

Registered number: 04514250

NOV DOWNHOLE EURASIA LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

SATURDAY



A03 *A790300G* #71
07/07/2018
COMPANIES HOUSE

NOV DOWNHOLE EURASIA LIMITED

COMPANY INFORMATION

Directors	A J Fleming R Oudendijk
Company secretary	A M Sloan
Registered number	04514250
Registered office	Stonedale Road Oldends Lane Industrial Estate Stonehouse Gloucestershire GL10 3RQ
Independent auditors	Ernst & Young LLP The Paragon Counterslip Bristol BS1 6BX

NOV DOWNHOLE EURASIA LIMITED

CONTENTS

	Page
Strategic Report	1 - 2
Directors' Report	3 - 4
Directors' Responsibilities Statement	5
Independent Auditors' Report	6 - 8
Profit and Loss Account	9
Statement of Comprehensive Income	10
Balance Sheet	11
Statement of Changes in Equity	12
Notes to the Financial Statements	13 - 38

NOV DOWNHOLE EURASIA LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The directors present their Strategic Report for the year ended 31 December 2017.

Business review

The company's principal activity is the design, manufacture and provision of downhole tools, drill bits and drilling related services to the global oil and gas industry.

The company's ultimate parent company is National Oilwell Varco, Inc., a company incorporated and listed in the USA. (Listed on NYSE as 'NOV', further published information is available at www.nov.com).

National Oilwell Varco, Inc. is a world leader in design, manufacture and sale of equipment and services to the oil and gas industry. NOV Wellbore Technologies is a global division of NOV, specialising in the provision of downhole drilling tools and services. NOV Downhole Eurasia Limited is one of the principle trading companies for NOV Wellbore Technologies Division in the eastern hemisphere. The company also operates through a branch in Tunisia.

The profit after tax was \$38,321,000, an increase from a loss after tax of \$5,534,000 in 2016. 2016 was stated after exceptional items relating to restructure costs of \$28,581,000.

Products, marks & royalties

The company owns the UK intellectual property on well-known marks such as Anderreamer™, Anderdrift™ Agitator™ and ReedHycalog®. The company also owns the UK intellectual property on patented synthetic diamond (PDC) technology used in ReedHycalog® PDC drill bits. This technology is licensed to all major and many other PDC drill bit manufacturer's worldwide, generating significant royalty income.

The company also uses, inter alia, the following product marks: BlackBox®, Bowen®, Corion Express® (wireline coring service), Dreco®, Duraforce™, Helios™, Raptor®, TRex® and TorqueMaster™.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key business risks and uncertainties affecting the company are considered to relate to recent declines in prices for oil and gas and the affect this has had on global activity in oil and gas drilling, political instability in some markets and competition from suppliers of similar products. The company is also exposed to foreign currency exchange rate fluctuations, primarily between sterling and the US dollar. The company uses forward foreign currency contracts to reduce this exposure, where considered appropriate.

The risks are reviewed by the management and board and appropriate processes put in place to monitor and mitigate their effects. Demand for the company's drilling tools and services arise in geographically diverse marketplaces, minimising the concentrations of geographic risk. Drilling market activity declined during 2015 and 2016 following the fall in prices of both oil & gas and the impact was seen in 2016 with a reduction in demand for Wellbore Technologies product. To mitigate these risks the company downsized its workforce and infrastructure in 2016 to "right size" itself for the changed market conditions.

2017 was a year of much anticipated recovery as the industry began to slowly rebound and 2017 has seen the benefits of the refocussed sales efforts and lower cost base coming through into profitability.

NOV DOWNHOLE EURASIA LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Financial key performance indicators

- Revenues reduced by 22% but remained at satisfactory levels.
- Gross profit increased to 43.2% for 2017 vs. 42.3% for 2016.
- Operating profit represented 42.1% of turnover in the year (2016 operating loss: 4.8%. Excluding restructuring costs, the operating profit represents 14.2% of turnover in the year).
- Debtor days outstanding (DSO) increased from 300 days to 484 days, measured at Balance Sheet dates.
- Inventory 'Days Sales Inventory' (DSI) increased to 210 days at 31 December 2017 (2016: 167 days).

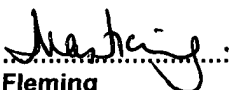
Other key performance indicators

- QHSE: Total Recordable Injury Rate (TRIR) reduced to 0.36 in 2017 from 1.01 in 2016. This is calculated in accordance with industry standards, as a function of recordable injuries over paid hours.
- Employee retention remained at satisfactory levels.

Future developments

The directors believe that turnover and profitability of the company will continue to reflect market conditions in the coming year, reflecting the quality and service levels provided by the company and the benefits of being part of a global group.

This report was approved by the board on 28 June 2018 and signed on its behalf.


.....
A J Fleming
Director

NOV DOWNHOLE EURASIA LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

Results and dividends

The profit for the year, after taxation, amounted to \$38,321,000 (2016 - loss \$5,543,000).

Interim dividends of \$26,000,000 were paid in the year (2016: \$90,000,000).

Directors

The directors who served during the year were:

A J Fleming
R Oudendijk

Future developments

Likely future developments in the business of the company are discussed in the Strategic Report.

Financial instruments

The company's operations expose it to a variety of financial risks that include the effects of interest rate risk, liquidity risk, credit risk and price risk.

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, its exposure to interest rate risk is considered low.

Liquidity risk

The company has available cash reserves along with utilising a bank overdraft facility. The company has no other external debt. As such, the directors consider the company's exposure to liquidity risk to be low.

Credit risk

The company does have an element of credit risk attributable to its trade receivables, but is rigorous in its financial appraisal of potential customers before entering into sales contracts. The company has a large and geographically diverse customer base which also mitigates the potential exposure on receivables. The amounts presented in the Balance Sheet are shown net of provisions for doubtful receivables. An allowance for impairment has been made where there is an identifiable loss event, or the likelihood of failure to be able to collect amounts based on previous experience and the current business situation for specific customers.

Price risk

The directors believe that the company is well placed to mitigate against this risk due to its diversity of product and flexibility of service.

Research and development activities

The company continues to meet and exceed market demand by enhancing its product offering through research and development.

NOV DOWNHOLE EURASIA LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Employee involvement

The majority of the company's employee's contracts are with National Oilwell Varco UK Limited. The group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Disabled employees

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

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

Going concern

The company has net current assets of \$160,922,000 (2016: \$145,515,000). Based on a review of forecasts for the company through to June 2019, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

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

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

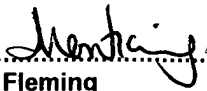
Post balance sheet events

On 4 May 2018 the company declared and paid an interim dividend of \$30,000,000 to its shareholder National Oilwell Varco UK Limited.

Auditors

In accordance with s.487 of the Companies Act 2006, Ernst & Young LLP is deemed to be re-appointed as the auditor of the company.

This report was approved by the board on 28 June 2018 and signed on its behalf.


.....
A J Fleming
Director

NOV DOWNHOLE EURASIA LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NOV DOWNHOLE EURASIA LIMITED

Opinion

We have audited the financial statements of NOV Downhole Eurasia Limited for the year ended 31 December 2017, which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 32, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NOV DOWNHOLE EURASIA LIMITED
(CONTINUED)**

Other information

The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our Auditors' Report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NOV DOWNHOLE EURASIA LIMITED
(CONTINUED)**

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Eleri James (Senior Statutory Auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor

Bristol

29 June 2018

NOV DOWNHOLE EURASIA LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 \$000	2016 \$000
Turnover	4	117,074	150,515
Cost of sales		(66,490)	(86,840)
Gross profit		50,584	63,675
Administrative expenses		(59,216)	(80,909)
Exceptional administrative expenses	5	-	(28,581)
Other operating income	6	57,957	38,595
Operating profit/(loss)	7	49,325	(7,220)
Interest receivable and similar income	11	2,312	2,030
Interest payable and similar expenses	12	(665)	(121)
Profit/(loss) before tax		50,972	(5,311)
Tax on profit/(loss)	13	(12,651)	(232)
Profit/(loss) for the financial year		38,321	(5,543)

The notes on pages 13 to 38 form part of these financial statements.

NOV DOWNHOLE EURASIA LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

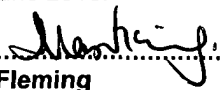
	2017	2016
	\$000	\$000
Profit/(loss) for the financial year	38,321	(5,543)
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year	38,321	(5,543)

NOV DOWNHOLE EURASIA LIMITED
REGISTERED NUMBER: 04514250

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 \$000	2016 \$000
Fixed assets			
Intangible assets	15	103,399	111,671
Tangible assets	16	18,669	21,012
Investments	17	21,913	16,332
		<u>143,981</u>	<u>149,015</u>
Current assets			
Stocks	18	38,281	39,638
Debtors: amounts falling due after more than one year	19	7,276	7,589
Debtors: amounts falling due within one year	19	148,038	116,503
Cash at bank and in hand		21,720	28,584
		<u>215,315</u>	<u>192,314</u>
Creditors: amounts falling due within one year	20	(54,393)	(46,799)
Net current assets		<u>160,922</u>	<u>145,515</u>
Total assets less current liabilities		<u>304,903</u>	<u>294,530</u>
Creditors: amounts falling due after more than one year	21	(4,802)	(7,019)
Provisions for liabilities			
Other provisions	23	(22,816)	(22,953)
Net assets		<u><u>277,285</u></u>	<u><u>264,558</u></u>
Capital and reserves			
Called up share capital	24	70,162	70,162
Share premium account	25	-	116,594
Share based payment reserve	25,26	1,016	610
Profit and loss account	25	206,107	77,192
Total equity		<u><u>277,285</u></u>	<u><u>264,558</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 June 2018.

.....

A J Fleming
 Director

The notes on pages 13 to 38 form part of these financial statements.

NOV DOWNHOLE EURASIA LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital \$000	Share premium account \$000	Share based payment reserve \$000	Profit and loss account \$000	Total equity \$000
At 1 January 2016	70,162	116,594	-	172,735	359,491
Comprehensive loss for the year					
Loss for the year	-	-	-	(5,543)	(5,543)
Total comprehensive loss for the year	-	-	-	(5,543)	(5,543)
Dividends declared and paid (note 14)	-	-	-	(90,000)	(90,000)
Share based payments (note 26)	-	-	610	-	610
At 1 January 2017	70,162	116,594	610	77,192	264,558
Comprehensive income for the year					
Profit for the year	-	-	-	38,321	38,321
Total comprehensive income for the year	-	-	-	38,321	38,321
Dividends declared and paid (note 14)	-	-	-	(26,000)	(26,000)
Share premium reduction (note 25)	-	(116,594)	-	116,594	-
Share based payments (note 26)	-	-	406	-	406
At 31 December 2017	70,162	-	1,016	206,107	277,285

The notes on pages 13 to 38 form part of these financial statements.

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. General information

NOV Downhole Eurasia Limited is a limited liability company incorporated in England and Wales. The Registered Office is Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified to reflect the fair values of derivative financial instruments and in accordance with Financial Reporting Standard 102, 'the Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006.

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

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

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

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

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

This information is included in the consolidated financial statements of National Oilwell Varco, Inc. as at 31 December 2017 and these financial statements may be obtained from its principal office at 7909 Parkwood Circle Dr, Houston, Texas, 77036, USA (NYSE 'NOV' and www.nov.com).

2.3 Associates and joint ventures

Associates and Joint Ventures are held at cost less impairment.

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. Accounting policies (continued)

2.4 Going concern

The company has net current assets of \$160,922,000 (2016: \$145,515,000). Based on a review of forecasts for the company through to June 2019, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

2.5 Revenue

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

Sale of goods

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

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

Rendering of services

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

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

In the majority of cases drill bits are initially provided to customers on a consignment basis with revenue in respect of such sales being recognised only when title of the product has passed to the customer, which is usually when the drill bit is utilised. Revenue in respect of services and tool rental is recognised as the service is rendered or the tools are hired in the month in which it occurs.

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. Accounting policies (continued)

2.6 Intangible assets

Goodwill

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

2.7 Tangible assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Freehold buildings	- 10 to 30 years
Plant and machinery	- 8% to 25%
Motor vehicles	- 25% to 34%
Equipment, fixtures and fittings	- 8% to 34%
Tools	- 14% to 34%

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Administrative expenses' in the Profit and Loss Account.

2.8 Operating leases: Lessee

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

2.9 Operating leases: Lessor

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

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

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. Accounting policies (continued)

2.10 Valuation of investments

Investments are measured at cost less accumulated impairment.

2.11 Stocks

Stocks are stated at the lower of cost and net realisable value, after making due allowances for obsolete and slow-moving stocks. Work in progress and finished goods include labour and attributable overheads.

2.12 Debtors

Short term debtors are measured at transaction price, less any impairment. Where the arrangement with the debtor includes an element of financing, the receivable is measured initially at fair value, net of transaction costs, and is measured subsequently at amortised cost using the effective interest method, less any impairment, with the unwind of any discount recognised in the Profit and Loss Account within Interest receivable and similar income.

2.13 Cash and cash equivalents

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

2.14 Creditors

Short term creditors are measured at the transaction price. Where the arrangement with the creditor includes an element of financing, the payable is measured initially at fair value, net of transaction costs, and measured subsequently at amortised cost using the effective interest method, with the unwind of any discount recognised in the Profit and Loss Account within Interest payable and similar charges.

2.15 Hedge accounting

The company enters into foreign currency forward contracts to manage its exposure to exchange rate differences in respect of certain currencies. These derivatives are measured at fair value at each Balance Sheet date. To the extent the cash flow hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the year.

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.16 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is USD. The company's financial statements are prepared in United States dollar and rounded to the nearest \$'000.

Transactions and balances

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

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

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

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

2.17 Finance costs

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

2.18 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.19 Share based payments

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

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

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

2.20 Pensions

Defined contribution pension plan

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

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

Defined benefit pension scheme

As described in note 23, the company wound up the defined benefit pension scheme on 20 September 2017 and made a final payment to the trustees of the scheme. The remaining costs associated with the scheme wind up is presented within Other provisions on the Balance Sheet.

2.21 Onerous leases

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease. Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

2.22 Interest income

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

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. Accounting policies (continued)

2.23 Provisions for liabilities

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

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

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

2.24 Current and deferred taxation

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

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

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

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

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

2.25 Exceptional items

Exceptional items are transactions that fall within the ordinary activities of the company but are presented separately due to their size or incidence.

2.26 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred.

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

a. Critical judgements in applying the entity's accounting policies

Investment and goodwill impairment

The company considers all investments and goodwill for evidence of impairment annually. The method used in 2017 to value each investment and goodwill consists of applying a discounted rate to the entities future 5 year EBITDA. This value is then compared to the carrying value of the investment or goodwill to assess whether there are indicators that impairment may exist. Judgement is applied in assessing the amount by which to impair any investments or goodwill where future profitability cannot be certain or where specific circumstances have led to a reduction in net assets.

b. Critical accounting estimates and assumptions

Inventory obsolescence

The company considers the carrying value of its inventory and its estimated net realisable value. The company determines obsolescence reserves for inventory based on historical usage of inventory on hand, assumptions about future demands and market conditions, and to a lesser extent estimates about potential alternative uses. Judgement is applied in assessing the amount by which to reduce the value of inventory below cost to estimate net realisable value.

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

4. Turnover

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

The company engages in one principal area of activity represented by the design, manufacture and provision of downhole tools, drill bits and drilling related services to the global oil and gas industry.

An analysis of turnover by category is as follows:

	2017	2016
	\$000	\$000
Sale of goods	100,039	135,097
Provision of services	17,035	15,418
	<u>117,074</u>	<u>150,515</u>

Analysis of turnover by country of destination:

	2017	2016
	\$000	\$000
Europe	14,902	13,499
Middle East and Africa	79,070	116,977
Rest of the world	23,102	20,039
	<u>117,074</u>	<u>150,515</u>

5. Exceptional administrative expenses

	2017	2016
	\$000	\$000
Recognised in arriving at operating profit:		
Restructuring costs (including onerous lease expense)	-	28,581
	<u>-</u>	<u>28,581</u>

6. Other operating income

	2017	2016
	\$000	\$000
Royalty receivable	57,957	38,595
	<u>57,957</u>	<u>38,595</u>

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. Operating profit/(loss)

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

	2017	2016
	\$000	\$000
Research & development charged as an expense	1,727	1,968
Depreciation of tangible assets (note 16)	2,943	3,352
Amortisation of goodwill (note 15)	8,272	8,272
Impairment of stock	1,292	5,407
Exchange differences	(194)	2,769
Operating leases - buildings	1,270	2,243
Operating leases - plant and equipment	436	653
Pension cost	999	2,841
	=====	=====

8. Auditors' remuneration

	2017	2016
	\$000	\$000
Fees payable to the company's auditor for the audit of the company's annual financial statements	123	126
	=====	=====

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. Employees

The company's UK employees' contracts of employment are with National Oilwell Varco UK Limited. However, as the employment costs associated with these employees are borne by the business, the company has included relevant disclosures below. In addition the company incurs employment costs associated with individuals employed on international assignments in foreign locations as well as employment costs for local employees employed by Distribution Representation Agents in certain foreign countries.

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

	2017	2016
	\$000	\$000
Wages and salaries	17,506	23,296
Social security costs	1,735	3,515
Pension costs	999	2,841
Share based payments	406	610
	20,646	30,262

Pension costs include a reduction to the HRDBS pension provision of \$119,000 (2016 increase: \$1,510,000) (Notes 23 and 28 refer).

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

	2017	2016
	No.	No.
Manufacturing and service	175	171
Administration, distribution, sales and marketing	128	138
Research and development	19	19
	322	328

10. Directors' remuneration

The directors of the company are also directors of the holding company and fellow subsidiaries.

One of the directors, who was paid by a fellow UK group company, received remuneration for the year of \$147,000 (2016: \$147,000), amounts receivable under long-term incentive schemes of \$17,000 (2016: \$6,000) and pension contributions of \$10,000 (2016: \$10,000). The director does not believe that it is practicable to apportion this amount between their services as director of the company and their services as director of the holding and fellow subsidiary companies.

Another director was paid by a fellow group company outside of the UK.

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

11. Interest receivable and similar income

	2017 \$000	2016 \$000
Interest receivable from group companies	1,945	1,177
Other interest receivable	367	853
	<u>2,312</u>	<u>2,030</u>

12. Interest payable and similar expenses

	2017 \$000	2016 \$000
Other interest payable	<u>665</u>	<u>121</u>

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

13. Taxation

	2017 \$000	2016 \$000
Corporation tax		
UK corporation tax on profit for the year	935	(170)
Adjustments in respect of previous periods	896	(339)
	1,831	(509)
Double taxation relief	(561)	-
Group relief payable	10,112	-
	11,382	(509)
Foreign tax		
Foreign tax on income for the year	623	1,295
Foreign tax adjustments in respect of prior periods	86	110
	709	1,405
Total current tax	12,091	896
Deferred tax		
Origination and reversal of timing differences	444	(368)
Effect of changes in tax rate	-	27
Adjustments in respect of previous periods	116	(323)
Total deferred tax	560	(664)
Taxation on profit/(loss)	12,651	232

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

13. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2016 - *higher than*) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 \$000	2016 \$000
Profit/(loss) before tax	50,972	(5,311)
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	9,812	(1,062)
Effects of:		
Expenses not deductible for tax purposes	1,644	1,720
Overseas taxes unrelieved	63	1,295
Adjustments in respect of prior periods	1,097	(552)
Income not taxable for tax purposes	-	(259)
Effects of changes in tax rate	35	93
Patent box claim	-	(1,003)
Total tax charge for the year	12,651	232

Factors that may affect future tax charges

UK Corporation tax is calculated at 19.25% (2016: 20%) of the estimated assessable profit for the year.

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

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

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

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

14. Dividends paid

	2017 \$000	2016 \$000
Interim dividend - March 2016	-	20,000
Interim dividend - June 2016	-	30,000
Interim dividend - December 2016	-	40,000
Interim dividend - September 2017	26,000	-
	<u>26,000</u>	<u>90,000</u>

15. Intangible assets

	Goodwill \$000
Cost	
At 1 January 2017	165,438
At 31 December 2017	<u>165,438</u>
Amortisation	
At 1 January 2017	53,767
Charge for the year	8,272
At 31 December 2017	<u>62,039</u>
Net book value	
At 31 December 2017	<u>103,399</u>
At 31 December 2016	<u>111,671</u>

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

16. Tangible assets

	Land \$000	Freehold buildings \$000	Plant and machinery \$000	Motor vehicles, equipment, furniture & fittings \$000	Tools \$000	Total \$000
Cost						
At 1 January 2017	2,438	5,290	33,257	4,263	7,485	52,733
Additions	-	-	504	88	535	1,127
Disposals	-	-	(4,854)	(74)	(791)	(5,719)
Transfers intra group	-	-	(3)	-	(100)	(103)
Transfers to stock	-	-	-	-	(2)	(2)
At 31 December 2017	<u>2,438</u>	<u>5,290</u>	<u>28,904</u>	<u>4,277</u>	<u>7,127</u>	<u>48,036</u>
Depreciation						
At 1 January 2017	-	2,659	20,083	3,427	5,552	31,721
Charge for the year	-	211	1,508	275	949	2,943
Transfers intra group	-	-	-	-	266	266
Disposals	-	-	(4,704)	(74)	(783)	(5,561)
Transfers to stock	-	-	-	-	(2)	(2)
At 31 December 2017	<u>-</u>	<u>2,870</u>	<u>16,887</u>	<u>3,628</u>	<u>5,982</u>	<u>29,367</u>
Net book value						
At 31 December 2017	<u>2,438</u>	<u>2,420</u>	<u>12,017</u>	<u>649</u>	<u>1,145</u>	<u>18,669</u>
At 31 December 2016	<u>2,438</u>	<u>2,631</u>	<u>13,174</u>	<u>836</u>	<u>1,933</u>	<u>21,012</u>

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

17. Investments

	Subsidiary undertakings \$000	Associates \$000	Total \$000
Cost			
At 1 January 2017	16,314	18	16,332
Additions	7,380	-	7,380
Revaluations	(1,799)	-	(1,799)
At 31 December 2017	<u>21,895</u>	<u>18</u>	<u>21,913</u>
Net book value			
At 31 December 2017	<u>21,895</u>	<u>18</u>	<u>21,913</u>
At 31 December 2016	<u>16,314</u>	<u>18</u>	<u>16,332</u>

During the year NOV Saudi Arabia Co. Ltd. increased its share capital. As a result on 16 October 2017 the company purchased an additional 27,000 shares in NOV Saudi Arabia Co. Ltd. for a consideration amounting to \$7,380,000. The consideration was satisfied by the conversion of an existing loan.

On 29 July 2016 the company purchased 100 £1 Ordinary shares in Slip Clutch Systems Limited for a consideration of \$7,244,000, of which \$5,675,000 was deferred, representing 100% of the issued share capital of this entity. The deferred consideration is contingent upon commercialisation and future revenue up to 2024. The deferred consideration has been re-assessed based on updated forecasts and has been reduced by \$1,799,000 to \$3,876,000 in 2017.

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

17. Investments (continued)

Subsidiary undertakings

The following were subsidiary undertakings of the company. Investments in dormant subsidiaries are held at net asset value.

Name	Interest held	Holding	Country of incorporation
AG Holding UK (dormant)	Ordinary shares	100 %	
Andergauge Limited (dormant)	Ordinary shares	100 %	
Camco Drilling Group Limited (dormant)	Ordinary shares	100 %	
NOV Downhole KZ LLP	Limited partnership interest	99 %	Kazakhstan
NOV Saudi Arabia Co. Ltd.	Shares	90 %	Saudi Arabia
NOV Saudi Arabia Trading Ltd.	Shares	75 %	Saudi Arabia
Reed Hycalog UK Limited (dormant)	Ordinary shares	100 %	
Slip Clutch Systems Limited	Ordinary shares	100 %	

Name	Registered office
AG Holding UK	c/o National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Andergauge Limited	c/o National Oilwell Varco, Badentoy Crescent, Badentoy Park, Portlethen, Aberdeen, AB12 4YD
Camco Drilling Group Limited	L'Estrange & Brett, Arnott House, 12/16 Bridge Street, Belfast, BT1 1LS
NOV Downhole KZ LLP	Business Centre "KZ" 123 V, Utemisov M. str, Atyrau 060005, Kazakhstan
NOV Saudi Arabia Co. Ltd.	Dammam 2nd Industrial City, Bldg 3648 Unit1, 34332- 7358 Dammam, Kingdom of Saudi Arabia
NOV Saudi Arabia Trading Ltd.	Dammam; The Business Gate Center, Bldg 3648 Unit 20, 34332- 7358 Dammam, Kingdom of Saudi Arabia
Reed Hycalog UK Limited	L'Estrange & Brett, Arnott House, 12/16 Bridge Street, Belfast, BT1 1LS
Slip Clutch Systems Limited	Stonedale Road, Oldends Lane Industrial Estate, Stonehouse, Gloucestershire, GL10 3RQ, UK

Associates

The company has an investment in NOV Kenya Limited representing 1% of the issued share capital. The company disposed of its 0.01% holding in NOV Devin Energia Servicos do Brasil Ltda during the year at no gain or loss.

In the opinion of the directors', the aggregate value of the investments is not less than the amount at which they are stated in the financial statements.

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

18. Stocks

	2017	2016
	\$000	\$000
Raw materials and consumables	10,052	8,470
Work in progress	2,162	1,541
Finished goods and goods for resale	26,067	29,627
	38,281	39,638
	38,281	39,638

Stock recognised in cost of sales during the year as an expense was \$64,407,000 (2016: \$82,117,000).

19. Debtors

	2017	2016
	\$000	\$000
Due after more than one year		
Other debtors	7,276	7,589
	7,276	7,589
	7,276	7,589
Due within one year		
Trade debtors	30,041	32,628
Amounts owed by fellow subsidiary undertakings	45,296	22,693
Amounts owed by parent undertaking	1,974	144
Amounts owed by subsidiary undertakings	36,177	27,679
Corporation tax	6,481	7,519
Prepayments and accrued income	26,058	23,269
Deferred taxation (note 22)	2,011	2,571
	148,038	116,503
	148,038	116,503

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

20. Creditors: Amounts falling due within one year

	2017	2016
	\$000	\$000
Trade creditors	6,966	2,596
Amounts owed to fellow subsidiary undertakings	15,202	19,276
Amounts owed to parent undertaking	1,146	135
Taxation and social security	931	1,819
Overseas tax payable	144	316
Group relief	15,327	4,982
Accruals and deferred income	14,677	17,675
	54,393	46,799

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

	2017	2016
	\$000	\$000
Deferred consideration	3,876	5,675
Other creditors	926	1,344
	4,802	7,019

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

22. Deferred taxation

	2017
	\$000
At beginning of year	2,571
Originating and reversal of timing differences	(444)
Adjustments in respect of prior years	(116)
	-
At end of year	2,011

The deferred tax asset is made up as follows:

	2017	2016
	\$000	\$000
Accelerated capital allowances	1,842	2,303
Other timing differences	101	209
Share options	68	59
	2,011	2,571

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

23. Other provisions

	Pension scheme settlement \$000	Onerous lease and associated costs \$000	Total \$000
At 1 January 2017	614	22,339	22,953
Credited to profit and loss	(119)	(63)	(182)
Exchange revaluation	57	2,125	2,182
Transferred from accruals	-	446	446
Utilised in year	(519)	(2,064)	(2,583)
At 31 December 2017	33	22,783	22,816

Pension scheme settlement provision

Pension scheme settlement provision at the beginning of 2017 represented potential liabilities in respect of the Hycalog Retirement and Death Benefit Scheme. The obligations under this scheme were acquired as part of the purchase of the business of ReedHycalog UK Limited on 30 June 2010.

Contributions by ReedHycalog UK Limited to the Hycalog Retirement and Death Benefits Scheme, a defined benefits pension scheme ("HRDBS"), ceased with effect from 25 June 2004.

On 28 March 2014 the trustees of the pension scheme passed a resolution to wind up the scheme and the scheme was fully wound up on 20 September 2017.

The company agreed to fully fund all scheme liabilities upon wind up and during the year made a final payment of \$519,000 to the trustees of the scheme who used it to purchase an annuity.

The closing provision on the Balance Sheet at 31 December 2017 amounting to \$33,000 relates to the remaining costs associated with the scheme windup.

Onerous lease provision

Where leasehold properties become vacant, the company provides for all costs, net of anticipated income, to the end of the lease or the anticipated date of the disposal or sublease. This provision relates to properties in Aberdeen and the Netherlands which were vacated during 2016 and are surplus to the company's requirements. The provision is expected to be utilised over the life of the related leases to 2029 and 2019 respectively.

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

24. Share capital

	2017 \$000	2016 \$000
Allotted, called up and fully paid		
39,463,431 Ordinary shares of £1 each	<u>70,162</u>	<u>70,162</u>

Share capital is translated at a historical exchange rate of £1/\$1.779

25. Reserves

Share premium

This reserve records the amount above the nominal value received for shares issued, less transaction costs.

On 31 August 2017 the directors passed a special resolution to reduce the share premium account from \$116,594,000 to \$nil and the amount by which the share premium account was so reduced was credited to the profit and loss account.

Profit and loss account

The profit and loss account includes non-distributable reserves of \$64,322,000 (2016: \$72,200,000).

Share based payment reserve

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

26. Share based payments

Senior Executive Plan

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

Restricted shares

National Oilwell Varco, Inc. issues Restricted Stock Awards ("RSA") with no exercise price to officers and key employees in addition to share options. The company granted restricted shares to key employees in 2017 at a fair value of \$38.86 (2016 - fair value of \$28.24 in February 2016 and \$36.04 in November 2016). These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested.

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

27. Contingent liabilities

At 31 December 2017, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to \$13,248,000 (2016: \$11,350,000) entered into in the normal course of business.

28. Pension commitments

The company made pension arrangements for those individuals disclosed as employees in two ways:

(i) Defined Contribution Scheme

The National Oilwell Varco money purchase scheme is a defined contribution scheme and contributions are all charged to the Profit and Loss Account as they fall due for payment by National Oilwell Varco UK Limited. The resultant pension cost charge in the period recharged to the company amounted to \$1,118,000 (2016: \$1,331,000).

(ii) Defined Benefit Scheme

Following the acquisition of the ReedHycalog UK Limited business in June 2010, the company also has ongoing obligations in respect of the Hycalog Retirement and Death Benefits Scheme ('HRDBS') which is a defined benefits scheme. The scheme closed to new members on 1 April 1999 and is closed to future accrual.

The trustee resolved by written resolution dated 28 March 2014 to cease the company's participation in the scheme and to commence winding up the scheme effective 26 March 2014. The scheme was fully wound up on 20 September 2017.

The company agreed to fully fund all scheme liabilities upon wind up and made an initial payment of \$3,797,000 in December 2016 and a final payment of \$519,000 to the trustees of the scheme who used it to purchase an annuity.

The closing provision on the Balance Sheet at 31 December 2017 amounting to \$33,000 relates to the remaining costs associated with the windup.

NOV DOWNHOLE EURASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

29. Commitments under operating leases

At 31 December 2017 the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017	2016
	\$000	\$000
Land and buildings		
Not later than 1 year	2,319	2,169
Later than 1 year and not later than 5 years	6,321	6,568
Later than 5 years	8,224	11,006
	16,864	19,743
	16,864	19,743

Included within the amounts above is \$15,227,000 (2016: \$17,609,000) relating to the onerous lease contracts, which were provided for in full during the year ended 31 December 2016 and included within Provisions on the Balance Sheet. Commitments under these contracts fall due as follows:

	2017	2016
	\$000	\$000
Not later than 1 year	1,824	1,521
Later than 1 year and not later than 5 years	5,179	5,527
Later than 5 years	8,224	10,561
	15,227	17,609
	15,227	17,609

Future minimum lease payments under non-cancellable operating leases for plant and machinery are as follows:

	2017	2016
	\$000	\$000
Plant and machinery		
Not later than 1 year	147	287
Later than 1 year and not later than 5 years	107	178
Later than 5 years	-	51
	254	516
	254	516

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

NOV DOWNHOLE EURASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

30. Related party transactions

On 7 November 2014 the company advanced \$1,800,000 to its joint venture partner in the newly formed joint venture company NOV Saudi Arabia Trading Ltd to enable it to subscribe to shares in the joint venture. On 27 February 2015 the company advanced a second tranche of \$8,200,000 to the joint venture partner in the newly formed joint venture company NOV Saudi Arabia Trading Ltd. The amount is repayable under the investment agreement on or before December 2019 with no interest. These loans have been initially recognised at a fair value \$8,748,000 and are subsequently accounted for on an amortised cost basis. At 31 December 2017 the balance is \$9,329,000.

On 27 February 2015 the company issued an interest bearing revolving credit facility of \$10,800,000 to NOV Saudi Arabia Trading Ltd for the initial purchase of the business and working capital. Interest accrues at a rate of 5% of the outstanding balance per annum. The loan and any accrued interest is due to be repaid by 1 November 2019 but can be repaid earlier at the request of either party and has therefore been classified as a Debtor: amount falling due within one year. At 31 December 2017 the balance is \$5,523,000.

At the Balance Sheet date the company was a wholly owned subsidiary of National Oilwell Varco, Inc., the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS102 from disclosing transactions with wholly owned members of the group.

31. Post balance sheet events

On 4 May 2018 the company declared and paid an interim dividend of \$30,000,000 to its shareholder National Oilwell Varco UK Limited.

32. Controlling party

The company's immediate parent undertaking is National Oilwell Varco UK Limited, a company incorporated in England and Wales.

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