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Flowserve Q3 2012 Earnings Conference Call

October 30, 2012

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Special Note

SAFE HARBOR STATEMENT: This presentation 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,” “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 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; 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, particularly in hyperinflationary countries such as Venezuela; our furnishing of products and services to nuclear power plant facilities; potential adverse consequences resulting from litigation to which we are a party, such as litigation involving asbestos-containing material claims; a foreign government investigation regarding our participation in the United Nations Oil-for-Food Program; expectations regarding acquisitions and the integration of acquired businesses; our relative geographical profitability and its impact on our utilization of deferred tax assets, including foreign tax credits; the potential adverse impact of an impairment in the carrying value of goodwill or other intangible assets; our dependence upon third-party suppliers whose failure to perform timely could adversely affect our business operations; the highly competitive nature of the markets in which we operate; environmental compliance costs and liabilities; potential work stoppages and other labor matters; access to public and private sources of debt financing; our inability to protect our intellectual property in the U.S., as well as in foreign countries; 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 release are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

Q3 2012 Financial Highlights

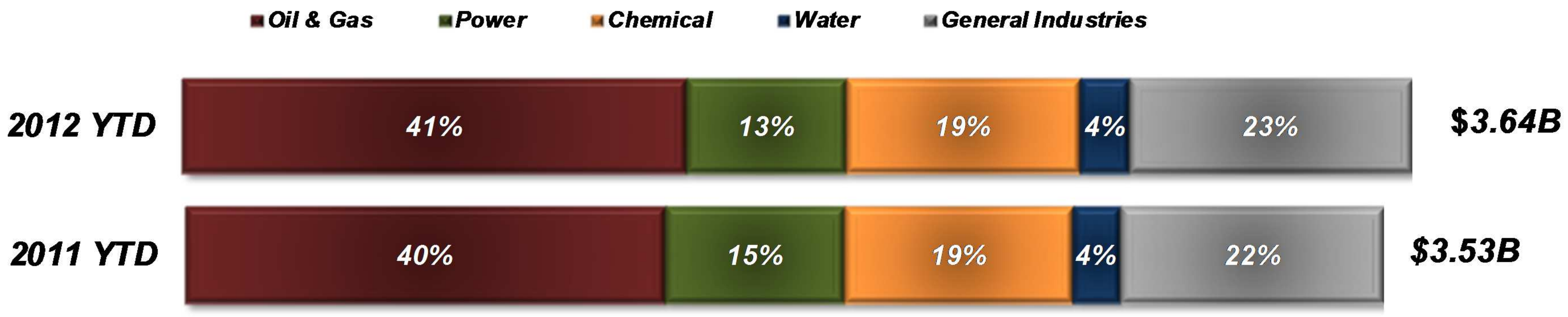
- Reported EPS* of $2.07, including $0.12 of currency related expenses in Other Expense, net
  - Up 7.8% versus Q3 2011 Reported EPS of $1.92 which included $0.08 of currency related expenses in Other Expense, net and $0.02 impact from realignment charges
  - Q3 2012 includes $0.18 above the line negative foreign currency translation impact
- Solid bookings of $1.19 billion, up 2.3% versus prior year, up 9.0% on a constant currency basis, driven by the oil and gas industry in EPD and IPD, partially offset by decrease in power in EPD and chemical in FCD
  - Includes IPD orders in excess of $90 million to supply offshore oil and gas platform equipment over the next five years, primarily in Latin America
  - Solid aftermarket bookings of $475 million, down 2.6% or up 2.3% on a constant currency basis vs. 2011
  - Strength in Latin America and North America, partially offset by decrease in Asia Pacific, Middle East/Africa and Europe
- Reported operating margin of 14.2%, up 40 basis points versus prior year
  - Operating margin impacted negatively by 2% mix shift towards lower margin original equipment and shipments of low margin legacy backlog
    - Expect legacy backlog to be removed as a margin issue in 2013
  - SG&A as a percent of sales declined 60 bps due, in part, to focused cost management
- Backlog at $2.88 billion, up 7.1% over 2011 year-end
  - Expected margins in backlog continued to improve with continued disciplined bid selectivity across all platforms
  - Includes highest quarterly recorded aftermarket backlog of $713 million

*Calculated using Q3 2012 fully diluted shares of 51.3 million

Business Outlook

- COO structure and "One Flowserve" initiatives continued to drive disciplined, profitable growth
  - Focus on front-end processes and long-cycle market improvements combined to increase expected margin quality in backlog
- Recently announced Dow Benelux five year service agreement driven by strategic investments in our end user strategies
- Focus on driving increased total shareholder return and optimal capital allocation
  - Increased balance sheet efficiency by issuing $500 million 10-year notes at 3.5% as we target gross debt to EBITDA of 1 to 2 times
  - Repurchased $101 million of shares in Q3 2012 and $534 million YTD as we work to complete remaining $524 million of $1 billion share repurchase program in 2013
  - Continued to focus on organic growth investments and bolt-on acquisitions
- Strong third quarter and improving backlog position us well for Q4 and 2013
  - Diversified end-market and geographic exposures continue to mitigate risk and provide incremental opportunities for enhanced growth and profitability

2012 YTD Bookings & Industry Outlook



OIL & GAS

- ✓ *Positive long-term outlook due to emerging market demand growth; this is driving high levels of capital spending*
- ✓ *Western hemisphere increasingly important in upstream given deep water, oil sands and shale resources*
- ✓ *New refining capacity centered in Middle East & China; opportunities elsewhere mixed*

POWER

- ✓ *Emerging markets and environmental factors fuel long-term power investment, but current market soft due to weak global economic growth*
- ✓ *Coal-fired power investment concentrated in Asia & East Europe; gas-fired and renewables in North America, West Europe & Middle East*
- ✓ *Nuclear market is still in transition but there are more proposed and planned nuclear reactors today versus last year*

CHEMICAL

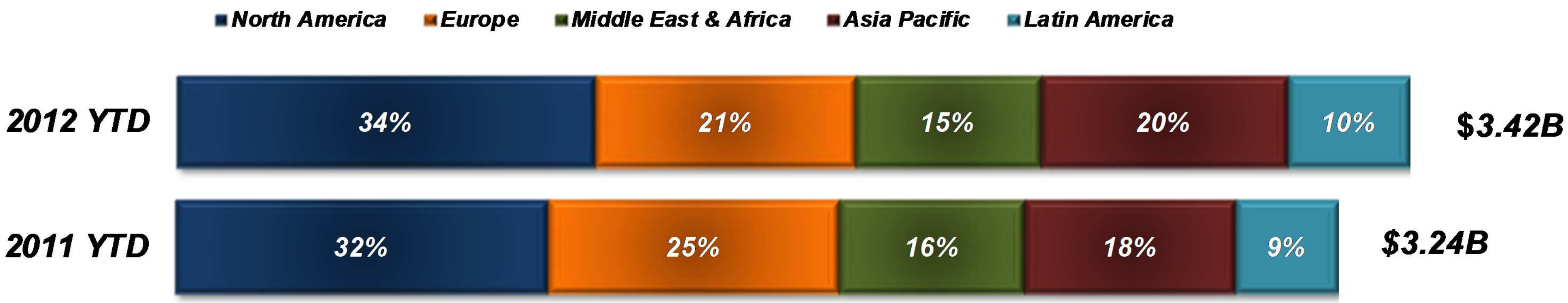
- ✓ *China's construction & manufacturing expansion drives chemical demand; future growth rates high but expected to moderate*
- ✓ *Capacity expansion is mostly in Asia & Middle East, but shale gas is putting North America back in play*

GENERAL INDUSTRIES

- ✓ *Miners spending more carefully with concerns about demand and overcapacity; seeing some project delays while others move forward*
- ✓ *Favorable long-term outlook in mining and mineral project activity given emerging market demand and global population growth*

Sources: GlobalData, IEA, Platts, World Nuclear Association, ICIS.com, DesalData (GWI), Industrial Info Resources, Flowserve Internal Data

2012 YTD Sales & Regional Outlook



NORTH AMERICA

- ✓ *Unconventional oil & gas boom resulting in strong pipeline, storage and natural gas liquid (NGL) spend, as well as downstream chemical investment*
- ✓ *Shift from coal- to gas-fired power generation capacity accelerated due to economic and environmental factors*

EUROPE

- ✓ *Downward pressure on investment remains given European economic crisis as well as structural changes in refining and power markets*
- ✓ *East Europe and Russia experiencing good level of project activity in energy and industrial markets*

MIDDLE EAST

- ✓ *Nearly a third of new refining capacity to be built in the next few years will be based in the Middle East*
- ✓ *Region diversifying its power generation base with addition of new gas-fired and renewable power; Middle East & North Africa investing in solar*

ASIA-PACIFIC

- ✓ *Liquified natural gas (LNG) investment continues in Australia with near- and long-term potential emerging in other market regions*
- ✓ *China and the rest of Asia accounts for the majority of new refining and chemical capacity planned in the next few years*

LATIN AMERICA

- ✓ *Deep water project investments are a priority for the oil & gas industry in Brazil and Mexico*
- ✓ *Strong level of mining and mineral processing activity expected to continue in the region*

Regional Sales Data includes estimates and sales to contractors, distributors and end users who may transfer product to different region

Sources: Economist Intelligence Unit, Industrial Info Resources, GlobalData, Platts, ICIS.com, DesalData (GWI), Wall Street Journal, Flowserve Internal Data

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Engineered Product Division
Q3 2012 Segment Results

($ millions)	3rd Quarter 2012	3rd Quarter 2011	3rd Quarter Delta ($)	3rd Quarter Delta (%)	3rd Quarter Constant FX (%)**	Year to Date 2012	Year to Date 2011	Year to Date Delta ($)	Year to Date Delta (%)	Year to Date Constant FX (%)**
Bookings	$ 553.7	$ 567.6	$ (13.9)	(2.4%)	4.1%	$ 1,818.2	$ 1,753.7	$ 64.5	3.7%	9.3%
Sales	$ 567.5	$ 574.3	$ (6.8)	(1.2%)	5.3%	$ 1,689.0	$ 1,655.3	$ 33.7	2.0%	7.7%
Gross Profit	$ 192.3	$ 193.1	$ (0.8)	(0.4%)		$ 571.4	$ 573.3	$ (1.9)	(0.3%)	
Gross Margin (%)	33.9%	33.6%		30 bps		33.8%	34.6%		(80 bps)	
SG&A	$ 108.7	$ 103.8	$ 4.9	4.7%	9.5%	$ 308.2	$ 312.5	$ (4.3)	(1.4%)	2.5%
SG&A (%)	19.1%	18.1%		100 bps		18.2%	18.9%		(70 bps)	
Income from Affiliates	$ 3.4	$ 2.6	$ 0.8	30.8%		$ 11.0	$ 9.5	$ 1.5	15.8%	
Operating Income	$ 87.0	$ 91.9	$ (4.9)	(5.3%)	1.2%	$ 274.2	$ 270.4	$ 3.8	1.4%	8.1%
Operating Margin (%)	15.3%	16.0%		(70 bps)		16.2%	16.3%		(10 bps)	
Adjusted Operating Income*	$ 87.0	$ 92.0	$ (5.0)	(5.4%)		$ 274.2	$ 270.5	$ 3.7	1.4%	
Adjusted Operating Margin (%)*	15.3%	16.0%		(70 bps)		16.2%	16.3%		(10 bps)	

Year to Date Bookings & Sales Increased Despite Significant Foreign Currency Headwinds

* Adjusted operating income and adjusted EPS exclude realignment charges of $0.1 million for Q3 2011, and $0.1 million for YTD 2011

**Constant FX represents the year over year variance assuming 2012 results at 2011 FX rates

Engineered Product Division
Q3 2012 Bookings and Sales

($ millions)		3rd Quarter 2012	3rd Quarter 2011	3rd Quarter Delta (%)	3rd Quarter Constant FX (%)*	Year to Date 2012	Year to Date 2011	Year to Date Delta (%)	Year to Date Constant FX (%)*
Bookings Mix **	OE	199 36%	199 35%	0% 0 bps	9%	727 40%	701 40%	4% 0 bps	11%
	AM	354 64%	369 65%	(4%) 0 bps	1%	1,091 60%	1,052 60%	4% 0 bps	8%
Sales Mix **	OE	221 39%	235 41%	(6%) (200 bps)	3%	659 39%	653 39%	1% 0 bps	9%
	AM	346 61%	339 59%	2% 200 bps	7%	1,030 61%	1,002 61%	3% 0 bps	7%

Year to Date Bookings up Over 9% on Constant Currency basis driven by focus on End-User Strategy and Aftermarket Growth

* Constant FX represents the year over year variance assuming 2012 results at 2011 FX rates
** Gross bookings and sales do not include interdivision eliminations

Engineered Product Division Overview

- Bookings decreased 2.4%, or increased 4.1% on a constant currency basis, driven by a decrease in the power industry, partially offset by an increase in the oil and gas industry and the water industry
    - Change in bookings driven by decreased activity into Europe and Asia Pacific, partially offset by increased bookings into the Middle East and North America
- Sales decreased 1.2%, or increased 5.3% on a constant currency basis, due primarily to decreased original equipment sales and decreased activity into Europe and Latin America, partially offset by increased sales into Asia Pacific and North America
- Gross margin increased 30 basis points to 33.9% due to a sales mix shift to aftermarket sales and the effects of lower costs associated with operational execution improvements partially offset by shipments of lower margin legacy backlog
- Operating margin decreased 70 bps to 15.3% due primarily to increased SG&A on higher selling related expenses

Industrial Product Division
Q3 2012 Segment Results

($ millions)	3rd Quarter 2012	3rd Quarter 2011	3rd Quarter Delta ($)	3rd Quarter Delta (%)	3rd Quarter Constant FX (%)**	Year to Date 2012	Year to Date 2011	Year to Date Delta ($)	Year to Date Delta (%)	Year to Date Constant FX (%)**
Bookings	$ 283.5	$ 223.2	$ 60.3	27.0%	34.6%	$ 758.1	$ 674.5	$ 83.6	12.4%	17.3%
Sales	$ 243.6	$ 215.6	$ 28.0	13.0%	18.6%	$ 688.4	$ 616.5	$ 71.9	11.7%	16.4%
Gross Profit	$ 59.1	$ 50.9	$ 8.2	16.1%		$ 164.6	$ 140.4	$ 24.2	17.2%	
Gross Margin (%)	24.3%	23.6%		70 bps		23.9%	22.8%		110 bps	
SG&A	$ 32.5	$ 34.3	$ (1.8)	(5.2%)	(2.3%)	$ 96.8	$ 101.1	$ (4.3)	(4.3%)	(1.3%)
SG&A (%)	13.4%	15.9%		(250 bps)		14.1%	16.4%		(230 bps)	
Income from Affiliates	$ -	$ -	$ -	-		$ -	$ -	$ -	-	
Operating Income	$ 26.6	$ 16.5	$ 10.1	61.2%	73.3%	$ 67.8	$ 39.2	$ 28.6	73.0%	83.2%
Operating Margin (%)	10.9%	7.7%		320 bps		9.8%	6.4%		340 bps	
Adjusted Operating Income*	$ 25.9	$ 17.5	$ 8.4	48.0%		$ 67.7	$ 49.3	$ 18.4	37.3%	
Adjusted Operating Margin (%)*	10.6%	8.1%		250 bps		9.8%	8.0%		180 bps	

IPD Focus on Operational Excellence Generated Substantial Improvements in Operating Income and Operating Margin

* Adjusted operating income and adjusted EPS exclude realignment charges of ($0.7) million and $1.0 million for Q3 2012 and Q3 2011, respectively, and ($0.1) million and $10.1 million for YTD 2012 and YTD 2011, respectively

** Constant FX represents the year over year variance assuming 2012 results at 2011 FX rates

Industrial Product Division
Q3 2012 Bookings and Sales

($ millions)		3rd Quarter 2012	3rd Quarter 2011	3rd Quarter Delta (%)	3rd Quarter Constant FX (%)*	Year to Date 2012	Year to Date 2011	Year to Date Delta (%)	Year to Date Constant FX (%)*
Bookings Mix **	OE	218 77%	152 68%	43% 900 bps	52%	546 72%	459 68%	19% 400 bps	24%
	AM	65 23%	71 32%	(8%) (900 bps)	(4%)	212 28%	216 32%	(2%) (400 bps)	2%
Sales Mix **	OE	170 70%	138 64%	23% 600 bps	29%	475 69%	407 66%	17% 300 bps	22%
	AM	73 30%	78 36%	(6%) (600 bps)	(2%)	213 31%	210 34%	1% (300 bps)	6%

Equipment Orders to Support Offshore Oil and Gas Platforms, in Excess of $90 Million in the Quarter, Drove Original Equipment Bookings Growth

* Constant FX represents the year over year variance assuming 2012 results at 2011 FX rates
** Gross bookings and sales do not include interdivision eliminations

Industrial Product Division Overview

- Bookings increased 27.0%, or 34.6% on a constant currency basis, driven primarily by an increase in the oil and gas industry with the growth primarily into Latin America and to a smaller extent North America, partially offset by a decrease into Europe
  - Increased bookings included original equipment orders in excess of $90 million to supply offshore oil and gas platform equipment over the next five years, primarily into Latin America
- Sales increased 13.0%, or 18.6% on a constant currency basis, primarily driven by higher original equipment sales with increased activity into Asia Pacific, North America and Latin America, partially offset by a decrease in sales into Europe
- Gross margin increased 70 basis points due to lower costs resulting from operational improvements and continued realization of realignment savings
- Operating margin increased 320 basis points to 10.9%, on reduced SG&A and continued momentum from realigned operations
  - SG&A as a percent of sales improved by 250 bps to 13.4% due to disciplined cost management and fixed cost leverage on higher volume

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Flow Control Division
Q3 2012 Segment Results

	3rd Quarter					Year to Date				
($ millions)	2012	2011	Delta ($)	Delta (%)	Constant FX (%)**	2012	2011	Delta ($)	Delta (%)	Constant FX (%)**
Bookings	$ 381.4	$ 409.9	$ (28.5)	(7.0%)	(1.1%)	$ 1,173.0	$ 1,227.1	$ (54.1)	(4.4%)	0.3%
Sales	$ 394.7	$ 368.3	$ 26.4	7.2%	14.2%	$ 1,160.1	$ 1,093.0	$ 67.1	6.1%	11.8%
Gross Profit	$ 139.6	$ 131.3	$ 8.3	6.3%		$ 399.1	$ 378.8	$ 20.3	5.4%	
Gross Margin (%)	35.4%	35.7%		(30 bps)		34.4%	34.7%		(30 bps)	
SG&A	$ 71.8	$ 69.3	$ 2.5	3.6%	9.4%	$ 216.9	$ 211.4	$ 5.5	2.6%	7.3%
SG&A (%)	18.2%	18.8%		(60 bps)		18.7%	19.3%		(60 bps)	
Income from Affiliates	$ 0.5	$ 1.7	$ (1.2)	(70.6%)		$ 2.2	$ 3.8	$ (1.6)	(42.1%)	
Operating Income	$ 68.3	$ 63.8	$ 4.5	7.1%	14.9%	$ 184.4	$ 171.2	$ 13.2	7.7%	14.1%
Operating Margin (%)	17.3%	17.3%		0 bps		15.9%	15.7%		20 bps	
Adjusted Operating Income*	$ 68.4	$ 63.9	$ 4.5	7.0%		$ 184.5	$ 171.7	$ 12.8	7.5%	
Adjusted Operating Margin (%)*	17.3%	17.3%		0 bps		15.9%	15.7%		20 bps	

Continued Strength in FCD With Record Quarterly Operating Income

* Adjusted operating income and adjusted EPS exclude realignment charges of $0.1 million and $0.1 million for Q3 2012 and Q3 2011, respectively, and $0.1 million and $0.5 million for YTD 2012 and YTD 2011, respectively

** Constant FX represents the year over year variance assuming 2012 results at 2011 FX rates

Flow Control Division
Q3 2012 Bookings and Sales

($ millions)		3rd Quarter				Year to Date			
		2012	**2011**	**Delta (%)**	**Constant FX (%)***	**2012**	**2011**	**Delta (%)**	**Constant FX (%)***
Bookings Mix **	**OE**	313 82%	344 84%	(9%) (200 bps)	(3%)	985 84%	1,043 85%	(6%) (100 bps)	(1%)
	AM	69 18%	66 16%	5% 200 bps	8%	188 16%	184 15%	2% 100 bps	5%
Sales Mix **	**OE**	339 86%	313 85%	8% 100 bps	16%	998 86%	929 85%	7% 100 bps	14%
	AM	55 14%	55 15%	0% (100 bps)	4%	162 14%	164 15%	(1%) (100 bps)	1%

Continued Aftermarket Bookings Growth and Strong Shipping Performance

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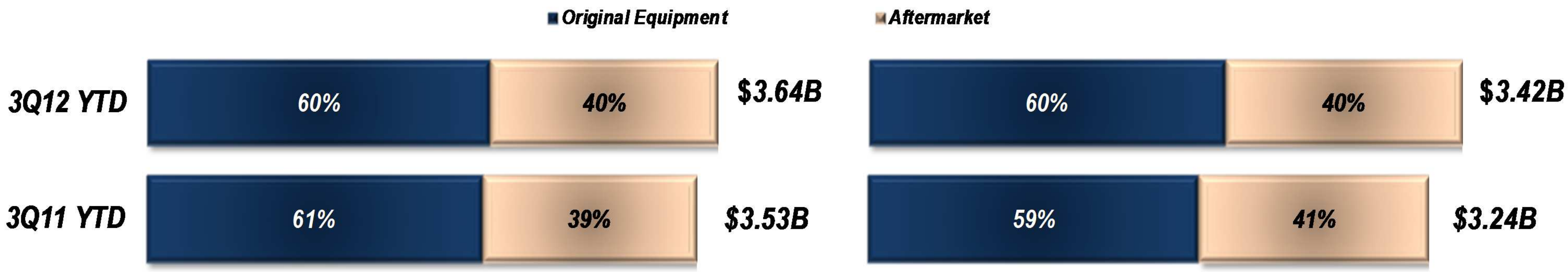
** Gross bookings and sales do not include interdivision eliminations

Flow Control Division Overview

- Bookings decreased 7.0%, or decreased 1.1% on a constant currency basis, primarily in the chemical, general and oil and gas industries, partially offset by an increase in power
  - Increase in South Korean and European nuclear valve aftermarket
  - Decreased bookings into Middle East/Africa and Latin America, partially offset by an increase into Europe, primarily Russia due to increase in district heating
- Sales increased 7.2%, or 14.2% on a constant currency basis, driven by original equipment sales primarily attributable to growth in the oil and gas industry
  - Regional strength into Asia Pacific, North America, Middle East and Latin America was partially offset by a decrease into Europe and Africa
- Gross margin decreased 30 basis points primarily due to a shift in product line mix and a less favorable sales mix shift towards original equipment
- Operating margin was unchanged at 17.3% primarily due to improved SG&A leverage
  - SG&A as a percent of sales declined 60 bps to 18.2% due to disciplined cost management and better fixed cost absorption

2012 YTD Consolidated Bookings & Sales

BOOKINGS **SALES**



Bookings

- YTD bookings for 2012 increased 3.1% over prior year, or 8.4% on a constant currency basis, driven by the oil and gas and chemical industries in EPD and IPD, partially offset by the power industry in EPD

Sales

- YTD sales for 2012 strengthened 5.5% over prior year, or 11.2% on a constant currency basis, reflecting improved original equipment sales with increased activity in North America and Asia Pacific, partially offset by a decrease in Europe

Sources: Flowserve Internal Data

Q3 2012 - Consolidated Financial Results

($ millions)	3rd Quarter 2012	3rd Quarter 2011	3rd Quarter Delta ($)	3rd Quarter Delta (%)	3rd Quarter Constant FX (%)**	Year to Date 2012	Year to Date 2011	Year to Date Delta ($)	Year to Date Delta (%)	Year to Date Constant FX (%)**
Bookings	$ 1,186.1	$ 1,159.7	$ 26.4	2.3%	9.0%	$ 3,635.4	$ 3,526.6	$ 108.8	3.1%	8.4%
Sales	$ 1,165.9	$ 1,121.8	$ 44.1	3.9%	10.6%	$ 3,423.1	$ 3,244.8	$ 178.3	5.5%	11.2%
Gross Profit	$ 389.6	$ 376.6	$ 13.0	3.5%		$ 1,133.4	$ 1,093.6	$ 39.8	3.6%	
Gross Margin (%)	33.4%	33.6%		(20 bps)		33.1%	33.7%		(60 bps)	
SG&A	$ 227.8	$ 226.0	$ 1.8	0.8%	5.7%	$ 673.6	$ 681.6	$ (8.0)	(1.2%)	2.6%
SG&A (%)	19.5%	20.1%		(60 bps)		19.7%	21.0%		(130 bps)	
Income from Affiliates	$ 3.9	$ 4.4	$ (0.5)	(11.4%)		$ 13.2	$ 13.3	$ (0.1)	(0.8%)	
Operating Income	$ 165.7	$ 155.0	$ 10.7	6.9%	14.6%	$ 473.0	$ 425.3	$ 47.7	11.2%	19.0%
Operating Margin (%)	14.2%	13.8%		40 bps		13.8%	13.1%		70 bps	
Adjusted Operating Income*	$ 165.1	$ 156.2	$ 8.9	5.7%		$ 473.0	$ 435.7	$ 37.3	8.6%	
Adjusted Operating Margin (%)*	14.2%	13.9%		30 bps		13.8%	13.4%		40 bps	
Other (Expense) / Income, net ***	$ (9.2)	$ (6.6)	$ (2.6)	(39.4%)		$ (22.2)	$ 7.9	$ (30.1)	(381.0%)	
Tax Expense	$ 37.8	$ 32.1	$ 5.7	17.8%		$ 112.9	$ 103.9	$ 9.0	8.7%	
Net Earnings	$ 106.3	$ 107.8	$ (1.5)	(1.4%)		$ 306.7	$ 303.5	$ 3.2	1.1%	
Diluted EPS	$ 2.07	$ 1.92	$ 0.15	7.8%		$ 5.73	$ 5.40	$ 0.33	6.1%	
Adjusted EPS*	$ 2.06	$ 1.94	$ 0.12	6.2%		$ 5.73	$ 5.53	$ 0.20	3.6%	

Repurchased 4,318,085 shares YTD 2012 in conjunction with the company's previously announced buyback programs

* Adjusted operating income and adjusted EPS exclude realignment charges of ($0.6) million and $1.2 million for Q3 2012 and Q3 2011, respectively, and $10.4 million for YTD 2011

** Constant FX represents the year over year variance assuming 2012 results at 2011 FX rates

*** YTD 2012 includes $21.6 million impact of foreign exchange contract losses and losses arising from transactions in currencies other than our sites' functional currencies vs. a gain of $7.9 million YTD 2011

Q3 2012 Cash Flows

($ millions)	Q1	Q2	Q3	YTD	
	2012	2012	2012	2012	2011
Net Income	$ 94	$ 108	$ 107	$ 309	$ 304
Depreciation and amortization	28	27	26	81	80
Change in working capital	(214)	31	(70)	(253)	(575)
Other	(16)	2	0	(14)	41
Total Operating Activities	**(108)**	**168**	**63**	**123**	**(150)**
Capital expenditures	(29)	(28)	(27)	(84)	(71)
Acquisitions & Other	2	0	1	3	3
Total Investing Activities	**(27)**	**(28)**	**(26)**	**(81)**	**(69)**
Proceeds of debt	1	304	893	1,198	1
Payments on debt	(6)	(6)	(763)	(775)	(19)
Dividends	(17)	(20)	(18)	(56)	(52)
Repurchase of common shares	(22)	(411)	(101)	(534)	(41)
Other	11	0	(9)	2	0
Total Financing Activities	**(34)**	**(133)**	**2**	**(165)**	**(110)**
Effect of exchange rates	**4**	**(5)**	**4**	**3**	**(1)**
Net (Decrease) / Increase in Cash	**$ (165)**	**$ 3**	**$ 42**	**$ (120)**	**$ (330)**

Repurchased 4.318 Million Shares YTD, Executed New $1.25 Billion Credit Facility and Issued $500 Million, 3.5% 10-Year Senior Notes

* $411 million repurchase of shares in Q2 2012 includes $60 million paid under the accelerated share repurchase program for shares that will be settled at the conclusion of the program

Strategically Deploying Capital

- Forecast Long-Term Growth and Return Targets
- Establish Valuation Based on Business Plan

- Establish Credit Characteristics and Liquidity Objectives, and Adjust Debt/Cash as Indicated

- Fund Maintenance Capex, Pension and Benefit Plans, and Regular Dividend

- Allocate Excess Capital to Highest Risk-adjusted Return Alternative that Exceeds WACC

Allocation Alternatives

- Organic Growth Initiatives
- Acquisitions
- Repurchase Shares

Allocating Capital to the Most Accretive Alternative

Primary Working Capital

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

($ millions)	Q3 2012 $	Q3 2012 %	Q3 2011 $	Q3 2011 %
Receivables	1,106	23.6%	1,023	23.3%
Inventory, net	1,156	24.7%	1,077	24.6%
Payables	(516)	(11.0%)	(460)	(10.5%)
Primary Working Capital	**1,746**	**37.3%**	**1,640**	**37.4%**
Advance Cash*	(413)	(8.8%)	(370)	(8.4%)
Total	**1,333**	**28.5%**	**1,270**	**29.0%**
Backlog	**2,881**		**2,813**	

Accounts Receivable

Accounts Receivable DSO of 85 days in Q3 2012

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

Inventory

Inventory turns improved to 2.7x

- *Successfully reduced targeted Q1 2012 legacy past due backlog*
- *Driving towards inventory turns goal of 4.0x to 4.5x*

Continued Management Focus on Working Capital Utilization

* Advance cash commitments from customers to fund working capital

2012 Guidance Update

- The U.S. dollar has strengthened against the EUR and other currencies since original guidance provided in December 2011
  - Initial guidance of $8.00 to $8.80 included negative currency effects above and below the operating income line totaling $0.50 due to the stronger dollar, which was later revised to $1.00 of currency impact after filing second quarter results
    - Initial guidance assumed a USD/EUR rate of 1.34 vs. 2011 average rate of 1.40
- Assuming currencies remain at current levels, we now estimate $1.00 to $1.10 of negative currency effects for full year 2012 versus previous $1.00 estimate at the end of Q2 2012
- Execution on $1 billion share repurchase program will result in a lower share count than estimated in initial guidance
  - Continue to estimate share repurchase activity will increase 2012 EPS by approximately $0.30 above original guidance
- Strong fourth quarter execution expected to more than offset impact of some remaining legacy low margin backlog and currency headwinds

Updating 2012 Full Year EPS Guidance Range to $8.20 - $8.70

QUESTIONS AND ANSWERS

NON-GAAP RECONCILIATION

Reconciliation of Operating Income to EBITDA

($ millions)	Trailing Twelve Months Q3 2012	Trailing Twelve Months Q3 2011
Reported U.S. GAAP Operating Income	$666.4	$589.3
Reported U.S.GAAP Depreciation	$89.5	$92.9
Reported U.S GAAP Amortization of Intangible and Other Assets	$19.3	$16.5
Reported U.S GAAP Loss on Early Extinguishment of Debt	$1.3	$0.0
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	$776.5	$698.7
	Quarter End Q3 2012	**Quarter End Q3 2011**
Reported U.S. GAAP Total Debt	$928.0	$507.9
Total Debt to Trailing Twelve Month EBITDA	***1.2x***	***0.7x***

Note: Earnings before interest, taxes, depreciation and amortization ("EBITDA") is not a U.S. GAAP financial measure. We present EBITDA as part of the ratio of total debt to EBITDA because we believe this ratio provides useful information regarding changes to Flowserve's capital structure. EBITDA should not be considered an alternative to operating income determined in accordance with U.S. GAAP.