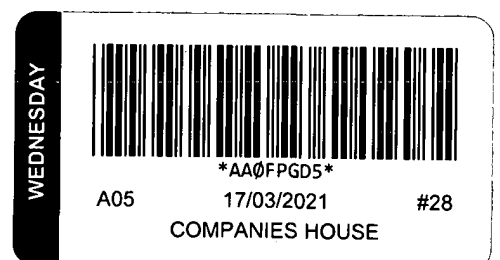


Company Registration No. 02741659 (England and Wales)

FLOWSERVE GB LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019



FLowsERVE GB LIMITED

COMPANY INFORMATION

Directors	W Meeke C Lawrence P Bull
Company number	02741659
Registered office	One St Peter's Square Manchester M2 3DE
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors The Portland Building 25 High Street Crawley West Sussex RH10 1BG
Bankers	Lloyds TSB plc 11-15 Monument Street London EC3V 9JA
Solicitors	Addleshaw Goddard LLP 100 Barbirolli Square Manchester M2 3AB

FLOWSERVE GB LIMITED

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FLOWSERVE GB LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their strategic report on the company for the year ended 31 December 2019.

Principal activities

The principal activities of the company during the financial year were the manufacture and sale of pumps & pumping equipment, mechanical seals and valves together with related services.

Results and dividends

	2019 £'000	2018 £'000
Turnover	80,510	67,020
Operating (loss) / profit	3,147	(625)
(Loss)/profit for the financial year	2,861	(1,621)

Business Review

The strategy of the business is fully aligned with that of its ultimate parent, Flowserve Corporation. The company has two divisions: Flow Solutions & Flow Controls.

The business reviews in this strategic report for each of the divisions describe the underlying businesses for the full year ended 31 December 2019, with comparative information for the year ended 31 December 2018. The directors consider this to be the most appropriate presentation for an understanding of the performance of the company. During 2019 Flowserve GB Limited merged Sterling Fluid Systems (a legal entity already owned by Flowserve) into the Flowserve GB Limited business. This will further allow for improved synergies within the UK business structure.

FLOW SOLUTIONS DIVISION

Business Environment

The Flow Solutions Division design, manufacture and repair pumps and seals predominantly into the Chemical Processing, General Industry, Oil & Gas & Water Industries on a worldwide basis. Despite the competitive and challenging marketplace the order book has remained constant against prior year.

Principal Risks and Uncertainties

The key business risks affecting the company together with their mitigation are set out below:

Risks	Mitigating Factors
Lower levels of market activity	The nature of our products and the industries we serve have given us resilience against some lowering of market activity.
Supply chain capabilities	Our suppliers also face the business issues we see so avoiding single source supply is a key strategy.
Supply chain capabilities	Long term agreements have been established with key global suppliers to ensure that supply chain capacity constraints are minimised as well as an expansion of low cost country resourcing.

FLOWSERVE GB LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Key Performance Indicators:

	2019 %	2018 %	Definition, method of calculation and analysis
Growth in Orders	6.8	-0.3	Year on Year Bookings shows an Increase of 6.79%.
Growth in Sales	3.5	2.6	Year on Year Sales increase of 3.5% due to improvements in lead time / sales mix.
Gross Margin	20.3	19.1	Gross Margin as a percentage of Annual Sales, increased from 19.1% to 20.3% as a result of sales mix and cost reduction programs.
EBITDA	4.3	5.9	EBITDA expressed as a percentage, the reduction is due to decrease in utilization of workforce due to Covid 19.

FLOW CONTROLS DIVISION

Business Environment

The Principal activities of the Flow Controls division are the manufacture and sale of valves, actuators and steam components. The major industries served by the company are Oil & Gas, Petrochemical, Pharmaceuticals, Defence and Power.

The Flow Controls Division orders increased over the year by 30.8% mainly as a result of increased orders in the Defence Sector in the Middle East.

Principal Risks and Uncertainties

The key business risks affecting the company together with their mitigation are set out below:

Risks	Mitigating Factors
Global economic conditions	The global economic slowdown coupled with Oil Price decline may impact investments and projects. However, we continue to improve service levels and product offering in addition to cost reductions to remain competitive.
Reduced Opportunities in traditional markets	We continue our efforts to look for opportunities outside of the traditional markets of Oil, Gas, Water and Defense. Focus on driving non-traditional markets such as Bio-mass whilst also maintaining focusing on product development and improved service levels.

FLOWSERVE GB LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Key Performance Indicators:

	2019 %	2018 %	Definition, method of calculation and analysis
Growth in Bookings	30.8	13.9	Year on Year Bookings increase of 30.8% due to Defense Orders and Middle East activity.
Growth in Sales	9.2	2.3	Year on Year Sales increase of 9.2% due to incremental shipments in the Defence sector.
Gross Margin	28.5	37.5	Gross Margin decreased from 37.5% to 28.5%, the decrease is a result of sales mix.
EBITDA	14.4	15.4	EBITDA expressed as a percentage reduction is due to under-utilisation of workforce, Sales mix with less new valves offset by additional after-market business i.e. Spares.

SiHi DIVISION

Business Environment

The SiHi Division primarily focused on Chemical, Industrial and Energy & Environmental markets. This is all underpinned with a strong emphasis on Service Support.manufacture and repair pumps and seals predominantly into the Chemical Processing, General Industry, Oil & Gas & Water Industries on a worldwide basis.

SiHi's liquid and vacuum pumps, compressors and systems enhance and strengthen the Flowserve position as the world's leading supplier of chemical process pumps and systems.

Principal Risks and Uncertainties

The key business risks affecting the company together with their mitigation are set out below:

Risks	Mitigating Factors
Lower levels of market activity	The nature of our products and the industries we serve have given us resilience against some lowering of market activity.
Supply chain capabilities	Our suppliers also face the business issues we see so avoiding single source supply is a key strategy. Integration into Flowserve supply chain minimizes the risks.
Supply chain capabilities	Long term agreements have been established with key global suppliers to ensure that supply chain capacity constraints are minimized as well as an expansion of low-cost country resourcing established by the wider Flowserve business.

FLOWSERVE GB LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Key Performance Indicators:

	2019 %	Definition, method of calculation and analysis
Gross Margin	30.5	Gross Margin as a percentage of Annual Sales, in 2019 this was 30.5%.
EBITDA	11.8	EBITDA expressed as a percentage of Annual Sales.

In future years, where comparatives are available, management will use the same metrics to review performance. The additional metrics will include: Growth in Orders and increase/(Reduction) in sales.

For clarity, where Gross Margin is highlighted this refers to sales less the cost of goods/services in order to complete the work/project. Gross Profit includes any variances for warranty, poor quality, purchasing variances, inventory adjustments and over/under utilization.

On behalf of the board



C Lawrence
Director

Date: 15/2/2021

FLOWSERVE GB LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The directors present their report and the audited financial statements of the company for the financial year ended 31 December 2019.

Covid-19

The Covid-19 pandemic has impacted trading conditions throughout the UK and the rest of the world. Flowserve UK have remained open during this period of significant impact from March 2020 and continues to receive and fulfil customer orders. We have not placed any employees on furlough during this period. Flowserve have been very pro-active to safeguard employees with supply of cleaning materials, PPE, temperature monitors, alongside new workshop layouts to ensure protection of employees.

We have incurred slower processing of customer orders as employees work from home coupled with slow supply of materials impacting lead times. Covid-19 is having a serious impact on the UK economy with employees placed on furlough for a significant period of time and job losses continuing across all sectors.

Future outlook

Based on the current economic climate we anticipate 2021 to be a challenging year. The Oil Price continues to improve from the low point in early 2016 to the current day. Whilst this improvement continues we are still a long way from the high 2014 prices.

Flowserve has a long-standing reputation across its customer base coupled with exceptional levels of expertise, with further targeted initiatives the business is targeting growth across all of its UK sites.

The company is constantly expecting and driving for growth across all facilities.

The Directors have formed a judgement at the time of approving the financial statements that the company has adequate resources available, to continue operating and discharge all financial obligations as they fall due for the foreseeable future from the date of financial statements approval. The company continues to adopt the going concern basis in preparing its financial statements.

Dividends

No dividends were proposed for the year (2018: £Nil).

Charitable and political donations

Charitable donations during the year amounted to £1,182 (2018: £1,510). All amounts donated were to local education and health related charities. There were no donations for political purposes (2018: £Nil).

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in price risk, interest rate risk and cash flow risk and foreign currency exposure risk. The company has in place a risk management program that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance, the related finance costs and foreign currency exposures.

The policies set by the board of directors are implemented by Flowserve's UK finance department.

Foreign currency exposure risk

The company is exposed to foreign currency risks that, in some cases, are mitigated by sales in currencies being offset by purchases in the same currency. Furthermore, this risk is further reduced using financial instruments as deemed appropriate.

Price risk

The company is exposed to commodity price risk, mainly in respect of certain materials. Some of these costs can be passed on to customers which reduces the financial impact of the risk.

FLOWSERVE GB LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Interest risk & Cash Flow risk

While the company is exposed to Interest & cashflow risk, support from the Parent company through a cash pooling process reduces the financial impact.

Credit and liquidity risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made.

Short to medium term funding/investment decisions are managed via inter-company loans co-ordinated through the Flowserve corporate treasury department.

Directors

The directors who held office during the financial year and up to the date of signing of the financial statements, unless otherwise stated, are given below:

W Meeke
C Lawrence
P Bull

Directors' qualifying third party and pension scheme indemnity provisions

The directors are provided with third party indemnity insurance by Flowserve Corporation, which was in force during the year and up to the date of approval of the financial statements.

Research and development

Research and development is co-ordinated through Flowserve Corporation in the USA. The company is committed to providing the optimum design solutions to meet its customers' needs.

The company plays an active role in the development of new products and improvement of existing designs. There is an active engineering department which ensures that our products are designed and engineered to the highest levels and meet customer requirements. New product design and existing product redesign activities are carried out by the business.

Health and safety

At Flowserve we acknowledge our obligations and responsibilities under European and UK Health and Safety Legislation and we recognise the importance of health and safety as an integral part of our activities. We encourage the active participation of every one of our employees at all our locations in order to achieve and maintain the highest standards of health and safety at work.

Our business activities are conducted with due regard to all statutory requirements, with appropriate safeguards to protect employees, contractors, visitors to all our locations and the general public against risk to their health and safety.

We have clearly defined areas of responsibility throughout our management structures, and every manager regards health and safety issues as being of paramount importance.

Employee involvement and disabled persons

All employees of the company are actively encouraged to participate in and contribute towards achieving the company's objectives. Regular meetings are held between employees and local management to communicate the company's operating performance and future business prospects. Flowserve Corporation also publishes various magazines on its international operations, which are made available to all employees. It is the policy and practice of the company to give full and fair consideration to assist the employment of the disabled and their training and career development and, wherever practicable, to retain employees who become disabled.

Certain employees are entitled to participate in Flowserve Corporation employee share option schemes.

FLOWSERVE GB LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Section 172(1) Statement

This Statement contains an overview of how the directors have performed their duty to promote the success of the Company as set out in section 172(1) of the UK's Companies Act 2006. That section requires a director of a company to act in a way that would most likely promote the success of the Company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to:

- the likely consequences of any decision in the long term
- the interests of the Company's employees
- the need to foster the Company's business relationships with suppliers, customers and others
- the impact of the Company's operations on the community and the environment
- the desirability of the Company maintaining a reputation for high standards of business conduct and
- the need to act fairly between members of the Company.

Decision Making

The Directors understand our business and the markets within which we operate. By focusing on our purpose, the strategy set by the Board is intended to ensure that we continue to deliver value to our customers, partners and other stakeholders. All matters that, under the Company's governance arrangements, are reserved for decision by the Directors are presented at Board meetings. Directors are briefed on any potential impacts and risks for our customers, partners and other stakeholders and how these are to be managed. The Directors consider these factors before making a final decision, which as a Board, they believe is in the best interests of the Company.

Employees

Employee engagement is a primary focus for the Directors of the Company – empowering employees to contribute to improving business performance and creating an environment in which everyone can fulfil their potential. We keep the Company's employees informed about what is happening across the Company.

Fostering Business Relationships with Suppliers, Customers and Others

The Directors recognise that fostering business relationships with key stakeholders, such as customers, suppliers and regulatory authorities, is essential to the Company's success. The Company is part of the Flowserve Group and follow the group wide Code of Business Conduct and Ethics, which provides all employees of the Group with guidance on the key principles that each employee should follow.

Impact on the Community and the Environment

The Directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society.

Maintaining a reputation for high standards of business conduct

The Directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. All employees of the Company are expected to act in accordance with the requirements of the Code of Business Conduct and Ethics, at all times.

The need to act fairly between members of the Company

The Directors recognise their responsibility in ensuring that all members of the Company are treated fairly regardless of age, gender and orientation. The Company has implemented a number of programmes designed to celebrate the diversity that characterises our organisation.

FLOWSERVE GB LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Statement of directors responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;

state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;

make judgements and accounting estimates that are reasonable and prudent; and

prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement of Corporate Governance Arrangements

Flowserve GB Limited is a subsidiary of the parent group, Flowserve Corporation listed on the New York Stock Exchange (NYSE). As a member of the Flowserve group, the company is required to adhere to its internal governance procedures. This includes, but is not limited to, adopting the groups written code of conduct, core values and ethics which apply to all employees. During 2019 Flowserve GB Limited has not deviated from Corporate governance.

Independent Auditors

The company have taken the decision to end its association with PricewaterhouseCoopers LLP for all auditing work, this will take effect on the 2019 Financial audit during 2021.

On behalf of the board:



C Lawrence

Director

Date: 15/3/2021

Registered number: 2741659

FLOWSERVE GB LIMITED

Independent auditors' report to the members of Flowserve GB Limited

Report on the audit of the financial statements

Opinion

In our opinion, Flowserve GB Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

FLOWSERVE GB LIMITED

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors responsibilities in respect of the financial statements set out on page 11, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

M. Haverson

Matthew Haverson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick
15 March 2021

FLOWSERVE GB LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Turnover	3	80,510	67,020
Cost of sales		(61,917)	(50,387)
Gross profit		18,593	12,823
Selling and distribution costs		(4,359)	(3,544)
Administrative expenses		(11,087)	(9,904)
Operating profit/(loss)	4	3,147	(625)
Other income		-	-
Finance expenses	6	(977)	(1,143)
Profit/(loss) before taxation		2,170	(1,768)
Tax on profit/(loss)	8	691	147
Profit/(loss) for the financial year		2,861	(1,621)

The notes on pages 18 to 44 form part of these financial statements.

FLOWSERVE GB LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Profit/(loss) for the financial year		2,861	(1,621)
Items that will not be reclassified subsequently to income statement:			
Actuarial losses on pension scheme	17	(6,792)	(1,911)
Movement on deferred tax relating to pension asset	16	611	325
Other comprehensive income/ (expense) for the year net of tax		(6,181)	1,586
Total comprehensive expense for the year		(3,320)	(3,207)

The notes on pages 18 to 44 form part of these financial statements.

FLOWSERVE GB LIMITED

Registered Number: 02741659

BALANCE SHEET**AS AT 31 DECEMBER 2019**

	Note	2019 £'000	2018 £'000
Fixed assets			
Intangible assets	9	16,115	16,115
Tangible assets	10	8,023	8,667
Right of-use assets	10	3,351	-
		<u>27,489</u>	<u>24,782</u>
Current assets			
Stocks	11	16,601	11,358
Pension asset	12	13,733	15,028 ¹
Debtors	13		
- amounts falling due within one year		125,783	110,934
- amounts falling due after more than one year		3,026	2,779
Cash at bank and in hand		56	168
		<u>186,688</u>	<u>165,049</u>
Total assets			
		<u>186,688</u>	<u>165,049</u>
Creditors: Amounts falling due within one year	14	(83,098)	(58,256)
		<u>103,590</u>	<u>106,793</u>
Total assets less current liabilities			
		<u>103,590</u>	<u>106,793</u>
Provisions for liabilities	15	(273)	(156)
		<u>103,317</u>	<u>106,637</u>
Net assets			
		<u>103,317</u>	<u>106,637</u>
Capital and reserves			
Called up share capital	22	1,000	1,000
Other reserves		2,938	2,978
Retained earnings		99,379	102,659 ¹
		<u>103,317</u>	<u>106,637</u>
Total shareholders' funds			
		<u>103,317</u>	<u>106,637</u>

The notes on pages 18 to 44 form part of these financial statements. The financial statements on pages 14 to 44 were approved and authorised for issue by the board and signed on its behalf by:



C Lawrence

Director

Date: 15/3/2021

¹ Restated amount – See note 18 for further information

FLOWSERVE GB LIMITED

STATEMENT OF CHANGES IN EQUITY **FOR THE YEAR ENDED 31 DECEMBER 2019**

	Called up share capital £'000	Other reserves £'000	Retained earnings £'000	Total shareholders' funds £'000
Balance at 1 January 2018	1,000	2,994	102,65	106,644
Restatement of retained earnings			3,200	3,200
Restated opening retained earnings	1,000	2,994	105,850	109,844
Profit for the financial year	-	-	(1,621)	(1,621)
Other comprehensive income for the year	-	-	1,586	1,586
Total comprehensive Income for the year	-	-	(3,207)	(3,207)
Equity settled share based payments (note 16)	-	(16)	16	-
Balance at 31 December 2018	1,000	2,978	102,659	106,637
(loss) for the financial year	-	-	2,861	2,861
Other comprehensive expense for the year	-	-	(6,181)	(6,181)
Total comprehensive expense for the year	-	-	(3,320)	(3,320)
Equity settled share based payments (note 16)	-	(40)	40	-
Balance at 31 December 2019	1,000	2,938	99,379	103,317

Called up share capital

The balance classified as share capital includes the total net proceeds on issue of the company's equity shares, comprising 1,000,000 £1 ordinary shares.

Other reserves

The balance held in other reserves comprises the fair value of options and performance share rights recognized as an expense.

Retained Earnings

Retained earnings represents accumulated comprehensive income in the current and prior years.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 Accounting policies

1.1 General Information

Flowserve GB Limited ("the company") manufactures and sells pumps and pumping equipment, mechanical seals and valves together with related services. The company sells or provides services to customers worldwide.

The company is a limited company incorporated and domiciled in England, registered office One St Peter's Square, Manchester, M2 3DE. The financial statements are prepared in Sterling, rounded to the nearest thousand pounds (£000) except when otherwise indicated.

Statement of compliance

The financial statements are prepared in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable accounting standards in the United Kingdom including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) except for the departure from the Companies Act 2006 in relation to indefinite useful economic life intangible assets as set out below in note 1.6.

The company meets the definition of a qualifying entity under FRS 101.

The preparation of financial statement in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair valued goods and services received was determined).
- IFRS 7, 'Financial Instruments: Disclosures' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement'
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information requirements in respect of:
 - i) Paragraph 79(a)(iv) of IAS 1;
 - ii) Paragraph 40 A-D of IAS 1;
 - iii) Paragraph 73(e) of IAS 16, 'Property, plant and equipment';
 - iv) Paragraph 118(e) of IAS 38 'Intangible assets'.
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), (statement of cash flows),
 - 16 (statement of compliance with all IFRS),
 - 38A (required for min of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
- 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.1 General information (continued)

- Paragraphs 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirement in IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Where required, equivalent disclosures are given in the group financial statements of Flowserve Corporation. The group financial statement of Flowserve Corporation are available to the public and can be obtained as set out in note 22.

The Company adopted IFRS 16 Leases, a new accounting standard that is effective for the year ended 31 December 2019. There are no other amendments to accounting standard or IFRIC interpretations that are effective for the year end 31 December 2019 that have had a material impact on the Company.

1.2 Going concern

Based on the current economic climate we anticipate 2021 to be a challenging year. The Oil Price continues to improve from the low point in early 2016 to the current day. Whilst this improvement continues we are still a long way from the high 2014 prices.

Flowserve has a long-standing reputation across its customer base coupled with exceptional levels of expertise, with further targeted initiatives the business is targeting growth across all of its UK sites.

The company is constantly expecting and driving for growth across all facilities.

The Directors have formed a judgement at the time of approving the financial statements that the company has adequate resources available, to continue operating and discharge all financial obligations as they fall due for the foreseeable future from the date of financial statements approval. The company continues to adopt the going concern basis in preparing its financial statements.

1.3 Turnover

Revenues for product sales are recognized when the risks and rewards of ownership are transferred to the customers, which is typically based on the contractual delivery terms agreed to with the customer and fulfilment of all but inconsequential or perfunctory actions. In addition, the revenue recognition policy requires persuasive evidence of an arrangement, a fixed or determinable sales price and reasonable assurance of collectability. The recognition of revenue when advance payments are received from customers before performance obligations is deemed completed and/or services have been performed.

Contracts typically include cancellation provisions that require customers to reimburse the company for costs incurred up to the date of cancellation, as well as any contractual cancellation penalties.

The company enters into certain agreements with multiple deliverables that may include any combination of designing, developing, manufacturing, modifying, installing and commissioning of flow management equipment and providing services related to the performance of such products. Delivery of these products and services typically occurs within a one to two-year period, although many arrangements, such as "short-cycle" type orders, have a shorter timeframe for delivery.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Accounting policies (continued)

Revenues for long-term contracts that exceed certain internal thresholds regarding the size and duration of the project and provide for the receipt of progress billings from the customer are recorded on the percentage of completion method with progress measured on a cost-to-cost basis.

Revenue on service and repair contracts is recognized after services have been agreed to by the customer and rendered. Revenues generated under fixed fee service and repair contracts are recognized on a rateable basis over the term of the contract. These contracts can range in duration, but generally extend for up to five years.

1.4 Foreign currency

Monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the year end, foreign currency transactions are translated into sterling at the rates ruling at the transaction date. All exchange gains and losses are taken to the income statement in the period to which they relate.

1.5 Tangible assets

Tangible fixed assets are stated at historic cost less accumulated depreciation. Costs include the original purchase price of the asset and the costs attributable to bringing the asset into its working condition for its intended use. Depreciation has been provided so as to write off the cost of tangible fixed assets less any residual value by equal annual instalments over their estimated useful economic lives as follows:

Buildings	- 30-50 years
Plant and machinery	- 3-10 years

Freehold land and construction in progress are not depreciated. Finance costs are not capitalised.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1.6 Intangible assets

Trademarks and software are assigned an indefinite life and are not subject to amortisation, but tested annually for impairment. This treatment, whilst compliant with IAS 38 "Intangible Assets", is a departure from the Companies Act 2006 which requires an intangible asset to be amortised over its useful economic life. This departure is considered by the directors to be necessary to give a true and fair view. The impact is the absence of amortisation charges which would otherwise have been required by the Companies Act 2006.

Goodwill arising on the acquisition of the trade and assets of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Provision is made for any impairment based on the requirements of IAS 36 "Impairment of assets".

1.7 Impairment of non-financial assets

Intangible assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (CGUs). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

1.8 Stocks and long-term contracts

Stocks are stated at the lower of cost and net realisable value. Cost includes the direct materials, together with labour and proportions of overheads attributable to the item. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. Provisions are made for obsolete and slow moving stock based upon a review of quantities carried compared to annual usage, and stock ageing. Consumable tools are expensed at purchase.

Turnover and a prudent estimate of the profit attributable to work completed on long-term contracts is recognised once the outcome of the contract can be recognised with reasonable certainty. The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts. The costs on long-term contracts not yet taken to the income statement less related foreseeable losses and payments on account are shown in stocks as long-term contract balances.

1.9 Deferred taxation

Deferred tax is recognised in respect of all temporary timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carries forward tax losses and from which the future reversal of underlying timing differences can be deducted.

1.10 Warranty liability

Provision is made for the estimated liability for all products under warranty. The provision has been estimated based on past experience of the actual level of warranty claims received. Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

1.11 Share based payment

The fair value of the employee services received in exchange for the grant of the options by Flowserve Corporation is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity, on the basis that the amount is payable to the parent company and offsets the capital contribution arising from the share based payment.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.12 Research and development

Research and development costs are charged to the income statement as incurred.

1.13 Operating lease commitments

Flowserve have included IFRS16 for right of use, lease accounting. All leases are evaluated with asset valuations and liabilities determined based on contractual terms. Entries are processed based on fixed/variable components with monthly assessment to determine any changes in leasing arrangements.

1.14 Pension costs

The company participates in two defined benefit pension schemes, the Flowserve defined benefit pension scheme and the BWIP defined benefit pension scheme. The company also operates a defined contribution pension scheme.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit method by independent actuaries. The defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximately to the terms of the related pension obligation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised within the statement of comprehensive income in the period in which they arise. Pension scheme surpluses, to the extent they are considered recognisable, or deficits are recognised in full and presented on the face of the balance sheet.

The amount charged to finance expense is a net interest amount calculated by applying the liability discount rate to the net defined liability or asset. Past service costs are recognised.

The assets of the defined contribution scheme are held separately from those of the company in an independently administered fund. The pension cost charge disclosed in note 5 represents the contributions payable by the company to the fund.

1.15 Reporting by class of business

The company's activities consist of 2 classes of business; Flow Solutions division and Flow Controls division. Unallocated items classified as central include tax and pension balances.

1.16 Deferred income

Where turnover is invoiced in advance of the point it would be recognised it is held as deferred income and released as the turnover is recognised.

1.17 Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time, value of money and where appropriate, the risks specific in the liability.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. Accounting policies (continued)

1.18 Financial assets

Cash at bank and in hand

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Trade receivables/payables and other payables

Trade receivables/payables and other payables are initially recognized at fair value, and subsequently carried at amortised cost using the effective interest method. For these financial instruments, the carrying amounts approximate fair value, due to the short-term maturity of these instruments.

The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

1.19 Business Combinations

Flowserve GB Limited incorporated the entity Sterling Fluid Systems (UK) Limited (referenced in these statutory reports as SiHi) Company Number 340267 from 1st February 2019. Flowserve already owned this legal entity but merged into Flowserve GB Limited.

SiHi was purchased for £3.1m which was valued as the book value of the assets acquired, the transaction has been settled as an intercompany payable on the balance sheet of Flowserve GB.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

2 Judgements and key sources of estimation uncertainty

Judgements are continually assessed evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Pension costs

The company provides pension and post-retirement benefits to certain employees, including former employees and their beneficiaries. The assets, liabilities and expenses recognised and the disclosures made are based on actuarial valuations and assumptions regarding factors such as discount rates, health care cost trend rates, inflation, expected rates of return on plan assets, retirement rates, mortality rates, turnover, rates of compensation increases and other factors. (See note 12 for additional information on Pension costs).

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3 Turnover

The whole of the turnover is attributable to the principal activities of the company.

	2019 £'000	2018 £'000
Sale of Goods & Services	<u>80,510</u>	<u>67,020</u>

An analysis of the company's turnover by geographical market is set out below:

	2019 £'000	2018 £'000
United Kingdom	36,781	27,988
Rest of Europe	30,198	15,065
Rest of World	13,531	23,967
	<u>80,510</u>	<u>67,020</u>

An analysis of the company's turnover by class of business is set out below:

	2019 £'000	2018 £'000
Flow Control	46,433	42,518
Flow Solutions	26,467	25,576
SiHi	8,484	-
Central	(874)	(1,074)
	<u>80,510</u>	<u>67,020</u>

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 31 DECEMBER 2019**

4 Operating (loss)/profit

Operating (loss/profit) is stated after charging/(crediting):

	Note	2019 £'000	2018 £'000
Loss on sale of fixed assets		16	-
Depreciation	10	891	1,236
Operating lease rentals - plant and machinery		6	52
- other		829	537
Inventory recognised as expense		34,776	25,660
Foreign exchange (gains)/losses (included within administrative expenses)		(491)	43
Services provided by the Company's auditors			
Fees payable for the audit		157	157

Note: Annual depreciation charge in Note 10 includes £299,000 for depreciation of assets recharged to other Flowserve entities for shared IT equipment.
 Depreciation within Flowserve GB Limited is £891,000

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

5 Staff costs

Staff costs comprise:

	Note	2019 £'000	2018 £'000
Wages and salaries		15,671	12,377
Social security costs		658	507
Other pension costs		637	(561)
Equity settled share based payments	16	40	17
		17,006	12,340

Included in other pension costs are £531,000 (2018: reimbursement of £561,000) in respect of defined benefit schemes and £Nil (2018: £Nil) in respect of the defined contribution scheme.

The average monthly number of employees (including directors) during the financial year was as follows:

	2019 Number	2018 Number
Office and management	72	52
Manufacturing	247	223
	319	275

6 Finance expenses

	2019 £'000	2018 £'000
Interest payable on bank loans and overdraft	160	36
Interest payable to group undertakings	818	954
Interest on pension liabilities	(1)	153
	977	1,143

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

7 Directors' emoluments

	2019 £'000	2018 £'000
Aggregate emoluments	181	183
Contributions to defined contribution pension scheme	11	9
	<u>192</u>	<u>192</u>
	2019 £'000	2018 £'000
Highest paid director		
Aggregate emoluments	94	102
Contributions to defined contribution pension scheme	8	7
	<u>102</u>	<u>109</u>

During the financial year no director (2018: none) was accruing benefits under a defined benefit pension scheme and two directors (2018: two) were entitled to receive benefits under a defined contribution pension scheme. The directors received remuneration for their services to Flowserve Corporation as a whole. The emoluments disclosed above relate to amounts paid by the company to the UK directors during the financial year. No apportionment of amounts paid by other group companies is included above.

During the financial year no directors (2018: none) exercised share options and no directors (2018: none) received shares under the Flowserve Corporation long-term incentive schemes.

8 Tax on profit/(loss)

	2019 £'000	2018 £'000
Current tax:		
UK corporation tax on the profit/(loss) for the financial year	-	-
Total current tax charge	<u>-</u>	<u>-</u>
Deferred tax:		
Origination and reversal of temporary differences	573	272
Adjustments in respect of prior years	154	(97)
Effects of changes in tax rates	(36)	(29)
Deferred tax no longer recognised	-	-
Total deferred tax charge	<u>691</u>	<u>147</u>
Taxation charge on profit /(loss)	<u>691</u>	<u>147</u>

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

8 Tax on profit/(loss) (continued)

The tax assessed for the financial year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%).

The differences are explained below:

	2019 £'000	2018 £'000
Profit/(loss) before taxation	2,170	(1,768)
Profit/(loss) before taxation multiplied by the UK standard rate of Corporation tax in the UK of 19% (2018: 19%)	411	(336)
Effects of:		
Expenses not deductible	81	73
Tax rate changes	63	29
Effects of group / other reliefs	-	182
Income not taxable	(155)	-
Amounts not recognised	(779)	(192)
Share options	(158)	-
Adjustments in respect of prior years	(154)	97
Tax (credit)/expense for the year	(691)	(147)

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 20% to 19% was effective from 1 April 2017 and a further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The relevant deferred tax balances have been calculated based on these rates.

Amounts related to tax recognised in other comprehensive income

Current tax deductions allocated to a credit on the movement of deferred tax in relation to the pension scheme of £611,000 (2018: £325,000) have been recognised in the statement of comprehensive income on page 14.

FLowsERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

9 Intangible assets

	Goodwill £'000	Trademarks £'000	Software £'000	Total £'000
Cost				
At 1 January 2019 and 31 December 2019	32,311	2,705	3,716	38,732
Accumulated amortisation				
At 1 January 2019 and 31 December 2019	18,957	-	3,660	22,617
Net book amount				
At 31 December 2019	13,354	2,705	56	16,115
At 31 December 2018	13,354	2,705	56	16,115

The goodwill arose on the acquisition of the Durco business from Flowserve RED S.A in 2001 and on the acquisition of the Flow Control business from Flowserve Flow Control (UK) Limited in 2007.

10 Tangible assets

	Land and buildings £'000	Plant and machinery £'000	CIP £'000	Total £'000
Cost				
At 1 January 2019	10,182	12,165	339	22,686
SiHi transferred assets	1,706	258	-	1,964
Additions	77	676	60	813
Disposals	(5,443)	(382)	-	(5,825)
Transfers	-	339	(339)	-
Revaluations	-	-	-	-
At 31 December 2019	6,522	13,056	60	19,638
Accumulated depreciation and impairment				
At 1 January 2019	5,107	8,914	-	14,021
SiHi transferred assets	159	96	-	255
Charge for the year	163	1,027	-	1,190
Disposals	(3,496)	(355)	-	(3,851)
At 31 December 2019	1,933	9,682	-	11,615
Net book amount				
At 31 December 2019	4,589	3,374	60	8,023
At 31 December 2018	5,075	3,252	339	8,667

Depreciation has not been provided on land with a book value of £1,119,250 (2018: £1,119,250).

FLowsERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

10	Accounting for IFRS16 the Right of-use assets at Dec 2019 is £3,351,000	Total
		£'000
	Cost	
	At 1 January 2019	-
	Adoption of IFRS 16	3,662
	Additions	327
	Disposals	-
	Transfers	-
	Revaluations	-
	At 31 December 2019	3,989
	Accumulated depreciation and impairment	
	At 1 January 2019	-
	Charge for the year	638
	Disposals	-
	Revaluations	-
	At 31 December 2019	638
	Net book amount	
	At 31 December 2019	3,351
	At 31 December 2018	-

11 Stocks

	2019	2018
	£'000	£'000
Raw materials	7,648	5,287
Work in progress	3,473	3,302
Finished goods and goods for resale	5,480	2,769
	16,601	11,358

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12 Pension assets

a) Details of pension scheme

The company participates in two defined benefit pension schemes, the Flowserve defined benefit pension scheme and the BWIP defined benefit pension scheme.

The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the appropriateness of the rates. The latest actuarial assessment of the schemes was completed on April 6th 2019. As the projected unit method has been used and the schemes are closed the liability will increase over time.

Plan assets held in the fund are governed by local regulations and practice in the United Kingdom. Responsibility for the governance for the plan – including investment decisions and contribution schedules – lies jointly with the company and the board of directors of the fund.

The scheme pensions are updated in line with the retail price index.

On the closure of the defined benefit schemes to new members, the United Kingdom Flowserve group introduced a defined contribution scheme, the assets of which are held separately from those of the group in independently administered funds. Pension commitments for the year included an amount of £Nil from the defined benefit plan (2018: reimbursement of £561,000).

The risks of the schemes are as follows:

a) Asset volatility

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields: if plan assets underperform this yield, this will create a deficit. The plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term.

b) Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

c) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

d) Inflation risk

The pension obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation will also increase the deficit.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Pension asset (continued)

	Flowserve £'000	BWIP £'000	Total £'000
Defined benefit pension scheme			
1 January 2019	9,324 ¹	5,704	15,028 ¹
Actuarial loss	(10,480)	(1,468)	(11,948)
Return on plan assets greater than discount rate	9,134	(3,978)	5,156
Net interest on net pension scheme asset	253	145	398
Current service cost	(304)	-	(304)
Contributions paid by employer	5,432	-	5,432
Administration Fees	(9)	(20)	(29)
Net pension asset in the scheme at 31 December 2019	13,350	383	13,733

b) Flowserve defined benefit pension scheme

A full actuarial valuation was carried out per page 33 on 6 April 2019 by a qualified independent actuary. The major assumptions used by the actuary were as follows:

	2019 %	2018 %
Rate of increase in salaries	3.20	3.20
Rate of increase in pensions in payment	2.00	2.00
Discount rate	2.60	2.40
Inflation assumption	3.45	3.40

The mortality assumptions used were as follows:

	2019 Years	2018 Years
Longevity at age 65 for current pensioners:		
- Men	21.6	21.5
- Women	23.5	23.4
Longevity at age 65 for future pensioners:		
- Men	22.4	22.3
- Women	24.4	24.3

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below. Approximate adjustments were made to the defined benefit obligations, reflecting the mean term of the liability. A Black-Scholes model was used to determine the impact of caps and floors in setting pension increases.

¹ Restated 2018 information, see note 18 for further information

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12 Pension asset (continued)

b) Flowserve defined benefit pension scheme (continued)

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	0.5% increase	7.8% decrease
Discount rate	0.5% decrease	8.8% increase
Inflation assumption	0.5% increase	4.5% increase
Mortality	Increase of 1 year in expected lifetime of plan participant	4.0% increase

The amounts recognised in the statement of comprehensive income for the financial year were as follows:

	2019 £'000	2018 £'000
Actuarial loss/(gain)	(1,854)	1,821
Cumulative actuarial loss recognised via statement of comprehensive income	21,756	23,610

	Long term rate of return expected at 31 December 2019 %	Value at 31 December 2019 £'000	Long term rate of return expected at 31 December 2018 %	Value at 31 December 2018 £'000
Multi-Asset	5.30	36,929	3.75	34,606
Equities	6.26	-	6.26	-
Bonds	3.40	-	3.40	12,298
Gilts	1.00	94,057	2.40	62,988
Cash	1.00	3,390	2.40	10,868
Total market value of assets		134,376		120,760
Present value of scheme liabilities		(121,026)		(111,436) ²
Net asset in the scheme		13,350		9,324 ²
Related deferred tax (liability)/ asset at 17% (2018: 17%) (note 15).		(2,270)		(1,041)
Net pension asset		11,080		8,283 ²

The impact on the Deferred tax in the year ended 31st December 2018 would be immaterial and therefore has been adjusted through the current year and not retrospectively restated.

² Restated 2018 information, see note 18 for further information

FLOWERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Pension asset (continued)

b) Flowserve defined benefit pension scheme (continued)

Reconciliation of present value of scheme liabilities

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price. The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

Reconciliation of present value of scheme liabilities

	2019 £'000	2018 £'000
1 January	111,436	114,093 ⁴
Current service cost	304	442
Past service cost	-	2,248
Interest cost	2,927	2,752
Benefits paid	(4,121)	(5,261)
Actuarial loss/(gain)	10,480	(6,038)
31 December	121,026	111,436 ⁴

Reconciliation of fair value of scheme assets

	2019 £'000	2018 £'000
1 January	120,760	122,085
Interest income on scheme assets	3,180	2,938
Actuarial (gain)/(loss)	9,134	(4,659)
Benefits paid	(4,121)	(5,261)
Contributions paid by employer	5,432	5,657
Admin Costs	(9)	-
31 December	134,376	120,760

The actual return on scheme assets in the financial year was a gain of £12,314,000 (2018: loss of £1,721,000).

Analysis of the amount charged to profit and loss is as follows:

	2019 £'000	2018 £'000
Current service cost	304	442
Post service cost	-	2,248
Net interest on net defined benefit liabilities	(253)	(186)
Total	51	2,504

⁴ Restated 2018 information, see note 18 for further information

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Pension asset (continued)

b) Flowserve defined benefit pension scheme (continued)

Actuarial gains and losses

	2019	Restated 2018	Restated 2017	2016	2015
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	121,026	111,436 ⁵	114,093 ⁵	120,705	101,875
Plan assets	134,376	120,760	122,085	120,368	105,039
Surplus/(deficit)	13,350	9,324 ⁵	7,992 ⁵	(337)	3,164
Experience adjustments on plan assets	(9,134)	4,659	(1,811)	(14,275)	2,365
Experience adjustments on plan liabilities	(3,196)	3,784	5,107	(1,082)	(214)
Total amount recognised in the statement of comprehensive income	(1,854)	1,821	(1,972)	8,686	959

Year 2017 and 2018 have been restated, see note 18.

c) BWIP defined benefit pension scheme

A full actuarial valuation was carried out at 6 April 2018 and updated to 31 December 2018 by a qualified independent actuary. Amounts recognised have been included in the financial statements of the company. The major assumptions used by the actuary were as follows:

	2019 %	2018 %
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions in payment	2.30	2.30
Discount rate	2.60	2.40
Inflation assumption	3.45	3.40

The mortality assumptions used were as follows:

	2019 Years	2018 Years
Longevity at age 65 for current pensioners:		
- Men	21.6	21.5
- Women	23.5	23.4
Longevity at age 65 for future pensioners:		
- Men	22.4	22.3
- Women	24.4	24.3

⁵ Restated 2018 & 2017 information, see note 18 for further information

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

12 Pension commitments (continued)

c) BWIP defined benefit pension scheme (continued)

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below. Approximate adjustments were made to the defined benefit obligations, reflecting the mean term of the liability. A Black-Scholes model was used to determine the impact of caps and floors in setting pension increases.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	0.5% increase	7.4% decrease
Discount rate	0.5% decrease	8.4% increase
Inflation assumption	0.5% increase	4.0% increase
Mortality	Increase of 1 year in expected lifetime of plan participant	4.0% increase

The amounts recognised in the statement of comprehensive Income for the financial year were as follows:

	2019 £'000	2018 £'000
Actuarial (gain)/loss	(5,446)	90
Cumulative actuarial gain recognised via statement of comprehensive income	(9,075)	(3,629)

	Long term rate of return expected at 31 December 2019 %	Value at 31 December 2019 £'000	Long term rate of return expected at 31 December 2018 %	Value at 31 December 2018 £'000
Equities	-	-	6.50	1,478
Bonds	-	-	3.40	935
Gilts	1.80	16,106	2.40	18,378
Cash	-	-	2.40	14
Total market value of assets		16,106		20,805
Present value of scheme liabilities		(15,723)		(15,101)
Net surplus in the scheme		383		5,704
Related deferred tax liability at 17% (2018: 17%) (note 15)		(65)		(970)
Net pension asset		318		4,734

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Pension asset (continued)

c) BWIP defined benefit pension scheme (continued)

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price.

Reconciliation of present value of scheme liabilities

	2019 £'000	2018 £'000
1 January	15,101	16,557
Interest cost	377	376
Past service cost	-	296
Benefits paid	(1,223)	(1,766)
Actuarial loss/(gain)	1,468	(362)
31 December	15,723	15,101

Reconciliation of fair value of scheme assets

	2019 £'000	2018 £'000
1 January	20,805	22,504
Interest loss on scheme assets	522	519
Actuarial gain	(3,978)	(452)
Benefits paid	(1,223)	(1,766)
Contributions paid by employer	-	-
Administration Fees	(20)	-
31 December	16,106	20,805

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the financial year was a loss of £3,456,000 (2018: gain £67,000).

Analysis of the amount credited to the income statement is as follows:

	2019 £'000	2018 £'000
Net interest on net defined benefit asset	145	143

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

12 Pension asset (continued)

c) BWIP defined benefit pension scheme (continued)

Actuarial gains and losses

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Defined benefit obligation	(15,723)	(15,101)	(16,557)	(19,375)	(17,016)
Plan assets	16,106	20,805	22,504	23,351	19,271
Surplus	383	5,704	5,947	3,976	2,255
Experience adjustments on plan assets	3,978	452	(1,149)	(4,306)	156
Experience adjustments on plan liabilities	(1,468)	(362)	(723)	(3,559)	196
Total amount recognised in the statement of comprehensive income	(5,446)	(90)	1,872	747	40

13 Debtors

	2019 £'000	2018 £'000
Amounts falling due within one year:		
Trade debtors	22,026	11,412
Other debtors	2,078	613
Amounts owed by group undertakings	100,624	98,202
Prepayments and accrued income	1,055	707
	<u>125,783</u>	<u>110,934</u>
Amounts falling due after more than one year:		
Deferred tax asset (note 16)	3,026	2,779
	<u>3,026</u>	<u>2,779</u>

Amounts owed by other group undertakings are unsecured, repayable on demand, denominated in pound sterling, Euro and US dollars and are non-interest bearing.

14 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	4,509	2,110
Other creditors	1,774	943
Amounts owed to group undertakings	69,496	51,083
Accruals and deferred income	4,459	4,121
Leasing Liabilities	2,890	-
	<u>83,098</u>	<u>58,257</u>

Amounts owed to other group undertakings are unsecured, denominated in pound sterling and are interest bearing at LIBOR less 25 basis points.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

15 Provisions for liabilities

	Restructuring Provision £'000	Warranty Provision £'000	Total £'000
At 1 January 2019	35	120	155
Additions to the income statement	-	232	232
Amount utilized	(35)	(97)	(132)
SiHi Provision	-	18	18
At 31 December 2019	-	273	273

Restructuring

The restructuring of the Newark & Haywards Heath manufacturing facilities have been completed during 2016 with the capacity transferred to other European Flowserve Sites. A portion of the provision remained for employees retained to complete key activities.

Warranty

Provisions are made for expected warranty costs on products sold in the last two years both for known cases at the balance sheet date and also future claims to the extent of the likelihood of claims crystallizing in the future based on past experience of the level of repairs and returns. Assumptions used to calculate the provision for warranties were based on current sales levels and current information available about returns based on the two-year warranty period for all goods sold. The warranty provision is expected to be utilised within two years.

During 2016 as product lines were transferred to other European Flowserve sites the warranty reserve attributable to those product lines were also transferred

16 Deferred taxation

	Accelerated Capital Allowances £'000	Tax Losses £'000	Pension £'000	Other £'000	Total £'000
At 1 January 2018	2,577	-	(1,825)	198	950
Charged) to the income statement	226	458	(510)	(27)	147
Credited directly to other comprehensive income	-	-	325	-	325
Credited/(charged) to Equity	-	-	-	3	3
At 31 December 2018	2,803	458	(2,010)	174	1,425
Credited/(charged) to the income statement	28	1,380	(934)	217	691
Charged) directly to other comprehensive income	-	-	611	-	611
Credited/(charged) to Equity	-	-	-	1	1
Transfer of Trade in	(228)	-	-	-	(228)
At 31 December 2019	2,603	1,838	(2,333)	392	2,500

The Company currently has an unrecognised deferred tax asset of £651,353 (2018: £1,336,688) in respect of brought forward losses and accelerated capital allowances in the Fluid Solutions division given uncertainty over whether the Company will make sufficient future taxable profits on which the asset will unwind.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

17 Share based payment

Summary of arrangements and information relating to option valuation techniques

Restricted shares of Flowserve Corporation have been granted to the employees of the company by Flowserve Corporation under the terms of the Flowserve Corporation Equity and Incentive Compensation Plan (the "2010 Plan"), which is a shareholder approved plan authorizing the issuance of shares of our common stock in the form of restricted shares, restricted share units and performance-based units (collectively referred to as "Restricted Shares"), incentive stock options, non-statutory stock options, stock appreciation rights and bonus stock. In 2016 the long-term incentive program was amended to allow Restricted Shares granted after January 1, 2016 to employees who retire and have achieved at least 55 years of age and 10 years of service to continue to vest over the original vesting period ("55/10 Provision").

Restricted Shares – Awards of Restricted Shares are valued at the closing market price of our common stock on the date of grant. The unearned compensation is amortized to compensation expense over the vesting period of the restricted shares, which is expected to be recognized over a weighted-average period of approximately two years, except for awards related to the 55/10 Provision which are expensed in the period granted. These amounts will be recognized into net earnings in prospective periods as the awards vest.

The Company recorded share based compensation expense in the year of £40,121 (2018: £17,000).

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

18 Restatement

After a review of the Pension schemes, an error was established when calculating the Pension liability in 2017 for £3.2m This has been recognized as a restatement of the prior year accounts.

As a result of duplication of data a misstatement of £3.2m was identified in 2017. The error has been adjusted through the opening retained earnings balance on 1 January 2018.

The amendments from the previously filed Statutory Accounts to the restatement for 2018 are as follows:

As at 1st December 2018:

	<u>As previously reported</u>	<u>New Re-statement</u>
Pension Asset	10,739	13,939
Retained earnings	102,650	105,850
<i>Note 12</i>		
Present value of Flowserve scheme liabilities	117,293	114,093
Net asset in the Flowserve scheme	4,792	7,992

The impact on the Deferred tax as at 1st December 2018 would be immaterial and therefore has been adjusted through the current year and not retrospectively restated.

As at 31st December 2018:

	<u>As previously reported</u>	<u>New Re-statement</u>
Pension Asset	11,828	15,028
Retained earnings	99,459	102,659
<i>Note 12</i>		
Present value of Flowserve scheme liabilities	114,636	111,436
Net asset in the Flowserve scheme	6,124	9,324
Net pension asset in the Flowserve scheme	5,083	8,283

The impact on the Profit and Loss, Other Comprehensive Income statement and the related Deferred tax liability in the year ended 31st December 2018 would be immaterial and therefore has been adjusted through the current year and not retrospectively restated.

The Pension asset was previously presented separately on the balance sheet, this is now presented in under Current Assets.

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

19 Leases and the adoption of IFRS16

The company has contracts for various UK buildings. In 2019 IFRS16 was adopted and the amounts recognized in the Balance Sheet in relation to the leases are as follows:

	31 December 2019 £'000
Right-of-use-assets:	
Buildings	3,351
	<u>3,351</u>
Lease Liability:	
Buildings – Current	668
Buildings – Non-Current	2,222
	<u>2,890</u>

20 Derivative financial instruments

The company sells certain goods in US dollars and Euros and typically manage the exchange rate risk of future purchases through the use of forward contracts and currency options.

At 31 December 2019, the company had contracts with a notional commitment of £1,341,129 (2018: £1,317,614). The fair value of the contracts and options in places was not considered to be material to the financial statements. The options and contract agreements had a maturity spread of between 0 and 7 months (2018: 0 and 2 months), with average contracted rates of £1: \$1.285 (2018: £1: \$1.27).

21 Related party transactions

The company has taken advantage of exemption in FRS 101 from the requirement to disclose transactions within the wholly owned group companies.

22 Called up share capital

	2019 Number '000	2018 Number '000	2019 £'000	2018 £'000
Allotted and fully paid				
A ordinary shares of £1 each	1,000	1,000	1,000	1,000

All shares rank pari passu in all respects.

23 Contingent liabilities

The company has given guarantees to certain customers in respect of the performance of specific sales orders, which amounted to £884,212 at 31 December 2019 (2018: £876,932).

The company has given a guarantee to HMRC as part of the Duty Deferment Scheme, which amounted to £740,000 at 31 December 2019 (2018: £740,000).

FLOWSERVE GB LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

24 Ultimate parent undertaking and controlling party

The company's immediate parent company at 31 December 2019 was Flowserve International Limited, a company incorporated in the UK.

The company's ultimate parent undertaking and controlling party, for which group financial statements are prepared including the results of the company, at 31 December 2019 was Flowserve Corporation, a company incorporated in the United States of America. The ultimate parent is both the largest and smallest company to consolidate the results.

Copies of the group financial statements may be obtained from: Flowserve Corporation, 5215 N O'Conner Boulevard, Suite 2300, Irving, Texas, USA.

25 Post balance sheet events

The Covid-19 pandemic has impacted trading conditions throughout the UK and the rest of the world. Flowserve UK have remained open during this period of significant impact from March 2020 and continues to receive and fulfil customer orders. We have not placed any employees on furlough during this period. Flowserve have been very pro-active to safeguard employees with supply of cleaning materials, PPE, temperature monitors, alongside new workshop layouts to ensure protection of employees.

We have incurred slower processing of customer orders as employees work from home coupled with slow supply of materials impacting lead times. Covid-19 is having a serious impact on the UK economy with employees placed on furlough for a significant period of time and job losses continuing across all sectors.

During November 2020, the High Court ruled that individual Pension payments made since 17 May 1990 would need equalization of the amount of guaranteed minimum pension (GMP) between men and women. Our Pension providers have reviewed historic scheme accounts to produce estimates for this ruling. These liabilities have been estimated at £283,000 for the Pump scheme and £133,000 for the BWIP scheme. This is not considered within these Statutory Accounts.