
NATIONAL OILWELL VARCO UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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NATIONAL OILWELL VARCO UK LIMITED

COMPANY INFORMATION

Directors	A J Fleming C P O'Neil (resigned 30 September 2015) R Oudendijk (appointed 30 September 2015)
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

CONTENTS

	Page
Strategic Report	1 - 3
Directors' Report	4 - 6
Directors' Responsibilities Statement	7
Independent Auditors' Report	8 - 9
Profit and Loss Account	10
Statement of Comprehensive Income	11
Balance Sheet	12 - 13
Statement of Changes in Equity	14 - 15
Notes to the Financial Statements	16 - 51

NATIONAL OILWELL VARCO UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

The directors present their strategic report for the year ended 31 December 2015.

Financial Reporting Standard 102 has been adopted by this entity from 1 January 2015. The comparative figures presented in these financial statements for the year ended 31 December 2014 have therefore been converted to be compliant with the new standard. Information on the impact of the first-time adoption of FRS 102 is given in note 31.

Business review

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

National Oilwell Varco UK Limited traded as the following divisions: Amclyde Norson Engineering, APL (UK), Elmar, Well Site Services, Coil Services (North Sea), CTES, Grant Prideco, Hydra Rig, Dynamic Drilling Solutions (DDS), NOV Flexibles UK, Procon Engineering, Rig Aftermarket, Rig Systems, Tuboscope, Tuboscope Far East and XL Systems throughout the year.

The company also operates branches in Norway, Cameroon and Ivory Coast and has permanent establishments in Netherlands, Denmark, India and China.

The global oil and gas supply market continues to be hit very hard by the lower oil prices throughout the year and this has had a negative impact on trading within all divisions of the company.

On 23 February 2015 the company increased its investment in NOV Devin Energia Servicos de Brasil by \$300,000 (equivalent of £199,000).

On 31 October 2015 the company purchased the trade and assets of the Rig Systems business from its subsidiary NOV Mission Products UK Limited, for a consideration of £40,468,000.

On 6 November 2015 National Oilwell Varco UK Limited sold its investments in NOV Ghana Limited and NOV Oil & Gas Services Nigeria Limited to a NOV affiliate entity realising a net gain on sale of £43,464,000.

On 25 November 2015 the company acquired Pipex PX Limited and its subsidiaries for a consideration of £11,653,000.

On 23 December 2015 the company increased its investment in Tuboscope Vetco Capital Limited by \$25,400,000 (equivalent of £16,896,000) by converting of a long term loan into share capital in this entity.

NATIONAL OILWELL VARCO UK LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2015

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.

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.

Financial key performance indicators

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

	2015 £000	2014 £000
Turnover	396,418	494,039
Profit before taxation	237,262	172,256
Shareholders' funds	965,741	890,538

Turnover for 2015 dropped by 20% as the trading activities were impacted by the decline in the oil price and subsequent weakening demand for oil & gas equipment, parts and services. The Directors recognise that it was a difficult business environment during 2015 and continues to be so. Operators and drilling contractors are scaling back their operations, which has a knock on effect in the supply chain where the company is placed. Pricing pressure from our customers has seen margins reduced although Profit Before Tax as a percentage of Turnover has increased significantly from 2014 due to increased income from investments. With the different divisions of the company operating at different points of the oil and gas drilling cycle the Directors believe the company is very well placed to take advantage of the opportunities that will arise when a recovery in the oil price occurs.

There was a total write-down of £12,918,000 in investment values in NOV Process & Flow Technologies UK Limited (formerly Mono Pumps Limited) and NOV Devin Energia Servicos Do Brasil Ltda.

The company continues to hold a very strong balance sheet with current assets as a percentage of current liabilities of 343% (2014: 250%).

NATIONAL OILWELL VARCO UK LIMITED

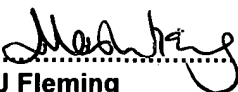
**STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015**

Future developments

The directors believe that despite the global industry downturn witnessed during 2015 to date, 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 30 June 2016 and signed on its behalf.


.....

A J Fleming
Director

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The directors present their report and the financial statements for the year ended 31 December 2015.

Results and dividends

The profit for the year, after taxation, amounted to £209,268,000 (2014 - £168,205,000).

Dividends of £121,995,000 (2014 - £83,840,000) were paid during the year.

Directors

The directors who served during the year were:

A J Fleming
C P O'Neil (resigned 30 September 2015)
R Oudendijk (appointed 30 September 2015)

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 foreign exchange movements, interest rate risk, liquidity risk, credit risk and price risk.

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 2015 and 31 December 2014 to be materially different to the issue cost.

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

With reference to the business review within the strategic report, the decline in oil price witnessed throughout 2015 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.

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015 was £1,949,000 (2014: £1,765,000), the majority of which was incurred by the Brandt division.

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 that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that 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 29 February 2016 the company purchased the remaining trade and assets of its subsidiary NOV Mission Products UK Limited for an estimated consideration of £115,416,000.

On 7 March 2016 the company proposed and paid an interim dividend of \$30,000,000 (equivalent of £21,615,000) to its shareholder, NOV UK Holdings Limited.

On 29 June 2016 the company proposed and paid an interim dividend of £42,000,000 to its shareholder, NOV UK Holdings Limited.

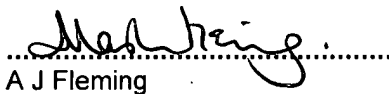
NATIONAL OILWELL VARCO UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

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 30 June 2016 and signed on its behalf.


.....
A J Fleming
Director

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

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 financial statements and then apply them consistently;
- make judgments 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 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

We have audited the financial statements of National Oilwell Varco UK Limited for the year ended 31 December 2015, 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 31. The financial reporting framework that has been applied in their preparation is applicable law including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

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

Matters on which we are required to report by exception

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

Ernst & Young LLP

Moir Ann Lawrence (Senior Statutory Auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
Aberdeen

4 July 2016

NATIONAL OILWELL VARCO UK LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2015**

		2015 £000	2014 £000
Turnover	3	396,418	494,039
Cost of sales		(293,400)	(354,684)
Gross profit		103,018	139,355
Distribution costs		(7,527)	(6,936)
Administrative expenses		(52,814)	(35,379)
Operating profit	4	42,677	97,040
Net profit on sale of tangible assets		361	406
Amounts written off fixed asset investments	16	(12,918)	(69,091)
Profit on ordinary activities before interest		30,120	28,355
Income from fixed assets investments		163,614	143,449
Gain on sale of investments	16	43,464	-
Interest receivable and similar income	8	126	460
Interest payable and expenses	9	(31)	(8)
Other finance (expense) / income	10	(31)	-
Profit before tax		237,262	172,256
Tax on profit	11	(27,994)	(4,051)
Profit for the year		209,268	168,205

The notes on pages 16 to 51 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 £000	2014 £000
Profit for the financial year		209,268	168,205
Other comprehensive income			
Gain on sale of division	13	-	23,345
Actuarial gain/(loss) on defined benefit schemes	26	610	(4,948)
Change in irrecoverable plan surplus	26	(42)	2,951
Gain/(loss) on derivative financial instruments		415	(1,160)
Release of deferred tax	20	(114)	399
Total comprehensive income for the year		210,137	188,792

NATIONAL OILWELL VARCO UK LIMITED
REGISTERED NUMBER:00873028

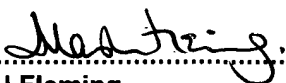
BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Fixed assets			
Intangible assets	14	2,408	2,785
Tangible assets	15	59,120	54,423
Investments	16	614,993	600,848
		<u>676,521</u>	<u>658,056</u>
Current assets			
Stocks	17	102,264	96,618
Debtors: amounts falling due within one year	18	254,526	203,138
Cash at bank and in hand		55,247	93,424
		<u>412,037</u>	<u>393,180</u>
Creditors: amounts falling due within one year	19	(120,023)	(157,206)
Net current assets		<u>292,014</u>	<u>235,974</u>
Total assets less current liabilities		<u>968,535</u>	<u>894,030</u>
Provisions for liabilities			
Deferred tax	20	-	(411)
Other provisions	21	(2,794)	(1,884)
		<u>(2,794)</u>	<u>(2,295)</u>
Pension liability	26	-	(1,197)
Net assets		<u><u>965,741</u></u>	<u><u>890,538</u></u>
Capital and reserves			
Called up share capital	22	77,916	77,916
Share premium account	23	507,714	507,714
Share based payment reserve	24	13,243	11,380
Merger reserve	23	(25,670)	(10,868)
Profit and loss account		392,538	304,396
		<u><u>965,741</u></u>	<u><u>890,538</u></u>

NATIONAL OILWELL VARCO UK LIMITED
REGISTERED NUMBER:00873028

BALANCE SHEET (continued)
AS AT 31 DECEMBER 2015

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 June 2016.


.....
A J Fleming
Director

The notes on pages 16 to 51 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Share capital £000	Share premium £000	Share based payment reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2015	77,916	507,714	11,380	(10,868)	304,396	890,538
Comprehensive income for the year						
Profit for the year	-	-	-	-	209,268	209,268
Actuarial gains on pension scheme (note 26)	-	-	-	-	568	568
Gain on derivative financial instruments	-	-	-	-	415	415
Deferred tax relating to pension scheme	-	-	-	-	(114)	(114)
Dividends: Equity capital (note 12)	-	-	-	-	(121,995)	(121,995)
Merger reserve movement (note 23)	-	-	-	(14,802)	-	(14,802)
Share based payments (note 24)	-	-	1,863	-	-	1,863
At 31 December 2015	77,916	507,714	13,243	(25,670)	392,538	965,741

NATIONAL OILWELL VARCO UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Share capital £000	Share premium £000	Share based payment reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1 January 2014	77,916	507,714	9,069	(25,223)	213,799	783,275
Comprehensive income for the year						
Profit for the year	-	-	-	-	168,205	168,205
Actuarial losses on pension scheme (note 26)	-	-	-	-	(1,997)	(1,997)
Gain on disposal of division (note 13)	-	-	-	-	23,345	23,345
Loss on derivative financial instruments	-	-	-	-	(1,160)	(1,160)
Deferred tax relating to pension scheme	-	-	-	-	399	399
Dividends: Equity capital (note 12)	-	-	-	-	(83,840)	(83,840)
Merger reserve movement (note 23)	-	-	-	14,355	(14,355)	-
Share based payments (note 24)	-	-	2,311	-	-	2,311
At 31 December 2014 (revised)	77,916	507,714	11,380	(10,868)	304,396	890,538

The notes on pages 16 to 51 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies

1.1 Basis of preparation of financial statements

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

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 31.

The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £'000.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 2).

The following principal accounting policies have been applied:

1.2 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 paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 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 2015 and these financial statements may be obtained from the parent company's principal office at 7909 Parkwood Circle Drive, Houston, Texas, 77036, USA.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. Accounting policies (continued)

1.3 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;
- 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.

1.4 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.

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 five years.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

1.5 Tangible fixed assets

Tangible fixed 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.

Land is not depreciated. 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	- 30-50 years
Leasehold improvements	- 10 years
Plant and machinery	- 5-20 years
Motor vehicles	- 3-4 years
Fixtures and fittings	- 5-10 years
Rental equipment	- 3-10 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 'Net profit on sale of tangible assets' in the Profit and Loss Account.

1.6 Operating leases: Lessee

Rentals paid under operating leases are charged to the profit or loss on a straight line basis over the period of the lease.

1.7 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

1.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

1.9 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.

1.10 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.

1.11 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..

1.12 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.

1.13 Hedge accounting

The Company has entered into variable to fixed rate interest swaps to manage its exposure to interest rate cash flow risk on its variable rate debt. These derivatives are measured at fair value at each balance sheet date. To the extent the hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the period.

1.14 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

1.15 Foreign currency translation

Functional and presentation currency

The company's functional and presentation currency is GBP.

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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Profit and Loss Account within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Profit and Loss Account within 'Administrative expenses'.

1.16 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.

1.17 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. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

1.18 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.

1.19 Pensions

During the year the company operated two schemes, one defined benefit scheme and a hybrid pension scheme which comprised of a defined contribution section with a defined benefit underpin.

Contributions to the defined contribution scheme are recognised in the Profit and Loss Account in the period in which they become payable.

The company is the sponsoring employer of the 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 occurs 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 profit and loss in subsequent periods.

The defined net 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 a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

Defined contribution pension plan

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 payments 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.

1.20 Interest income

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

1.21 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. Accounting policies (continued)

1.22 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 change 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.

The NOV UK Group's policy on group relief is that the recipient of group losses will:

- Make payment in full for losses surrendered by NOV UK Holdings Limited; and
- Make payment of the tax effected value of losses surrendered by all other NOV UK Group members.

This policy is in line with s.183 CTA 2010.

The tax effected value of the loss will be treated as if it were income taxes. Any excess payment will be treated as a distribution.

1.23 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.

1.24 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

2. Judgments 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.

Defined benefit pension

The costs 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 iBoxx over 15 year AA Corporate Bond index has therefore been used for this purpose. The mortality rate is based on the SAPS S2 year of birth tables with future improvements in line with CMI 2013 projections and a long term trend of 1.25% pa, with a multiplier of 100%. Future salary increases and pension increases are based on expected future inflation rates. Further details are given in note 26.

Investment impairment

The company considers all investments for evidence of impairment annually. The method used to value each investment consists of applying a discounted NOV Inc. PE ratio to current year EBITDA 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, 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.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. 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:

	2015 £000	2014 £000
Sale of goods	227,644	296,784
Rendering of services	168,730	197,214
Grant income	44	41
	<u>396,418</u>	<u>494,039</u>

A geographical analysis of turnover is as follows:

	2015 £000	2014 £000
Europe	223,526	271,790
Americas	37,800	45,668
Middle East	20,542	34,401
Africa	71,549	64,507
Far East	33,555	52,475
Other	9,446	25,198
	<u>396,418</u>	<u>494,039</u>

The directors consider that no disclosure should be made of the geographical analysis of 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, 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 2015**

4. Operating profit

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

	2015	2014
	£000	£000
Auditors remuneration (note 5)	951	923
Amortisation of intangible assets, including goodwill	450	516
Depreciation of owned assets	8,754	9,069
Operating lease rentals:		
- plant and machinery	1,365	1,290
- land and buildings	4,070	3,923
Foreign exchange differences	(1,120)	4,380
Research & development charged as an expense	1,949	1,765
Change in fair value of hedging instrument	821	1,889
	<u>821</u>	<u>1,889</u>

5. Auditors' remuneration

	2015	2014
	£000	£000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual accounts	371	248
Fees payable to the Company's auditor and its associates in respect of:		
The auditing of accounts of associates of the Company pursuant to legislation	310	326
All taxation advisory services	270	349
	<u>270</u>	<u>349</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

6. Employees

Staff costs were as follows:

	2015	2014
	£000	£000
Wages and salaries	83,113	82,636
Social security costs	8,662	9,116
Other pension costs (note 26)	3,699	3,709
Share-based payments	1,863	2,311
	97,337	97,772

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

	2015	2014
	No.	No.
Production	1,432	1,554
Sales	96	140
Administration	226	238
	1,754	1,932

7. Directors' remuneration

	2015	2014
	£000	£000
Directors' emoluments	365	301
Amounts receivable under long-term incentive schemes	16	8
Company contributions to defined contribution pension schemes	14	16
	395	325

During the year retirement benefits were accruing to 2 directors (2014 - 2) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £197,000 (2014 - £168,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £7,000 (2014 - £8,000).

During the year 2 (2014 - 2) directors received shares in respect of qualifying services.

One of the directors who served during the year was paid by another group entity.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

8. Interest receivable

	2015 £000	2014 £000
Interest receivable from group companies	2	241
Bank and other interest receivable	124	219
	126	460

9. Interest payable and similar charges

	2015 £000	2014 £000
Other interest payable	31	8
	31	8

10. Other finance (expense) / income

	2015 £000	2014 £000
Interest on net defined benefit pension plan	(31)	-
	(31)	-

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

11. Taxation

	2015 £000	2014 £000
Corporation tax		
Current tax on profits for the year	2,300	14,309
Adjustments in respect of previous periods	18,428	(14,025)
	<u>20,728</u>	<u>284</u>
Double taxation relief	(1,989)	(2,721)
Group taxation relief	7,905	-
	<u>26,644</u>	<u>(2,437)</u>
Foreign tax		
Foreign tax on income for the year	2,341	3,202
Foreign tax adjustments in respect of prior periods	386	2,512
	<u>2,727</u>	<u>5,714</u>
Total current tax	<u>29,371</u>	<u>3,277</u>
Deferred tax		
Origination and reversal of timing differences	(1,432)	(80)
Movement on pension accrual	126	160
Deferred tax on share based payments	363	18
Adjustment in respect of prior periods	(434)	676
Total deferred tax	<u>(1,377)</u>	<u>774</u>
Taxation on profit on ordinary activities	<u>27,994</u>	<u>4,051</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2014 - *lower than*) the standard rate of corporation tax in the UK of 20.25% (2014 - 21.5%). The differences are explained below:

	2015 £000	2014 £000
Profit before tax	<u>237,262</u>	<u>172,256</u>
Profit before tax multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21.5%)	48,046	37,035
Effects of:		
Expenses not deductible for tax purposes	2,922	20,440
(Income not taxable) for tax purposes	(42,378)	(35,861)
Capital allowances for year in excess of depreciation	-	6
Group relief	-	(7,928)
Tax rate changes	7	-
Pension provision	(2)	(136)
Overseas tax payable	351	480
Other timing differences	668	522
Adjustments in respect of previous periods	18,380	(10,507)
Total tax charge for the year	<u><u>27,994</u></u>	<u><u>4,051</u></u>

Factors that may affect future tax charges

UK Corporation tax is calculated at 20.25% (2014: 21.50%) of the estimated assessable profit for the year.

A reduction in the UK corporation tax rate from 23% to 21% took effect from 1 April 2014. A further reduction from 21% to 20% was substantively enacted in 26 October 2014 and will be effective from 1 April 2015. The rate of UK corporation tax will further reduce to 19% from 1 April 2017 and 18% from 1 April 2020, these were substantively enacted on 18 November 2015.

As at November 2015 the reductions in the UK corporation tax rate to 19% (from 1 April 2017) and 18% (from 1 April 2020) was substantively enacted and therefore a blended rate of 19.20% 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 2015**

12. Dividends paid

	2015 £000	2014 £000
Interim March 2014: 46.46p per ordinary share	-	36,200
Dividend in specie	8,960	47,640
Interim February 2015: 77.09p per ordinary share	60,064	-
Interim June 2015: 34.56p per ordinary share	26,926	-
Interim November 2015: 33.43p per ordinary share	26,045	-
	<u>121,995</u>	<u>83,840</u>

Dividend in specie of £8,960,000 paid to NOV UK Holdings Limited in November 2015 is represented by an interest free intercompany receivable, payable by a fellow group company ReedHycalog International Holding LLC.

Dividend in specie of £47,640,000 paid to NOV UK Holdings Limited during the year ended 31 December 2014 was represented by an interest free promissory note payable in full on demand by DNOW UK Limited (see note 13).

13. Gain on disposal of division

On 31 January 2014 the company sold the trade and assets of the Distribution division to a fellow group company DNOW UK Limited for \$78,692,000 (equivalent of £47,640,000). On this date the company also sold its dormant subsidiaries Capital Valves Holdings Limited and Wilson United Kingdom Limited to DNOW UK Limited for \$10 each. The consideration was settled by way of an interest free promissory note payable in full on demand. The transaction resulted in a gain on disposal of £23,345,000. As the gain was internally generated, it has been recorded through other comprehensive income.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

14. Intangible assets

	Intangibles £000	Goodwill £000	Total £000
Cost			
At 1 January 2015	2,762	9,537	12,299
Additions	65	-	65
Transfers from group undertakings	8	-	8
At 31 December 2015	2,835	9,537	12,372
Amortisation			
At 1 January 2015	2,098	7,416	9,514
Charge for the year	98	352	450
At 31 December 2015	2,196	7,768	9,964
Net book value			
At 31 December 2015	639	1,769	2,408
<i>At 31 December 2014</i>	<i>664</i>	<i>2,121</i>	<i>2,785</i>

The transfers from group undertakings are the net intangible assets transferred to the Rig Systems division of National Oilwell Varco UK Limited from NOV Mission Products UK Limited on 31 October 2015.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. Tangible fixed assets

	Freehold land £000	Freehold buildings £000	Leasehold improvements £000	Plant, machinery and rental equipment £000	Motor vehicles £000
Cost or valuation					
At 1 January 2015	2,940	21,685	2,119	85,429	325
Additions	-	460	46	3,300	-
Disposals	-	(13)	-	(6,166)	(24)
Transfers from group	650	2,463	-	2,411	-
Transfers between classes	-	-	65	(81)	-
Transfers from CIP	-	229	-	1,066	-
At 31 December 2015	3,590	24,824	2,230	85,959	301
Depreciation					
At 1 January 2015	-	11,218	1,686	49,142	246
Charge for the year	-	1,062	184	7,042	37
Disposals	-	(9)	-	(5,266)	(24)
Transfers between classes	-	-	1	(1)	-
At 31 December 2015	-	12,271	1,871	50,917	259
Net book value					
At 31 December 2015	3,590	12,553	359	35,042	42
At 31 December 2014	2,940	10,467	433	36,287	79

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. Tangible fixed assets (continued)

	Fixtures and fittings £000	Construction in progress £000	Total £000
Cost or valuation			
At 1 January 2015	5,647	3,423	121,568
Additions	164	4,799	8,769
Disposals	(41)	-	(6,244)
Transfers from group	62	-	5,586
Transfers between classes	16	-	-
Transfers from CIP	11	(1,306)	-
At 31 December 2015	<u>5,859</u>	<u>6,916</u>	<u>129,679</u>
Depreciation			
At 1 January 2015	4,853	-	67,145
Charge for the year	429	-	8,754
Disposals	(41)	-	(5,340)
Transfers between classes	-	-	-
At 31 December 2015	<u>5,241</u>	<u>-</u>	<u>70,559</u>
Net book value			
At 31 December 2015	<u>618</u>	<u>6,916</u>	<u>59,120</u>
At 31 December 2014	<u>794</u>	<u>3,423</u>	<u>54,423</u>

In accordance with the requirements of FRS102 the cost of land, previously included within the cost of Freehold Land and Buildings, has been presented as a separate category of the fixed assets.

The transfers from group undertakings are the net tangible assets transferred to the Rig Systems division of National Oilwell Varco UK Limited from NOV Mission Products UK Limited on 31 October 2015.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

16. Fixed asset investments

	Investments in subsidiary companies £000	Investments in associates £000	Total £000
Cost or valuation			
At 1 January 2015	878,477	2,029	880,506
Additions	28,748	-	28,748
Disposals	(1,685)	-	(1,685)
At 31 December 2015	<u>905,540</u>	<u>2,029</u>	<u>907,569</u>
Impairment			
At 1 January 2015	277,703	1,955	279,658
Charge for the period	12,918	-	12,918
At 31 December 2015	<u>290,621</u>	<u>1,955</u>	<u>292,576</u>
Net book value			
At 31 December 2015	<u>614,919</u>	<u>74</u>	<u>614,993</u>
At 31 December 2014	<u>600,774</u>	<u>74</u>	<u>600,848</u>

On 23 February 2015 the company increased its investment in NOV Devin Energia Servicos de Brasil by \$300,000 (equivalent of £199,000).

On 6 November 2015 the company sold its investments in NOV Ghana Limited and NOV Oil & Gas Services Nigeria Limited to a fellow group company NOV EU Acquisition SNC for \$4,000,000 (equivalent of £2,605,000) and \$65,340,000 (equivalent of £42,545,000) respectively, realising net gain on sale of £43,464,000.

On 25 November 2015 the company acquired Pipex PX Limited and its subsidiaries for £11,653,000.

On 23 December 2015 the company increased its investment in Tuboscope Vetco Capital Limited by £25,400,000 (equivalent of £16,896,000).

During the year the investment in NOV Process & Flow Technologies UK Limited was impaired by £12,252,000 and the investment in NOV Devin Energia Servicos do Brasil Ltda was impaired by £666,000 resulting in the total impairment of £12,918,000.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

16. Fixed asset investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Country of incorporation	Class of shares	Holding
AG Holding UK [1]		Ordinary	100 %
Andergauge Limited [2]		Ordinary	100 %
APL (UK) Limited		Ordinary	100 %
Big Red Tubulars Industries LLC [3]	United Arab Emirates	Ordinary	49 %
Big Red Tubulars Limited	Virgin Islands, British	Ordinary	100 %
Camco Drilling Group Limited [4]		Ordinary	100 %
Chemineer Limited [5]		Ordinary	100 %
Dreco Europe Limited [6]		Ordinary	100 %
Dreco Limited		Ordinary	100 %
Elmar Far East Pty Ltd	Australia	Ordinary	100 %
Forth Valley Engineering Limited		Ordinary	100 %
Greystone Technologies Pty Ltd	Australia	Ordinary	51 %
Hebei Huayouyiji Tuboscope Coating Co., Ltd	China	Ordinary	60 %
Hitec Dreco Limited [6]		Ordinary	100 %
Hydralift Holdings UK Limited		Ordinary	100 %
Merpro Group Limited		Ordinary	100 %
Merpro Limited [7]		Ordinary	100 %
Merpro Machining & Threading Limited [7]		Ordinary	100 %
Merpro Products Limited [7]		Ordinary	100 %
Merpro TorteK Limited [7]		Ordinary	100 %
Mono Group Pension Trustees Limited		Ordinary	100 %
Mono Pumps New Zealand Company [5]	New Zealand	Ordinary	100 %
National Oilwell (U.K.) Limited		Ordinary	100 %
National Oilwell Varco Almansoori Services LLC	United Arab Emirates	Ordinary	49 %
NOV Australia Pty Ltd [5]	Australia	Ordinary	100 %
NOV Devin Energia Servicos do Brasil Ltda [8]	Brazil	Ordinary	100 %
NOV Downhole Eurasia Limited		Ordinary	100 %
NOV Downhole Kazakhstan LLC [9]	USA	Ordinary	100 %
NOV Elmar (Middle East) Limited		Ordinary	100 %
NOV Flexibles UK Limited		Ordinary	100 %
NOV Kenya Limited [10]	Kenya	Ordinary	100 %
NOV Mission Products UK Limited		Ordinary	100 %

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

16. Fixed asset investments (continued)

NOV Oil Services Angola Lda [11]	Angola	Ordinary	49 %
NOV Process & Flow Technologies UK Limited		Ordinary	100 %
NOV Saudi Arabia Co. Ltd [12]	Saudi Arabia	Ordinary	100 %
NOV Saudi Arabia Trading Co. Ltd [1]	Saudi Arabia	Ordinary	100 %
NOV UK (Angola Acquisitions) Limited		Ordinary	100 %
Pipex Composite Pipes Limited [13]		Ordinary	100 %
Pipex Drainage & Civils Products Limited [13]		Ordinary	100 %
Pipex Limited [14]		Ordinary	100 %
Pipex Project Services Limited [13]		Ordinary	100 %
Pipex PX (Scotland) Limited [13]		Ordinary	100 %
Pipex PX Limited		Ordinary	100 %
Pipex Structural Composites Limited [13]		Ordinary	100 %
Procon Engineering Limited [15]		Ordinary	100 %
ReedHycalog UK Limited [1]		Ordinary	100 %
Techdrill Limited		Ordinary	100 %
Tuboscope Vetco Capital Limited		Ordinary	100 %
Tuboscope Vetco Moscow CJSC [16]	Russian Federation	Charter capital	100 %
Varco CIS LLC [17]	Russian Federation	Charter capital	100 %

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

16. Fixed asset investments (continued)

The company also held 100% of the ordinary share capital of the following dormant subsidiaries which were dissolved in February 2015:

- ASEP UK Limited
- Chargewood Limited
- NOV UK AICB Limited

- [1] Held by NOV Downhole Eurasia Limited
- [2] Held by AG Holding UK
- [3] Held by Big Red Tubulars Limited
- [4] Held by ReedHycalog UK Limited
- [5] Held by NOV Process & Flow Technologies UK Limited
- [6] Held by Dreco Limited
- [7] Held by Merpro Group Limited
- [8] Held by National Oilwell Varco UK Limited (99.99%) and NOV Downhole Eurasia Limited (0.015%)
- [9] Held by NOV Downhole Eurasia Limited (99%) and National Oilwell Varco UK Limited (1%)
- [10] Held by National Oilwell Varco UK Limited (99%) and NOV Downhole Eurasia Limited (1%)
- [11] Held by NOV UK (Angola Acquisitions) Limited
- [12] Held by NOV Downhole Eurasia Limited (90%) and National Oilwell Varco UK Limited (10%)
- [13] Held by Pipex Limited
- [14] Held by Pipex PX Limited
- [15] Held by HydraLift Holding (UK) Limited
- [16] Held by Varco CIS
- [17] 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 2015**

17. Stocks

	2015	2014
	£000	£000
Raw materials and consumables	11,513	12,360
Work in progress	28,274	26,731
Finished goods and goods for resale	62,477	57,527
	<u>102,264</u>	<u>96,618</u>

18. Debtors

	2015	2014
	£000	£000
Trade debtors	72,555	74,293
Amounts owed by subsidiary undertakings	37,995	41,010
Amounts owed by fellow subsidiary undertakings	115,131	60,307
Other debtors	2,500	2,548
Corporation tax	-	2,290
Prepayments and accrued income	24,794	21,150
Amounts recoverable on long term contracts	-	877
Overseas tax	222	663
Deferred taxation (note 20)	814	-
VAT repayable	418	-
Financial instruments	97	-
	<u>254,526</u>	<u>203,138</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

19. Creditors: Amounts falling due within one year

	2015	2014
	£000	£000
Bank overdrafts	16,925	47,439
Payments received on account	5,771	12,064
Trade creditors	8,165	11,016
Amounts owed to subsidiary undertakings	14,003	5,580
Amounts owed to fellow subsidiary undertakings	19,135	34,326
Corporation tax	345	-
Taxation and social security	2,609	3,644
Group relief	26,011	17,208
Accruals and deferred income	24,048	23,125
Financial instruments	3,011	2,804
	<u>120,023</u>	<u>157,206</u>

20. Deferred taxation

	Deferred tax
	£000
At 1 January 2015	411
Credited to the profit or loss	(1,377)
Charged to other comprehensive income	114
Utilised in year	38
At 31 December 2015	<u>(814)</u>

The deferred taxation balance is made up as follows:

	2015	2014
	£000	£000
(Decelerated)/Accelerated capital allowances	(114)	2,307
Pension surplus	-	(239)
Other timing differences	(542)	(1,135)
Share based payments	(158)	(522)
	<u>(814)</u>	<u>411</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

21. Provisions

	Provision for warranty costs £000
At 1 January 2015	1,884
Additions	5,568
Amounts used	(4,270)
Amounts reversed	(388)
At 31 December 2015	2,794

22. Share capital

	2015 £000	2014 £000
Allotted, called up and fully paid		
77,916,000 Ordinary shares of £1 each	77,916	77,916

23. Reserves

Share premium

This reserve records the amount above the nominal value received for shares sold, 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 02/10 para 9.36.

The movement on the merger reserve in the year is represented by the goodwill and customer relationship balances transferred to the Rig Systems division of National Oilwell Varco UK Limited from Mission Products UK Limited on 30 October 2015, not recognised under FRS 102.

The movement on the merger reserve in the year ended 31 December 2014 was represented by the balance transferred to the profit and loss account on the disposal of the Distribution business (see note 13).

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

24. 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. The Company granted restricted shares to key employees in 2015 at a fair value of £41.24 (2014 - £42.06). These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested.

25. Capital commitments

At 31 December 2015 the Company had capital commitments as follows:

	2015	2014
	£000	£000
Contracted for but not provided in these financial statements	813	6,493
	813	6,493

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

26. 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 £3,699,000 (2014 - £3,709,000). Contributions totalling £NIL (2014 - £NIL) were payable to the fund at the balance sheet date.

The Company 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 2013. The method used in this valuation is the projected unit method. The valuation showed that the market value of the assets was £43,450,000 and that the actuarial value of those assets represented 95.9% of the liability at that valuation date. A Schedule of Contributions has been agreed between the sponsoring employer and the Trustees of the defined benefit plan, and certified by the Actuary on 19 December 2014 which requires a monthly company contribution of £55,000 from 1 January 2015 until 30 November 2017. The new Schedule of Contributions also requires the company to pay plan expenses and levies to the PPF and the Pension Regulator. The next full actuarial valuation will be carried out with an effective date of 31 December 2016.

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

	2015 £000	2014 £000
<i>Plan assets at fair value</i>		
Equities	23,183	27,554
Bonds	9,262	7,579
Gilts	13,713	11,522
Fair value of plan assets	46,158	46,655
Present value of plan liabilities	(46,116)	(47,852)
Irrecoverable surplus not recognised	(42)	-
	-	(1,197)

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

26. Pension commitments (continued)

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

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

	2015	2014
	£000	£000
<i>Recognised in the Profit and Loss Account</i>		
Net interest on net defined benefit liability	(31)	-
Total	(31)	-
<i>Taken to other comprehensive income</i>		
Actual return on scheme assets	992	4,112
Less: amounts included in net interest on the net defined benefit liability	(1,653)	(1,856)
	(661)	2,256
Other actuarial gains and losses	1,271	(7,204)
Remeasurement gains and losses recognised in other comprehensive income	610	(4,948)
Movements in the present value of plan liabilities were as follow:		
	2015	2014
	£000	£000
Opening defined benefit obligation	47,852	43,376
Interest cost	1,684	1,752
Contributions by scheme participants	(2,149)	(1,853)
Actuarial gains and losses	(1,271)	7,204
Liabilities extinguished on Wilson Plan (see below)	-	(2,627)
Closing defined benefit obligation	46,116	47,852

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

26. Pension commitments (continued)

Changes in the fair value of plan assets were as follows:

	2015 £000	2014 £000
Opening fair value of scheme assets	46,655	47,034
Interest income on plan assets	1,653	1,856
Return on plan assets (lower) / greater than discount rate	(661)	2,256
Assets distributed on Wilson Plan (see below)	-	(3,438)
Contributions by employer	660	800
Benefits paid	(2,149)	(1,853)
	46,158	46,655

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income was £568,000 (2014 - £1,997,000).

The Company expects to contribute £660,000 to its defined benefit pension plan in 2016.

	2015 £000	2014 £000
Change in irrecoverable surplus		
Irrecoverable surplus at the end of prior period	-	2,847
Interest on irrecoverable surplus	-	104
Change in irrecoverable surplus at the end of current period	42	(2,951)
	42	-

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

	2015 %	2014 %
Discount rate	3.7	3.6
Future salary increases	4.2	4.2
Future pension increases	2.2	2.2
Rate of increase in healthcare costs	n/a	n/a
Inflation assumption	2.2	2.2
Mortality rates		
- for a male aged 65 now	22.6	22.5
- at 65 for a male aged 45 now	23.9	23.9
- for a female aged 65 now	24.6	24.5
- at 65 for a female member aged 45 now	26.0	25.9

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

26. Pension commitments (continued)

On 31 January 2014 the company sold the trade and assets of the Distribution division. This included the UK Pension and Life Assurance Plan of Wilson United Kingdom Limited (Wilson Plan). The related assets were distributed and obligations extinguished at this point.

27. Commitments under operating leases

Acting as a lessee, at 31 December 2015 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2015	2014
	£000	£000
Land and buildings		
Within one year	413	458
In two to five years	2,899	4,996
In over five years	9,792	9,240
Total	13,104	14,694

	2015	2014
	£000	£000
Plant and machinery		
Within one year	261	198
In two to five years	1,071	964
In over five years	-	20
Total	1,332	1,182

The entity also acts as a lessor under leasing agreements with customers for the use of the 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 2015 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2015	2014
	£000	£000
Plant and machinery		
Within one year	308	294
In two to five years	-	294
	308	588

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

28. 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 member, 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 2015, are as follows:

	2015 Purchases from related party £000	2015 Amounts owed to related party £000	2014 Purchases from related party £000	2014 Amounts owed to related party £000
NOV Brandt Oilfield Services Middle East LLC	11	-	50	-
NOV Ghana Ltd	56	56	-	-
NOV Saudi Arabia Trading Co. Ltd	22	-	-	-
	89	56	50	-

	2015 Sales to related party £000	2015 Amounts owed by related party £000	2014 Sales to related party £000	2014 Amounts owed by related party £000
Vetco Saudi Arabia Ltd	169	108	145	53
NOV Brandt Oilfield Services Middle East LLC	1,647	289	2,422	386
PT H-Tech Oilfield Equipment	187	-	138	-
Grant Prideco Netherlands B.V.	-	-	1	1
NOV Intelliserv UK Limited	527	235	153	31
NOV Tuboscope Middle East LLC	2	2	63	63
Coil Services Middle East LLC	15	131	54	139
NOV Ghana Ltd	8	-	377	354
NOV Saudi Arabia Trading Co. Ltd	100	61	-	-
	2,655	826	3,353	1,027

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

29. Post balance sheet events

On 29 February 2016 the company purchased the remaining trade and assets of its subsidiary NOV Mission Products UK Limited for an estimated consideration of £115,416,000.

On 7 March 2016 the company proposed and paid an interim dividend of \$30,000,000 (equivalent of £21,615,000) to its shareholder, NOV UK Holdings Limited.

On 29 June 2016 the company proposed and paid an interim dividend of £42,000,000 to its shareholder, NOV UK Holdings Limited.

30. Controlling party

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

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.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

31. First time adoption of FRS 102

The company transitioned to FRS 102 on 1 January 2014. The following table reconciles the company's position.

		As previously stated 1 January 2014 £000	Effect of transition 1 January 2014 £000	FRS 102 (as restated) 1 January 2014 £000	As previously stated 31 December 2014 £000	Effect of transition 31 December 2014 £000	FRS 102 (as restated) 31 December 2014 £000
Fixed assets	4	727,885	218	728,103	657,864	192	658,056
Current assets	1,2,3	395,335	1,312	396,647	389,866	3,314	393,180
Creditors: amounts falling due within one year	2,3,4	(338,378)	574	(337,804)	(153,111)	(4,095)	(157,206)
Net current assets		56,957	1,886	58,843	236,755	(781)	235,974
Total assets less current liabilities		784,842	2,104	786,946	894,619	(589)	894,030
Provisions for liabilities		(3,670)	-	(3,670)	(2,295)	-	(2,295)
Defined benefit pension scheme liability		-	-	-	(1,197)	-	(1,197)
Net assets		781,172	2,104	783,276	891,127	(589)	890,538
Capital and reserves		781,172	2,104	783,276	891,127	(589)	890,538

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

31. First time adoption of FRS 102 (continued)

		As previously stated 31 December 2014 £000	Effect of transition 31 December 2014 £000	FRS 102 (as restated) 31 December 2014 £000
Turnover	3,4	492,839	1,200	494,039
Cost of sales	1,3,4	(354,386)	(298)	(354,684)
		138,453	902	139,355
Distribution expenses		(6,936)	-	(6,936)
Administrative expenses	2	(33,523)	(1,856)	(35,379)
Other operating income		(68,685)	-	(68,685)
Operating profit		29,309	(954)	28,355
Income from investments		143,449	-	143,449
Interest receivable and similar income		460	-	460
Interest payable and similar charges		(8)	-	(8)
Other finance income		578	(578)	-
Taxation		(4,051)	-	(4,051)
Profit on ordinary activities after taxation and for the financial year		169,737	(1,532)	168,205

Explanation of changes to previously reported profit and equity:

1 Stocks

As a result of the requirement to include transport, handling and import duty costs in the purchase cost of inventories, there was an increase in the raw materials balance at 1 January 2014 of £15,000 with the corresponding credit to the Profit and Loss Reserve brought forward. There was a similar increase to finished goods of £8,000. These entries were reversed against cost of sales in the Profit and Loss Account and an adjustment of £25,000 was made to account for transport, handling and import duty costs relating to raw materials and finished goods in stock at 31 December 2014. As a result of these adjustments, the net credit to the Profit and Loss Account for the year ended 31 December 2014 was £2,000.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

31. First time adoption of FRS 102 (continued)

2 Derivatives

As a result of the requirement to measure hedging derivatives at fair value with any changes at the balance sheet date being recognised through the profit and loss account, there was an asset of £926,000 and a liability of £136,000 recognised on the balance sheet, with a corresponding credit to the Profit and Loss Reserve brought forward totalling £790,000 at 1 January 2014. These entries were reversed resulting in a debit to administration expenses of £89,000 and a debit to other comprehensive income of £701,000. A similar adjustment was made at 31 December 2014 which resulted in recognition of a hedging derivative liability of £2,805,000, £2,345,000 of which was debited to administration expenses and £459,000 debited to other comprehensive income. The net charge to the Profit and Loss Account and Statement of Other Comprehensive Income as a result of these entries was £2,434,000 and £1,160,000 respectively.

3 Revenue recognition

As a result of the requirement to account for construction contracts on a percentage of completion basis, additional revenue and cost of sales were recognised in 2013 of £4,002,000 and £2,712,000 respectively. The net figure of £1,290,000 was credited to the Profit and Loss Reserve brought forward at 1 January 2014. Of this net amount, £363,000 was debited to accrued income (current assets) and £927,000 was debited to payments received on account (current liabilities). These entries were reversed against revenue and cost of sales in the Profit and Loss Account. A further adjustment was made to account for additional revenue and cost of sales of £5,177,000 and £2,975,000 respectively at 31 December 2014, resulting in an increase to accrued income (current assets) of £3,289,000 and an increase to payments received on account (current liabilities) of £1,087,000. In total, revenue in the Profit and Loss Account for the year ended 31 December 2014 was increased by £1,175,000 and cost of sales by £264,000.

4 Government grants

Previously a government grant had been accounted for by deducting the fair value from the historic cost of the asset, and amortising over the life of the asset. As a result of electing to account for it under the accruals model, grant income of £218,000 was removed from tangible fixed assets and included as deferred income (current liabilities) at 1 January 2014. A further adjustment of £25,000 was required at 31 December 2014 to move the amortisation which had been recorded from depreciation in cost of sales to grant income. The net effect to the Profit and Loss Account is nil. The £25,000 adjustment also credited accumulated depreciation in the balance sheet for the 2014 amortisation previously recorded, with the corresponding debit to deferred income (current liabilities).

5 Lease incentives

As a result of a rent free period on an operating lease, an adjustment has been made to increase cost of sales in the Profit and Loss Account by £12,000 at 31 December 2014 with the corresponding credit to accruals (current liabilities).

6 Pension commitments

Under old UK GAAP the company recognised other finance income of £578,000 relating to the National Oilwell (UK) Limited pension plan with the corresponding adjustment to the administrative expenses due to paragraph 37 of FRS 17. To comply with FRS 102 an adjustment has been processed to move the amounts recorded in the administrative expenses against the other finance income bringing the net income disclosed to nil.