sale of our Naval business in the first quarter of 2014
  - Decreased bookings in oil and gas and general industries were partially offset by increased chemical bookings
  - Decreased bookings into Latin America, North America and Asia Pacific, were partially offset by activity in the Middle East and Europe
- Sales decreased 1.2%, or 2.9% on a constant currency basis, including approximately 3% of negative impact from the sale of our Naval business in the first quarter of 2014
  - Decreased sales into Europe (primarily Naval) and Asia Pacific were partially offset by increased sales into Latin America, North America and Africa
- Gross margin increased 180 basis points to 37.6%, primarily due to continued traction on low cost sourcing, cost control initiatives and favorable product line mix
- Operating margin increased 180 basis points to 19.5%, primarily on increased gross profit

Q2 2014 Consolidated Bookings & Sales

BOOKINGS **SALES**



Bookings

- Bookings in Q2 2014 increased 12.6%, or 12.8% on a constant currency basis, driven primarily by strength in all industries, particularly oil and gas
  - Original equipment bookings increased 17.7% year-over-year, 25.9% sequentially
  - Aftermarket bookings increased 5.3% year-over-year, 2.9% sequentially

Sales

- Sales in Q2 2014 decreased 1.2%, or 1.5% on a constant currency basis, driven primarily by lower original equipment sales – Regionally, decreased sales into Europe were partially offset by increased sales into Latin American and North America

Source: Flowserve Internal Data

Q2 2014 Consolidated Financial Results

($ millions)	2nd Quarter 2014	2nd Quarter 2013	2nd Quarter Delta ($)	2nd Quarter Delta (%)	2nd Quarter Constant FX (%)*	Year to Date 2014	Year to Date 2013	Year to Date Delta ($)	Year to Date Delta (%)	Year to Date Constant FX (%)*
Bookings	$ 1,384.2	$ 1,229.0	$ 155.2	12.6%	12.8%	$ 2,577.7	$ 2,409.3	$ 168.4	7.0%	8.1%
Sales	$ 1,224.4	$ 1,239.5	$ (15.1)	(1.2%)	(1.5%)	$ 2,292.5	$ 2,336.1	$ (43.6)	(1.9%)	(1.4%)
Gross Profit	$ 430.3	$ 421.6	$ 8.7	2.1%		$ 807.4	$ 794.9	$ 12.5	1.6%	
Gross Margin (%)	35.1%	34.0%		110 bps		35.2%	34.0%		120 bps	
SG&A	$ 238.2	$ 240.2	$ (2.0)	(0.8%)	(1.2%)	$ 454.4	$ 474.7	$ (20.3)	(4.3%)	(3.9%)
SG&A (%)	19.5%	19.4%		10 bps		19.8%	20.3%		(50 bps)	
Income from Affiliates	$ 2.2	$ 2.1	$ 0.1	4.8%		$ 5.6	$ 33.8	$ (28.2)	(83.4%)	
Operating Income	$ 194.3	$ 183.5	$ 10.8	5.9%	5.9%	$ 358.6	$ 354.0	$ 4.6	1.3%	2.1%
Operating Margin (%)	15.9%	14.8%		110 bps		15.6%	15.2%		40 bps	
Other (Expense) / Income, net**	$ (3.8)	$ 0.6	$ (4.4)	733.3%		$ (6.7)	$ (10.4)	$ 3.7	(35.6%)	
Tax Expense	$ 50.8	$ 50.4	$ 0.4	0.8%		$ 88.8	$ 99.1	$ (10.3)	(10.4%)	
Net Earnings	$ 123.5	$ 120.4	$ 3.1	2.6%		$ 231.2	$ 218.2	$ 13.0	6.0%	
Diluted EPS	$ 0.90	$ 0.84	$ 0.06	7.1%		$ 1.67	$ 1.51	$ 0.16	10.6%	

- Diluted EPS calculated using fully diluted shares of 138.0 million and 142.9 million shares in Q2 2014 and Q2 2013, respectively
- Flowserve repurchased 573,881 and 2,784,000 shares in Q2 2014 and Q2 2013, respectively

* Constant FX represents the year-over-year variance assuming 2014 results at 2013 FX rates

** YTD 2014 includes $5.9 million impact of losses arising from transactions in currencies other than our sites' functional currencies and impact of foreign exchange contracts vs. a loss of $10.3 million YTD 2013

Q2 2014 Cash Flows

($ millions)	Q2 2014	Q1 2014	YTD 2014	YTD 2013
Net Income	125	$ 109	$ 234	$ 220
Depreciation and amortization	29	27	56	52
Change in working capital	(90)	(207)	(297)	(289)
Other	10	(14)	(4)	(16)
Total Operating Activities	**74**	**(85)**	**(11)**	**(33)**
Capital expenditures	(22)	(32)	(54)	(61)
Dispositions, acquisitions and other	1	47	48	36
Total Investing Activities	**(21)**	**15**	**(6)**	**(25)**
Payments on long-term debt	(10)	(10)	(20)	(10)
Dividends	(22)	(19)	(41)	(38)
Other financing, net and other	4	10	14	218
Repurchase of common shares	(43)	(110)	(153)	(306)
Total Financing Activities	**(71)**	**(129)**	**(200)**	**(136)**
Effect of exchange rates	**(2)**	**(1)**	**(3)**	**(6)**
Net Decrease in Cash	**$ (21)**	**$ (199)**	**$ (220)**	**$ (200)**

Flexibility to follow announced policy to annually return 40-50% of average trailing two-year net earnings to shareholders while supporting strategic initiatives to grow the business

FLOWSERVE

Primary Working Capital

Balances for All Periods as a % of Trailing Twelve Months Sales

	Q2 2014		Q2 2013	
($ millions)	**$**	**%**	**$**	**%**
Receivables	1,158	23.6%	1,080	22.4%
Inventory	1,160	23.6%	1,184	24.5%
Payables	(516)	(10.5%)	(526)	(10.9%)
Primary Working Capital	**1,802**	**36.7%**	**1,738**	**36.0%**
Advance Cash*	(349)	(7.1%)	(386)	(8.0%)
Total	**1,453**	**29.6%**	**1,352**	**28.0%**
Backlog	**2,850**		**2,665**	

Accounts Receivable

Accounts Receivable DSO at 85 days in Q2 2014, versus 78 days prior year Q2, primarily due to the impact of certain Latin American customers

- *Targeted DSO in the mid 60s*

Inventory

Inventory turns were 2.7 times, versus 2.8 times prior year Q2

- *Driving towards inventory turns goal of 4.0x to 4.5x*

* Advance cash commitments from customers to fund working capital

2014 Outlook

Cash Use Priorities in 2014

- Continue to execute on announced capital allocation policy
  - Continue policy of annually returning 40 – 50% of running 2-year average net earnings to shareholders
- Estimate capital expenditures to be $130 – $140 million
- Scheduled debt principal reduction of $40 million
- Estimate U.S. and non-U.S. pension fund contributions to be approximately $30 – $35 million
- Other strategic opportunities, after disciplined analysis

Revenue Growth

- Expect revenue growth in the lower half of our initial 3 – 6% guidance range, excluding potential impact of acquisition or divestiture activity that may arise

Working Capital

- Execute on working capital initiatives to increase on-time delivery and improve DSO and inventory turns to targeted levels

SG&A Cost Focus

- Continue expense-management culture as we target SG&A as a percent of sales of 18% while making strategic growth investments

FLOWSERVE

2014 EPS Guidance

- Implied 2014 EPS growth of 7% - 17% reflects earnings power on expected revenue growth of 3% - 6% and continued progress on our operating margin improvement goal
- Similar to prior year, 2014 earnings will be second half weighted

Reaffirm 2014 full year EPS target range of $3.65 to $4.00

* EPS amounts for 2006 and 2007 have not been retrospectively adjusted to reflect the adoption of the two class method of calculating earnings per share under ASC 260, "Earnings Per Share" which was effective January 1, 2009. The impact of adoption was a decrease to EPS of $0.01 for 2006 and $0.02 for 2007.

QUESTIONS AND ANSWERS