
NATIONAL OILWELL VARCO UK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

THURSDAY



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NATIONAL OILWELL VARCO UK LIMITED

COMPANY INFORMATION

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

NATIONAL OILWELL VARCO UK LIMITED

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NATIONAL OILWELL VARCO UK LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Introduction

The directors present their strategic report for the year ended 31 December 2016.

Business review

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

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

On 14 January 2016 the company increased its investment in NOV ASEP Elmar Do Brasil by \$590,000 (equivalent of £399,000).

On 15 August 2016 the company made an investment in Tubular Coating Solutions Limited of \$4,108,000 (equivalent of £3,105,000).

On 19 December 2016 the company made an investment in NOV Completion and Production Solutions Korea Ltd of \$85,000 (equivalent of £68,000).

On 20 December 2016 the company acquired Axiom Process Limited for a consideration of £11,598,000.

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.

NATIONAL OILWELL VARCO UK LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

Financial key performance indicators

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

	2016 £000	2015 £000
Turnover	285,014	396,418
Profit before taxation	21,926	237,262
Shareholders' funds	842,254	965,741

Turnover for 2016 dropped by 28% 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 2016 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.

However, 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 £15,527,000 in investment values in Big Red Tubulars Limited, Greystone Technologies Pty Ltd, NOV ASEP Elmar Do Brazil, NOV Devin Energia Servicos do Brasil Ltda, NOV Mission Products UK Limited and NOV Saudi Arabia Co. Ltd.

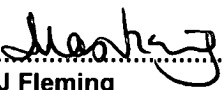
The company continues to hold a very strong balance sheet with current assets as a percentage of current liabilities of 172% (2015: 343%).

Future developments

The directors believe that despite the global industry downturn witnessed during 2016 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 2017 and signed on its behalf.


.....
A J Fleming
Director

NATIONAL OILWELL VARCO UK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Results and dividends

The profit for the year, after taxation, amounted to £29,172,000 (2015 - £209,268,000).

Dividends of £114,973,000 (2015 - £121,995,000) were paid during the year.

Directors

The directors who served during the year were:

A J Fleming
R Oudendijk

Future developments

Likely future developments in the business of the company are discussed in the strategic report.

Financial instruments

The company's operations expose it to a variety of financial risks that include the effects of 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 2016 and 31 December 2015 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

The decline in oil price witnessed throughout 2015 and 2016 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 (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2016

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 2016 was £1,076,000 (2015: £1,949,000), the majority of which was incurred by the Well Site Services and Elmar divisions.

Employee involvement

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

Disabled employees

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

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

Going concern

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

Disclosure of information to auditors

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

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

Post balance sheet events

On 28 June 2017 the company declared and paid an interim dividend of £41,250,000 to its shareholder NOV UK Holdings Limited.

On 30 June 2017 the company purchased the trade and assets of its subsidiary Axiom Process Limited for a consideration equal to the net assets at the date of transfer.

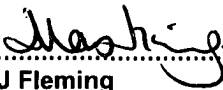
NATIONAL OILWELL VARCO UK LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016**

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 2017 and signed on its behalf.


.....
A J Fleming
Director

NATIONAL OILWELL VARCO UK LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the company's financial statements and then apply them consistently;
- make 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of National Oilwell Varco UK Limited for the year ended 31 December 2016, 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 33. The financial reporting framework that has been applied in their preparation is applicable law and the 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'.

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 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 2016 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.

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

Opinion on other matter prescribed by the Companies Act 2006

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

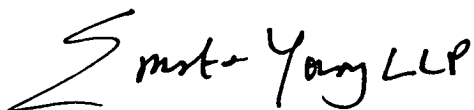
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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.

A handwritten signature in black ink, appearing to read 'mst - Yang LLP', is written over the printed name of the auditor.

Kenneth Macleod Hall (Senior Statutory Auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
Aberdeen

30 June 2017

NATIONAL OILWELL VARCO UK LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £000	2015 £000
Turnover	4	285,014	396,418
Cost of sales		(249,946)	(293,400)
Gross profit		35,068	103,018
Distribution costs		(8,145)	(7,527)
Administrative expenses		(41,284)	(52,814)
Operating (loss)/profit	5	(14,361)	42,677
Amounts written off fixed asset investments	17	(15,527)	(12,918)
Amounts written off inventory	9	(20,219)	-
Impairment of tangible fixed assets	16	(3,937)	-
Restructuring costs		(13,540)	-
Net profit on sale of tangible assets		214	361
(Loss)/profit on ordinary activities before investment income, interest and taxation		(67,370)	30,120
Income from fixed asset investments		89,285	163,614
Gain on sale of investments	17	-	43,464
Interest receivable and similar income	10	187	126
Interest payable and similar expenses	11	(188)	(31)
Other finance income/(expense)	12	12	(31)
Profit before tax		21,926	237,262
Tax on profit	13	7,246	(27,994)
Profit for the year		29,172	209,268

The notes on pages 14 to 52 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Profit for the financial year		29,172	209,268
Other comprehensive income			
Actuarial (loss)/gain on defined benefit schemes	29	(3,038)	610
Change in irrecoverable plan surplus	29	44	(42)
Gain on derivative financial instruments		1,586	415
Release of deferred tax	23	575	(114)
Total comprehensive income for the year		28,339	210,137

NATIONAL OILWELL VARCO UK LIMITED
REGISTERED NUMBER: 00873028

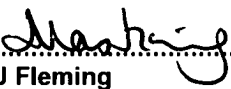
BALANCE SHEET
AS AT 31 DECEMBER 2016

	Note	2016 £000	2015 £000
Fixed assets			
Intangible assets	15	1,834	2,408
Tangible assets	16	58,115	59,120
Investments	17	614,636	614,993
		<u>674,585</u>	<u>676,521</u>
Current assets			
Fixed assets held for sale	18	975	-
Stocks	19	99,280	102,264
Debtors: amounts falling due within one year	20	272,147	254,526
Cash at bank and in hand		56,871	55,247
		<u>429,273</u>	<u>412,037</u>
Creditors: amounts falling due within one year	21	(249,591)	(120,023)
Net current assets		<u>179,682</u>	<u>292,014</u>
Total assets less current liabilities		<u>854,267</u>	<u>968,535</u>
Creditors: amounts falling due after more than one year	22	(3,740)	-
Provisions for liabilities			
Other provisions	24	(5,951)	(2,794)
Pension liability	29	(2,322)	-
Net assets		<u><u>842,254</u></u>	<u><u>965,741</u></u>
Capital and reserves			
Called up share capital	25	77,916	77,916
Share premium account	26	507,714	507,714
Share based payments reserve	26	15,137	13,243
Merger reserve	26	(64,417)	(25,670)
Profit and loss account	26	305,904	392,538
		<u><u>842,254</u></u>	<u><u>965,741</u></u>

NATIONAL OILWELL VARCO UK LIMITED
REGISTERED NUMBER: 00873028

BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2016

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 June 2017.

..........
A J Fleming
Director

The notes on pages 14 to 52 form part of these financial statements.

NATIONAL OILWELL VARCO UK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called up share capital £000	Share premium account £000	Share based payment reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1 January 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 29)	-	-	-	-	568	568
Gain on derivative financial instruments	-	-	-	-	415	415
Deferred tax relating to pension scheme	-	-	-	-	(114)	(114)
Dividends: Equity capital (note 14)	-	-	-	-	(121,995)	(121,995)
Merger reserve movement (note 26)	-	-	-	(14,802)	-	(14,802)
Share based payments (note 27)	-	-	1,863	-	-	1,863
At 1 January 2016	77,916	507,714	13,243	(25,670)	392,538	965,741
Comprehensive income for the year						
Profit for the year	-	-	-	-	29,172	29,172
Actuarial losses on pension scheme (note 29)	-	-	-	-	(2,994)	(2,994)
Gain on derivative financial instruments	-	-	-	-	1,586	1,586
Deferred tax relating to pension scheme	-	-	-	-	575	575
Dividends: Equity capital (note 14)	-	-	-	-	(114,973)	(114,973)
Merger reserve movement (note 26)	-	-	-	(38,747)	-	(38,747)
Share based payments (note 27)	-	-	1,894	-	-	1,894
At 31 December 2016	77,916	507,714	15,137	(64,417)	305,904	842,254

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. General information

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

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

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

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

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

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

This information is included in the consolidated financial statements of National Oilwell Varco, Inc. as at 31 December 2016 and these financial statements may be obtained from its principal office at 7909 Parkwood Circle Drive, Houston, Texas, 77036, USA.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.3 Going concern

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

2.4 Revenue

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

Sale of goods

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

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

Rendering of services

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

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

Construction contracts

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

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.5 Intangible assets

Goodwill

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

Other intangible assets

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

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

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

2.6 Tangible 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.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.6 Tangible fixed assets (continued)

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

The estimated useful lives range as follows:

Freehold buildings	- 30-50 years
Leasehold improvements	- 10 years
Plant and machinery	- 5-20 years
Rental equipment	- 3-10 years
Motor vehicles	- 3-4 years
Fixtures and fittings	- 5-10 years

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

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

2.7 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

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

2.8 Stocks

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

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

2.9 Debtors

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

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.10 Cash and cash equivalents

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

2.11 Creditors

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

2.12 Hedge accounting

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

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

2.13 Government grants

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

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

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.14 Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

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

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

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

2.15 Finance costs

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

2.16 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.17 Share based payments

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

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

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

2.18 Operating leases: Lessor

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

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

2.19 Operating leases: Lessee

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

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

2.20 Interest income

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

2.21 Provisions for liabilities

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

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

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

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.22 Onerous leases

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

2.23 Pensions

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

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

The company is also the sponsoring employer of 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 occur the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the Profit and Loss Account during the period in which it occurs.

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

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

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

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

2. Accounting policies (continued)

2.24 Current and deferred taxation

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

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

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

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

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

2.25 Research and development

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

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

2.26 Group reconstructions

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

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

3. 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 29.

Investment impairment

The company considers all investments for evidence of impairment annually. The method used in 2016 to value each investment consists of applying a discounted Enterprise value/revenue ratio for NOV Inc. to forecast 2017 revenue for trading entities and net assets for non-trading entities. This value is then compared to the carrying value of the investment to assess whether there are indicators that impairment may exist. When this is found to be the case, current and future profitability of the subsidiary is also taken in to consideration. Judgement is applied in assessing the amount by which to impair any investments where future profitability cannot be certain or where specific circumstances have led to a reduction in net assets.

Provisions

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

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

4. Turnover

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

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

An analysis of turnover by category is as follows:

	2016 £000	2015 £000
Sale of goods	162,764	227,463
Rendering of services	121,730	168,272
Grant income	46	44
Royalty income	474	639
	285,014	396,418

A geographical analysis of turnover is as follows:

	2016 £000	2015 £000
Europe	125,829	223,526
Americas	39,270	37,800
Middle East	39,992	20,542
Africa	39,547	71,549
Far East	27,660	33,555
Other	12,716	9,446
	285,014	396,418

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 2016**

5. Operating (loss)/profit

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

	2016	2015
	£000	£000
Depreciation of tangible fixed assets (note 16)	10,326	8,754
Amortisation and impairment of intangible assets, including goodwill (note 15)	646	450
Research & development charged as an expense	1,076	1,949
Auditors remuneration (note 6)	1,084	951
Operating lease rentals:		
- plant and machinery	1,693	1,365
- land and buildings	4,222	4,070
Exchange differences	342	(1,120)
Change in fair value of hedging instrument	2,259	821
	=====	=====

6. Auditors' remuneration

	2016	2015
	£000	£000
Fees payable to the company's auditor in respect of:		
The audit of the company's annual financial statements	283	371
The audit of financial statements of subsidiaries of the company pursuant to legislation	274	310
Taxation advisory services provided to the company and its subsidiary undertakings	527	270
	=====	=====
	1,084	951

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

7. Employees

Staff costs were as follows:

	2016	2015
	£000	£000
Wages and salaries	73,386	83,113
Social security costs	7,549	8,662
Other pension costs (note 29)	3,798	3,699
Share-based payments (note 27)	1,894	1,863
	86,627	97,337

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

	2016	2015
	No.	No.
Production	1,251	1,432
Sales	96	96
Administration	206	226
	1,553	1,754

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

8. Directors' remuneration

	2016	2015
	£000	£000
Directors' emoluments	109	365
Amounts receivable under long-term incentive schemes	4	16
Company contributions to defined contribution pension schemes	8	14
	121	395

During the year retirement benefits were accruing to 1 director (2015 - 2) in respect of defined contribution pension schemes.

During the year 1 director (2015 - 2) received shares in respect of qualifying services.

One of the directors who served during the year (2015 - 1) was paid by another group entity.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

9. Amounts written off inventory

Following a group wide review of obsolete and surplus inventories based on an update of assumptions relating to estimates of future demand, an additional £20,219,000 was recorded to inventory reserves during the year and recognised in the Profit and Loss Account within 'Amounts written off inventory'. This represents a one off non-recurring cost.

10. Interest receivable

	2016 £000	2015 £000
Interest receivable from group companies	96	2
Bank and other interest receivable	91	124
	<u>187</u>	<u>126</u>

11. Interest payable and similar charges

	2016 £000	2015 £000
Bank and other interest payable	181	31
Interest payable on loans from group companies	7	-
	<u>188</u>	<u>31</u>

12. Other finance income/(expense)

	2016 £000	2015 £000
Net interest on defined benefit pension plan (note 29)	12	(31)
	<u>12</u>	<u>(31)</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

13. Taxation

	2016	2015
	£000	£000
Corporation tax		
Current tax on profit for the year	-	2,300
Adjustments in respect of previous periods	(7,879)	18,428
	(7,879)	20,728
Double taxation relief	-	(1,989)
Group relief payable	-	7,905
	(7,879)	26,644
Foreign tax		
Foreign tax on income for the year	3,351	2,341
Foreign tax adjustments in respect of prior periods	47	386
	3,398	2,727
Total current tax	(4,481)	29,371
Deferred tax		
Origination and reversal of timing differences	(2,227)	(1,432)
Deferred tax on pension scheme	133	126
Deferred tax on share based payments	(231)	363
Adjustment in respect of prior periods	(440)	(434)
Total deferred tax	(2,765)	(1,377)
Taxation on profit	(7,246)	27,994

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

13. Taxation (continued)

Factors affecting tax (credit)/charge for the year

The tax assessed for the year is lower than (2015 - *lower than*) the standard rate of corporation tax in the UK of 20% (2015 - 20.25%). The differences are explained below:

	2016	2015
	£000	£000
Profit before tax	21,926	237,262
Profit before tax multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20.25%)	4,385	48,046
Effects of:		
Expenses not deductible for tax purposes	4,184	2,922
Capital allowances for year less than depreciation	(13)	-
Withholding tax not recoverable	3,351	351
Adjustments to tax charge in respect of prior periods	(8,272)	18,380
Other timing differences	105	668
Income not taxable	(18,527)	(42,378)
Tax rate changes	(177)	7
Pension provision	(1)	(2)
Losses carried back to previous year	7,719	-
Total tax (credit)/charge for the year	(7,246)	27,994

Factors that may affect future tax charges

UK Corporation tax is calculated at 20% (2015: 20.25%) of the estimated assessable profit for the year.

A reduction in the UK corporation tax rate from 21% to 20% took effect from 1 April 2015.

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

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

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

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

14. Dividends paid

	2016	2015
	£000	£000
Dividend in specie	-	8,960
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
Interim March 2016: 27.74p per ordinary share	21,615	-
Interim June 2016: 53.9p per ordinary share	42,000	-
Interim September 2016: 29.36p per ordinary share	22,880	-
Interim November 2016: 30p per ordinary share	23,378	-
Interim December 2016: 6.55p per ordinary share	5,100	-
	<u>114,973</u>	<u>121,995</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.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

15. Intangible assets

	Intangibles £000	Goodwill £000	Total £000
Cost			
At 1 January 2016	2,835	9,537	12,372
Additions	72	-	72
At 31 December 2016	<u>2,907</u>	<u>9,537</u>	<u>12,444</u>
Amortisation			
At 1 January 2016	2,196	7,768	9,964
Charge for the year	109	353	462
Impairment charge	-	184	184
At 31 December 2016	<u>2,305</u>	<u>8,305</u>	<u>10,610</u>
Net book value			
At 31 December 2016	<u>602</u>	<u>1,232</u>	<u>1,834</u>
At 31 December 2015	<u>639</u>	<u>1,769</u>	<u>2,408</u>

Based on the annual impairment review of intangible assets, goodwill within the Amclyde division was impaired during the year. An impairment loss of £184,000 (2015: £nil) was recognised in the Profit and Loss Account within 'Administrative expenses'.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

16. Tangible fixed assets

	Freehold land £000	Freehold buildings £000	Leasehold improvements £000	Plant, machinery and rental equipment £000
Cost				
At 1 January 2016	3,590	24,824	2,230	85,959
Additions	-	-	-	2,320
Transfers from group	400	2,034	48	6,071
Disposals	-	-	-	(2,431)
Transfers from CIP	-	4	241	9,948
Reclassified to held for sale	(650)	(2,463)	-	(1,895)
At 31 December 2016	3,340	24,399	2,519	99,972
Depreciation				
At 1 January 2016	-	12,271	1,871	50,917
Charge for the year	-	1,305	165	8,510
Disposals	-	-	-	(2,115)
Reclassified to held for sale	(600)	(1,988)	-	(1,445)
Impairment charge	600	1,888	-	1,426
At 31 December 2016	-	13,476	2,036	57,293
Net Book Value				
At 31 December 2016	3,340	10,923	483	42,679
At 31 December 2015	3,590	12,553	359	35,042

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

16. Tangible fixed assets (continued)

	Motor vehicles £000	Fixtures and fittings £000	Construction in progress £000	Total £000
Cost				
At 1 January 2016	301	5,859	6,916	129,679
Additions	-	22	3,464	5,806
Transfers from group	-	59	131	8,743
Disposals	-	(8)	-	(2,439)
Transfers from CIP	-	-	(10,193)	-
Reclassified to held for sale	-	(34)	-	(5,042)
At 31 December 2016	<u>301</u>	<u>5,898</u>	<u>318</u>	<u>136,747</u>
Depreciation				
At 1 January 2016	259	5,241	-	70,559
Charge for the year	31	315	-	10,326
Disposals	-	(8)	-	(2,123)
Reclassified to held for sale	-	(34)	-	(4,067)
Impairment charge	-	23	-	3,937
At 31 December 2016	<u>290</u>	<u>5,537</u>	<u>-</u>	<u>78,632</u>
Net Book Value				
At 31 December 2016	<u>11</u>	<u>361</u>	<u>318</u>	<u>58,115</u>
At 31 December 2015	<u>42</u>	<u>618</u>	<u>6,916</u>	<u>59,120</u>

The transfers from group undertakings are the net tangible assets transferred to the Rig Aftermarket and Pressure Performance Systems divisions of National Oilwell Varco UK Limited from NOV Mission Products UK Limited on 29 February 2016.

Prior to reclassification to Fixed assets held for sale, an impairment loss of £3,937,000 was recorded on the remeasurement of the assets to the lower of their carrying amount and fair value less costs to sell (see note 18).

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. Fixed asset investments

	Subsidiary undertakings £000	Associates £000	Total £000
Cost			
At 1 January 2016 (as previously stated)	905,540	2,029	907,569
Adjustment	(41,971)	-	(41,971)
	<hr/>	<hr/>	<hr/>
At 1 January 2016 (as restated)	863,569	2,029	865,598
Additions	15,170	-	15,170
Disposals	(23,678)	-	(23,678)
	<hr/>	<hr/>	<hr/>
At 31 December 2016	855,061	2,029	857,090
	<hr/>	<hr/>	<hr/>
Impairment			
At 1 January 2016 (as previously stated)	290,621	1,955	292,576
Adjustment	(42,045)	74	(41,971)
	<hr/>	<hr/>	<hr/>
At 1 January 2016 (as restated)	248,576	2,029	250,605
Charge for the year	15,527	-	15,527
Disposals	(23,678)	-	(23,678)
	<hr/>	<hr/>	<hr/>
At 31 December 2016	240,425	2,029	242,454
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2016	614,636	-	614,636
	<hr/>	<hr/>	<hr/>
At 31 December 2015 (as restated)	614,993	-	614,993
	<hr/>	<hr/>	<hr/>

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17. Fixed asset investments (continued)

The adjustments to cost and impairment represent historic disposals of investments in dormant companies which had nil carrying value.

On 14 January 2016 the company increased its investment in NOV ASEP Elmar Do Brasil by \$590,000 (equivalent of £399,000).

On 15 August 2016 the company made an investment in Tubular Coating Solutions Limited of \$4,108,000 (equivalent of £3,105,000).

On 19 December 2016 the company made an investment in NOV Completion and Production Solutions Korea Ltd of \$85,000 (equivalent of £68,000).

On 20 December 2016 the company acquired Axiom Process Limited for a consideration of £11,598,000.

During the year the investments in Big Red Tubulars Limited, Greystone Technologies Pty Ltd, NOV ASEP Elmar Do Brasil, NOV Devin Energia Servicos do Brasil Ltda, NOV Mission Products UK Limited and NOV Saudi Arabia Co. Ltd were impaired, resulting in the total impairment of £15,527,000.

During the year ended 31 December 2015 the company sold its investments in NOV Ghana Limited 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.

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Interest held	Holding	Country of incorporation
AG Holding UK [1]	Ordinary shares	100 %	
Andergauge Limited [2]	Ordinary shares	100 %	
APL (UK) Limited	Ordinary shares	100 %	
Axiom Process Limited	Ordinary shares	100 %	
Big Red Tubulars Limited	Shares	100 %	Virgin Islands, British
Camco Drilling Group Limited [3]	Ordinary shares	100 %	
Dreco Europe Limited [4]	Ordinary shares	100 %	
Dreco Limited	Ordinary shares	100 %	
Elmar Far East Pty Ltd	Ordinary shares	100 %	Australia
Forth Valley Engineering Limited	Ordinary shares	100 %	
Greystone Technologies Pty Ltd	Ordinary shares	51 %	Australia
Hebei Huayouyiji Tuboscope Coating Co., Ltd	JV interest	60 %	China
Hitec Dreco Limited [4]	Ordinary shares	100 %	
Hydralift Holdings UK Limited	Ordinary shares	100 %	
Merpro Group Limited	Ordinary shares	100 %	
Merpro Products Limited [5]	Ordinary shares	100 %	
Merpro Torteck Limited [5]	Ordinary shares	100 %	
Mono Group Pension Trustees Limited	Ordinary shares	100 %	

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. Fixed asset investments (continued)

Mono Pumps New Zealand Company [6]	Ordinary shares	100 %	New Zealand
National Oilwell (U.K.) Limited	Ordinary shares	100 %	
National Oilwell Varco Almansoori Services LLC	Shares	49 %	United Arab Emirates
NOV ASEP Elmar Do Brasil [7]	Quotas	100 %	Brazil
NOV Australia Pty Ltd [6]	Ordinary shares	100 %	Australia
NOV Completion and Production Solutions Korea Ltd	Units	100 %	Republic of Korea
NOV Devin Energia Servicos do Brasil Ltda [8]	Quotas	100 %	Brazil
NOV Downhole Eurasia Limited	Ordinary shares	100 %	
NOV Downhole Kazakhstan LLP [9]	Limited partnership interest	100 %	Kazakhstan
NOV Elmar (Middle East) Limited	Ordinary shares	100 %	
NOV Flexibles UK Limited	Ordinary shares	100 %	
NOV Grant Prideco LLC [10]	Shares	49 %	Abu Dhabi
NOV Kenya Limited [11]	Ordinary shares	100 %	Kenya
NOV Mission Products UK Limited	Ordinary shares	100 %	
NOV Oil Services Angola Limitada [12]	Quotas	49 %	Angola
NOV Process & Flow Technologies UK Limited	Ordinary shares	100 %	
NOV Saudi Arabia Co. Ltd [13]	Shares	100 %	Saudi Arabia
NOV Saudi Arabia Trading Co. Ltd [1]	Shares	75 %	Saudi Arabia
NOV UK (Angola Acquisitions) Limited	Ordinary shares	100 %	
Pipex Composite Pipes Limited [14]	Ordinary shares	100 %	
Pipex Drainage & Civils Products Limited [14]	Ordinary shares	100 %	
Pipex Limited [15]	Ordinary shares	100 %	
Pipex Project Services Limited [14]	Ordinary shares	100 %	
Pipex PX (Scotland) Limited [14]	Ordinary shares	100 %	
Pipex PX Limited	Ordinary shares	100 %	
Pipex Structural Composites Limited [14]	Ordinary shares	100 %	
Procon Engineering Limited [16]	Ordinary shares	100 %	
ReedHycalog UK Limited [1]	Ordinary shares	100 %	
Slip Clutch Systems Limited [1]	Ordinary shares	100 %	
Tuboscope Vetco Capital Limited	Ordinary shares	100 %	
Tuboscope Vetco Moscow CJSC [17]	Common shares	100 %	Russian Federation
Tubular Coating Solutions Limited	Shares	55 %	Saudi Arabia
Varco CIS LLC [18]	Capital stock	100 %	Russian Federation

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17. Fixed asset investments (continued)

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

- Chemineer Limited [6]
- Merpro Limited [5]
- Merpro Machining & Threading Limited [5]
- Techdrill Limited

- [1] Held by NOV Downhole Eurasia Limited
- [2] Held by AG Holding UK
- [3] Held by ReedHycalog UK Limited
- [4] Held by Dreco Limited
- [5] Held by Merpro Group Limited
- [6] Held by NOV Process & Flow Technologies UK Limited
- [7] Held by National Oilwell Varco UK Limited (99.99%) and NOV Process & Flow Technologies UK Limited (0.01%)
- [8] Held by National Oilwell Varco UK Limited (99.99%) and NOV Downhole Eurasia Limited (0.01%)
- [9] Held by NOV Downhole Eurasia Limited (99%) and National Oilwell Varco UK Limited (1%)
- [10] Held by Big Red Tubulars Limited; Formerly known as Big Red Tubulars Industries LLC
- [11] Held by National Oilwell Varco UK Limited (99%) and NOV Downhole Eurasia Limited (1%)
- [12] Held by NOV UK (Angola Acquisitions) Limited
- [13] Held by NOV Downhole Eurasia Limited (90%) and National Oilwell Varco UK Limited (10%)
- [14] Held by Pipex Limited
- [15] Held by Pipex PX Limited
- [16] Held by HydraLift Holding (UK) Limited
- [17] Held by Varco CIS
- [18] 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.

Registered addresses of subsidiary undertakings are as follows:

Name	Registered office
AG Holding UK	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Andergauge Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
APL (UK) Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Industrial Estate, Portlethen, Aberdeen, AB12 4YD
Axiom Process Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Big Red Tubulars Limited	P.O. Box 146, Road Town, Tortola, British Virgin Islands
Camco Drilling Group Limited	L'Estrange & Brett, Arnott House, 12/16 Bridge Street, Belfast, BT1 1LS
Dreco Europe Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

17. Fixed asset investments (continued)

Dreco Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
Elmar Far East Pty Ltd	G J WALSH & CO, 213 Brisbane Street, IPSWICH, QLD 4305
Forth Valley Engineering Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Greystone Technologies Pty Ltd	Butler Settineri, Level 1 Unit 16, 100 Railway Road, Subiaco, WA 6008
Hebei Huayouyiji Tuboscope Coating Co., Ltd	1st Machinery Works of North China Petroleum, Qing County, Cangzhou City, Hebei Province, PRC
Hitec Dreco Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
Hydralift Holdings UK Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
Merpro Group Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Merpro Products Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Merpro Tortek Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Mono Group Pension Trustees Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy, Industrial Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
Mono Pumps New Zealand Company	35-41 Fremlin Place, Avondale, Auckland, New Zealand
National Oilwell (U.K.) Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
National Oilwell Varco Almansoori Services LLC	PO Box 27011, Mussafah, Adu Dhabi, United Arab Emirates
NOV ASEP Elmar Do Brasil	Rodovia Amaral Peixoto, KM 164,5, No.8.500, part, Lagoa, Zip Code 27925-290, Macae, State of Rio de Janeiro
NOV Australia Pty Ltd	75 Frankston Gardens Drive, Carrum Downs, 3201, Victoria, Australia
NOV Completion and Production Solutions Korea Ltd	13F, 48, Centum Jungang-ro, Haeundae-gu, Busan, South Korea
NOV Devin Energia Servicos do Brasil Ltda	Estrada Piloto Rommel Oliveira Garcia, No 1307, area 31, part, Fazenda Bela Vista, Imboassica, Zip Code 27932-355, City of Macaé, Rio de Janeiro
NOV Downhole Eurasia Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17. Fixed asset investments (continued)

NOV Downhole Kazakhstan LLP	Business Centre "KZ" 123 V, Utemisov M. street, Atyrau 060005, Kazakhstan
NOV Elmar (Middle East) Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, Aberdeenshire, AB12 4YD
NOV Flexibles UK Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
NOV Grant Prideco LLC	ICAD I-88B1, Abu Dhabi, the United Arab Emirates
NOV Kenya Limited	IKM Place, Tower A, 5th Floor, 5th Ngong Avenue, Off Bishops Road, Nairobi, Kenya
NOV Mission Products UK Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
NOV Oil Services Angola Lda	Rua Kima Kienda, s/n, Cercania do Porto de Luanda, Bairro Boavista, Distrito Urbano da Ingombota, Luanda, Angola
NOV Process & Flow Technologies UK Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ
NOV Saudi Arabia Co. Ltd	Dammam 2nd Industrial City, Bldg 3648 Unit1, 34332-7358 Dammam, Kingdom of Saudi Arabia
NOV Saudi Arabia Trading Co. Ltd	Dammam The Business Gate Center, Bldg 3648 Unit 20, 34332-7358 Dammam, Kingdom of Saudi Arabia
NOV UK (Angola Acquisitions) Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Pipex Composite Pipes Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex Drainage & Civils Products Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex Project Services Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex PX (Scotland) Limited	C/O National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Pipex PX Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ
Pipex Structural Composites Limited	C/O National Oilwell Varco, Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, United Kingdom, GL10 3RQ

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

17. Fixed asset investments (continued)

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

18. Fixed assets held for sale

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

An impairment loss of £3,937,000 on the remeasurement of the assets to the lower of their carrying amount and fair value less costs to sell has been included within 'Impairment of tangible fixed assets' in the Profit and Loss Account.

As at 31 December 2016, fixed assets held for sale comprised property, plant and equipment of £975,000.

The assets were sold for a total cash consideration of £975,000 on 27 February 2017.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

19. Stocks

	2016	2015
	£000	£000
Raw materials and consumables	22,703	11,513
Work in progress	26,348	28,274
Finished goods and goods for resale	50,229	62,477
	99,280	102,264

Stock recognised in cost of sales during the year as an expense was £141,857,000 (2015: £189,343,000).

20. Debtors

	2016	2015
	£000	£000
Trade debtors	46,439	72,555
Amounts owed by subsidiary undertakings	73,615	37,995
Amounts owed by fellow subsidiary undertakings	130,969	115,131
Other debtors	805	2,500
Prepayments and accrued income	10,383	24,794
Corporation tax	5,456	-
Overseas tax	263	222
Deferred taxation (note 23)	4,187	814
VAT repayable	30	418
Financial instruments	-	97
	272,147	254,526

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

21. Creditors: Amounts falling due within one year

	2016	2015
	£000	£000
Bank overdrafts	41,148	16,925
Payments received on account	7,960	5,771
Trade creditors	9,631	8,165
Amounts owed to subsidiary undertakings	117,805	14,003
Amounts owed to fellow subsidiary undertakings	28,331	19,135
Corporation tax	-	345
Taxation and social security	1,432	2,609
Group relief	25,928	26,011
Accruals and deferred income	12,252	24,048
Financial instruments	5,104	3,011
	<u>249,591</u>	<u>120,023</u>

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

	2016	2015
	£000	£000
Deferred consideration	791	-
Contingent consideration	2,949	-
	<u>3,740</u>	<u>-</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

23. Deferred taxation

	2016 £000
At beginning of year	(814)
Credited to Profit and Loss Account	(2,765)
Credited to Other Comprehensive Income	(575)
Intercompany transfer of deferred tax balance	(33)
At end of year	<u>(4,187)</u>

The deferred tax asset is made up as follows:

	2016 £000	2015 £000
Decelerated capital allowances	(2,963)	(114)
Pension	(441)	-
Other timing differences	(393)	(542)
Share based payments	(390)	(158)
	<u>(4,187)</u>	<u>(814)</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

24. Provisions

	Warranty costs £000	Onerous lease £000	Dilapidations £000	Total £000
At 1 January 2016	2,794	-	-	2,794
Additions	684	2,701	1,463	4,848
Amounts reversed	(125)	-	-	(125)
Amounts used	(1,566)	-	-	(1,566)
At 31 December 2016	1,787	2,701	1,463	5,951

Warranty provision

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

Onerous lease provision

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

Dilapidations provision

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

25. Share capital

	2016 £000	2015 £000
Shares classified as equity		
Allotted, called up and fully paid		
77,916,000 Ordinary shares of £1 each	77,916	77,916

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

26. Reserves

Share premium account

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 difference between the consideration paid and the net assets transferred to the Rig Aftermarket and Pressure Performance Systems divisions of National Oilwell Varco UK Limited from NOV Mission Products UK Limited on 29 February 2016.

The movement on the merger reserve in the year ended 31 December 2015 was represented by the goodwill and customer relationship balances transferred to the Rig Systems division of National Oilwell Varco UK Limited from NOV Mission Products UK Limited on 30 October 2015, not recognised under FRS 102.

Profit and loss account

The Profit and Loss Account includes non-distributable reserves of £1,330,000 (2015: £33,014,000).

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

During the year two dormant subsidiaries (Merpro Limited and Techdrill Limited) were dissolved resulting in a transfer of £31,684,000 of the non-distributable reserves, relating to these two entities, to distributable Profit and Loss Account.

Share based payments reserve

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

NATIONAL OILWELL VARCO UK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

27. Share based payments

Senior Executive Plan

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

Restricted shares

National Oilwell Varco, Inc. issues Restricted Stock Awards ("RSA") with no exercise price to officers and key employees in addition to share options. During the year the company granted restricted shares to key employees at a fair value of £20.03 in February 2016 and £28.78 in November 2016 (2015 - £41.24). These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested.

28. Capital commitments

At 31 December 2016 the company had capital commitments as follows:

	2016 £000	2015 £000
Contracted for but not provided in these financial statements	523	813

29. 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 £3,798,000 (2015 - £3,699,000). Contributions totalling £NIL (2015 - £NIL) were payable to the fund at the Balance Sheet date.

The company also operates a defined benefit pension plan.

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

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

The most recent formal actuarial valuation prepared by a qualified independent actuary of the scheme has an effective date of 31 December 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 Pension Protection

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

29. Pension commitments (continued)

Fund and the Pension Regulator. During the years ended 31 December 2014 and 31 December 2015 the sponsoring employer made overpayments of deficit funding and expense contributions, which were retained in the Plan and accounted for as deferred income. The trustees, actuary and employer are in agreement that the deferred income should be released to the Fund Account throughout 2017 in order to shorten period of contributions required by the new Schedule of Contributions.

The next full actuarial valuation was carried out with an effective date of 31 December 2016, the results of which are not yet available.

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

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

	2016	2015
	£000	£000
Reconciliation of present value of plan liabilities		
Opening defined benefit obligation	46,116	47,852
Interest cost	1,667	1,684
Remeasurement of defined benefit obligation	10,325	(1,271)
Benefits paid	(2,100)	(2,149)
Closing defined benefit obligation	56,008	46,116

	2016	2015
	£000	£000
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	46,158	46,655
Interest income	1,681	1,653
Return on plan assets greater/(lower) than discount rate	7,287	(661)
Contributions by employer	660	660
Benefits paid	(2,100)	(2,149)
Closing fair value of plan assets	53,686	46,158

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

29. Pension commitments (continued)

	2016	2015
	£000	£000
Composition of plan assets		
Equity securities	24,588	23,183
Debt securities	29,098	22,975
Total plan assets	53,686	46,158

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

	2016	2015
	£000	£000
Amounts recognised on the Balance Sheet		
Fair value of plan assets	53,686	46,158
Present value of plan liabilities	(56,008)	(46,116)
	(2,322)	42
Irrecoverable surplus	-	(42)
Net pension scheme liability	(2,322)	-

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

	2016	2015
	£000	£000
Recognised in the Profit and Loss Account		
Net interest on defined benefit pension plan	12	(31)
Taken to other comprehensive income		
Actual return on scheme assets	8,968	992
Less: amounts included in the net interest on the defined benefit liability	(1,681)	(1,653)
	7,287	(661)
Other actuarial gains and losses	(10,325)	1,271
Remeasurement (losses)/gains recognised in other comprehensive income	(3,038)	610

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

29. Pension commitments (continued)

	2016	2015
	£000	£000
Change in irrecoverable surplus		
Irrecoverable surplus at the beginning of year	42	-
Interest on irrecoverable surplus	2	-
Change in irrecoverable surplus during the year	(44)	42
Irrecoverable surplus at the end of year	-	42

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

	2016	2015
	%	%
Discount rate	2.6	3.7
Future salary increases	3.5	4.2
Future pension increases	2.5	2.2
Inflation assumption	2.5	2.2
Mortality rates		
- for a male aged 65 now	22.6	22.6
- at 65 for a male aged 45 now	23.9	23.9
- for a female aged 65 now	24.6	24.6
- at 65 for a female member aged 45 now	26.0	26.0

The company expects to contribute £nil to its defined benefit pension plan in 2017.

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

30. Commitments under operating leases

At 31 December 2016 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Land and buildings		
Not later than 1 year	3,795	3,010
Later than 1 year and not later than 5 years	14,143	6,442
Later than 5 years	48,039	3,652
	<u>65,977</u>	<u>13,104</u>
	2016 £000	2015 £000
Plant and machinery		
Not later than 1 year	975	740
Later than 1 year and not later than 5 years	753	592
Later than 5 years	6	-
	<u>1,734</u>	<u>1,332</u>

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

Acting as a lessor, at 31 December 2016 the company had future minimum lease income under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Plant and machinery		
Within one year	<u>244</u>	<u>308</u>

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

31. 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 2016, are as follows:

	2016 Purchases from related party £000	2016 Amounts owed to related party £000	2015 Purchases from related party £000	2015 Amounts owed to related party £000
NOV Brandt Oilfield Services Middle East LLC	1,398	533	11	-
NOV Ghana Ltd	85	-	56	56
NOV Saudi Arabia Trading Co. Ltd	-	-	22	-
Tuboscope and Co LLC	16	9	-	-
Vetco Saudi Arabia Ltd	19	11	-	-
	1,518	553	89	56

	2016 Sales and recharges to related party £000	2016 Amounts owed by related party £000	2015 Sales and recharges to related party £000	2015 Amounts owed by related party £000
Coil Services Middle East LLC	10	123	15	131
NOV Brandt Oilfield Services Middle East LLC	304	-	1,647	289
NOV Ghana Ltd	4	3	8	-
NOV Intelliserv UK Limited	85	-	527	235
NOV Saudi Arabia Trading Co. Ltd	2,637	1,107	100	61
NOV Tuboscope Middle East LLC	55	48	2	2
PT H-Tech Oilfield Equipment	-	-	187	-
Vetco Saudi Arabia Ltd	48	21	169	108
	3,143	1,302	2,655	826

NATIONAL OILWELL VARCO UK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

32. Post balance sheet events

On 28 June 2017 the company declared and paid an interim dividend of £41,250,000 to its shareholder NOV UK Holdings Limited.

On 30 June 2017 the company purchased the trade and assets of its subsidiary Axiom Process Limited for a consideration equal to the net assets at the date of transfer.

33. Controlling party

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

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