



Flowserve Q1 2013 Earnings Conference Call

April 25, 2013



Experience In Motion

Special Note

Safe Harbor Statement: This news release 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 news release are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements, and include, without limitation, the following: a portion of our bookings may not lead to completed sales, and our ability to convert bookings into revenues at acceptable profit margins; changes in the global financial markets and the availability of capital and the potential for unexpected cancellations or delays of customer orders in our reported backlog; our dependence on our customers’ ability to make required capital investment and maintenance expenditures; risks associated with cost overruns on fixed-fee projects and in 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 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; 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 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 news release are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

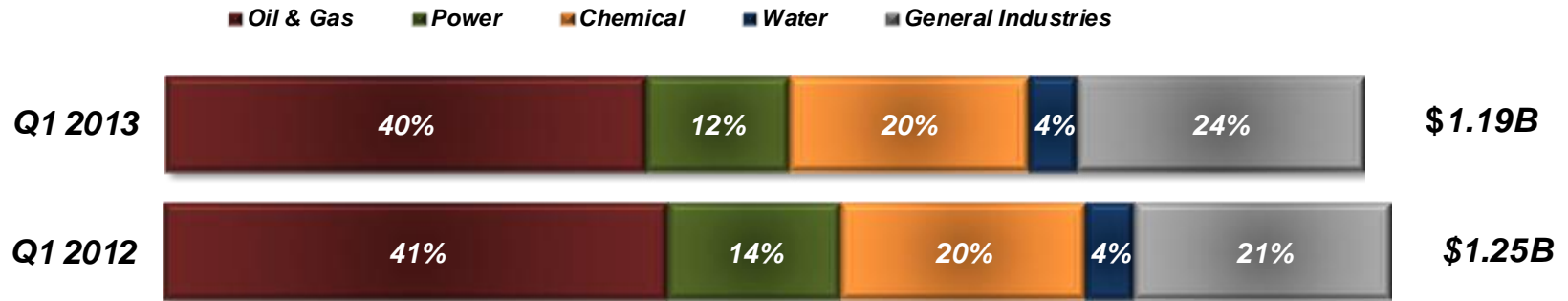
Q1 2013 Financial Highlights

- Reported EPS* of \$2.01 including \$0.28 of net gain related to joint venture transactions, substantially offset by \$0.18 of currency related expenses in Other Expense, net and \$0.06 negative foreign currency translation impact due to the stronger USD
 - Compares to Q1 2012 reported EPS of \$1.69, which included \$0.13 of net gain related to sale of assets and \$0.06 of currency related expenses in Other Expense, net
- Bookings of \$1.2 billion, down 4.4% versus prior year, or 3.5% on a constant currency basis
 - Bookings increased 9.9% on a sequential basis
 - Aftermarket bookings of \$478 million increased 3.4%, or 4.0% on a constant currency basis
 - As expected, no large projects were booked in Q1 but we continued to see progress from FEED to the bidding stage on projects we expect to be released in the latter half of the year
 - Strength in general industries and water markets partially offset softness in the oil and gas, power and chemical markets
- Gross margin of 34.0%, up 60 basis points versus prior year; up 70 basis points sequentially
 - Improvement in EPD and IPD reflects disciplined project pursuit process and operational improvements
- Operating margin of 15.5%, up 220 basis points versus prior year
 - Adjusted operating margin improved 80 basis points to 13.1% excluding the impact of joint venture transactions, asset sales and transaction expenses in 2013 and 2012
 - SG&A as a percent of sales declined 40 bps to 21.2%, excluding the impact of the \$10.4 million gain on sale of assets in Q1 2012 and \$1.7 million of transaction expenses related to joint venture transactions in Q1 2013

Business Outlook

- Continued progress on driving internal improvement with ***One Flowserve*** leadership structure and leveraging best practices across our business
 - Internal focus in 2012 delivering operational improvements and margin improvement
 - Improved platform efficiency has us well positioned to meet customer requirements and capture expected increase in large project activity in the second half of 2013
 - Better positioned to leverage bolt-on acquisitions across manufacturing and QRC footprint
- Solid first quarter slightly exceeded our initial expectations and provides momentum to deliver on the remainder of the year
- Diverse end-market and geographic exposures continue to dampen risk and volatility as we anticipate improved project activity to begin in the second half of the year, particularly in North America
- FCD is focused on top-line growth and high levels of operating performance while encouraging operating improvements in EPD and IPD drive future profitable growth

Q1 2013 Bookings & Industry Outlook



OIL & GAS

- ✓ Long-term oil & gas demand outlook continues to support healthy investment programs; upstream attracting largest share of spend
- ✓ New refining capacity additions in the Middle East & BRIC countries; growing preference for cleaner fuels also spurs investment
- ✓ Strong & continued activity in North American unconventional resources drives many midstream and downstream projects

POWER

- ✓ Slow economic growth has significantly reduced new capacity investments; most opportunities in emerging markets or environment-based
- ✓ Coal-fired power investment concentrated in China, India and Russia; gas-fired and renewables in North America, Western Europe & Middle East
- ✓ Nuclear power still in transition and current activity mixed; progress taking place in some parts of Europe and Asia

CHEMICAL

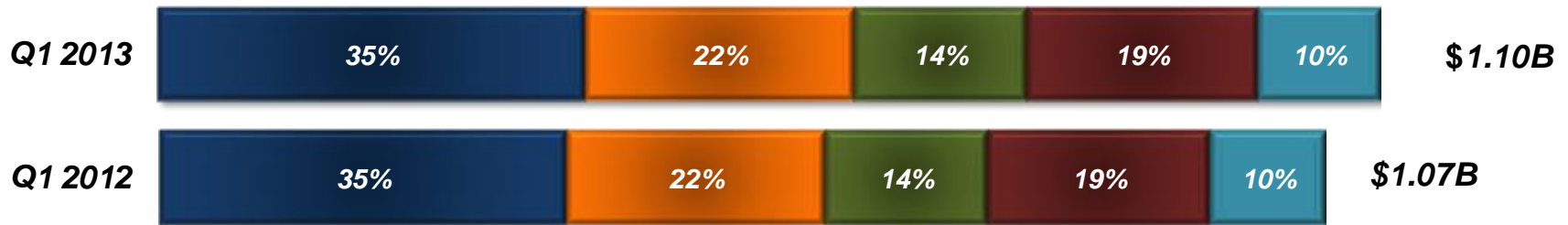
- ✓ Positive chemical demand outlook given infrastructure and consumer spending in emerging markets and improvements in the U.S. economy
- ✓ Expansion in chemical industry capacity continues, primarily in Asia Pacific, Middle East & North America

GENERAL INDUSTRIES

- ✓ Miners investing more carefully now, but favorable long-term outlook driven by demand from China and other emerging markets
- ✓ Latin America a key copper mining market; China, Australia and South Africa also important producers of minerals

Q1 2013 Sales & Regional Outlook

■ North America
 ■ Europe
 ■ Middle East & Africa
 ■ Asia Pacific
 ■ Latin America



NORTH AMERICA

- ✓ Unconventional oil & gas activity resulting in strong pipeline, storage and NGL spend; new LNG export terminals under consideration
- ✓ Aggressive investment in U.S. petrochemicals given low-cost shale gas feed stocks

EUROPE

- ✓ Western Europe power market in transition with best opportunities in coming years expected in gas-fired and renewable power
- ✓ Eastern Europe & Russia account for a large share of the region's investment in refining, pipelines, petrochemicals and nuclear power

MIDDLE EAST

- ✓ About one-third of new global refining capacity forecasted in Middle East & Africa over next few years
- ✓ As part of an economic diversification strategy, the region is building petrochemicals and rebalancing its power generation mix

ASIA-PACIFIC

- ✓ Expect highest level of LNG regasification capacity additions in the world over the next few years
- ✓ Over half of global petrochemical capacity additions planned for China, India and other Asia Pacific countries

LATIN AMERICA

- ✓ Significant capital expenditures planned to further develop the deep water oil and gas resources off the coast of Brazil
- ✓ Region accounts for more than half of all new copper mining capacity forecasted to come online in the next few years

Engineered Product Division

Q1 2013 Segment Results

(\$ millions)	1st Quarter				
	2013	2012	Delta (\$)	Delta (%)	Constant FX (%)*
Bookings	\$ 585.1	\$ 670.7	\$ (85.6)	(12.8%)	(11.4%)
Sales	\$ 539.7	\$ 534.8	\$ 4.9	0.9%	2.2%
Gross Profit	\$ 188.2	\$ 183.4	\$ 4.8	2.6%	
Gross Margin (%)	34.9%	34.3%		60 bps	
SG&A	\$ 106.1	\$ 95.5	\$ 10.6	11.1%	12.5%
SG&A (%)	19.7%	17.9%		180 bps	
Income from Affiliates	\$ 2.5	\$ 4.2	\$ (1.7)	(40.5%)	
Operating Income	\$ 84.6	\$ 92.2	\$ (7.6)	(8.2%)	(7.8%)
Operating Margin (%)	15.7%	17.2%		(150 bps)	

* Constant FX represents the year over year variance assuming 2013 results at 2012 FX rates

Engineered Product Division Q1 2013 Bookings and Sales

(\$ millions)		1st Quarter			
		2013	2012	Delta (%)	Constant FX (%)*
Bookings Mix **	OE	228 39%	322 48%	(29%) (900 bps)	(27%)
	AM	357 61%	349 52%	2% 900 bps	3%
Sales Mix **	OE	200 37%	203 38%	0% (100 bps)	1%
	AM	340 63%	332 62%	2% 100 bps	3%

Selectivity and discipline driving improvement in backlog quality

* Constant FX represents the year over year variance assuming 2013 results at 2012 FX rates

** Gross bookings and sales do not include interdivision eliminations

Engineered Product Division Overview

- Bookings decreased 12.8%, or 11.4% on a constant currency basis, driven by a decrease in oil and gas, chemical and power markets partially offset by strength in general industries
 - Decreased bookings into Europe, Asia Pacific and Middle East were partially offset by strength in Latin America and North America
- Sales increased 0.9%, or 2.2% on a constant currency basis, due primarily to increased aftermarket sales into Africa, Latin America and North America
- Gross margin increased 60 basis points due to operational execution improvements and to a lesser extent, fewer lower margin projects shipped as compared to 2012
- Operating margin decreased 150 bps to 15.7%, but increased 50 basis points excluding a gain on the sale of assets of \$10.4 million in 2012

Industrial Product Division

Q1 2013 Segment Results

(\$ millions)	1st Quarter				
	2013	2012	Delta (\$)	Delta (%)	Constant FX (%)*
Bookings	\$ 207.5	\$ 232.0	\$ (24.5)	(10.6%)	(10.1%)
Sales	\$ 211.3	\$ 213.2	\$ (1.9)	(0.9%)	(0.4%)
Gross Profit	\$ 53.0	\$ 49.6	\$ 3.4	6.9%	
Gross Margin (%)	25.1%	23.3%		180 bps	
SG&A	\$ 31.6	\$ 32.3	\$ (0.7)	(2.2%)	(1.9%)
SG&A (%)	15.0%	15.2%		(20 bps)	
Operating Income	\$ 21.4	\$ 17.4	\$ 4.0	23.0%	25.3%
Operating Margin (%)	10.1%	8.2%		190 bps	

* Constant FX represents the year over year variance assuming 2013 results at 2012 FX rates

Industrial Product Division

Q1 2013 Bookings and Sales

(\$ millions)		1st Quarter			
		2013	2012	Delta (%)	Constant FX (%)*
Bookings Mix **	OE	135 65%	160 69%	(16%) (400 bps)	(16%)
	AM	73 35%	72 31%	1% 400 bps	2%
Sales Mix **	OE	144 68%	143 67%	1% 100 bps	1%
	AM	68 32%	70 33%	(3%) (100 bps)	(2%)

Selectivity and discipline driving improvement in backlog quality

* Constant FX represents the year over year variance assuming 2013 results at 2012 FX rates

** Gross bookings and sales do not include interdivision eliminations

Industrial Product Division Overview

- Bookings decreased 10.6%, or 10.1% on a constant currency basis, driven by a decrease in oil and gas and general industries, partially offset by an increase in the chemical market
 - Decreased bookings into Latin America and the Middle East were partially offset by increased bookings into North America
- Sales decreased 0.9%, or 0.4% on a constant currency basis, driven by decreased aftermarket sales and sales into the Middle East and Asia Pacific, partially offset by increases into Latin America and North America
- Gross margin increased 180 basis points to 25.1%, driven by lower costs resulting from our execution of operational improvements
- Operating margin increased 190 bps to 10.1% as the IPD recovery plan remained on track and realigned operations gained momentum

Flow Control Division

Q1 2013 Segment Results

(\$ millions)	1st Quarter				
	2013	2012	Delta (\$)	Delta (%)	Constant FX (%)*
Bookings	\$ 430.6	\$ 380.1	\$ 50.5	13.3%	13.8%
Sales	\$ 384.0	\$ 363.9	\$ 20.1	5.5%	6.1%
Gross Profit	\$ 133.9	\$ 127.2	\$ 6.7	5.3%	
Gross Margin (%)	34.9%	35.0%		(10 bps)	
SG&A	\$ 75.9	\$ 72.5	\$ 3.4	4.7%	5.0%
SG&A (%)	19.8%	19.9%		(10 bps)	
Income from Affiliates	\$ 29.2	\$ 1.0	\$ 28.2	2820.0%	
Operating Income	\$ 87.2	\$ 55.7	\$ 31.5	56.6%	62.7%
Operating Margin (%)	22.7%	15.3%		740.0%	

* Constant FX represents the year over year variance assuming 2013 results at 2012 FX rates

Flow Control Division

Q1 2013 Bookings and Sales

		1st Quarter			
(\$ millions)		2013	2012	Delta (%)	Constant FX (%)*
Bookings Mix **	OE	366 85%	323 85%	13% 0 bps	14%
	AM	65 15%	57 15%	16% 0 bps	14%
Sales Mix **	OE	319 83%	309 85%	3% (200 bps)	4%
	AM	65 17%	55 15%	18% 200 bps	18%

Short cycle business strength reflected in strong bookings and sales

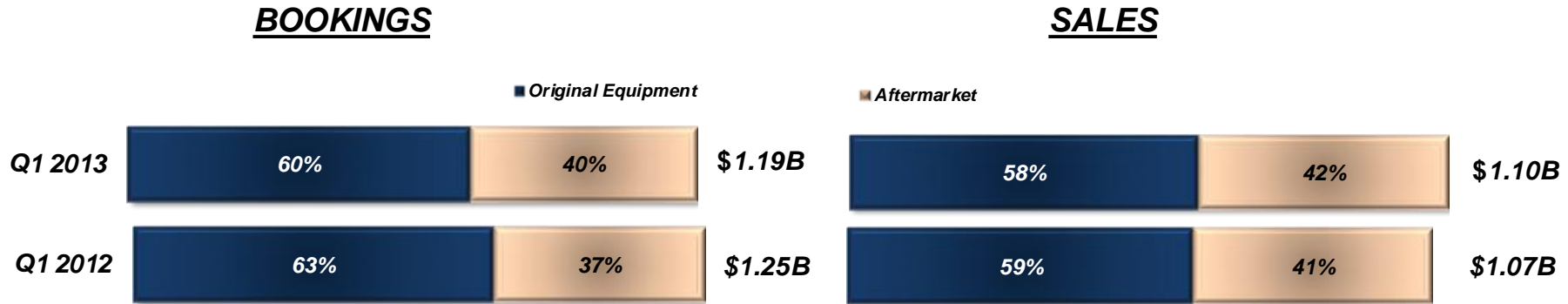
* Constant FX represents the year over year variance assuming 2013 results at 2012 FX rates

** Gross bookings and sales do not include interdivision eliminations

Flow Control Division Overview

- Bookings increased 13.3%, or 13.8% on a constant currency basis, driven by original equipment bookings in the oil and gas and general industries, partially offset by a decrease in the power generation market
 - Regional bookings growth driven by North America and Latin America
- Sales increased 5.5%, or 6.1% on a constant currency basis, primarily driven by aftermarket sales in the oil and gas industry
 - Regional growth driven by the Middle East and Asia Pacific, partially offset by Latin America
- Gross margin decreased 10 basis points to 34.9% due to a shift in product line mix, partially offset by a favorable sales mix between original equipment and aftermarket
- Adjusted operating margin increased 50 bps to 15.8% excluding the \$26.6 million net gain on joint venture transactions, net of related transaction costs of \$1.7 million

Q1 2013 – Consolidated Bookings & Sales



Bookings

- Bookings in Q1 2013 decreased 4.4%, 3.5% on a constant currency basis, driven by the oil and gas industry in EPD and IPD, partially offset by an increase in the oil and gas industry in FCD and general industries in EPD and FCD
 - Regionally, bookings growth into North America and Latin America more than offset by decreases into Europe, Asia Pacific and the Middle East & Africa

Sales

- Sales in Q1 2013 increased 2.0%, 2.9% on a constant currency basis, driven primarily by increased aftermarket sales in FCD
 - Regionally, sales increase driven by North America and Africa

Q1 2013 - Consolidated Financial Results

(\$ millions)	1st Quarter				
	2013	2012	Delta (\$)	Delta (%)	Constant FX (%)*
Bookings	\$ 1,190.0	\$ 1,245.0	\$ (55.0)	(4.4%)	(3.5%)
Sales	\$ 1,096.6	\$ 1,075.0	\$ 21.6	2.0%	2.9%
Gross Profit	\$ 373.3	\$ 359.2	\$ 14.1	3.9%	
Gross Margin (%)	34.0%	33.4%		60 bps	
SG&A	\$ 234.5	\$ 221.9	\$ 12.6	5.7%	5.0%
SG&A (%)	21.4%	20.6%		80 bps	
Income from Affiliates	\$ 31.7	\$ 5.2	\$ 26.5	509.6%	
Operating Income	\$ 170.5	\$ 142.5	\$ 28.0	19.6%	22.6%
Operating Margin (%)	15.5%	13.3%		220 bps	
Other Expense, net**	\$ (11.0)	\$ (4.9)	\$ (6.1)	(124.5%)	
Tax Expense	\$ 48.7	\$ 35.5	\$ 13.2	37.2%	
Net Earnings	\$ 97.8	\$ 93.1	\$ 4.7	5.0%	
Diluted EPS	\$ 2.01	\$ 1.69	\$ 0.32	18.9%	

- Diluted EPS calculated using fully diluted shares of 48.5 million and 55.0 million shares in Q1 2013 and Q1 2012, respectively

- Flowserve repurchased 992,368 and 185,000 shares in Q1 2013 and Q1 2012, respectively

* Constant FX represents the year over year variance assuming 2013 results at 2012 FX rates

** Q1 2013 includes \$10.8 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 \$4.8 million in Q1 2012

Q1 2013 Cash Flows

(\$ millions)	Q1	
	2013	2012
Net Income	\$ 99	\$ 94
Depreciation and amortization	25	28
Change in working capital	(212)	(214)
Other	(20)	(16)
Total Operating Activities	(108)	(108)
Capital expenditures	(34)	(29)
Dispositions, acquisitions and other	36	2
Total Investing Activities	2	(27)
Payments on long-term debt	(5)	(6)
Dividends	(18)	(17)
Proceeds from revolving credit facility and other	154	11
Repurchase of common shares	(156)	(22)
Total Financing Activities	(25)	(34)
Effect of exchange rates	(4)	4
Net Decrease in Cash	\$ (135)	\$ (165)

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

Primary Working Capital

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

(\$ millions)	Q1 2013		Q4 2012		Q1 2012	
	\$	%	\$	%	\$	%
Receivables	1,056	22.1%	1,104	23.2%	1,049	22.9%
Inventory	1,156	24.2%	1,087	22.9%	1,141	24.9%
Payables	(514)	(10.8%)	(617)	(13.0%)	(501)	(10.9%)
Primary Working Capital	1,698	35.6%	1,574	33.1%	1,689	36.9%
Advance Cash*	(411)	(8.6%)	(435)	(9.2%)	(396)	(8.6%)
Total	1,287	27.0%	1,139	23.9%	1,293	28.3%
Backlog	2,704		2,649		2,857	

Accounts Receivable

Accounts Receivable DSO at 87 days in Q1 2013 decreased 1 day versus prior year Q1

- *Driving toward a DSO in the mid 60s*

Inventory

Inventory turns were 2.5 times, flat with prior year

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

2013 Outlook

● Reaffirming 2013 full year EPS target range of \$9.60 to \$10.60

- Including \$0.28 net gain on joint venture transactions and \$0.24 of negative currency impacts in Q1 2013 not anticipated in original guidance
- Expected tax rate of 30% for remaining quarters of 2013

● Cash use priorities for 2013

- Repurchase approximately \$150 million shares in Q2, effectively completing \$1 billion of share repurchases following capital structure strategy announcement last May
- Return to policy of annually returning 40-50% of average two year trailing net earnings to shareholders through dividends and share repurchases
- Estimated capital expenditures to be \$120 million - \$130 million
- Estimated U.S. pension fund contributions to be approximately \$20 million
- Scheduled debt principal reduction of \$25 million

QUESTIONS AND ANSWERS