

National Oilwell Varco Denmark I/S

Annual Report 2017 for the period 1 January - 31 December 2017

Approved at the company's annual general meeting
31 May 2018



chairman

CVR no. 24 25 52 98

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Endorsements

Statement by the Executive Board and the Board of directors

Today, the Executive Board and the Board of directors have discussed and approved the Annual Report of National Oilwell Varco Denmark I/S for the financial year 1 January 2017 - 31 December 2017.

The Annual Report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31 December 2017 and of the results of the company's operations for the financial year 1 January 2017 - 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend the annual report for approval by the general meeting.

Brøndby, May 31, 2018

Executive Board



Michael Wellington Hart
*President, SubSea
Production System (SPS)*



Michael Halberg
VP Operations

Board of Directors



Robbert Oudendijk
Chairman



Trevor Brian Martin
Deputy chairman

Endorsements

Independent auditor's report

To the partners of National Oilwell Varco Denmark I/S

Opinion

We have audited the financial statements of National Oilwell Varco Denmark I/S for the financial year 1 January – 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January – 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines 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, Management is 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 in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Endorsements

Independent auditor's report - continued

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 and additional requirements applicable in Denmark 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 the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent auditor's report

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Endorsements

Independent auditor's report - continued

Statement on the Management's review

- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

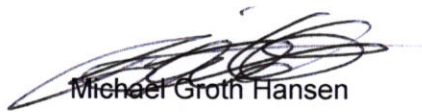
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.


Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2018

Ernst & Young

Godkendt Revisionspartnerselskab
Cvr-nr. 30 70 02 28


Michael Groth Hansen
state authorised public accountant
MNE-nr.: mne33228


Rasmus Bloch Jespersen
state authorised public accountant
MNE-nr.: mne35503

Management's review

Company details

National Oilwell Varco Denmark I/S
Priorparken 480
DK-2605 Brøndby

Telephone: +45 4348 3000
Facsimile: +45 4348 3010
Homepage: www.nov.com/flexibles
E-mail: flexibles@nov.com

CVR no.: 24 25 52 98
Established: 1 July 1999
Registered office: Brøndby, Denmark
Financial year: 1 January - 31 December

Board of directors: Robbert Oudendijk (chairman)
Trevor Brian Martin (deputy chairman)

Executive Board Michael Wellington Hart, President, SubSea Production System (SPS)
Michael Halberg, VP Operations

Bank: DNB Bank ASA
Nordea Bank Danmark A/S

Auditor: Ernst & Young, Godkendt Revisionspartnerselskab
Osvold Helmuths Vej 4, 2000 Frederiksberg

Management's review

Financial highlights

DKK million	2017	2016	2015	2014	2013
Key figures					
Revenue	1,583	1,720	1,939	2,546	2,434
Profit before amortisation, depreciation and impairment	364	248	416	771	619
Profit before items under financial income and expense, net	273	157	334	685	530
Net profit for the year	315	147	360	704	537
Non-current assets	2,299	2,308	2,000	1,651	775
Current assets	1,175	924	1,577	2,041	1,912
Investments in items of property, plant and equipment	20	37	56	40	78
Investments in intangible items	11	16	29	22	15
Total assets	3,474	3,233	3,577	3,692	2,687
Equity	3,228	2,863	2,961	2,903	2,200
Short-term liabilities other than provision	246	370	616	789	487
Financial ratios					
Net profit ratio	17%	9%	17%	27%	22%
Return on invested capital	8%	5%	9%	21%	22%
Gross margin ratio	59%	47%	57%	58%	53%
Current ratio	477%	250%	256%	259%	392%
Solvency ratio	93%	89%	83%	79%	82%
Return on equity	10%	5%	12%	28%	28%
Average number of employees	659	763	840	872	815

The financial ratios have been prepared in accordance with the guidelines for calculation of financial ratios laid down by the Danish Finance Society. For terms and definitions please be referred to the accounting policies.

Management review

Financial review

Presentation of the company

National Oilwell Varco Denmark I/S delivers flexible pipe systems for the purpose of recovering hydrocarbon oil and gas from offshore fields as well as solutions for the purpose of transporting chemicals and water to in-shore installations based on the use of flexible pipe products. The company is ultimately owned by National Oilwell Varco Inc. National Oilwell Varco Denmark I/S has established a subsidiary in Brazil with a fully operational production plant.

The existing product range consists of flexible pipe solutions ranging from 2" – 16" (approx. 50 – 406 mm inside diameter) and designed to operate under very demanding offshore conditions in all parts of the world. The products are unique, because they remain flexible even under very high working pressure, up to 1,000 bars, and at the same time they are able to withstand working temperatures up to 130° Celsius. Flexible pipe systems are superior to other pipe solutions in respect of flexibility, ability to withstand different design conditions and capability to convey challenging mixtures of liquid and gaseous fluids.

Today, flexible pipe systems are used to recover oil and gas at water depths down to 2,500 meters, and National Oilwell Varco Denmark I/S' products are qualified for use in water depths down to 2,000 meters.

National Oilwell Varco Denmark I/S offers a unique condition monitoring solution for its flexible pipe systems based on the use of optical fibers embedded in the pipes' steel armor wires.

Apart from the flexible pipe products manufactured at the Kalundborg factory, National Oilwell Varco Denmark I/S also supplies a wide range of additional equipment to the market, such as accessories and steel structures required in a given system configuration. The ability to correctly design and to procure such elements is an important part of being a solution provider to the offshore oil and gas market.

By the end of December 2017 National Oilwell Varco Denmark I/S counted approx. 579 employees 49% of the employees work at the Kalundborg factory primarily concerned with the production of flexible pipe products. The remaining 51% of the employees work in the headquarters in Brøndby and are engaged in research and development, project management, engineering work, general management and administration. In addition, National Oilwell Varco Denmark I/S has a small department in Aalborg primarily focused on research and development as well as a subsidiary in Brazil.

Development in activities and financial conditions

In 2017, National Oilwell Varco Denmark I/S realized revenue of 1,583 million DKK compared to revenue of 1,720 million DKK in 2016, equivalent to a decrease of 8.0%.

The profit for the year before amortization and depreciation amounts to 364 million DKK compared to 248 million DKK in 2016, equivalent to an increase of 46.8%. The year 2016 was affected by a 115 million DKK extraordinary write-down of inventory.

Management review

Financial review - continued

The net profit for 2017 amounts to 315 million DKK compared to 147 million DKK in 2016, equivalent to an increase of 114%.

Management considers the 2017 profit to be satisfactory.

Unusual risks

Project-related risks

On a current basis the company evaluates the need for provisions for technical risks on the individual projects.

Customer contracts typically contain a late-delivery clause enabling day fines of up to 10 % of the contract value. If the production schedules indicate delays, the need to make provision is evaluated on a case-by-case basis.

Contracts entered into by the company typically include a provision that the company will be indemnified for consequential losses caused by the use of the company's products.

In the event of a breach of the contract obligations, the overall and cumulative liability of the company is normally limited to the contract amount or lower.

The oil price is the main driver in the SURF (Subsea, umbilical's, riser, flowline) market. Fluctuation in the oil price has impact on the activity in the market.

Currency related risk

Activities abroad result in earnings and equity to be affected by exchange rate and interest rate developments for a number of currencies. It is the company's policy to hedge commercial currency risks. Hedging takes place primarily through forward exchange hedge to hedge expected sales and purchases. The company does not engage in speculative currency positions.

Significant events and matters affecting the Financial Statements

Management has reviewed each item on the inventory list and assessed if the item could be used on projects in a foreseeable future.

Raw materials & consumables (inventory) and raw materials & consumables used (cogs) are affected by a write down in the amount of 7.967 TDKK (2016: 115.395 TDKK) that in the opinion of the management do not form part of the operating activities.

Profit for the year compared to previous expectations

The profit for the year was above to the company's expectations. In 2017, Revenue decreased by 8.0% according to expectations, primarily due to the Oil & Gas Industry being in distress due to the low oil price level. The result was above expectations presented in the 2016 annual report as a result of a higher than expected revenue level and excellent execution of backlog projects.

Management review

Financial review - continued

Research and development activities

National Oilwell Varco Denmark I/S has its own laboratory and testing facilities in Denmark located at the Kalundborg factory and at the headquarters in Brøndby. The company's R&D department employs more than 59 development engineers and technicians working with material technology, process optimization and methodology for determining service life of flexible pipe systems under different design conditions.

R&D activities are focused on value creating activities meeting the existing or expected future demands in the market. The R&D strategy is organized in line with the corporate strategy as follows:

- Improved technology and cost base are pursued through incremental development of better materials as well as more stable and efficient processes.
- Improved profitability is pursued through the development of escalating technologies.
- Expansion of capabilities is pursued through development of new products and new solutions.

Representative examples of the successful development of new technologies include single layer unplasticized PVDF for high temperature applications, XLPE which is cross-linked as part of the extrusion process, integrated optical condition monitoring systems, appliance of multiple layers of insulation in serial production with tensile armour process, flexible pipe structures for use in water depths down to 2,500 meters, qualification of flexible pipe solutions to be used with super-critical CO² levels, etc.

Knowledge resources

It is imperative for National Oilwell Varco Denmark I/S' continued development to attract and maintain highly skilled and specialized employees, including engineers possessing knowledge within the offshore business.

Corporate social responsibility

Corporate social responsibility is an integrated part of the NOV group's strategy. The group will always focus on acting responsible in terms of clients, employees, business partners as well as surroundings and environment.

The Danish company has not prepared any individual politics in respect of social responsibility, including environment, climate impact and human rights. In respect of the group's CSR reporting we refer to [http://www.nov.com/About NOV/Sustainability.aspx](http://www.nov.com/About_NOV/Sustainability.aspx)

Equal opportunities

National Oilwell Varco Denmark I/S is obliged to set target figures and policies for the gender composition cf. the Act on Gender Equality.

The objective of the company is to be a workplace with equal opportunities and rights for women and men. The company policy is based on well-established principles with focus on

Management review

Financial review - continued

equal rights, when it comes to recruitment, remuneration and promotion. When employing and promoting managers we strive that both genders are represented amongst the final candidates.

Compared to last year a Senior Leadership Team (SLT) level has been added to the management level structure. National Oilwell Varco Denmark I/S has the following management levels: 1) Board of Directors, 2) Senior Leadership Team (SLT) 3) Operational Management Team (OPS), 3) Management Team (MGMT).

Board of Directors

Target figures are only set for those members (Board of Directors) elected at an Annual General Meeting (AGM). The company is run as a partnership where the members of the board are appointed rather than elected at an AGM. The company has set a 33 % goal for the underrepresented gender corresponding to 1 out of 3 members of the board. Similar to last year, all members of the board are still men. The 33 % goal has not been reached in 2017, as the underrepresented gender was not appointed to the Board of Directors. The company is working to achieve the 33 % goal by the end of 2019/20.

Other Management Levels: Senior Leadership team, Operational management team and Management team

The company policy regarding the underrepresented gender in management levels is also based on well-established principles with focus on equal rights. For other management levels a qualitative as well as a quantitative level has been set for management level 2 (SLT), management level 3 (OPS) and management level 4 (MGMT).

Qualitative Goals

The Company continuously strive for all employees to experience equal opportunities for development, internal career and promotion. The company posts all positions internally and encourage all relevant candidates to apply, regardless of gender. Any promotion is based on the criteria's – competence, value creation and attitude, but the company has a strong focus on promoting diversity at all levels of the company, and hence the company put special emphasis on identifying and promoting female talents for specialist positions as well as management positions.

The qualitative goals are identical for all three management levels and are

- the female employees in the company should feel that they have equal opportunities with regards to career and management positions.
- Employees should experience that the company has an open and unbiased culture, where everyone can leverage his or her skills regardless of gender or race. This is supported by NOV's equal opportunity policies – locally as well as globally.

Management review

Financial review - continued

Quantitative Goals

The Company has set an 20% goal for representation of the underrepresented gender in level 2, 20% for level 3 and 20% for level 4. The company is confident that the goal is achieved by the end of 2018.

For the year 2017, there has been a positive development in the numbers of females represented at the top management layer, however a small decrease for the Level 3. For the Senior Leadership Team (Level 2), which is a team set by the new President, women are represent 16% of the team compared to 0% in 2016.

At level 3, women are represented by 8%, a decline of 12% as a result of a restructuring of the Operational management team.

At level 4, women are represented by 17% compared to 20% in 2016, this result is due to a larger redundancy process, where a number of management positions were reduced, and also due to a number of resignations from female managers.

The total gender distribution of females in the company is 21%.

Uncertainty in connection with recognition or measurement

The company's revenue is primarily generated from contract work in progress. To a considerable extent the valuation of remaining costs for completion of projects is based on an estimate.

Unusual circumstances

Management assesses that during the financial year there have not been any unusual circumstances affecting the company's financial position.

Events after the balance sheet date

No events have occurred after the balance sheet date, which materially could affect the assessment of the company's financial position.

Expected development

The market for flexible pipes are still in distress due to the low oil price and Oil Companies cautiousness of investments in new offshore oil fields. The oil price is the main driver in the SURF market.

The oil companies have reduced CAPEX due to higher production costs and lower oil price resulting in a higher competition and reduced margins in the SURF sector.

Therefore, National Oilwell Varco Denmark I/S expects that 2018 revenue will decline approx. 35% - 40% compared to 2017. This expectation is based on the assumption that the current market environment will be prevailing throughout 2018. We begin to see an increasing interest from clients on deliveries in 2020/2021 (production in 2019/2020).

Management review

Financial review - continued

Management expects profit before financial items for 2017 to be in the range of 10 – 50 MDKK, which is a decline compared to 2016 due to the market conditions.

In the beginning of 2018, a considerable share of National Oilwell Varco Denmark I/S' production capacity is committed, and the final financial result for 2018 will depend on the company's ability to execute and deliver in accordance with the agreed delivery dates.

The long-term potential of the company will be realized via continued implementation of new technologies improving the company's global competitiveness.

Financial statements

Income statement 1 January - 31 December

		2017 DKK	2016 DKK
	<i>Note</i>		
Revenue	1	1,583,069,703	1,720,237,639
Raw materials and consumables used	12	655,948,497	845,384,594
Other external expenses	3	<u>153,031,012</u>	<u>183,169,144</u>
Gross profit		<u>774,090,194</u>	<u>691,683,901</u>
Staff costs	2	<u>410,136,813</u>	<u>443,471,557</u>
		<u>363,953,381</u>	<u>248,212,344</u>
<i>Profit before amortisation and depreciation</i>		363,953,381	248,212,344
Amortisation, depreciation and impairment of non-current assets	4	<u>91,103,637</u>	<u>91,056,126</u>
<i>Profit before financial items</i>		272,849,744	157,156,218
Financial income	5	44,989,102	33,885,232
Financial expenses	6	<u>3,268,136</u>	<u>43,755,216</u>
<i>Profit for the year</i>	7	<u>314,570,710</u>	<u>147,286,234</u>

Financial statements

Balance sheet at 31 December - Assets

		2017 DKK	2016 DKK
	<i>Note</i>		
Non-current assets			
<i>Intangible assets</i>			
	8		
Patents		0	133,653
Completed development projects		64,667,569	49,622,719
Development projects in progress		50,843,335	73,279,838
		<u>115,510,904</u>	<u>123,036,210</u>
<i>Property, plant and equipment</i>			
	9		
Land and buildings		130,071,473	144,122,046
Technical plant and machinery		364,703,473	404,271,301
Fixtures and operating equipment		3,600,333	2,847,776
Property, plant and equipment in progress		34,463,125	34,297,617
		<u>532,838,404</u>	<u>585,538,740</u>
<i>Financial assets</i>			
Investment in subsidiary	10	500,000	500,000
Receivables from group enterprises	11,14	1,649,843,350	1,599,286,586
		<u>1,650,343,350</u>	<u>1,599,786,586</u>
Total non-current assets		<u>2,298,692,658</u>	<u>2,308,361,536</u>
Current assets			
<i>Inventories</i>			
Raw materials and consumables	12	278,522,858	442,395,895
Finished goods		28,691,463	29,878,402
		<u>307,214,321</u>	<u>472,274,297</u>
<i>Receivables</i>			
Trade receivables		143,155,243	101,506,230
Work in progress for third parties	13	398,196,594	307,290,852
Receivables from group enterprises		283,745,709	2,328,530
Other receivables		28,709,371	31,650,724
Prepayments	15	13,869,692	9,267,251
		<u>867,676,610</u>	<u>452,043,587</u>
Total current assets		<u>1,174,890,931</u>	<u>924,317,884</u>
TOTAL ASSETS		<u>3,473,583,588</u>	<u>3,232,679,420</u>

Financial statements

Balance sheet at 31 December - Liabilities and equity

		2017	2016
		DKK	DKK
	<i>Note</i>		
Equity			
Equity		3,227,506,948	2,863,135,363
		<u>3,227,506,948</u>	<u>2,863,135,363</u>
Liabilities			
<i>Short-term liabilities</i>			
Prepayments received from customers		2,812,713	21,375,403
Work in progress third parties	13	23,617,073	17,280,272
Trade payables		82,283,372	163,187,958
Payables to group enterprises		11,903,745	57,545,864
Other payables		125,459,737	110,154,560
		<u>246,076,640</u>	<u>369,544,057</u>
<i>Total liabilities</i>		<u>246,076,640</u>	<u>369,544,057</u>
TOTAL LIABILITIES AND EQUITY			
		<u>3,473,583,588</u>	<u>3,232,679,420</u>
<i>Contingent liabilities and other financial liabilities</i>			
Use of derivative financial instruments	16		
Related parties and ownership	17		
Group companies	18		
	19		

Financial statements

Equity statement 1 January - 31 December

DKK	Contributed capital	Retained earnings	Proposed dividend	Hedge of future capital	Reserve for development costs	Total
Equity at 1 January 2016	<u>779,808,000</u>	<u>1,869,413,220</u>	<u>235,000,000</u>	<u>-37,275,044</u>	<u>114,186,919</u>	<u>2,961,133,095</u>
Adjustment of reserve for development costs	0	-12,793,114	0	0	12,793,114	0
Development projects capitalised in the year	0	-15,706,226	0	0	15,706,226	0
Hedge of future of the year	0	0	0	-10,283,966	0	-10,283,966
Dividends distributed during the year	0	0	-235,000,000	0	0	-235,000,000
Distribution of net profit	<u>0</u>	<u>167,069,936</u>	<u>0</u>	<u>0</u>	<u>-19,783,702</u>	<u>147,286,234</u>
Equity at 31 January 2016	<u>779,808,000</u>	<u>2,007,983,816</u>	<u>0</u>	<u>-47,559,010</u>	<u>122,902,557</u>	<u>2,863,135,363</u>
Development projects capitalised in the year	0	-11,396,410	0	0	11,396,410	0
Hedge of future of the year	0	0	0	49,800,875	0	49,800,875
Distribution of net profit	<u>0</u>	<u>225,358,773</u>	<u>108,000,000</u>	<u>0</u>	<u>-18,788,063</u>	<u>314,570,710</u>
Equity at 31 January 2017	<u>779,808,000</u>	<u>2,221,946,179</u>	<u>108,000,000</u>	<u>2,241,865</u>	<u>115,510,904</u>	<u>3,227,506,948</u>

Financial statements

Notes

Note	2017 DKK	2016 DKK
1 Revenue		
<i>Revenue</i>		
The production value of completed and ongoing construction contracts	1,415,027,580	1,570,200,760
Other revenue	168,042,123	150,036,879
	<u>1,583,069,703</u>	<u>1,720,237,639</u>
Revenue allocated to geographical segments:		
Scandinavia	150,458,959	257,001,343
Other European countries	226,640,087	312,414,789
Other countries	1,205,970,657	1,150,821,507
	<u>1,583,069,703</u>	<u>1,720,237,639</u>
2 Staff costs		
Wages and salaries	360,072,519	386,323,656
Pension contributions	34,128,423	38,633,673
Other social security costs	15,935,871	18,514,228
	<u>410,136,813</u>	<u>443,471,557</u>
Average number of employees	<u>659</u>	<u>763</u>
Remuneration to Executive Board and board of directors	<u>16,291,871</u>	<u>12,545,246</u>
Selected members of the executive board are part of the National Oilwell Varco, Inc. stock compensation plan.		
3 Fees paid to auditors appointed at the annual general meeting		
Total fees to EY	<u>659,677</u>	<u>938,758</u>
Audit	562,503	595,000
Tax consultancy	97,174	311,258
Other services	0	32,500
	<u>659,677</u>	<u>938,758</u>
4 Amortisation, depreciation and impairment of non-current assets		
Patents	133,653	1,039,768
Completed development projects	18,788,063	19,783,702
Buildings	14,050,573	14,047,068
Technical plant and machinery	58,081,348	56,066,119
Fixtures and operating equipment	50,000	119,469
	<u>91,103,637</u>	<u>91,056,126</u>

Financial statements

Notes

Note		2017 DKK	2016 DKK
5 Financial income			
	Interests from group enterprises	30,737,534	30,857,464
	Other interests, exchange rate gains and other financial income	14,251,568	3,027,768
		<u>44,989,102</u>	<u>33,885,232</u>
6 Financial expenses			
	Other interests, exchange rate losses and other financial expenses	3,268,136	43,755,216
		<u>3,268,136</u>	<u>43,755,216</u>
7 Proposal for the distribution of net profit:			
	Proposed dividend	108,000,000	0
	Reserve for development costs	-18,788,063	-19,783,702
	Retained earnings	225,358,773	167,069,936
		<u>314,570,710</u>	<u>147,286,234</u>
8 Intangible assets			
		Completed development projects	Development projects in progress
DKK	Patents		
	Cost at 1 January 2017	12,859,399	155,725,114
	Additions	0	0
	Transfer	0	33,832,913
	Cost at 31 December 2017	<u>12,859,399</u>	<u>189,558,027</u>
	Amortizations at 1 januar 2017	12,725,746	106,102,395
	Amortizations	133,653	18,788,063
	Amortizations at 31 december 2017	<u>12,859,399</u>	<u>124,890,458</u>
	Carrying amount at 31 December 2017	<u>0</u>	<u>64,667,569</u>
	Amortised over a period of	<u>5 years</u>	<u>5 years</u>
			<u>-</u>

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9 Property, plant and equipment

DKK	Land and buildings	Technical plant and machinery	Fixtures and operating equipment	Property, plant and equipment in progress
Cost at 1 January 2017	316,465,952	1,137,469,866	13,324,803	34,297,617
Additions	0	0	0	19,481,585
Disposals	0	3,309,664	0	0
Transfer	0	18,513,520	802,557	-19,316,077
Cost at 31 December 2017	<u>316,465,952</u>	<u>1,152,673,722</u>	<u>14,127,360</u>	<u>34,463,125</u>
Depreciation at 1 January 2017	172,343,906	733,198,565	10,477,027	0
Depreciation	14,050,573	58,081,348	50,000	0
Disposals	0	3,309,664	0	0
Depreciation at 31 December 2017	<u>186,394,479</u>	<u>787,970,249</u>	<u>10,527,027</u>	<u>0</u>
Carrying amount at 31 December 2017	<u>130,071,473</u>	<u>364,703,473</u>	<u>3,600,333</u>	<u>34,463,125</u>
Depreciated over a period of	<u>25 years</u>	<u>8 - 15 years</u>	<u>3 - 8 years</u>	<u>-</u>

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Note	2017 DKK	2016 DKK
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10 Investment in subsidiary

Cost at 1 January	500,000	500,000
Additions	0	0
Cost at 31 December	<u>500,000</u>	<u>500,000</u>
Carrying amount at 31 December	<u>500,000</u>	<u>500,000</u>

DKK	Registered office	Voting and ownership share	Equity	Profit for the year
NOV Flexibles Holding ApS	Brøndby, Denmark	100%	65,151,375	161,558,133
NOV Flexibles Equipamentos e Servicos Ltda.	Rio de Janeiro, Brazil	99.9%	2,230,801,774	501,763,032

11 Receivables from subsidiary

Receivables at 1 January	1,599,286,586	1,252,181,866
Additions	50,556,764	347,104,720
Receivables at 31 December	<u>1,649,843,350</u>	<u>1,599,286,586</u>
Carrying amount at 31 December	<u>1,649,843,350</u>	<u>1,599,286,586</u>

12 Special items

Raw materials and consumables (inventory) and raw materials and consumables used (cogs) are affected by a extraordinary write down in the amount of 7.967 TDKK (2016: 115.395 TDKK) that in the opinion of the management do not form part of the operating activities.

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Note	2017 DKK	2016 DKK
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13 *Work in progress*

The selling price of the production for period to date

	5,457,492,521	3,157,864,458
Invoicing on account	<u>-5,082,913,000</u>	<u>-2,867,853,878</u>
Net work in progress	<u>374,579,521</u>	<u>290,010,580</u>

Recognised as follows in the balance sheet:

Work in progress for third parties (asset)	398,196,594	307,290,852
Work in progress third parties (liability)	<u>-23,617,073</u>	<u>-17,280,272</u>
	<u>374,579,521</u>	<u>290,010,581</u>

14 *Receivables from group enterprises*

Loans/receivables falling due between 1 and 5 years amount to 0 TDKK (0 TDKK) and loans/receivables falling due after 5 years amount to 1.649.843 TDKK (1.599.287 TDKK).

15 *Prepayments*

Prepaid rent	4,822,764	6,183,007
Other prepayments	<u>9,046,928</u>	<u>3,084,244</u>
	<u>13,869,692</u>	<u>9,267,251</u>

16 *Contingent liabilities and other financial liabilities*

Lease contracts

Rental and lease obligations concerning services, cars, lease of buildings and land amount to:

Falling due within 1 year	16,421	22,577
Falling due between 1 and 5 years	2,467	7,786
Falling due after 5 years	<u>0</u>	<u>59</u>
	<u>18,888</u>	<u>30,422</u>

Contingent liabilities

The company has no contingent liabilities.

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Contractual obligations and guaranties

The company has entered into a number of considerable contracts for delivery in 2020 - 2021 committing the company to deliver flexible pipe systems to customers.

The company has granted usual bank guaranties for projects amounting to a total of 159.972 TDKK (196.106 TDKK.).

17 Use of derivative financial instruments

The company uses forward exchange contracts to hedge recognised and non-recognised foreign currency risks. Currencies which are part of the EMU-cooperation are not hedged.

Expected future transactions

The company uses forward exchange contracts to hedge expected currency risks from already entered construction contracts concerning the sale of goods.

TDKK	Nom-value	2017 TDKK	2016 TDKK
Forward-exchange contracts	806.844	5,700	-7,829

At December 31, 2017, the Company has determined that the fair value of its derivative financial instruments representing assets of 5.700 TDKK (currency related derivatives) are determined using level 2 inputs (inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability) in the fair value hierarchy as the fair value is based on publicly available foreign exchange and interest rates at each financial reporting date. At December 31, 2017, the net fair value of the Company's foreign currency forward contracts totaled a net asset of 5.700 TDKK.

18 Related parties and ownership

Joint control

SubSeaFlex Holding ApS
Danco AS

Other related parties

In addition, the company's related parties include related entities, associated entities board of directors, executive board, managing employees as well as those persons related family members. Further, related parties in those entities in which those persons have significant investments.

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Note

19 Related parties and ownership - continued

Ownership

SubSeaFlex Holding ApS

Priorparken 480

DK-2605 Brøndby

Denmark

Equity interest: 51 %

(SubSeaFlex Holding ApS is fully owned by National Oilwell Varco Norway AS)

Danco AS

Dvergsnesbakken 25

Postboks 401 Lundsiden

N-4604 Kristiansand

Norway

Equity interest: 49 %

(Danco AS is fully owned by National Oilwell Varco Norway AS)

The ultimate parent company preparing consolidated financial statements is:

National Oilwell Varco Inc.

7909 Parkwood Circle Drive

Houston, Texas 77036-6565

USA

The consolidated financial statements for National Oilwell Varco Inc. can be obtained from National Oilwell Varco Denmark I/S on request at the company's address Priorparken 480, 2605 Brøndby.

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19 Group companies

Companies owned directly or indirectly by National Oilwell Varco Denmark I/S:

NOV Flexibles Holding ApS
Priorparken 480
DK-2605 Brøndby
Denmark
Equity interest: 100 %

NOV Flexibles Equipamentos e Serviços Ltda
Avenida Republica do Chile, 500, 24 andar - Centro
Centro de Janeiro
Brazil, 20031-170
Equity interest: 99,9 %

Transactions with related parties

DKK

Transactions	Parent Company	Subsidiaries	Group Enterprises	Total
Royalty, income		85,811,043		85,811,043
Projects, Goods & Services, income		40,614,671	59,519,386	100,134,057
Management fees, recharge and other costs	5,414,431		619,737	6,034,167
Goods & services		15,427,994	47,037,739	62,465,732
Interests, income		30,737,534		30,737,534

Balances per 31 December 2017

Loans , receivables	38,471,584	1,624,189,005		1,662,660,589
Cash Pool, receivable	270,761,033			270,761,033
Other receivables			167,437	167,437
Other liabilities			11,903,745	11,903,745

For remuneration of Executive Board and Board of Directors, reference is made to note 2.

Financial statements

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20 - Accounting policies

The annual report of National Oilwell Varco Denmark I/S for 2017 has been prepared in accordance with the provisions applying to reporting class C covering large enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Consolidated financial statements

The company has not prepared consolidated financial statements due to the fact that consolidated financial statements are prepared in a higher ranking group, cf. the exception clauses described in § 112 of the Danish Financial Statements Act.

Cash-flow statement

With reference to § 86 paragraph 4 of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flows are part of the consolidated cash flow statement prepared in a higher ranking group.

Recognition and measurement

Assets are recognized in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be reliably measured.

Liabilities are recognized in the balance sheet when an outflow of economic resources is probable and when the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

Certain financial assets and liabilities are measured at amortized cost implying the recognition of a constant effective interest rate to maturity. Amortized cost is calculated as initial cost minus any principal repayments and plus or minus the cumulative amortization of any difference between cost and nominal amount.

In recognizing and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognized in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortized cost. Equally, costs incurred to generate the year's earnings are recognized, including depreciation, amortization, impairment and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognized in the income statement.

Financial statements

Notes

20 - Accounting policies - continued

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the average exchange rates ruling last month. Foreign exchange differences arising between the exchange rate used and the rate at the date of payment are recognized in the income statement as interest income or expense and similar items.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date provided that they cannot be recognized at another exchange rate through currency hedging. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognized in the latest financial statements is recognized in the income statement as interest income or expense and similar items.

Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Changes in the fair value of derivative financial instruments designated as a hedge of the fair value of a recognized asset or liability are recognized in the income statement together with changes in the value of the hedged asset or liability if the hedge qualifies for using hedge accounting.

Changes in the fair value of derivative financial instruments designated as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity, if the hedge qualifies for using hedge accounting. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously deferred in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement on a regular basis.

Income statement

Revenue

Revenue from the sale of goods and services is recognized in the income statement provided that delivery and transfer of risk to the buyer have taken place before year end and that the income can be reliably measured and is expected to be received. Contract work in progress concerning special production of flexible pipes is recognized as revenue by reference to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (the percentage of completion method). Revenue is recognized when total income and expenses and the stage of completion of the contract at the balance sheet date can be reliably calculated and when it is probable that the economic benefits, including payment, will flow to the company.

Financial statements

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20 - Accounting policies - continued

Revenue from royalty is recognized in the income statement if the general criteria are met, e.g. that the service concerned has been provided, that the amounts can be made up reliably, and that the amounts can be expected to be received.

Revenue is measured ex VAT, taxes and discounts in relation to the sale.

Raw materials and consumables used

The item includes raw materials and consumables, wages and salaries used in production as well as research and development costs that do not qualify for capitalisation.

Staff costs

Staff costs comprises wages and salaries, consideration, pensions and other staff costs relating to the company's employees, including remuneration to the Board of Directors and the Board of Management.

Other external expenses

Other external expenses include expenses related to distribution, sale, advertising, administration, premises, bad debts, lease payments under operating leases, intercompany charges, etc.

Leases

Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The company's total obligation relating to operating leases and other leases is disclosed in contingent liabilities, etc.

Amortisation, depreciation and impairment of non-current assets

The item includes amortisation, depreciation and impairment of non-current assets. Amortisation/depreciation is provided using the straight-line method on the basis of the cost and the assessments of the useful life and residual value of the assets as described in section intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses include interest income and expense, gains and losses on securities, gains and losses on contracts in foreign currency, payables and transactions denominated in foreign currencies.

Financial statements

Notes

20 - Accounting policies - continued

Tax on profit/loss for the year

National Oilwell Varco Denmark I/S is not a separate taxable entity, and therefore taxes are recognized by the partners. For that reason, no taxes of the profit for the year have been recognized in the income statement, just like no deferred taxes or current/receivable taxes have been recognized in the balance sheet.

Balance sheet

Intangible assets

On initial recognition, intangible assets are measured at cost.

Development costs comprise costs, salaries and amortization directly or indirectly attributable to the company's development activities.

Development projects that are clearly defined and identifiable, where the technical utilization degree, sufficient resources and a potential future market or development opportunities in the company are evidenced, and where the company intends to produce, market or use the project, are recognized as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover operating costs and development costs. Other development costs are recognized in the income statement when incurred.

Development projects are measured at the lower of cost less accumulated amortization and impairment losses.

Following the completion of a development project, the capitalised development project is allocated and reclassified to completed development projects and amortized on a straight-line basis over the estimated useful life. The amortization period is usually five years.

Patents are measured at cost less accumulated amortization and impairment. Patents are amortized on a straight-line basis over the remaining patent period, although not exceeding 8 years.

The residual value of intangible assets is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further amortisation charges are recognised. In case of changes in the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

Intangible assets are written down to the recoverable amount if this is lower than the carrying amount. Impairment tests of development projects in progress are conducted annually.

Gains and losses on the disposal of development projects and patents are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal. The gains or losses are recognized in the income statement as revenue or other external expenses.

Financial statements

Notes

20 - Accounting policies - continued

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers as well as wages and salaries.

The cost is supplemented by the present value of estimated liabilities related to dismantling and removing the asset and restoring the site on which the asset was utilized.

The cost of a total asset is divided into separate elements, which are depreciated separately if the useful lives of the separate elements are different.

Subsequent costs, e.g. relating to replacement of parts of an item of property, plant and equipment, are recognized in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the group. The carrying amount of the replaced parts is derecognized in the balance sheet and recognized in the income statement. All costs incurred for ordinary repair and maintenance are recognized in the income statement as incurred.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	25 years
Plant and machinery	8-15 years
Fixtures and fittings, tools and equipment	3-8 years
Computer hardware	4 years
Cars	3-5 years

Property, plant and equipment are written down to the recoverable amount if this is lower than the carrying amount. Impairment tests are conducted annually of each individual asset or group of assets.

Residual values of property, plant and equipment is determined at the time of acquisition and are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal. The gains or losses are recognized in the income statement as revenue or other operating expenses.

Investments in subsidiaries

Investments in subsidiaries are recognized in the balance sheet at cost.

Financial statements

Notes

20 - Accounting policies - continued

If the recoverable amount is lower than cost, investments in subsidiaries are written down to this lower value.

Dividend from investments in subsidiaries are always be recognised in the income statement going forward. If the carrying amount of the net assets of subsidiaries exceeds cost, or if dividend exceeding the profit for the year is distributed, there will be evidence of impairment, meaning that an impairment test must be conducted.

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment as well as investments in subsidiaries is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Inventories

Inventories are measured at moving average prices. Where the net realizable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not recognized.

The net realizable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in the expected sales price.

Receivables

Receivables are measured at amortized cost.

Write-down is made for bad debts where there is an objective indication that a receivable has been impaired.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of the expected cash flows.

Financial statements

Notes

20 - Accounting policies - continued

Contract work in progress

Contract work in progress is measured at the selling price of the work performed by reference to the stage of completion. The stage of completion is based on the share of the contract costs paid compared to the expected total costs of the contract. When it is probable that the total contract costs will exceed the total contract income, the anticipated loss is recognized in the income statement.

When the selling price of a construction contract cannot be measured reliably, the selling price is measured at the lower of costs incurred and net realizable value.

Payments on account are set off against contract work in progress. Progress billings received in excess of the contract work performed are calculated separately for each contract and recognized as prepayments from customers under short-term liabilities other than provisions.

Selling costs and costs incurred in securing contracts are recognized in the income statement when incurred.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Dividends

Proposed dividends are recognized as a liability at the date of adoption by the annual general meeting (time of declaration). The share of the dividend for the year which is expected to be distributed is listed as a separate item under equity.

Prepayments, liabilities

Prepayments recognized under liabilities comprise payments received from costumers concerning income in subsequent reporting years.

Financial liabilities

Other liabilities, comprising trade payables as well as other payables, are measured at amortized cost.

Financial statements

Notes

20 - Accounting policies - continued

Cash

Cash and cash equivalents comprise cash in hand and bank deposits.

Cash-pool deposits are, based on the characteristics of the cash-pool, not considered a part of the cash balance, but as part of receivables from group enterprises.

Segment information

Information is provided on geographical markets. The segment information is based on the company's accounting policies, risks and internal financial management.

Special items comprise significant income and expenses of a special nature relative to the Company's revenue-generating operating activities, e.g. expenses incurred to extensive structuring of processes and basic structural adjustments, as well as any relating disposal gains and losses, and which over time have a material impact. Special items also comprise significant one-off items, which in the opinion of Management do not form part of the Group's operating activities.

Fair value

The fair value measurement is based on the principal market. If no principal market exists, the measurement is based on the most advantageous market, i.e. the market that maximises the price of the asset or liability less transaction and/or transport costs.

All assets and liabilities which are measured at fair value, or whose fair value is disclosed, are classified based on the fair value hierarchy, see below:

Level 1: Value in an active market for similar assets/liabilities

Level 2: Value based on recognised valuation methods on the basis of observable market information

Level 3: Value based on recognised valuation methods and reasonable estimates (non-observable market information).

Subsequent events

If the Company receives information after the balance sheet date, but prior to the date of the board of director's approval of the financial statements, about conditions that existed at the balance sheet date, the Company assesses if the information affects the amounts that it recognises in the financial statements. The Company will adjust the amounts recognised in its financial statements to reflect any adjusting events after the balance sheet date and update the disclosures that relate to those conditions in the light of the new information.

For non-adjusting events after the balance sheet date, the Company will not change the amounts recognised in its financial statements but will disclose the nature of the non-adjusting event and an estimate of its financial effect, or a statement that such an estimate cannot be made, if applicable.

Financial statements

Notes

20 - Accounting policies - continued

Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society "Recommendations and Ratios".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Net profit ratio	$\frac{\text{Operating [profit/loss]} \times 100}{\text{Revenue}}$
Return on invested capital	$\frac{\text{Operating [profit/loss]} \times 100}{\text{Average operating assets}}$
Gross margin ratio	$\frac{\text{Gross [profit/loss]} \times 100}{\text{Revenue}}$
Current ratio	$\frac{\text{Current assets} \times 100}{\text{Short-term liabilities other than provisions}}$
Solvency ratio	$\frac{\text{Equity, ex. minority interests at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{[Profit/loss] for the year} \times 100}{\text{Average equity}}$