

Smith International (North Sea) Limited

Registered number: 02533968

**Directors' report and financial
statements**

Year ended 31 December 2016

Schlumberger-Private

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Smith International (North Sea) Limited

Strategic report for the year ended 31 December 2016

The directors present their Strategic report on the Company for the year ended 31 December 2016.

Principal activities

The Company's principal activities during the year have been the provision of specialized services including the sale, rental, repair and testing of equipment in connection with drilling, exploration and development work for the oil and gas industry. The company has overseas branches in Kazakhstan, Angola, Dubai and South Africa.

Review of the business

The results of the Company are shown on pages 8 and 9.

Turnover decreased to £27,509,000 (2015: £41,785,000) in the current year. The decrease is primarily due to lower oilfield services activity directly resulting from lower oil prices.

The results show a loss before taxation for the financial year of £1,899,000 (2015 loss: £8,133,000), which was transferred from reserves.

The Company's net assets decreased to £40,097,000 (2015: £40,689,000).

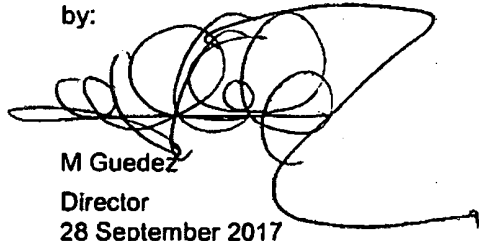
Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks and uncertainties of the Schlumberger Limited worldwide group and are not managed separately. For an analysis of the principal risk factors affecting the Schlumberger Limited group, see item 1A, Risk Factors, in the 2016 Annual Report of Schlumberger Limited, copies of which can be obtained from www.slb.com.

Key performance indicators ("KPIs")

The Company uses revenue growth and profit margins as KPIs for the business. Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

This report was approved by the Board of Directors on 28th September 2017 and signed on its behalf by:



M Guede
Director
28 September 2017

Smith International (North Sea) Limited

Directors' report for the year ended 31 December 2016

The directors present their annual report together with the audited financial statements of Smith International (North Sea) Limited (the "Company") for the year ended 31 December 2016.

Principal activities, Review of the business, Results, Principal risks and uncertainties and Key performance indicators

Details of these matters have been included in the Strategic report on page 1.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

G Boyault (appointed 12 October 2016)
M Guedez (appointed 20 February 2017)
R Kidd (resigned 3 November 2016)

B McBeath (appointed 3 November 2016)
K Hoeing (resigned 12 October 2016)

Financial risk management

The Company's operations expose it to a variety of financial risks that include the following:

Foreign exchange risk

The Company is exposed to foreign exchange risk, primarily with respect to turnover in US Dollars. The Company does not currently enter into financial instruments to mitigate this risk, as the contracts are generally short term in nature.

Credit risk

The Company's principal financial assets are cash at bank and in hand and trade and other receivables. The Company's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identifiable event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. Credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term debt finance.

Capital risk

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Dividends

The directors did not propose a dividend during the year nor do they recommend payment of a final dividend (2015: £nil).

Policy for quality, health, safety and environment

It is the Company's policy to ensure that quality, health, safety and environmental considerations are a priority for management and employees. Prevention of accidents and loss from process failure is an integral part of the Company's continuous improvement culture.

Smith International (North Sea) Limited

Directors' report for the year ended 31 December 2016 (continued)

Policy for employment of disabled persons

It is the Company's policy to give full and fair consideration to suitable applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Disabled employees are eligible to participate in all career development opportunities available to staff. Opportunities also exist for employees of the Company who become disabled to continue in their employment or to be trained for other positions in the Company.

Employee participation

Employees are regularly provided with information on matters of concern to them as employees of the Schlumberger Limited group. They are further encouraged to be involved in the Company's performance by being eligible to purchase stock of the ultimate parent company, Schlumberger Limited, at a discounted rate through a savings scheme.

Consultations with employees or their representatives has continued at all levels to ensure that their views are taken into account when decisions are made that are likely to affect their interests. The Company endeavours to achieve a common awareness of all employees in relation to the financial and economic factors that affect the performance of the Company.

Branches

The Company has overseas branches established in South Africa, Angola, Kazakhstan and Dubai (UAE).

Research and development

The Company undertakes contract research and development services for associated companies in the oilfield services industry. The amounts, expensed in cost of sales, in relation to these activities were £3,000 (2015: £50,000).

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Smith International (North Sea) Limited

Directors' report for the year ended 31 December 2016 (continued)

Statement of directors' responsibilities in respect of the financial statements (continued)

The directors 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.

In the case of each director in office at the date the Directors' Report is approved:

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

Future developments

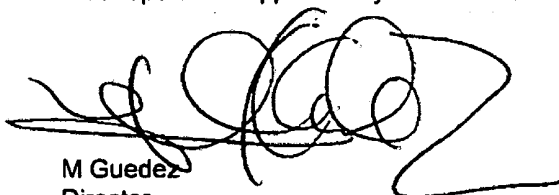
The Company is operating in an environment of ongoing uncertainty and therefore continues to focus on what it can control. Throughout 2016 a number of actions were taken, including a further reduction in the workforce and internal efficiencies.

From a global perspective, after nine quarters of activity decline, the business environment stabilized in the third quarter of 2016 and Schlumberger's revenue increased slightly in the fourth quarter, suggesting that the bottom of this cycle has been reached. This therefore allows the Company to remain confident in its view of the market outlook in the medium term and to continue to believe that the underlying balance of supply and demand in oil markets will tighten. This will be driven by growth in demand, weakening supply as the significant exploration and production investment cuts take effect, and the size of the annual supply replacement challenge. This is evidenced by the fact that the tightening of supply and demand balance continued in the fourth quarter as seen by a steady draw on OECD stocks. It is therefore the Company's belief that in the latter parts of 2017 and leading into 2018 there will be accelerating growth in Exploration and Production investment driven by growth in demand, decreasing supply, and the challenge of replacing production lost to decline.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the forthcoming Annual General Meeting.

This report was approved by the board on 28th September 2017 and signed on its behalf by



M Guedez
Director
28 September 2017

Smith International (North Sea) Limited

Independent auditors' report to the members of Smith International (North Sea) Limited

Report on the financial statements

Our opinion

In our opinion, Smith International (North Sea) Limited's financial statements (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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Directors' report and financial statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Smith International (North Sea) Limited

Independent auditors' report to the members of Smith International (North Sea) Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities in respect to the Financial Statements set out on page [3 and 4], 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements

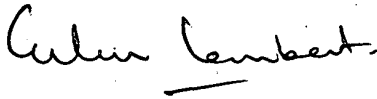
Smith International (North Sea) Limited

Independent auditors' report to the members of Smith International (North Sea) Limited (continued)

What an audit of financial statements involves (continued)

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Graham Lambert (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

28 September 2017

Smith International (North Sea) Limited

Profit and loss account Year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Turnover	5	27,509	41,785
Cost of sales		(23,928)	(39,890)
Exceptional cost of sales – Redundancy costs	6	(721)	(1,407)
Gross profit		2,860	488
Administrative expenses		(1,009)	(527)
Distribution costs		(2,724)	(3,526)
Other operating expenses		(1,107)	(4,663)
Operating loss before interest and taxation	7	(1,980)	(8,228)
Interest receivable and similar income	8	81	95
Loss before taxation		(1,899)	(8,133)
Tax credit on loss	10	502	995
Loss for the financial year		(1,397)	(7,138)

All results for the year ended 31 December 2016 and 31 December 2015 are derived entirely from continuing operations.

The notes on pages 12 to 25 form part of these financial statements.

Schlumberger-Private

Smith International (North Sea) Limited

Statement of comprehensive income For year ended 31 December 2016

	2016 £'000	2015 £'000
Loss for the financial year	(1,397)	(7,138)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	731	910
Other comprehensive income	731	910
Total comprehensive loss for the year	(666)	(6,228)

The notes on pages 12 to 25 form part of these financial statements.

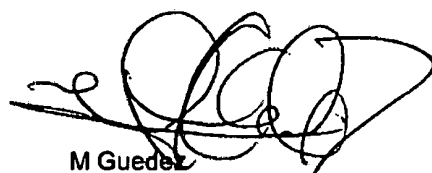
Smith International (North Sea) Limited

Balance sheet As at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Tangible assets	11	11,264	12,402
Current assets			
Stocks	13	7,180	5,780
Debtors	14	35,297	33,117
Cash at bank and in hand		2,112	1,801
		44,589	40,698
Creditors: amounts falling due within one year	15	(15,197)	(11,666)
Net current assets		29,392	29,032
Total assets less current liabilities		40,656	41,434
Provisions for liabilities	16	(559)	(745)
Net assets		40,097	40,689
Capital and reserves			
Called up share capital	17	1,251	1,251
Share premium account		5,612	5,612
Capital reserve		900	900
Capital contribution		7,199	7,199
Share based payment reserve		962	888
Profit and loss account		24,173	24,839
Total shareholders' equity		40,097	40,689

The notes on pages 12 to 25 form part of these financial statements.

The financial statements on pages 8 to 25 were approved by the Board of Directors on 28th September 2017 and signed on its behalf by:



M Guedes
Director
Smith International (North Sea) Limited

Registered number: 02533968

Schlumberger Private

Smith International (North Sea) Limited

Statement of changes in equity Year ended 31 December 2016

	Called up share capital £'000	Share premium account £'000	Capital reserve £'000	Capital contribution £'000	Share based payment reserve £'000	Profit and loss account £'000	Total £'000
Balance as at 1 January 2015	1,251	5,612	900	7,199	632	31,067	46,661
Loss for the financial year	-	-	-	-	-	(7,138)	(7,138)
Other comprehensive income	-	-	-	-	-	910	910
Total	-	-	-	-	-	(6,228)	(6,228)
comprehensive loss for the year	-	-	-	-	-	-	-
Increase in share based payment reserve	-	-	-	-	256	-	256
Balance as at 31 December 2015	1,251	5,612	900	7,199	888	24,839	40,689
Loss for the financial year	-	-	-	-	-	(1,397)	(1,397)
Other comprehensive income	-	-	-	-	-	731	731
Total	-	-	-	-	-	(666)	(666)
comprehensive loss for the year	-	-	-	-	-	-	-
Increase in share based payment reserve	-	-	-	-	74	-	74
Balance as at 31 December 2016	1,251	5,612	900	7,199	962	24,173	40,097

The notes on pages 12 to 25 form part of these financial statements.

Smith International (North Sea) Limited

Notes to the financial statements Year ended 31 December 2016

1 General information

Smith International (North Sea) Limited's principal activities during the year have been the provision of specialised services and the sale, rental, repair and testing of equipment in connection with drilling, exploration and development work for the oil and gas industry.

The Company is privately owned and limited by shares and is incorporated in England and domiciled in United Kingdom. The address of its registered office is Schlumberger House, Buckingham Gate, Gatwick, West Sussex RH6 0NZ.

2 Statement of compliance

The financial statements of Smith International (North Sea) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standards 102, "The Financial Reporting Standards applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Accounting policies

The principal accounting policies applied in preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 102 in these financial statements.

Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention (modified by the revaluation of financial assets and financial liabilities held at fair value through profit and loss) in accordance with the Companies Act 2006 and applicable United Kingdom Accounting Standards. The principal accounting policies are set out below and have been applied consistently in the current and preceding period.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are described in note 4.

All Company results are shown in £'thousands unless stated otherwise.

The Company is exempt from preparing and delivering group financial statements under section 401 of the Companies Act 2006, as the Company is a wholly owned subsidiary of Schlumberger Limited, a company incorporated in Curacao (a country within the Kingdom of the Netherlands), and its results are included in the publically available consolidated financial statements of Schlumberger Limited.

Exemption for qualified entities under FRS 102

In preparing the financial statements under FRS 102, the Company as a qualifying entity has taken advantage of certain disclosure exemptions permitted, subject to certain conditions, which have been complied with, being the notification of, and no objection to the use of these exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions:

- i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flow of Schlumberger Limited, includes the Company's cash flow. (FRS 102 paragraph 1.12(b));

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

3 Accounting policies (continued)

Exemption for qualified entities under FRS 102 (continued)

- ii) from the financial instrument disclosures, required under FRS 102 as the information is provided in the consolidated financial statement of Schlumberger Limited (paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29);
- iii) from the related party transactions disclosures, required under FRS 102 as the information is provided in the consolidated financial statement of Schlumberger Limited (paragraph 33.1A);
- iv) from preparation and delivering of Group financial statements as the Company is a wholly owned subsidiary of Schlumberger Limited, a company incorporated in Curacao (a country within the Kingdom of the Netherlands), and its results are included in the publically available consolidated financial statements of Schlumberger Limited (paragraph 9.3(c)) and
- v) from the share-based payment disclosure, required under FRS 102. The disclosure exemptions are available under 1.12(e) FRS102 due to the equivalent disclosures having been given in the Schlumberger Limited financial statements as the share-based payment is being settled in the equity instruments of another group entity. The disclosure exemption applied to the following section 26 disclosures are:
 - Paragraph 26.18(b) of FRS 102 (the number and weighted average exercise prices of share options) for each of the following groups of options:
 - a) Outstanding at the beginning of the period.
 - b) Granted during the period.
 - c) Forfeited during the period.
 - d) Exercised during the period.
 - e) Expired during the period.
 - f) Outstanding at the end of the period.
 - g) Exercisable at the end of the period.
 - Paragraphs 26.19-26.21 (determination of fair values and information about modifications; and
 - Paragraph 26.23 (impact on profit or loss).

Turnover

Turnover represents the sales value of goods and services supplied to external customers, excluding value added tax.

Product and service turnover recognition is based upon purchase orders, contracts or other persuasive evidence of an arrangement with the customer that include fixed and determinable prices and that do not include the right of return or other similar provisions. Turnover is recognised for products and services on delivery, customer acceptance and when collectability is reasonably assured.

Pensions costs

The Company operates a defined contribution scheme. Contributions to the scheme are charged to the profit and loss account when payable. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

3 Accounting policies (continued)

Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' equity. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' equity.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Provisions are made on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither.

Employee share schemes

The Company participates in a number of the Schlumberger Limited Group employee share schemes under which they make equity-settled share based payments in Schlumberger Limited shares to certain employees. These are detailed in the annual report of Schlumberger Limited. Equity settled share based payments are measured at fair value at the date of grant (excluding the effect of non-market based vesting conditions). The fair value determined using the Black Scholes Method at the grant date is expensed on a straight line basis together with the corresponding increase in equity over the vesting period, based on the Company's estimate of the number of shares that will vest.

Research and development

Research and development expenditure is included in cost of sales and is expensed in the year in which it is incurred.

Leases

Where the Company is a lessee under finance leases (including hire purchase contracts), the leased assets are capitalised and included in tangible fixed assets and the corresponding liability to the lessor is included in creditors. Finance charges payable are recognised over the periods of the leases, based on the interest rates implicit in the leases.

All other leases are classified as operating leases. Rentals payable and receivable under operating leases are accounted for on the straight line basis over the periods of the leases and are included in the profit and loss account.

Foreign currencies

The Company's functional and presentation currency is the pound sterling.

Trading transactions in foreign currencies are translated into sterling at the exchange rate on the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates at the balance sheet date. All revaluation differences and realized foreign exchange differences are taken to the profit and loss account.

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

3 Accounting policies (continued)

Foreign currencies (continued)

Assets and liabilities of foreign currency branches are translated into sterling at rates of exchange ruling at the balance sheet date. The profit and loss account is translated into sterling using average rates of exchange. Exchange differences arising when the opening net assets and the profits for the year retained by foreign currency branches are translated into sterling are taken directly to reserves and reported in other comprehensive income.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Depreciation is provided on a straight line basis over the expected useful lives of each category of tangible fixed assets at the following rates:

Leasehold buildings	Over a period not exceeding the lease term
Plant and machinery	Over 3 - 10 years
Rental tools	Over 3 - 8 years

Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Investments

Fixed asset investments are included in the balance sheet at cost less any provisions for impairment.

Impairment review

The carrying values of fixed investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of assets below their carrying value is charged to the profit and loss account.

Any impairment is determined by comparing the carrying value of assets with their recoverable amount, where the recoverable amount is the higher of net realisable value or value in use. Value in use is calculated using the present value of future cash flows discounted at an appropriate rate.

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is based on:

Raw materials and consumables	Purchase cost on a first-in, first-out basis.
Work in progress and finished goods	Cost of direct materials and labour plus a proportion of manufacturing overheads based on normal level of activity.

Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs. Provision is made for obsolete, slow-moving or defective items where appropriate.

Cash at bank and in hand

Cash balances represent current bank account balances, cash held on overnight deposit or cash in hand.

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

3 Accounting policies (continued)

Financial assets and liabilities

The classification of financial assets and liabilities depends on the purpose for which the financial assets were acquired or the financial liabilities were incurred. Management determines the classification of its financial assets and liabilities at initial recognition. The Company classifies its financial assets as loans and receivables and its financial liabilities as other financial liabilities.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

The Company's loans and receivables mainly comprise basic financial assets including debtors (including amounts owed by Schlumberger Limited group companies) and cash at bank and in hand.

Loans and receivables are recognised initially at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

(b) Other financial liabilities

The Company's other financial liabilities mainly comprise basic financial liabilities including creditors (including amounts owed to Schlumberger Limited group companies and bonds) and borrowings.

Other financial liabilities are recognised initially at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Provisions

Provision is made for property dilapidation costs on individual leases based on the expected costs of returning leased properties to the specifications set out in the original lease agreement. Provisions are made on onerous contracts except future operating losses. Provisions are not discounted for any timing effect on the value of money unless the effect is material.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Exceptional items

The company presents as exceptional items those material items impacting the profit and loss account which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

4 Critical accounting judgements and estimation uncertainty policies

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Useful economic lives of tangible fixed assets

The annual depreciation charge for tangible fixed assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and physical condition of the assets.

(ii) Inventory provisioning

The Company designs, manufacture and sells oilfield services equipment, and product for oilfield activities. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumption around anticipated saleability of finished goods and future usage of raw materials.

(iii) Impairment of investments.

The company makes an estimate of recoverable value of investments. When assessing impairment of investments, management considers factors including the net assets of a subsidiary or projected cash flows over five years using an appropriate growth rate, a long term growth rate, and the application of an appropriate discount rate to these cash flows. Impairment losses are shown in a separate line of the profit and loss account.

(iv) Impairment of debtors

The Company makes an estimate of recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the credit rating of the debtors, the ageing profile of debtors and historical experience.

Smith International (North Sea) Limited

Notes to the financial statements Year ended 31 December 2016 (continued)

5 Turnover

The analysis of the destination of turnover by geographical area is as follows:

	2016	2015
	£'000	£'000
United Kingdom	20,923	25,881
Rest of Europe	5,299	6,658
Asia	475	844
Africa / Australasia	616	5,721
Americas	196	2,681
Total turnover	27,509	41,785

All turnover relates to oilfield goods and services, the Company business segment are based in the UK and South Africa.

The analysis of the turnover by category:

	2016	2015
	£'000	£'000
Service revenue	23,657	28,547
Sales of goods	3,852	13,238
Total	27,509	41,785

6 Staff costs and directors' emoluments

The average monthly number of persons employed by the Company during the year (including directors) was as follows:

	2016	2015
By activity:	Number	Number
Direct labour	110	156
Administration	9	15
Total staff numbers	119	171

The aggregate payroll costs were as follows:

	2016	2015
	£'000	£'000
Wages and salaries	8,989	13,332
Social security costs	678	1,094
Other pension costs (Note 19)	324	628
Exceptional redundancy costs (cost of sales)	721	1,407
Total staff cost	10,712	16,461

None of the directors were remunerated directly by the Company for their services as directors during the year (2015: £nil), their work on behalf of the Company being considered incidental to their other duties to the Schlumberger plc group as a whole.

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

7 Operating loss

Operating loss stated after charging the following items:

	2016 £'000	2015 £'000
Depreciation of tangible fixed assets (note 11)	2,807	3,053
Auditors' remuneration:		
Audit fees payable to the company's auditor	101	127
Operating lease rentals		
Plant & machinery	7	10
Other	1,404	1,469
Research and development	3	50
Loss on foreign currency exchange	502	270

Included in other operating expenses was a gain on disposal of tangible fixed assets amounted to £64,000 (2015: £321,000).

8 Interest receivable and similar income

	2016 £'000	2015 £'000
Other interest	81	95

9 Share based payments

Schlumberger Limited, the ultimate parent of Smith International (North Sea) Limited, operates employee share schemes including the Share Option Scheme, the Restricted share option scheme and the Discounted Stock Purchase Plan (DSPP). There were no other share-based payment transactions during the year.

Share Option

Key employees are granted share options under Schlumberger Limited share option plans. For all share options granted, the exercise price of each option equals the average of the high and low sales prices of Schlumberger Limited shares on the date of the grant. An options term is usually ten years and options generally vest in increments over four or five years. Exercise is subject to continuous employment. No performance conditions were included in fair value calculations. Awards granted do not have a cap on any potential gain and generally vest in increments over seven years.

The fair value of the options granted was estimated on the date of grant using the Black-Scholes model with the following weighted-average assumptions and resulting weighted average fair value per share – volatility has been determined by reference to Schlumberger Limited's weekly historical volatility and is calculated over a term commensurate with the expected term:

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

9 Share based payments (continued)

	2016	2015	2014
Dividend yield	2.7%	2.3%	1.6%
Expected volatility	30%	36%	37%
Risk free interest rates	1.7%	1.7%	2.2%
Expected option life (in years)	7	7	7
Weighted average fair value per share	£12.84	£16.91	£20.66

Share Option

Employees of Smith International (North Sea) Limited were granted share options of 2,200, 1,000 and 1,000 shares of Schlumberger Limited stock in 2016, 2015 and 2014 respectively.

Restricted Stock (continued)

Employees of Smith International (North Sea) Limited are not participating in the Restricted Stock program.

DSPP

Under the terms of the DSPP, employees can choose to have up to 10% of their annual earnings withheld to purchase Schlumberger Limited common stock (listed on the NYSE). The purchase price of the stock is 92.5% of the lower of the stock price at the beginning or end of the plan period at six-month intervals. Under the plan, Schlumberger Limited sold 2,345, 4,527 and 4,044 shares to Smith International (North Sea) Limited employees in 2016, 2015 and 2014 respectively.

The fair value of the employees' purchase rights under the DSPP was estimated using the Black-Scholes model with the following assumptions and resulting weighted average fair value per share:

	2016	2015	2014
Dividend yield	2.7%	2.3%	1.6%
Expected volatility	25%	27%	19%
Risk free interest rates	0.5%	0.2%	0.1%
Weighted average fair value per share	£7.63	£8.11	£7.65

Total share based compensation expense recognised in Smith International (North Sea) Limited:

	2016 £'000	2015 £'000	2014 £'000
Share Options	57	100	89
DSPP	17	37	31
Total	74	137	120

At December 31, 2016, there was £70,000 of total unrecognised compensation cost related to non-invested stock-based compensation arrangements, of which £49,000 is expected to be recognised in 2017, £9,000 in 2018, £8,000 in 2019 and £4,000 in 2020.

Schlumberger Private

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

10 Tax on loss

The taxation charge based on the loss before taxation may be analysed as follows:

	2016 £'000	2015 £'000
Current tax		
UK corporation tax on loss for the year	(396)	(1,474)
Foreign tax	-	33
Adjustments in respect of prior years	-	425
Total current tax credit for the year	(396)	(1,016)
Deferred tax		
Origination and reversal of timing differences	(56)	(31)
Effect of changes in tax rate on opening balance	27	52
Adjustments in respect of prior years	(77)	-
Total deferred tax (credit)/charge (note 14(a))	(106)	21
Tax credit on loss	(502)	(995)

The corporation tax charge for the year is lower (2015: higher) than the blended rate of corporation tax in the UK of 20.0% (2015: 20.25%). The differences are explained below:

	2016 £'000	2015 £'000
Loss before taxation	(1,899)	(8,133)
Tax charge on loss before taxation at standard rate of 20.0% (2015: 20.25%)	(380)	(1,647)
Effects of:		
Expenses not deductible for tax purposes	1	135
Impact of deferred tax rate change on opening balance	(54)	52
Higher rates of tax on overseas earnings	(63)	33
Rate differences	92	7
Other permanent differences	14	-
Adjustments in respect of previous years	(112)	425
Tax credit for the year	(502)	(995)

The main rate of corporation tax was reduced from 21% to 20% from 1 April 2015. A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020. Changes to reduce the UK corporation tax rate to 17% from 1 April 2020 had already been substantively enacted by Finance (No. 2) Act 2016 on 15 September 2016.

Schlumberger-Private

Smith International (North Sea) Limited

Notes to the financial statements Year ended 31 December 2016 (continued)

11 Tangible assets

	Leasehold buildings £'000	Plant and machinery £'000	Rental tools £'000	Total £'000
Cost				
At 1 January 2016	2,809	7,261	19,014	29,084
Additions	-	157	1,907	2,064
Disposals	(602)	(406)	(2,120)	(3,128)
Exchange movement	-	162	1,050	1,212
At 31 December 2016	2,207	7,174	19,851	29,232
Accumulated depreciation				
At 1 January 2016	1,139	3,657	11,886	16,682
Charge for the year	100	692	2,015	2,807
Disposals	(595)	(399)	(1,243)	(2,237)
Exchange movement	-	70	646	716
At 31 December 2016	644	4,020	13,304	17,968
Net book amount at 31 December 2016	1,563	3,154	6,547	11,264
Net book amount at 31 December 2015	1,670	3,604	7,128	12,402

Included within fixed asset additions are assets under construction of £nil (2015: £nil) on which no depreciation was charged.

There were no fixed assets pledged as a security for company liabilities (2015: £nil).

12 Investments

Investment in associates representing the net book value of £1.

	2016 £000	2015 £000
Net book amount		
At 1 January and 31 December	-	-

The company held an investment in the following undertaking:

	Country of incorporation	Principal activity	Holding	%
Associates				
Neyrfor UAE LLC	Dubai	Oil & gas services	Ordinary shares	49

The registered address for the above is P.O.Box 46135, Abu Dhabi, United Arab Emirates.

Schlumberger-Private

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

13 Stocks

	2016 £'000	2015 £'000
Raw materials	870	1,258
Work in progress	345	307
Finished goods	5,965	4,215
Total stocks	7,180	5,780

There is no significant difference between the replacement cost of raw material, work in progress and finished goods and their carrying amounts.

The amount of stock pledged as a security for liabilities was £nil (2015: £nil).

14 Debtors

	2016 £'000	2015 £'000
Trade debtors	3,322	3,623
Amounts owed by Schlumberger UK Limited group companies	28,945	24,746
Corporation tax	-	2,430
Foreign taxes	-	40
Overseas payroll taxes	13	29
Deferred tax asset (note 14(a))	519	413
Deferred income	322	-
Other debtors	1,391	1,079
Prepayments and accrued income	785	757
Total debtors - amounts falling due within one year	35,297	33,117

Non-trading balances with Schlumberger UK Limited group companies, are unsecured, repayable on demand and accrue interest at a rate of GBP Libor plus 15 basis points. Trading transactions between all Schlumberger Limited companies are settled within normal market terms.

(a) Deferred tax asset

	2016 £'000	2015 £'000
Balance at 1 January	413	434
Amount charged to the profit and loss account (note 10)	106	(21)
Balance at 31 December	519	413

At 31 December 2016 deferred taxation asset balances are represented by the following timing differences:

	2016 £'000	2015 £'000
Accelerated capital allowances	420	265
Short term timing differences	99	148
Total	519	413

Schlumberger-Private

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

14 Debtors (continued)

The Company does not have unrecognised deferred tax balances.

Recognition of a deferred tax asset is dependent upon future taxable profits arising in the Company. The Directors do not consider it appropriate at present to recognise the full asset. The items recognised will reverse on their own.

15 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	2,348	2,541
Amounts owed to Schlumberger UK Limited group companies	9,085	2,700
Corporation tax	247	-
Other taxation and social security	86	405
Foreign taxes	508	1,213
Accruals and deferred income	2,923	4,807
Total creditors – amounts falling due within one year	15,197	11,666

Non-trading balances with Schlumberger UK Limited group companies, are unsecured, repayable on demand and accrue interest at a rate of GBP Libor plus 15 basis points. Trading transactions between all Schlumberger Limited companies are settled within normal market terms.

16 Provisions for liabilities

	2016 £'000	2015 £'000
At 1 January	745	761
Decrease in provision: credited to the profit and loss account	(186)	(16)
At 31 December	559	745

The provision relates to dilapidations and reflects major repair and maintenance costs to be incurred in respect of leases held by the Company, to return the property to the landlord at the end of the tenancy in the condition specified in the terms of the lease.

17 Called up share capital

Authorised ordinary shares of £1 each:	£'000	Number
Balance at 1 January and 31 December 2016	2,000	2,000,000
Allotted and fully paid ordinary shares of £1 each:	£'000	Number
Balance at 1 January and 31 December 2016	1,251	1,250,843

Schlumberger Private

Smith International (North Sea) Limited

Notes to the financial statements

Year ended 31 December 2016 (continued)

18 Leasing commitments

The Company's future minimum operating leases payments under non-cancellable operating leases are as follows:

	2016 £'000	2015 £'000
Operating leases which expire:		
Within one year	1,344	1,469
Between two and five years	3,291	4,514
In more than five years	5,616	12,206
Total commitments	10,251	18,189

19 Pension costs

The Company operates a defined contribution scheme. Contributions to the scheme are charged to the profit and loss account when payable. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

20 Contingent liabilities

Contingent liabilities not provided for in these financial statements relate to the following:

	2016 £'000	2015 £'000
Bank guarantees and performance bonds	-	40
Value added tax / Duty deferment	200	200
Total contingent liabilities	200	240

The company has issued performance bonds under which amounts outstanding at 31 December 2016 were £nil (2015: £40,000) in the normal course of business.

The company also has issued a guarantee in favour of HM Revenue and Customs for which the amount outstanding at 31 December 2016 was £200,000 (2015: £200,000). No material losses are likely to arise from this guarantee.

21 Controlling parties

Schlumberger Oilfield UK PLC, a company registered in England, is the immediate parent company.

Schlumberger Limited, a company incorporated in Curacao, a country within the Kingdom of the Netherlands, is the parent undertaking of the smallest and the largest group of undertakings of which Schlumberger Oilfield UK plc is a member and for which group financial statements are drawn up. The directors consider Schlumberger Limited to be the ultimate parent company and controlling party.

Copies of the financial statements of Schlumberger Limited can be obtained from 17th Floor, 5599 San Felipe, Houston, Texas, 77056, USA or on the Group website at www.slb.com.