

National Oilwell Varco UK Limited

Report and Financial Statements

31 December 2007

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COMPANIES HOUSE

National Oilwell Varco UK Limited

Registered No: 873028

Directors

T D Boyle
S G Valentine

Joint Secretaries

K J Leighton
Paull and Williamsons

Auditors

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

Bankers

Barclays Bank Plc
Union Plaza
1 Union Wynd
Aberdeen
AB10 1SL

Solicitors

Paull & Williamsons
Union Plaza
1 Union Wynd
Aberdeen
AB10 1DQ

Registered Office

Martin Street
Audenshaw
Manchester
M34 5JA

Directors' report

The directors present their report and financial statements for the year ended 31 December 2007.

Results and dividends

The profit for the year, after taxation, was £14,279,000 (2006 profit - £16,317,000). 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 company traded as the following divisions: Brandt, Brandt Environmental, Elmar, Hydra Rig, MD Totco, PCE, Tuboscope, Tuboscope Far East, Rig Solutions, Downhole Tools, Distribution Services and Russell Sub-Surface Systems throughout the year. The trade and assets of Toolbox Drilling Solutions Limited was transferred to National Oilwell Varco UK Limited on 1 July 2007.

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

	2007	2006	Change
Turnover £000	240,791	187,768	28%
Profit on ordinary activities before taxation £000	19,440	22,748	(14%)
Shareholders' funds £000	158,218	142,680	11%
Current assets as a percentage of current liabilities	133%	131%	2%
Average number of employees	876	780	12%

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 on a full year basis compared to four months during 2006.

Profit before taxation decreased in the year due to product mix and higher costs of raw materials and increased labour costs.

Shareholders' funds increased by 11% due to the retained earnings increase.

Using the current year profits the company was able to proceed with settling balances due to fellow group companies to a greater extent than 2006 and increase stock levels to more adequately support the growing business.

Employee levels increased during the year due to the entity re-organisation in 2006 and increased turnover.

The company increased its investment in Heibei Huayouyiji Tuboscope Coating Co. Limited in China to support market demand.

Directors' report

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 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 low as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. Changes in the global credit markets have resulted in more stringent reviews over the viability of these banks.

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.

Future developments

The directors believe that turnover and profitability of the company will continue to increase in 2008 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

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.

In 2008, the company's subsidiary Varco CIS acquired the shares in Istok, a distribution company operating in Sakhalin Island.

In 2009, the company acquired Anson Limited, a company which designs and manufactures flowline and valve equipment for the oil and gas industry.

Directors' report

Directors and their interests

The directors at 31 December 2007 were as follows:

S G Valentine
T D Boyle

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

In addition to the above, Mr P J Stuart served as a director until his resignation on 28 February 2007.

Political and charitable donations

There were no political or charitable donations in the year (2006 - £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.

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



T D Boyle
Director

21 APRIL 2009

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 2007 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 22. 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.

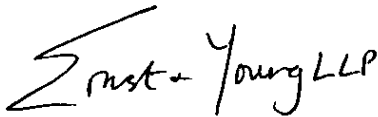
Independent auditors' report

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 2007 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
Registered Auditor
Aberdeen

21, April, 2009

Profit and loss account

for the year ended 31 December 2007

	<i>Notes</i>	<i>2007</i> <i>£000</i>	<i>2006</i> <i>£000</i>
Turnover	2	240,791	187,768
Cost of sales		192,250	147,212
Gross profit		48,541	40,556
Selling and distribution expenses		4,702	4,921
Administrative expenses		23,970	13,493
Operating profit	3	19,869	22,142
(Loss)/profit on disposal of tangible fixed assets		(102)	19
Income from shares in group undertakings		633	2,269
Amounts written off fixed asset investments	10	(390)	(1,931)
Interest receivable		117	862
Interest payable	4	(1,004)	(975)
Other finance income	19	317	362
Profit on ordinary activities before taxation		19,440	22,748
Taxation on profit on ordinary activities	7	5,161	6,431
Profit retained for the financial year	16	14,279	16,317

Turnover in 2007 of approximately £875,000 and operating profit of £320,000 relates to the former trade of Toolbox Drilling Systems Limited transferred during the year.

Statement of total recognised gains and losses

for the year ended 31 December 2007

	2007	2006
	£000	£000
<i>Profit for the financial year</i>	14,279	16,317
Actuarial gain relating to the pension scheme (note 19)	1,136	1,356
Deferred taxation attributable the actuarial gain	(318)	(406)
<i>Total gains and losses recognised in the year</i>	<u>15,097</u>	<u>17,267</u>

Balance sheet

at 31 December 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Intangible assets	8	4,967	5,704
Tangible assets	9	25,453	21,805
Investments	10	123,284	121,395
		<u>153,704</u>	<u>148,904</u>
Current assets			
Stock	11	50,189	36,555
Debtors	12	81,270	69,053
Cash at bank and in hand		9,051	-
		<u>140,510</u>	<u>105,608</u>
Creditors: amounts falling due within one year	13	105,767	80,503
Net current assets		<u>34,743</u>	<u>25,105</u>
Total assets less current liabilities		<u>188,447</u>	<u>174,009</u>
Creditors: amounts falling due after more than one year	14	29,244	29,244
Provision for liabilities and charges			
Deferred tax	7	297	294
Net assets excluding pension liability		<u>158,906</u>	<u>144,471</u>
Pension liability	19	688	1,791
Net assets including pension liability		<u>158,218</u>	<u>142,680</u>
Capital and reserves			
Called up share capital	15	39,310	39,310
Share premium account	16	65,083	65,083
Share-based payment reserve	16	1,868	1,427
Profit and loss account	16	51,957	36,860
Total shareholders' funds	16	<u>158,218</u>	<u>142,680</u>

The financial statements were approved by the Board of Directors on 21 APRIL 2009.


T D Boyle, Director

Notes to the financial statements

at 31 December 2007

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 2007

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.

Segmental reporting

The directors consider that no disclosure should be made of the geographical analysis of profit on ordinary activities before taxation and net assets as it is considered that disclosure of this information would be seriously prejudicial to the interests of the group. All turnover, profit on ordinary activities before taxation and net assets are attributable to the supply of materials, equipment and services for the oil and gas industry.

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
- 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 2007

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 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

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 2007

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.

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:

	2007 £000	2006 £000
Europe	162,452	113,408
North America	19,999	17,290
Asia	42,583	43,106
Africa	15,757	13,964
	<u>240,791</u>	<u>187,768</u>

- (b) Turnover in 2007 of approximately £875,000 relates to the former trade of Toolbox Drilling Systems Limited transferred into National Oilwell Varco UK Limited from 1 July 2007.
- (c) The directors consider that no disclosure should be made of the geographical analysis of profit on ordinary activities before taxation and net assets as it is considered that disclosure of this information would be seriously prejudicial to the interests of the group. All turnover, profit on ordinary activities before taxation and net assets are attributable to the supply of materials, equipment and services for the oil and gas industry.

3. Operating profit

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

	2007 £000	2006 £000
Amortisation of intangible assets	787	533
Depreciation of owned fixed assets	4,615	4,125
Operating lease rentals - land and buildings	2,118	1,442
- plant and machinery	1,096	1,311
Auditors' remuneration - audit of the financial statements	171	160
	<u></u>	<u></u>

- (b) Operating profit in 2007 of approximately £320,000 relates to the former trade of Toolbox Drilling Systems Limited transferred into National Oilwell Varco UK Limited from 1 July 2007.

Notes to the financial statements

at 31 December 2007

4. Interest payable and similar charges

	2007	2006
	£000	£000
Bank loans and overdrafts	664	577
Amounts due to group undertakings	340	392
Other	-	6
	<u>1,004</u>	<u>975</u>

5. Staff costs

	2007	2006
	£000	£000
Wages and salaries	33,325	28,559
Social security costs	3,567	2,972
Other pension costs	1,031	946
	<u>37,923</u>	<u>32,477</u>

Included in wages and salaries is a total expense of equity settled share-based payments of £441,000 (2006 - £698,000)

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

	2007	2006
	No.	No.
Production	703	614
Sales	61	57
Administration	112	109
	<u>876</u>	<u>780</u>

6. Directors' emoluments

	2007	2006
	£000	£000
Emoluments	<u>490</u>	<u>384</u>
Employer contributions paid to company pension scheme	<u>331</u>	<u>49</u>
	<u>821</u>	<u>433</u>
	2007	2006
	No.	No.
Members of company pension scheme	<u>2</u>	<u>2</u>

Notes to the financial statements

at 31 December 2007

6. Directors' emoluments (continued)

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

	2007 £000	2006 £000
Emoluments	294	243
Company contributions paid to money purchase pension schemes	309	34
	2007 No.	2006 No.
Number of directors who received shares in respect of qualifying services	2	2
Number of directors who exercised share options	2	0

7. Tax

(a) Tax charge on profit on ordinary activities:

The tax charge is made up as follows:

	2007 £000	2006 £000
<i>Current tax:</i>		
Corporation tax	4,674	5,948
Group relief	846	701
Less double tax relief	(1,118)	(190)
	4,402	6,459
Overseas tax	904	297
	5,306	6,756
Adjustments in respect of prior periods	(330)	(830)
Total current tax (note 7(b))	4,976	5,926
<i>Deferred tax:</i>		
Origination and reversal of timing differences	121	36
Movement on pension accrual	332	634
Deferred tax on share based payments	(150)	(155)
Prior period adjustments on transfers from other group companies	-	(10)
Reversal of provision on IBAs	(118)	-
	185	505
	5,161	6,431

Notes to the financial statements

at 31 December 2007

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% (2006 – 30%). The differences are reconciled below:

	2007 £000	2006 £000
Profit on ordinary activities before taxation	19,440	22,748
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	5,832	6,824
Effect of:		
(Income not taxable)/expenses not deductible for tax purposes	(369)	525
Capital allowances in excess of depreciation	(67)	170
Other timing differences	60	(573)
Adjustments in respect of previous periods	(330)	(830)
Double tax relief	(149)	(190)
Tax credit	(1)	-
Total current tax (note 7(a))	4,976	5,926

(c) Factors that may affect future tax charges:

UK Corporation tax is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. A reduction in the UK tax rate from 30% to 28% will apply from 1 April 2008. This will impact the current tax charge for the year to 31 December 2008 and has been applied to the deferred tax calculations in these financial statements.

Notes to the financial statements

at 31 December 2007

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:

	2007 £000	2006 £000
Included in provisions for liabilities and charges:		
Accelerated capital allowances	1,394	1,224
Other timing differences	(574)	(555)
Share based payments	(523)	(375)
	<u>297</u>	<u>294</u>
Included in defined benefit pension liability (note 19)		
- Tuboscope Holdings 1998 Pension Scheme	38	165
- National Oilwell (U.K.) Limited Pension Plan	(306)	(933)
	<u>(268)</u>	<u>(768)</u>
	<u>29</u>	<u>(474)</u>
	<u>2007</u>	<u>2006</u>
	<u>£000</u>	<u>£000</u>
As at 1 January	(474)	
Deferred tax charge in profit and loss account:		
Origination and reversal of timing differences	392	
Reversal of provision on IBAs	(118)	
Adjustments in respect of prior years	(89)	
	<u>(289)</u>	
Amounts credited to Statement of Total Recognised Gains and Losses	318	
	<u>29</u>	

The company has an unrecognised deferred tax asset at 31 December 2007 of £62,000 in relation to capital losses.

Notes to the financial statements

at 31 December 2007

8. Intangible fixed assets

	<i>Intellectual property £000</i>	<i>Goodwill £000</i>	<i>Total £000</i>
Cost:			
At 1 January 2007	1,431	9,053	10,484
Additions	50	-	50
At 31 December 2007	1,481	9,053	10,534
Amortisation:			
At 1 January 2007	1,202	3,578	4,780
Provided during year	222	565	787
At 31 December 2007	1,424	4,143	5,567
Net book value:			
At 31 December 2007	57	4,910	4,967
At 1 January 2007	229	5,475	5,704

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.

Licence fees for technology acquired in 2007 are being amortised over one year.

Notes to the financial statements

at 31 December 2007

9. Tangible fixed assets

	<i>Freehold land and buildings</i>	<i>Leasehold improve- ments</i>	<i>Plant, machinery and rental equipment</i>	<i>Motor vehicles</i>	<i>Fixtures and fittings</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost or valuation:						
At 1 January 2007	16,573	1,102	42,348	288	4,359	64,670
Additions	135	271	8,060	21	119	8,606
Disposals	-	(3)	(2,443)	(47)	(317)	(2,810)
Transfer	(39)	39	973	(57)	17	933
At 31 December 2007	16,669	1,409	48,938	205	4,178	71,399
Depreciation:						
At 1 January 2007	6,917	714	30,924	170	4,140	42,865
Charge for year	585	120	3,762	72	76	4,615
Disposals	-	(3)	(1,765)	(46)	(276)	(2,090)
Transfer	(38)	38	561	(8)	3	556
At 31 December 2007	7,464	869	33,482	188	3,943	45,946
Net book value:						
At 31 December 2007	9,205	540	15,456	17	235	25,453
At 1 January 2007	9,656	388	11,424	118	219	21,805

The cost of land and buildings includes £14,199,000 (2006 - £14,103,000) of depreciable assets.

10. Fixed asset investments

	<i>Subsidiary undertakings</i>
	<i>£000</i>
Cost:	
At 1 January 2007	126,801
Additions	2,279
At 31 December 2007	129,080
Amounts written off:	
At 1 January 2007	5,406
Provided during the year	390
At 31 December 2007	5,796
Net book value:	
At 31 December 2007	123,284
At 1 January 2007	121,395

Notes to the financial statements

at 31 December 2007

10. Fixed asset investments (continued)

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

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
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
Varco Al Mansoori Service Company LLC	Ordinary shares	49%	Sale/repair of oilfield equipment
Hebei 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%	Dormant
Russell Sub-Surface Systems Limited	Ordinary shares	100%	Dormant

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 Hebei Huayouyiji 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.

Notes to the financial statements

at 31 December 2007

11. Stock

	2007 £000	2006 £000
Raw materials and consumables	12,910	7,335
Work in progress	13,789	14,264
Finished goods and goods for resale	23,490	14,956
	<u>50,189</u>	<u>36,555</u>

12. Debtors

	2007 £000	2006 £000
Trade debtors	57,599	46,575
Amounts owed by other group undertakings	15,673	17,708
Amounts owed by subsidiary undertakings	1,766	1,766
Corporation tax	2,942	153
Prepayments and accrued income	1,252	1,093
Other debtors	2,038	1,758
	<u>81,270</u>	<u>69,053</u>

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

	2007 £000	2006 £000
Amounts owed by subsidiary undertakings	<u>1,646</u>	<u>1,646</u>

13. Creditors: amounts falling due within one year

	2007 £000	2006 £000
Bank overdraft	22,018	2,751
Trade creditors	6,488	8,678
Payments received in advance	4,560	-
Amounts due to fellow subsidiary undertakings	52,888	54,650
Amounts due to subsidiary undertakings	1,064	1,064
Other taxes and social security costs	2,122	1,880
Group relief	1,266	625
Overseas tax	724	130
Accruals and deferred income	14,637	10,586
Other creditors	-	139
	<u>105,767</u>	<u>80,503</u>

Notes to the financial statements

at 31 December 2007

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

	2007 £000	2006 £000
Amounts due to group undertakings	29,195	29,195
Amounts due to subsidiary undertakings	49	49
	<u>29,244</u>	<u>29,244</u>

15. Share capital

	2007 No.	Authorised 2006 No.	Issued, called up and fully paid 2007 £000	2006 £000
Ordinary shares of £1 each	39,310,164	39,310,164	39,310	39,310

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 2006	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	<u>39,310</u>	<u>65,083</u>	<u>1,427</u>	<u>36,860</u>	<u>142,680</u>
Profit for the year	-	-	-	14,279	14,279
Actuarial gain relating to pension scheme	-	-	-	1,136	1,136
Deferred taxation relating to pension scheme	-	-	-	(318)	(318)
Share based payment reserve	-	-	441	-	441
At 31 December 2007	<u>39,310</u>	<u>65,083</u>	<u>1,868</u>	<u>51,957</u>	<u>158,218</u>

Notes to the financial statements

at 31 December 2007

17. Contingent liabilities

At 31 December 2007, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £3,729,000 entered into in the normal course of business.

18. Financial commitments

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

	<i>Other</i>		<i>Land and buildings</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	38	102	399	431
In two to five years	556	365	415	128
In over five years	5	44	1,165	810
	<u>599</u>	<u>511</u>	<u>1,979</u>	<u>1,369</u>

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.

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 2008. The method used in this valuation was the ongoing valuation basis.

The valuation showed that the market value of the assets (including the defined contribution section) was £6,209,000 and that the actuarial value of those assets represented 100% of the liability under that valuation date.

The valuation showed that the market value of the assets for the defined benefit section only was £4,289,000 and that the actuarial value of those assets represented 100% of the liability under that valuation date.

At 31 December 2007 the financial statements contain a pension accrual of £nil relating to this scheme.

Notes to the financial statements

at 31 December 2007

19. Pension commitments (continued)

(a) Tuboscope Holdings 1998 Pension Scheme (continued)

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

During 2007, the pensions of the remaining defined benefit members were secured by purchasing annuities and deferred annuities. Having secured the benefits accruing to the members, the Trustees formally resolved to wind up the scheme on 19 August 2008 and policies were assigned to individual members in March 2009. It is anticipated that the scheme will be wound up in mid 2009.

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 2007 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):

	2007	2006	2005	2004
Rate of increase in salaries	N/A	N/A	N/A	N/A
Rate of increase of pensions in payment	3.2%	3.0%	2.9%	2.9%
Discount rate	5.6%	5.1%	4.7%	5.2%
Inflation	3.4%	3.2%	2.9%	2.9%

The balance sheet position for the Plan as calculated under FRS 17 at 31 December 2007 and the expected gross rates of return before allowance for expenses were:

	2007 %	2007 £000	2006 %	2006 £000
Equities	7.7	-	7.2	73
Bonds	5.6	-	5.1	3,521
Cash	5.0	137	4.5	36
Insurance	5.6	3,292	-	-
Total market value of assets		3,429		3,630
Actuarial value of liability		(3,293)		(3,079)
Surplus in the plan		136		551
Related deferred tax liability		(38)		(165)
Net pension asset		98		386

Notes to the financial statements

at 31 December 2007

19. Pension commitments (continued)

(a) Tuboscope Holdings 1998 Pension Scheme (continued)

	2007 £000	2006 £000
Amount charged to operating costs	-	956
Amount credited/(charged) to other net finance income/(costs):		
	2007 £000	2006 £000
Expected return on pension scheme assets	181	298
Interest on pension liabilities	(157)	(246)
Net return	24	52

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

	2007 £000	2006 £000
Expected return less actual return on pension scheme assets	(602)	(235)
Experience losses arising on the scheme liabilities	(224)	(68)
Changes in assumptions underlying the present value of the scheme liabilities	-	100
	(826)	(203)

Movement in surplus/(deficit) during the year:

	2007 £000	2006 £000
At beginning of year	551	(1,029)
Movement in year:		
Current service costs	-	956
Contributions	387	775
Net return on assets	24	52
Actuarial loss	(826)	(203)
Surplus in scheme at end of year	136	551

Notes to the financial statements

at 31 December 2007

19. Pension commitments (continued)

(a) Tuboscope Holdings 1998 Pension Scheme (continued)

History of experience gains and losses:

	2007	2006	2005	2004	2003
Differences between expected and actual returns on scheme assets:					
Amounts (£000)	602	235	753	351	(391)
As a percentage of scheme assets	17.6%	6.5%	7.8%	6.0%	(6.0)%
Experience gains and losses on scheme liabilities:					
Amounts (£000)	(224)	(68)	(68)	(119)	437
As a percentage of scheme liabilities	6.8%	(2.2)%	(0.6)%	(1.3)%	5.4%
Total amount recognised in statements of total recognised gains and losses:					
Amount (£000)	(826)	(203)	(263)	(386)	(486)
As a percentage of scheme liabilities	25.1%	(6.6)%	(2.5)%	(4.2)%	(6.0)%

(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 2007 the financial statements contain a pension accrual of £nil relating to this scheme.

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 2007 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):

	2007	2006	2005	2004
Rate of increase in salaries	5.0%	4.5%	4.3%	4.3%
Rate of increase of pensions in payment	3.25%	3.0%	2.8%	2.8%
Rate of increase in pensions in deferment	3.25%	3.0%	2.8%	2.8%
Discount rate	5.92%	5.25%	4.75%	5.3%
Inflation assumption	3.25%	3.0%	2.8%	2.8%

Notes to the financial statements

at 31 December 2007

19. Pension commitments (continued)

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

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:

	2007 %	2007 £000	2006 %	2006 £000
Equities	7.75	20,657	7.75	20,721
Bonds	5.06	14,551	4.86	13,419
Total fair value of assets		35,208		34,140
Present value of scheme liabilities		(36,300)		(37,250)
Deficit in the plan		(1,092)		(3,110)
Related deferred tax asset		306		933
Net pension liability		(786)		(2,177)

Analysis of the amount charged to operating costs:

	2007 £000	2006 £000
Current service cost	388	223
Amount credited/(charged) to other net finance income/(costs):		
Expected return on pension scheme assets	2,231	2,094
Interest on pension liabilities	(1,938)	(1,784)
Net return	293	310

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

	2007 £000	2006 £000
Expected return less actual return on pension scheme assets	(1,163)	(75)
Experience gains arising on the scheme liabilities	1,325	(6)
Changes in assumptions underlying the present value of the scheme liabilities	1,800	1,640
	1,962	1,559

Notes to the financial statements

at 31 December 2007

19. Pension commitments (continued)

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

Movement in deficit during the year:

	2007 £000	2006 £000
At beginning of year	(3,110)	-
Movement in year:		
Transfer from National Oilwell (U.K.) Limited	-	(4,999)
Current service costs	(388)	(223)
Contributions	151	243
Net return on assets/(interest cost)	293	310
Actuarial gain	1,962	1,559
Deficit in scheme at end of year	(1,092)	(3,110)

History of experience (gains) and losses:

	2007	2006	2005	2004	2003
Differences between expected and actual returns on scheme assets					
Amount (£000)	1,163	75	(2,616)	(267)	(2,143)
Percentage of scheme assets	3.30%	0.22%	7.93%	1.08%	9.15%
Experience gains and losses on scheme liabilities					
Amount (£000)	(1,325)	6	(579)	(213)	(10)
Percentage of scheme liabilities	3.65%	0.02%	1.52%	0.61%	0.03%
Total amount recognised in statements of total recognised gains and losses					
Amount (£000)	(1,962)	(1,559)	(605)	506	(279)
Percentage of scheme liabilities	5.40%	4.18%	1.59%	1.45%	0.85%

20. 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 2007 is £441,000 (2006 - £698,000).

Notes to the financial statements

at 31 December 2007

20. Shared based payments (continued)

On 22 August 2007, National Oilwell Varco, Inc. Board of Directors approved a two-for-one share split in the form of a stock dividend to the Company's stockholders of record on 7 September 2007, with a distribution of shares on 28 September 2007. The total number of Authorised common stock shares and associated par value were unchanged by this action.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year. The table reflects the two-for-one share split for both years.

	2007	2007	2006	2006
	No.	WAEP £	No.	WAEP £
Outstanding as at 1 January	358,578	12.52	264,954	7.87
Granted during the year	51,600	17.97	148,000	19.09
Forfeited during the year	(35,736)	18.12	(5,384)	9.04
Exercised	(145,282)	9.03	(48,992)	7.61
Outstanding at 31 December	229,160	15.09	358,578	12.52
Exercisable at 31 December	87,674	11.48	122,198	7.07

For the share options outstanding as at 31 December 2007, the weighted average remaining contractual life is 7.82 years (2006 - 8.00 years).

The weighted average share price at the date of exercise for options exercised was £21.06 (2006 - £19.79).

The weighted average fair value of options granted during the year was £6.11 (2006 - £6.82). The range of exercise prices for options outstanding at the end of the year was £6.12 - £19.09 (2006 - £7.87 - £19.09).

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 2007 and 31 December 2006.

	2007	2006
Risk free interest rate	4.6%	4.6%
Expected dividend	-	-
Expected option life (years)	3.5	3.75
Expected volatility	39%	39%

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.

Notes to the financial statements

at 31 December 2007

20. Shared based payments (continued)

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 dividend payouts. The estimated expected term is based on actual employee exercise activity for National Oilwell Varco Inc, for the past 10 years.

Restricted Shares

During 2007, National Oilwell Varco, Inc. began issuing restricted stock awards ("RSA") with no exercise price to officers and key employees in addition to share options. The Company granted restricted shares to key employees on 1 March 2007 at a fair value of £17.97. These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested.

The following table illustrates the number and weighted average grant date fair value (WAGDFV) of, and movements in, restricted shares during the year.

	2007 No.	2007 WAEP £
Outstanding as at 1 January	-	-
Granted during the year	17,200	17.97
Forfeited during the year	-	-
Exercised	-	-
Outstanding at 31 December	17,200	17.97
Exercisable at 31 December	-	-

The weighted average vesting period is 2.16 years (2006 – nil).

21. 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.

22. 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.