FLOWSERVE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020 AND 2019 AND FOR THE

THREE YEARS ENDED DECEMBER 31, 2020

1. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING DEVELOPMENTS

We are principally engaged in the worldwide design, manufacture, distribution and service of industrial flow management equipment. We provide long lead time, custom and other highly-engineered pumps; standardized, general-purpose pumps; mechanical seals; engineered and industrial valves; related automation products; and services and solutions primarily for oil and gas, chemical, power generation, water management and other general industries requiring flow management products and services. Equipment manufactured and serviced by us is predominantly used in industries that deal with difficult-to-handle and corrosive fluids, as well as environments with extreme temperatures, pressure, horsepower and speed. Our business is affected by economic conditions in the United States ("U.S.") and other countries where our products are sold and serviced, by the cyclical nature and competitive environment of our industries served, by the relationship of the U.S. dollar to other currencies and by the demand for and pricing of our customers' end products.

Revision to Previously Reported Financial Information — In conjunction with our close process for the third quarter of 2020, we identified accounting errors related to the recognition of a liability for unasserted asbestos claims. The adjustments primarily related to an incurred but not reported ("IBNR") liability associated with unasserted asbestos claims, but also included adjustments related to the associated receivables for expected insurance proceeds for asbestos settlement and defense costs from insurance coverage and the recognition as an expense the related legal fees that were previously estimated to be recoverable from insurance carriers for which coverage is not currently sufficient following the recognition of the IBNR for periods beginning with the year ended December 31, 2014 through the second quarter of 2020 and to correct certain other previously identified immaterial errors.

We have assessed these errors, individually and in the aggregate, and concluded that they were not material to any prior periods. However, the aggregate amount of the prior period errors would have been material to our consolidated statements of income and full year results and therefore, we have revised our previously issued audited consolidated financial information for the fiscal years ended December 31, 2019 and 2018. Interim periods for the three-months ended March 31, 2020 and the three and six-months ended June 30, 2020 will be revised in connection with the corresponding 2021 interim filings. Refer to Note 2 to our consolidated financial statements included in this Annual Report for additional information.

Coronavirus Pandemic ("COVID-19") and Oil and Gas Market — Over the past year, we have been challenged by macroeconomics and global economic impacts based on the disruption and uncertainties caused by COVID-19 and the emanating impacts of the pandemic on pricing and dampened demand for oil, further resulting in instability and volatility in oil commodity prices. To date, the COVID-19 pandemic has had widespread implications worldwide and has caused substantial economic uncertainty and challenging operational conditions. For example, during the year, these conditions drove the announcement of significant and broad-based decreases in customer planned capital spending. As a result, many of our large customers have announced and executed on double-digit capital expenditure budget decreases for 2020, resulting in lower bookings during 2020 as compared to the prior year.

Principles of Consolidation — The consolidated financial statements include the accounts of our company and our wholly and majority-owned subsidiaries. In addition, we would consolidate any variable interest entities for which we are deemed to be the primary beneficiary. Noncontrolling interests of non-affiliated parties have been recognized for all majority-owned consolidated subsidiaries. Intercompany profits/losses, transactions and balances among consolidated entities have been eliminated from our consolidated financial statements.

In the ordinary course of our operations worldwide, we have entered into joint ventures and interests (collectively referred to as "affiliates") to provide greater flexibility in delivering our products and services, gain access to markets and geographical locations and reduce exposure and diversify risk. Investments in affiliate companies with a noncontrolling ownership interests between 20% and 50%, are unconsolidated and are accounted for using the equity method, which approximates our equity interest in their underlying equivalent net book value under accounting principles generally accepted in the U.S. ("U.S. GAAP"). All equity method investments are reviewed for impairment whenever events and conditions indicate that a decrease in the value of an investment has occurred that is other than temporary. If impaired, an