FLOWSERVE CORPORATION

(NYSE: FLS)

Gabelli 27th Annual Pump, Valve and Water Systems Symposium

March 1, 2017

Experience In Motion

Safe Harbor Statement

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. We have based the forward-looking statements relating to our operations on our current expectations, estimates and projections about us and the markets we serve. We caution users of the enclosed financial information that these statements are not guarantees of future performance and involve risks and uncertainties. In addition, we have based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Any differences could result from a variety of factors, including those detailed on Item 1A, Risk Factors, in our Annual Report on Form 10-K for 2016 and in our subsequent disclosures filed 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.

Certain non-GAAP measures have been provided to facilitate comparison with the prior year. The Company reports its financial results in accordance with U.S. generally accepted accounting principles (GAAP). However, management believes that non-GAAP financial measures which exclude certain non-recurring items present additional useful comparisons between current results and results in prior operating periods, providing investors with a clearer view of the underlying trends of the business; throughout our materials we refer to non-GAAP measures as “Adjusted.” Management also uses these non-GAAP financial measures in making financial, operating, planning and compensation decisions and in evaluating the Company's performance. Non-GAAP financial measures, which may be inconsistent with similarly captioned measures presented by other companies, should be viewed in addition to, and not as a substitute for, the Company’s reported results prepared in accordance with GAAP.

We have provided a table on pages 25 and 26 that reconcile these non-GAAP measures to their corresponding GAAP-based measures.

Flowserve Overview

- **Leading manufacturer and aftermarket service provider of comprehensive flow control systems**
  - History dates back to 1790 with more than 50 well-respected brands such as Worthington, IDP, Valtek, Limitorque, Durco and Edward
- **Design, develop, manufacture and repair precision-engineered flow control equipment for customers' critical processes**
  - Portfolio includes pumps, valves, seals and support systems, automation and aftermarket services supporting global infrastructure
  - Focused on oil & gas, power, chemical, water and general industries
- **Worldwide presence with approximately 18,000 employees**
  - 78 manufacturing facilities and 187 aftermarket Quick Response Centers (QRCs) with Flowserve employees in more than 50 countries
- **Long-term relationships with leading energy customers**
  - National and international oil & gas, chemical and power companies, engineering & construction firms, and global distributors
- **Established commitment to safety, customer service, and quality with a strong ethical, compliance and performance culture**

Serving Attractive Global Infrastructure Markets

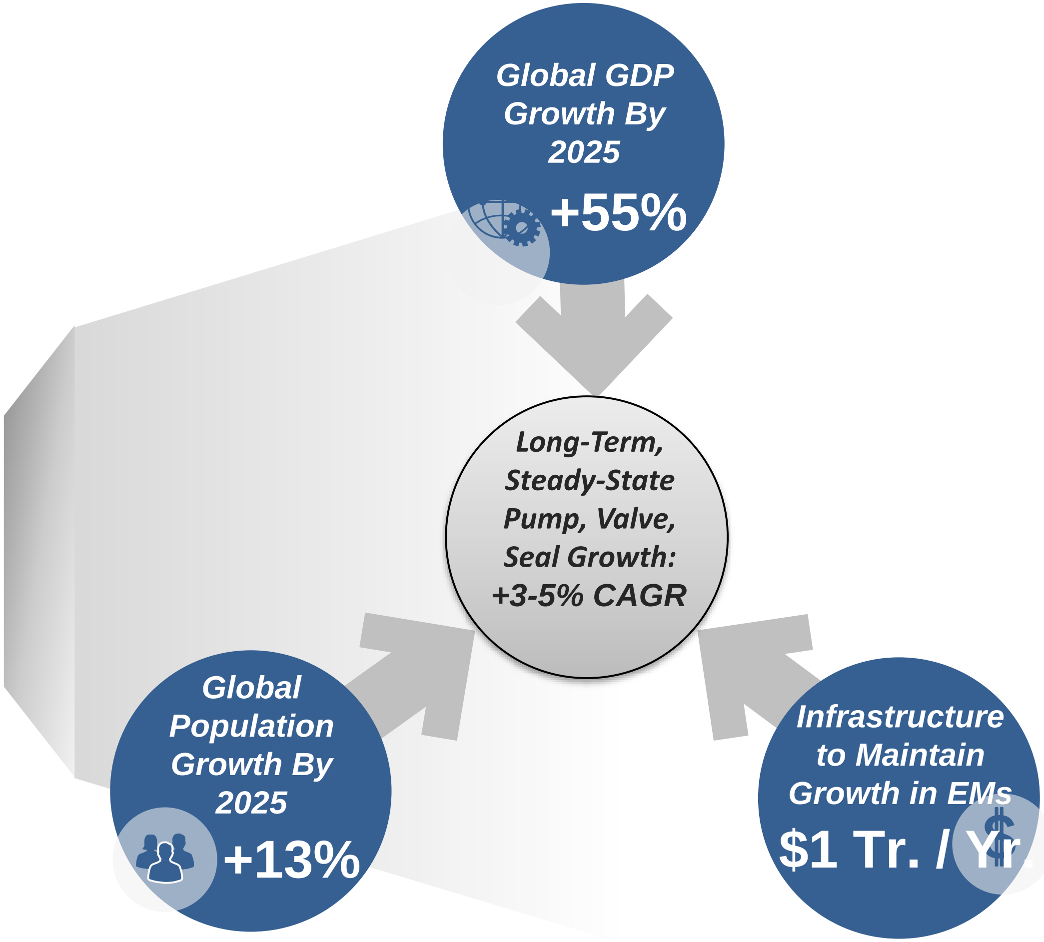
Long-term growth fueled by megatrends

- Global population growth
- Rise of emerging market middle class
- Significant infrastructure demands

Markets are cyclical, but the long-term positive drivers remain intact

Additionally, aging infrastructure drives further “brownfield” spending

- Average US refinery: 40 years old
- Average US power plant: 30 years old
- Majority of US gas pipelines built pre-1970



Sources: IEA World Energy Outlook 2015, Nov 2015; Infrastructure: World Bank; PVS market: EIF

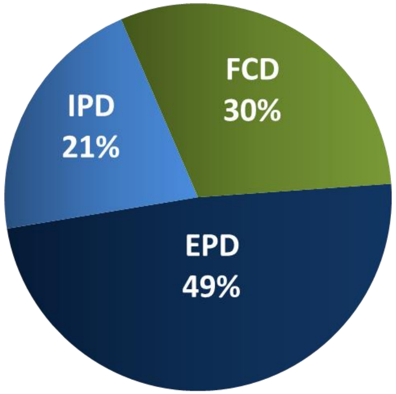
Long-term global macro fundamentals support growth

Diversified Business Model

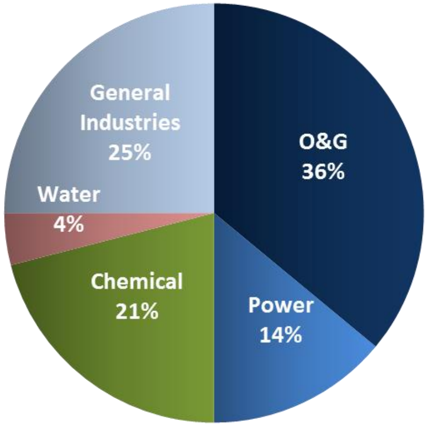
Operating Segments

- Engineered Product Division (EPD)
  - ➢ Highly-engineered pumps, seals and systems
- Industrial Product Division (IPD)
  - ➢ Pre-configured pumps and systems
- Flow Control Division (FCD)
  - ➢ Industrial valves and automation solutions

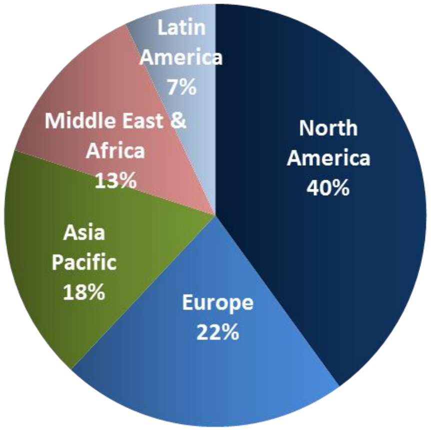
Segment Breakdown
2016 Sales - $4.0B



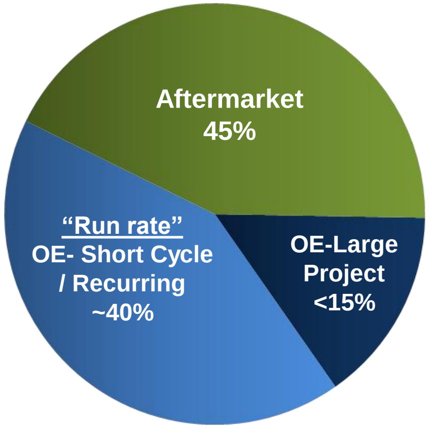
Energy-focused End Markets
2016 Bookings - $3.8B



Geographic Exposure
2016 Sales - $4.0B



Diverse OE / AM Mix
2016 Sales - $4.0B



Balanced flow control portfolio of products and aftermarket services provides diversification and reduces risk profile

Existing Global Infrastructure Enhances Resiliency

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 / brownfield • Highly engineered solutions • E&C driven • Tend to cut across multiple FLS segments
~40%	Run-rate OE: short cycle, recurring	Has trended higher	• Replacing / adding equipment in existing infrastructure • Need for upgrade as facilities age • Typically customer direct and shorter lead-time
~40%	Aftermarket	Has trended higher	• Parts, repairs, spares, MRO spending • Leverages FLS' network of Quick Response Centers and associated talent • Service and response time critical

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

2017 Strategic Priorities

Competitive cost structure

- Right-size to market conditions
- Accelerate our previously planned manufacturing migration to emerging markets
  - Leverage our LPO/SPO model to facilitate migration
- Structurally reduce SG&A through lean structure and platform consolidation

Targeted growth with a special focus on Aftermarket and IPD

- Aftermarket: Continue to overdrive our Aftermarket and MRO opportunities
- IPD: Enhanced front-end sales model to capture run-rate business
  - Leveraging best-in-class approach from SIHI to extend throughout IPD
  - Distribution initiatives to target previously unserved markets

Pricing and margin discipline

- Maintain focus on products that provide an aftermarket tail
- Maintain original equipment margins in products with limited aftermarket
- Enhanced coordination between sales and operations as well as increased analytics and pricing capabilities to support growth efforts

Driving structural cost reductions while focusing on profitable growth

Realignment Program Structurally Transforming Flowserve

- **Increase manufacturing capabilities and labor hours in low cost regions**
- **Enhance ability to serve growth in emerging markets**
- **Reduce our manufacturing footprint by approximately 30%**
- **Reduce cost structure by approximately $230M once realignment is complete**

Program Targets
Expected Completion: Late 2017

$400M
(Includes $50M below-the-line site exit taxes)

~15-20%
Workforce Reduction*

$230M
Annual Run-rate Savings
Includes SIHI realignment

Flowserve will be more focused and cost competitive, with manufacturing geographically aligned with forecasted market growth

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

Positioning for Continued Industry Leadership

Regional Plan

- No Mfg Ops
- Reduce
- Maintain
- Grow

2015: 81
Manufacturing sites
(includes SIHI)

2018: 57
Manufacturing sites
(includes SIHI)

- Increased manufacturing focus
- Reduced complexity
- Increased scale at sites
- Retaining full capabilities

Shifting manufacturing capacity to Emerging Markets

+25%
Increase in Emerging Market direct labor headcount by 2018

- Optimized cost structure
- Enhanced ability to serve growth in emerging markets

Flowserve will be more cost competitive, with manufacturing geographically aligned with forecasted market growth

Executing Realignment Initiative

Actions Taken: *Q4 2016*	• Initiated process to close German facility and transfer certain product lines from higher cost facilities to Latin America – Since early 2015 we have initiated action on more than two-thirds of facilities expected to be closed, repurposed or sold

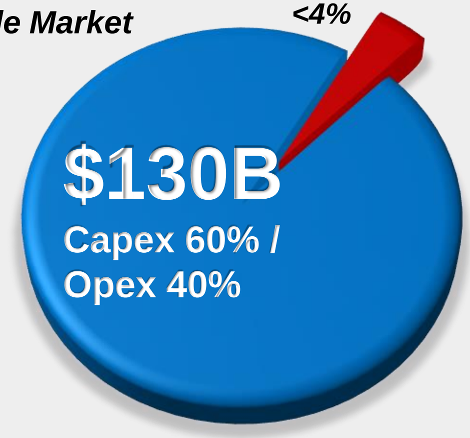
	Q4 2016	FY 2016	Program to Date	Est. FY 2017	**Program Target** Expected Completion: Late 2017
Cost Savings	$12 million incremental	$93 million incremental	$117 million run-rate	$70 million incremental / $187 million run-rate	$230 million annualized run-rate savings by 2018
Investment / Expenses *	$34 million	$104 million	$223 million	$155 million	$400 million
Cash Expenditures	$40 million	$128 million	$149 million	$140 million	$350 million

* Site exit taxes of $4.0 million, $9.4 million and $20.5 million for Q4 2016, Full Year 2016 and program to date, respectively

Focused on Disciplined, Profitable Growth

Large available market

2015 Pump, Valve, Seal Total Available Market

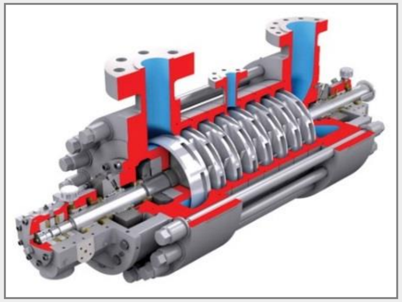


- **FLS with <4% share, "room to run"**
- **Significant aftermarket opportunity within our own installed base**

Focused on opportunities to drive above market profitability and growth

- **Aftermarket-intensive products**

- **Original equipment with potential to earn attractive margins**



Sources: EIF, Flowserve analysis

Cost competitive original equipment drives installed base growth that creates valuable aftermarket opportunities

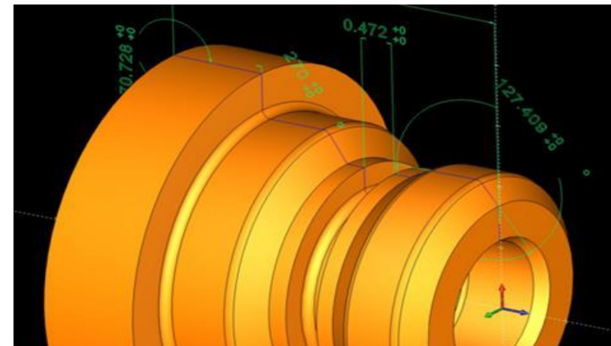
Hard-to-Replicate Competitive Differentiators

Aftermarket Franchise

- Serves an installed base built over decades
- Deep customer relationships
- Access to proprietary designs
- Network of 195 QRCs

Operational Excellence

- Global, flexible manufacturing network (LPO/SPO)
- Significant low cost manufacturing presence
- Global sourcing and procurement expertise and partnerships
- Proven global processes and competencies



Product and Technology Leadership

- Industry-leading products, respected brands
- Diversified product portfolio
- Patented designs
- Industry certifications
- Accepted and proven in mission-critical applications

Acquisitions to Leverage Competitive Advantages

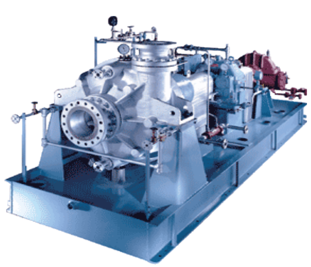
SIHI

2014 Acquisition
Cash Paid - $373M
Price/EBITDA ~10x

INNOMAG ADVANCED SEALLESS PUMPS

2013 Acquisition
Cash Paid - $78.7M
Price/EBITDA ~11x

Audco India JV - MM Nagar
2013 Acquisition/Divestiture
Net Cash Rec'd – $36.1M



LAWRENCE PUMPS INC.

2011 Acquisition
Cash Paid - $88.2M
Price/EBITDA – 8.8x

Valbart

2010 Acquisition
Cash Paid - $199.4M
Price/EBITDA – 8.1x

Acquisition strategy seeks to pursue growth in:

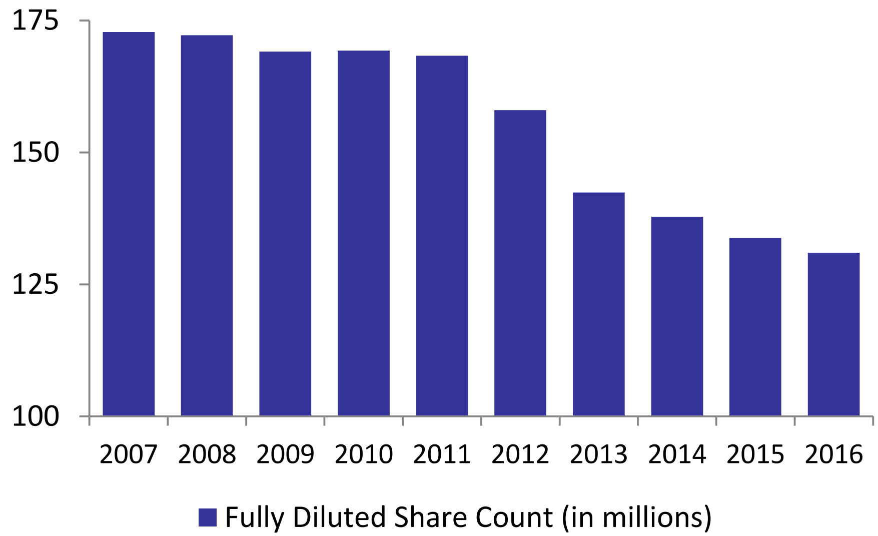
- Markets/units that have "earned the right to grow"
  - High profitability and strong growth
- Attractive businesses (profitable, growing, filling "gaps")
- Targets that fit with Flowserve competitive advantages
  - AM network, installed base, global manufacturing and sales footprint, etc.
- Targeted acquisitions are designed to be quickly accretive and meet Internal Rate of Return (IRR) targets

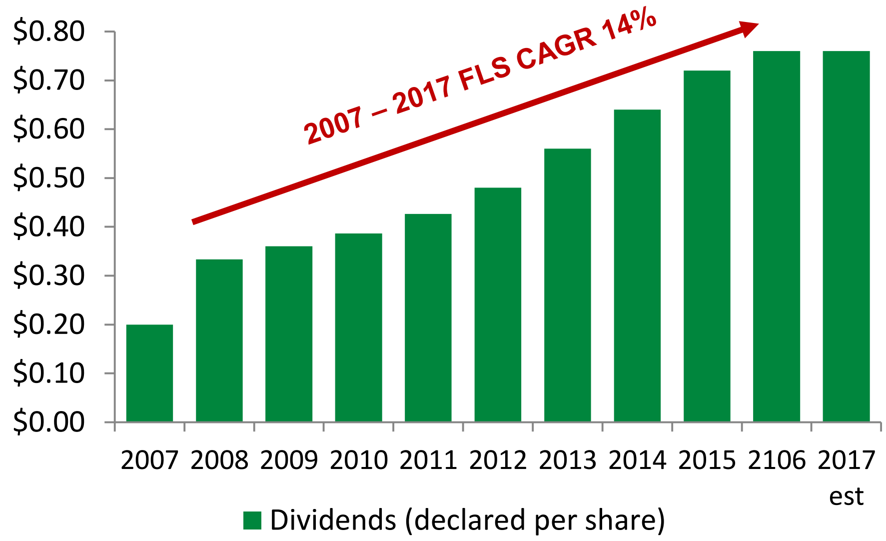
Recent acquisitions have reinforced our core business and markets

- Recent acquisitions at favorable multiples include auction process and relationship driven transactions

Consistent Returns to Shareholders

- Total diluted share count has been reduced by approximately 23% since 2005
- Cumulative annual declared dividends increased 280% to the anticipated $0.76 per share in 2017 from $0.20 per share in 2007





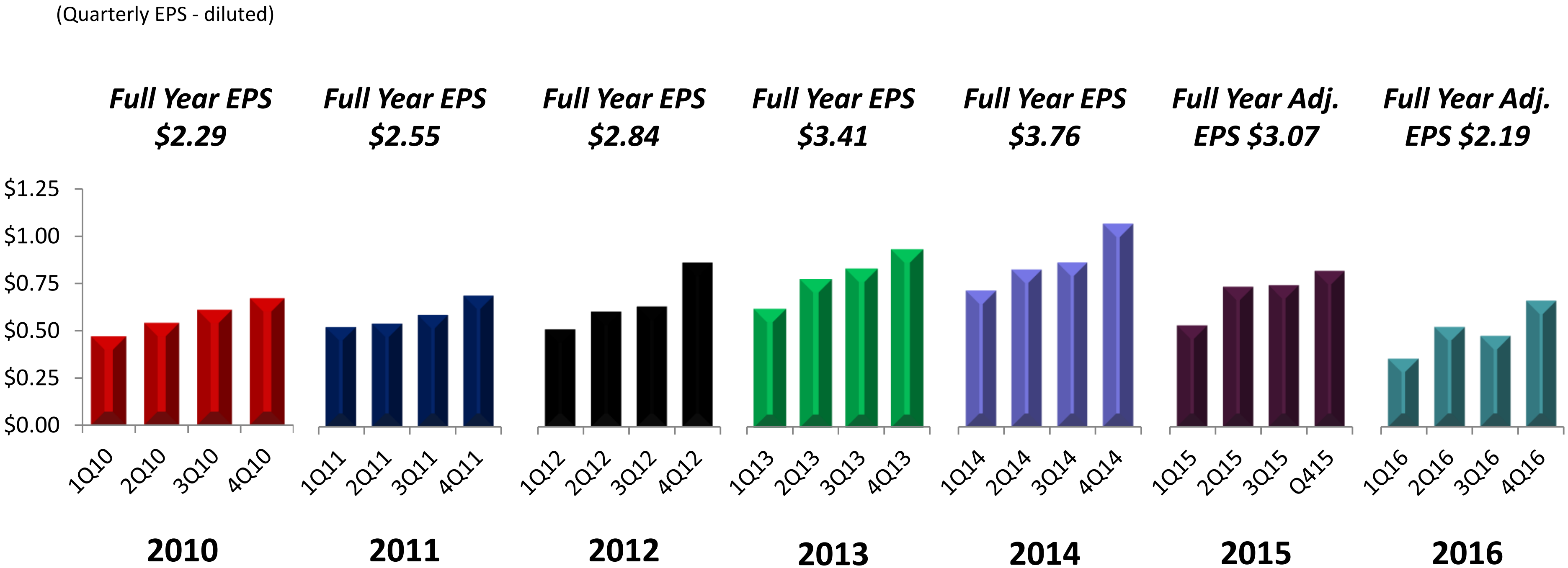
Note: Dividends and share count adjusted to reflect 3-for-1 stock split effective June 21, 2013

Current Conditions Overview

- Reported 2016 fourth quarter EPS* of $0.50, Adjusted EPS of $0.72
  - Adjusted EPS excludes $0.22 of adjusted items[(1)] and includes $0.03 of negative currency translation
- Constant currency bookings decline of 4.2%, primarily due to 8.2% lower original equipment bookings
  - Aftermarket constant currency bookings remained stable, up 0.2% in the quarter, and up 0.3% for the full year
- Continued progress on transformational $400 million realignment program to produce $230 million of annualized savings by 2018 - actions initiated at over two-thirds of targeted facilities
  - Recognized $104 million expense and $93 million incremental savings in 2016
- Remain confident in the long-term fundamental growth outlook of our end-markets
- Continuing to pursue strategic growth opportunities

*Calculated using Q4 fully diluted shares of 131.2 million
(1) See pg. 25 for reconciliation

EPS Seasonally Second-Half Weighted



Earnings continue to be seasonal, 2017 first quarter is more pronounced due to seasonally low revenues and seasonally high SG&A

Note: EPS adjusted to reflect 3-for-1 stock split effective June 21, 2013

2017 Guidance Assumptions

Revenue Guidance Assumptions	2017 Guidance (1)
Revenue Guidance vs. 2016	-6% to -11%
EUR Rate	1.05 (yr-end 2016)
FX headwinds vs. 2016	~2.5%
Constant Currency Guidance	~-3.5% to ~-8.5%

EPS Guidance Assumptions	2017 Guidance (1)
Reported EPS Guidance	\$0.72 - \$1.02
Adjusted EPS Guidance	\$1.55 - \$1.85
EUR Rate	1.05 (yr-end 2016)
FX Headwinds vs. prior year	~\$0.10/share

(1) 2017 Reported and Adjusted EPS guidance as of February 17, 2017

* Adjusted EPS guidance excludes expected realignment expenses of $155 million, below-the-line FX impact and other potential specific discrete items.

Investment Highlights

- **Focused flow control provider engaged primarily in energy infrastructure markets**
- **Diversified business model provides foundation for long-term earnings growth**
  - Broad portfolio of distinguished brand names, with over 10,000 customers globally
  - Diversified business platform with global geographic exposure and mix of industries served
  - Combination of run-rate and large, late-cycle original equipment with recurring aftermarket
  - Substantial installed base in existing infrastructure with global aftermarket QRC network
- **Emphasis on operational excellence drives margins and cash flow**
- **Accelerating manufacturing optimization and SG&A efficiency initiatives**
- **Experienced, shareholder focused leadership team**
- **Growth pursued through customer focus, innovation, expanding capabilities and strategic investments, primarily in emerging markets**
- **Disciplined capital allocation with emphasis on growth and shareholder value**
- **Expected growth will leverage earnings power of improving operating platform**

New Executive Leadership Announced

R. Scott Rowe named President & CEO

(anticipated effective date of April 1, 2017)

- ☑ **Industry experience:** *20 years experience – knows our business & customers*
- ☑ **Current employment:** *President, Cameron Group at Schlumberger*
- ☑ **Prior CEO tenure:** *President & CEO of Cameron International ("Cameron")*
- ☑ **Operating experience:** *President & Chief Operating Officer at Cameron*
- ☑ **Partnerships:** *Formed OneSubsea JV with Schlumberger prior to merger, served as CEO of the JV*
- ☑ **Organizational commitment:** *14-year progressive tenure at Cameron; U.S. Army Veteran*
- ☑ **Education:** *MBA from Harvard Business School*

  B.S. in engineering management from West Point (US Military Academy)

Flowserve Investor Relations Contacts:

Jay Roueche
972.443.6560
jroueche@flowserve.com

Mike Mullin
972.443.6636
mmullin@flowserve.com

FLS LISTED NYSE

Appendix

Global Provider of OEM & Aftermarket Services

Lead Product Operation

- *“Product line custodian”* and recognized as the world wide product leader
- Common processes and procedures
- Ensures products are identical irrespective of where it is manufactured
- Global product focus

Secondary Product Operation

- Implements the manufacturing and aftermarket support within the *designated geographical region* for the assigned product
- Local contract execution
- Local manufacturing
- Local market pricing

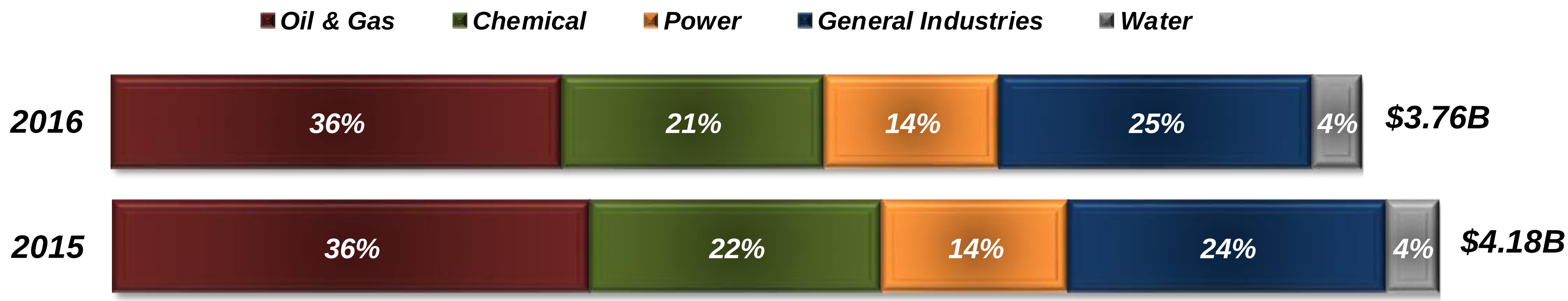
Quick Response Centers

- Local service and repair
- Field engineering and technical service
- Root cause analysis
- Asset management services
- Hydraulic upgrade technologies
- Customer training

Assets	Total	NA	LA	EMA	AP
Mfg Sites	78	20	7	33	18
QRCs	187	59	24	67	37

Flowserve’s 265 facilities provide manufacturing and service to support customers worldwide and optimize our asset base

2016 Bookings & Industry Outlook



OIL & GAS
- *Rising but still low oil prices continue to impact global capital investment; OPEC deal promoting some market stabilization*
- *Challenges in key energy producing regions impacting upstream project & related MRO*
- *Customer research-based technology improvements are driving reduced operating costs*

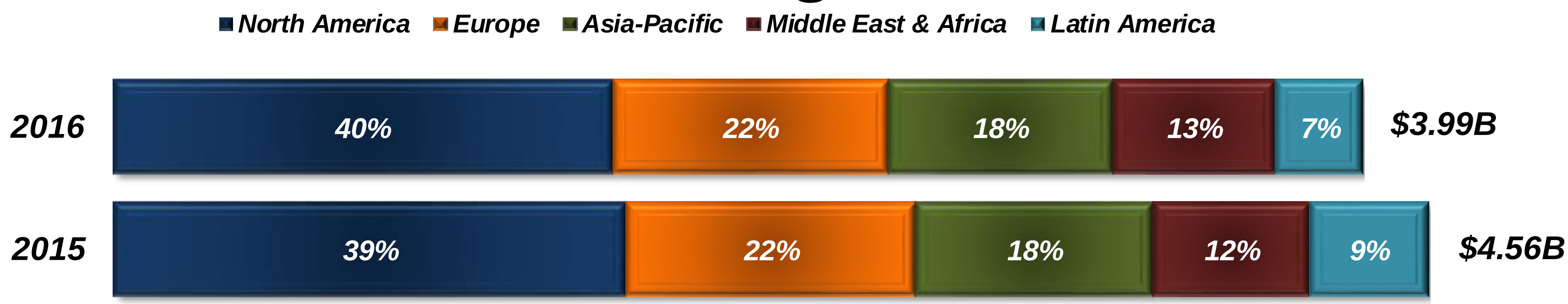
CHEMICAL
- *Chemical market restrained as global capacity utilization remains below the long-term average*
- *US investment in ethylene and derivatives steady through 2020; Chinese capital investments ongoing with mild slowing in 2017*

POWER
- *Combined cycle gas fired new build continues to be fairly strong; significant coal and nuclear retirements in North America expected*
- *Coal-fired opportunities in emerging markets uncertain; mix-shift to gas and renewables continues*

GENERAL INDUSTRIES
- *Slowing global growth hampers capex investment; bottom has likely passed but slow recovery expected*
- *Distribution mixed; plants focused on MRO; softness in some markets with areas of regional growth*

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

2016 Sales & Regional Outlook



NORTH AMERICA

- *Oil & Gas capital and maintenance spending remains low; investment in ethylene & derivatives continues, slowing through 2017*
- *Combined cycle gas fired new build continues to be fairly strong*

EUROPE

- *Refining & chemical market activity solidifies*
- *Fossil power market flat with a couple bright spots in Eastern Europe; some attractive nuclear opportunities*

MIDDLE EAST & AFRICA

- *Oil & Gas spending still down overall despite opportunities in refining*
- *Chinese EPCs ascendant in Sub-Saharan Africa power market & expanding north. Some significant coal fired capacity additions planned.*

ASIA-PACIFIC

- *Regional GDP-driven growth in Oil and Gas, with select refining opportunities*
- *Global mega-mergers with Chinese chemicals companies will increasingly require local manufacturing footprint*
- *China coal-fired construction expected to fall. Future of coal fired projects in India uncertain.*

LATIN AMERICA

- *Regional Oil and Gas challenges remain. Prospects improving for thermal solar.*
- *Mining bottomed with slow growth prospects; some improvement in other general industries markets*

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

FLOWSERVE

Q4 2016 - Consolidated Financial Results

	4th Quarter					4th Quarter Adjusted							
($ millions)	2016	2015	Delta ($)	Delta (%)	Constant FX (%)*	2016 Adjusted Items		2016 Adjusted Results	2015 Comparable Results		Delta ($)	Delta (%)	Constant FX (%)*
Bookings	$ 907.6	$ 969.0	$ (61.4)	(6.3)%	(4.2)%	$ —		$ 907.6	$ 969.0		$ (61.4)	(6.3)%	(4.2)%
Sales	$ 1,074.6	$ 1,287.7	$ (213.1)	(16.5)%	(14.7)%	$ —		$ 1,074.6	$ 1,287.7		$ (213.1)	(16.5)%	(14.7)%
Gross Profit	$ 333.4	$ 397.7	$ (64.3)	(16.2)%		$ (23.4)	**(1)**	$ 356.8	$ 430.2	**(5)**	$ (73.4)	(17.1)%	
Gross Margin (%)	31.0%	30.9%		10 bps				33.2%	33.4%			(20) bps	
SG&A	$ 228.2	$ 264.6	$ (36.4)	(13.8)%	(10.0)%	$ 11.1	**(2)**	$ 217.1	$ 247.0	**(6)**	$ (29.9)	(12.1)%	(8.1)%
SG&A (%)	21.2%	20.5%		70 bps				20.2%	19.2%			100 bps	
Income from Affiliates	$ 2.7	$ 3.6	$ (0.9)	(25.0)%		$ —		$ 2.7	$ 3.5		$ (0.8)	(22.9)%	
Operating Income	$ 107.8	$ 136.8	$ (29.0)	(21.2)%	(17.5)%	$ (34.5)		$ 142.3	$ 186.7		$ (44.4)	(23.8)%	(21.1)%
Operating Margin (%)	10.0%	10.6%		(60) bps				13.2%	14.5%			(130) bps	
Other Income / (Expense), net **	$ 1.2	$ (9.9)	$ 11.1	(112.1)%		$ 0.3	**(3)**	$ 0.9	$ (0.5)	**(7)**	$ 1.4	(280.0)%	
Tax (Expense)/Benefit	$ (27.5)	$ (37.4)	$ 9.9	(26.5)%		$ 5.0	**(4)**	$ (32.5)	$ (48.5)	**(8)**	$ 16.0	(33.0)%	
Net Earnings	$ 65.1	$ 71.4	$ (6.3)	(8.8)%		$ (29.2)		$ 94.3	$ 119.7		$ (25.4)	(21.2)%	
Diluted EPS	$ 0.50	$ 0.54	$ (0.04)	(7.4)%		$ (0.22)		$ 0.72	$ 0.91		$ (0.19)	(20.9)%	

- Diluted EPS calculated using fully diluted shares of 131.2 million and 131.3 million shares in Q4 2016 and Q4 2015, respectively

- Flowserve repurchased 0 and 1,214,693 shares in Q4 2016 and Q4 2015 respectively

* Constant FX represents the year-over-year variance assuming 2016 results at 2015 FX rates

** Fourth Quarter 2016 includes $0.4 million of gains arising from transactions in currencies other than our sites' functional currencies and impact of foreign exchange contracts vs. a loss of $9.4 million in Q4 2015

1. Cost of sales includes $22.0 million of realignment charges and $1.4 million of Brazil inventory write-down
2. SG&A includes $7.8 million of realignment charges and $3.3 million of PPA and integration expenses
3. Includes $0.4 million below-the-line FX gains
4. Includes tax impact of items above offset by $4.0 million of realignment expense recorded in provision for income taxes
5. Excludes $32.5 million of realignment charges
6. Excludes $20.0 million of realignment charges and $6.8 million gain from the reversal of contingent consideration related to our purchase of Innomag, $1.5 million of SIHI PPA expenses and $2.9 million acquisition related costs
7. Excludes $9.4 million of other below the line FX impacts
8. Excludes tax impact of items above and a $3.0 million tax charge related to a valuation allowance for Brazilian deferred tax asset and $3.4 million realignment exit tax & nondeductible costs

FLOWSERVE

2016 - Consolidated Financial Results

	Year to Date					Year to Date Adjusted							
($ millions)	2016	2015	Delta ($)	Delta (%)	Constant FX (%)*	2016 Adjusted Items		2016 Adjusted Results	2015 Comparable Results		Delta ($)	Delta (%)	Constant FX (%)*
Bookings	$ 3,760.4	$ 4,176.8	$ (416.4)	(10.0)%	(7.4)%	$ —		$ 3,760.4	$ 4,176.8		$ (416.4)	(10.0)%	(7.4)%
Sales	$ 3,991.5	$ 4,561.0	$ (569.5)	(12.5)%	(10.0)%	$ —		$ 3,991.5	$ 4,561.0		$ (569.5)	(12.5)%	(10.0)%
Gross Profit	$ 1,231.6	$ 1,487.3	$ (255.7)	(17.2)%		$ (82.2)	(1)	$ 1,313.8	$ 1,574.9	(5)	$ (261.1)	(16.6)%	
Gross Margin (%)	30.9%	32.6%		(170) bps				32.9%	34.5%			(160) bps	
SG&A	$ 965.3	$ 971.6	$ (6.3)	(0.6)%	1.9%	$ 102.5	(2)	$ 862.8	$ 919.2	(6)	$ (56.4)	(6.1)%	(3.5)%
SG&A (%)	24.2%	21.3%		290 bps				21.6%	20.2%			140 bps	
Income from Affiliates	$ 11.2	$ 9.9	$ 1.3	13.1%		$ —		$ 11.2	$ 9.9		$ 1.3	13.1%	
Operating Income	$ 277.5	$ 525.6	$ (248.1)	(47.2)%	(43.8)%	$ (184.7)		$ 462.2	$ 665.5		$ (203.3)	(30.5)%	(27.9)%
Operating Margin (%)	7.0%	11.5%		(450) bps				11.6%	14.6%			(300) bps	
Other Income / (Expense), net **	$ 3.3	$ (40.2)	$ 43.5	(108.2)%		$ 3.8	(3)	$ (0.5)	$ (1.4)	(7)	$ 0.9	(64.3)%	
Tax (Expense) / Benefit	$ (75.3)	$ (148.9)	$ 73.6	(49.4)%		$ 39.1	(4)	$ (114.4)	$ (173.8)	(8)	$ 59.4	(34.2)%	
Net Earnings	$ 145.1	$ 267.7	$ (122.6)	(45.8)%		$ (141.8)		$ 286.9	$ 421.5		$ (134.6)	(31.9)%	
Diluted EPS	$ 1.11	$ 2.00	$ (0.89)	(44.5)%		$ (1.08)		$ 2.19	$ 3.15		$ (0.96)	(30.5)%	

- Diluted EPS calculated using fully diluted shares of 131.0 million and 133.8 million shares in YTD 2016 and YTD 2015, respectively
- Flowserve repurchased 0 and 6,047,839 shares in YTD 2016 and YTD 2015 respectively
* Constant FX represents the year-over-year variance assuming 2016 results at 2015 FX rates
** YTD 2016 includes $3.9 million of gains arising from transactions in currencies other than our sites' functional currencies and impact of foreign exchange contracts vs. a loss of $38.7 million YTD 2015

1. Cost of sales includes $64.9 million of realignment charges, Brazil inventory write-down of $15.5 million and Venezuela inventory reserve of $1.9 million
2. SG&A includes $30.0 million of realignment charges, $63.2 million charge to fully reserve accounts receivable for Latin American customer and $9.3 million of SIHI PPA and integration expenses
3. Includes $3.9 million below-the-line FX gains
4. Includes tax impact of items above offset by $9.4 million of realignment expense recorded in provision for income taxes
5. Excludes $66.9 million of realignment charges, $18.1 million of PPA expenses, $2.2 million of Venezuela remeasurement and $0.4 million of inventory write-down
6. Excludes $41.2 million of realignment charges, $11.6 million of acquisition related costs, $4.9 million of PPA expense, $6.8 million gain from the reversal of contingent consideration related Innomag and $1.5 million of other severance
7. Excludes $18.5 million Venezuela remeasurement impact and $20.2 million of other below the line FX impacts
8. Tax impact of items above partially offset by $11.1 million of realignment recorded in provision for income taxes and a $13.0 million tax charge related to a valuation allowance for Brazilian deferred tax assets.

FLOWSERVE

Q4 & YTD 2016 Cash Flows

	Q4	Q3	Q2	Q1	YTD	
($ millions)	**2016**	**2016**	**2016**	**2016**	**2016**	**2015**
Net Income	$ 67	$ (20)	$ 63	$ 38	$ 148	$ 273
Depreciation and amortization	30	29	29	29	117	127
Change in working capital	100	(34)	(107)	(84)	(125)	(70)
Other	(27)	80	26	9	88	87
Total Operating Activities	**170**	**55**	**11**	**(8)**	**228**	**417**
Capital expenditures	(25)	(28)	(17)	(20)	(90)	(182)
Acquisitions, dispositions and other	3	(1)	(3)	—	(1)	(343)
Total Investing Activities	**(22)**	**(29)**	**(20)**	**(20)**	**(91)**	**(525)**
(Payments) / proceeds of long-term debt, net	(15)	(15)	(15)	(15)	(60)	481
Dividends	(25)	(25)	(25)	(23)	(98)	(94)
Short-term financing and other, net	11	6	8	2	27	(23)
Repurchase of common shares	—	—	—	—	—	(304)
Total Financing Activities	**(29)**	**(34)**	**(32)**	**(36)**	**(131)**	**60**
Effect of exchange rates	(12)	2	(3)	8	(5)	(37)
Net Decrease in Cash	**$ 107**	**$ (6)**	**$ (44)**	**$ (56)**	**$ 1**	**$ (85)**

Elevated 2015 capital expenditures included investments to increase capabilities in Asia and strategic aftermarket license

FLOWSERVE

2017 Cash Use Priorities

- Strategic investment of approximately $140 million in cost efficiency and manufacturing optimization initiatives
- Estimate capital expenditures to be $80 – $90 million
- Capital allocation policy of annually returning 40 – 50% of running 2-year average net earnings to shareholders
- Scheduled full year debt principal reduction of $60 million
- Estimate U.S. and non-U.S. pension fund pre-tax contributions to be approximately $26 million
- Other strategic opportunities, after disciplined analysis