National Oilwell Varco Denmark I/S

Annual Report 2018

for the period 1 January - 31 December 2018

Approved at the company's annual general meeting
7 June 2019

Chairman

CVR no. 24 25 52 98

Contents

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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 2018 - 31 December 2018.

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 2018 and of the results of the company's operations for the financial year 1 January 2018 - 31 December 2018.

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, June 7, 2019

Executive Board

Michael Wellington Hart *President, SubSea Production System (SPS)*	Michael Halberg *VP Operations*	Alastair James Fleming *VP Finance*

Board of Directors

Robbert Oudendijk *Chairman*	Trevor Brian Martin *Deputy chairman*

Endorsements

Independent auditor's reports

To the partners of National Oilwell Varco Denmark I/S

Opinion

We have audited the financial statements of National Oilwell Varco I/S for the financial year 1 January – 31 December 2018, 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 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 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 reports - 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- 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 conclusions are 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.

Independent auditor's reports - continued

- 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.

Statement on the Management's review

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 the work we have performed, 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 Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 7 June 2019

Ernst & Young
Godkendt Revisionspartnerselskab
Cvr-nr. 30 70 02 28

Ole Becker
state authorised public accountant
mne33732

Rasmus Bloch Jespersen
state authorised public accountant
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
	Alastair James Fleming, VP Finance
Bank:	DNB Bank ASA
	Nordea Bank Danmark A/S
Auditor:	Ernst & Young, Godkendt Revisionspartnerselskab
	Osvald Helmuths Vej 4, 2000 Frederiksberg

Management's review

Financial highlights

DKK million	**2018**	**2017 ***	**2016 ***	**2015 ***	**2014**
Key figures					
Revenue	1,022	1,594	1,754	1,959	2,546
Profit before amortisation, depreciation and impairment	112	375	262	435	771
Profit before items under financial income and expense, net	13	284	171	354	685
Net profit for the year	**49**	**325**	**181**	**379**	**704**
Non-current assets	2,477	2,327	2,308	2,000	1,651
Current assets	1,021	1,191	958	1,596	2,041
Investments in items of property, plant and equipment	29	20	37	56	40
Investments in intangible items	6	11	16	29	22
Total assets	**3,498**	**3,518**	**3,267**	**3,596**	**3,692**
Equity	**3,211**	**3,272**	**2,897**	**2,981**	**2,903**
Short-term liabilities other than provision	287	246	370	616	789
Financial ratios					
Net profit ratio	1%	18%	10%	18%	27%
Return on invested capital	0%	8%	5%	10%	21%
Gross margin ratio	64%	59%	48%	57%	58%
Current ratio	356%	484%	259%	259%	259%
Solvency ratio	92%	93%	89%	83%	79%
Return on equity	2%	11%	6%	13%	28%
Average number of employees	**594**	**659**	**763**	**840**	**872**

The financial ratios have been prepared in accordance with the guidelines for calculation of financial ratios laid down by the Danish Finance Society.

* Key figures and ratioes for 2015-2017, have been changed due to a material misstatement.

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 $\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$

Management's review

Financial highlights - continued

Current ratio	Current assets x 100 / Short-term liabilities other than provisions
Solvency ratio	Equity ex. Minority interests at year end x 100 / Total equity and libilities at year end
Return on equity	Profit/loss for the year x 100 / Average equity

Management review

Financial review

Presentation of the company

National Oilwell Varco Denmark I/S engineers, manufactures and 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 also 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 2018 National Oilwell Varco Denmark I/S counted approx. 594 employees 50% of the employees work at the Kalundborg factory primarily concerned with the production of flexible pipe products. The remaining 50% 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 sub sidiary in Brazil.

Development in activities and financial conditions

In 2018, National Oilwell Varco Denmark I/S realized revenue of 1,022 million DKK compared to revenue of 1,594 million DKK in 2017, equivalent to a decrease of 35.9%.

The profit for the year before amortization and depreciation amounts to 112 million DKK compared to 375 million DKK in 2017, equivalent to an decrease of 70.1%.

The net profit for 2018 amounts to 49 million DKK compared to 325 million DKK in 2017, equivalent to an decrease of 84.9%.

Management review

Financial review - continued

Given the prevailing market conditions, Management considers the 2018 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 a significant 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. According to the company's policy the company may 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

In accordance with applied accounting policies revenue is measured over time based on the percentage of completion.

In 2018, management concluded that the contract amount applied for one contract with costumer was incorrectly determined in prior years. Due to the significance of the matter, the Company has treated the matter in accordance with the provisions in section 52(2) of the Danish Financial Statements Act regarding correction of material misstatements. Consequently, the comparatives and the equity as at 31 December 2017 and 31 December 2016 has been restated in these financial statements.

The restatement impacts the comparatives and the opening equity as follows:

- Revenue arising from contracts with customers in 2017 increased by DKK 10.745 thousand.

Management review

Financial review - continued

- Profit for the year 2017 increased by DKK 10.745 thousand and the balance sheet total increased by DKK 44.687 thousand and DKK 33.942 thousand at 1 January 2018 and 2017, respectively.
- The opening equity at 1 January 2017 and 1 January 2018 increased by DKK 33.942 thousand and DKK 44.687 thousand, respectively.

Classification changes

Reclassification changes have been made in the financial statements to correctly present;

Company's fixed asset 'reels'. The comparative figures have been restated to reflect the classification change. In the balance sheet 'fixtures and operating equipment' equivalent of DKK 28.691 thousand at 31 December 2017, previously presented under 'inventory' as 'finished goods have been reclassified to fixtures and operating equipment' under fixed assets.

The companies foreign paid withholding taxes. The comparative figures have been restated to reflect the classification change. In the balance sheet 'Other receivables' equivalent to DKK 18.131 thousand at 31 December 2017, previously presented under 'Work in progress third parties', has been reclassified to 'other receivables' under current assets.

The classification change did not impact total assets nor net assets at 31 December 2017

Profit for the year compared to previous expectations

The revenue and profit for 2018 was in line with expectations and does represent a decline on performance compared to 2017. The offshore market struggled to recover significantly in 2018 which explains the decline compared to the previous year.

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 75 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

Management review

Financial review - continued

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 CO^2 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, include

ng 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 responsibly in terms of clients, employees, business partners as well as surroundings and environment.

Concerning the Danish Financial Statements Act section 99a National Oilwell Varco Denmark I/S does not have independent policies on human rights, environmental and climate issues, social and employee conditions as well as anticorruption. This is because the company has focused on working practically with corporate social responsibility and, therefore, considered it unnecessary to enact formal policies. In 2019, the company will look at the possibilities of enacting formal policies.

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 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.

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 2018, 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 2020/21.

Management review

Financial review - continued

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 all talents for specialist positions as well as management positions.

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

- all 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.

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.

For the Senior Leadership Team (Level 2), which is a team set by the new President, women are represent 18% of the team compared to 16% in 2017.

At level 3, women are represented by 20%, an increase from 8% as a result of a restructuring of the Operational management team.

At level 4, women represent 17% of the Management Team which is unchanged from 2017.

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

Uncertainty in connection with recognition or measurement

The company's revenue from contracts with customers 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.

Management review

Financial review - continued

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 is showing some signs for recovery however Oil Companies still remain cautious about investments in new offshore oil fields. This is especially evident when the oil price declined during the latter months of 2018.

During 2018 the company made strategic decisions to reduce margins on specific projects in order to secure the work in a highly competitive market. The result is that the company anticipates producing more process meters during 2019 than in 2018 but % profitability will reduce. Management believe that there will continue to be an oversupplied market for the forseeable future and hence pricing will remain competitive.

However Management anticipates operators will sanction large projects later in 2019 and collaborating closely with our customers will allow us to secure projects and boost backlog during 2019 for production in 2020 and beyond.

Management expects that 2019 revenue will increase approximately 15-20% compared to 2018. This expectation is based on the backlog the business has currently and some conservative assumptions about 2019 awards.

Management expects profit before financials items for 2018 to be in the range of 70 – 100 MDKK which is an increase compared to 2018 but aligned with the increased revenue.

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

Financial statements

Income statement 1 January - 31 December

	Note	2018 DKK	2017 DKK
Revenue	1	1,022,254,439	1,593,814,934
Raw materials and consumables used		365,986,096	655,948,497
Other external expenses	3	166,377,656	153,031,012
Gross profit		489,890,687	784,835,425
Staff costs	2	377,619,912	410,136,813
		112,270,775	374,698,612
Profit before amortisation and depreciation		112,270,775	374,698,612
Amortisation, depreciation and impairment of non-current assets	4	99,346,997	91,103,637
Profit before financial items		12,923,778	283,594,975
Financial income	5	54,926,549	44,989,102
Financial expenses	6	18,604,238	3,268,136
Profit for the year	7	**49,246,089**	**325,315,941**

Financial statements

Balance sheet at 31 December - Assets

	Note	2018 DKK	2017 DKK
Non-current assets			
Intangible assets	8		
Patents		0	0
Completed development projects		54,116,208	64,667,569
Development projects in progress		44,457,133	50,843,335
		98,573,341	115,510,904
Property, plant and equipment	9		
Land and buildings		116,079,965	130,071,473
Technical plant and machinery		358,368,095	393,394,936
Fixtures and operating equipment		3,704,716	3,600,333
Property, plant and equipment in progress		36,218,891	34,463,125
		514,371,667	561,529,867
Financial assets			
Investments in subsidiary	10	500,000	500,000
Receivables from group enterprises	11,13	1,863,292,616	1,649,843,350
		1,863,792,616	1,650,343,350
Total non-current assets		2,476,737,624	2,327,384,121
Current assets			
Inventories			
Raw materials and consumables		321,348,858	278,522,858
		321,348,858	278,522,858
Receivables			
Trade receivables		202,093,722	143,155,243
Work in progress for third parties	12	167,085,836	424,752,395
Receivables from group enterprises		256,031,308	283,745,709
Other receivables		67,471,464	46,840,654
Prepayments	14	7,247,154	13,869,692
		699,929,484	912,363,693
Total current assets		1,021,278,342	1,190,886,551
TOTAL ASSETS		3,498,015,966	3,518,270,672

Financial statements

Balance sheet at 31 December - Liabilities and equity

	Note	2018 DKK	2017 DKK
Equity			
Equity		3,210,983,555	3,272,194,032
		3,210,983,555	3,272,194,032
Liabilities			
Short-term liabilities			
Prepayments received from customers		23,086,897	2,812,713
Work in progress third parties	12	96,928,586	23,617,073
Trade payables		55,646,425	82,283,372
Payables to group enterprises		28,324,352	11,903,745
Other payables		83,046,151	125,459,737
		287,032,411	246,076,640
Total liabilities		287,032,411	246,076,640
TOTAL LIABILITIES AND EQUITY		3,498,015,966	3,518,270,672
Contingent liabilities and other financial liabilities	15		
Use of derivative financial instruments	16		
Related parties and ownership	17		
Group companies	18		

Financial statements

Equity statement 1 January - 31 December

DKK	Contributed capital	Retained earnings	Proposed dividend	Hedging instruments	Reserve for development costs	Total
Equity at 1 January 2017	779,808,000	2,007,983,816	0	-47,559,010	122,902,557	2,863,135,363
Effect of prior years misstatement		33,941,853				33,941,853
Adjusted equity at 1 January 2017	779,808,000	2,041,925,669	0	-47,559,010	122,902,557	2,897,077,216
Development projects capitalised	0	-11,396,410	0	0	11,396,410	0
Value adjustments of hedging instruments	0	0	0	49,800,875	0	49,800,875
Distribution of net profit	0	236,104,004	108,000,000	0	-18,788,063	325,315,941
Equity at 31 December 2017	779,808,000	2,266,633,263	108,000,000	2,241,865	115,510,904	3,272,194,032
Payment of proposed dividend	0	0	-108,000,000	0	0	-108,000,000
Development projects capitalised	0	-6,463,049	0	0	6,463,049	0
Value adjustments of hedging instruments	0	0	0	-2,456,566	0	-2,456,566
Distribution of net profit	0	72,646,701	0	0	-23,400,612	49,246,089
Equity at 31 January 2018	779,808,000	2,332,816,915	0	-214,701	98,573,341	3,210,983,555

Financial statements

Notes

Note		2018 DKK	2017 DKK
1	***Revenue***		
	Revenue		
	The production value of completed and ongoing construction contracts	897,250,594	1,425,772,811
	Other revenue	125,003,845	168,042,123
		1,022,254,439	1,593,814,934
	Revenue allocated to geographical segments:		
	Scandinavia	265,383,856	150,458,959
	Other European countries	83,034,337	226,640,087
	Other countries	673,836,246	1,216,715,888
		1,022,254,439	1,593,814,934
2	***Staff costs***		
	Wages and salaries	329,421,781	360,072,519
	Pension contributions	32,429,975	34,128,423
	Other social security costs	15,768,156	15,935,871
		377,619,912	410,136,813
	Average number of employees	594	659
	Remuneration to Executive Board and board of directors	8,221,340	16,291,871

Selected members of the executive board are part of the National Oilwell Varco, Inc. stock compensation plan.

Note		2018 DKK	2017 DKK
3	***Fees paid to auditors appointed at the annual general meeting***		
	Total fees to EY	610,269	659,677
	Audit	518,244	562,503
	Tax consultancy	15,100	97,174
	Other services	76,925	0
		610,269	659,677
4	***Amortisation, depreciation and impairment of non-current assets***		
	Patents	0	133,653
	Completed development projects	23,400,612	18,788,063
	Buildings	13,991,508	14,050,573
	Technical plant and machinery	61,875,742	58,081,348
	Fixtures and operating equipment	79,135	50,000
		99,346,997	91,103,637

Financial statements

Notes

Note		2018 DKK	2017 DKK
5	***Financial income***		
	Interests from group enterprises	33,075,313	30,737,534
	Other interests, exchange rate gains and other financial income	21,851,236	14,251,568
		54,926,549	44,989,102
6	***Financial expenses***		
	Other interests, exchange rate losses and other financial expenses	18,604,238	3,268,136
		18,604,238	3,268,136
7	**Proposal for the distribution of net profit:**		
	Proposed dividend	0	108,000,000
	Reserve for development costs	-23,400,612	-18,788,063
	Retained earnings	72,646,701	236,104,004
		49,246,089	325,315,941

8 ***Intangible assets***

DKK	Patents	Completed development projects	Development projects in progress
Cost at 1 January 2018	12,859,399	189,558,027	50,843,335
Additions	0	0	6,463,049
Transfer	0	12,849,251	-12,849,251
Cost at 31 December 2018	12,859,399	202,407,278	44,457,133
Amortizations at 1 januar 2018	12,859,399	124,890,458	0
Amortizations	0	23,400,612	0
Amortizations at 31 december 2018	12,859,399	148,291,070	0
Carrying amount at 31 December 2018	0	54,116,208	44,457,133
Amortised over a period of	5 years	5 years	-

Management has performed and assessment whether there is any indicators that intangible assets may be impaired and on this basis concluded that there is no present impairment indicators at the balance sheet date 31 December 2018.

Financial statements

Notes

Note

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 2018	316,465,952	1,152,673,722	14,127,360	34,463,125
Adjustment to Cost 1 January 2018	0	28,691,463	0	
Additions	0	0	0	29,499,146
Disposals	0	5,323,483	0	0
Transfer	0	27,559,866	183,518	-27,743,380
Cost at 31 December 2018	316,465,952	1,203,601,568	14,310,878	36,218,891
Depreciation at 1 January 2018	186,394,479	787,970,249	10,527,027	0
Depreciation	13,991,508	61,875,742	79,135	0
Disposals	0	4,612,518	0	0
Depreciation at 31 December 2018	200,385,987	845,233,473	10,606,162	0
Carrying amount at 31 December 2018	116,079,965	358,368,095	3,704,716	36,218,891
Depreciated over a period of	25 years	8 - 15 years	3 - 8 years	-

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Note		2018 DKK	2017 DKK
10	***Investment in subsidiary***		
	Cost at 1 January	500,000	500,000
	Cost at 31 December	500,000	500,000
	Carrying amount at 31 December	500,000	500,000

DKK Name	Registered office	Voting and ownership share	Equity	Profit for the year
NOV Flexibles Holding ApS	Brøndby, Denmark	100%	410,552,693	345,401,318
NOV Flexibles Equipamentos e Servicos Ltda.	Rio de Janairo, Brazil	99.9%	1,947,855,589	350,152,660

Note		2018 DKK	2017 DKK
11	***Receivables from subsidiary***		
	Receivables at 1 January	1,649,843,350	1,599,286,586
	Additions	213,449,266	50,556,764
	Receivables at 31 December	1,863,292,616	1,649,843,350
	Carrying amount at 31 December	1,863,292,616	1,649,843,350

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Note		2018 DKK	2017 DKK
12	***Work in progress***		
	The selling price of the production for period to date	5,302,548,954	5,484,048,323
	Invoicing on account	-5,232,391,704	-5,082,913,000
	Net work in progress	70,157,250	401,135,323
	Recognised as follows in the balance sheet:		
	Work in progress for third parties (asset)	167,085,836	424,752,395
	Work in progress third parties (liability)	-96,928,586	-23,617,073
		70,157,250	401,135,323

13 ***Receivables from group enterprises***

Loans/receivables falling due between 1 and 5 years amount to 0 TDKK (0 TDKK) and loans/receivables falling due efter 5 years amount to 1.863.293 TDKK (1.649.8437 TDKK).

Note		2018 DKK	2017 DKK
14	***Prepayments***		
	Prepaid rent	2,302,874	4,822,764
	Other prepayments	4,944,280	9,046,928
		7,247,154	13,869,692

15 ***Contingent liabilities and other financial liabilities***

Lease contracts

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

	2018 TDKK	2017 TDKK
Falling due within 1 year	7,384	16,421
Falling due between 1 and 5 years	5,666	2,467
Falling due after 5 years	0	0
	13,050	18,888

Contingent liabilities

The company has no contingent liabilities.

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Contractual obligations and guaranties
The company has entered into a number of contracts for delivery in 2019 - 2022 committing the company to deliver flexible pipe systems to customers.

The company has granted usual bank guaranties for projects amounting to a total of 197.992 TDKK (159.972 TDKK.).

16 ***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.

		2018	2017
TDKK	Nom-value	TDKK	TDKK
Forward-exchange contracts	806.844	57	5,700

At December 31, 2018, the Company has determined that the fair value of its derivative financial instruments representing assets of 57 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, 2018, the net fair value of the Company's foreign currency forward contracts totaled a net asset of 57 TDKK.

17 ***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 releted family members. Further, related parties in those entities in which those persons have significant investments.

Note

17 ***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.

http://investors.nov.com/investor-overview

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18 ***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, revenue	-	73,090,610	-	73,090,610
Sales projects, Goods & Services revenue	-	17,785,201	39,031,181	56,816,382
Management fees, recharge and other costs	14,704,866	-	11,425,542	26,130,408
Goods & services, cost	-	50,746,709	38,458,086	89,204,795
Interests, income	-	32,335,335	739,978	33,075,313
Balances per 31 December 2018				
Loans, receivables	-	1,824,081,055	39,211,561	1,863,292,616
Cash pool, receivables	-	-	252,528,527	252,528,527
Other receivables	34,550,240	1,095,954	32,085,099	67,731,293
Other liabilities	177,177	24,055,922	4,091,253	28,324,352

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19 - Accounting policies

The annual report of National Oilwell Varco Denmark I/S for 2018 has been prepared in accordance with the provisions applying to reporting class C covering large enterprises under the Danish Financial Statements Act.

Apart from change to accounting policies relating to revenue 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, as consolidated financial statements are prepared in a higher-ranking group, cf. the exception clauses described in § 112, cf 1 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.

Change in accounting policies relating to IFRS 15

In 2018, the Company adopted IFRS 15 as interpretation for recognition of revenue. The implementation of IFRS 15 does not have a monetary impact on the income statement or the balance sheet for 2018 or for the comparison figures.

Apart from the above, the accounting policies used in the preparation on the financial statements are consistent with those of last year.

Material misstatements with impact on prior years Financial Statements

In accordance with applied accounting policies revenue is measured over time based on the percentage of completion.

In 2018, management concluded that the contract amount applied for one contract with costumer was incorrectly determined in prior years. Due to the significance of the matter, the Company has treated the matter in accordance with the provisions in section 52(2) of the Danish Financial Statements Act regarding correction of material misstatements. Consequently, the comparatives and the equity as at 31 December 2017 and 31 December 2016 has been restated in these financial statements.

The restatement impacts the comparatives and the opening equity as follows:

- Revenue arising from contracts with customers in 2017 increased by DKK 10.745 thousand.

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19 - Accounting policies - continued

- Profit for the year 2017 increased by DKK 10.745 thousand and the balance sheet total increased by DKK 44.687 thousand and DKK 33.942 thousand at 1 January 2018 and 2017, respectively.
- The opening equity at 1 January 2017 and 1 January 2018 increased by DKK 33.942 thousand and DKK 44.687 thousand, respectively.

Classification changes

Reclassification changes have been made in the financial statements to correctly present;

- Company's fixed asset 'reels'. The comparative figures have been restated to reflect the classification change. In the balance sheet 'fixtures and operating equipment' equivalent of DKK 28.691 thousand at 31 December 2017, previously presented under 'inventory' as finished goods have been reclassified to 'fixtures and operating equipment' under fixed assets.
- The companies foreign paid withholding taxes. The comparative figures have been restated to reflect the classification change. In the balance sheet 'Other receivables' equivalent to DKK 18.131 thousand at 31 December 2017, previously presented under 'Work in progress third parties', has been reclassified to 'other receivables' under current assets.

The classification change did not impact total assets nor net assets at 31 December 2017.

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.

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19 - 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 recognized 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 recognized 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 recognized in the income statement on a regular basis.

Income statement

Revenue

The Company uses the percentage-of-completion method to account for certain long-term construction contracts in the Completion and productions for special productions of flexible pipes. These long-term construction contracts include the following characteristics:

- The contract include custom designs for customer specific applications
- The structural design is unique and requires significant engineering efforts, and
- Constructions have progress payments

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19 - Accounting policies - continued

The Company to make estimates regarding the total costs of the project, progress against the project schedule and the estimated completion date, all of which impact the amount of revenue and gross margin the Company. The Company prepares detailed cost to complete estimates at the beginning of each project, taking into account all factors considered likely to affect gross margin. Factors that may affect future project costs and margins include shipyard access, weather, production efficiencies, availability and costs of labor, materials and subcomponents and other factors as mentioned in “Risk Factors.” These factors can significantly impact the accuracy of the Company’s estimates and materially impact the Company’s future reported earnings.

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

Revenue recognition from rental or services of the equipment is recognized in the income statement provided that the delivery and transfer risk to the buyer have taken place before year end and that the income can be reliably measured and is 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 in production as well as research and development costs that do not qualify for capitalization.

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.

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19 - Accounting policies - continued

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.

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 capitalized 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 amortization charges are recognized. In case of changes in the residual

19 - Accounting policies - continued

value, the effect on the amortization charges is recognized 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.

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.

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19 - Accounting policies - continued

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.

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.

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19 - Accounting policies - continued

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.

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 recognized development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognized 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.

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19 - Accounting policies - continued

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.

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.

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 maximizes 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 recognized valuation methods on the basis of observable market information

Level 3: Value based on recognized 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 recognizes in the financial statements. The Company will adjust the amounts recognized in its financial statements to reflect any adjusting events after the balance

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19 - Accounting policies - continued

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 recognized 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.