
NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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NATIONAL OILWELL VARCO UK LIMITED

COMPANY INFORMATION

DIRECTORS	A J Fleming C P O'Neil
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 2014

The directors present their strategic report for the year ended 31 December 2014.

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, Brandt, Brandt Environmental, Coil Services (North Sea), CTES, Grant Prideco, Hydra Rig, Dynamic Drilling Solutions (DDS), NOV Flexibles UK, Portable Power, Procon Engineering, Rig Aftermarket, Tuboscope, Tuboscope Far East and XL Systems throughout the year.

The company also operates branches in Norway, Azerbaijan and Cameroon.

The global oil and gas supply market has been hit very hard by the oil price reduction particularly towards the end of 2014. This has and continues to impact on trading within all divisions of the company.

On 31 January 2014 the company sold the trade and assets of the Distribution division to a then fellow group company DNOW UK Limited for \$78,692,000. 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.

On 1 February 2014 National Oilwell Varco sold the entire share capital of DNOW UK Limited to NOV Worldwide C.V. a partnership registered in the Netherlands and an indirect subsidiary of NOV Inc., for £1.

On 2 February 2014 National Oilwell Varco issued a dividend in specie to its immediate parent company, National Oilwell Varco UK Holdings Limited by transfer of the DNOW UK Limited promissory note.

Also during 2014, the company:

- Acquired investments in NOV Saudi Arabia Co. Limited and NOV Devin Energia Servicos Do Brasil Ltda (formerly Greene's Energia Servicos Do Brasil Ltda).
- Impaired its investments in Merpro Group Limited, Techdrill Limited and Forth Valley Engineering Limited to reflect the share capital value in each subsidiary.
- Impaired its investments in Mono Pumps Limited, Big Red Tubulars Limited and NOV GP sub LLC.

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.

NATIONAL OILWELL VARCO UK LIMITED

STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2014

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:

	2014	2013
Turnover	492,839	490,603
Profit on ordinary activities before taxation	173,788	93,872
Shareholder's funds	891,127	781,172

Turnover has remained fairly static with a modest 0.5% increase from 2013. The directors consider this to be a positive result given the disposal of the Distribution business early in 2014 and the current economic factors affecting the market at large.

Profit on ordinary activities before taxation increased significantly in 2014 which is mainly due to income from investments as well as from the sale of the Distribution division.

There was a total write-down of £69,091,000 investment value in Merpro Group Limited, Techdrill Limited, Forth Valley Engineering Limited, Mono Pumps Limited, Big Red Tubulars Limited and NOV GP sub LLC although the majority of this was offset by dividends received of £143,449,000.

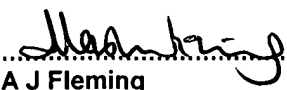
The company has a strong balance sheet with current assets as a percentage of current liabilities of 255% (2013: 116%).

FUTURE DEVELOPMENTS

The directors believe that despite the global industry downturn witnessed during 2014 and 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 8 July 2015 and signed on its behalf.


.....
A J Fleming
Director

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their report and the financial statements for the year ended 31 December 2014.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £169,737,000 (2013 - £80,182,000).

Dividends of £83,840,000 (2013 - £65,300,000) were paid during the year.

DIRECTORS

The directors who served during the year were:

A J Fleming
C P O'Neil

EVENTS SINCE THE END OF THE YEAR

On 4 February 2015 the company paid an interim dividend of £20,000,000.

On 23 February 2015 the Company further increased its investment in NOV Devin Energia Servicos Do Brasil Ltda by \$300,000.

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 2014 and 31 December 2013 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.

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

Price risk

With reference to the business review within the strategic report, the decline in oil price witnessed throughout 2014 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 2014 was £1,765,000 (2013: £2,828,000), 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.

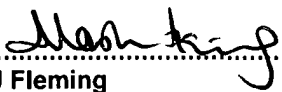
NATIONAL OILWELL VARCO UK LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2014**

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 8 July 2015 and signed on its behalf.


.....
A J Fleming
Director

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies 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 2014, which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 6, 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 Auditing Practices Board'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 Directors' 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 2014 and of its profit 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.

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

Moirra Ann Lawrence (Senior statutory auditor)

for and on behalf of
Ernst & Young LLP

Aberdeen

15 July 2015

NATIONAL OILWELL VARCO UK LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 £000	2013 £000
TURNOVER	2	492,839	490,603
Cost of sales		<u>(354,386)</u>	<u>(389,860)</u>
GROSS PROFIT		138,453	100,743
Distribution costs		<u>(6,936)</u>	<u>(6,991)</u>
Administrative expenses		<u>(33,523)</u>	<u>(34,860)</u>
OPERATING PROFIT	3	97,994	58,892
OTHER INCOME AND EXPENSES			
Net profit on sale of tangible fixed assets		406	6
Amounts received from settlement of preference shares		-	13,900
Amounts written off loans due from third party		-	(1,120)
Amounts written off fixed asset investments	14	<u>(69,091)</u>	<u>(39,415)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		29,309	32,263
Income from subsidiary undertakings		143,449	62,077
Interest receivable and similar income	8	460	555
Interest payable and similar charges	9	(8)	(1,440)
Other finance income	10	<u>578</u>	<u>417</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		173,788	93,872
Tax on profit on ordinary activities	11	<u>(4,051)</u>	<u>(13,690)</u>
PROFIT FOR THE FINANCIAL YEAR	21	<u>169,737</u>	<u>80,182</u>

All amounts relate to continuing operations.

The notes on pages 13 to 37 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £000	2013 £000
PROFIT FOR THE FINANCIAL YEAR		169,737	80,182
Actuarial (loss) gain related to pension scheme	26	(5,422)	614
Effects of FRS17 paragraph 37	26	3,425	(2,032)
Release of deferred tax	18	399	283
Gain on disposal of division	7	23,345	-
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		191,484	79,047

The notes on pages 13 to 37 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED
REGISTERED NUMBER: 00873028

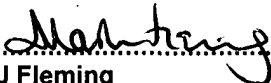
BALANCE SHEET
AS AT 31 DECEMBER 2014

	Note	£000	2014 £000	£000	2013 £000
FIXED ASSETS					
Intangible assets	12		2,785		6,457
Tangible assets	13		54,231		52,945
Investments	14		600,848		668,483
			<u>657,864</u>		<u>727,885</u>
CURRENT ASSETS					
Stocks	15	96,593		97,594	
Debtors	16	199,849		211,120	
Cash at bank		93,424		86,621	
		<u>389,866</u>		<u>395,335</u>	
CREDITORS: amounts falling due within one year	17	(153,111)		(338,378)	
NET CURRENT ASSETS			<u>236,755</u>		<u>56,957</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>894,619</u>		<u>784,842</u>
PROVISIONS FOR LIABILITIES					
Deferred tax	18	(411)		(36)	
Provisions	19	(1,884)		(3,634)	
			<u>(2,295)</u>		<u>(3,670)</u>
NET ASSETS EXCLUDING PENSION SCHEME LIABILITY			<u>892,324</u>		<u>781,172</u>
Defined benefit pension scheme liability	26	(1,197)			-
NET ASSETS INCLUDING PENSION SCHEME LIABILITY			<u>891,127</u>		<u>781,172</u>
CAPITAL AND RESERVES					
Called up share capital	20		77,916		77,916
Share premium account	21		507,714		507,714
Merger reserve	21		(10,868)		(25,223)
Share based payment reserve	21		11,380		9,069
Profit and loss account	21		304,985		211,696
SHAREHOLDERS' FUNDS	22		<u>891,127</u>		<u>781,172</u>

NATIONAL OILWELL VARCO UK LIMITED

BALANCE SHEET (continued)
AS AT 31 DECEMBER 2014

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 8 July 2015.


.....
A J Fleming
Director

The notes on pages 13 to 37 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

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.

1.2 Cash flow

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS 1.

1.3 Turnover

Turnover comprises revenue recognised by the company in respect of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts.

Product turnover is recognised after delivery to, or pick up by, the customer, as this is when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue associated with the rental of tools and equipment is recognised as the tool is used by, or in the possession of, the customer. Revenue for servicing or repairing customer equipment is recognised only after the services have been performed.

1.4 Intangible fixed assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (continued)

1.5 Goodwill and merger reserve

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition, and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Where a positive balance is generated from an inter group reorganisation, goodwill cannot be recognised and the debit balance is instead recorded as a merger reserve within capital and reserves.

1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is not charged on freehold land. Depreciation on other tangible fixed assets is provided at rates calculated to write off the cost of those assets, less their estimated residual value, over their expected useful lives on the following bases:

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

1.7 Investments

Investments held as fixed assets are shown at cost less provision for impairment.

1.8 Leasing and hire purchase

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the Profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

1.9 Operating leases

Rentals 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 period until the date the rent is expected to be adjusted to the prevailing market rate.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (continued)

1.10 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

1.11 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets.

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing can be deducted.

Deferred tax is measured on a undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.12 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date.

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction.

Exchange gains and losses are recognised in the Profit and loss account.

1.13 Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

1.14 Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (continued)

1.15 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. In 2013 the company operated two defined benefit schemes, one of which was disposed of with the Distribution division.

The contributions in the defined contribution scheme are charged to the profit and loss account as they fall due for payment.

The assets of the defined benefit scheme are held separately from those of the company in separate trustee administered funds.

The amounts charged to operating profit, regarding the defined benefit schemes, are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond or equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets on the face of the balance sheet.

1.16 Derivative instruments

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates.

The criteria for forward foreign currency contracts are:

- the instrument must be related to a firm foreign currency commitment;
- it must involve the same currency as the hedged item; and
- it must reduce the risk of foreign currency exchange movements on the company's operations.

The rates under such contracts are used to record the hedged item. As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES (continued)

1.17 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.

1.18 Warranty costs

A warranty provision is recognised when the company has a legal or constructive obligation as a result of a past sale and it is likely that an outflow of economic benefits will be required to settle the obligation. Provisions for the expected costs of maintenance under guarantees are charged against profits when products have been invoiced.

1.19 Segmental reporting

The directors consider that no disclosure should be made of the geographical analysis of profit on ordinary activities 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 on ordinary activities 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 2014

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and related parties.

Turnover is attributable to the manufacturing, sale, rental and servicing of equipment and accessories to the offshore oil and gas industry.

A geographical analysis of turnover is as follows:

	2014 £000	2013 £000
Europe	270,590	268,638
Americas	45,668	53,389
Middle East / Asia	34,401	37,451
Africa	64,507	61,981
Far East	52,475	46,582
Other	25,198	22,562
	<u>492,839</u>	<u>490,603</u>

The directors consider that no disclosure should be made of the geographical analysis of profit on ordinary activities 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 on ordinary activities before taxation and net assets are attributable to the supply of materials, equipment and services for the oil and gas industry.

3. OPERATING PROFIT

The operating profit is stated after charging:

	2014 £000	2013 £000
Amortisation - intangible fixed assets	516	1,370
Depreciation of tangible fixed assets:		
- owned by the company	9,069	8,480
Operating lease rentals:		
- plant and machinery	1,290	1,007
- land and buildings	3,923	4,250
Difference on foreign exchange	3,835	893
Research and development expenditure written off	1,765	2,828
Auditors remuneration (Note 4)	923	618
	<u></u>	<u></u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

4. AUDITORS' REMUNERATION

	2014 £000	2013 £000
Fees payable to the company's auditor and its associates for the audit of the company's annual accounts	248	264
Fees payable to the company's auditor and its associates in respect of:		
The auditing of accounts of associates of the company	326	270
All taxation advisory services not included above	349	84
	<u>326</u>	<u>270</u>
	<u>349</u>	<u>84</u>

5. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2014 £000	2013 £000
Wages and salaries	82,636	70,849
Social security costs	9,116	7,717
Other pension costs (Note 26)	3,709	3,107
Share-based payments (Note 28)	2,311	2,036
	<u>97,772</u>	<u>83,709</u>

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

	2014 No.	2013 No.
Production	1,554	1,515
Sales	140	85
Administration	238	220
	<u>1,932</u>	<u>1,820</u>

6. DIRECTORS' REMUNERATION

	2014 £000	2013 £000
Remuneration	301	184
Company pension contributions to defined contribution pension schemes	16	9

During the year retirement benefits were accruing to 2 directors (2013 - 2) in respect of defined contribution pension schemes.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

6. DIRECTORS' REMUNERATION (continued)

The highest paid director received remuneration of £168,000 (2013 - £151,000).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £8,000 (2013 - £7,000).

During the year 2 (2013 - 2) directors received shares in respect of qualifying services.

7. 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. 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 the statement of total recognised gains and losses.

8. INTEREST RECEIVABLE

	2014 £000	2013 £000
Interest receivable from group companies	241	-
Bank and other interest receivable	219	555
	<u>460</u>	<u>555</u>

9. INTEREST PAYABLE

	2014 £000	2013 £000
On bank loans and overdrafts	-	41
On loans from group undertakings	-	1,399
Other interest payable	8	-
	<u>8</u>	<u>1,440</u>

10. OTHER FINANCE INCOME

	2014 £000	2013 £000
Expected return on pension scheme assets	2,330	2,264
Interest on pension scheme liabilities	(1,752)	(1,847)
	<u>578</u>	<u>417</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

11. TAXATION

	2014 £000	2013 £000
Analysis of tax charge in the year		
Current tax		
UK corporation tax charge on profit for the year	14,309	6,210
Adjustments in respect of prior periods	(14,025)	(2,265)
	284	3,945
Double taxation relief	(2,721)	(115)
Group taxation relief	-	8,411
	(2,437)	12,241
Foreign tax on income for the year	3,202	115
Foreign tax adjustments in respect of prior periods	2,512	1,069
Total current tax	3,277	13,425
Deferred tax		
Origination and reversal of timing differences	(80)	(686)
Movement on pension accrual	160	283
Deferred tax on share based payments	18	(4)
Adjustment in respect of prior periods	676	672
Total deferred tax (see note 18)	774	265
Tax on profit on ordinary activities	4,051	13,690

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

11. TAXATION (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2013 - *lower than*) the standard rate of corporation tax in the UK of 21.5% (2013 - 23.25%). The differences are explained below:

	2014 £000	2013 £000
Profit on ordinary activities before tax	173,788	93,872
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013 - 23.25%)	37,364	21,825
Effects of:		
Capital allowances for year in excess of depreciation	86	627
Overseas tax payable	480	-
Adjustments to tax charge in respect of prior periods	(11,513)	(1,196)
Other timing differences	504	339
Non-taxable income	(15,420)	(7,744)
Changes in provisions	(296)	(426)
Group relief	(7,928)	-
Current tax charge for the year (see note above)	3,277	13,425

Factors that may affect future tax charges

UK corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profit for the year.

A reduction in the UK corporation tax rate from 24% to 23% took effect from 1 April 2013. A further reduction from 23% to 21% was substantively enacted in July 2013 and was effective from 1 April 2014. The rate of UK corporation tax will further reduce to 20% from 1 April 2015.

As at July 2013 the reduction in the UK corporation tax rate to 20% was substantively enacted and 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 2014**

12. INTANGIBLE FIXED ASSETS

	Intangibles £000	Goodwill £000	Total £000
Cost			
At 1 January 2014	8,532	9,537	18,069
Additions	110	-	110
Transfers to group undertaking	(5,880)	-	(5,880)
At 31 December 2014	<u>2,762</u>	<u>9,537</u>	<u>12,299</u>
Amortisation			
At 1 January 2014	4,548	7,064	11,612
Charge for the year	164	352	516
Transfers to group undertaking	(2,614)	-	(2,614)
At 31 December 2014	<u>2,098</u>	<u>7,416</u>	<u>9,514</u>
Net book value			
At 31 December 2014	<u>664</u>	<u>2,121</u>	<u>2,785</u>
At 31 December 2013	<u>3,984</u>	<u>2,473</u>	<u>6,457</u>

All transfers to group undertaking relate to the sale of the Distribution Services division to DNOW Limited on 31 January 2014 (see note 7).

13. TANGIBLE FIXED ASSETS

	Freehold land and buildings £000	Leasehold improve- ments £000	Plant, machinery and rental equipment £000	Motor vehicles £000	Fixtures and fittings £000
Cost					
At 1 January 2014	24,406	2,133	74,683	329	5,402
Additions	194	32	3,612	69	336
Disposals	-	-	(999)	(58)	-
Transfers between classes	41	-	10,476	-	-
Transfers to group	(16)	(46)	(3,524)	(15)	(91)
Transfers from group	-	-	949	-	-
At 31 December 2014	<u>24,625</u>	<u>2,119</u>	<u>85,197</u>	<u>325</u>	<u>5,647</u>
Depreciation					
At 1 January 2014	10,272	1,444	46,080	262	4,300
Charge for the year	962	245	7,195	50	617
On disposals	-	-	(803)	(57)	-
Transfers to group	(16)	(3)	(3,370)	(9)	(64)
At 31 December 2014	<u>11,218</u>	<u>1,686</u>	<u>49,102</u>	<u>246</u>	<u>4,853</u>
Net book value					

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

13. TANGIBLE FIXED ASSETS (continued)

At 31 December 2014	<u>13,407</u>	<u>433</u>	<u>36,095</u>	<u>79</u>	<u>794</u>
At 31 December 2013	<u>14,134</u>	<u>689</u>	<u>28,603</u>	<u>67</u>	<u>1,102</u>
				Construct- ion in progress £000	Total £000
Cost					
At 1 January 2014				8,350	115,303
Additions				5,710	9,953
Disposals				-	(1,057)
Transfers between classes				(10,517)	-
Transfers to group				(120)	(3,812)
Transfers from group				-	949
At 31 December 2014				<u>3,423</u>	<u>121,336</u>
Depreciation					
At 1 January 2014				-	62,358
Charge for the year				-	9,069
On disposals				-	(860)
Transfers to group				-	(3,462)
At 31 December 2014				<u>-</u>	<u>67,105</u>
Net book value					
At 31 December 2014				<u>3,423</u>	<u>54,231</u>
At 31 December 2013				<u>8,350</u>	<u>52,945</u>

The cost of land and buildings includes £22,145,000 (2013: £21,926,000) of depreciable assets.

The transfers to group undertakings represent the sale of the Distribution Services division to DNOW Limited on 31 January 2014 (see note 7).

The transfers from group undertakings are the net tangible fixed assets received by the Brandt and Elmar divisions from other group companies.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

14. FIXED ASSET INVESTMENTS

	Investments in subsidiary companies £000	Investments in associates £000	Total £000
Cost or valuation			
At 1 January 2014	877,021	2,029	879,050
Additions	1,550	-	1,550
Disposals	(94)	-	(94)
At 31 December 2014	<u>878,477</u>	<u>2,029</u>	<u>880,506</u>
Amounts written off			
At 1 January 2014	208,612	1,955	210,567
Provided during the year	69,091	-	69,091
At 31 December 2014	<u>277,703</u>	<u>1,955</u>	<u>279,658</u>
Net book value			
At 31 December 2014	<u>600,774</u>	<u>74</u>	<u>600,848</u>
At 31 December 2013	<u>668,409</u>	<u>74</u>	<u>668,483</u>

During the year, the company acquired NOV Devin Energia Servicos de Brasil (formerly known as Greene's Energia S de Brasil Ltda) and NOV Saudi Arabia Co. Ltd for £1,390,000 and £160,000 respectively.

The disposals for the year represent the sale of the company's 1% share in Istok on 31 January 2014 as well as the redemption of 65,000 preference shares in Mono Pumps Limited on 4 September 2014.

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Class of shares	Holding
Tuboscope Vetco Capital Limited	Ordinary	100%
Varco CIS LLC - incorporated in Russia [1]	Charter capital	100%
Tuboscope Vetco Moscow CJSC - incorporated in Russia [2]	Charter capital	100%
NOV Elmar (Middle East) Limited	Ordinary	100%
NOV Downhole Eurasia Limited	Ordinary	100%
NOV Downhole KZ LLP - incorporated in Kazakhstan [3]	Ordinary	100%
NOV Saudi Arabia Co Ltd [4]	Ordinary	100%
NOV Saudi Arabia Trading Co. Ltd [5]	Ordinary	75%
ReedHycalog UK Limited [6]	Ordinary	100%
Camco Drilling Group Limited [7]	Ordinary	100%
AG Holding UK [6]	Ordinary	100%
Anderguage Limited [8]	Ordinary	100%
NOV ASEP Elmar Do Brasil - incorporated in Brazil [9]	Ordinary	100%
Varco Al Mansoori Service Company LLC - incorporated in United Arab Emirates	Ordinary	49%

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

14. FIXED ASSET INVESTMENTS (continued)

Heibei Huayouyiji Tuboscope Co. Limited - incorporated in the People's Republic of China	Ordinary	60%
NOV Mission Products UK Limited	Ordinary	100%
NOV Ghana Limited	Ordinary	100%
Greystone Technologies Pty Limited - incorporated in Australia	Ordinary	51%
Elmar Far East Pty. Limited - incorporated in Australia	Ordinary	100%
Dreco Limited	Ordinary	100%
Hitec Dreco Limited [10]	Ordinary	100%
Dreco Europe Limited [10]	Ordinary	100%
Chargewood Limited	Ordinary	100%
NOV UK AICB Limited	Ordinary	100%
NOV Devin Energia Servicos de Brasil - incorporated in Brazil	Ordinary	100%
Merpro Group Limited	Ordinary	100%
Merpro Limited [11]	Ordinary	100%
Merpro Machining and Threading Limited [11]	Ordinary	100%
Merpro Products Limited [11]	Ordinary	100%
Merpro TorteK Limited [11]	Ordinary	100%
Big Red Tubulars Limited	Ordinary	100%
Big Red Tubular Industries LLC - incorporated in United Arab Emirates [12]	Ordinary	49%
ASEP UK Limited	Ordinary	100%
NOV UK (Angola Acquisitions) Limited	Ordinary	100%
NOV Oil Services Angola Limited [13]		49%
NOV Flexibles UK Limited	Ordinary	100%
Mono Pumps Limited	Ordinary	100%
Mono (Australia) Pty. Limited - incorporated in Australia [14]	Ordinary	100%
Mono Pumps (New Zealand) Limited - incorporated in New Zealand [14]	Ordinary	100%
Chemineer Limited [14]	Ordinary	100%
Mono Group Pension Trustee Limited	Ordinary	100%
Forth Valley Engineering Limited	Ordinary	100%
Techdrill Limited	Ordinary	100%
NOV Kenya Ltd [15]	Ordinary	100%
NOV Oil and Gas Services Nigeria Ltd - incorporated in Nigeria [16]	Ordinary	100%
NOV Oilfield Solutions Ltd [17]	Ordinary	49%
Hydralift Holdings UK Limited	Ordinary	100%
Procon Engineering Limited [18]	Ordinary	100%
National Oilwell (UK) Limited	Ordinary	100%
Morinoak International Limited	Ordinary	100%

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

14. FIXED ASSET INVESTMENTS (continued)

- [1] Held by Tuboscope Vetco Capital Limited
- [2] Held by Varco CIS LLC (99%) and National Oilwell Varco (UK) Limited (1%)
- [3] Held by NOV Downhole Eurasia Limited (99%) and National Oilwell Varco (UK) Limited (1%)
- [4] Held by NOV Downhole Eurasia Limited (90%) and National Oilwell Varco (UK) Limited (10%)
- [5] Held by NOV Downhole Eurasia Limited
- [6] Held by NOV Downhole Eurasia Limited
- [7] Held by ReedHycalog UK Limited
- [8] Held by AG Holding UK
- [9] Held by National Oilwell Varco UK Limited (99.99%) and Mono Pumps Limited (0.01%)
- [10] Held by Dreco Limited
- [11] Held by Merpro Group Limited
- [12] Held by Big Red Tubulars Limited
- [13] Held by NOV UK (Angola Acquisitions) Limited
- [14] Held by Mono Pumps Limited
- [15] Held by National Oilwell Varco UK Limited (99%) and NOV Downhole Eurasia Limited (1%)
- [16] Held by National Oilwell Varco UK Limited (99%) and Mono Pumps Limited (1%)
- [17] Held by NOV Oil and Gas Services Nigeria Ltd
- [18] Held by Hydralift Holdings UK Limited

In the opinion of the directors, the aggregate value of the investment in subsidiary undertakings is not less than the amount at which they are stated in the accounts.

15. STOCKS

	2014 £000	2013 £000
Raw materials	12,347	11,367
Work in progress	26,731	34,151
Finished goods and goods for resale	57,515	52,076
	96,593	97,594

16. DEBTORS

	2014 £000	2013 £000
Trade debtors	74,293	81,533
Amounts owed by group undertakings	101,317	86,941
VAT recoverable	-	1,859
Corporation tax	2,290	22,374
Overseas tax	663	2,864
Other debtors	2,548	2,557
Prepayments and accrued income	17,861	12,992
Amounts recoverable on long term contracts	877	-
	199,849	211,120

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

17. CREDITORS:

Amounts falling due within one year

	2014 £000	2013 £000
Bank loans and overdrafts	47,439	41,748
Payments received on account	10,977	21,888
Trade creditors	11,016	20,686
Amounts owed to group undertakings	39,906	201,322
Other taxation and social security	3,644	2,630
Accruals and deferred income	22,921	19,478
Group relief	17,208	30,626
	<u>153,111</u>	<u>338,378</u>

18. DEFERRED TAXATION

	2014 £000	2013 £000
At beginning of year	36	(87)
Charge for year (P&L)	774	265
Acquisition	-	141
Other movement (STRGL)	(399)	(283)
At end of year	<u>411</u>	<u>36</u>

The provision for deferred taxation is made up as follows:

	2014 £000	2013 £000
Accelerated capital allowances	2,307	1,478
Pension surplus	(239)	-
Other timing differences	(1,135)	(903)
Share based payments	(522)	(539)
	<u>411</u>	<u>36</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

19. PROVISIONS

	Provision for warranty costs £000
At 1 January 2014	3,634
Additions	2,039
Amounts used	(3,511)
Amounts reversed	(278)
At 31 December 2014	<u>1,884</u>

20. SHARE CAPITAL

	2014 £000	2013 £000
Allotted, called up and fully paid		
77,916,494 Ordinary shares of £1 each	<u>77,916</u>	<u>77,916</u>

21. RESERVES

	Share premium account £000	Merger reserve £000	Share based payment reserve £000	Profit and loss account £000
At 1 January 2014	507,714	(25,223)	9,069	211,696
Profit for the financial year	-	-	-	169,737
Dividends paid	-	-	-	(83,840)
Actuarial loss relating to pension scheme	-	-	-	(1,997)
Merger reserve movement	-	14,355	-	(14,355)
Share based payments	-	-	2,311	-
Gain on disposal of division	-	-	-	23,345
Deferred tax relating to pension scheme	-	-	-	399
At 31 December 2014	<u>507,714</u>	<u>(10,868)</u>	<u>11,380</u>	<u>304,985</u>

The closing balance on the Profit and loss account includes a £1,197,000 (2013 - £NIL) debit, stated after deferred taxation of £NIL (2013 - £NIL), in respect of pension scheme liabilities of the company pension scheme.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

21. RESERVES (continued)

The movement on the merger reserve in the year is the balance transferred to the profit and loss account on the disposal of the Distribution business (see note 7).

On 31 January 2014 the company sold the trade and assets of the Distribution division to a then fellow group company DNOW UK Limited for \$78,692,000. 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 the statement of total recognised gains and losses.

On 2 February 2014 the company resolved to issue a dividend in specie of £47,640,162 to its shareholder NOV UK Holdings Limited, a company registered in the United Kingdom, by way of transfer of the promissory note received from DNOW UK Limited on the sale of its Distribution division.

Distribution of the intercompany receivable resulted in realisation of the non-distributable reserves in National Oilwell Varco UK Limited.

22. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2014 £000	2013 £000
Opening shareholders' funds	781,172	784,464
Profit for the financial year	169,737	80,182
Dividends (Note 23)	(83,840)	(65,300)
Other recognised gains and losses during the year	21,747	(1,135)
Merger reserve	-	(19,075)
Share based payment reserve	2,311	2,036
	<u>891,127</u>	<u>781,172</u>
Closing shareholders' funds		

23. DIVIDENDS

	2014 £000	2013 £000
Dividends paid on equity capital	<u>83,840</u>	<u>65,300</u>

Equity dividends per ordinary share:

	2014 £000	2013 £000
Interim June 2013: 83.81p	-	65,300
Dividend in specie	47,640	-
Interim March 2014: 46.46p	36,200	-
	<u>83,840</u>	<u>65,300</u>
Total		

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

23. DIVIDENDS (continued)

On 2 February 2014 the company resolved to issue a dividend in specie of £47,640,162 to its shareholder NOV UK Holdings Limited, a company registered in the United Kingdom, by way of transfer of the promissory note received from DNOW UK Limited on the sale of its Distribution division.

Distribution of the intercompany receivable resulted in realisation of the non-distributable reserves in National Oilwell Varco UK Limited.

24. CONTINGENT LIABILITIES

At the balance sheet date, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £5,939,000 (2013: £6,483,000) entered into in the normal course of business.

25. CAPITAL COMMITMENTS

At 31 December 2014 the company had capital commitments as follows:

	2014 £000	2013 £000
Contracted for but not provided in these financial statements	<u>6,493</u>	<u>1,337</u>

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 £3,709,000 (2013 - £3,107,000). Contributions totaling £NIL (2013 - £NIL) were payable to the fund at the balance sheet date.

The company also operates a defined benefit pension scheme.

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 37 of FRS17.

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 1 January 2014. 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.

At the balance sheet date the financial statements contain a pension accrual of £958,000 (2013: NIL) relating to this scheme.

National Oilwell Varco UK Limited is the principal 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.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

26. PENSION COMMITMENTS (continued)

The amounts recognised in the Balance sheet are as follows:

	2014 £000	2013 £000
Present value of funded obligations	(47,852)	(43,376)
Fair value of scheme assets	46,655	47,034
	<u> </u>	<u> </u>
(Deficit)/surplus in scheme	(1,197)	3,658
Surplus not recognised	-	(3,658)
	<u> </u>	<u> </u>
Net liability	<u><u>(1,197)</u></u>	<u><u>-</u></u>

The amounts recognised in profit or loss are as follows:

	2014 £000	2013 £000
Interest on obligation	(1,752)	(1,847)
Expected return on scheme assets	2,330	2,264
	<u> </u>	<u> </u>
Total	<u><u>578</u></u>	<u><u>417</u></u>

Movements in the present value of the defined benefit obligation were as follows:

	2014 £000	2013 £000
Opening defined benefit obligation	43,376	41,963
Interest cost	1,752	1,847
Contributions by scheme participants	(1,853)	(1,849)
Actuarial Losses	7,204	1,415
Liabilities extinguished on Wilson Plan (see below)	(2,627)	-
	<u> </u>	<u> </u>
Closing defined benefit obligation	<u><u>47,852</u></u>	<u><u>43,376</u></u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

26. PENSION COMMITMENTS (continued)

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

	2014	2013
	£000	£000
Opening fair value of scheme assets	47,034	43,172
Expected return on assets	2,330	2,264
Actuarial gains	1,782	2,029
Assets distributed on Wilson Plan (see below)	(3,438)	-
Contributions by employer	800	1,418
Contributions by scheme participants	(1,853)	(1,849)
	46,655	47,034

The cumulative amount of actuarial gains and losses recognised in the Statement of total recognised gains and losses was £1,997 (2013 - £1,418).

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2014	2013
Equities	59.06 %	60.74 %
Bonds	40.94 %	39.26 %

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

	2014	2013
Discount rate at 31 December	3.60 %	4.40 %
Expected return on scheme assets at 31 December	5.20 %	5.50 %
Future salary increases	4.20 %	4.40 %
Future pension increases	2.20 %	2.40 %
Retail price inflation (RPI)	3.20 %	3.40 %
Consumer price inflation (CPI)	2.20 %	2.40 %

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	2014	2013
Retiring today		
Males	22.5	21.2
Females	24.5	23.3
Retiring in 15 years		
Males	23.9	22.2
Females	25.9	24.4

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26. PENSION COMMITMENTS (continued)

Amounts for the current and previous four periods are as follows:

Defined benefit pension schemes

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Defined benefit obligation	(47,852)	(43,376)	(44,520)	(39,680)	(40,018)
Scheme assets	46,655	47,034	46,137	40,401	37,453
(Deficit)/surplus	<u>(1,197)</u>	<u>3,658</u>	<u>1,617</u>	<u>721</u>	<u>(2,565)</u>
Experience adjustments on scheme liabilities	(7,204)	(1,415)	19	4,011	-
Experience adjustments on scheme assets	<u>1,782</u>	<u>2,029</u>	<u>(26)</u>	<u>138</u>	<u>-</u>

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 Wikson United Kingdom Limited (Wilson Plan). The related assets were distributed and obligations extinguished at this point.

27. OPERATING LEASE COMMITMENTS

At 31 December 2014 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2014 £000	2013 £000	Plant and machinery 2014 £000	2013 £000
Expiry date:				
Within 1 year	576	494	222	136
Between 2 and 5 years	1,859	1,820	415	364
After more than 5 years	<u>1,073</u>	<u>1,164</u>	<u>2</u>	<u>2</u>

28. SHARE BASED PAYMENTS

The expense recognised for equity settled share-based payments in respect of employee services received during the year to 31 December 2014 is £1,599,000 for the Senior Executive Plan and £712,000 for the restricted share awards (2013: £1,425,000 and £611,000 respectively).

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28. SHARE BASED PAYMENTS (continued)

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.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2014 No.	2014 £	2013 No.	2013 £
Outstanding as at 1 January	416,200	38.65	320,999	36.14
Granted during the year	116,432	41.38	97,622	44.71
Forfeited during the year	(12,010)	36.99	(2,687)	50.94
Adjustment during the year	33,030	-	-	-
Transferred in during the year	20,638	31.93	38,086	29.82
Exercised	(59,394)	32.48	(37,820)	23.23
Outstanding at 31 December	<u>514,896</u>	<u>37.27</u>	<u>416,200</u>	<u>38.65</u>
Exercisable at 31 December	<u>301,673</u>	<u>33.63</u>	<u>241,488</u>	<u>31.91</u>

For the share options outstanding as at 31 December 2014, the weighted average remaining contractual life is 6.61 years (2013: 6.71 years).

The weighted average share price at the date of exercise for options exercised was £47.62 (2013: £47.01).

The weighted average fair value of options granted during the year was £15.35 (2013: £15.55). The range of exercise prices for options outstanding at the end of the year was £6.12 - £53.32 (2013: £6.12 - £53.32).

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2014 and 31 December 2013.

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28. SHARE BASED PAYMENTS (continued)

	2014	2013
Risk free interest rate	1.50%	<i>0.90%</i>
Expected dividend	\$1.39	<i>\$0.75</i>
Expected option life (years)	3.7	<i>3.4</i>
Expected volatility	49.4%	<i>50.1%</i>

The Black-Scholes model is based on the option plan of National Oilwell Varco, Inc.. The use of the Black-Scholes model requires the use of extensive actual employee exercise activity data and the use of a number of complex assumptions including expected volatility, risk-free interest rate, expected dividends and expected term.

The actual volatility for traded options on National Oilwell Varco, Inc.'s stock since 11 March 2005 has been used as the expected volatility assumption required in the Black-Scholes model.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of employee stock options. The dividend yield assumption is based on the history and expectations of dividend payouts. The estimated expected term is based on actual employee exercise activity for National Oilwell Varco, Inc., for the past 10 years.

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 on 2014 at a fair value of £42.06 (2013 - £44.54). These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested.

The following table illustrates the number and weighted average grant date fair value (WAGDFV) of, and movements in, restricted shares during the year.

	2014 No.	2014 £	2013 No.	2013 £
Outstanding as at 1 January	39,720	48.46	<i>35,045</i>	<i>42.62</i>
Granted during the year	20,166	42.06	<i>16,940</i>	<i>44.54</i>
Forfeited during the year	(1,244)	46.67	<i>(390)</i>	<i>50.95</i>
Transferred during the year	454	48.48	<i>1,300</i>	<i>51.05</i>
Adjustments during the year	2,453	-	<i>-</i>	<i>-</i>
Exercised	(8,600)	48.99	<i>(13,175)</i>	<i>28.08</i>
	<hr/> 52,949 <hr/>	<hr/> 43.73 <hr/>	<hr/> <i>39,720</i> <hr/>	<hr/> <i>48.46</i> <hr/>
Outstanding at 31 December				
	<hr/> 2014 £000 <hr/>	<hr/> 2014 £000 <hr/>	<hr/> 2013 £000 <hr/>	<hr/> 2013 £000 <hr/>
Exercisable at 31 December	<hr/> - <hr/>	<hr/> - <hr/>	<hr/> <i>-</i> <hr/>	<hr/> <i>-</i> <hr/>

The weighted average vesting period is 1.23 years (2013: 1.34 years).

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**NOTES TO THE FINANCIAL STATEMENTS
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29. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption provided in Financial Reporting Standard 8 'Related Party Disclosures' not to disclose transactions with wholly owned entities which form part of the group.

During the year the company received dividends of £913,302 (2013: £1,239,864) from Varco Al Mansoori Service Company LLC an entity in which they hold 49% of the Ordinary share capital together with £2,161,922 (2013: £2,754,220) from Heibei Huayouyiji Tuboscope Coating Co Limited, an entity in which they hold 60% of the Ordinary share capital.

30. POST BALANCE SHEET EVENTS

The company proposed and paid an interim dividend of £20,000,000 on 4 February 2015 to its shareholder NOV UK Holdings Limited.

The company made a further investment in NOV Devin Energia Servicos Do Brasil Ltda of \$300,000 on 23 February 2015.

31. ULTIMATE PARENT UNDERTAKING AND 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 the 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.