Registered No. 873028

National Oilwell Varco UK Limited

Report and Financial Statements

31 December 2006

Registered No: 873028

Directors
T D Boyle
S G Valentine

Joint Secretaries
K J Leighton
Paull and Williamsons

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Directors' report

The directors present their report and financial statements for the year ended 31 December 2006.

Results and dividends

The profit for the year, after taxation, was £16,317,000 (2005 profit as restated - £8,554,000). The directors recommend that no dividend be paid and that the profit be transferred to reserves.

Principal activity and review of business

The company's principal activity during the year was that of manufacturing, wholesale and servicing of equipment and accessories to the offshore oil and gas industry.

The name of the company was changed from Varco Limited to National Oilwell Varco UK Limited on 28 July 2006. The company traded as the following divisions: Brandt, Brandt Environmental, Elmar, Hydra Rig, MD Totco, PCE, Tuboscope, Tuboscope Far East and Rig Solutions throughout the year. In addition, from 1 September 2006 the company also traded as Downhole Tools, Distribution Services and Russell Sub-Surface Systems.

On 31 August 2006, as part of a UK entity reorganisation, National Oilwell Varco UK Limited acquired shares in National Oilwell (U.K.) Limited and Russell Sub-Surface Systems Limited from Tuboscope Holdings Limited in consideration for shares issued. The trade and assets of these companies was transferred to National Oilwell Varco UK Limited at that point.

On the same date, the assets and liabilities of Tuboscope Holdings Limited (other than the investment in National Oilwell Varco UK Limited) were transferred to National Oilwell Varco UK Limited in consideration for shares issued.

The authorised share capital of National Oilwell Varco UK Limited was increased to 39,310,164 ordinary £1 shares and 7,948,188 shares were issued with a premium of £64,881,000 in relation to the above transactions. All shares are held by Tuboscope Holdings Limited.

On 6 December 2006, the company acquired all the shares of Toolbox Drilling Solutions Limited, a company specialising in the sale and rental of drilling tools and equipment.

During 2006, following a review of pension arrangements the company offered members of the Tuboscope Holdings Limited 1998 Pension Scheme enhanced transfer terms. The cost to the company in respect of members who elected to transfer their benefits during the year was £1,338,000. No provision has been made in these financial statements for post year end costs. The additional costs incurred by the company post year end have been £380,000.

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

	2006	*As restated* 2005	Change
Turnover £000	187,768	130,821	44%
Profit on ordinary activities before taxation £000	22,748	12,409	83%
Shareholders' funds £000	142,680	51,886	175%
Current assets as a percentage of current liabilities	131%	105%	26%
Average number of employees	780	734	6%

Turnover increased across all divisions, reflecting the buoyant economic conditions being experienced in the offshore oil and gas industry, quality of design and manufacture of product and increased customer service levels.

In addition, the transfer of trades from National Oilwell (U.K.) Limited and Russell Sub-Surface Systems Limited increased overall turnover reported, incorporating sales for four months during 2006.

Profit before taxation increased significantly in the year due to both increased sales and tight control over incremental costs.

Shareholders' funds increased by 175% due to the retained earnings increase and the issue of share capital and associated share premium to fund the re-organisation detailed above.

Directors' report

Principal activity and review of business (continued)

Using the current year profits the company was able to proceed with settling balances due to fellow group companies to a greater extent than 2005 and increase stock levels to more adequately support the growing business.

Employee levels increased during the year due to the entity re-organisation.

During the year, the company adopted FRS20 "share-based payment". This requires the fair value of options and share awards to be charged to the profit and loss account over the vesting or performance period. The impact of implementing the standard was to reduce profit before tax by £698,000 (2005: £372,000) although the shareholders' funds were unaffected since the charge was offset by a corresponding credit to equity via the setting up of a share based payment reserve.

Principal risks and uncertainties

Market risks

The sale of oilfield equipment and services to the offshore oil and gas industry correlate strongly with the price of oil and drilling activity which is outside the company's direct control. However, the long term prospects for this sector are deemed to be very promising due to increasing world energy use and continued political uncertainty in various areas of the world.

Customers in this region purchase globally and there are a number of competitors of various sizes in Europe, North America and Asia. The company seeks to minimise the competitive risk by being a leader in redesigning processes, managing information and providing quality products, services and solutions that deliver a competitive advantage to our customers. The company also endeavours to utilise the strengths of being part of a large successful multinational company, National Oilwell Varco, Inc.

Other risks and uncertainties

When designing a new product the company ensures that the legislative requirements of the end user are met fully.

When renting products to the client the company ensures the equipment has been fully tested and is accompanied with current certification before being sent to the customer.

Financial instruments

The company's principal financial assets are bank balances and trade receivables.

The credit risk on liquid funds is deemed negligible as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

In addition a significant value of sales and costs are denominated in currencies other than Sterling and hence significant attention is given to ensuring that overall assets and liabilities are in non functional currencies are matched or hedged appropriately.

Directors' report

Principal risks and uncertainties (continued)

Future developments

The directors believe that turnover and profitability of the company will continue to increase in 2007 and the coming years, due to the quality and service levels provided by the company, the benefits of being part of a growing global group and continued market buoyancy.

Post balance sheet events

During 2007 National Oilwell Varco UK Limited funded an additional £1,882,000 into its existing 60% investment in Heibei Huayouyiji Tuboscope Coating Co. Limited which is a joint venture for coating based in China. This capital increase was required in order for Heibei Huayouyiji Tuboscope Coating Co. Limited to set up an additional branch in Jiangyin.

The trade and various assets of the company's wholly owned subsidiary, Tuboscope Pipeline Services Limited were sold in September 2008. National Oilwell Varco UK Limited owns a 100% investment in Tuboscope Pipeline Services Limited.

Directors and their interests

The directors at 31 December 2006 were as follows:

S G Valentine (appointed 15 February 2006)

T D Boyle

P J Stuart (resigned 28 February 2007)

No director held an interest in the share capital of the company at the year end.

In addition to the above, Mr R J Millett served as a director until his resignation on 15 February 2006.

Political and charitable donations

There were no political or charitable donations in the year (2005 - £nil).

Disabled employees

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

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

Employee involvement

During the year, the policy of providing employees with information about the group has been continued via the National Oilwell Varco intranet website. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Disclosure of information to auditors

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

Directors' report

Re-appointment of auditors

In accordance with S.385 of the Companies Act 1985, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company.

On behalf of the board

TDBoyle

T D Boyle
Director
25 November 2008

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of National Oilwell Varco UK Limited

We have audited the company's financial statements for the year ended 31 December 2006 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of National Oilwell Varco UK Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Aberdeen

25 November 2008

Profit and loss account

for the year ended 31 December 2006

	Notes	2006 £000	As restated 2005 £000
Turnover	2	187,768	130,821
Cost of sales		147,212	104,269
Gross profit		40,556	26,552
Selling and distribution expenses		4,921	2,431
Administrative expenses		13,493	13,332
Operating profit	3	22,142	10,789
Profit on disposal of tangible fixed assets		19	1,682
Income from shares in group undertakings		2,269	1,974
Amounts written off fixed asset investments	10	(1,931)	(1,353)
Interest receivable		862	250
Interest payable	4	(975)	(942)
Other finance income	19	362	9
Profit on ordinary activities before taxation		22,748	12,409
Taxation on profit on ordinary activities	7	6,431	3,855
Profit retained for the financial year	16	16,317	8,554

The profit and loss account for the year ended 31 December 2005 has been restated to reflect the adoption of FRS 20 "Share-based payment" (see note 20).

Turnover of approximately £8,132,000 and operating profit of £254,000 relates to the former trades of National Oilwell (U.K.) Limited and Russell Sub-Surface Systems Limited transferred during the year.

Statement of total recognised gains and losses

for the year ended 31 December 2006

	2006	As restated 2005
	£000	*£000*
Profit for the financial year	16,317	8,554
Actuarial gain/(loss) relating to the pension scheme (note 19)	1,356	(263)
Deferred taxation attributable the actuarial gain/(loss)	(406)	80
Movement in share based payment reserve	698	372
Total gains and losses recognised in the year	17,965	8,743
Prior year adjustment	107	
Total gains and losses recognised since the last annual report and Financial statements	18,072	

Balance sheet

at 31 December 2006

	Notes	2006 £000	As restated 2005 £000
Fixed assets			
Intangible assets	8	5,704	3,265
Tangible assets	9	21,805	18,567
Investments	10	121,395	53,386
		148,904	75,218
Current assets			
Stock	11	36,555	28,243
Debtors	12	69,053	53,586
Cash at bank and in hand		-	1,938
		105,608	83,767
Creditors: amounts falling due within one year	13	80,503	79,889
Net current assets		25,105	3,878
Total assets less current liabilities		174,009	79,096
Creditors: amounts falling due after more than one year	14	29,244	26,057
Provision for liabilities and charges			
Deferred tax	7	294	433
Net assets excluding pension liability		144,471	52,606
Pension liability	19	1,791	720
Net assets including pension liability		142,680	51,886
Capital and reserves			
Called up share capital	15	39,310	31,362
Share premium account	16	65,083	202
Share-based payment reserve	16	1,427	729
Profit and loss account	16	36,860	19,593
Total shareholders' funds	16	142,680	51,886

The financial statements were approved by the Board of Directors on 25 November 2008.

TDBoyle

T D Boyle, Director

Notes to the financial statements

at 31 December 2006

1. Accounting policies

Basis of preparation

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

Group financial statements

The financial statements present information about the company as an individual undertaking and not about its group. The company is not required to prepare group financial statements under section 228 of the Companies Act 1985.

Cashflow statement

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

Goodwill

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

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition, and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Intangible assets

Intangible assets acquired separately from a business are capitalised at cost. Intangible assets acquired as part of an acquisition of a business are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

Intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected life, as follows:

Freehold land and buildings	30 -50 years
Leasehold improvements	10 years
Plant and machinery	5 - 20 years
Rental equipment	3 - 10 years
Motor vehicles	3 - 4 years
Fixtures and fittings	5 - 10 years

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Revenue recognition

Product turnover is recognised after delivery to, or pick up by, the customer, as this is when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue associated with the rental of tools and equipment is recognised as the tool is used by, or in the possession of, the customer. Revenue for servicing or repairing customer equipment is recognised only after the services have been performed.

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

Gains or losses on disposals of rental equipment

Gains or losses on disposals of offshore rental equipment, which are a recurring feature of the company's business, are considered to be operating items and accordingly are included within operating profit and are separately disclosed within the company's financial statements.

Stocks

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

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

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Deferred taxation

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

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

- provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets
- provision is made for the tax that would arise on remittance of the retained earning of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Leasing and hire purchase commitments

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

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

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

Pensions

The company operated three schemes, a defined contribution pension scheme, a defined benefit scheme (transferred from National Oilwell (U.K.) Limited during 2006) and a hybrid pension scheme which comprised of a defined contribution section with a defined benefit underpin.

The amounts charged to operating profit, regarding the defined benefit scheme, are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest costs and the expected return on the assets are shown as a net amount of other financial costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair values and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond or equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of related deferred tax, is presented separately after other assets on the face of the balance sheet.

Share based payments

In preparing the financial statements for the current year, the company has adopted FRS 20 'Share-based payment'. The adoption of FRS 20 has resulted in a change in accounting policy for share based payment transactions. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions).

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

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Share based payments (continued)

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

A prior year adjustment in respect of the implementation of FRS 20 is disclosed in note 20.

2. Turnover

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

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

	2006	*2005*
	£000	*£000*
Europe	113,408	72,457
North America	17,290	17,508
Asia	43,106	27,952
Africa	13,964	12,904
	187,768	130,821

(b) Turnover of approximately £8,132,000 relates to the former trade of National Oilwell (U.K.) Limited and Russell Sub-Surface Systems Limited transferred in to National Oilwell Varco UK Limited from 31 August 2006.

3. Operating profit

(a) This is stated after charging or (crediting):

		2006	*2005*
		£000	*£000*
Amortisation of intangible assets		533	371
Depreciation of owned fixed assets		4,125	3,773
Operating lease rentals	- land and buildings	1,442	1,211
	- plant and machinery	1,311	1,172
Auditors' remuneration	- audit of the financial statements	160	146
Foreign exchange losses		2,802	532

(b) Operating profit of approximately £254,000 relates to the former trade of National Oilwell (U.K.) Limited and Russell Sub-Surface Systems Limited transferred into National Oilwell Varco UK Limited from 31 August 2006.

Notes to the financial statements

at 31 December 2006

4. Interest payable and similar charges

	2006 £000	As restated 2005 £000
Bank loans and overdrafts	577	265
Amounts due to group undertakings	392	647
Other	6	30
	975	942

5. Staff costs

	2006 £000	As restated 2005 £000
Wages and salaries	28,559	24,132
Social security costs	2,972	2,512
Other pension costs	946	775
	32,477	27,419

Included in wages and salaries is a total expense of equity settled share-based payments of £698,000 (2005 - £372,000)

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

	2006 No.	2005 No.
Production	614	568
Sales	57	65
Administration	109	101
	780	734

6. Directors' emoluments

	2006 £000	2005 £000
Emoluments	384	344
Employer contributions paid to company pension scheme	49	41

	2006 No.	2005 No.
Members of company pension scheme	2	2

Notes to the financial statements

at 31 December 2006

6. Directors' emoluments (continued)

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

	2006	*2005*
	£000	*£000*
Emoluments	243	235
Company contributions paid to money purchase pension schemes	34	30

7. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows:

		As restated
	2006	*2005*
	£000	*£000*
Current tax:		
Corporation tax	5,948	2,949
Group relief	701	402
Less double tax relief	(190)	(96)
	6,459	3,255
Overseas tax	297	96
	6,756	3,351
Adjustments in respect of prior periods	(830)	262
Total current tax (note 7(b))	5,926	3,613
Deferred tax:		
Origination and reversal of timing differences	36	138
Movement on pension accrual	634	215
Deferred tax on share based payments	(155)	(111)
Prior period adjustments on transfers from other group companies	(10)	-
	505	242
	6,431	3,855

Notes to the financial statements

at 31 December 2006

7. Tax (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are reconciled below:

	2006	*As restated* 2005
	£000	*£000*
Profit on ordinary activities before taxation	22,748	12,409
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	6,824	3,723
Effect of:		
Expenses not deductible for tax purposes	85	91
Depreciation in excess of capital allowances	170	(175)
Other timing differences	(148)	(283)
Movement on pension accrual	(634)	(215)
Overseas Taxes payable	297	-
Depreciation on non-qualifying assets	143	99
Adjustments in respect of previous periods	(830)	262
Double tax relief	(190)	-
Share based payments	155	111
Intrinsic value of unexercised shares	54	-
Total current tax (note 7(a))	5,926	3,613

(c) Factors that may affect future tax charges

In his Budget on 21 March 2007 the Chancellor of the Exchequer announced a reduction of 2% in the main rate of corporation tax with effect from 1 April 2008, together with changes to the capital allowances regime. In accordance with accounting standards the effect of the changes on deferred tax balances has not been reflected in these financial statements due to the relevant legislation not having been enacted or substantively enacted at the balance sheet date. The changes announced were included in Finance Act 2007 (except for the changes to the capital allowances regime), which was enacted on 19 July 2007.

Notes to the financial statements

at 31 December 2006

7. Tax (continued)

(d) Deferred tax

Deferred taxation has been fully provided in the financial statements and is included in the balance sheet as follows:

	2006	*As restated 2005*
	£000	*£000*
Included in provisions for liabilities and charges:		
Accelerated capital allowances	1,224	1,240
Other timing differences	(555)	(588)
Share based payments	(375)	(219)
	294	433
Included in defined benefit pension liability (note 19)		
- Tuboscope Holdings 1998 Pension Scheme	165	(309)
- National Oilwell (U.K.) Limited Pension Plan	(933)	-
	(768)	(309)
	(474)	124

	2006
	£000
As at 1 January (as restated)	124
Deferred tax charge in profit and loss account	
Origination and reversal of timing differences	36
Movement on pension accrual	634
Deferred tax on share based payments	(155)
Prior period adjustment	(10)
	629
Transferred from other group companies	(1,510)
Amounts credited to Statement of Total Recognised Gains and Losses	407
At 31 December	(474)

Notes to the financial statements

at 31 December 2006

8. Intangible fixed assets

	Intellectual property £000	*Goodwill £000*	*Total £000*
Cost:			
At 1 January 2006	998	4,412	5,410
Additions	-	238	238
Transfers	433	4,403	4,836
At 31 December 2006	1,431	9,053	10,484
Amortisation:			
At 1 January 2006	592	1,553	2,145
Provided during year	177	356	533
Transfers	433	1,669	2,102
At 31 December 2006	1,202	3,578	4,780
Net book value:			
At 31 December 2006	229	5,475	5,704
At 1 January 2006	406	2,859	3,265

Goodwill includes amounts which arose on the acquisition of the assets, liabilities and business of inspection and non destructive testing of tubular goods from Tuboscope Pipeline Services Limited.

The cost of this earlier transaction amounted to the net assets acquired plus the amortised element of the goodwill which was paid by Tuboscope Pipeline Services Limited when the business was originally acquired from a third party in October 1991. The remaining goodwill is being amortised over the balance of the original 20 years of its estimated useful life.

The cost of intellectual property on the purchase of Maersk Contractors Thermal business during 2004 is being amortised over a maximum five years from the date of purchase.

Goodwill and intellectual property arose on the purchase of Recovery Systems business in 2004, intellectual property is being amortised over a maximum five years from the date of purchase.

Licence fees for technology acquired in 2005 are being amortised over three years.

During 2006 intellectual property of £433,000 (Net Book Value: nil) and goodwill of £4,403,000 (Net Book Value £2,734,000) was transferred when the trade and assets of National Oilwell (U.K.) Limited were transferred to National Oilwell Varco UK Limited. The remaining goodwill will be amortised over a maximum of thirteen years from the transfer date.

Goodwill acquisitions during 2006 relate to the purchase of the business and fixed assets of In-Situ Oilfield Services Limited, (£233,000), a drill pipe threading business and the trade and assets of North Engineering Limited (£5,000). The goodwill is being amortised over a maximum five years from date of purchase.

Notes to the financial statements

at 31 December 2006

9. Tangible fixed assets

	Freehold land and buildings £000	*Leasehold improve- ments £000*	*Plant, machinery and rental equipment £000*	*Motor vehicles £000*	*Fixtures and fittings £000*	*Total*
Cost or valuation:						
At 1 January 2006	16,224	934	34,333	226	2,794	54,511
Additions	156	90	4,953	35	111	5,345
Disposals	-	-	(844)	-	(4)	(848)
Transfer	193	78	3,906	27	1,458	5,662
At 31 December 2006	16,573	1,102	42,348	288	4,359	64,670
Depreciation:						
At 1 January 2006	6,167	523	26,425	143	2,686	35,944
Charge for year	608	113	3,328	14	62	4,125
Disposals	-	-	(393)	-	(4)	(397)
Transfer	142	78	1,564	13	1,396	3,193
At 31 December 2006	6,917	714	30,924	170	4,140	42,865
Net book value:						
At 31 December 2006	9,656	388	11,424	118	219	21,805
At 1 January 2006	10,057	411	7,908	83	108	18,567

The cost of land and buildings includes £14,103,000 (2005 - £13,857,000) of depreciable assets.

Notes to the financial statements

at 31 December 2006

10. Fixed asset investments

	Subsidiary undertakings £000
Cost:	
At 1 January 2006	56,861
Additions	69,940
At 31 December 2006	126,801
Amounts written off:	
At 1 January 2006	3,475
Provided during the year	1,931
At 31 December 2006	5,406
Net book value:	
At 31 December 2006	121,395
At 1 January 2006	53,386

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

Subsidiary undertakings

Name of company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
Tuboscope Vetco Capital Limited	Ordinary shares	100%	Inspection services to the oil & gas industry in Kazakhstan
Elmar Services (Middle East) Limited	Ordinary shares	100%	Sale/rental of oilfield equipment
Elmar Services Pty Limited	Ordinary shares	100%	Sale/rental of oilfield equipment

Notes to the financial statements

at 31 December 2006

10. Fixed asset investments (continued)

Subsidiary undertakings (continued)

Name of company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
Varco Al Mansoori Service Company LLC	Ordinary shares	49%	Sale/Repair of oilfield equipment
Heibei Huayouyiji Tuboscope Coating Co. Limited	Ordinary shares	60%	OCTG Coating
Tuboscope Pipeline Services Limited	Ordinary shares	100%	Pipeline inspection
National Oilwell (U.K.) Limited	Ordinary shares	100%	Trade and assets transferred to National Oilwell Varco UK Limited on 31 August 2006
Russell Sub-Surface Systems Limited	Ordinary shares	100%	

All of the above subsidiary undertakings and joint ventures are incorporated in Great Britain, other than Elmar Services Pty Limited which is incorporated in Australia, Varco Al Mansoori Service Company LLC which is incorporated in United Arab Emirates and Heibei Huayoujiji Tuboscope Coating Co. Limited which is incorporated in the People's Republic of China.

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

11. Stock

	2006	*2005*
	£000	*£000*
Raw materials and consumables	7,335	11,363
Work in progress	14,264	8,670
Finished goods and goods for resale	14,956	8,210
	36,555	28,243

12. Debtors

	2006	*2005*
	£000	*£000*
Trade debtors	46,575	27,689
Amounts owed by other group undertakings	17,708	23,411
Amounts owed by subsidiary undertakings	1,766	1,766
Corporation tax	153	-
Prepayments and accrued income	1,093	707
Other debtors	1,758	13
	69,053	53,586

Notes to the financial statements

at 31 December 2006

12. Debtors (continued)

Amounts falling due after more than one year included above are:

	2006	2005
	£000	£000
Amounts owed by subsidiary undertakings	1,646	1,646

13. Creditors: amounts falling due within one year

	2006	As restated 2005
	£000	£000
Bank overdraft	2,751	-
Trade creditors	8,678	5,058
Amounts due to fellow subsidiary undertakings	54,650	61,399
Amounts due to subsidiary undertakings	1,064	1,064
Other taxes and social security costs	1,880	1,242
Corporation tax	-	431
Group relief	625	408
Overseas tax	130	66
Accruals and deferred income	10,586	9,778
Loan notes payable	-	439
Other creditors	139	4
	80,503	79,889

14. Creditors: amounts falling due after more than one year

	2006	2005
	£000	£000
Amounts due to group undertakings	29,195	26,008
Amounts due to subsidiary undertakings	49	49
	29,244	26,057

15. Share capital

	Authorised		Issued, called up and fully paid	
	2006	2005	2006	2005
	No.	No.	£000	£000
Ordinary shares of £1 each	39,310,164	31,514,555	39,310	31,362

During the year, the company increased its authorised share capital and issued £7,948,188 shares to Tuboscope Holdings Limited as consideration for the investment in National Oilwell (U.K.) Limited, Russell Sub-Surface Systems Limited and Tuboscope Pipeline Services Limited.

Notes to the financial statements
at 31 December 2006

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	*Share premium £000*	*Share based payment reserve £000*	*Profit and loss account £000*	*Total shareholders' funds £000*
At 1 January 2005	20,847	202	-	11,472	32,521
Prior year adjustment			357	(250)	107
At 1 January 2005 (as restated)	20,847	202	357	11,222	32,628
Profit for the year (as restated)	-	-	-	8,554	8,554
Actuarial loss relating to pension scheme	-	-	-	(263)	(263)
Deferred taxation referring to pension scheme	-	-	-	80	80
Share based payment reserve	-	-	372	-	372
Issued during the year	10,515	-	-	-	10,515
At 31 December 2005 (as restated)	31,362	202	729	19,593	51,886
Profit for the year	-	-	-	16,317	16,317
Issued during the year	7,948	64,881	-	-	72,829
Actuarial gain relating to pension scheme	-	-	-	1,356	1,356
Deferred taxation relating to pension scheme	-	-	-	(406)	(406)
Share based payment reserve	-	-	698	-	698
At 31 December 2006	39,310	65,083	1,427	36,860	142,680

17. Contingent liabilities

At 31 December 2006, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £3,646,000 entered into in the normal course of business.

18. Financial commitments

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

	Other		*Land and buildings*	
	2006 £000	*2005 £000*	*2006 £000*	*2005 £000*
Operating leases which expire:				
Within one year	102	268	431	242
In two to five years	365	649	128	-
In over five years	44	47	810	837
	511	964	1,369	1,079

Notes to the financial statements

at 31 December 2006

19. Pension commitments

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

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

On 31 August 2006, the trade, assets and liabilities of National Oilwell (U.K.) Limited were hived up to National Oilwell Varco UK Limited and therefore details of the National Oilwell (U.K.) Limited Pension Plan is now also disclosed in these accounts.

The National Oilwell (U.K.) Limited Pension Plan is a defined benefit plan for the legacy employees of National Oilwell (U.K.) Limited, providing benefits based on final pensionable salaries. The assets of the plan are held separately from those of the group, being invested by managers for this purpose.

(a) Tuboscope Holdings 1998 Pension Scheme

The most recent formal actuarial valuation prepared by a qualified independent actuary of the scheme has an effective date of 5 April 2005. The method used in this valuation is the defined accrued benefits basis. The next formal valuation of the scheme will have an effective date of 5 April 2008.

The valuation showed that the market value of the assets (including the defined contribution section) was £9,647,000 and that the actuarial value of those assets represented 76% of the liability under that valuation date.

The valuation showed that the market value of the assets for the defined benefit section only was £7,772,000 and that the actuarial value of those assets represented 72% of the liability under that valuation date.

At 31 December 2006 the financial statements contain a pension accrual of £nil relating to this scheme.

This pension scheme was closed to new members with effect from 1 March 2002 and a group Personal Pension Plan was initiated.

During 2006, following a review of pension arrangements the company offered members of the Tuboscope Holdings Limited 1998 Pension Scheme enhanced transfer terms. The cost to the company in respect of members who elected to transfer their benefits during the year was £1,338,000. No provision has been made in these financial statements for the post year end costs. The additional costs incurred by the company post year end have been £380,000.

FRS 17 disclosures

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

A full actuarial valuation was carried out at 5 April 2005 and the results were updated to 31 December 2006 and were converted to a basis consistent with FRS17 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2006	*2005*	*2004*	*2003*
Rate of increase in salaries	N/A	N/A	N/A	N/A
Rate of increase of pensions in payment	3.0%	2.9%	2.9%	2.7%
Discount rate	5.1%	4.7%	5.2%	5.4%
Inflation	3.2%	2.9%	2.9%	2.7%

Notes to the financial statements

at 31 December 2006

19. Pension commitments (continued)

(a) Tuboscope Holdings 1998 Pension Scheme (continued)

The balance sheet position for the Plan as calculated under FRS 17 at 31 December 2006 and the expected gross rates of return before allowance for expenses were:

	2006	*2006 £000*	*2005*	*2005 £000*
Equities	7.2%	73	7.0%	5,082
Bonds	5.1%	3,521	4.5%	3,740
Cash	4.5%	36	4.0%	767
Total market value of assets		3,630		9,589
Actuarial value of liability		(3,079)		(10,618)
Surplus/(deficit) in the plan		551		(1,029)
Related deferred tax (liability)/asset		(165)		309
Net pension asset/(liability)		386		(720)

	2006 £000	*2005 £000*
Amount credited to operating costs	956	-

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

	2006 £000	*2005 £000*
Expected return on pension scheme assets	298	492
Interest on pension liabilities	(246)	(483)
Net return	52	9

Analysis of the actuarial loss in the statement of total recognised gains and losses:

	2006 £000	*2005 £000*
Expected return less actual return on pension scheme assets	(235)	753
Experience losses arising on the scheme liabilities	(68)	(68)
Changes in assumptions underlying the present value of the scheme liabilities	100	(948)
	(203)	(263)

Notes to the financial statements

at 31 December 2006

19. Pension commitments (continued)

(a) Tuboscope Holdings Limited 1998 Pension Scheme (continued)

Movement in surplus/(deficit) during the year

	2006	*2005*
	£000	*£000*
At beginning of year	(1,029)	(1,482)
Movement in year:		
Current service costs	956	-
Contributions	775	707
Net return on assets/(interest costs)	52	9
Actuarial loss	(203)	(263)
Surplus/(deficit) in scheme at end of year	551	(1,029)

History of experience gains and losses

	2006	*2005*	*2004*	*2003*	*2002*
Differences between expected and actual returns on scheme assets:					
Amounts (£000)	235	753	351	(391)	910
As a percentage of scheme assets	6.5%	7.8%	6.0%	(6.0)%	15.54%
Experience gains and losses on scheme liabilities:					
Amounts (£000)	(68)	(68)	(119)	437	(48)
As a percentage of scheme liabilities	(2.2)%	(0.6)%	(1.3)%	5.4%	(0.64)%
Total amount recognised in statements of total recognised gains and losses:					
Amount (£000)	(203)	(263)	(386)	(486)	(1,156)
As a percentage of scheme liabilities	(6.6)%	(2.5)%	(4.2)%	(6.0)%	(15.31)%

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

The most recent formal actuarial valuation prepared by a qualified independent actuary of the scheme has an effective date of 1 January 2005. The method used in this valuation is the projected unit method. The next formal valuation of the scheme will have an effective date of 1 January 2008.

The valuation showed that the market value of the assets was £24,806,000 and that the actuarial value of those assets represented 77% of the liability under that valuation date.

At 31 December 2006 the financial statements contain a pension accrual of £nil relating to this scheme.

Notes to the financial statements

at 31 December 2006

19. Pension commitments (continued)

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

FRS 17 disclosures

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

A full actuarial valuation was carried out at 1 January 2005 and the results were updated to 31 December 2006 and were converted to a basis consistent with FRS17 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2006	*2005*	*2004*	*2003*
Rate of increase in salaries	4.5%	4.3%	4.3%	4.2%
Rate of increase of pensions in payment	3.0%	2.8%	2.8%	2.7%
Rate of increase in pensions in deferment	3.0%	2.8%	2.8%	2.7%
Discount rate	5.25%	4.75%	5.3%	5.4%
Inflation assumption	3.0%	2.8%	2.8%	2.7%

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each sheet date were:

				As previously reported in National Oilwell (U.K.) Limited
	2006	*2006*	*2005*	*2005*
	%	*£000*	*%*	*£000*
Equities	7.75	20,721	7.75	19,051
Bonds	4.86	13,419	4.4	12,496
Property	-	-	6.3	1,316
Cash	-	-	3.75	128
Total fair value of assets		34,140		32,991
Present value of scheme liabilities		(37,250)		(37,990)
Deficit in the plan		(3,110)		(4,999)
Related deferred tax asset		933		2,534
Net pension liability		(2,177)		(2,465)

Notes to the financial statements

at 31 December 2006

19. Pension commitments (continued)

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

Analysis of the amount charged to operating costs:

		As previously reported in National Oilwell (U.K.) Limited
	2006	*2005*
	£000	£000
Current service cost	223	232

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

Expected return on pension scheme assets	2,094	1,796
Interest on pension liabilities	(1,784)	(1,827)
Net return/(finance costs)	310	(31)

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

		As previously reported in National Oilwell (U.K.) Limited
	2006	*2005*
	£000	*£000*
Expected return less actual return on pension scheme assets	(75)	2,616
Experience gains arising on the scheme liabilities	(6)	579
Changes in assumptions underlying the present value of the scheme liabilities	1,640	(2,590)
	1,559	605

Notes to the financial statements

at 31 December 2006

19. Pension commitments (continued)

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

Movement in deficit during the year

	2006
	£000
At 1 January	-
Transfer from National Oilwell (U.K.) Limited	(4,999)
Current service costs	(223)
Contributions	243
Net return on assets/(interest cost)	310
Actuarial gain	1,559
Deficit in scheme at end of year	(3,110)

History of experience (gains) and losses

	2006	*2005*	*2004*	*2003*	*2002*
Differences between expected and actual returns on scheme assets					
Amount (£000)	75	(2,616)	(267)	(2,143)	7,260
Percentage of scheme assets	0.22%	7.93%	1.08%	9.15%	35.13%
Experience gains and losses on scheme liabilities					
Amount (£000)	6	(579)	(213)	(10)	1,234
Percentage of scheme liabilities	0.02%	1.52%	0.61%	0.03%	4.09%
Total amount recognised in statements of total recognised gains and losses					
Amount (£000)	(1,559)	(605)	506	(279)	6,742
Percentage of scheme liabilities	4.18%	1.59%	1.45%	0.85%	22.32%

20. Prior year adjustment

Adoption of FRS 20 "Share based payment"

As a result of the adoption of FRS 20 (share based payment), the profit and loss account and balance sheet have been restated to reflect the impact of adopting FRS 20.

	Per 2005 financial statements	*Adoption of FRS 20*	*As Restated 2005*
	£000	*£000*	*£000*
Profit and loss account:			
Administrative expense	12,960	372	13,332
Tax on profit on ordinary activities	3,966	(111)	3,855
Balance sheet:			
Provision for liabilities and charges	652	(219)	433
Profit and loss reserve	20,103	(510)	19,593
Share based payment reserve	-	729	729

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21. Shared based payments

Senior Executive Plan

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

The expense recognised for equity settled share-based payments in respect of employee services received during the year to 31 December 2006 is £698,000 (2005: £372,000).

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	2006	*2006 WAEP*	*2005*	*2005 WAEP*
	No.	*£*	*No.*	*£*
Outstanding as at 1 January	132,477	15.74	82,245	13.42
Granted during the year	74,000	38.18	50,232	19.56
Forfeited during the year	(2,692)	18.07	-	-
Exercised	(24,496)	15.22	-	-
Outstanding at 31 December	179,289	25.04	132,477	15.74
Exercisable at 31 December	61,099	14.14	37,260	13.30

For the share options outstanding as at 31 December 2006, the weighted average remaining contractual life is 8.00 years (2005: 8.17 years).

The weighted average share price at the date of exercise for options exercised was £39.58.

The weighted average fair value of options granted during the year was £13.64 (2005: £9.04). The range of exercise prices for options outstanding at the end of the year was £15.74 - £38.18 (2005: £13.42 - £19.55).

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2006 and 31 December 2005.

	2006	*2005*
Risk free interest rate	4.60%	3.70%
Expected dividend	-	-
Expected option life (years)	3.75	5.0
Forfeiture rate	1.09%	5.0%
Expected volatility	39%	46%

Notes to the financial statements

at 31 December 2006

21. Shared based payments (continued)

The Black-Scholes model is based on the option plan of National Oilwell Varco, Inc. The use of the Black-Scholes model requires the use of extensive actual employee exercise activity data and the use of a number of complex assumptions including expected volatility, risk-free interest rate, expected dividends and expected term.

The actual volatility for traded options on National Oilwell Varco Inc's stock since 11 March 2005 (the Varco merger date) has been used as the expected volatility assumption required in the Black Scholes model.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The dividend yield assumption is based on the history and expectation of divdend payouts. The estimated expected term is based on actual employee exercise activity for National Oilwell Varco Inc, for the past 10 years.

22. Related parties

The company has taken advantage of the exemption provided in Financial Reporting Standard No. 8 "Related Party Disclosures" not to disclose transactions with entities which form part of the group.

23. Ultimate parent undertaking

The company's ultimate parent undertaking is National Oilwell Varco, Inc., a company incorporated in the United States of America.

The consolidated accounts of National Oilwell Varco, Inc., are those of the largest group of which the company is a member and for which group accounts are prepared. Copies of these accounts are available from its principal office at 7909 Parkwood Circle Drive, Houston, Texas 77036, USA.