# Flowserve Third Quarter 2015 Earnings Conference Call

October 30, 2015


*Experience In Motion*

# Special Note

**Safe Harbor Statement**: This presentation includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Words or phrases such as, "may," "should," "expects," "could," "intends," "plans," "anticipates," "estimates," "believes," "forecasts," "predicts" or other similar expressions are intended to identify forward-looking statements, which include, without limitation, earnings forecasts, statements relating to our business strategy and statements of expectations, beliefs, future plans and strategies and anticipated developments concerning our industry, business, operations and financial performance and condition.

The forward-looking statements included in this presentation are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements, and include, without limitation, the following: a portion of our bookings may not lead to completed sales, and our ability to convert bookings into revenues at acceptable profit margins; changes in global economic conditions and the potential for unexpected cancellations or delays of customer orders in our reported backlog; our dependence on our customers' ability to make required capital investment and maintenance expenditures; risks associated with cost overruns on fixed-fee projects and in taking customer orders for large complex custom engineered products; the substantial dependence of our sales on the success of the oil and gas, chemical, power generation and water management industries; the adverse impact of volatile raw materials prices on our products and operating margins; our ability to execute and realize the expected financial benefits from our strategic manufacturing optimization and realignment initiatives; economic, political and other risks associated with our international operations, including military actions or trade embargoes that could affect customer markets, particularly Middle Eastern markets and global oil and gas producers, and non-compliance with U.S. export/re-export control, foreign corrupt practice laws, economic sanctions and import laws and regulations; increased aging and slower collection of receivables, particularly in Latin America and other emerging markets; our exposure to fluctuations in foreign currency exchange rates, including in hyperinflationary countries such as Venezuela; our furnishing of products and services to nuclear power plant facilities and other critical processes; potential adverse consequences resulting from litigation to which we are a party, such as litigation involving asbestos-containing material claims; a foreign government investigation regarding our participation in the United Nations Oil-for-Food Program; expectations regarding acquisitions and the integration of acquired businesses; our ability to anticipate and manage cybersecurity risk, including the risk of potential business disruptions or financial losses; our relative geographical profitability and its impact on our utilization of deferred tax assets, including foreign tax credits; the potential adverse impact of an impairment in the carrying value of goodwill or other intangible assets; our dependence upon third-party suppliers whose failure to perform timely could adversely affect our business operations; the highly competitive nature of the markets in which we operate; environmental compliance costs and liabilities; potential work stoppages and other labor matters; our inability to protect our intellectual property in the U.S., as well as in foreign countries; obligations under our defined benefit pension plans; and other factors described from time to time in our filings with the Securities and Exchange Commission.

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.

# Q3 2015 Financial Highlights

- Reported third quarter Adjusted EPS* of $0.81
  - Excludes $0.11 of adjusted items[(1)] and includes $0.03 bad debt write-off
- Bookings of $1.06 billion, including SIHI bookings of $69.7 million
  - Challenging market conditions experienced in the first half of the year continued through the third quarter with broad-based year-over-year capital spending declines and increased pricing pressure
  - Sequential original equipment bookings decreased 8.7%, constant currency
  - Sequential aftermarket bookings increased 2.0%, constant currency
- Adjusted gross margin increased 110 basis points to 36.1%, excluding SIHI and realignment of $1.7 million
- Adjusted operating margin increased 50 basis points to 16.5% excluding SIHI and realignment of $1.7 million
- Backlog of $2.6 billion, includes $118.1 million from SIHI, offset by approximately $130 million of negative currency impact

***Calculated using Q3 fully diluted shares of 133.2 million**
**(1) See pg. 21 for reconciliation**

# Flexibility Through Market Transitions

## Strategic Strengths

- Balance Sheet
- Diversification
- Infrastructure Markets
- Operational Focus
- Aftermarket Business
- Localized Assets

**Current Position**

Strategic Deployment

## Launched Initiatives

- Capital Allocation Discipline
- Operational Flexibility
- Driving Growth
- SG&A Alignment
- Manufacturing Optimization

Response to Market

## Market Headwinds

- FX
- Oil and Gas
- Emerging Markets
- Geopolitical Turbulence

## Accelerating Deployment

- SG&A Reductions
- Manufacturing Migration
- Right-size to Market Conditions

## Targets

**$125 Million**
**Cost Reduction Efforts**

**10 Percent**
**Workforce Reduction***

**$125 Million**
**Annual Run-rate Savings**

***Excludes SIHI realignment***

** For workforce reduction efforts, where applicable, we will engage all necessary parties to meet our local consultation and information requirements.*

***Year-to-Date completed $26.5 million of initially planned $100 million investment in cost efficiency initiatives, manufacturing optimization and other actions. Pursuing at least $25 million of additional investment. Now expect annual run-rate savings of approximately $125 million.***

# Resiliency of Business

| Traditional mix of sales | | Recent years' mix of sales | Long-Term Drivers |
|---|---|---|---|
| ~20% | OE large projects | Has trended lower: only 10-15% | • New capacity / greenfield<br>• Highly engineered solutions<br>• Infrastructure build out |
| ~40% | Run-rate OE: short cycle, recurring | Has trended higher | • Replacing / adding equipment in existing infrastructure<br>• Need for upgrades as facilities age<br>• Typically customer direct and shorter lead-time |
| ~40% | Aftermarket | Has trended higher | • MRO recovery and ongoing replacement business<br>• Efficiency upgrades<br>• Service and repairs require localized presence |

***Approximately 80% of business is traditionally aftermarket or run-rate original equipment ➡ stability and resiliency***

# Cash Flow Usage & Capital Allocation Priorities

## Cash Flow Usage

| | Since Q4 '11* | YTD '15 |
|---|---|---|
| **Returned to shareholders[1]** | **$ 2.2 billion** | **$320 million** |
| *# shares repurchased* | *38.3 million* | *4.8 million* |
| *Avg. repurchase price / share* | *<$48* | *<$52* |
| *% of FCF* | *145%* | *NM* |
| **Acquisition spend** | **$520 million** | **$354 million** |
| **Capex** | **$583 million** | **$139 million** |

* Includes YTD 2015 amounts

## Capital Allocation Priorities

### Debt Management

- Long-term gross leverage ratio of 1-2x total debt / EBITDA; currently 2.2x[2] (~2.0x net of cash)
- Raised €500 million 7-year Senior Notes at coupon of 1.25%
- Amended revolving credit facility extending maturity date 2 years to Oct. 2020

### Dividends

- Dividend increased for the past 8 consecutive years
- Past 5 years provided double-digit percentage increase

### Share Repurchases & Acquisitions

- Total shareholder payout ratio target at 40-50% of 2 year running average net income
- Completed $1 billion stock repurchase program in 2013
- ~$215 million available under current repurchase program[3] as of 9/30/15
- Strict acquisition criteria includes EPS accretion & achievement of ROIC hurdles
- Discipline in evaluating inorganic vs. organic investment and returning capital to shareholders

***Capital spending focuses on most accretive, long-term investment in both the operating platform and returning capital to shareholders***

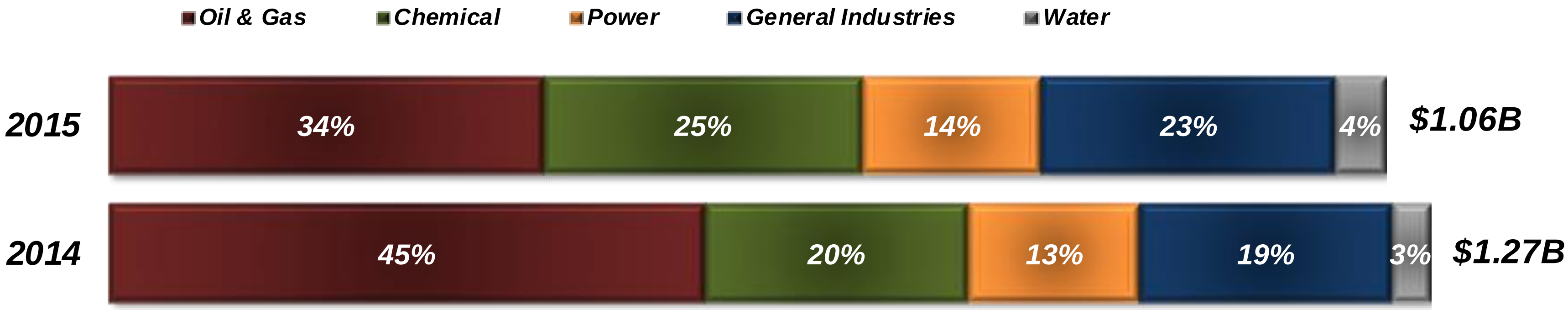
[1] Includes dividends and share repurchases; [2] Including one-time items; [3] Current authorization of $500 million as of 9/30/15

# Business Outlook

- **Multiple factors contributing to current business conditions as customers remain deliberate on both new order and aftermarket activity**
  - Oil & Gas volatility - reduced capital budgets and oil price down ~50% since Q2 2014
  - FX volatility headwinds - U.S. dollar appreciated ~20% versus the EUR since Q2 2014
  - Geopolitical and economic turmoil in selected regions including Latin America / Middle East
  - Strong refining margins driving high utilization rates and deferred maintenance
- **Flowserve addressing market conditions that are expected to persist, by leveraging strategic, operating and financial strengths**
  - Accelerating efficiency and manufacturing optimization program
  - Maintaining disciplined bidding; bundling differentiated product / service offering
  - Strong balance sheet and disciplined capital allocation; continuing to focus on organic growth initiatives
- **Long-term strategy remains focused on profitable growth**
  - Diverse, attractive long-term end markets with FLS global presence
  - Growth opportunities in aftermarket, chemical, Asian power and distribution channels
  - Competitive advantages include operating platform, product portfolio and installed base
  - R&D investment and new product development
  - Strong financial position to invest in growth, both organic and inorganic

***Strong business model, including leading aftermarket franchise, diverse end markets & geographic exposure, positions Flowserve for long-term value creation despite short-term volatility***

# Q3 2015 Bookings & Industry Outlook




**OIL & GAS**

- *Downturn intensifies as current spending cuts take hold and companies foresee longer period of low oil prices*
- *Upstream budgets most severely under pressure; mid- and downstream also tighter albeit with some bright spots*
- *Challenges in key energy producing regions a further impact on project and aftermarket opportunities*

**POWER**

- *Good fossil-fired power market growth opportunities due to emerging market development and U.S. infrastructure renewal*
- *Nuclear remains soft but prospects promising given planned capacity additions, particularly in Asia Pacific*
- *Concentrated solar thermal power & desalination market activity on the rise*

**CHEMICAL**

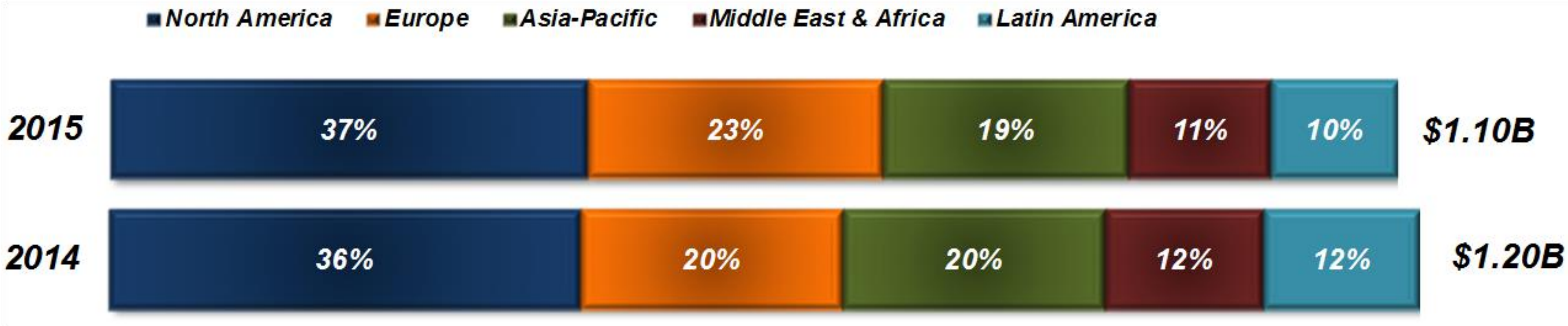
- *Chemical market transitioning to slower growth phase as new capacity from large projects comes online*
- *Investments in the Middle East and North America due to cost advantages for chemical production*

**GENERAL INDUSTRIES**

- *Mining market activity focused on replacement capacity and continued maintenance*
- *Distribution down overall with some pockets of growth*

**Sources:** GlobalData, IHS, Oxford Economics, IMF, Flowserve internal data

# Q3 2015 Sales & Regional Outlook




**NORTH AMERICA**

- *Oil & gas market activity declining as capital expenditures cut and projects delayed; improvements in aftermarket spending*
- *Mixed opportunities further downstream with combined-cycle power picking up and chemical lower vs. robust prior year*

**EUROPE**

- *Growth impacted by private consumption, slow investment recovery, Russia conflict and FX headwinds*
- *Power investment restrained; future prospects in renewables, some fossil-fired projects and select nuclear markets*

**MIDDLE EAST & AFRICA**

- *Chemical investment stable to increasing in the Middle East due to cost advantages & downstream diversification ambitions*
- *Activity in fossil-fired & renewable power generation, as well as water desalination, to support economic development in the region*

**ASIA PACIFIC**

- *Mixed prospects with areas of accelerating growth and opportunity, such as Southeast Asia, and slowing growth in China*
- *New coal-fired power plant additions in Asia Pacific; environmental and diversification factors support growth in other power technologies*

**LATIN AMERICA**

- *Difficult oil & gas and chemical business conditions due to severe challenges in Brazil and Venezuela; early optimism for Mexico*
- *Realizing power opportunities; leveraging strengths in mining while spend on projects remains restrained*

**Sources:** GlobalData, IHS, Oxford Economics, IMF, Flowserve internal data

# Engineered Product Division
# Q3 2015 Segment Results

| ($ millions) | 3rd Quarter | | | | | Year to Date | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 (1) | Delta ($) | Delta (%) | Constant FX (%)* | 2015 | 2014 (1) | Delta ($) | Delta (%) | Constant FX (%)* |
| Bookings | $ 537.5 | $ 727.7 | $ (190.2) | (26.1)% | (17.2)% | 1,608.0 | 2,124.1 | $ (516.1) | (24.3)% | (15.7)% |
| Sales | $ 514.5 | $ 641.4 | $ (126.9) | (19.8)% | (9.7)% | 1,569.4 | 1,805.7 | $ (236.3) | (13.1)% | (3.0)% |
| Gross Profit | 180.4 | 220.9 | $ (40.5) | (18.3)% | | 535.9 | 626.4 | $ (90.5) | (14.4)% | |
| Gross Margin (%) | 35.1% | 34.4% | | 70 bps | | 34.1% | 34.7% | | (60 bps) | |
| SG&A | 104.8 | 112.5 | $ (7.7) | (6.8)% | 6.7% | 309.2 | 333.8 | $ (24.6) | (7.4)% | 4.0% |
| SG&A (%) | 20.4% | 17.5% | | 290 bps | | 19.7% | 18.4% | | 130 bps | |
| Income from Affiliates | 2.1 | 1.9 | $ 0.2 | 10.5% | | 6.1 | 7.9 | $ (1.8) | (22.8)% | |
| Operating Income | 77.7 | 110.3 | $ (32.6) | (29.6)% | (25.5)% | 232.8 | 300.5 | $ (67.7) | (22.5)% | (16.1)% |
| Operating Margin (%) | 15.1% | 17.2% | | (210 bps) | | 14.8% | 16.6% | | (180 bps) | |
| Adjusted Operating Income ** | 79.4 | 110.3 | $ (30.9) | (28.0)% | (23.9)% | 245.1 | 300.5 | $ (55.4) | (18.4)% | (12.0)% |
| Adjusted Operating Margin % ** | 15.4% | 17.2% | | (180 bps) | | 15.6% | 16.6% | | (100 bps) | |

***Solid gross margin improvement driven by mix shift towards aftermarket and solid execution of quality backlog***

* Constant FX represents the year over year variance assuming 2015 results at 2014 FX rates
** Adjusted Operating Income excludes realignment charges of $1.7 million and $12.3 million for Q3 2015 and YTD 2015, respectively
(1) Effective January 1, 2015, certain facilities that were previously included in IPD are now reported in EPD. 2014 results have been adjusted to reflect this change.

# Engineered Product Division
# Q3 2015 Bookings and Sales

| ($ millions) | | 3rd Quarter 2015 | 3rd Quarter 2014 (1) | 3rd Quarter Delta (%) | 3rd Quarter Constant FX (%)* | Year to Date 2015 | Year to Date 2014 (1) | Year to Date Delta (%) | Year to Date Constant FX (%)* |
|---|---|---|---|---|---|---|---|---|---|
| Bookings Mix ** | OE | 186 | 323 | (42)% | (34)% | 575 | 893 | (36)% | (26)% |
| | | 35% | 44% | (900 bps) | | 36% | 42% | (600 bps) | |
| | AM | 352 | 404 | (13)% | (3)% | 1,033 | 1,230 | (16)% | (8)% |
| | | 65% | 56% | 900 bps | | 64% | 58% | 600 bps | |
| Sales Mix ** | OE | 185 | 256 | (28)% | (17)% | 557 | 688 | (19)% | (7)% |
| | | 36% | 40% | (400 bps) | | 35% | 38% | (300 bps) | |
| | AM | 329 | 386 | (15)% | (5)% | 1,013 | 1,118 | (9)% | (1)% |
| | | 64% | 60% | 400 bps | | 65% | 62% | 300 bps | |

***YTD constant currency aftermarket sales demonstrates resiliency in challenging market conditions***

* Constant FX represents the year over year variance assuming 2015 results at 2014 FX rates
** Gross bookings and sales do not include interdivision eliminations
(1) Effective January 1, 2015, certain facilities that were previously included in IPD are now reported in EPD. 2014 results have been adjusted to reflect this change.

# Engineered Product Division Q3 Overview

- Bookings decreased 26.1%, or 17.2% on a constant currency basis
  - Decrease driven primarily by oil and gas and general industries
  - Bookings decreased in all regions with the exception of Asia Pacific
- Sales decreased 19.8%, or 9.7% on a constant currency basis
  - The decrease was more heavily weighted towards original equipment, and included declines in all regions
- Gross margin increased 70 basis points to 35.1%
- Operating margin decreased 210 basis points to 15.1%, or decreased 180 basis to points to 15.4%, excluding realignment
- Backlog decreased 7.9% to $1.4 billion vs. 2014 year-end, or 3.1% on constant currency basis

# Industrial Product Division
# Q3 2015 Segment Results

| ($ millions) | 3rd Quarter | | | | | 3rd Quarter Adjusted | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 (1) | Delta ($) | Delta (%) | Constant FX (%)* | SIHI | IPD Ex-SIHI | Delta ($) | Delta (%) | Constant FX (%)* |
| Bookings | 236.5 | 177.7 | $ 58.8 | 33.1% | 40.1% | $ 69.7 | $ 166.8 | $ (10.9) | (6.1)% | 0.8% |
| Sales | 241.6 | 203.2 | $ 38.4 | 18.9% | 24.9% | 73.7 | 167.9 | $ (35.3) | (17.4)% | (11.4)% |
| Gross Profit | 69.0 | 54.2 | $ 14.8 | 27.3% | | 20.9 | 48.1 | $ (6.1) | (11.3)% | |
| Gross Margin (%) | 28.6% | 26.7% | | 190 bps | | 28.4% | 28.6% | | 190 bps | |
| SG&A | 44.0 | 27.2 | $ 16.8 | 61.8% | 70.2% | 20.5 | 23.5 | $ (3.7) | (13.6)% | (5.1)% |
| SG&A (%) | 18.2% | 13.4% | | 480 bps | | 27.8% | 14.0% | | 60 bps | |
| Operating Income | 25.0 | 26.9 | $ (1.9) | (7.1)% | (3.7)% | $ 0.4 | 24.6 | $ (2.3) | (8.6)% | (5.2)% |
| Operating Margin (%) | 10.3% | 13.2% | | (290 bps) | | 0.5% | 14.7% | | 150 bps | |

***Adjusted operating margin of 14.7% within long-term target of 14%-15%***

* Constant FX represents the year over year variance assuming 2015 results at 2014 FX rates
(1) Effective January 1, 2015, certain facilities that were previously included in IPD are now reported in EPD. 2014 results have been adjusted to reflect this change.

# Industrial Product Division
# Year to Date 2015 Segment Results

| ($ millions) | Year to Date | | | | | Year to Date Adjusted | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 (1) | Delta ($) | Delta (%) | Constant FX (%)* | SIHI | IPD Ex-SIHI | Delta ($) | Delta (%) | Constant FX (%)* |
| Bookings | 689.9 | 589.1 | 100.8 | 17.1% | 22.7% | $ 217.4 | $ 472.5 | $ (116.6) | (19.8)% | (14.2)% |
| Sales | 725.8 | 593.2 | 132.6 | 22.4% | 29.1% | 217.8 | 508.0 | $ (85.2) | (14.4)% | (7.7)% |
| Gross Profit | 170.7 | 160.2 | 10.5 | 6.6% | | 29.1 | 141.6 | $ (18.6) | (11.6)% | |
| Gross Margin (%) | 23.5% | 27.0% | | (350 bps) | | 13.4% | 27.9% | | 90 bps | |
| SG&A | 151.9 | 84.2 | 67.7 | 80.4% | 88.7% | 77.9 | 74.0 | $ (10.2) | (12.1)% | (3.8)% |
| SG&A (%) | 20.9% | 14.2% | | 670 bps | | 35.8% | 14.6% | | 40 bps | |
| Operating Income (Loss) | 18.7 | 75.9 | (57.2) | (75.4)% | (70.2)% | (48.8) | 67.5 | $ (8.4) | (11.1)% | (5.9)% |
| Operating Margin (%) | 2.6% | 12.8% | | (1,020 bps) | | (22.4)% | 13.3% | | 50 bps | |
| Adjusted Operating Income ** | 21.0 | 75.9 | (54.9) | (72.3)% | (67.2)% | (48.8) | 69.8 | $ (6.1) | (8.0)% | (2.9)% |
| Adjusted Operating Margin % ** | 2.9% | 12.8% | | (990 bps) | | (22.4)% | 13.7% | | 90 bps | |

***Adjusted operating margin improvement to 13.7% on disciplined cost control and operational excellence***

* Constant FX represents the year over year variance assuming 2015 results at 2014 FX rates
** Adjusted Operating Income excludes realignment charges, net of adjustments of $2.3 million YTD 2015
(1) Effective January 1, 2015, certain facilities that were previously included in IPD are now reported in EPD. 2014 results have been adjusted to reflect this change.

# Industrial Product Division
# Q3 2015 Bookings and Sales

| ($ millions) | | 3rd Quarter | | | | 3rd Quarter Adjusted | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2015 | 2014 (1) | Delta (%) | Constant FX (%)* | SIHI | IPD Ex-SIHI | Delta (%) | Constant FX (%)* |
| Bookings | OE | 155 | 119 | 30% | 37% | 47 | 108 | (9)% | (3)% |
| Mix ** | | 66% | 67% | (100 bps) | | 68% | 65% | (200 bps) | |
| | AM | 81 | 58 | 40% | 48% | 22 | 59 | 2% | 10% |
| | | 34% | 33% | 100 bps | | 32% | 35% | 200 bps | |
| Sales | OE | 166 | 143 | 16% | 21% | 52 | 114 | (20)% | (15)% |
| Mix ** | | 69% | 70% | (100 bps) | | 71% | 68% | (200 bps) | |
| | AM | 75 | 60 | 25% | 33% | 21 | 54 | (10)% | (2)% |
| | | 31% | 30% | 100 bps | | 29% | 32% | 200 bps | |

***The acquisition of SIHI provides scale and synergies to IPD, positioning the segment for enhanced growth while executing on cost reduction opportunities***

* Constant FX represents the year over year variance assuming 2015 results at 2014 FX rates
** Gross bookings and sales do not include interdivision eliminations
(1) Effective January 1, 2015, certain facilities that were previously included in IPD are now reported in EPD. 2014 results have been adjusted to reflect this change.

# Industrial Product Division Q3 Overview

- Bookings increased 33.1%, or 40.1% on a constant currency basis
  - Includes SIHI bookings of $69.7 million
  - Excluding SIHI, constant currency bookings increased 0.8%, primarily due to increased bookings in chemical and power, partially offset by decreased bookings in oil and gas and general industries
- Sales increased 18.9%, or 24.9% on a constant currency basis
  - Includes SIHI sales of $73.7 million
  - Excluding SIHI, constant currency sales decreased 11.4%, due to decreased sales into all regions except Europe
- Gross margin increased 190 basis points to 28.6%
- Excluding SIHI and realignment, operating margin increased 150 basis points to 14.7%

# Flow Control Division
# Q3 2015 Segment Results

| | 3rd Quarter | | | | | Year to Date | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2015 | 2014 | Delta ($) | Delta (%) | Constant FX (%)* | 2015 | 2014 | Delta ($) | Delta (%) | Constant FX (%)* |
| Bookings | $ 311.1 | $ 392.0 | (80.9) | (20.6)% | (14.5)% | $ 988.6 | $ 1,227.2 | $ (238.6) | (19.4)% | (12.6)% |
| Sales | $ 367.9 | $ 387.0 | (19.1) | (4.9)% | 4.7% | $ 1,051.5 | $ 1,176.3 | $ (124.8) | (10.6)% | (2.0)% |
| Gross Profit | $ 136.6 | $ 143.2 | (6.6) | (4.6)% | | $ 379.2 | $ 440.4 | $ (61.2) | (13.9)% | |
| Gross Margin (%) | 37.1% | 37.0% | | 10 bps | | 36.1% | 37.4% | | (130 bps) | |
| SG&A (1) | $ 59.4 | $ 70.9 | (11.5) | (16.2)% | (8.5)% | $ 192.7 | $ 205.5 | $ (12.8) | (6.2)% | 2.8% |
| SG&A (%) | 16.1% | 18.3% | | (220 bps) | | 18.3% | 17.5% | | 80 bps | |
| Income from Affiliates | $ (0.1) | $ — | (0.1) | | | (0.2) | (0.3) | $ 0.1 | (33.3)% | |
| Operating Income (1) | $ 77.1 | $ 72.3 | 4.8 | 6.6% | 14.2% | $ 186.3 | $ 234.6 | $ (48.3) | (20.6)% | (15.5)% |
| Operating Margin (%) | 21.0% | 18.7% | | 230 bps | | 17.7% | 19.9% | | (220 bps) | |
| Adjusted Operating Income ** | $ 77.1 | $ 72.3 | $ 4.8 | 6.6% | 14.2% | $ 198.6 | $ 234.6 | $ (36.0) | (15.3)% | (10.2)% |
| Adjusted Operating Margin % ** | 21.0% | 18.7% | | 230 bps | | 18.9% | 19.9% | | (100 bps) | |

***FCD's reported YTD 2014 results include a $12.6 million gain on the sale of assets in Q1***

* Constant FX represents the year over year variance assuming 2015 results at 2014 FX rates
** Adjusted Operating Income excludes realignment charges of $12.3 million YTD 2015
(1) YTD 2014 includes $12.6 million impact of net gain from sale of the Naval business in Q1 2014

# Flow Control Division
# Q3 2015 Bookings and Sales

| | | 3rd Quarter | | | | Year to Date | | | |
|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | | 2015 | 2014 | Delta (%) | Constant FX (%)* | 2015 | 2014 | Delta (%) | Constant FX (%)* |
| Bookings | OE | 249 | 326 | (24)% | (18)% | 786 | 1,029 | (24)% | (17)% |
| Mix ** | | 80% | 83% | (300 bps) | | 80% | 84% | (400 bps) | |
| | AM | 62 | 66 | (6)% | 1% | 202 | 198 | 2% | 9% |
| | | 20% | 17% | 300 bps | | 20% | 16% | 400 bps | |
| Sales | OE | 302 | 321 | (6)% | 4% | 854 | 975 | (12)% | (4)% |
| Mix ** | | 82% | 83% | (100 bps) | | 81% | 83% | (200 bps) | |
| | AM | 67 | 66 | 2% | 10% | 197 | 202 | (2)% | 5% |
| | | 18% | 17% | 100 bps | | 19% | 17% | 200 bps | |

***FCD continuing to drive increased aftermarket bookings - fifth consecutive quarter of constant currency year-over-year growth***

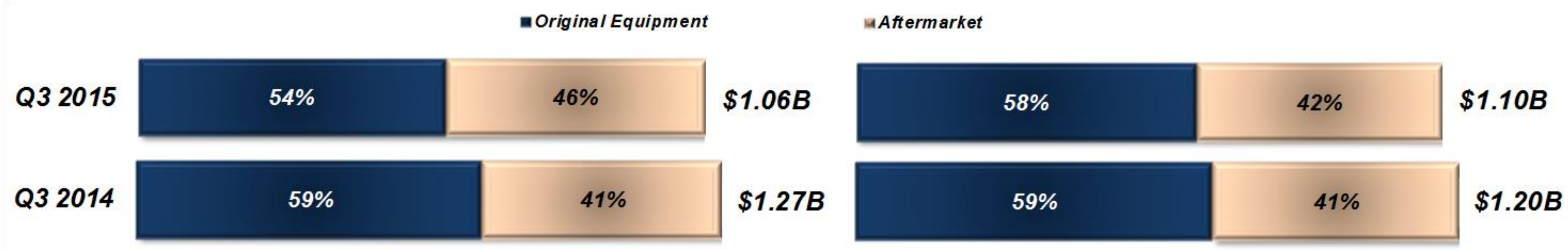
* Constant FX represents the year over year variance assuming 2015 results at 2014 FX rates
** Gross bookings and sales do not include interdivision eliminations

# Flow Control Division Q3 Overview

- Bookings decreased 20.6%, or 14.5% on a constant currency basis
  - Decreased bookings driven primarily by the oil and gas, general and chemical industries
  - Decreased bookings into all regions
- Sales decreased 4.9%, or increased 4.7% on a constant currency basis
  - Driven primarily by decreased original equipment sales
  - Sales decrease into North America and Europe, partially offset by increased sales into the Middle East and Africa
- Gross margin increased 10 basis points to 37.1%
- Operating margin increased 230 basis points to 21.0%
- Backlog decreased 15.1% to $658 million vs. 2014 year-end, or 9.8% on constant currency basis

# Q3 2015 – Consolidated Bookings & Sales

**Bookings** | **Sales**




## Bookings

- Bookings decreased 17.1%, or 9.1% on a constant currency basis including $69.7 million SIHI bookings
  - Original equipment bookings decreased 24.0%, or 16.8% constant currency
  - Aftermarket bookings decreased 7.1%, or increased 2.1% constant currency

## Sales

- Sales decreased 8.9%, or up 0.6% on a constant currency basis
  - Includes $73.7 million SIHI sales
  - Constant currency sales, ex-SIHI, decreased into all regions except Europe

Sources: Flowserve Internal Data

# Q3 2015 - Consolidated Financial Results

| | 3rd Quarter | | | | | 3rd Quarter Adjusted | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2015 | 2014 | Delta ($) | Delta (%) | Constant FX (%)* | SIHI | | Other Items | | Adjusted Results | Delta ($) | Delta (%) | Constant FX (%)* |
| Bookings | $ 1,056.7 | $ 1,274.8 | $ (218.1) | (17.1)% | (9.1)% | $ 69.7 | | | | $ 987.0 | $ (287.8) | (22.6)% | (14.6)% |
| Sales | $ 1,096.5 | $ 1,204.0 | $ (107.5) | (8.9)% | 0.6% | $ 73.7 | | | | $ 1,022.8 | $ (181.2) | (15.0)% | (5.6)% |
| Gross Profit | $ 388.8 | $ 421.5 | $ (32.7) | (7.8)% | | $ 20.9 | (1) | $ (1.7) | (4) | $ 369.6 | $ (51.9) | (12.3)% | |
| Gross Margin (%) | 35.5% | 35.0% | | 50 bps | | | | | | 36.1% | | 110 bps | |
| SG&A | $ 223.5 | $ 230.9 | $ (7.4) | (3.2)% | 6.8% | $ 20.5 | (2) | $ (0.1) | (5) | $ 203.1 | $ (27.8) | (12.0)% | (2.0)% |
| SG&A (%) | 20.4% | 19.2% | | 120 bps | | | | | | 19.9% | | 70 bps | |
| Income from Affiliates | $ 2.6 | $ 1.8 | $ 0.8 | 44.4% | | | | | | | | | |
| Operating Income | $ 167.8 | $ 192.4 | $ (24.6) | (12.8)% | (7.1)% | $ 0.4 | | $ (1.7) | | $ 169.1 | $ (23.3) | (12.1)% | (6.5)% |
| Operating Margin (%) | 15.3% | 16.0% | | (70 bps) | | | | | | 16.5% | | 50 bps | |
| Other Income / (Expense), net ** | $ (5.4) | $ 5.6 | $ (11.0) | 196.4% | | $ (0.3) | (3) | $ (4.5) | (6) | $ (0.6) | $ (6.2) | (110.7)% | |
| Tax (Expense) / Benefit | $ (52.1) | $ (52.7) | $ 0.6 | 1.1% | | $ — | | $ (8.2) | (7) | $ (43.9) | $ 8.8 | 16.7% | |
| Net Earnings | $ 93.6 | $ 128.6 | $ (35.0) | (27.2)% | | $ — | | $ (14.4) | | $ 108.0 | $ (20.6) | (16.0)% | |
| Diluted EPS | $ 0.70 | $ 0.93 | $ (0.23) | (24.7)% | | $ — | | $ (0.11) | | $ 0.81 | $ (0.12) | (12.9)% | |

- Diluted EPS calculated using fully diluted shares of 133.2 million and 137.5 million shares in Q3 2015 and Q3 2014, respectively
- Flowserve repurchased 2,378,700 and 475,177 shares in Q3 2015 and Q3 2014, respectively
* Constant FX represents the year-over-year variance assuming 2015 results at 2014 FX rates
** Third Quarter 2015 includes $5.0 million impact of losses arising from transactions in currencies other than our sites' functional currencies and impact of foreign exchange contracts vs. a gain of $5.6 million in Q3 2014

1. Cost of sales includes $3.4 million of purchase price accounting expense (PPA) and $0.1 million of realignment charges
2. SG&A includes $1.1 million of PPA expense, $0.1 million of realignment charges and $1.4 million of acquisition-related costs
3. Includes $0.5 million below-the-line FX impacts
4. Includes $1.7 million of realignment charges
5. Includes $0.1 million of realignment charges
6. Includes $4.5 million of below-the-line FX impacts
7. Includes tax impact of items above and a $10 million tax charge related to a valuation allowance for Brazilian deferred tax assets

# Year to Date 2015 - Consolidated Financial Results

| | Year to Date | | | | | Year to Date Adjusted | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2015 | 2014 | Delta ($) | Delta (%) | Constant FX (%)* | SIHI | | Other Items | | Adjusted Results | Delta ($) | Delta (%) | Constant FX (%)* |
| Bookings | 3,213.2 | 3,851.4 | (638.2) | (16.6)% | (8.8)% | $ 217.4 | | | | $ 2,995.8 | $ (855.6) | (22.2)% | (14.5)% |
| Sales | 3,273.3 | 3,496.5 | (223.2) | (6.4)% | 2.8% | $ 217.8 | | | | $ 3,055.5 | $ (441.0) | (12.6)% | (3.4)% |
| Gross Profit | 1,089.6 | 1,228.9 | (139.3) | (11.3)% | | $ 29.1 | (1) | $ (18.2) | (5) | $ 1,078.7 | $ (150.2) | (12.2)% | |
| Gross Margin (%) | 33.3% | 35.1% | | (180 bps) | | | | | | 35.3% | | 20 bps | |
| SG&A | 707.0 | 685.3 | 21.7 | 3.2% | 12.5% | $ 77.9 | (2) | $ 12.6 | (6) | $ 616.5 | $ (68.8) | (10.0)% | (0.7)% |
| SG&A (%) | 21.6% | 19.6% | | 200 bps | | | | | | 20.2% | | 60 bps | |
| Income from Affiliates | 6.3 | 7.4 | (1.1) | (14.9)% | | | | | | | | | |
| Operating Income ** | 388.8 | 551.1 | (162.3) | (29.5)% | (23.1)% | $ (48.8) | | $ (30.8) | | $ 468.4 | $ (82.7) | (15.0)% | (8.8)% |
| Operating Margin (%) | 11.9% | 15.8% | | (390 bps) | | | | | | 15.3% | | (50 bps) | |
| Other Income / (Expense), net *** | (30.3) | (1.1) | (29.2) | (2,654.5)% | | $ 3.3 | (3) | $ (32.4) | (7) | $ (1.2) | $ (0.1) | (9.1)% | |
| Tax Expense | (111.5) | (141.5) | 30.0 | 21.2% | | $ 7.7 | (4) | $ 2.9 | (8) | $ (122.1) | $ 19.4 | 13.7% | |
| Net Earnings | 196.3 | 359.8 | (163.5) | (45.4)% | | $ (37.8) | | $ (60.3) | | $ 294.4 | $ (65.4) | (18.2)% | |
| Diluted EPS | 1.46 | 2.60 | (1.14) | (43.8)% | | $ (0.28) | | $ (0.45) | | $ 2.19 | $ (0.41) | (15.8)% | |

- Diluted EPS calculated using fully diluted shares of 134.6 million and 138.1 million shares in YTD 2015 and YTD 2014, respectively
- Flowserve repurchased 4,833,146 and 2,485,481 shares YTD 2015 and YTD 2014, respectively

* Constant FX represents the year-over-year variance assuming 2015 results at 2014 FX rates

** YTD 2014 includes $12.6 million net gain from the sale Naval business

*** YTD 2015 includes a loss of $29.3 million including Venezuela remeasurement, losses arising from transactions in currencies other than our sites' functional currencies and impact of foreign exchange contracts vs. a loss of $0.3 YTD 2014

1. Cost of sales includes $18.1 million of purchase price accounting expense (PPA) and $18.6 million of realignment charges
2. SG&A includes $3.4 million of PPA expense, $10.3 million of realignment charges and $8.7 million of acquisition-related costs
3. Includes $3.1 million below-the-line FX impacts
4. Tax benefit offset by $5.5 million of site exit taxes from realignment
5. Includes $16.0 of realignment charges and $2.2 million of Venezuela remeasurement impact
6. Includes $11.1 million of realignment charges and $1.5 million of other severance
7. Includes $18.5 million of Venezuela remeasurement impact and $13.9 million of other below-the-line FX impacts
8. Includes tax impact of items above and $10.0 million tax charge related to a valuation allowance for Brazilian deferred tax asset (there is no tax benefit on the $18.5 Venezuela remeasurement loss)

# Q3 2015 Cash Flows

| ($ millions) | Q3 2015 | Q2 2015 | Q1 2015 | YTD 2015 | YTD 2014 |
|---|---|---|---|---|---|
| Net Income | $ 95 | $ 76 | $ 30 | $ 201 | $ 364 |
| Depreciation and amortization | 33 | 33 | 34 | 100 | 83 |
| Change in working capital | (38) | (8) | (210) | (256) | (319) |
| Other | 23 | 10 | 53 | 80 | 2 |
| **Total Operating Activities** | **113** | **111** | **(93)** | **131** | **130** |
| Capital expenditures | (25) | (30) | (84) | (139) | (84) |
| Acquisitions, dispositions and other | (10) | 1 | (340) | (349) | 49 |
| **Total Investing Activities** | **(35)** | **(29)** | **(424)** | **(488)** | **(35)** |
| (Payments) / proceeds of long-term debt, net | (5) | (12) | 513 | 496 | (30) |
| Dividends | (24) | (24) | (22) | (70) | (63) |
| Short-term financing and other, net | (6) | (6) | 8 | (4) | 3 |
| Repurchase of common shares | (110) | (60) | (80) | (250) | (188) |
| **Total Financing Activities** | **(145)** | **(102)** | **419** | **172** | **(278)** |
| **Effect of exchange rates** | **(11)** | **1** | **(18)** | **(28)** | **(18)** |
| **Net Decrease in Cash** | **$ (78)** | **$ (19)** | **$ (116)** | **$ (213)** | **$ (201)** |

***YTD Capital expenditures include investments to increase capabilities in Asia and strategic aftermarket license***

# Primary Working Capital

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

| ($ millions) | Q3 2015 $ | Q3 2015 % | Q3 2014 $ | Q3 2014 % |
|---|---|---|---|---|
| Receivables | 1,000 | 21.5% | 1,131 | 23.2% |
| Inventory | 1,116 | 24.0% | 1,118 | 22.9% |
| Payables | (459) | (9.9)% | (491) | (10.1)% |
| **Primary Working Capital** | **1,657** | **35.6%** | **1,758** | **36.0%** |
| Advance Cash* | (376) | (8.1)% | (339) | (6.9)% |
| **Total** | **1,281** | **27.5%** | **1,419** | **29.1%** |
| **Backlog** | **2,560** | | **2,822** | |

## Accounts Receivable

Accounts Receivable DSO at 86 days in Q3 2015, slightly up versus 84 days prior year Q3

- *Driven by certain Latin American customers with extended terms compared to our usual terms and balances are not disputed.*

## Inventory

Inventory turns were 2.5 times, versus 2.8 times prior year Q3

*** Advance cash commitments from customers to fund working capital**

# 2015 Guidance Assumptions

| Revenue Guidance Assumptions | 2014 Actual | Initial 2015 Guidance [(1)] | Previous 2015 Guidance [(2)] | Current 2015 Guidance [(3)] |
|---|---|---|---|---|
| Revenue Guidance vs. 2014 | | -1% to +3% | -8% to -12% | -10% to -15% |
| EUR Rate (actual/assumed) | 1.33 | 1.21 (yr-end 2014) | 1.07 (3/31/15) | 1.07 (3/31/15) |
| FX headwinds vs. 2014 | | ~5% | ~10% | ~10% |
| Constant Currency Guidance | | ~4% to + ~8% | ~-2% to ~+2% | ~-5% to ~0% |

| Adjusted EPS Guidance Assumptions | 2014 Actual | Initial 2015 Guidance | Previous 2015 Guidance | Current 2015 Guidance |
|---|---|---|---|---|
| Adjusted EPS Guidance | $3.76 | $3.60 - $4.00 | $3.25 - $3.65 | $3.10 - $3.40 |
| EUR Rate (actual/assumed) | 1.33 | 1.21 (yr-end 2014) | 1.07 (3/31/15) | 1.07 (3/31/15) |
| FX Headwinds vs. 2014 | | ~$0.20/share | ~$0.40/share | ~$0.40/share |

***Based on YTD results and expected continuation of current market conditions, we now expect to track at or around the lower end of our EPS and revenue guidance of $3.10 to $3.40 and down 10% to 15%, respectively***

(1) Provided January 28, 2015
(2) Provided April 30, 2015
(3) Provided July 31, 2015, reaffirmed October 30, 2015
- Revenue & Adjusted EPS guidance exclude the impact of the January 2015 acquisition of SIHI. Adjusted EPS guidance also excludes realignment, below-the-line FX impact and other specific one-time items.

# 2015 EPS Guidance


- 2015 Adjusted EPS guidance range excludes the impact of Q1 SIHI Group acquisition, expected to be $0.25 dilutive in 2015. The guidance range further assumes revenue decline of 10% to 15%, assuming 3/31/15 exchange rates, and further excludes realignment, below-the-line foreign exchange impacts and other one-time items
- Similar to prior year, 2015 earnings will be second half weighted. Estimated negative translation impact of approximately $0.40 included in the $3.10-$3.40 range assumes 3/31/15 exchange rates.

***Expecting at, or around, the lower end of our 2015 Adjusted EPS target range of $3.10 to $3.40 - Excludes approximately $0.25 expected dilutive impact of SIHI Group acquisition***

* 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.

# 2015 Outlook

## Cash Use Priorities in 2015

- Continue to execute on announced capital allocation policy of annually returning 40 – 50% of running 2-year average net earnings to shareholders
- Estimate capital expenditures to be $170 – $180 million
- Strategic investment of approximately $30 million in cost efficiency and manufacturing optimization initiatives
- Scheduled debt principal reduction of $45 million
- Estimate U.S. and non-U.S. pension fund contributions to be approximately $30 – $35 million
- Other strategic opportunities, after disciplined analysis

## Working Capital

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

## SG&A Cost Focus

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

# Questions and Answers