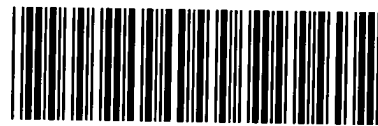

NATIONAL OILWELL VARCO UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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NATIONAL OILWELL VARCO UK LIMITED

COMPANY INFORMATION

Directors	A J Fleming R Oudendijk
Company secretary	A M Sloan
Registered number	00873028
Registered office	Stonedale Road Oldends Lane Industrial Estate Stonehouse Gloucestershire GL10 3RQ
Independent auditors	Ernst & Young LLP Blenheim House Fountainhall Road Aberdeen AB15 4DT

NATIONAL OILWELL VARCO UK LIMITED

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NATIONAL OILWELL VARCO UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The directors present their Strategic Report for the year ended 31 December 2017.

Business review

The company's principal activity during the year was that of manufacturing, sale, rental and servicing of equipment and accessories to the offshore oil and gas industry.

National Oilwell Varco UK Limited traded as the following divisions: Amclyde Norson Engineering, APL (UK), Elmar, Coil Services (North Sea), CTES, Grant Prideco, Hydra Rig, Dynamic Drilling Solutions (MD-Totco), NOV Flexibles UK, Pressure Performance Systems (PPS), Procon Engineering, Rig Aftermarket, Rig Systems, Rig Technologies, Tuboscope, Tuboscope Far East, Well Site Services - Axiom, Well Site Services - Brandt and XL Systems throughout the year. The company also operates branches in Azerbaijan, Norway, Cameroon and Ivory Coast.

Principal risks and uncertainties

Market risks

The sale of oilfield equipment and services to the offshore oil and gas industry correlates strongly with the price of oil and drilling activity which is outside the company's direct control. However, the directors are confident that the company is positioned in a manner that will enable it to meet the demands of its markets and business environment.

Customers in this sector purchase globally and there are a number of competitors of various sizes in Europe, North America and Asia. The company seeks to minimise the competitive risk by being a leader in redesigning processes, managing information and providing quality products, services and solutions that deliver a competitive advantage to its customers. The company also endeavours to utilise the strengths of being part of a large successful multinational group, National Oilwell Varco, Inc. to strategically acquire businesses to strengthen its market position.

Foreign exchange risk

The company is exposed to foreign currency exchange rate fluctuations, primarily between sterling and the US dollar. The company uses forward foreign currency contracts to reduce this exposure. The directors do not consider the fair value of the contracts in place at 31 December 2017 and 31 December 2016 to be materially different to the issue cost.

Other risks and uncertainties

When designing a new product, the company ensures that the legislative requirements of the end user are met fully.

When renting products to the client, the company ensures the equipment has been fully tested and is accompanied with current certification before being sent to the customer.

NATIONAL OILWELL VARCO UK LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Financial key performance indicators

The company's key financial performance indicators during the year were as follows:

	2017 £000	2016 £000
Turnover	268,662	285,014
Gross profit	33,035	35,068
(Loss)/profit before taxation	(1,287)	21,926
Shareholders' funds	776,456	842,254

Turnover for 2017 was £268,662,000, a decrease of 6% from the prior year, reflecting the continued low oil price and subsequent weakened demand for oil and gas equipment, parts and services. The decline in revenue was most apparent in the Rig Systems and Aftermarket (both now Rig Technologies) divisions, offset by increased revenue from divisions operating in the well completion and production phase.

The directors acknowledge that it was a difficult business environment during 2017 however, believe with divisions operating at different points of the oil and gas drilling cycle, the company is very well placed to take advantage of opportunities that will arise when a sustained recovery in the oil price occurs.

The company maintained a gross profit margin of 12% in 2017 however made a loss before tax of £1,287,000.

There was a total impairment loss of £87,489,000 in investment values, including the write-down of Axiom Process Limited, NOV Mission Products UK Limited and Big Red Tubulars Limited, the majority of which was offset by dividends received of £105,497,000.

The company strengthened its current Balance Sheet position during the year with current assets as a percentage of liabilities of 266% (2016: 172%).

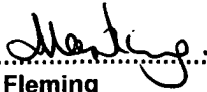
Dividends totalling £70,261,000 were paid during the year which is the main cause of decline in shareholders' funds.

Future developments

The directors believe that despite the global industry downturn witnessed during 2016 and 2017, turnover and profitability of the company will remain strong during the coming years due to the high quality and service levels provided by the company and the benefits of being part of a growing global group.

The directors are focused on continuing to expand the company through strategic acquisitions.

This report was approved by the board on 28 June 2018 and signed on its behalf.

.....
A J Fleming
Director

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Results and dividends

The loss for the year, after taxation, amounted to £156,000 (2016 - profit £29,172,000).

Dividends of £70,261,000 (2016 - £114,973,000) were paid during the year.

Directors

The directors who served during the year were:

A J Fleming
R Oudendijk

Future developments

Likely future developments in the business of the company are discussed in the Strategic Report.

Financial instruments

The company's operations expose it to a variety of financial risks that include the effects of interest rate risk, liquidity risk, credit risk and price risk.

Interest rate risk

Exposure to interest rate risk is limited to movements in the UK and US base rates. However, as the company has no external debt other than its bank overdraft, its exposure to interest rate risk is considered low.

Liquidity risk

The company has available cash reserves along with utilising a bank overdraft facility. The company has no other external debt. As such, the directors consider the company's exposure to liquidity risk to be low.

Credit risk

The company does have an element of credit risk attributable to its trade receivables, but is rigorous in its financial appraisal of potential customers before entering into sales contracts. The company has a large and geographically diverse customer base which also mitigates the potential exposure on receivables. The amounts presented in the Balance Sheet are shown net of provisions for doubtful receivables. An allowance for impairment has been made where there is an identifiable loss event, or the likelihood of failure to be able to collect amounts based on previous experience and the current business situation for specific customers.

Price risk

The decline in oil price witnessed in recent years continues to impact the market at large. The directors believe that the company is well placed to mitigate against this risk due to its diversity of product and flexibility of service.

Research and development activities

The company continues to develop and enhance its product offering across all of its divisions. The total Research and Development spend in 2017 was £1,999,000 (2016: £1,076,000), the majority of which was incurred by the Corporate, Well Site Services and Elmar divisions.

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Employee involvement

During the year, the policy of providing employees with information about the group has been continued via the National Oilwell Varco intranet website. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Disabled employees

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the company policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

Going concern

The directors have considered the company's current and future prospects and its availability of financing, and are satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. After making enquiries, the directors have a reasonable expectation that the company has adequate reserves to continue in operational existence for the foreseeable future and have no reason to believe that a material uncertainty exists that may cast significant doubt over the ability of the company to continue as a going concern. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Post balance sheet events

On 31 January 2018, intellectual property carried at £2,812,000 was sold to a fellow group company realising a net gain on sale of £944,000.

On 22 April 2018 the company purchased the entire share capital of Vallourec Drilling Products Middle East FZE for a consideration of \$8,800,000.

On 22 June 2018 the company declared and paid an interim dividend of \$2,200,000 and £42,564,000 to its shareholder NOV UK Holdings Limited.

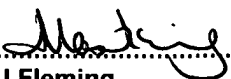
NATIONAL OILWELL VARCO UK LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Auditors

In accordance with s.487 of the Companies Act 2006, Ernst & Young LLP is deemed to be re-appointed as the auditor of the company.

This report was approved by the board on 28 June 2018 and signed on its behalf.


.....
A J Fleming
Director

NATIONAL OILWELL VARCO UK LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL OILWELL VARCO UK LIMITED

Opinion

We have audited the financial statements of National Oilwell Varco UK Limited for the year ended 31 December 2017, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 35, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the 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.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL OILWELL VARCO UK
LIMITED (CONTINUED)**

Other information

The other information comprises the information included in the Annual Report and Financial Statements, 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, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL OILWELL VARCO UK
LIMITED (CONTINUED)**

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

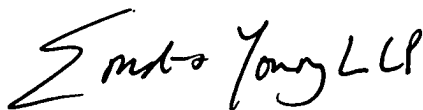
Auditors' responsibilities for the audit of the financial statements

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Kenneth Macleod Hall (Senior Statutory Auditor)

for and on behalf of

Ernst & Young LLP, Statutory Auditor

Aberdeen

28 June 2018

NATIONAL OILWELL VARCO UK LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £000	2016 £000
Turnover	4	268,662	285,014
Cost of sales		(235,627)	(249,946)
Gross profit		33,035	35,068
Distribution costs		(4,822)	(8,145)
Administrative expenses		(47,073)	(41,284)
Operating loss	5	(18,860)	(14,361)
(Loss)/profit on sale of tangible assets		(119)	214
Amounts written off fixed asset investments	18	(87,489)	(15,527)
Amounts written off inventory	10	-	(20,219)
Impairment of tangible assets	19	-	(3,937)
Restructuring costs		-	(13,540)
Loss on ordinary activities before investment income, interest and taxation		(106,468)	(67,370)
Income from shares in group undertakings	9	105,497	89,285
Loss on disposal of fixed asset investments	18	(897)	-
Interest receivable and similar income	11	756	187
Interest payable and similar expenses	12	(39)	(188)
Other finance (expense)/income	13	(136)	12
(Loss)/profit before tax		(1,287)	21,926
Tax on (loss)/profit	14	1,131	7,246
(Loss)/profit for the financial year		(156)	29,172

The notes on pages 14 to 51 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £000	2016 £000
(Loss)/profit for the financial year		(156)	29,172
Other comprehensive income			
Actuarial gain/(loss) on defined benefit scheme	30	5,845	(3,038)
Change in irrecoverable plan surplus not recognised	30	(3,518)	44
Gain on derivative financial instruments		-	1,586
Movement on deferred tax relating to pension liability	24	(442)	575
Total comprehensive income for the year		1,729	28,339

The notes on pages 14 to 51 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED
REGISTERED NUMBER: 00873028

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	16	4,301	1,834
Tangible assets	17	49,853	58,115
Investments	18	527,315	614,636
		<u>581,469</u>	<u>674,585</u>
Current assets			
Fixed assets held for sale	19	-	975
Stocks	20	76,795	99,280
Debtors: amounts falling due within one year	21	193,196	272,147
Cash at bank and in hand		55,473	56,871
		<u>325,464</u>	<u>429,273</u>
Creditors: amounts falling due within one year	22	(122,288)	(249,591)
Net current assets		<u>203,176</u>	<u>179,682</u>
Total assets less current liabilities		<u>784,645</u>	<u>854,267</u>
Creditors: amounts falling due after more than one year	23	(2,953)	(3,740)
Provisions for liabilities			
Other provisions	25	(5,236)	(5,951)
Defined benefit pension liability	30	-	(2,322)
Net assets		<u><u>776,456</u></u>	<u><u>842,254</u></u>
Capital and reserves			
Called up share capital	26	77,916	77,916
Share premium account	27	507,714	507,714
Share based payments reserve	27	17,871	15,137
Merger reserve	27	(57,705)	(64,417)
Profit and loss account	27	230,660	305,904
		<u><u>776,456</u></u>	<u><u>842,254</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 June 2018.

.....
A J Fleming
 Director

The notes on pages 14 to 51 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £000	Share premium account £000	Share based payment reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2016	77,916	507,714	13,243	(25,670)	392,538	965,741
Comprehensive income for the year						
Profit for the year	-	-	-	-	29,172	29,172
Actuarial losses on pension scheme (note 30)	-	-	-	-	(2,994)	(2,994)
Gain on derivative financial instruments	-	-	-	-	1,586	1,586
Deferred tax relating to pension scheme	-	-	-	-	575	575
Total comprehensive income for the year	-	-	-	-	28,339	28,339
Dividends: Equity capital (note 15)	-	-	-	-	(114,973)	(114,973)
Merger reserve movement (note 27)	-	-	-	(38,747)	-	(38,747)
Share based payments (note 28)	-	-	1,894	-	-	1,894
At 1 January 2017	77,916	507,714	15,137	(64,417)	305,904	842,254
Comprehensive income for the year						
Loss for the year	-	-	-	-	(156)	(156)
Actuarial gains on pension scheme (note 30)	-	-	-	-	2,327	2,327
Deferred tax relating to pension scheme	-	-	-	-	(442)	(442)
Total comprehensive income for the year	-	-	-	-	1,729	1,729
Dividends: Equity capital (note 15)	-	-	-	-	(70,261)	(70,261)
Merger reserve movement (note 27)	-	-	-	6,712	(6,712)	-
Share based payments (note 28)	-	-	2,734	-	-	2,734
At 31 December 2017	77,916	507,714	17,871	(57,705)	230,660	776,456

The notes on pages 14 to 51 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. General information

National Oilwell Varco UK Limited is a limited liability company incorporated in England and Wales. The Registered Office is Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

The company is itself a subsidiary company and is exempt from the requirement to prepare group accounts by virtue of section 401 of the Companies Act 2006. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of National Oilwell Varco, Inc. as at 31 December 2017 and these financial statements may be obtained from its principal office at 7909 Parkwood Circle Drive, Houston, Texas, 77036, USA.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.3 Going concern

The directors have considered the company's current and future prospects and its availability of financing, and are satisfied that the company can continue to pay its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements. After making enquiries, the directors have a reasonable expectation that the company has adequate reserves to continue in operational existence for the foreseeable future and have no reason to believe that a material uncertainty exists that may cast significant doubt over the ability of the company to continue as a going concern. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Construction contracts

Revenue arising from construction contracts is recognised by reference to the stage of completion. Stage of completion is measured by reference to the proportion that costs incurred for work performed to date bear to the estimated total costs. Costs incurred for work performed to date do not include costs relating to future activity, such as for materials or prepayments.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.5 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the Profit and Loss Account over its useful economic life.

Other intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

The estimated useful lives range as follows:

Goodwill	- 5-20 years
Intangibles	- 1-30 years

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.6 Tangible assets

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.6 Tangible assets (continued)

Land is not depreciated. Assets in the course of construction are stated at cost and are not depreciated until they are available for use. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Freehold buildings	- 25-50 years
Leasehold improvements	- 5-10 years
Plant, machinery and rental equipment	- 3-20 years
Motor vehicles	- 3-4 years
Fixtures and fittings	- 5-10 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within '(Loss)/profit on sale of tangible assets' in the Profit and Loss Account.

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

2.8 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each Balance Sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.9 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. Accounting policies (continued)

2.10 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with an insignificant risk of change in value.

2.11 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.12 Hedge accounting

The company uses foreign currency forward contracts to manage its exposure to cash flow risk on its foreign currency denominated sales. These derivatives are measured at fair value at each Balance Sheet date.

To the extent the cash flow hedge is effective, movements in fair value are recognised in Other Comprehensive Income and presented within the Profit and Loss Account reserve. Any ineffective portions of those movements are recognised in profit or loss for the year.

2.13 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to the Profit and Loss Account at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

Grants of a revenue nature are recognised in the Profit and Loss Account in the same period as the related expenditure.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.14 Foreign currency translation

Functional and presentation currency

The company's functional and presentation currency is Pound Sterling (GBP). The company's financial statements are prepared in GBP and rounded to the nearest £'000.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account except when deferred in other comprehensive income as qualifying cash flow hedges.

All foreign exchange gains and losses are presented in the Profit and Loss Account within 'Administrative expenses'.

2.15 Finance costs

Finance costs are charged to the Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.16 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. Accounting policies (continued)

2.17 Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

No expense is recognised for awards that do not ultimately vest.

At each Balance Sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions on the number of equity instruments that will ultimately vest as described above. The movement in cumulative expense since the previous Balance Sheet date is recognised in the Profit and Loss Account, with a corresponding entry in equity.

2.18 Operating leases: Lessor

Assets subject to operating leases are presented in the Balance Sheet according to the nature of the asset.

Income from operating leases is recognised in the Profit and Loss Account on a straight line basis over the period of the lease.

2.19 Operating leases: Lessee

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.20 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

2.21 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.22 Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease.

2.23 Pensions

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

The company is also the sponsoring employer of a defined benefit pension scheme, the assets of which are held separately from those of the company in the trustee administered funds.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the Profit and Loss Account during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate, at the start of the period taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in the Profit and Loss Account as other finance income or cost.

The re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest) are recognised immediately in Other Comprehensive Income in the period in which they occur. Re-measurements are not reclassified to the Profit and Loss Account in subsequent periods.

The net defined benefit pension asset or liability in the Balance Sheet comprises the total of the present value of the defined benefit obligation less the fair value of plan assets out of which the obligations are to be settled directly. The value of the net defined benefit pension asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.24 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a charge attributable to an item of income and expense recognised as Other Comprehensive Income or to an item recognised directly in equity is also recognised in Other Comprehensive Income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

2.25 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

2.26 Group reconstructions

The company accounts for group reconstructions, where the trade and net assets of an entity are acquired from an entity within the same group, using the merger accounting method.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

a. Critical judgements in applying the entity's accounting policies

(i) Investment impairment

The company considers all investments for evidence of impairment annually. The method used in 2017 to value each investment consists of applying a discounted Enterprise value/revenue ratio for NOV Inc. to 2018 forecast revenue for trading entities and net assets for non-trading entities. This value is then compared to the carrying value of the investment to assess whether there are indicators that impairment may exist. When this is found to be the case, current and future profitability of the subsidiary is also taken in to consideration. Judgement is applied in assessing the amount by which to impair any investments where future profitability cannot be certain or where specific circumstances have led to a reduction in net assets.

b. Critical accounting estimates and assumptions

(i) Defined benefit pension

The cost of defined benefit pension plans are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and the long term nature of these plans, such estimates are subject to uncertainty. FRS102 requires that the discount rate should be the current rate of return on "a high quality corporate bond of equivalent currency and term to the plan liabilities". The Global RATE:Link term matching model has been used to derive a single discount rate that reflects the term structure of interest rates. The discounted mean term (or duration) of the plans' liabilities was calculated to be around 16 years based on the most recent actuarial valuation calculations available. Based on this average duration, a discount rate of 2.40% per annum was adopted based on market conditions as at 31 December 2017. The mortality rate is based on 100% of the SAPS S2 year of birth tables with future improvements in line with CMI 2016 projections and a long term trend of 1.25% pa. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 30.

(ii) Provisions

Provision is made for warranty costs, onerous lease contracts and dilapidations. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the obligations require management's judgement.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

b. Critical accounting estimates and assumptions (continued)

(iii) Revenue recognition – percentage of completion method

The company applies the percentage of completion method ("POC") in accounting for construction contracts and contracts to provide services as outlined in the accounting policy 2.4. The use of the POC method requires the management to determine the stage of completion by reference to the contract costs incurred for work performed to date in proportion to the estimated total contract costs. Based on this estimated stage of completion, a respective portion of the expected revenue is recognised. If circumstances arise that may change the original estimates of revenues, costs or extent of progress towards completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in the Profit and Loss Account in the period in which the circumstances that give rise to the revision become known to the management.

Experience, systematic use of the project execution model and focus on core competencies reduce, but do not eliminate, the risk that estimates associated with POC may change significantly.

(iv) Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful life economic lives of the assets. They are amended when necessary to reflect current estimates, based on future investment and the physical condition of the asset.

(v) Inventory provision

The company considers the recoverability of the cost of inventory and associated provisioning required. When calculating the inventory provision, management considers the nature and condition of inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4. Turnover

Turnover represents the amounts derived from provision of services which fall within the company's ordinary activities, stated net of value added tax.

The company engages in one principal area of activity represented by the manufacturing, sale, rental and servicing of equipment and accessories to the offshore oil and gas industry.

An analysis of turnover by category is as follows:

	2017	2016
	£000	£000
Sale of goods	157,081	162,764
Rendering of services	111,063	121,730
Grant income	82	46
Royalty income	436	474
	268,662	285,014

A geographical analysis of turnover is as follows:

	2017	2016
	£000	£000
Europe	138,304	125,829
Americas	43,519	39,270
Middle East	34,717	39,992
Africa	32,777	39,547
Far East	14,800	27,660
Other	4,545	12,716
	268,662	285,014

The directors consider that no disclosure should be made of the geographical analysis of (loss)/profit before taxation and net assets as it is considered that disclosure of this information would be seriously prejudicial to the interests of the company. All turnover, (loss)/profit before taxation and net assets are attributable to the supply of materials, equipment and services for the oil and gas industry.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. Operating loss

The operating loss is stated after charging/(crediting):

	2017	2016
	£000	£000
Depreciation of tangible assets (note 17)	11,888	10,326
Amortisation and impairment of intangible assets, including goodwill (note 16)	628	646
Research & development charged as an expense	1,999	1,076
Impairment of inventory	1,687	-
Auditors' remuneration (note 6)	787	1,084
Operating lease rentals:		
- plant and machinery	1,267	1,693
- land and buildings	4,088	4,222
Exchange differences	7,101	342
Change in fair value of hedging instruments	(6,126)	2,259
	=====	=====

During the year ended 31 December 2016 impairment of inventory was recognised below operating profit as an exceptional item due to its nature and size and so is not included in the above table (see note 10).

6. Auditors' remuneration

	2017	2016
	£000	£000
Fees payable to the company's auditor in respect of:		
The audit of the company's annual financial statements	283	283
The audit of financial statements of subsidiaries of the company pursuant to legislation	262	274
Taxation advisory services provided to the company and its subsidiary undertakings	242	527
	=====	=====
	787	1,084

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. Employees

Staff costs were as follows:

	2017 £000	2016 £000
Wages and salaries	70,610	73,386
Social security costs	7,518	7,549
Other pension costs (note 30)	3,385	3,798
Share-based payments (note 28)	2,734	1,894
	<u>84,247</u>	<u>86,627</u>

The average monthly number of employees, excluding the directors, during the year was as follows:

	2017 No.	2016 No.
Production	1,164	1,251
Sales	90	96
Administration	212	206
	<u>1,466</u>	<u>1,553</u>

Staff costs and number of employees reported above exclude a number of employees whose contracts of employment were with National Oilwell Varco UK Limited, but whose costs were borne by fellow subsidiary companies for the benefit of which these employees worked.

8. Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	113	109
Amounts receivable under long-term incentive schemes	13	4
Company contributions to defined contribution pension schemes	8	8
	<u>134</u>	<u>121</u>

During the year retirement benefits were accruing to 1 director (2016 - 1) in respect of defined contribution pension schemes.

During the year 1 director (2016 - 1) received shares in respect of qualifying services.

One of the directors who served during the year (2016 - 1) was paid by another group entity.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. Income from shares in group undertakings

	2017	2016
	£000	£000
NOV Mission Products UK Limited	77,450	11,490
NOV Downhole Eurasia Limited	20,146	67,755
Elmar Far East Pty Ltd	2,662	-
NOV Elmar (Middle East) Limited	2,266	-
Hebei Huayouyiji Tuboscope Coating Co. Ltd.	1,865	8,576
National Oilwell Varco Almansoori Services LLC	1,108	1,464
	105,497	89,285

10. Amounts written off inventory

During the year ended 31 December 2016, following a group wide review of obsolete and surplus inventories and updated assumptions relating to estimates of future demand, an additional £20,219,000 was recorded to inventory reserves during the year ended 31 December 2016 and recognised in the Profit and Loss Account within 'Amounts written off inventory'. This represented a one off non-recurring cost.

11. Interest receivable

	2017	2016
	£000	£000
Interest receivable on loans to group undertakings	564	96
Bank and other interest receivable	192	91
	756	187

12. Interest payable and similar expenses

	2017	2016
	£000	£000
Bank and other interest payable	39	181
Interest payable on loans from group undertakings	-	7
	39	188

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. Other finance (expense)/income

	2017	2016
	£000	£000
Net interest on defined benefit pension plan (note 30)	(60)	12
Unwind of discount of long term liabilities and provisions	(76)	-
	<u>(136)</u>	<u>12</u>

14. Taxation

	2017	2016
	£000	£000
Corporation tax		
Adjustments in respect of previous periods	(36)	(7,879)
Group relief recoverable	(3,347)	-
	<u>(3,383)</u>	<u>(7,879)</u>
Foreign tax		
Foreign tax on income for the year	2,039	3,351
Foreign tax adjustments in respect of previous periods	(18)	47
	<u>2,021</u>	<u>3,398</u>
Total current tax	<u>(1,362)</u>	<u>(4,481)</u>
Deferred tax		
Origination and reversal of timing differences	20	(2,227)
Deferred tax on pension scheme	(1)	133
Deferred tax on share based payments	(162)	(231)
Adjustment in respect of previous periods	374	(440)
Total deferred tax	<u>231</u>	<u>(2,765)</u>
Taxation on (loss)/profit	<u>(1,131)</u>	<u>(7,246)</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. Taxation (continued)

Factors affecting tax credit for the year

The tax assessed for the year is lower than (2016 - *lower than*) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £000	2016 £000
(Loss)/profit before tax	<u>(1,287)</u>	<u>21,926</u>
(Loss)/profit multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	(248)	4,385
Effects of:		
Expenses not deductible for tax purposes	17,248	4,184
Capital allowances for year in excess of/(less than) depreciation	52	(13)
Overseas tax expensed	2,039	3,351
Adjustments to tax charge in respect of prior periods	320	(8,272)
Other timing differences	150	105
Income not taxable	(20,694)	(18,527)
Tax rate changes	2	(177)
Pension provision	-	(1)
Losses carried back to previous year	-	7,719
Total tax credit for the year	<u><u>(1,131)</u></u>	<u><u>(7,246)</u></u>

Factors that may affect future tax charges

UK Corporation tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit or loss for the year.

The Finance Bill 2015 (no 2) was enacted on 18 November 2015 reducing the UK corporation tax rate to 19% (from 1 April 2017) and 18% (from 1 April 2020).

The Finance Bill 2016 further reduced the UK corporation tax rate to 17% (from 1 April 2020) and was enacted on 15 September 2016.

As at 15 September 2016 the reductions in the UK corporation tax rate to 19% (from 1 April 2017) and 17% (from 1 April 2020) were enacted and therefore a rate of 19% has been applied to the deferred tax calculations in these accounts.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

15. Dividends paid

	2017 £000	2016 £000
Interim June 2017: 52.94p per ordinary share	41,250	-
Interim September 2017: 9.38p per ordinary share	7,306	-
Interim December 2017: 8.34p per ordinary share	6,500	-
Interim December 2017: 19.51p per ordinary share	15,205	-
Interim March 2016: 27.74p per ordinary share	-	21,615
Interim June 2016: 53.9p per ordinary share	-	42,000
Interim September 2016: 29.36p per ordinary share	-	22,880
Interim November 2016: 30p per ordinary share	-	23,378
Interim December 2016: 6.55p per ordinary share	-	5,100
	70,261	114,973

16. Intangible assets

	Intangibles £000	Goodwill £000	Total £000
Cost			
At 1 January 2017	2,907	9,537	12,444
Additions	3,095	-	3,095
At 31 December 2017	6,002	9,537	15,539
Amortisation			
At 1 January 2017	2,305	8,305	10,610
Charge for the year	320	308	628
At 31 December 2017	2,625	8,613	11,238
Net book value			
At 31 December 2017	3,377	924	4,301
At 31 December 2016	602	1,232	1,834

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

17. Tangible assets

	Freehold land £000	Freehold buildings £000	Leasehold improvements £000	Plant, machinery and rental equipment £000	Motor vehicles £000
Cost					
At 1 January 2017	3,340	24,399	2,519	99,972	301
Additions	-	-	-	1,302	-
Transfers from group	-	-	-	106	-
Disposals	-	(37)	(413)	(7,776)	(98)
Transfers from CIP	-	-	36	1,263	-
Transfers between classes	-	(55)	55	(6)	-
At 31 December 2017	<u>3,340</u>	<u>24,307</u>	<u>2,197</u>	<u>94,861</u>	<u>203</u>
Depreciation					
At 1 January 2017	-	13,476	2,036	57,293	290
Charge for the year	-	1,448	117	10,083	4
Disposals	-	(9)	(348)	(4,145)	(97)
Transfers between classes	-	(9)	6	(3)	-
At 31 December 2017	<u>-</u>	<u>14,906</u>	<u>1,811</u>	<u>63,228</u>	<u>197</u>
Net book value					
At 31 December 2017	<u>3,340</u>	<u>9,401</u>	<u>386</u>	<u>31,633</u>	<u>6</u>
At 31 December 2016	<u>3,340</u>	<u>10,923</u>	<u>483</u>	<u>42,679</u>	<u>11</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

17. Tangible assets (continued)

	Fixtures and fittings £000	Construction in progress £000	Total £000
Cost			
At 1 January 2017	5,898	318	136,747
Additions	49	5,859	7,210
Transfers from group	88	-	194
Disposals	(237)	-	(8,561)
Transfers from CIP	-	(1,299)	-
Transfers between classes	6	-	-
At 31 December 2017	<u>5,804</u>	<u>4,878</u>	<u>135,590</u>
Depreciation			
At 1 January 2017	5,537	-	78,632
Charge for the year	236	-	11,888
Disposals	(184)	-	(4,783)
Transfers between classes	6	-	-
At 31 December 2017	<u>5,595</u>	<u>-</u>	<u>85,737</u>
Net book value			
At 31 December 2017	<u>209</u>	<u>4,878</u>	<u>49,853</u>
At 31 December 2016	<u>361</u>	<u>318</u>	<u>58,115</u>

The transfers from group are assets transferred to the Well Site Services - Axiom division of National Oilwell Varco UK Limited from Axiom Process Limited on 30 June 2017.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. Investments

	Subsidiary undertakings £000	Associates £000	Total £000
Cost			
At 1 January 2017	855,061	2,029	857,090
Additions	828	-	828
Disposals	(4,254)	-	(4,254)
At 31 December 2017	<u>851,635</u>	<u>2,029</u>	<u>853,664</u>
Impairment			
At 1 January 2017	240,425	2,029	242,454
Charge for the year	87,489	-	87,489
Disposals	(3,594)	-	(3,594)
At 31 December 2017	<u>324,320</u>	<u>2,029</u>	<u>326,349</u>
Net book value			
At 31 December 2017	<u>527,315</u>	<u>-</u>	<u>527,315</u>
At 31 December 2016	<u>614,636</u>	<u>-</u>	<u>614,636</u>

On 23 June 2017 the investment in Axiom Process Limited was increased by £216,000.

On 24 August 2017 the company increased its investment in NOV Saudi Arabia Co. Limited by \$820,000 (equivalent of £612,000).

During the year ended 31 December 2017 the company sold its investments in NOV ASEP Elmar Do Brasil and NOV Devin Energia Servicos do Brasil Ltda to fellow group companies realising a net loss on disposal of £897,000.

During the year the investments in Axiom Process Limited, NOV Mission Products UK Limited and Big Red Tubulars Limited were impaired, resulting in an impairment loss of £88,039,000.

Previously recognised impairment losses relating to the investments in Elmar (Middle East) Limited and NOV Saudi Arabia Co. Ltd were reversed in the year, resulting in impairment losses reversed in the Profit and Loss Account of £550,000. The reversal has arisen due to increased trade and revenue streams experienced by these companies.

Net impairment loss recognised in the Profit and Loss Account amounted to £87,489,000.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. Investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Interest held	Holding	Country of incorporation
AG Holding UK [1]	Ordinary shares	100 %	
Andergauge Limited [1]	Ordinary shares	100 %	
Axiom Process Limited	Ordinary shares	100 %	
Big Red Tubulars Limited	Shares	100 %	British Virgin Islands
Camco Drilling Group Limited [1]	Ordinary shares	100 %	
Dreco Europe Limited [2]	Ordinary shares	100 %	
Dreco Limited	Ordinary shares	100 %	
Elmar Far East Pty Ltd	Ordinary shares	100 %	Australia
Forth Valley Engineering Limited	Ordinary shares	100 %	
Greystone Technologies Pty Ltd	Ordinary shares	51 %	Australia
Hebei Huayouyiji Tuboscope Coating Co., Ltd	JV interest	60 %	China
Hitec Dreco Limited [2]	Ordinary shares	100 %	
Hydralift Holdings UK Limited	Ordinary shares	100 %	
Merpro Group Limited	Ordinary shares	100 %	
Merpro Products Limited [3]	Ordinary shares	100 %	
Merpro TorteK Limited [3]	Ordinary shares	100 %	
Mono Group Pension Trustees Limited	Ordinary shares	100 %	
Mono Pumps New Zealand Company [4]	Ordinary shares	100 %	New Zealand
National Oilwell (U.K.) Limited	Ordinary shares	100 %	
National Oilwell Varco Almansoori Services LLC	Shares	49 %	United Arab Emirates
NOV Australia Pty Ltd [4]	Ordinary shares	100 %	Australia
NOV Completion and Production Solutions Korea Ltd	Units	100 %	Republic of Korea
NOV Downhole Eurasia Limited	Ordinary shares	100 %	
NOV Downhole Kazakhstan LLP [5]	Limited partnership interest	100 %	Kazakhstan
NOV Elmar (Middle East) Limited	Ordinary shares	100 %	
NOV Flexibles UK Limited	Ordinary shares	100 %	
NOV Grant Prideco LLC [6]	Shares	49 %	Abu Dhabi
NOV Kenya Limited [7]	Ordinary shares	100 %	Kenya
NOV Mission Products UK Limited	Ordinary shares	100 %	
NOV Oil Services Angola Limitada [8]	Quotas	49 %	Angola
NOV Process & Flow Technologies UK Limited	Ordinary shares	100 %	
NOV Saudi Arabia Co. Ltd [9]	Shares	100 %	Saudi Arabia
NOV Saudi Arabia Trading Co. Ltd [1]	Shares	75 %	Saudi Arabia

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. Investments (continued)

NOV UK (Angola Acquisitions) Limited	Ordinary shares	100 %	
Pipex Composite Pipes Limited [10]	Ordinary shares	100 %	
Pipex Drainage & Civils Products Limited [10]	Ordinary shares	100 %	
Pipex Limited [11]	Ordinary shares	100 %	
Pipex Project Services Limited [10]	Ordinary shares	100 %	
Pipex PX (Scotland) Limited [10]	Ordinary shares	100 %	
Pipex PX Limited	Ordinary shares	100 %	
Pipex Structural Composites Limited [10]	Ordinary shares	100 %	
Procon Engineering Limited [12]	Ordinary shares	100 %	
ReedHycalog UK Limited [1]	Ordinary shares	100 %	
Slip Clutch Systems Limited [1]	Ordinary shares	100 %	
Tuboscope Vetco Capital Limited	Ordinary shares	100 %	
Tuboscope Vetco Moscow CJSC [13]	Common shares	100 %	Russian Federation
Tubular Coating Solutions Limited	Shares	55 %	Saudi Arabia
Varco CIS LLC [14]	Capital stock	100 %	Russian Federation

The following dormant subsidiary, which previously was written down to issued share capital value, was dissolved during the year:

- APL (UK) Limited

- [1] Held by NOV Downhole Eurasia Limited
- [2] Held by Dreco Limited
- [3] Held by Merpro Group Limited
- [4] Held by NOV Process & Flow Technologies UK Limited
- [5] Held by NOV Downhole Eurasia Limited (99%) and National Oilwell Varco UK Limited (1%)
- [6] Held by Big Red Tubulars Limited
- [7] Held by National Oilwell Varco UK Limited (99%) and NOV Downhole Eurasia Limited (1%)
- [8] Held by NOV UK (Angola Acquisitions) Limited
- [9] Held by NOV Downhole Eurasia Limited (90%) and National Oilwell Varco UK Limited (10%)
- [10] Held by Pipex Limited
- [11] Held by Pipex PX Limited
- [12] Held by HydraLift Holding (UK) Limited
- [13] Held by Varco CIS
- [14] Held by Tuboscope Vetco Capital Limited (99%) and National Oilwell Varco UK Limited (1%)

In the opinion of the directors', the aggregate value of the investments in subsidiary undertakings is not less than the amount at which they are stated in the financial statements.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. Investments (continued)

Registered addresses of subsidiary undertakings are as follows:

Name	Registered office
AG Holding UK	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Andergauge Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Axiom Process Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Big Red Tubulars Limited	P.O. Box 146, Road Town, Tortola, British Virgin Islands
Camco Drilling Group Limited	L'Estrange & Brett, Arnott House, 12/16 Bridge Street, Belfst, BT1 1LS
Dreco Europe Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
Dreco Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
Elmar Far East Pty Ltd	G J WALSH & CO, 213 Brisbane Street, IPSWICH, QLD 4305
Forth Valley Engineering Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Greystone Technologies Pty Ltd	Butler Settineri, Level 1 Unit 16, 100 Railway Road, Subiaco, WA 6008
Hebei Huayouyiji Tuboscope Coating Co., Ltd	1st Machinery Works of North China Petroleum, Qing County, Cangzhou City, Hebei Province, PRC
Hitec Dreco Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
Hydralift Holdings UK Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
Merpro Group Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Merpro Products Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Merpro Torteck Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Mono Group Pension Trustees Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy, Industrial Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Mono Pumps New Zealand Company	35-41 Fremlin Place, Avondale, Auckland, New Zealand

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. Investments (continued)

National Oilwell (U.K.) Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
National Oilwell Varco Almansoori Services LLC	PO Box 27011, Mussafah, Adu Dhabi, United Arab Emirates
NOV Australia Pty Ltd	75 Frankston Gardens Drive, Carrum Downs, 3201, Victoria, Australia
NOV Completion and Production Solutions Korea Ltd	13F, 48, Centum Jungang-ro, Haeundae-gu, Busan, South Korea
NOV Downhole Eurasia Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
NOV Downhole Kazakhstan LLP	Business Centre "KZ" 123 V, Utemisov M. street, Atyrau 060005, Kazakhstan
NOV Elmar (Middle East) Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
NOV Flexibles UK Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
NOV Grant Prideco LLC	ICAD I-88B1, Abu Dhabi, the United Arab Emirates
NOV Kenya Limited	IKM Place, Tower A, 5th Floor, 5th Ngong Avenue, Off Bishops Road, Nairobi, Kenya
NOV Mission Products UK Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
NOV Oil Services Angola Lda	Rua Kima Kienda, s/n, Cercania do Porto de Luanda, Bairro Boavista, Distrito Urbano da Ingombota, Luanda, Angola
NOV Process & Flow Technologies UK Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
NOV Saudi Arabia Co. Ltd	Dammam 2nd Industrial City, Bldg 3648 Unit1, 34332-7358 Dammam, Kingdom of Saudi Arabia
NOV Saudi Arabia Trading Co. Ltd	Dammam The Business Gate Center, Bldg 3648 Unit 20, 34332-7358 Dammam, Kingdom of Saudi Arabia
NOV UK (Angola Acquisitions) Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Pipex Composite Pipes Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex Drainage & Civils Products Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

18. Investments (continued)

Pipex Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex Project Services Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex PX (Scotland) Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Pipex PX Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex Structural Composites Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Procon Engineering Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
ReedHycalog UK Limited	L'Estrange & Brett, Arnott House, 12/16 Bridge Street, Belfast, BT1 1LS
Slip Clutch Systems Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Tuboscope Vetco Capital Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Tuboscope Vetco Moscow CJSC	Prospect Yernadskogo 41 , Building 1, 6th Floor, Room 615, 119991 Moscow, Russia
Tubular Coating Solutions Limited	Plot 0300L01: 017-044, 3rd Dammam Industrial City, Kingdom of Saudi Arabia
Varco CIS LLC	Prospect Yernadskogo 41, Building 1, 119991 Moscow, Russian Federation

19. Fixed assets held for sale

At 31 December 2016, part of the manufacturing facilities within the Rig Systems division were presented as fixed assets held for sale following the commitment of the company's management, on 30 September 2016, to a plan to relocate operations from its Broxburn plant and to sell the facility.

During the year ended 31 December 2016, an impairment loss of £3,937,000 on the remeasurement of the assets to the lower of their carrying amount and fair value less costs to sell was included within 'Impairment of tangible fixed assets' in the Profit and Loss Account.

As at 31 December 2016, fixed assets held for sale comprised property, plant and equipment of £975,000. The assets were sold for a total cash consideration of £975,000 on 27 February 2017.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

20. Stocks

	2017	2016
	£000	£000
Raw materials and consumables	22,714	22,703
Work in progress	13,277	26,348
Finished goods and goods for resale	40,804	50,229
	76,795	99,280

Stock recognised in cost of sales during the year as an expense was £141,520,000 (2016: £141,857,000).

21. Debtors

	2017	2016
	£000	£000
Trade debtors	36,279	46,439
Amounts owed by subsidiary undertakings	32,676	73,615
Amounts owed by fellow subsidiary undertakings	94,345	130,969
Other debtors	16	805
Prepayments and accrued income	17,423	10,383
Corporation tax	6,425	5,456
Overseas tax	57	263
Deferred taxation (note 24)	3,512	4,187
VAT recoverable	1,441	30
Financial instruments	1,022	-
	193,196	272,147

Trade debtors are stated after provisions for impairment of £1,617,000 (2016: £2,881,000).

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

22. Creditors: Amounts falling due within one year

	2017	2016
	£000	£000
Bank overdrafts	44,291	41,148
Payments received on account	4,882	7,960
Trade creditors	10,878	9,631
Amounts owed to subsidiary undertakings	11,020	117,805
Amounts owed to fellow subsidiary undertakings	10,258	28,331
Taxation and social security	671	1,432
Group relief	21,387	25,928
Accruals and deferred income	18,107	12,252
Other creditors	794	-
Financial instruments	-	5,104
	<u>122,288</u>	<u>249,591</u>

23. Creditors: Amounts falling due after more than one year

	2017	2016
	£000	£000
Deferred consideration	-	791
Contingent consideration	2,953	2,949
	<u>2,953</u>	<u>3,740</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

24. Deferred taxation

	2017 £000
At beginning of year	4,187
Charged to Profit and loss	(231)
Charged to Other Comprehensive Income	(442)
Transferred from group company	(2)
	-
At end of year	<u>3,512</u>

The deferred tax asset is made up as follows:

	2017 £000	2016 £000
Decelerated capital allowances	2,698	2,963
Pension	-	441
Other timing differences	273	393
Tax losses	(383)	-
Financial instrument spreading	373	-
Share based payments	551	390
	<u>3,512</u>	<u>4,187</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. Other provisions

	Warranty costs £000	Onerous lease £000	Dilapidations £000	Total £000
At 1 January 2017	1,787	2,701	1,463	5,951
Additions	899	-	-	899
Unwind of discount	-	70	-	70
Amounts reversed	(725)	-	-	(725)
Utilised in year	(584)	(361)	(14)	(959)
At 31 December 2017	1,377	2,410	1,449	5,236

Warranty provision

A provision is recognised for expected warranty claims on products sold. It is expected that most of these costs will be incurred in the next financial year.

Onerous lease provision

Where leasehold properties become vacant, the company provides for all costs, net of anticipated income, to the end of the lease or the anticipated date of the disposal or sublease. This provision relates to a property in Aberdeen which was vacated during 2016 and is surplus to the company's requirements. The provision is expected to be utilised over the life of the related lease to 2023.

Dilapidations provision

As part of the company's property leasing arrangements, there is an obligation to repair damages which incur during the life of the lease, such as wear and tear. The cost is charged to profit and loss as the obligation arises. The provision is expected to be utilised in the next financial year as the leases terminate.

26. Share capital

	2017 £000	2016 £000
Allotted, called up and fully paid		
77,916,000 Ordinary shares of £1 each	77,916	77,916

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

27. Reserves

Share premium account

This reserve records the amount above the nominal value received for shares issued, less transaction costs.

Merger Reserve

The merger reserve is represented by amounts that arose on group reconstructions where merger accounting has been applied. Any differences between the consideration paid and the net assets acquired on such group reconstructions have been recorded in the merger reserve in accordance with FRS 102 section 19 and Tech 02/17BL para 9.36.

Profit and loss account

The Profit and Loss Account includes non-distributable reserves of £1,330,000 (2016: £1,330,000).

This non-distributable element arose as a result of an accumulated internally generated gain on sale of trade and assets of various subsidiaries to National Oilwell Varco UK Limited.

Share based payments reserve

At each Balance Sheet date, the cumulative cost of equity-settled transactions with employees is calculated. The movement in cumulative expense since the previous Balance Sheet date is recognised in the Profit and Loss Account, with a corresponding entry in equity.

28. Share based payments

Senior Executive Plan

Share options in the company's ultimate parent National Oilwell Varco, Inc. are granted to senior executives. The exercise price of the options is equal to the closing market price of National Oilwell Varco, Inc. common stock on the date of the grant. The options vest over a three year period starting one year from the date of the grant and expire ten years from the date of the grant. There are no cash settlement alternatives.

Restricted shares

National Oilwell Varco, Inc. issues restricted stock awards ("RSA") with no exercise price to officers and key employees in addition to share options. During the year the company granted restricted shares to key employees at a fair value of £31.20 (in 2016 grants were made in February at £20.03 and November at £28.78). These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested.

29. Capital commitments

At 31 December 2017 the company had capital commitments as follows:

	2017 £000	2016 £000
Contracted for but not provided in these financial statements	1,431	523

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

30. Pension commitments

The company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £3,385,000 (2016: £3,798,000). Contributions totalling £NIL (2016 - £NIL) were payable to the fund at the Balance Sheet date.

The company also operates a defined benefit pension plan.

The National Oilwell (UK) Limited Pension Plan is a defined benefit plan for the legacy employees of National Oilwell (UK) Limited, providing benefits based on final pensionable salaries. The assets of the plan are held separately from those of the group, being invested by managers for this purpose. The plan closed to future accrual on 30 June 2012. As a result, the current service cost is only in respect of the period up until closure and the surplus and expected return on assets have been restricted as per paragraph 28.22 of FRS 102.

The assets of the scheme are held in separate trustee administered funds.

The most recent formal actuarial valuation prepared by a qualified independent actuary of the scheme has an effective date of 31 December 2016. The method used in this valuation is the projected unit method. The valuation showed that the market value of the assets was £54,270,000 resulting in pension plan surplus.

A new Schedule of Contributions was agreed between the Employer and the Trustees, and certified by the Actuary on 1 February 2018 which states that, as the plan was in surplus on a technical provisions basis at 31 December 2017, there is no formal requirement to have a Recovery Plan and no deficit funding contributions are due to be paid over the period of the Schedule, being 1 February 2018 to 31 January 2023. However, the new Schedule of Contributions does require the company to pay Plan expenses and levies to the Pension Protection Fund and the Pensions Regulator.

The next full actuarial valuation will be carried out with an effective date of 31 December 2019.

National Oilwell Varco UK Limited is also the sponsoring employer of the Merpro Group Pension & Life Assurance Scheme. However, the company's subsidiary NOV Process & Flow Technologies UK Limited is the economic employer and bears all costs associated with the scheme.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

30. Pension commitments (continued)

Reconciliations of present value of scheme liabilities and fair value of scheme assets are presented below:

	2017 £000	2016 £000
Reconciliation of present value of plan liabilities		
Opening defined benefit obligation	56,008	46,116
Interest cost	1,429	1,667
Remeasurement of defined benefit obligation	(3,949)	10,325
Benefits paid	(2,104)	(2,100)
Closing defined benefit obligation	<u>51,384</u>	<u>56,008</u>

	2017 £000	2016 £000
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	53,686	46,158
Interest income	1,369	1,681
Return on plan assets greater than discount rate	1,896	7,287
Contributions by employer	55	660
Benefits paid	(2,104)	(2,100)
Closing fair value of plan assets	<u>54,902</u>	<u>53,686</u>

Composition of plan assets:

	2017 £000	2016 £000
Equity securities	-	24,588
Debt securities	32,557	29,098
Other	22,345	-
Total plan assets	<u>54,902</u>	<u>53,686</u>

The pension scheme has not invested in any of the company's own financial instruments nor in properties or other assets used by the company.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

30. Pension commitments (continued)

	2017	2016
	£000	£000
Amounts recognised on the Balance Sheet		
Fair value of plan assets	54,902	53,686
Present value of plan liabilities	(51,384)	(56,008)
	3,518	(2,322)
Irrecoverable surplus	(3,518)	-
Net defined benefit pension scheme liability	-	(2,322)

The company has not recognised the defined benefit pension asset as it does not expect to be able to recover the surplus either through reduced contributions or agreed refunds from the scheme.

The amounts recognised in the Profit and Loss Account and in the Statement of Other Comprehensive Income are as follows:

	2017	2016
	£000	£000
Recognised in the Profit and Loss Account		
Net interest on defined benefit pension plan	(60)	12
Taken to other comprehensive income		
Actual return on scheme assets	3,265	8,968
Less: amounts included in the net interest on the defined benefit liability	(1,369)	(1,681)
	1,896	7,287
Other actuarial gains and losses	3,949	(10,325)
Remeasurement gains/(losses) recognised in other comprehensive income	5,845	(3,038)

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

30. Pension commitments (continued)

	2017	2016
	£000	£000
Change in irrecoverable surplus		
Irrecoverable surplus at the beginning of year	-	42
Interest on irrecoverable surplus	-	2
Change in irrecoverable surplus during the year	(3,518)	(44)
Irrecoverable surplus at the end of year	(3,518)	-

Principal actuarial assumptions at the Balance Sheet date (expressed as weighted averages):

	2017	2016
	%	%
Discount rate	2.4	2.6
Future salary increases	NA	3.5
Future pension increases	2.3	2.5
Inflation assumption (CPI)	2.3	2.5
 Post retirement mortality rates	 Years	 Years
- for a male aged 65 now	22.1	22.6
- at 65 for a male aged 45 now	23.1	23.9
- for a female aged 65 now	23.9	24.6
- at 65 for a female aged 45 now	25.1	26.0

The company expects to contribute £nil to its defined benefit pension plan in 2018.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

31. Commitments under operating leases

At 31 December 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017	2016
	£000	£000
Land and buildings		
Not later than 1 year	3,794	3,795
Later than 1 year and not later than 5 years	12,139	14,143
Later than 5 years	43,166	48,039
	<u>59,099</u>	<u>65,977</u>
	2017	2016
	£000	£000
Plant and machinery		
Not later than 1 year	881	975
Later than 1 year and not later than 5 years	708	753
Later than 5 years	4	6
	<u>1,593</u>	<u>1,734</u>

The entity also acts as a lessor under leasing agreements with customers for the use of various rental equipment owned by the company. Such leasing agreements are mostly cancellable operating leases based on fixed monthly invoicing with no lease incentives included in the terms of the lease.

Acting as a lessor, at 31 December 2017 the company had future minimum lease income under non-cancellable operating leases as follows:

	2017	2016
	£000	£000
Plant and machinery		
Within one year	<u>73</u>	<u>244</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

32. Related party transactions

As FRS102 does not require disclosure of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such group, these transactions have not been disclosed. During the year the company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at 31 December 2017, are as follows:

	2017 Purchases from related party £000	2017 Amounts owed to related party £000	2016 Purchases from related party £000	2016 Amounts owed to related party £000
Coil Services Middle East LLC	14	-	-	-
National Oilwell Varco Almansoori Services LLC	142	43	-	-
NOV Brandt Oilfield Services Middle East LLC	117	18	1,398	533
NOV Ghana Ltd	7	-	85	-
NOV Saudi Arabia Trading Co. Ltd	6	-	-	-
NOV Tuboscope Middle East LLC	477	-	-	-
Tuboscope and Co LLC	-	-	16	9
Vetco Saudi Arabia Ltd	107	-	19	11
	870	61	1,518	553

	2017 Sales and recharges to related party £000	2017 Amounts owed by related party £000	2016 Sales and recharges to related party £000	2016 Amounts owed by related party £000
Coil Services Middle East LLC	5	90	10	123
NOV Brandt Oilfield Services Middle East LLC	1,271	124	304	-
NOV Ghana Ltd	2	2	4	3
NOV Intelliserv UK Limited	23	14	85	-
NOV Saudi Arabia Trading Co. Ltd	3,039	2,012	2,637	1,107
NOV Tuboscope Middle East LLC	13	11	55	48
PT Profab Indonesia	21	21	-	-
Seabox AS	30	-	-	-
Tuboscope and Co LLC	100	42	-	-
Vetco Saudi Arabia Ltd	-	-	48	21
	4,504	2,316	3,143	1,302

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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33. Contingent liabilities

At 31 December 2017, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £3,625,000 (2016: £5,242,000) entered into in the normal course of business.

34. Post balance sheet events

On 31 January 2018, intellectual property carried at £2,812,000 was sold to a fellow group company realising a net gain on sale of £944,000.

On 22 April 2018 the company purchased the entire share capital of Vallourec Drilling Products Middle East FZE for a consideration of \$8,800,000.

On 22 June 2018 the company declared and paid an interim dividend of \$2,200,000 and £42,564,000 to its shareholder NOV UK Holdings Limited.

35. Controlling party

The company's immediate parent undertaking is NOV UK Holdings Limited, a company incorporated in Scotland.

The company's ultimate parent undertaking is National Oilwell Varco, Inc., a company incorporated in the United States of America. The consolidated accounts of National Oilwell Varco, Inc. are those of the smallest and largest group of which the company is a member and for which group accounts are prepared. Copies of these accounts are available from its principal office at 7909 Parkwood Circle Drive, Houston, Texas, 77036, USA.