



## News Release

### Flowserve Corporation Reports Fourth Quarter and Full Year 2015 Results

02/18/16

DALLAS--(BUSINESS WIRE)--Feb. 18, 2016-- Flowserve Corporation (NYSE: FLS), a leading provider of flow control products and services for the global infrastructure markets, today reported its financial results for the fourth quarter and full year ended December 31, 2015.

#### **Fourth Quarter 2015 Highlights**

- Adjusted Earnings Per Share (EPS)<sup>[1]</sup> was \$0.89 inclusive of \$0.06 of negative currency translation and \$0.06 of reserves established for an at-risk customer, which was previously excluded from expected Adjusted EPS in our preliminary results release on February 1, 2016
- Sales were \$1.29 billion, including \$76.4 million from SIHI, up 1.2% on a constant currency basis
  - Aftermarket sales were \$563 million in the fourth quarter, up 5.5% on a constant currency basis
- Total Bookings were \$969 million, down 20.7% on a constant currency basis
  - Aftermarket bookings were \$455 million, or 47% of total bookings, down approximately 10.8% on a constant currency
- Announces expanded realignment program to now reduce a total of approximately \$215 million in annualized costs at completion in late 2017

#### **Full Year 2015 and Other Highlights**

- Adjusted Earnings Per Share (EPS)<sup>[1]</sup> was \$3.07 for full year 2015, inclusive of \$0.22 of negative currency translation and \$0.09 of allowance for doubtful accounts and reserves for an at-risk customer
- Full year total Bookings were \$4.18 billion, representing a full year book-to-bill of 92%

- Full year aftermarket bookings were \$1.88 billion, or 45% of total bookings
- Backlog at December 31, 2015 was \$2.17 billion, including SIHI backlog of \$94 million
- Returned \$397 million to shareholders in 2015 through share repurchases and dividends
- Declares upcoming dividend at \$0.19 per share, representing a 5.6% per share increase over previous quarter, and marks 9 consecutive years of dividend growth

“During 2015 and into the fourth quarter, our end-markets deteriorated further than anticipated a year ago and we are not currently forecasting near-term improvement. However, Flowserve’s operating results for the fourth quarter were solid, which generated full year Adjusted EPS in-line with our third quarter guidance. SIHI, which was acquired in the 2015 first quarter, also delivered on our expectations for the year,” said Mark Blinn, Flowserve’s president and chief executive officer. “In light of current business conditions, we are using this as an opportunity to accelerate our longer-term plans by implementing key strategic and structural changes to our operating platform and cost structure, which we anticipate will enable continued success in varied market conditions.

“Following the significant progress we have made in our 2015 initiatives, we have expanded our previously announced \$125 million realignment program to achieve further structural improvements to our operating platform. Beyond the approximate \$80 million of 2015 expense recognized on the program, we now expect to invest an additional \$270 million in identified initiatives through 2017, of which approximately \$50 million will be below-the-line expenses. We believe the newly expanded program will achieve annualized cost reductions of approximately \$215 million in total once fully implemented.

“Along with our strategic growth priorities, this enhanced realignment initiative reflects confidence in our ability to structurally improve, and increase efficiency within, our business. Our actions will be transformational, as we drive towards a significant increase in our manufacturing capabilities and labor hours in low cost regions, improving plant and machine utilization while reducing our manufacturing footprint by approximately 30 percent. Once implemented, our highly engineered manufacturing business is expected to derive the most benefit from these actions, with a more profitable installed base yielding increased future aftermarket opportunities. We expect Flowserve to emerge even stronger, in order to further capitalize on long-term growth and deliver meaningful shareholder value,” Blinn concluded.

#### **Fourth Quarter 2015**

For the fourth quarter of 2015, Flowserve announced Adjusted EPS of \$0.89 on revenues of \$1.21 billion, excluding SIHI’s contribution. Adjusted gross and operating margins were 33.5% and 14.9%, respectively. Fourth quarter Adjusted EPS includes \$0.06 of reserves established for an at-risk customer and excludes the impact of realignment expense of \$0.31, negative below-the-line currency impact of \$0.06, discrete tax item of \$0.02 and SIHI’s net loss of \$0.01, partially offset by the reduction of contingent consideration for a 2013 acquisition of \$0.05. On a reported basis, earnings for the fourth quarter were \$0.54 per share.

#### **Full Year 2015**

For full year 2015, Flowserve announced Adjusted EPS of \$3.07 on revenues of \$4.56 billion, including SIHI's contribution. Adjusted gross and operating margins were 34.8% and 15.2%, respectively. Full year Adjusted EPS includes \$0.09 of allowance for doubtful accounts and reserves for an at-risk customer and excludes the impact of realignment expense of \$0.45, SIHI net loss of \$0.30, Venezuela currency remeasurement of \$0.15, negative below-the-line currency impact of \$0.11 and other discrete items totaling \$0.06. On a reported basis, earnings for the full year were \$2.00 per share. As of December 31, 2015, the company's cash and cash equivalents were \$366 million.

### **Realignment Programs**

In full year 2015, Flowserve expensed approximately \$80 million of its previously announced \$125 million realignment program, including approximately \$50 million in the fourth quarter. In addition, the company expensed approximately \$31 million under its SIHI realignment program. The company today announced it is expanding the \$125 million program, and anticipates approximately \$270 million of additional charges through 2017, including approximately \$50 million below the operating income line item. Including 2015 amounts, this combined \$350 million program is expected to reduce the company's cost structure by approximately \$215 million annually when complete. Flowserve expects to recognize cost savings of \$125 million during 2016 and \$185 million in 2017.

### **Segment Performance**

Flowserve reports its operations through three segments: Engineered Product Division (EPD), Industrial Product Division (IPD) and Flow Control Division (FCD). Key financial highlights of segment performance for the fourth quarter and full year include:

#### **Fourth Quarter and Year-to-Date 2015 Segment Results**

*(dollars in millions, comparison vs 2014 fourth quarter and full year, unaudited)*

	EPD		IPD		IPD Ex-SIHI		FCD	
	4th Qtr	YTD	4th Qtr	YTD	4th Qtr	YTD	4th Qtr	YTD
Bookings	\$460.0	\$2,065.6	\$197.7	\$887.2	\$144.2	\$617.1	\$332.4	\$1,318.5
- vs prior year	(35.3)%	(27.1)%	2.4%	13.6%	(25.3)%	(21.0)%	(25.9)%	(20.8)%
- on constant currency	(28.7)%	(19.0)%	7.3%	19.0%	(20.5)%	(15.6)%	(20.8)%	(14.4)%
Sales	\$690.6	\$2,260.0	\$256.1	\$981.9	\$179.7	\$687.7	\$364.0	\$1,415.5
- vs prior year	(9.0)%	(11.9)%	20.4%	21.8%	(15.5)%	(14.7)%	(17.2)%	(12.4)%
- on constant currency	1.1%	(1.8)%	25.1%	28.0%	(10.8)%	(8.5)%	(11.8)%	(4.7)%
Gross Profit	\$210.5	\$ 746.4	\$ 69.0	\$239.7	\$ 44.4	\$185.9	\$118.2	\$ 497.5
- vs prior year	(20.9)%	(16.4)%	13.3%	8.5%	(27.1)%	(15.9)%	(27.3)%	(17.5)%

Gross Margin (% of Sales)	30.5%	33.0%	26.9%	24.4%	24.7%	27.0%	32.5%	35.1%
- vs prior year (in basis points)	-460	-180	-170	-300	-390	-40	-450	-220
Operating Income - vs prior year	\$ 96.2 (34.4)%	\$ 329.0 (26.4)%	\$ 11.5 (63.0)%	\$ 30.2 (71.8)%	\$ 10.3 (66.9)%	\$ 77.8 (27.3)%	\$ 48.1 (45.5)%	\$ 234.4 (27.4)%
- on constant currency	(28.4)%	(20.1)%	(60.8)%	(67.5)%	(64.6)%	(23.0)%	(43.6)%	(23.1)%
Operating Margin (% of Sales)	13.9%	14.6%	4.5%	3.1%	5.7%	11.3%	13.2%	16.6%
- vs prior year (in basis points)	-540	-280	-1010	-1020	-890	-200	-690	-340
Adjusted Operating Income* - vs prior year	\$117.6 (19.8)%	\$ 362.7 (18.9)%	\$ 24.8 (20.3)%	\$ 45.8 (57.2)%	\$ 23.6 (24.1)%	\$ 93.4 (12.7)%	\$ 64.7 (26.7)%	\$ 263.3 (18.4)%
- on constant currency	(13.8)%	(12.6)%	(18.0)%	(52.9)%	(21.9)%	(8.4)%	(24.8)%	(14.2)%
Adjusted Operating Margin (% of Sales)	17.0%	16.0%	9.7%	4.7%	13.1%	13.6%	17.8%	18.6%
- vs prior year (in basis points)	-230	-140	-490	-860	-150	30	-230	-140
Backlog	\$1,157.3		\$424.6		\$330.4		\$622.0	

\* Adjusted Operating Income and Adjusted Operating Margin excluded realignment charges, purchase price accounting charges and acquisition related costs

## **Reaffirms 2016 Guidance**

Flowserve reaffirmed its 2016 Adjusted <sup>[2]</sup> EPS target range of \$2.40 to \$2.75 with expected revenues declining 7 to 14 percent year-over-year, including a forecasted 2 percent currency headwind. The company expects its 2016 Adjusted EPS to be weighted toward the second half of 2016, reflecting normal seasonality.

## **Increase in Quarterly Dividend**

Flowserve announced today that its Board of Directors has authorized the payment of a quarterly cash dividend of \$0.19 per share on the company's outstanding shares of common stock. This dividend represents a 5.6% increase compared to the \$0.18 per share amount paid in January 2016.

The dividend is payable on April 8, 2016, to shareholders of record as of the close of business on March 25, 2016.

While Flowserve currently intends to pay regular quarterly cash dividends for the foreseeable future, any future dividends, whether at this \$0.19 per share quarterly rate or otherwise, will be reviewed individually and declared by the Board at its discretion, dependent upon the Board's assessment of the company's financial condition and business outlook at the applicable time.

## **Fourth Quarter 2015 Results Conference Call**

Flowserve will host its conference call with the financial community on Friday, February 19th at 11:00 AM Eastern. Mark Blinn, president and chief executive officer, as well as other members of the management team will be presenting. The call can be accessed by shareholders and other interested parties at [www.flowserve.com](http://www.flowserve.com) under the "Investor Relations" section.

[1] See Reconciliation of Non-GAAP Measures table for detailed reconciliation of reported results to adjusted measures

[2] Adjusted 2016 EPS will include SIHI's operational results and will exclude the Company's realignment expenses, SIHI purchase price accounting/integration costs, the impact from other specific one-time events and below-the-line foreign currency effects

## **About Flowserve**

Flowserve Corp. is one of the world's leading providers of fluid motion and control products and services. Operating in more than 55 countries, the company produces engineered and industrial pumps, seals and valves as well as a range of related flow management services. More information about Flowserve can be obtained by visiting the company's Web site at [www.flowserve.com](http://www.flowserve.com).

**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 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 news release are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except par value)	December 31, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 366,444	\$ 450,350
Accounts receivable, net	988,391	1,082,447
Inventories, net	995,565	995,564

Deferred taxes	155,982	158,912
Prepaid expenses and other	125,410	106,890
Total current assets	2,631,792	2,794,163
Property, plant and equipment, net	758,427	693,881
Goodwill	1,223,986	1,067,255
Deferred taxes	26,264	31,419
Other intangible assets, net	228,777	146,337
Other assets, net	234,604	234,965
Total assets	<u>\$ 5,103,850</u>	<u>\$ 4,968,020</u>

#### LIABILITIES AND EQUITY

##### Current liabilities:

Accounts payable	\$ 491,378	\$ 611,715
Accrued liabilities	796,764	794,072
Debt due within one year	60,434	53,131
Deferred taxes	11,386	12,957
Total current liabilities	1,359,962	1,471,875
Long-term debt due after one year	1,570,836	1,101,791
Retirement obligations and other liabilities	489,319	452,511
Shareholders' equity:		
Common shares, \$1.25 par value	220,991	220,991
Shares authorized – 305,000		
Shares issued – 176,793 and 176,793, respectively		
Capital in excess of par value	494,961	495,600
Retained earnings	3,587,120	3,415,738
Treasury shares, at cost – 47,703 and 42,444 shares, respectively	(2,106,785)	(1,830,919)
Deferred compensation obligation	10,233	10,558
Accumulated other comprehensive loss	(540,043)	(380,406)
Total Flowserve Corporation shareholders' equity	1,666,477	1,931,562
Noncontrolling interests	17,256	10,281
Total equity	1,683,733	1,941,843
Total liabilities and equity	<u>\$ 5,103,850</u>	<u>\$ 4,968,020</u>

#### CONSOLIDATED STATEMENTS OF INCOME

##### (Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended December 31,	
	2015	2014
Sales	\$ 1,287,687	\$ 1,381,358
Cost of sales	(889,942)	(895,659)
Gross profit	397,745	485,699
Selling, general and administrative expense	(264,574)	(251,623)
Net earnings from affiliates	3,594	4,673
Operating income	136,765	238,749
Interest expense	(17,557)	(15,016)
Interest income	561	443
Other (expense) income, net	(9,911)	3,127
Earnings before income taxes	109,858	227,303
Provision for income taxes	(37,397)	(66,771)

Net earnings, including noncontrolling interests	72,461	160,532
Less: Net earnings attributable to noncontrolling interests	(1,089)	(1,516)
Net earnings attributable to Flowserve Corporation	<u>\$ 71,372</u>	<u>\$ 159,016</u>

Net earnings per share attributable to Flowserve Corporation common shareholders:

Basic	\$ 0.55	\$ 1.17
Diluted	0.54	1.16

Cash dividends declared per share	\$ 0.18	\$ 0.16
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## CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)	Year Ended December 31,		
	2015	2014	2013
Sales	\$ 4,561,030	\$ 4,877,885	\$ 4,954,619
Cost of sales	(3,073,712)	(3,163,268)	(3,266,524)
Gross profit	1,487,318	1,714,617	1,688,095
Selling, general and administrative expense	(971,611)	(936,900)	(966,829)
Net earnings from affiliates	9,861	12,115	39,017
Operating income	525,568	789,832	760,283
Interest expense	(65,270)	(60,322)	(54,413)
Interest income	2,065	1,680	1,431
Other (expense) income, net	(40,167)	2,000	(14,280)
Earnings before income taxes	422,196	733,190	693,021
Provision for income taxes	(148,922)	(208,305)	(204,701)
Net earnings, including noncontrolling interests	273,274	524,885	488,320
Less: Net earnings attributable to noncontrolling interests	(5,605)	(6,061)	(2,790)
Net earnings attributable to Flowserve Corporation	<u>\$ 267,669</u>	<u>\$ 518,824</u>	<u>\$ 485,530</u>

Net earnings per share attributable to Flowserve Corporation common shareholders:

Basic	\$ 2.01	\$ 3.79	\$ 3.43
Diluted	2.00	3.76	3.41

Cash dividends declared per share	\$ 0.72	\$ 0.64	\$ 0.56
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## RECONCILIATION OF NON-GAAP MEASURES (Unaudited)

(Amounts in thousands, except per share data)	Twelve Months Ended December 31, 2015					
	As Reported (a)	SIHI Impact	(1)	Realignment	Other Items	As Adjusted
Sales	\$ 4,561,030	\$ 294,229	\$ -	\$ -	\$ -	\$ 4,266,801
Cost of sales	(3,073,712)	(240,458)	(48,914)	(2,569)	(2,781,771)	(2,781,771)

Gross profit (loss)	1,487,318	53,771 (2)	(48,914)	(2,569) (6)	1,485,030
<i>Gross margin (loss)</i>	32.6%	18.3%	-	-	34.8%
Selling, general and administrative expense	(971,611)	(102,457) (3)	(29,250)	5,286 (7)	(845,190)
Net earnings from affiliates	9,861	1,065	-	-	8,796
Operating income (loss)	525,568	(47,621)	(78,164)	2,717	648,636
<i>Operating income (loss) as a percentage of sales</i>	11.5%	-16.2%	-	-	15.2%
Interest and other (expense) income, net	(103,372)	(263)	-	(42,317) (8)	(60,792)
Earnings (loss) before income taxes	422,196	(47,884)	(78,164)	(39,600)	587,844
Provision for income taxes	(148,922)	8,373 (4)	18,458	(4,754) (9)	(171,000)
<i>Tax Rate</i>	35.3%	17.5%	23.6% (5)	-12.0%	29.1%
Net earnings, including noncontrolling interests	273,274	(39,511)	(59,706)	(44,354)	416,844
Less: Net earnings attributable to noncontrolling interests	(5,605)	-	-	-	(5,605)
<b>Net earnings (loss) attributable to Flowserve Corporation</b>	<b>\$ 267,669</b>	<b>\$ (39,511)</b>	<b>\$ (59,706)</b>	<b>\$ (44,354)</b>	<b>\$ 411,239</b>
Net earnings per share attributable to Flowserve Corporation common shareholders:					
Basic	\$ 2.01	\$ (0.30)	\$ (0.45)	\$ (0.33)	\$ 3.09
Diluted	\$ 2.00	\$ (0.30)	\$ (0.45)	\$ (0.32)	\$ 3.07
Basic number of shares used for calculation	133,074	133,074	133,074	133,074	133,074
Diluted number of shares used for calculation	133,811	133,811	133,811	133,811	133,811

(a) Reported in conformity with U.S. GAAP

**Notes:**

(1) Represents the results of SIHI, including related realignment charges, acquisition-related costs and purchase price adjustment ("PPA") expenses

(2) SIHI sales less SIHI cost of sales which includes \$18.084 million of PPA expense and \$17.985 million of realignment charges

(3) SIHI SG&A, which includes \$4.880 million of PPA expenses, \$11.925 million of realignment charges and \$11.596 million of acquisition-related costs

(4) Includes tax impact of items above partially offset by \$5.513 million of realignment recorded in provision for income taxes

(5) Includes tax impact of items above partially offset by \$3.400 million of realignment recorded in the provision of income taxes

(6) Represents \$2.162 million of Venezuela remeasurement impact and \$0.407 million of inventory write-down.

(7) Represents \$1.515 million of other severance and a \$6.801 million gain from the reversal of contingent consideration related to our purchase of Innomag in 2013

(8) Represents below-the-line foreign exchange impacts, including \$18.477 million of Venezuela remeasurement loss and \$23.840 million of other below-the-line foreign exchange impacts

(9) Includes tax impact of items above and a \$13.000 million tax charge related to a valuation allowance for Brazilian deferred tax assets. Note: there is no tax impact associated with the non-deductible \$18.477 million of Venezuela remeasurement loss and the gain from the reversal of contingent consideration

## RECONCILIATION OF NON-GAAP MEASURES

(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended December 31, 2015				
	As Reported (a)	SIHI Impact (1)	Realignment	Other Items	As Adjusted
Sales	\$ 1,287,687	\$ 76,389	\$ -	\$ -	\$1,211,298
Cost of sales	(889,942)	(51,745)	(32,962)	-	(805,235)
Gross profit (loss)	397,745	24,644 (2)	(32,962)	-	406,063
<i>Gross margin (loss)</i>	<i>30.9%</i>	<i>32.3%</i>	<i>-</i>	<i>-</i>	<i>33.5%</i>
Selling, general and administrative expense	(264,575)	(24,537) (3)	(18,216)	6,801 (6)	(228,623)
Net earnings from affiliates	3,594	1,065	-	-	2,529
Operating income (loss)	136,764	1,172	(51,178)	6,801	179,969
<i>Operating income (loss) as a percentage of sales</i>	<i>10.6%</i>	<i>1.5%</i>	<i>-</i>	<i>-</i>	<i>14.9%</i>
Interest and other (expense) income, net	(26,906)	(3,475)	-	(9,914) (7)	(13,517)
Earnings (loss) before income taxes	109,858	(2,303)	(51,178)	(3,113)	166,452
Provision for income taxes	(37,397)	686 (4)	10,651 (5)	(46) (8)	(48,688)
<i>Tax Rate</i>	<i>34.0%</i>	<i>29.8%</i>	<i>20.8%</i>	<i>-1.5%</i>	<i>29.3%</i>
Net earnings, including noncontrolling interests	72,461	(1,617)	(40,527)	(3,159)	117,764
Less: Net earnings attributable to noncontrolling interests	(1,089)	-	-	-	(1,089)

### Net earnings (loss) attributable to Flowserve Corporation

\$ 71,372    \$ (1,617)    \$ (40,527)    \$ (3,159)    \$ 116,675

Net earnings per share attributable to Flowserve Corporation common shareholders:

Basic	\$ 0.55	\$ (0.01)	\$ (0.31)	\$ (0.03)	\$ 0.89
Diluted	\$ 0.54	\$ (0.01)	\$ (0.31)	\$ (0.03)	\$ 0.89

Basic number of shares used for calculation	130,590	130,590	130,590	130,590	130,590
Diluted number of shares used for calculation	131,298	131,298	131,298	131,298	131,298

(a) Reported in conformity with U.S. GAAP

**Notes:**

- (1) Represents the results of SIHI, including related realignment charges, acquisition-related costs and purchase price adjustment ("PPA") expenses
- (2) SIHI sales less SIHI cost of sales which includes \$0.530 million of realignment adjustments
- (3) SIHI SG&A, which includes \$1.464 million of PPA expenses, \$1.758 million of realignment charges and \$2.907 million of acquisition-related costs
- (4) Includes tax impact of items above
- (5) Includes tax impact of items above partially offset by \$3.400 million of realignment recorded in the provision of income taxes
- (6) Represents \$6.801 million gain from the reversal of contingent consideration related to our purchase of Innomag in 2013
- (7) Represents below-the-line foreign exchange impacts of \$9.914 million
- (8) Includes tax impact of items above and a \$3.000 million tax charge related to a valuation allowance for Brazilian deferred tax assets. Note: there is no tax impact associated with the gain from the reversal of contingent consideration

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)	Year Ended December 31,		
	2015	2014	2013
Cash flows – Operating activities:			
Net earnings, including noncontrolling interests	\$ 273,274	\$ 524,885	488,320
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation	99,501	93,307	90,695
Amortization of intangible and other assets	27,586	16,970	15,697
Gain on sale of business	-	(13,403)	-
Gain on sale of equity investment in affiliate	-	-	(12,995)
Gain on remeasurement of acquired assets	-	-	(15,315)
Excess tax benefits from stock-based payment arrangements	(6,813)	(8,587)	(10,111)
Stock-based compensation	34,816	42,675	35,757
Foreign currency and other non-cash adjustments	72,888	39,627	(1,462)
Change in assets and liabilities, net of acquisitions:			
Accounts receivable, net	50,441	(79,655)	(53,823)
Inventories, net	(26,232)	(35,519)	28,616
Prepaid expenses and other	(121)	(9,371)	(6,824)
Other assets, net	5,636	(24,509)	(18,002)
Accounts payable	(113,639)	50,752	(15,642)
Accrued liabilities and income taxes payable	25,523	(22,669)	(65,702)
Retirement obligations and other liabilities	(24,994)	(7,905)	(3,145)
Net deferred taxes	(774)	4,364	31,695
Net cash flows provided by operating activities	417,092	570,962	487,759
Cash flows – Investing activities:			
Capital expenditures	(181,861)	(132,619)	(139,090)
Payments for acquisition, net of cash acquired	(353,654)	-	(76,801)
Proceeds from disposal of assets	10,220	1,731	1,653
Proceeds from sale of business, net of cash divested	-	46,805	-

Proceeds from equity investments in affiliates	-	-	46,240
Net cash flows used by investing activities	<u>(525,295)</u>	<u>(84,083)</u>	<u>(167,998)</u>
Cash flows – Financing activities:			
Excess tax benefits from stock-based payment arrangements	6,813	8,587	10,111
Payments on long-term debt	(45,000)	(40,000)	(25,000)
Proceeds from issuance of senior notes	526,332	-	298,596
Payments of deferred loan costs	(5,108)	-	(3,744)
Proceeds under other financing arrangements	10,436	18,483	10,674
Payments under other financing arrangements	(34,949)	(20,502)	(11,075)
Repurchases of common shares	(303,651)	(246,504)	(458,310)
Payments of dividends	(93,650)	(85,118)	(76,897)
Other	99	(2,604)	(179)
Net cash flows provided (used) by financing activities	<u>61,322</u>	<u>(367,658)</u>	<u>(255,824)</u>
Effect of exchange rate changes on cash	(37,025)	(32,675)	(4,385)
Net change in cash and cash equivalents	<u>(83,906)</u>	<u>86,546</u>	<u>59,552</u>
Cash and cash equivalents at beginning of year	<u>450,350</u>	<u>363,804</u>	<u>304,252</u>
Cash and cash equivalents at end of year	<u>\$ 366,444</u>	<u>\$ 450,350</u>	<u>\$ 363,804</u>
Income taxes paid (net of refunds)	<u>\$ 152,536</u>	<u>\$ 159,520</u>	<u>\$ 195,532</u>
Interest paid	57,030	58,269	49,618

## CONSOLIDATED QUARTERLY FINANCIAL DATA

(Unaudited)

(Amounts in millions, except per share data)

Quarter	2015			
	4th	3rd	2nd	1st
Sales	\$ 1,287.7	\$ 1,096.5	\$ 1,162.2	\$ 1,014.6
Gross profit	397.7	388.8	369.1	331.7
Earnings before income taxes	109.8	146.6	107.6	58.2
Net earnings attributable to Flowserve Corporation	71.4	93.6	75.0	27.7
Earnings per share (1):				
Basic	\$ 0.55	\$ 0.71	\$ 0.56	\$ 0.21
Diluted	\$ 0.54	\$ 0.70	\$ 0.56	\$ 0.20

Quarter	2014			
	4th	3rd	2nd	1st
Sales	\$ 1,381.4	\$ 1,204.0	\$ 1,224.4	\$ 1,068.1
Gross profit	485.7	421.5	430.3	377.1
Earnings before income taxes	227.3	183.3	176.0	146.6
Net earnings attributable to Flowserve Corporation	159.0	128.6	123.5	107.7
Earnings per share (1):				
Basic	\$ 1.17	\$ 0.94	\$ 0.90	\$ 0.78
Diluted	\$ 1.16	\$ 0.93	\$ 0.90	\$ 0.78

(1) Earnings per share is computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in weighted average quarterly shares outstanding.

## SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION  
(Amounts in millions, except percentages)

	Three Months Ended December 31,	
	2015	2014
Bookings	\$ 460.0	\$ 710.9
Sales	690.6	758.9
Gross profit	210.5	266.0
Gross profit margin	30.5%	35.1%
Operating income	96.2	146.7
Operating margin	13.9%	19.3%

INDUSTRIAL PRODUCT DIVISION  
(Amounts in millions, except percentages)

	Three Months Ended December 31,	
	2015	2014
Bookings	\$ 197.7	\$ 193.1
Sales	256.1	212.7
Gross profit	69.0	60.9
Gross profit margin	26.9%	28.6%
Operating income	11.5	31.1
Operating margin	4.5%	14.6%

FLOW CONTROL DIVISION  
(Amounts in millions, except percentages)

	Three Months Ended December 31,	
	2015	2014
Bookings	\$ 332.4	\$ 448.3
Sales	364.0	439.4
Gross profit	118.2	162.6
Gross profit margin	32.5%	37.0%
Operating income	48.1	88.3
Operating margin	13.2%	20.1%

**SEGMENT INFORMATION**

ENGINEERED PRODUCT DIVISION  
(Amounts in millions, except percentages)

	Year Ended December 31,		
	2015	2014	2013
Bookings	\$ 2,065.6	\$ 2,832.8	\$ 2,581.7
Sales	2,260.0	2,564.6	2,650.4
Gross profit	746.4	892.5	903.6
Gross profit margin	33.0%	34.8%	34.1%
Operating income	329.0	447.2	445.2
Operating margin	14.6%	17.4%	16.8%

INDUSTRIAL PRODUCT DIVISION  
(Amounts in millions, except percentages)

	Year Ended December 31,		
	2015	2014	2013
Bookings	\$ 887.2	\$ 781.0	\$ 747.8
Sales	981.9	805.9	798.4
Gross profit	239.7	221.0	204.0
Gross profit margin	24.4%	27.4%	25.6%
Operating income	30.2	107.0	94.8
Operating margin	3.1%	13.3%	11.9%

FLOW CONTROL DIVISION

	Year Ended December 31,		

(Amounts in millions, except percentages)

	2015	2014	2013
Bookings	\$ 1,318.5	\$ 1,665.2	\$ 1,661.9
Sales	1,415.5	1,615.7	1,615.7
Gross profit	497.5	603.0	579.2
Gross profit margin	35.1%	37.3%	35.8%
Operating income	234.4	322.8	308.0
Operating margin	16.6%	20.0%	19.1%

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Source: Flowserve Corporation

Flowserve Corporation

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