Registered No. 00873028

National Oilwell Varco UK Limited

Report and Financial Statements

31 December 2013

Registered No: 00873028

Directors
C P O'Neil
A J Fleming

Secretary
A M Sloan

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Strategic Report

The directors present their strategic report for the year ended 31 December 2013.

Results and performance

The profit for the year, after taxation, was £80,182,000 (2012 - £126,477,000).

Review of business

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.

The company traded as the following divisions: Amclyde Norson Engineering, Elmar, Brandt, Brandt Environmental, Capital Valves, Coil Services (North Sea), CTES, Distribution Services, Grant Prideco, Hydra Rig, MD Totco, Portable Power, Procon Engineering, Rig Solutions, Tuboscope, Tuboscope Far East and XL Systems throughout the year. The company also began trading as:

- APL (UK) division after receiving the trade, assets and liabilities of APL (UK) Limited on 1 May 2013 for $2,048,000 (£1,327,000).
- NOV Flexibles UK division after receiving the trade, assets and liabilities of NOV Flexibles UK Limited (formerly known as Itasco Precision Limited) on 31 May 2013 for £5,500,000. The company acquired NOV Flexibles UK Limited on 16 April 2013 for £5,500,000. NOV Flexibles UK Limited's principal activity is the provision of machining and welding services to the oil and gas industry.

On 1 January 2013, National Oilwell Varco UK Limited transferred the trade, assets and liabilities of the Mission Forth Valley, Mission Techdrill and Mission Montrose divisions to its subsidiary, NOV Mission Products UK Limited.

The company operates branches in Norway, Azerbaijan and Cameroon.

Also during 2013, the company:

- Increased its investment in NOV Oil & Gas Services Nigeria Limited.
- Invested in NOV Kenya Limited, a company incorporated in Kenya.

On 18 January 2013, the company's immediate parent undertaking changed from Varco UK Acquisitions Limited to NOV UK Holdings Limited, a company incorporated in the United Kingdom.

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

	2013 *£000*	*2012* *£000*	*Change*
Turnover	490,603	474,921	3%
Profit on ordinary activities before taxation	93,872	140,578	(33%)
Shareholder's funds	781,172	784,464	-
Current assets as a percentage of current liabilities	117%	103%	N/A
Average number of employees	1,820	1,752	4%

Despite the transfer of the Mission Forth Valley, Mission Techdrill and Mission Montrose divisions to its subsidiary, turnover increased. This was a result of increases in turnover by the Rig Solutions and Distribution divisions. The transfer of the APL (UK) and NOV Flexibles trade, assets and liabilities also contributed to maintaining turnover consistent with 2012.

Profit before taxation reduced significantly in 2013 mainly as a result of the drop in investment income. There was a write-down of investment value in Wilson United Kingdom Limited, Capital Valves Holdings Limited, APL (UK) Limited, NOV Flexibles UK Limited, NOV ASEP Elmar Do Brazil Equipamentos E Servicios Para Petroleu Ltda and Sigma Offshore Limited, but the majority of this was offset by dividends received. A loan balance due from Sigma Offshore Limited was also written off during the year.

Strategic Report (continued)

Review of business (continued)

Shareholders' funds stayed in line with last year. The profit for the year was offset by a transfer from the merger reserve and dividends paid.

Current assets as a percentage of current liabilities increased from 103% to 117%, this is largely due to the reduction in the bank overdraft and amounts payable to intercompany.

Employee levels rose despite the drop in the number of divisions. During the year the majority of divisions made increases to their work force.

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 long term prospects for this sector are deemed to be promising due to increasing world energy use and continued political uncertainty in various areas of the world.

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 our 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.

Future developments

The directors believe that turnover and profitability of the company will continue to reflect market conditions in the coming years due to the quality and service levels provided by the company, the benefits of being part of a growing global group and continued market buoyancy. The directors are focused on continuing to expand the company through strategic acquisitions.

On behalf of the board

A J Fleming
Director
30 June 2014

Directors' report

Registered No. 00873028

The directors present their report and the audited financial statements for the year ended 31 December 2013.

Future developments

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

Dividends

Dividends of £65,300,000 were paid during the year (2012 - £37,300,000). The directors recommend no final dividend be paid.

Directors

Directors who held office during the year and up to the date of signing are given below.

C P O'Neil	
S G Valentine	(resigned 23 August 2013)
A J Fleming	(appointed 31 July 2013)

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.

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.

Financial instruments and risk management

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 continued financial uncertainty across Europe is indirectly affecting currencies worldwide. 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 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.

Directors' report (continued)

Registered No. 00873028

Financial risk management (continued)

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 directors do not consider the company to be exposed to commodity price risk as the goods and services supplied to customers are delivered based on fixed price lists and are not linked to commodity price movements.

Research and development

The company continues to develop and enhance its product offering across all of its divisions. The total Research and Development spend in 2013 was £2,828,000, the majority of which was incurred by the Brandt division.

Post balance sheet events

On 1 January 2014, the company sold its 1% shareholding in Istok Business Services LLC to a fellow group company, NOW Holding LLC for $16,292.

On 31 January 2014, the company sold the trade and assets of the Distribution division to a fellow group company DNOW UK Limited for £47,640,150. On this date the company also sold its dormant subsidiaries Capital Valves Holdings Limited and Wilson United Kingdom Limited to DNOW UK Limited for £6 each.

On 3 and 4 June 2014, the company made a total investment in Greene's Energia Servicos Do Brasil Ltda of $1,571,000.

On 12 June 2014, the company made an investment in NOV Saudi Arabia Co. Limited of $267,500.

Going Concern

The directors' forecasts and projections, taking account of reasonable possible changes in trading performance, show that the company is expected to have a sufficient level of financial resources available and therefore the directors believe that the company is well placed to manage its business risks successfully. After making enquiries and taking into consideration the net current assets position, the directors have a strong expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to prepare the financial statements on a going concern basis.

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' report (continued)

Registered No. 00873028

Re-appointment of 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.

On behalf of the board

A J Fleming
Director

30 June 2014

Directors' Responsibilities Statement

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; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 auditor's report

to the members of National Oilwell Varco UK Limited

We have audited the financial statements of National Oilwell Varco UK Limited for the year ended 31 December 2013 which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 26. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the 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 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 2013 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 auditor's report

to the members 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

Moira Ann Lawrence (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
2 July 2014

Profit and loss account

for the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Turnover	2	490,603	474,921
Cost of sales		(389,860)	(378,866)
Gross profit		100,743	96,055
Selling and distribution expenses		(6,991)	(9,953)
Administrative expenses		(34,860)	(39,473)
Operating profit	3	58,892	46,629
Profit on disposal of tangible fixed assets		6	231
Income from shares in group undertakings		62,077	95,128
Amounts written off fixed asset investments	11	(39,415)	(325)
Amounts written off loans due from third party	24	(1,120)	-
Interest payable	5	(1,440)	(2,053)
Interest receivable	5	555	597
Amounts received from settlement of preference shares		13,900	-
Other finance income	22	417	371
Profit on ordinary activities before taxation		93,872	140,578
Taxation on profit on ordinary activities	8	(13,690)	(14,101)
Profit for the financial year	18	80,182	126,477

All activities in the current and prior year relate to continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December 2013

		2013 £000	2012 £000
Profit for the financial year		80,182	126,477
Actuarial loss relating to the pension schemes	22	(1,418)	(1,416)
Deferred taxation attributable the actuarial loss		283	326
Total gains and losses recognised in the year		79,047	125,387

Balance sheet

at 31 December 2013

	Notes	2013 £000	2012 £000
Fixed assets			
Intangible assets	9	6,457	24,117
Tangible assets	10	52,945	50,555
Investments	11	668,483	698,734
		727,885	773,406
Current assets			
Stock	12	97,594	109,687
Debtors	13	211,120	218,067
Cash at bank and in hand		86,621	91,791
		395,335	419,545
Creditors: amounts falling due within one year	14	(338,414)	(406,934)
Net current assets		56,921	12,611
Total assets less current liabilities		784,806	786,017
Provision for liabilities	15	(3,634)	(1,553)
Net assets excluding pension asset		781,172	784,464
Pension asset	22	-	-
Net assets including pension asset		781,172	784,464
Capital and reserves			
Called up share capital	16	77,916	77,916
Share premium account	18	507,714	507,714
Merger reserve	18	(25,223)	(33,388)
Share-based payment reserve	18	9,069	7,033
Profit and loss account	18	211,696	225,189
Total shareholders' funds	18	781,172	784,464

The financial statements were approved by the Board of Directors and authorised for issue on 3 June 2014.

A J Fleming

Director

Notes to the financial statements

at 31 December 2013

1. Accounting policies

Basis of preparation

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

Group financial statements

The financial statements present information about the company as an individual undertaking and not about its group. The company is not required to prepare group financial statements under section 401 of the Companies Act 2006 as the company and all of its subsidiary undertakings are consolidated in the consolidated financial statements of National Oilwell Varco, Inc., which are prepared in accordance with US GAAP and are drawn up to 31 December 2013.

Cashflow statement

The company has taken advantage of the exemptions within FRS1 and has not produced a cashflow statement.

Revenue recognition

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.

All turnover is stated net of VAT, discounts, rebates and any other sales taxes or duty.

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.

Goodwill and Merger Reserve

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's 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.

Intangible 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.

Investments

Fixed asset investments are valued at historical cost less any provision for impairment.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

Fixed assets and depreciation

All fixed assets are initially recorded at cost.

Depreciation is provided on all tangible fixed assets, other than freehold land and construction in progress, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected life, 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

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Raw materials, consumables and goods for resale	-	purchase cost on a first-in, first-out basis.
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

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 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.

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.

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.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

Deferred taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, 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 differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the period in which timing differences reversed, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Derivative instruments

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

Forward foreign currency contracts

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.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital element of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the years of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Notes to the financial statements

at 31 December 2013

1. Accounting policies (continued)

Pensions

During the year the company operated three schemes, two defined benefit schemes and a hybrid pension scheme which comprised of a defined contribution section with a defined benefit underpin. In 2012 the company operated three defined benefit schemes, one of which was transferred to a subsidiary on 1 January 2013.

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.

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.

Notes to the financial statements

at 31 December 2013

2. Turnover

(a) Turnover, which is stated net of value added tax, represents amounts invoiced to third parties.

Turnover is attributable to the manufacturing, sale, rental and servicing of equipment and accessories to the offshore oil and gas industry. An analysis of turnover by market is given below:

	2013	*2012*
	£000	*£000*
Europe	268,638	249,033
Americas	53,389	48,785
Middle East/Asia	37,451	73,941
Africa	61,981	78,922
Far East	46,582	-
Other	22,562	24,240
	490,603	474,921

Turnover relating to Middle East and Far East was classified as 'Asia' in 2012.

(b) 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

This is stated after charging:

		2013	*2012*
		£000	*£000*
Amortisation of intangible assets (note 9)		1,370	4,395
Depreciation of owned fixed assets (note 10)		8,480	7,838
Operating lease rentals	land and buildings	4,250	3,875
	plant and machinery	1,007	967
Auditors' remuneration (note 4)		264	219
Research and development expenditure written off		2,828	233
Foreign exchange loss		893	2,000

4. Auditor's remuneration

	2013	*2012*
	£000	*£000*
Audit of financial statements	264	219
Audit of other group companies	270	252
Total Audit	534	471
All taxation advisory services	84	124
Total non–audit services	84	124
	618	595

Notes to the financial statements

at 31 December 2013

5. Interest payable and receivable

Interest payable

	2013	*2012*
	£000	*£000*
Bank loans and overdrafts	41	548
Amounts due to group undertakings	1,399	1,505
	1,440	2,053

Interest receivable

	2013	*2012*
	£000	*£000*
Interest on other taxes	1	-
Bank interest	346	477
Amounts due from group undertakings	208	120
	555	597

6. Staff costs

	2013	*2012*
	£000	*£000*
Wages and salaries	70,849	66,417
Social security costs	7,717	7,104
Other pension costs	3,107	2,929
	81,673	76,450

Included in wages and salaries is a total expense of equity settled share-based payments of £2,036,000 (2012 - £1,697,000).

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

	2013	2012
	No.	No.
Production	1,515	1,449
Sales	85	117
Administration	220	186
	1,820	1,752

Notes to the financial statements

at 31 December 2013

7. Directors' remuneration

	2013	*2012*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	184	153
Employer contributions paid to company pension scheme	9	7

	2013	*2012*
	No.	*No.*
Number of directors:		
- who are members of the company pension scheme	2	1
- who received shares in respect of qualifying services	2	1
- who exercised share options	-	-
- who exercised options over shares in the ultimate parent company	-	-

The amounts in respect of the highest paid director are as follows:

	2013	*2012*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	151	153
Company contributions paid to money purchase pension schemes	7	7

The directors of the company are also directors of fellow subsidiaries. The directors received total remuneration for the year of £312,000 (2012 - £310,000), of which £193,000 was paid by the company and £119,000 by another group company in the UK.

Notes to the financial statements

at 31 December 2013

8. Tax

(a) Tax charge on profit on ordinary activities:

The tax charge is made up as follows:

	2013 £000	2012 £000
Current tax:		
Corporation tax	6,210	3,326
Group relief	8,411	8,922
Double taxation relief	(115)	(172)
Adjustments in respect of prior periods	(2,265)	1,019
	12,241	13,095
Overseas tax:		
Current year	115	172
Adjustments in respect of prior periods	1,069	(351)
	1,184	(179)
Total current tax (note 8(b))	13,425	12,916
Deferred tax:		
Origination and reversal of timing differences	(686)	(447)
Movement on pension accrual	283	145
Deferred tax on share based payments	(4)	124
Adjustments in respect of prior periods	672	1,363
	265	1,185
	13,690	14,101

(b) Factors affecting current tax charge:

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%). The differences are reconciled below:

	2013 £000	2012 £000
Profit on ordinary activities before taxation	93,872	140,578
Profit on ordinary activities multiplied by standard rate of corporation tax of 23.25% (2012: 24.5%)	21,825	34,442
Effect of:		
Income not taxable for tax purposes	(7,744)	(22,537)
Capital allowances in excess of depreciation	627	392
Other timing differences	339	100
Capital gains	-	21
Pension provision	(426)	(170)
Adjustments in respect of previous periods	(1,196)	668
Total current tax (note 8(a))	13,425	12,916

Notes to the financial statements

at 31 December 2013

8. Tax (continued)

(c) Factors that may affect future tax charges:

UK Corporation tax is calculated at 23.25% (2012 - 24.5%) of the estimated assessable profit for the year.

In the Budget of March 2011, it was announced that the full rate of UK corporation tax would be reduced to 26% effective from 1 April 2011.

In the Budget of March 2012, it was announced that the full rate of UK corporation tax would be reduced to 24% effective from 1 April 2012 and to 23% effective from 1 April 2013.

In the Autumn statement of December 2012, it was announced that the full rate of UK corporation tax would be reduced to 21% effective from 1 April 2014.

In the Budget of March 2013, it was announced that the full rate of UK corporation tax would be reduced to 20% effective from 1 April 2015.

As at 17 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.

(d) Deferred tax:

Deferred taxation is included in the balance sheet as follows:

	2013	*2012*
	£000	*£000*
Included in creditors/(debtors):		
Accelerated capital allowances	1,478	1,599
Other timing differences	(903)	(1,150)
Share based payments	(539)	(536)
	36	(87)
Included in defined benefit pension asset (note 22)	-	-
	36	(87)

	2013
	£000
As at 1 January	(87)
Originating and reversal of timing differences	(549)
Originating and reversal of timing differences – pension	283
Adjustments in respects of prior years	672
	319
Amounts credited to Statement of Total Recognised Gains and Losses	(283)
At 31 December	36

Notes to the financial statements

at 31 December 2013

9. Intangible fixed assets

	Intangibles *£000*	*Goodwill* *£000*	*Total* *£000*
Cost:			
At 1 January 2013	27,554	9,537	37,091
Additions	63	-	63
Transfers to group undertakings	(2,500)	-	(2,500)
Amounts derecognised during the year	(16,585)	-	(16,585)
At 31 December 2013	8,532	9,537	18,069
Amortisation:			
At 1 January 2013	6,262	6,712	12,974
Provided during the year	1,018	352	1,370
Transfer to group undertakings	(691)	-	(691)
Amortisation on derecognised amounts	(2,041)	-	(2,041)
At 31 December 2013	4,548	7,064	11,612
Net book value:			
At 31 December 2013	3,984	2,473	6,457
At 1 January 2013	21,292	2,825	24,117

The transfers to group undertakings are the intangible fixed assets and associated amortisation transferred to NOV Mission Products UK Limited relating to the Mission Montrose and Mission Techdrill businesses.

During the year the company de-recognised customer relationship intangibles previously incorrectly capitalised on acquisition of the ASEP Elmar, Distribution, Mission Techdrill and Mission Montrose businesses. The merger reserve recognised on transfer of the above businesses has been adjusted accordingly.

Notes to the financial statements

at 31 December 2013

10. Tangible fixed assets

	Freehold land and buildings	*Leasehold improve-ments*	*Plant, machinery and rental equipment*	*Motor Vehicles*	*Fixtures and fittings*	*Construction in progress*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Cost:							
At 1 January 2013	27,730	1,709	67,532	301	5,317	5,596	108,185
Additions	3,154	100	4,643	26	296	8,750	16,969
Disposals	-	-	(1,788)	(8)	(50)	-	(1,846)
Transfers from group undertakings	-	305	6,766	-	49	-	7,120
Transfers to group undertakings	(8,234)	-	(5,613)	10	(278)	(58)	(14,173)
Transfers from CIP	1,756	19	3,143	-	68	(5,938)	(952)
At 31 December 2013	24,406	2,133	74,683	329	5,402	8,350	115,303
Depreciation							
At 1 January 2013	9,755	1,184	42,562	269	3,860	-	57,630
Charge for the year	897	260	6,646	52	625	-	8,480
Disposals	-	-	(1,785)	(8)	(49)	-	(1,842)
Transfers to group undertakings	(380)	-	(1,343)	(51)	(136)	-	(1,910)
At 31 December 2013	10,272	1,444	46,080	262	4,300	-	62,358
Net book value:							
At 31 December 2013	14,134	689	28,603	67	1,102	8,350	52,945
At 1 January 2013	17,975	525	24,970	32	1,457	5,596	50,555

The cost of land and buildings includes £21,926,000 (2012 - £20,332,000) of depreciable assets.

The transfers from group undertakings are the net tangible fixed assets transferred from APL (UK) Limited and NOV Flexibles UK Limited. Assets were also received by the Brandt division from other group companies.

Notes to the financial statements

at 31 December 2013

11. Fixed asset investments

	Subsidiary undertakings £000	*Associate undertakings £000*	*Total £000*
Cost:			
At 1 January 2013	878,254	2,029	880,283
Additions	9,164	-	9,164
Disposals	(10,397)	-	(10,397)
At 31 December 2013	877,021	2,029	879,050
Amounts written off:			
At 1 January 2013	181,549	-	181,549
Provided during the year	37,460	1,955	39,415
Disposals	(10,397)	-	(10,397)
At 31 December 2013	208,612	1,955	210,567
Net book value:			
At 31 December 2013	668,409	74	668,483
At 1 January 2013	696,705	74	698,734

During the year, the company acquired APL UK Limited and NOV Flexibles UK Limited (formerly known as Itasco Precision Limited) for £1,327,000 and £6,799,000 respectively. The company also made an investment in NOV Kenya Limited of £423,000 and increased its investment in NOV Oil & Gas Services Nigeria Limited by £615,000.

The disposals for the year represents the dissolution of a dormant company which had previously been written down to its issued share capital value.

On 31 January 2014, the company sold its dormant subsidiaries Capital Valves Holdings Limited and Wilson United Kingdom Limited to DNOW UK Limited for £6 each.

Details of the principal investments in which the company holds more than 20% of the nominal value of any class of share capital are as follows:

Subsidiary undertakings

Name of company	*Proportion of voting rights and shares held*	*Nature of business*
Tuboscope Vetco Capital Limited	100%	Inspection services to the oil & gas industry in Kazakhstan
Varco CIS LLC	100% (1)	Holding company
Tuboscope Vetco Moscow CJSC	100% (2)	Inspection services to the oil and gas industry in Russia
Istok Business Services LLC	100% (3)	Business services to the oil & gas industry
NOV Distribution Eurasia LLC	100% (4)	Supply of materials and services to the oil and gas industry

Notes to the financial statements

at 31 December 2013

11. Fixed asset investments (continued)

Subsidiary undertakings

Name of company	*Proportion of voting rights and shares held*	*Nature of business*
NOV ASEP Elmar (Middle East) Limited	100%	Sale/rental of oilfield equipment
Elmar Far East Pty. Limited	100%	Sale/rental of oilfield equipment
Varco Al Mansoori Service Company LLC	49%	Sale/repair of oilfield equipment
Heibei Huayouyiji Tuboscope Coating Co. Limited	60%	OCTG Coating
NOV Mission Products UK Limited	100%	Manufacturing & marketing of oilfield equipment
NOV Ghana Limited	100%	Sale, rental and service of oilfield goods
Mono Pumps Limited	100%	Manufacture and sale of water pumping and treatment equipment
Mono Pumps (Australia) Pty. Limited	100% (5)	Manufacture and sale of water pumping and treatment equipment
Mono Pumps (New Zealand) Limited	100% (5)	Manufacture and sale of water pumping and treatment equipment
NOV Downhole Eurasia Limited	100%	Design and manufacture of equipment to the oil and gas industry
Big Red Tubulars Limited	100%	Manufacturing of oilfield equipment
Greystone Technologies Pty. Limited	51%	Technology holding company
NOV ASEP Elmar Do Brasil Equipamentos E Servicios Para Petroleu Ltda	100% (6)	Manufacturing and sale of oilfield equipment
NOV Oil and Gas Services Nigeria Limited	100% (7)	Manufacturing and sale of oilfield equipment
NOV Kenya Limited	100% (8)	Manufacturing and sale of oilfield equipment
APL UK Limited	100%	Dormant
NOV Flexibles UK Limited	100%	Dormant
Forth Valley Engineering Limited	100%	Dormant
Techdrill Limited	100%	Dormant
Merpro Group Limited	100%	Dormant

Notes to the financial statements

at 31 December 2013

11. Fixed asset investments (continued)

Associate undertakings

Name of company	*Proportion of voting rights and shares held*	*Nature of business*
Sigma Offshore Limited	21%	Engineering services to the oil and gas industry

All shareholdings are Ordinary Shares except for Varco CIS LLC and Tuboscope Vetco Moscow CJSC which are Charter Capital.

All of the above companies are incorporated in the United Kingdom, other than Elmar Far East Pty. Limited, Mono Pumps (Australia) Pty. Limited and Greystone Technologies Pty. Limited, which are incorporated in Australia, Varco CIS LLC, Tuboscope Vetco Moscow CJSC, Istok Business Services LLC and NOV Distribution Eurasia LLC which are incorporated in Russia, Varco Al Mansoori Service Company LLC which is incorporated in United Arab Emirates, Hebei Huayouyiji Tuboscope Coating Co. Limited which is incorporated in the People's Republic of China, Mono Pumps (New Zealand) Limited which is incorporated in New Zealand, NOV ASEP Elmar Do Brasil Equipamentos E Servicios Para Petroleu Ltda which is incorporated in Brazil, Big Red Tubulars Limited which is incorporated in the British Virgin Islands and NOV Oil and Gas Services Nigeria Limited which is incorporated in Nigeria.

(1) Held by Tuboscope Vetco Capital Limited (99%) and National Oilwell Varco UK Limited (1%)
(2) Held by Varco CIS LLC
(3) Held by Varco CIS LLC (99%) and National Oilwell Varco UK Limited (1%)
(4) Held by Istok Business Services LLC
(5) Held by Mono Pumps Limited
(6) Held by National Oilwell Varco UK Limited (99.9%) and Mono Pumps Limited (0.01%)
(7) Held by National Oilwell Varco UK Limited (99%) and Mono Pumps Limited (1%)
(8) Held by National Oilwell Varco UK Limited (99%) and NOV Downhole Eurasia Limited (1%)

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.

12. Stock

	2013	*2012*
	£000	*£000*
Raw materials and consumables	11,367	26,376
Work in progress	34,151	32,093
Finished goods and goods for resale	52,076	51,218
	97,594	109,687

Notes to the financial statements
at 31 December 2013

13. Debtors

	2013 £000	2012 £000
Trade debtors	81,533	82,058
Amounts owed by other group undertakings	86,941	98,466
Amounts recoverable on contracts	-	1,926
Corporation tax	22,374	24,155
Other taxes and social security costs	1,859	530
Overseas Tax	2,864	730
Prepayments and accrued income	12,992	7,288
Other debtors	2,557	2,827
Deferred tax	-	87
	211,120	218,067

14. Creditors: amounts falling due within one year

	2013 £000	2012 £000
Bank overdraft	41,748	66,594
Trade creditors	20,686	25,497
Payments received in advance	21,888	15,362
Amounts due to fellow subsidiary undertakings	201,322	246,078
Amounts due to subsidiary undertakings	-	1
Other taxes and social security costs	2,630	-
Group relief	30,626	22,902
Deferred tax	36	-
Accruals and deferred income	19,478	30,500
	338,414	406,934

15. Provisions for liabilities

	Provision for warranty costs £000
At 1 January 2013	1,553
Provided during the year	3,310
Utilised	(664)
Provision written back	(565)
At 31 December 2013	3,634

16. Share capital

	Authorised		*Issued, called up and fully paid*	
	2013 No.	*2012 No.*	*2013 £000*	*2012 £000*
Ordinary shares of £1 each	77,916,494	77,916,494	77,916	77,916

Notes to the financial statements
at 31 December 2013

17. Dividends

	2013	2012
Declared and paid during the year	*£000*	*£000*
Equity dividends per ordinary share:		
Interim March 2012: 47.87p	-	37,300
Interim June 2013: 83.81p	65,300	-
	65,300	37,300

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium*	*Merger reserve*	*Share based payment reserve*	*Profit and loss account*	*Total Shareholders' funds*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 January 2012	77,916	507,714	(17,007)	5,336	137,102	711,061
Profit for the year	-	-	-	-	126,477	126,477
Actuarial loss relating to pension scheme	-	-	-	-	(1,416)	(1,416)
Deferred taxation relating to pension scheme	-	-	-	-	326	326
Dividend paid					(37,300)	(37,300)
Share based payment reserve	-	-	-	1,697	-	1,697
Merger reserve	-	-	(16,381)	-	-	(16,381)
At 31 December 2012	77,916	507,714	(33,388)	7,033	225,189	784,464
Profit for the year	-	-	-	-	80,182	80,182
Actuarial loss relating to pension scheme	-	-	-	-	(1,418)	(1,418)
Deferred taxation relating to pension scheme	-	-	-	-	283	283
Dividend paid	-	-	-	-	(65,300)	(65,300)
Share based payment reserve	-	-	-	2,036	-	2,036
Merger reserve	-	-	8,165	-	(27,240)	(19,075)
At 31 December 2013	77,916	507,714	(25,223)	9,069	211,696	781,172

The movement on the merger reserve represents additions recognised in the year following inter group reorganisations which would have given rise to positive goodwill. This goodwill cannot be recognised in accordance with FRS6 and has therefore been transferred to the merger reserve. During the year the company de-recognised customer relationship intangibles previously incorrectly capitalised on acquisition of the ASEP Elmar, Distribution, Mission Techdrill and Mission Montrose businesses. The merger reserve recognised on transfer of the above businesses has been adjusted accordingly. These increases are netted against the merger reserve balance released to the profit and loss account on transfer of the Mission Techdrill and Mission Montrose divisions to its subsidiary.

19. Capital commitments

Amounts contracted but not provided in the financial statements amounted to £1,337,216 (2012 - £4,468,000).

Notes to the financial statements

at 31 December 2013

20. Contingent liabilities

At 31 December 2013, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £6,482,840 (2012 - £5,401,000) entered into in the normal course of business.

21. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Plant and machinery		*Land and buildings*	
	2013	*2012*	*2013*	*2012*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	136	130	494	734
In two to five years	364	553	1,820	1,439
In over five years	2	14	1,164	932
	502	697	3,478	3,105

22. Pension commitments

The company is party to a number of schemes – Tuboscope Holdings Limited scheme, National Oilwell (UK) Limited scheme and the Wilson plan, details are given in respect of each below.

The company participated in the Tuboscope Holdings Limited 1998 Pension scheme which is a hybrid pension scheme comprising a defined contribution section with a defined benefit underpin. The scheme is set up under trust and the assets are held separately from those of the company.

The scheme was established in 1998 and the majority of the then employees of National Oilwell Varco UK Limited contribute to the defined contribution section. Prior to January 1998, employees contributed to various pension schemes.

The trustees secured all remaining defined benefit liabilities with the Legal and General Assurance Society Limited in 2007 and 2008 and the policies were assigned to the individuals in 2009.

The assets and liabilities are fully matched at December 2013.

National Oilwell (U.K.) Limited Pension Plan

The National Oilwell (U.K.) Limited Pension Plan is a defined benefit plan for the legacy employees of National Oilwell (U.K.) 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 paragraphs 37 of FRS17.

The assets of this 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 2011. The method used in this valuation is the projected unit method. The next formal valuation of the scheme will have an effective date of 1 January 2014, this has not yet been finalised.

The valuation showed that the market value of the assets was £37,440,000 and that the actuarial value of those assets represented 93.8% of the liability at that valuation date.

At 31 December 2013 the financial statements contain a pension accrual of £nil (2012 - £nil) relating to this scheme.

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

National Oilwell (U.K.) Limited Pension Plan (continued)

FRS 17 disclosures

The assets and liabilities in the scheme in respect of the defined benefit section and relevant information for disclosure under FRS 17 are as follows:

A full actuarial valuation was updated to 31 December 2013 and was converted to a basis consistent with FRS17 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2013	*2012*
Rate of increase in salaries	4.4%	4%
Rate of increase of pensions in payment	2.4%	2.2%
Rate of increase in pensions in deferment	2.4%	2.2%
Discretionary increases on pensions in payment	2.4%	2.2%
Discount rate	4.4%	4.5%
Inflation assumption (RPI)	3.4%	3.0%
Inflation assumption (CPI)	2.4%	2.2%
Expected return on scheme assets	5.5%	5.8%
Post retirement mortality – years:		
Current pensioners at 65 – male	21.2	21.1
Current pensioners at 65 – female	23.3	23.2
Future pensioners at 65 – male	22.2	22.1
Future pensioners at 65 – female	24.4	24.4

The fair value of the assets in the scheme and the present value of the liabilities in the scheme at each balance sheet date were:

	2013 *£000*	*2012* *£000*
Equities	26,480	24,316
Bonds	17,116	15,750
Other	-	-
Total fair value of assets	43,596	40,066
Present value of scheme liabilities	(40,749)	(39,451)
Surplus in the plan	2,847	615
Related deferred tax asset	-	-
FRS 17 paragraph 37 restriction	(2,847)	(615)
Net pension asset	-	-

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

National Oilwell (U.K.) Limited Pension Plan (continued)

Analysis of the amount charged to operating costs:

	2013	*2012*
	£000	*£000*
Current service cost	-	80
FRS 17 paragraph 37 restriction	359	294
	359	374
Amount credited/(charged) to other net finance income/(costs):		
Expected return on pension scheme assets	2,093	2,154
Interest on pension liabilities	(1,734)	(1,780)
Net return	359	374

Analysis of the actuarial (loss)/gain in the statement of total recognised gains and losses:

	2013	*2012*
	£000	*£000*
Expected return less actual return on pension scheme assets	1,990	1,014
Changes in assumptions underlying the present value of the scheme liabilities	(1,413)	(2,045)
FRS 17 paragraph 37 restriction	(1,873)	(321)
Experience gains on scheme assets	-	-
	(1,296)	(1,352)

Analysis of the changes in the present value of the defined benefit obligations during the year:

	2013	*2012*
	£000	*£000*
Value at beginning of year	(39,451)	(37,146)
Movement in year:		
Current service costs	-	(80)
Interest cost	(1,734)	(1,780)
Employee contributions	-	(37)
Benefits paid	1,849	1,637
Actuarial (loss)	(1,413)	(2,045)
Value at end of year	(40,749)	(39,451)

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

National Oilwell (U.K.) Limited Pension Plan (continued)

Analysis of the changes in the fair value of the plan assets during the year:

	2013	*2012*
	£000	*£000*
Value at beginning of year	40,066	37,581
Movement in year:		
Expected return	4,083	3,168
Employer contributions	1,296	917
Employee contributions	-	37
Benefits paid	(1,849)	(1,637)
Value at end of year	43,596	40,066

History of experience (gains) and losses:

	2013	*2012*	*2011*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*	*£000*
Fair value of scheme assets	43,596	40,066	37,581	37,453	33,466
Present value of defined benefit obligation	(40,749)	(39,451)	(37,146)	(40,018)	(36,053)
Surplus/(deficit) in scheme	2,847	615	435	(2,565)	(2,587)
Experience gains and (losses) on scheme liabilities	-	-	4,050	-	-

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

UK Pension and Life Assurance Plan of Wilson United Kingdom Limited (Wilson Plan)

On 31 October 2012, the trade, assets and liabilities of Wilson United Kingdom Limited was transferred to National Oilwell Varco UK Limited, which included the employee pension scheme.
The assets of this scheme are held in separate trustee administered funds.

FRS 17 disclosures

The assets and liabilities in the scheme in respect of the defined benefit section and relevant information for disclosure under FRS 17 are as follows:

A full actuarial valuation was updated to 31 December 2013 and was converted to a basis consistent with FRS17 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2013	*2012*
Rate of increase in salaries	-	4.0%
Rate of increase of pensions in payment	-	2.2%
Rate of increase in pensions in deferment	2.4%	2.2%
Discretionary increases on pensions in payment	-	2.2%
Discount rate	4.4%	4.5%
Inflation assumption (RPI)	3.4%	3.0%
Inflation assumption (CPI)	2.4%	2.2%
Expected return on scheme assets	5.5%	5.4%
Post retirement mortality – years:		
Current pensioners at 65 – male	22.3	21.1
Current pensioners at 65 – female	24.4	23.2
Future pensioners at 65 – male	23.3	22.1
Future pensioners at 65 – female	25.5	24.4

The fair value of the assets in the scheme and the present value of the liabilities in the scheme at the balance sheet date was:

	2013	*2012*
	£000	*£000*
Equities	-	-
Bonds	-	-
Other	3,438	3,106
Total fair value of assets	3,438	3,106
Present value of scheme liabilities	(2,627)	(2,512)
Surplus in the plan	811	594
Related deferred tax liability	-	-
FRS 17 paragraph 37 restriction	(811)	(594)
Net pension asset	-	-

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

UK Pension and Life Assurance Plan of Wilson United Kingdom Limited (Wilson Plan) (continued)

Analysis of the amount charged to operating costs:

	2013	*2012*
	£000	*£000*
FRS 17 paragraph 37 restriction	58	-
	58	-

Amount credited/(charged) to other net finance income/(costs):		
Expected return on pension scheme assets	171	-
Interest on pension liabilities	(113)	-
Net return	58	-

Analysis of the actuarial (loss)/gain in the statement of total recognised gains and losses:

	2013	*2012*
	£000	*£000*
Expected return less actual return on pension scheme assets	-	-
Changes in assumptions underlying the present value of the scheme liabilities	37	-
FRS 17 paragraph 37 restriction	(159)	-
	(122)	-

Analysis of the changes in the present value of the defined benefit obligations during the year:

	2013	*2012*
	£000	*£000*
Value at beginning of year	(2,512)	-
Movement in year:		
Acquisitions	-	(2,512)
Interest cost	(113)	-
Actuarial (loss)	(2)	-
Value at end of year	(2,627)	(2,512)

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

UK Pension and Life Assurance Plan of Wilson United Kingdom Limited (Wilson Plan) (continued)

Analysis of the changes in the fair value of the plan assets during the year:

	2013	*2012*
	£000	*£000*
Value at beginning of year	3,106	-
Movement in year:		
Acquisitions	-	3,106
Expected return	210	-
Employer contributions	122	-
Value at end of year	3,438	3,106

History of experience gains and losses:

	2013	*2012*
	£000	*£000*
Fair value of scheme assets	3,438	3,106
Present value of defined benefit obligation	(2,627)	(2,512)
Surplus in scheme	811	594
Experience gains and (losses) on scheme liabilities	-	-

Merpro Group Pension & Life Assurance Scheme

On 1 January 2013 the trade, assets and liabilities of Mission Montrose were sold to its subsidiary, NOV Mission Products UK Limited, which included the Merpro employee pension scheme. The Merpro scheme has been closed and there are no active members accruing benefits.

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

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

Merpro Group Pension & Life Assurance Scheme (continued)

FRS 17 disclosures

The assets and liabilities in the scheme in respect of the defined benefit section and relevant information for disclosure under FRS 17 are as follows:

A full actuarial valuation was updated to 31 December 2012 and was converted to a basis consistent with FRS17 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2013	*2012*
Rate of increase in salaries	-	4.0%
Inflation	-	3.0%
Rate of increase of pensions in payment	-	-
Rate of increase in pensions in deferment	-	2.2%
Discount rate	-	4.5%
Expected return on scheme assets	-	4.15%
Post retirement mortality – years:		
Current pensioners at 65 – male	-	21.1
Current pensioners at 65 – female	-	23.4
Future pensioners at 65 – male	-	22.4
Future pensioners at 65 – female	-	24.9

The fair value of the assets in the scheme and the present value of the liabilities in the scheme at the balance sheet date was:

	2013	*2012*
	£000	*£000*
Equities	-	668
Bonds	-	156
Cash	-	117
Fixed interest gilts	-	2,024
Total fair value of assets	-	2,965
Present value of scheme liabilities	-	(2,557)
Surplus in the plan	-	408
Related deferred tax liability	-	-
FRS 17 paragraph 37 restriction	-	(408)
Net pension asset	-	-

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

Merpro Group Pension & Life Assurance Scheme (continued)

Analysis of the amount charged to operating costs:

	2013	*2012*
	£000	*£000*
FRS 17 paragraph 37 restriction	-	(3)
	-	(3)

Amount credited/(charged) to other net finance income/(costs):

	2013	*2012*
	£000	*£000*
Expected return on pension scheme assets	-	118
Interest on pension liabilities	-	(121)
Net (costs)/return	-	(3)

Analysis of the actuarial (loss)/gain in the statement of total recognised gains and losses:

	2013	*2012*
	£000	*£000*
Expected return less actual return on pension scheme assets	-	(26)
Changes in assumptions underlying the present value of the scheme liabilities	-	(57)
Experience gains/(losses) on scheme assets	-	19
	-	(64)

Analysis of the changes in the present value of the defined benefit obligations since acquisition:

	2013	*2012*
	£000	*£000*
Value at beginning of period	-	(2,534)
Movement in year:		
Interest cost	-	(121)
Benefits paid	-	136
Actuarial loss	-	(38)
Value at end of year	-	(2,557)

Notes to the financial statements

at 31 December 2013

22. Pension commitments (continued)

Merpro Group Pension & Life Assurance Scheme (continued)

Analysis of the changes in the fair value of the plan assets since acquisition:

	2013	*2012*
	£000	*£000*
Value at beginning of year	-	2,820
Movement in year:	-	
Expected return	-	118
Employer contributions	-	189
Benefits paid	-	(136)
Actuarial (loss)/gain	-	(26)
Value at end of year	-	2,965

History of experience gains and losses:

	2013	*2012*
	£000	*£000*
Fair value of scheme assets	-	2,965
Present value of defined benefit obligation	-	(2,557)
Surplus in scheme	-	408
Experience adjustment on scheme assets	-	(26)
Experience adjustment on scheme liabilities	-	19

Notes to the financial statements

at 31 December 2013

23. Shared based payments

The expense recognised for equity settled share-based payments in respect of employee services received during the year to 31 December 2013 is £1,425,000 for the Senior Executive Plan and £611,000 for the restricted share options (2012 - £1,218,000 and £479,000 respectively).

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 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.

	2013	*2013 WAEP*	*2012*	*2012 WAEP*
	No.	*£*	*No.*	*£*
Outstanding as at 1 January	320,999	37.29	232,005	31.20
Granted during the year	97,622	44.71	78,508	53.98
Forfeited during the year	(2,687)	50.94	(2,759)	42.63
Transferred Out during the year	-	-	(9,833)	34.60
Transferred In during the year	38,086	29.82	54,048	24.67
Exercised	(37,820)	23.23	(30,970)	23.41
Outstanding at 31 December	416,200	39.53	320,999	37.29
Exercisable at 31 December	241,488	31.91	166,707	26.34

For the share options outstanding as at 31 December 2013, the weighted average remaining contractual life is 6.71 years (2012 – 8.07 years).

The weighted average share price at the date of exercise for options exercised was £47.01 (2012 - £51.67).

The weighted average fair value of options granted during the year was £15.55 (2012 - £18.92). The range of exercise prices for options outstanding at the end of the year was £6.12 - £53.32 (2012 - £6.12 - £53.98).

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 2013 and 31 December 2012.

	2013	*2012*
Risk free interest rate	0.90%	0.90%
Expected dividend	$0.75	$0.57
Expected option life (years)	3.4	3.2
Expected volatility	50.1%	51.7%

Notes to the financial statements

at 31 December 2013

23. Shared based payments (continued)

Senior Executive Plan (continued)

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 expectation 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 21 February 2013 at a fair value of £44.54 (2012 - £52.82). 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.

	2013	*2013 WAGDFV*	*2012*	*2012 WAGDFV*
	No.	*£*	*No.*	*£*
Outstanding as at 1 January	35,045	42.62	34,835	29.62
Granted during the year	16,940	44.54	13,680	52.82
Forfeited during the year	(390)	50.95	(1,875)	30.46
Transferred during the year	1,300	51.05	455	34.05
Exercised	(13,175)	28.08	(12,050)	18.18
Outstanding at 31 December	39,720	48.46	35,045	42.62
Exercisable at 31 December	-	-	-	-

The weighted average vesting period is 1.34 years (2012 – 1.15 years).

24. Related parties

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 £1,239,864 (2012 - £909,342) from Varco Al Mansoori Service Company LLC and £2,754,220 (2012 - £2,631,672) from Heibei Huayouyiji Tuboscope Coating Co Limited.

During the year the company has written off the loan balance of £1,120,000 provided to Sigma Offshore Limited.

Notes to the financial statements

at 31 December 2013

25. Post balance sheet events

On 1 January 2014, the company sold its 1% shareholding in Istok Business Services LLC to a fellow group company, NOW Holding LLC for $16,292.

On 31 January 2014, the company sold the trade and assets of the Distribution division to a fellow group company DNOW UK Limited for £47,640,150. On this date the company also sold its dormant subsidiaries Capital Valves Holdings Limited and Wilson United Kingdom Limited to DNOW UK Limited for £6 each.

On 3 and 4 June 2014, the company made a total investment in Greene's Energia Servicos Do Brasil Ltda of $1,571,000.

On 12 June 2014, the company made an investment in NOV Saudi Arabia Co. Limited of $267,500.

26. Ultimate parent undertaking

Prior to 18 January 2013, the company's immediate parent undertaking was Varco UK Acquisitions Limited, a company incorporated in the United Kingdom. From 18 January 2013, 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.