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Vetco International Limited

Directors' report and consolidated financial statements

For the year ended 31 December 2006

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Vetco International Limited

Directors' report and consolidated financial statements

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Directors' report

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

Principal activities

The principal activity of the company is that of a holding company

The group contains two operating segments, Vetco Gray and Vetco Aibel, both of which serve the oilfield service and equipment sectors of the global oil and gas industry Vetco Gray manufactures and constructs drilling production equipment and subsea production systems Vetco Aibel engineers, constructs, maintains and modifies production facilities, including floating production systems

The company was incorporated on 8 July 2003 The acquisition of the group's business took place on 12 July 2004

Results and dividends

Enhanced business review

<u>Key financial results</u>

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Turnover	**3,129,556**	2,466,143
Gross profit	**417,557**	375,835
Gross profit percentage	**13.3%**	15 2%
Operating profit	**55,404**	84,379
Loss after taxation	**122,354**	113,551

The markets served by both the Vetco Gray and Vetco Aibel operations continued to be strong during 2006, resulting in an increase in year-over-year turnover of 26 9% and year-over-year gross profit of 11 1% The increase in gross profit did not follow the increase in turnover primarily as a result of increases in provisions for contract losses, warranties, penalties and litigation During the year, the group charged $65,419,000 for provisions related to foreseeable losses on open contracts, estimated repairs and replacement of goods sold to customers, liquidated damages for non-performance on contracts and other contract-related provisions which included costs not yet due on contracts and provisions for litigation

Operating profit declined 34 3% despite the increase in turnover and gross profit principally as a result of exceptional costs incurred during the year A total of $32,913,000 was charged to the profit and loss account during 2006 for the costs of the sale transaction to General Electric ($5,735,000), costs of an abandoned U S listing and fines paid pursuant to a plea and deferred prosecution agreement with the U S Department of Justice for violations of the U S Foreign Corrupt Practices Act following voluntarily reporting of the violations by the company ($26,004,000)

Vetco International Limited

Directors' report (continued)

The key risks facing the business include

- declines in global oil and gas prices,
- reduction in customer demand for products due to changes in drilling and production strategies,
- political and civil unrest in countries in which the company operates,
- increases in material costs (particularly steel and metal alloys),
- product warranty and litigation claims, and
- project schedule delays that result in liquidated damages payments

The directors do not recommend the payment of a dividend (*2005 $nil*)

Research and development costs

The group undertook research and development activities during the year amounting to $23,268,000 (*2005 $24,303,000*) These amounts have been written off to the profit and loss account

Derivative financial instruments

The group entered into derivative financial instruments to manage its exposure to interest rate and foreign currency risks associated with the management of its funding structure

Directors liability insurance premiums

The group maintains a directors' and officers' liability insurance policy for the benefit of its directors and officers During the year, premiums totaling $389,622 were paid for this policy

Charitable contributions

The company made contributions totaling $50,101 (*2005 $*nil) to registered charities during the year No political contributions were made during the year (*2005 $nil*)

Reorganisation of the group

In December 2006, a portion of the group was reorganised so as to achieve greater legal entity separation between the Vetco Gray and Vetco Aibel businesses The reorganisation included a number of intragroup transactions that had no impact on the company or the consolidated group

Post balance sheet events

<u>Sale of the company</u>

On 23 February 2007, the following transactions occurred

- Vetco Group Limited assumed certain third party debts and debts (being debts associated with the Vetco Gray business) owed by the Aibel Group Limited to other group companies, totalling $149,303,000, by way of a capital contribution,

Vetco International Limited

Directors' report (continued)

- Aibel Group Limited declared a dividend to the Vetco Group Limited which comprised the transfer of receivables (being receivables associated with the Vetco Gray business) due from third parties and other group companies, totalling $328,934,000, and

- Aibel Group Limited sold the shares of Vetco Gray Holding Limited to Vetco Group Limited for their fair value of $1,850,578,000

After these transactions, the then-shareholders of the company sold all the issued share capital in the company to General Electric ("GE"), and Vetco Group Limited sold the shares in Aibel Group Limited (holding the Vetco Aibel business) to a company associated with the former shareholders of the company

Reorganisation of Vetco Gray business following the GE acquisition

In August 2007, the following transactions involving the company and its subsidiaries took place (all sales were for cash and at fair value)

- On 16 August 2007, Vetco International Holding 4 sold its shares in Vetco International Holding (Delaware) to the company,

- On 17 August 2007, GE sold the shares in the company to IGE USA Group Ltd , a UK holding company in the General Electric UK group, and

- Also on 17 August 2007, the company sold the shares in Vetco Group Limited to IGE USA Group Limited, which shortly afterwards sold the shares to its wholly owned subsidiary, International General Electric (USA), another UK holding company in the General Electric UK group

Directors and their interests

The following directors held office during the year and up to the date of the approval of these accounts and, according to the register of directors' interests, those who held office at the end of the year had the following interests in the shares of the company

		Common Ordinary At 31/12/05 and 31/12/06	*Preferred Ordinary At 31/12/05 and 31/12/06*
Director			
J Arney	(resigned 23 February 2007)	-	-
M Gumienny	(resigned 23 February 2007)	-	-
J Kennedy	(resigned 4 May 2006)	N/A	N/A
A Chavkin	(resigned 23 February 2007)	-	-
B Martin	(resigned 18 July 2005)	-	-
G Sword	(resigned 23 February 2007)	-	-
M Dickinson	(resigned 23 February 2007)	-	-
P Loyd	(resigned 23 February 2007)	43,366	-[1]
G Hearne	(resigned 23 February 2007)	24,092	-
E Mykelbust	(resigned 23 February 2007)	24,092	-
P Goode	(resigned 23 February 2007)	1[2]	-

Vetco International Limited

Directors' report (continued)

A Tripodo	(resigned 23 February 2007)	9,637	4,160
D Hang	(resigned 3 May 2006)	-	-
W Stuek	(appointed 3 May 2006, resigned 23 February 2007)	-	-
S Spence	(appointed 8 December 2006, resigned 23 February 2007)	14,455[3]	-
D Tucker	(appointed 23 February 2007)	-	-
D Larssen	(appointed 23 February 2007)	-	-
T Ackhurst	(appointed 23 February 2007, resigned 3 August 2007)	-	-

[1] Two entities collectively own 83,212 preferred ordinary shares on behalf of P Loyd

[2] A discretionary trust established for the benefit of P Goode's family also holds 96,369 of common ordinary shares

[3] S Spence was also allocated 7,227 75 shares held by the Vetco Employee Benefit Trust on 19 July 2005 and an additional 514 held by the Vetco Employee Benefit Trust on 23 February 2007

Certain of the directors held deep discount bonds in the company's immediate subsidiary undertaking, Vetco Group Limited during 2005 All of those deep discount bonds held by the directors, and the trust for J Kennedy's family, were redeemed during the year ended 31 December 2005

According to the register of directors' interests, no rights to subscribe for shares in or deep discount bonds of company or its subsidiary undertakings were granted to any of the directors or their immediate families, or exercised by them, during the financial year

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

KPMG LLP was reappointed as auditor at the company's annual general meeting held 7 April 2006 and was reappointed as auditor at a extraordinary general meeting held 31 October 2006 On 5 July 2007 the company held an extraordinary general meeting which passed elective resolutions dispensing with the obligation to appoint the auditors annually in accordance with section 386 of the Companies Act KPMG LLP is deemed to be the company's auditor unless otherwise notified

On behalf of the Board,

D Larsse

D Larssen
Director
NOV 9, 2007

25 Green Street
London
W1K 7AX

Vetco International Limited

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each accounting period Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards The financial statements are required by law to give a true and fair view of the state of affairs of the company and group and of the profit and loss of the group for that period In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,

- make judgments and estimates that are reasonable and prudent,

- state whether applicable accounting policies have been followed, subject to any material departures disclosed and explained in the financial statements,

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

Under applicable law the directors are also responsible for preparing a directors' report that complies with that law

KPMG LLP

100 Temple Street
Bristol
BS1 6AG
United Kingdom

Report of the independent auditors to the members of Vetco International Limited

We have audited the group and parent company financial statements (the "financial statements") of Vetco International Limited for the year ended 31 December 2006 which comprise the Consolidated profit and loss account, the Consolidated and Company balance sheets, the Consolidated statements of total recognised gains and losses, the Consolidated cash flow statement, and the related notes These financial statements have been prepared under 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 auditor's 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 Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5

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 group's and 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

Report of the independent auditors to the members of Vetco International Limited (*continued*)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2006 and of the group's loss 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

kpmg llp

KPMG LLP
Chartered Accountants
Registered Auditor

16 Nov 2007

Vetco International Limited
Consolidated profit and loss account
for the year ended 31 December 2006

	Note	Continuing Operations $000	Discontinued Operations $000	Eliminations $000	Consolidated $000
Turnover Group and share of joint ventures		1,603,260	1,574,566	(9,747)	3,168,079
Less share of joint ventures' turnover		-	(38,523)		(38,523)
	2, 3	1,603,260	1,536,043		3,129,556
Cost of sales		(1,264,522)	(1,457,224)	9,747	(2,711,999)
Gross profit		338,738	78,819		417,557
Sales and distribution costs		(87,627)	(12,536)		(100,163)
Administrative expenses		(151,639)	(53,881)		(205,520)
Administrative expenses – amortisation	*11*	(19,474)	(8,695)		(28,169)
Administrative expenses – exceptional items	*5*	(32,913)	-		(32,913)
Total administrative expenses		(204,026)	(62,576)		(266,602)
Group operating profit		47,085	3,707		50,792
Share of operating profit of joint ventures		-	4,612		4,612
Total operating profit	*4*	47,085	8,319		55,404
Interest receivable and similar income					
Group	*8*				26,303
Joint ventures					124
Interest payable and similar charges					
Group	*9*				(153,828)
Joint ventures					(773)
Profit/(loss) on ordinary activities before taxation					(72,770)
Tax on profit/(loss) on ordinary activities	*10*				(47,349)
Profit/(loss) on ordinary activities after taxation					(120,119)
Equity minority interest					(2,235)
Profit/(loss) for the financial year	*21*				(122,354)

The notes on pages 15 to 55 form part of these financial statements

Vetco International Limited
Consolidated profit and loss account
for the year ended 31 December 2005

	Note	Continuing Operations $000	Discontinued Operations $000	Eliminations $000	Consolidated $000
Turnover Group and share of joint ventures		1,325,607	1,177,480	(10,086)	2,493,001
Less share of joint ventures turnover		-	(26,858)		(26,858)
	2, 3	1,325,607	1,150,622		2,466,143
Cost of sales		(1,051,770)	(1,048,624)	10,086	(2,090,308)
Gross profit		273,837	101,998		375,835
Sales and distribution costs		(70,123)	(15,153)		(85,276)
Administrative expenses		(140,010)	(41,216)		(181,226)
Administrative expenses – amortisation	*11*	(19,340)	(8,644)		(27,984)
Administrative expenses – exceptional items	*5*	-	-		-
Total administrative expenses		(159,350)	(49,860)		(209,210)
Group operating profit		44,364	36,985		81,349
Share of operating profit of joint ventures		-	3,030		3,030
Total operating profit	*4*	44,364	40,015		84,379
Interest receivable and similar income					
Group	*8*				16,501
Joint ventures					80
Interest payable and similar charges					
Group	*9*				(162,203)
Joint ventures					(860)
Loss on ordinary activities before taxation					(62,103)
Tax on loss on ordinary activities	*10*				(49,653)
Loss on ordinary activities after taxation					(111,756)
Equity minority interest					(1,795)
Loss for the financial year					(113,551)

The notes on pages 16 to 55 form part of these financial statements

Vetco International Limited
Consolidated balance sheet
at 31 December 2006

		2006		2005	
	Note	$000	$000	$000	$000
Fixed assets					
Intangible assets	*11*		496,928		519 651
Tangible assets	*12*		236 485		233 455
Investments					
Investments in joint ventures					
Share of gross assets		29,291		21 411	
Share of gross liabilities		(20,418)		(15,246)	
		8,873		6 165	
Investments in associates		33		24	
Total investments	*13*		8,906		6,189
			742,319		759 295
Current assets					
Stocks	*14*	386,490		310,597	
Debtors	*15*	738,446		554,243	
Cash at bank and in hand		236,248		155,767	
Restricted cash		708		1,929	
		1,361,892		1,022,536	
Creditors amounts falling due within one year	*16*	(1,115,124)		(766,850)	
Net current assets			246,768		255,686
Total assets less current liabilities			989,087		1,014,981
Creditors amounts falling due after more than one year	*17*		(1,113,292)		(1,035,518)
Provisions for liabilities and charges	*18*		(102,141)		(56,318)
Net (liabilities)/assets before pension and post retirement benefits liability			(226,346)		(76,855)
Pension and post retirement benefits liability	*25*		(75,888)		(79,148)
Net liabilities including pension and post retirement benefits liability			(302,234)		(156,003)
Capital and reserves					
Called up share capital	*20*	10		10	
Share premium	*21*	4 040		4 040	
Profit and loss account	*21*	(311,794)		(165,186)	
Total capital and reserves			(307,744)		(161,136)
Minority interests			5,510		5,133
Total shareholders' deficit			(302,234)		(156,003)

The notes on pages 15 to 55 form part of these financial statements

These financial statements were approved by the board of directors on Nov 9 2007 and were signed on its behalf by

D. Larssen

D Larssen
Director

Vetco International Limited
Balance sheet
at 31 December 2006

		2006		2005	
	Note	$000	$000	$000	$000
Fixed assets					
Investments	*13*		7 091		7 091
Current assets					
Debtors	*15*	1,313		1,115	
Total current assets		1,313		1,115	
Creditors amounts falling due within one year	*16*	(6,349)		(1,096)	
Net current (liabilities)/assets			(5,036)		19
Total assets less current liabilities			2,055		7,110
Creditors amounts falling due after more than one year	*17*		(5,485)		(4,003)
Net assets			(3,430)		3,107
Capital and reserves					
Called up share capital	*20*	10		10	
Share premium	*21*	4,040		4 040	
Profit and loss account	*21*	(7,480)		(943)	
Total capital and reserves			(3,430)		3,107
Minority interests			-		-
Total shareholders' funds			(3,430)		3,107

The notes on pages 15 to 55 form part of these financial statements

These financial statements were approved by the board of directors on ______ 2007 and were signed on its behalf by

D Larssen
Director

Vetco International Limited

Consolidated cash flow statement

for the year ended 31 December 2006

	Note	Year ended 31 December 2006 $000	Year ended 31 December 2005 $000
Net cash flow from operating activities	26	**212,085**	132,100
Returns on investment and servicing of finance	27	**(100,895)**	(109,055)
Taxation	27	**(28,139)**	(49,196)
Investing activities	27	**(44,536)**	(22,505)
Acquisitions	27	**-**	6,875
Cash inflow/(outflow) before financing		**38,515**	(41,781)
Financing	27	**42,909**	(52,876)
Increase/(decrease) in cash in the period		**81,424**	(94,657)

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 2006

	Note	Year ended 31 December 2006 $000	Year ended 31 December 2005 $000
Increase / (decrease) in cash in the period		**81,424**	(94,657)
Cash inflow from increase in bank loans	28	**(43,715)**	(381,854)
Cash outflow/(inflow) in respect of debenture loans	28	**149**	432,202
Cash outflow from payments on finance leases	28	**-**	2,315
Decrease/(increase) in net debt resulting from cash flows	28	**37,858**	(41,994)
Foreign exchange movements in net debt and finance leases	28	**(15,076)**	16,411
Non cash movement in net debt and finance leases	28	**(38,316)**	(34,766)
Movement in net debt in the period		**(15,534)**	(60,349)
Net debt at the start of the period		**(892,940)**	(832,591)
Net debt at the end of the period		**(908,474)**	(892,940)

Vetco International Limited

Consolidated statement of total recognised gains and losses

for the year ended 31 December 2006

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Profit/(loss) for the financial period		
Group	**(125,500)**	(115,362)
Share of joint ventures	**3,146**	1,811
	(122,354)	(113,551)
Gross exchange differences on the retranslation of net investments and related borrowings	**(5,268)**	10,121
Effect of adoption of FRS 25 on 1 January 2005	**-**	(4,003)
Actuarial (loss)/gain on pension scheme assets, net of tax	**(18,880)**	(25,318)
Total gains and losses recognised for the period	**(146,502)**	(132,751)

Vetco International Limited

Reconciliations of movements in shareholders' funds / (deficit)

for the year ended 31 December 2006

Group

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Loss for the financial period	**(122,354)**	(113,551)
Effect of adoption of FRS 25 on 1 January 2005	-	(4,003)
Other recognised (losses)/gains relating to the period (net)	(24,148)	(15,197)
Total gains and losses recognised for the period	**(146,502)**	(132,751)
Purchase of own shares (by Vetco Employee Benefit Trust)	(106)	(213)
Share capital issued	-	-
Minority interests	377	1,239
Net addition to shareholders' deficit	**(146,231)**	(131,725)
Opening shareholders' deficit	(156,003)	(24,278)
Closing shareholders' deficit	**(302,234)**	(156,003)

Company

	Year ended 31 December 2006	Year ended 31 December 2005
Loss for the financial period	**(6,431)**	(883)
Purchase of own shares (by Veto Employee Benefit Trust)	(106)	(213)
Effect of adoption of FRS 25 on 1 January 2005	-	(4,003)
Net addition to shareholders' deficit	**(6,537)**	(5,099)
Opening shareholders' funds	3,107	8,206
Closing shareholders' funds	**(3,430)**	3,107

Vetco International Limited
Notes

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, except as noted below

(a) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom under the going concern principle using historical cost accounting rules

The directors have presented the financial statements on a going concern basis The group balance sheet presented reflects the net liabilities of the group as a result of the funding structure in place Net liabilities arose on the acquisition of the group's business in July 2004, which was funded by a high proportion of debt The structure of the deal and the resulting balance sheet position was fully anticipated by the directors and the group's loan creditors and does not cause any significant concern over the group's ability to trade over the period of twelve months from the date of the approval of these financial statements The group is in compliance with the financial covenants under the Senior Credit Agreement and expects to remain in compliance In addition, the group was sold to General Electric on 23 February 2007, which underscores the directors' belief that the historic cost accounts do not reflect the actual value of the net assets of the group

In August 2007, Vetco International Limited sold Vetco Group Limited (see note 31) and realised a gain of $1,429,000,000, which left it with a net asset position

In accordance with FRS 3, the consolidated profit and loss account, down to the operating profit line, shows the split between continuing and discontinued operations Discontinued operations represent businesses that have been disposed within three months of the balance sheet, which is principally the Vetco Aibel group of businesses (see note 31)

Under section 230(4) of the Companies Act, the company is exempt from the requirement to present its own profit and loss account

The company's functional currency is the US dollar Therefore, the accounts are stated in US dollars The nominal value of the company's allotted and fully paid share capital is $96,552

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2006 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisitions or up to the date of disposal

An associate is an undertaking in which the group has a long-term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence A joint venture is an undertaking in which the group has a long-term interest and over which it exercises joint control The group's share of the profits less losses of associates and joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet

1. Accounting policies *(continued)*

(c) Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised and amortised to nil by equal instalments over the estimated useful life of 20 years This is the directors' estimate of the period over which the value of the underlying business is expected to exceed the value of the underlying assets

(d) Investments

Investments are stated at cost less permanent diminutions in value where necessary

(e) Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

	Useful life (years)
Freehold buildings and leasehold improvements	15 to 50
Machinery and equipment	3 to 15
Computer software	2 to 8

Land and assets in the course of construction are not depreciated

(f) Leases

Assets acquired on hire purchase and finance lease agreements are stated at their fair value at the date of acquisition, with an equivalent liability being included in creditors as the net obligation due under the agreements Such assets are depreciated over their estimated economic lives Hire purchase and finance lease interest is allocated to accounting periods over the term of the agreement to produce a constant rate of charge on the outstanding liability to the hire purchase or leasing company

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

(g) Stocks

Stocks are stated at the lower of cost and net realisable value For approximately 85% of stocks, cost is determined using the weighted average cost method The first-in first-out method is used to determine cost for the remainder of stocks For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads

1 Accounting policies *(continued)*

(h) Debtors

Third party debtors are non-interest bearing and are generally with major global oil and gas companies Evaluations are routinely performed for risk of non-collection and appropriate provisions for losses are recorded when appropriate to reflect the carrying amount at net realisable value

Amounts recoverable on contracts represent amounts earned under long-term contracts in progress that have not been billed at the balance sheet date These amounts generally become billable according to contract terms such as the passage of time or achievement of milestones These amounts are included in third party debtors

Trade balances owed between members of the group are due within one year and are non-interest bearing

(i) Cash

For purposes of the cash flow statement, cash includes cash in hand and deposits repayable on demand, less overdrafts payable on demand

(j) Derivative financial instruments

The group enters into derivative financial instruments to manage its exposure to interest rate and foreign currency risks Derivative financial instruments that are considered to be effective hedges of those risks are carried in the balance sheet at cost The cost of derivatives that are considered effective hedges is recognised in the profit and loss account in the period cash payments are made or received Derivatives that are not considered effective hedges and those entered into for trading purposes are reflected at fair value in the balance sheet Changes in the fair values of derivatives not accounted for as hedges are recognised in the profit and loss account in the periods those changes occur

(k) Turnover and long-term contracts

Turnover from the sale of manufactured products is recognised upon transfer of title to the customer, which generally occurs upon shipment of the products, or for certain long-term contracts, under the percentage of completion method Turnover under long-term contracts (those with durations of one year or more) is stated at the cost appropriate to their stage of completion plus profits The amount of profit attributable to the stage of completion is based on estimates using the cost-to-cost and milestone methods Provision is made for any losses as soon as they are foreseen

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover

Turnover from short-term (those with durations of less than one year) manufacturing and assembly projects is recognised using the completed contract method of accounting Provision is made for any losses as soon as they are foreseen

1 Accounting policies *(continued)*

(k) Turnover and long-term contracts *(continued)*

Turnover from short-term fixed price service contracts is recognised upon completion of required services to the customer Turnover from contracts that contain customer acceptance provisions is deferred until customer acceptance occurs or the contractual acceptance period has lapsed

Turnover from reimbursable contracts is recognised as the work progresses and is invoiced on a monthly basis

(l) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings

(m) Research and development expenditure

Project-specific research and development costs are initially recorded in work in progress and are reflected as cost of sales at the time turnover is recorded on the applicable contract

Non project-specific research and development costs are written off to the profit and loss account in the year incurred

(n) Warranty provision

Provision for warranties is based on specific project evaluations The warranty provision represents amounts provided for repair or replacement of goods sold to customers Anticipated product warranty costs are written off to the profit and loss account in proportion to turnover recognised on the related contracts

(o) Pension contributions

The group operates various defined benefit and defined contribution schemes for employees and directors Two defined benefit pension schemes cover a substantial portion of the employees of the group in the United Kingdom and Norway In the United Kingdom certain pension benefits prior to the July 2004 acquisition were provided by a group defined benefit scheme ("ABB Plan"), which was operated by the former parent From 31 March 2005, employees are members of a defined contribution scheme ("Vetco Gray Hughes Plan") Existing members of the ABB Plan have been given the option to transfer their accrued benefits to the Vetco Gray Hughes Plan

A post-retirement medical and life assurance scheme is in effect for qualifying employees in the United States

1 Accounting policies *(continued)*

(o) Pension contributions (continued)

The group operates separate defined contribution pension schemes for all of its United States employees and its United Kingdom employees There is also a separate defined contribution scheme for certain of its executive directors

The group follows the provisions of Financial Reporting Standard (FRS) 17 in accounting for its pension schemes

(p) Taxation

The charge for taxation is based on the consolidated results for the year Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Deferred tax assets are recognised to the extent the directors consider them to be recoverable

(q) Debt financing

Fees on the issue of debt have been deducted from the gross proceeds of the issue and, together with the finance costs, are allocated to the profit and loss account over the expected life of the debt on a straight line basis

(r) Share based payments

The Vetco Employee Benefit Trust ("VEBT") is governed by a trust deed and has the object of ensuring that shares of Vetco International Limited acquired by VEBT are held by the trustee for the benefit of certain of the group's employees In accordance with FRS 5, the assets and liabilities of VEBT are consolidated into the group balance sheet and the surplus or deficit of VEBT is included in the group profit and loss account In accordance with UITF 38, the cost of shares held are deducted from distributable reserves In accordance with FRS 20, which was adopted on 1 January 2006, the company recognises compensation expense in the profit and loss account for the value of the shares held by the VEBT in excess of the amounts loaned to the VEBT to purchase the shares The value of the shares at 31 December 2006 was determined by reference to the amount paid by General Electric for the shares of Vetco International Limited on 23 February 2007 (see note 31)

(s) Restricted cash

At 31 December 2006, the group had \$708,000 (*2005 \$1,929,000*) of cash which was not available for general purposes During 2005, the amount previously restricted under the terms of the Senior Credit Agreement, was released upon amendment of the Senior Credit Agreement As a provision of that amendment, the company contributed \$nil (*2005 \$77,400,000*) to fund the group's under-funded defined benefit pension plans and the remainder became available for general purposes The amount restricted at 31 December 2006 and 2005 relates to various other agreements, such as rental deposits on buildings used by the group

1. **Accounting policies (*continued*)**

(t) Classification of financial instruments issued by the group

Following the adoption of the presentation elements of FRS 25, financial instruments issued by the group are treated as equity (i e , forming part of shareholders' deficit) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions unfavourable to the group, and

b) where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group's own equity instruments or is a derivative that will be settled by the group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders' deficit, are dealt with as appropriations in the reconciliation of movements in shareholders' deficit

The adjustments necessary to implement this policy have been made as at 1 January 2005 with the net adjustment to net assets less minority interests, after tax, taken through the 2005 reconciliation of movements in shareholders' deficit

The effect of the above on the group's 2005 loss was nil as no dividends were paid on the shares that were reclassified in accordance with FRS 25

Vetco International Limited

Notes *(continued)*

2. Turnover

Turnover by destination (third party only)

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
UK	**263,465**	213,410
Norway	**1,273,823**	1,112,222
US	**213,553**	162,608
Angola	**283,062**	221,200
Other	**1,095,653**	756,703
Total	**3,129,556**	2,466,143

Turnover by Origin

	Year Ended 31 December 2006			Year Ended 31 December 2005		
	Total	**Inter-company**	**Third party**	Total	Inter-company	Third party
	$000	**$000**	**$000**	$000	$000	$000
UK	**382,582**	**73,061**	**309,521**	325,869	93,171	232,698
Norway	**1,628,917**	**20,556**	**1,608,361**	1,207,693	30,829	1,176,864
US	**461,502**	**64,225**	**397,277**	445,069	66,621	378,448
Angola	**98,177**	**-**	**98,177**	59,999	-	59,999
Other	**737,075**	**20,855**	**716,220**	640,403	22,269	618,134
Total	**3,308,253**	**178,697**	**3,129,556**	2,679,033	212,890	2,466,143

3. Segmental information

The group is organised based on class of business and operates as three different segments Vetco Gray, Vetco Aibel and Headquarters Turnover, profit/(loss) before taxation and net assets of each segment for the period were as follows

	Vetco Gray	Vetco Aibel	Headquarters	Total
	$000	**$000**	**$000**	**$000**
Turnover				
Year ended 31 December 2006	**1,602,889**	**1,526,667**	**-**	**3,129,556**
Year ended 31 December 2005	1,330,679	1,135,464	-	2,466,143
Profit/(loss) before taxation and minority interest				
Year ended 31 December 2006	**46,769**	**64,319**	**(183,858)**	**(72,770)**
Year ended 31 December 2005	79,609	18,498	(160,212)	(62,105)
Net assets/(liabilities)				
31 December 2006	**489,269**	**14,009**	**(805,512)**	**(302,234)**
31 December 2005	516,833	(12,174)	(660,662)	(156,003)

4. Operating profit

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Operating profit is stated after charging/(crediting)		
Auditors' remuneration		
Audit - company	**85**	124
Audit - group	**2,885**	3,441
Financial assistance	**-**	132
Tax services	**77**	7
Other attestation services	**-**	10
Depreciation and other amounts written off tangible fixed assets	**48,283**	45,607
Amortisation of goodwill	**27,665**	27,401
Amortisation of other intangible assets	**504**	583
Rentals payable under operating leases		
Land and buildings	**26,230**	19,125
Machinery and equipment	**8,966**	10,525
Exchange losses, net	**2,229**	634
Research and development costs	**23,268**	24,303
Profit on disposal of fixed assets	**(517)**	(1,511)

5. Exceptional items

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Costs of sale transaction to General Electric (see note 31)	**5,735**	-
Costs of abandoned U S listing	**1,174**	-
Fines paid for violations of laws (see note 22)	**26,004**	-
	32,913	-

Vetco International Limited

Notes *(continued)*

6. Directors' emoluments

	Year ended 31 December 2005	Year ended 31 December 2005
	$000	$000
Directors' emoluments	**4,869**	2,302
Compensation for loss of office	**-**	1,400
Company contributions to pension schemes	**1,669**	1,445
	6,538	5,147

Total emoluments for the highest paid director were $1,057,500 (*2005 $1,379,745*) Contributions made to company pension contributions on his behalf for the year were $18,750 (*2005 nil*)

Retirement benefits under defined contribution benefit schemes accrued to five directors during the year ended 31 December 2006 (*2005 two*) No retirement benefits under defined benefit schemes accrued to any directors during the periods ended 31 December 2006 and 2005

7. Staff numbers and costs

The average number of employees (including directors) of the company and its subsidiary undertakings during the period were as follows

	Year ended 31 December 2006	Year ended 31 December 2005
Vetco Gray	**4,597**	4,397
Vetco Aibel	**5,064**	5,895
Headquarters	**40**	23
	9,701	10,315

The aggregate payroll costs for these employees (including directors) were as follows

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Wages and salaries	**425,064**	477,743
Social security costs	**72,952**	118,336
Other pension costs	**18,976**	23,301
	516,992	619,380

Vetco International Limited

Notes *(continued)*

8. Interest receivable and similar income

	Year ended 31 December 2006	Year ended 31 December 2005
	\$000	\$000
Expected return on pension plan assets	**22,596**	13,830
Other interest receivable	**3,707**	2,671
	26,303	16,501

9. Interest payable and similar charges

	Year ended 31 December 2006	Year ended 31 December 2005
	\$000	\$000
Amounts payable on bank loans and overdrafts	**112,532**	104,349
Amounts payable under Mezzanine Fee Agreement	**-**	15,625
Amortisation of deferred debt issue costs	**13,198**	21,304
Interest payable on pension liability	**19,501**	17,841
Foreign currency exchange (gains) / losses	**(3,938)**	634
Other finance charges	**12,535**	2,450
	153,828	162,203

10. Tax on loss on ordinary activities

a) Analysis of charge in the period

	Year ended 31 December 2006		Year ended 31 December 2005	
	\$000	**\$000**	\$000	\$000
UK corporation tax				
Current tax on income for the period	**-**		-	
Adjustments in respect of prior periods	**-**		4,919	
		-		4,919
Foreign tax				
Current tax on income for the period	**31,874**		28,439	
Adjustments in respect of prior periods	**(622)**		(4,600)	
		31,252		23,839
Total current tax		**31,252**		28,758

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Notes *(continued)*

10 Tax on loss on ordinary activities *(continued)*

Deferred tax				
Origination/reversal of timing differences	29,955		20,895	
Adjustments in respect of prior periods	(13,858)		-	
Total deferred tax (see note 19)		16,097		20,895
Total tax charge		47,349		49,653

Tax charge relates to the following

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Parent and subsidiaries	**46,533**	49,214
Joint ventures	**816**	439
	47,349	49,653

b) Factors affecting the charge for the current period

The current tax charge for the period is higher than the standard rate of corporation tax in the UK (30%, *2005 30%*) The differences are explained below

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Current tax reconciliation		
Loss on ordinary activities before tax	**(72,770)**	(62,105)
Expected tax benefit at 30% (*2005 30%*)	**21,831**	18,632
Effects of		
Expenses not deductible for tax purposes	**(34,289)**	(4,169)
Taxable gains/(income not taxable)	**(24,911)**	1,753
Origination and reversal of timing differences	**29,955**	4,845
Tax losses not recognised	**(31,543)**	(43,399)
Difference in overseas tax rates	**7,083**	(6,100)
Prior period adjustments	**622**	(320)
	(31,252)	(28,758)

10. Tax on loss on ordinary activities *(continued)*

c) Factors that may affect future current and total tax charges

The group has tax losses of $225 million (*2005 $225 million*) for which no deferred tax asset has been recognised, as they are not considered recoverable in the foreseeable future These losses are predominantly in the UK and US headquarters companies

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries, associates and joint ventures As the earnings are continually reinvested by the group, no tax is expected to be payable on them in the foreseeable future

11 Intangible fixed assets

Group

	Goodwill $000	Other intangible assets $000	Total $000
Cost			
At 1 January 2006	548,024	12,628	560,652
Foreign exchange movements	4,691	169	4,860
Additions	586	-	586
At 31 December 2006	**553,301**	**12,797**	**566,098**
Amortisation			
At 1 January 2006	(40,266)	(735)	(41,001)
Charge for year	(27,665)	(504)	(28,169)
At 31 December 2006	**(67,931)**	**(1,239)**	**(69,170)**
Net book value			
At 31 December 2006	**485,370**	**11,558**	**496,928**
At 31 December 2005	507,758	11,893	519,651

Other intangible assets consist of trademarks and trade names, which were valued using the discounted cash flows approach using the "relief from royalty method" of determining estimated cash flows

12. Tangible fixed assets

Group	**Land, buildings and leasehold improvements $000**	**Machinery and equipment $000**	**Computer software $000**	**Assets in the course of construction $000**	**Total $000**
Cost					
At 1 January 2006	84,616	169,209	23,966	12,024	289,815
Additions	1,570	13,419	2,611	27,927	45,527
Disposals	(668)	(7,179)	-	(150)	(7,997)
Exchange gains	3,292	7,063	1,529	547	12,431
Transfers between categories	(2,921)	23,329	(3,177)	(17,231)	-
At 31 December 2006	85,889	205,841	24,929	23,117	339,776
Depreciation					
At 1 January 2006	(7,193)	(41,884)	(7,283)	-	(56,360)
Charge for period	(8,179)	(34,901)	(5,203)	-	(48,283)
Disposals	388	5,385	-	-	5,773
Exchange gains	(1,085)	(2,486)	(850)	-	(4,421)
Transfers between categories	440	(2,557)	2,117	-	-
At 31 December 2006	(15,629)	(76,443)	(11,219)	-	(103,291)
Net book value at 31 December 2006	**70,260**	**129,398**	**13,710**	**23,117**	**236,485**
Net book value at 31 December 2005	77,423	127,325	16,683	12,024	233,455

Included in the total net book value of land, buildings and leasehold improvements is $38,506,000 (*2005 $38,506,000*) in respect of land with an indefinite life which is not depreciated

The net book value of land and buildings is analysed as follows

	2006 $000	2005 $000
Freehold land and buildings	**65,008**	71,420
Long leasehold land and buildings	**4,948**	71
Short leasehold land and buildings	**96**	5,932
	70,052	77,423

13. Fixed asset investments

<u>Group</u>	Interests in associated undertakings (including joint ventures)	
	2006	2005
Cost	**$000**	$000
At 1 January	**6,189**	5,025
Acquisitions	**-**	-
Net income from associated undertakings	**3,146**	1,811
Dividends	**(743)**	(291)
Exchange gains	**314**	163
At 31 December	**8,906**	6,708
Provisions for diminution in value	**-**	(519)
Net book value	**8,906**	6,189

The net book value of interests in associated undertakings comprises interests in joint ventures of $8,873,000 (*2005 $6,164,000*) and in associates of $33,000 (*2005 $25,000*)

<u>Company</u>	Shares in subsidiary undertakings	
	2006	2005
Cost	**$000**	$000
At 1 January	**7,091**	7,091
Acquisitions	**-**	-
At 31 December	**7,091**	7,091
Provisions for diminution in value	**-**	-
Net book value	**7,091**	7,091

The table below sets out the name, country of registration, ownership interest and primary business activity of each of the company's direct and indirect subsidiaries Dormant companies are not listed

Subsidiary undertakings	**Country of registration**	**Ownership**	**Primary business activity**
Vetco Group Limited	United Kingdom	100%	Holding company
Vetco Luxembourg Finco Sarl	Luxembourg	100%	Finance company
Aibel Group Limited	United Kingdom	100%	Holding company
Vetco International Holding 4 Limited	United Kingdom	100%	Holding company

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Notes *(continued)*

13. Fixed asset investments *(continued)*

Vetco Gray Holding Limited	United Kingdom	100%	Holding company
Vetco Gray Canada, Inc	Canada	100%	Manufacture and construction of drilling and production equipment
Vetco International Holding (Delaware), Inc	United States	100%	Holding company
Vetco Gray U K Limited	United Kingdom	100%	Supply of systems, products and services for onshore and offshore oil and gas drilling and production
Vetco Gray Controls Limited	United Kingdom	100%	Manufacture and construction of subsea production systems
Vetco International Singapore 1 Pte Ltd	Singapore	100%	Holding company
Vetco Gray Oleo e Gas Ltda	Brazil	100%	Manufacture and construction of drilling and production equipment
Vetco Aibel Holding Limited*	United Kingdom	100%	Holding company
Vetco Gray Controls Inc	United States	100%	Manufacture and construction of subsea production systems
Vetco Gray, Inc	United States	100%	Manufacture and construction of drilling and production equipment
West Africa Completion Services Limited	United Kingdom	100%	Field services and asset management services
Vetco Gray Italia S R L	Italy	100%	Sale of Vetco Gray products and services required in region
Vetcogray Petroleum Equipment Industries (PJSC)	Iran	65%	Manufacture of specialised high pressure flow control equipment for oil and gas wells
Offshore Systems Canada Inc	Canada	100%	Field services and asset management services
Vetco Gray Controls Pte Ltd	Singapore	100%	Field services and asset management services
Vetco Gray Egypt Ltd	Egypt	100%	Sale of Vetco Gray products and services required in region
Vetco Gray Pte Ltd	Singapore	100%	Manufacture and sale of equipment to the oil and gas

Vetco International Limited
Notes *(continued)*

13. Fixed asset investments (*continued*)

Vetco Aibel AS	Norway	100%	Front-end engineering and design for fixed and floating production facilities, maintenance, modification and operation of existing production facilities, subsea services, and drilling and production equipment sales
Vetco Gray AS	Norway	100%	Holding company
Vetco Gray France S A R L	France	100%	Sale of Vetco Gray products and services required in region
Vetco Gray Mexico S A de C V	Mexico	100%	Manufacture, service, remanufacture and inspection of
Vetco Gray (Hong Kong) Limited	Hong Kong	100%	Holding company
Vetco Gray de Venezuela C A	Venezuela	100%	Manufacture and construction of surface drilling and completion
Vetco Aibel Denmark AS	Denmark	100%	Supply of personnel to other group companies
Vetco Aibel UK Limited	United Kingdom	100%	Supply of personnel to other group companies
Vetco Gas Technology AS	Norway	100%	Front-end engineering and design for fixed and floating production facilities
Vetco Aibel Equatorial Guinea AS	Equatorial Guinea	100%	Maintenance, modification and operation of existing production facilities
Vetco Aibel Iran AS	Iran	100%	Maintenance, modification and operation of existing production facilities
Vetco Aibel Services AS (Kazakhstan)	Kazakhstan	100%	Supply of products and services for onshore oil and gas drilling and production
Vetco Gray Petroleum Equipment (Shanghai) Co Ltd	China	60%	Manufacture and distribution of onshore and offshore drilling and production equipment
Vetco Gray Servicios de Venezuela, C A	Venezuela	100%	Service, remanufacture and inspection of oil and natural gas
Vetco Gray Argentina S A	Argentina	100%	Manufacture and construction of surface drilling and completion
Vetco Gray Trinidad Ltd	Trinidad	100%	Field services and asset management services

Vetco International Limited

Notes *(continued)*

13 Fixed asset investments (*continued*)

Vetco Gray Australia Pty Ltd	Australia	100%	Sale and assembly of drilling equipment of the oil and gas industry
Pt Vetco Gray Indonesia	Indonesia	100%	Design, manufacture, fabrication, rental and repair of drilling equipment for the oil and gas industry
Vetco Aibel Australia Pty Ltd	Australia	100%	Maintenance, modification and operation of existing production facilities
Vetco Aibel Holding (Thailand) Ltd	Thailand	100%	Holding company
Vetco Aibel Company Ltd	Thailand	100%	Front-end engineering and design for fixed and floating production facilities
Vetco Aibel Italia SRL	Italy	100%	Maintenance, modification and operation of existing production facilities
Vetco Aibel Kazakhstan LLP	Kazakhstan	100%	Maintenance, modification and operation of existing production facilities
Vetco Aibel Limited	United Kingdom	100%	Holding company
Empresa Angolana de Metalomecanicas SARL	Angola	100%	Maintenance, modification and operation of existing production facilities
Vetco Aibel Nigeria Ltd	Nigeria	60%	Maintenance, modification and operation of existing production facilities
Vetco Aibel do Brazil	Brazil	100%	Maintenance, modification and operation of existing production facilities
Vetco Aibel PNG Ltd	New Zealand	100%	Maintenance, modification and operation of existing production facilities
Vetco Gray Contols Limited	United Kingdom	100%	Holding company
Pressure Control Systems Nigeria Ltd	Nigeria	100%	Field services and asset management services
Joint ventures			
Egyptian Maintenance Company	Egypt	50%	Maintenance, modification and operation of existing production facilities

Vetco International Limited

Notes *(continued)*

13. Fixed asset investments *(continued)*

Associated undertakings

Syntheseas Ltd	United Kingdom	50%	Provision of equipment and services to the oil and gas industry

The directors have reviewed the carrying value of the company's investments as at 31 December 2006 and, in their opinion, the shares in its subsidiary undertaking are worth at least the amount stated in the balance sheet

14. Stocks

Group	2006	2005
	$000	$000
Raw materials	59,623	38,777
Work in progress	221,070	189,270
Finished products	105,797	82,550
	386,490	310,597

15. Debtors

Group	2006	2005
	$000	$000
Trade debtors	415,477	360,886
Other debtors	57,447	13,350
Amounts recoverable on contracts	235,098	126,577
Deferred tax assets (see note 19)	-	2,757
Prepayments and accrued income	30,424	50,673
	738,446	554,243

Company	2006	2005
	$000	$000
Amounts due from subsidiary undertakings	1,313	1,115

16 Creditors· amounts falling due within one year

Group	2006	2005
	$000	$000
Bank loans	34,619	16,762
Payments received on account	162,447	39,001
Billings in excess of costs on uncompleted projects	152,658	129,203
Trade creditors	591,799	438,924
Accrued interest on bank loans	11,502	19,843
Accrued income taxes	13,983	13,218
Other accruals	148,116	109,899
	1,115,124	766,850

16. Creditors: amounts falling due within one year *(continued)*

Company	2006	2005
	$000	$000
Other accruals	6,349	1,096

17. Creditors amounts falling due after more than one year

Group	2006	2005
	$000	$000
Deep discount bonds	-	149
Bank loans	1,106,808	1,029,722
Preferred ordinary shares, including share premium	4,003	4,003
Other	2,481	1,644
	1,113,292	1,035,518

Bank loans comprise the following.	2006	2005
	$000	$000
Revolving Credit Agreement	149,957	89,000
Senior Term Loan A	163,725	190,218
Senior Term Loan B	245,170	241,718
Senior Term Loan C	239,500	238,788
Senior Term Loan D	100,000	100,000
Mezzanine Loan A	144,266	137,884
Mezzanine Loan B	27,977	26,738
Mezzanine Loan C	51,423	49,140
Less deferred debt issuance costs	(15,074)	(43,627)
Less unamortised value of warrants	(136)	(137)
Total amount due in more than one year	1,106,808	1,029,722
Total amount due within one year	34,619	16,762
	1,141,427	1,046,484

In March 2005 the group refinanced the Senior Credit Agreement and borrowed an additional $100,000,000 under the Senior Term Loans B and C, and increased the Bonding Facility to $300,000,000 The funds from these borrowings, along with available existing cash, were used to repay $151,662,000 of the debenture loans and to pay a fee of $5,338,000 to the Mezzanine Loan lenders as noted below

In December 2005 a comprehensive refinancing of the group's Senior Credit Agreement was completed The group borrowed an additional $171,000,000 under the Senior Term Loans B and C and $100,000,000 under a new Senior Term Loan D The Revolving Credit Facility was increased from $125,000,000 to $150,000,000 and the Bonding Facility was increased to $400,000,000 The funds from these borrowings, along with available existing cash, were used to repay the outstanding debenture loans (except for shareholder loan notes of $149,136, which were repaid in January 2006) and to pay a fee of $10,950,804 to the Mezzanine Loan lenders as noted below

17 Creditors: amounts falling due after more than one year *(continued)*

The Revolving Credit Facility provides for borrowings up to $150,000,000 and bears interest at an annual rate of the London Interbank Offered Rate ("LIBOR") plus 2 25% (7 33% at 31 December 2006), payable semi-annually The Revolving Credit Facility also bears a commitment fee of 0 75% of the unused portion of the facility, payable quarterly The Revolving Credit Facility is due to be repaid on 12 July 2011, but is repayable earlier when and if the Senior Term Loan A is repaid prior to its maturity in 2011

The Senior Term Loan A is a multi-currency facility, of which approximately $126,772,000 is denominated in Norwegian kroner at 31 December 2006, and the remainder is denominated in US dollars The loan bears interest at an annual rate of LIBOR/Norwegian Interbank Offered Rate ("NIBOR") plus 2 25% (7 60% for US dollar and 5 97% for Norwegian kroner denominated borrowings at 31 December 2006) The loan is repayable in semi-annual instalments from 12 July 2005 to 12 July 2011

The Senior Term Loan B is a multi-currency facility, of which approximately $57,671,000 is denominated in Norwegian Kroner, $34,000,000 is denominated in Euros and the remaineder is denominated in US dollars at 31 December 2006 The loan bears interest at an annual rate of LIBOR/NIBOR/Euro Interbank Offered Rate ("EURIBOR") plus 2 75% (8 11% for US dollar, 6 24% for Norwegian kroner and 6 28% for Euro denominated borrowings at 31 December 2006) The loan is due to be repaid on 12 July 2012

The Senior Term Loan C is a multi-currency facility, of which approximately $34,000,000 is denominated in Euros and the remaineder is denominated in US dollars at 31 December 2006 The loan bears interest at an annual rate of LIBOR/EURIBOR plus 3 25% (8 61% for US dollar and 6 78% for Euro denominated borrowings at 31 December 2006) The loan is due to be repaid on 12 July 2013

The Senior Term Loan D is a US dollar borrowing bearing interest at the annual rate of LIBOR plus 5% (10 36% at 31 December 2006) The loan is due to be repaid on 12 January 2012

The Mezzanine Loan is due on 12 July 2014 The A and B portions of the Mezzanine Loan bear interest at the annual rate of LIBOR plus 8 5% (13 85% at 31 December 2006) The C portion bears interest at an annual rate of 11 84% Annual interest on each portion is payable in cash semi-annually except for 4 5% which is capitalised into the outstanding principal balance of the loans in each period The Mezzanine Loan lenders are entitled to a fee of a 3 4% share of any amount paid on debenture loans As noted above, during the year ended 31 December 2005 the majority of the debenture loans in the group were repaid, together with the relevant fees to the Mezzanine Loan lenders as noted above

All of the deep discount bonds issued on 12 July 2004 were redeemed in March 2005 and December 2005 All except two of the deep discount bonds issued on 12 July 2004 were redeemed in March 2005 and December 2005 The deep discount bonds outstanding at 31 December 2005 had a balance of $149,136 and were redeemed in January 2006

Warrants to purchase 340,000 shares of preferred ordinary shares were issued on 12 July 2004 to the Mezzanine Loan lenders The estimated fair value of the warrants was recorded as a reduction to the loan proceeds and is being amortised as additional interest over the term of the loans

17 Creditors: amounts falling due after more than one year *(continued)*

The Senior Credit Agreement (comprising the Senior Revolving Credit Facility and the Senior Term Loans) described above is secured by shares in the company's subsidiary undertakings and substantially all of the assets of the group Each of the credit facilities require the company to comply with certain financial covenants related to the level of debt, cash flow and an interest coverage ratio As at 31 December 2006 and 2005, the company was in compliance with all financial covenants

During 2006, there were no new borrowings apart from additional drawdowns under the revolving credit facility and there were no repayments of bank loans outside the contractual terms described above

An analysis of the third party finance debt by year of maturity is as follows

	2006	2005
	$000	$000
Due within 10 years	-	149
9 years	-	213,763
8 years	**223,666**	238,788
7 years	**239,500**	341,718
6 years	**345,170**	135,303
5 years	**198,353**	42,034
4 years	**43,796**	35,428
3 years	**36,914**	33,226
2 years	**34,619**	33,226
1 year	**34,619**	16,762
	1,156,637	1,090,397

The deferred debt issue costs and the value of the warrants which are accounted similar to a discount on the third party finance debt are both amortised on a straight-line basis over the expected term of the related debt An analysis of the amortisation of the deferred debt issue costs by year is as follows

	2006	2005
	$000	$000
Less than one year	**15,074**	28,553
1-2 years	**-**	15,074
	15,074	43,627

Company	**2006**	2005
	$000	$000
Preferred ordinary shares, including share premium	**4,003**	4,003
Other accruals	**1,482**	-
	5,485	4,003

18 Provisions for liabilities and charges

	Contract losses	Warranty	Penalties	Other	Deferred tax (see note 19)	Total
	$000	$000	$000	$000	$000	$000
At 1 January 2006	8,005	18,775	6,363	14,281	8,894	56,318
Additional amounts provided	11,793	18,157	7,360	28,109	10,769	76,188
Utilisations of provisions from prior periods	(6,127)	(11,429)	(1,990)	(6,520)	-	(26,066)
Claims paid	-	(1,293)	(108)	(2,898)	-	(4,299)
At 31 December 2006	13,671	24,210	11,625	32,972	19,663	102,141

The provision for contract losses represents foreseeable losses on open contracts The warranty provision represents amounts provided for repair or replacement of goods sold to customers The provision for penalties represents liquidated damages penalties due under contracts Other provisions consist primarily of contract-related provisions including provisions for costs which are not yet due to be incurred on contracts and provisions for ongoing litigation

19. Deferred tax

Net deferred tax assets.	**2006**	2005
	$000	$000
At beginning of period	**4,541**	25,436
Provided in year (see note 10)	**(16,097)**	(28,095)
Movement in Statement of total recognised gains and losses	**4,916**	-
Reclassification from other accounts	**2,572**	-
At end of period	**(4,068)**	4,541
Allocated in the accounts as follows·		
Debtors (see note 15)	-	2,757
Provisions (see note 18)	**(19,663)**	(8,894)
Pensions (see note 25)	**15,595**	10,678
	(4,068)	4,541

The elements of deferred taxation are as follows:	**2006**		2005	
	Provided	**Unprovided**	Provided	Unprovided
	$000	**$000**	$000	$000
Difference in accumulated depreciation and capital allowances	**9,072**	-	(14,668)	-
Other timing differences	**(42,654)**	-	6,346	-
Tax losses	**29,514**	**80,466**	12,863	72,348
Net deferred tax asset	**(4,068)**	**80,466**	4,541	72,348

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Notes *(continued)*

20. Called up share capital

Group and company	**2006**	2005
Authorised:	**$000**	$000
100 ordinary shares of £1 each	**-**	-
1,500,000 common ordinary shares of $0 01 each	**15**	15
10,000,000 preferred ordinary shares of $0 01 each	**100**	100
	115	115
Allotted and issued:	**$000**	$000
975,741 common ordinary shares of $0 01 each	**10**	10
8,679,538 preferred ordinary shares of $0 01 each	**87**	87
	97	97
Allotted and fully paid:	**$000**	$000
975,741 common ordinary shares of $0 01 each	**10**	10
8,679,538 preferred ordinary shares of $0 01 each	**87**	87
	97	97

The common ordinary shares are subordinated to all other creditor and equity claims and carry one vote per share

Group and company	**2006**	2005
	$000	$000
Shares classified as liabilities	**87**	87
Shares classified in shareholders' funds/(deficit)	**10**	10
	97	97

The preferred ordinary shares are subordinated to all other claims against the company except for claims by the common ordinary shareholders The preferred ordinary shares carry one vote per share, except upon the occurrence of certain events involving failure to pay required amounts due under the loan agreements or participating preferred share dividends or of other material breaches of provisions of the Shareholders' Agreement, in which case the shares have votes equal to at least 95 01% of the total number of votes Also, beginning on 12 July 2009, the preferred ordinary shares are entitled to a cumulative dividend of 20 per cent of consolidated profit before tax The payment of this dividend is subject to repayment of the deep discount bonds and shareholder loan notes All of the deep discount bonds and shareholder loan notes were repaid during the years ended 31 December 2006 and 2005 After payment of the participating dividend, the preferred ordinary shares participate in any other dividends paid by the company on an equal basis with the common ordinary shares

In accordance with FRS 25, the nominal value of, and the share premium received in respect of, the preferred ordinary shares have been reclassified as Creditors amounts falling due after more than one year

A total of 340,000 preferred ordinary shares have been reserved for issuance upon exercise of the warrants described below

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Notes *(continued)*

20. Called up share capital *(continued)*

Warrants to purchase 340,000 of the company's preferred ordinary shares at an exercise price of $0 01 per share were issued at the time of the acquisition to the Mezzanine Loan lenders The estimated fair value of the warrants was recorded in the accompanying consolidated balance sheet as a component of equity shareholders' funds and as a discount to the Mezzanine debt proceeds received

21. Reserves

Group

	Called up share capital $000	Share premium $000	Profit and loss account $000
At 1 January 2006	10	4,040	(165,186)
Loss for the year	-	-	(122,354)
Purchase of own shares (by Vetco EBT)	-	-	(106)
Exchange gains	-	-	(5,268)
Actuarial loss recognised in the pension schemes	-	-	(18,880)
At 31 December 2006	10	4,040	(311,794)

Company

	Called up share capital $000	Share premium $000	Profit and loss account $000
At 1 January 2006	10	4,040	(943)
Loss for the year	-	-	(6,431)
Purchase of own shares (by Vetco EBT)	-	-	(106)
At 31 December 2006	10	4,040	(7,480)

22 Contingent liabilities

Performance bonds

The group uses bank letters of credit and insurance bonds to guarantee its performance on major projects These third party guarantees cover the performance of the company's subsidiary undertakings and their suppliers in meeting the requirements of their contracts with customers At 31 December 2006, the group had a Bonding Facility with an international bank that provides bonding capacity of up to $400,000,000, of which approximately $344,100,000 was utilised The group also had bonds outstanding with other banks totaling $7,100,000 at 31 December 2006 The outstanding bonds at 31 December 2006 gave rise to guarantee fees at a weighted average rate of 2 61% for the period The Bonding Facility also requires the payment of a commitment fee of 1 25% of the unused portion Approximately $19,322,678 of the outstanding bonds at 31 December 2006 represent counter-guarantees issued to the former owners of the business to support bonds they have issued on the group's behalf In addition to the Bonding Facility, the group had performance insurance bonds totalling approximately $17,200,000 at 31 December 2006

22 Contingent liabilities *(continued)*

Litigation

The group is party to various legal proceedings and claims that have arisen in the ordinary course of business It is not possible at this time to predict with any degree of certainty the outcome of all such litigation However, except as stated below, the directors are of the opinion, based on information presently available, that it is unlikely that any such liability, to the extent not provided for through insurance or otherwise, would have a material adverse effect on the group's financial position, liquidity or profits

Liquidated damages

Most of the group's contracts contain certain milestone due dates that must be met in order to avoid subjecting the group to liquidated damages for delays Each contract sets out the conditions under which a customer may make a claim against the group for such damages At 31 December 2006, $11,625,000 has been provided for expected claims under these contractual provisions

Environmental liabilities

The group is subject to numerous environmental, legal and regulatory requirements worldwide The group takes an active approach to evaluating and assessing the environmental impact of its operations by assessing and remediating contamination in order to avoid future liabilities and to comply with existing legal and regulatory requirements As a part of the due diligence associated with the sale transaction to General Electric ("GE" - see note 31), the company determined that certain costs would be need to be incurred to bring the company into compliance with regulatory requirements A provision of $5,563,000 has been recorded at 31 December 2006 for these costs The directors do not expect that future costs will have a material adverse effect on the group's financial position or trading results

Employment contracts

The group has entered into employment agreements with its executive officers In most cases, the agreements provide for payment of twelve months salary and bonuses in the event of termination for reasons other than "for cause" although certain individual agreements allow for payments in varying amounts up to thirty months

Certain of the agreements also provide for contingent bonus payments tied to completion of the company's initial public offering or, in some cases, continued employment for a specified period of time, as well as company provided perquisites either for the duration of the agreement or over a limited period outlined in the agreement Each agreement also contains certain non-competition covenants during a period of twelve months following termination

Compliance review, program and code

During 2002, the former parent undertook an investigation of potentially improper business conduct As a result of this investigation, it was discovered that during the period from 1998 to the date of investigation, that some employees were apparently involved in making unauthorised payments to third parties of approximately $1,100,000 with promises of additional payments The payments were made in order to obtain confidential information and favourable consideration from local officials in a West African country with respect to contracts upon which the company was bidding The findings were voluntarily reported by the former parent to the US Department of Justice ("DOJ") and the US Securities and Exchange Commission ("SEC") The former parent undertook an extensive compliance review of its oil, gas and petrochemicals business jointly with the DOJ and SEC On 7 July 2004, the

22 Contingent liabilities *(continued)*

former parent announced it had concluded the compliance review and resolved proceedings with the DOJ and SEC Prior to the acquisition, the former parent paid penalties of $10,500,000 for violation of the Foreign Corrupt Practices Act ("FCPA"), and the former parent paid $5,900,000 for disgorgement of illicit profits

As a part of the company's agreement with the U S government authorities, it has adopted a compliance program and code of conduct intended to detect and prevent future violations of laws related to improper payments These procedures included the formation of a compliance committee of the board of directors, appointment of a chief compliance officer, rigorous reviews of relationships with customers, agents and other representatives and an annual audit of the compliance program

In 2006, the company discovered that some employees were involved in making unauthorised payments of approximately $2,100,000 over a two-year period to government officials of the same West African company through a major international freight forwarding company These payments were made in order to obtain preferential treatment during the customs process These payments were voluntarily reported by the company to the DOJ On 6 February 2007, the company entered into a plea and deferred adjudication agreement with the DOJ and paid $26,004,000 of fines and disgorgement of illicit profits for violations of the FCPA

Management are continuing to monitor the compliance program and are in ongoing discussions with compliance counsel and the DOJ to work towards a satisfactory ongoing program

23 Commitments

At 31 December 2006 and 2005 the group had annual commitments under non-cancellable operating leases as follows

Group	Land and buildings $000	Machinery and equipment $000
31 December 2006		
Operating leases which expire		
Within one year	**2,656**	**2,991**
In the second to fifth years inclusive	**17,433**	**8,817**
Over five years	**10,844**	**1,306**
	30,933	**13,114**
31 December 2005		
Operating leases which expire		
Within one year	1,849	1,299
In the second to fifth years inclusive	8,754	4,210
Over five years	5,416	-
	16,019	5,509

The group also had firm commitments for capital expenditures totaling $11,884,000 at 31 December 2006

24. Employee benefit trust and share based payments

Dunng the year, the company provıded loans of $106,613 (*2005 $213,331*) to the VEBT The proceeds of these loan were used to purchase 25,698 (2005 *51*,397) shares of the company's ordınary shares at $4 15 per share from two of the company's former employees The loans are unsecured and non-ınterest beanng and are due upon demand by the company The loans have been reflected as a reductıon of shareholders' funds ın the consolıdated balance sheet

The shares ın the VEBT have been allocated to certaın employees of the company There are no vestıng condıtıons on these shares Upon allocatıon of the shares to ındıvıdual employees, the company recognıses compensatıon expense equal to the dıfference between the VEBT's cost basıs and the faır value of the shares The value of the shares used for 2006 was based on the transactıon prıce wıth GE The group and company recognısed $6,394,000 of compensatıon cost for the year (*2005 $883,000*)

25. Pensıon schemes

The group operates the followıng two separate defined benefit pensıon schemes ın the U K and Norway and a post-retırement medıcal plan ın the U S The ınformatıon for each scheme and country ıs summarısed below The total value of the pensıon deficıt ıs ın the final table ın thıs note

<u>Maȷor assumptıons used in actuarial valuations:</u>

Full actuarıal valuatıons of the defined benefit schemes were performed by a qualıfied ındependent actuary at 31 December 2005, 31 December 2004 and 12 July 2004 (on acquısıtıon) The maȷor assumptıons used by the actuary for the 31 December 2005 valuatıon were

	U K. defined benefit pensıon scheme	Norwegian defined benefit pension scheme	U.S. defined benefit health and lıfe assurance scheme
As at 31 December 2006:			
Rate of ıncrease ın salarıes/medıcal trend rate	4 30%	3 75%	10 00%-5 00%
Rate of ıncrease ın pensıons ın payment	3 00%	2 00%	N/A
Dıscount rate	5 10%	5 00%	5 60%
Inflatıon assumptıon	3 00%	2 50%	N/A
As at 31 December 2005			
Rate of ıncrease ın salarıes/medıcal trend rate	4 00%	2 70%	10 00%-5 00%
Rate of ıncrease ın pensıons ın payment	2 70%	2 70%	N/A
Dıscount rate	4 85%	5 00%	5 45%
Inflatıon assumptıon	2 70%	2 70%	N/A
As at 31 December 2004			
Rate of ıncrease ın salarıes/medıcal trend rate	4 00%	2 70%	12 00%-4 50%
Rate of ıncrease ın pensıons ın payment	2 75%	2 50%	N/A
Dıscount rate	5 50%	5 00%	5 50%
Inflatıon assumptıon	2 75%	2 50%	N/A

25 Pension schemes *(continued)*

Disclosures in relation to the pension schemes:

At 31 December 2006, the assets in the pension plans and the expected rates of return were:

	UK		Norway		
	Expected long-term rate of return	**Value $000**	**Expected long-term rate of return**	**Value $000**	**Total value $000**
Equities	7 90%	130,260	9 00%	28,980	
Bonds	4 80%	101,858	5 00%	69,393	
Other	4 00%	19,000	5 50%	34,564	
Total market value of assets		251,118		132,937	384,055
Present value of scheme liabilities		(250,922)		(188,554)	(439,476)
Net pension asset/(liability)		**196**		**(55,617)**	**(55,421)**

At 31 December 2005, the assets in the pension plans and the expected rates of return were:

	UK		Norway		
	Expected long-term rate of return	**Value $000**	**Expected long-term rate of return**	**Value $000**	**Total value $000**
Equities	7 90%	165,857	-	-	165,857
Govt bonds	4 50%	37,839	-	-	37,839
Other bonds	-	-	-	-	-
Other	3 70%	-	6 25%	108,854	108,854
Total market value of assets		203,696		108,854	312,550
Present value of scheme liabilities		(211,830)		(145,212)	(357,042)
Net pension liability		**(8,134)**		**(36,358)**	**(44,492)**

25. Pension schemes ***(continued)***

As at 31 December 2004, the assets in the pension plans and the expected rates of return were:

	UK		Norway		
	Expected long-term rate of return	**Value \$000**	**Expected long-term rate of return**	**Value \$000**	**Total value \$000**
Equities	8 35%	100,376	7 50%	5,686	106,062
Govt bonds	5 00%	11,159	4 00%	33,166	44,325
Other bonds	5 50%	11,079	5 50%	55,909	66,988
Other	4 75%	288	-	-	288
Total market value of assets		122,902		94,761	217,663
Present value of scheme liabilities		(193,539)		(126,389)	(319,928)
Net pension liability		**(70,637)**		**(31,628)**	**(102,265)**

Analysis of amount charged to operating profit (\$000)

	UK	**Norway**	**Total**
For the year ended 31 December 2006:			
Current service cost	(6,435)	(12,676)	(19,111)
Total operating charge	**(6,435)**	**(12,676)**	**(19,111)**
For the year ended 31 December 2005:			
Current service cost	(5,845)	(10,351)	(16,196)
Total operating charge	**(5,845)**	**(10,351)**	**(16,196)**

Analysis of amount charged/(credited) to other finance costs (\$000):

	UK	**Norway**	**Total**
For the year ended 31 December 2006:			
Expected return on pension scheme assets	15,444	7,152	22,596
Interest on pension scheme liabilities	(10,664)	(7,435)	(18,099)
Net finance income/(cost)	**4,780**	**(283)**	**4,497**
For the year ended 31 December 2005·			
Expected return on pension scheme assets	8,220	5,610	13,830
Interest on pension scheme liabilities	(9,316)	(6,006)	(15,322)
Net finance cost	**(1,096)**	**(396)**	**(1,492)**

Vetco International Limited

Notes *(continued)*

25 Pension schemes ***(continued)***

Analysis of amount recognised in statement of total recognised gains and losses ($000).

	UK	Norway	Total
For the year ended 31 December 2006.			
Expected return less actual return on pension scheme assets	2,390	(3,799)	(1,409)
Experience gains/(losses) arising on pension scheme liabilities	(4,780)	(20,143)	(24,923)
Changes in assumptions underlying the present value of the pension scheme liabilities	2,390	(1,908)	482
Actuarial loss recognised in the statement of total recognised gains and losses	-	(25,850)	(25,850)
For the year ended 31 December 2005:			
Actual return less expected return on pension scheme assets	16,623	299	16,922
Experience gains/(losses) arising on pension scheme liabilities	(11,303)	6,262	(5,041)
Changes in assumptions underlying the present value of the pension scheme liabilities	(15,527)	(22,921)	(38,448)
Actuarial loss recognised in the statement of total recognised gains and losses	(10,207)	(16,360)	(26,567)

Movement in deficit during the period ($000)

	UK	Norway	Total
For the year ended 31 December 2006:			
Deficit in schemes at 1 January 2006	**(8,134)**	**(36,358)**	**(44,492)**
Movement in the year:			
Current service cost	(6,435)	(12,676)	(19,111)
Contributions	10,296	22,504	32,800
Other finance cost	4,780	(283)	4,497
Actuarial loss	-	(25,850)	(25,850)
Effect of movement in exchange rates	(311)	(2,954)	(3,265)
Deficit in schemes at 31 December 2006	196	(55,617)	(55,421)
Related deferred tax asset (see note 19)	-	15,595	15,595
Net deficit in schemes at 31 December 2006	196	(40,022)	(39,826)

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Notes *(continued)*

25. Pension schemes ***(continued)***

Movement in deficit during the period ($000):

	UK	Norway	Total
For the year ended 31 December 2005:			
Deficit in schemes at 1 January 2005	**(70,637)**	**(31,628)**	**(102,265)**
Movement in the period·			
Current service cost	(5,845)	(10,351)	(16,196)
Contributions	75,178	19,511	94,689
Other finance cost	(1,096)	(396)	(1,492)
Actuarial gain	(10,207)	(16,360)	(26,567)
Effect of movement in exchange rates	4,473	2,866	7,339
Deficit in schemes at 31 December 2005	(8,134)	(36,358)	(44,492)
Related deferred tax asset (see note 19)	-	10,678	10,678
Net deficit in schemes at 31 December 2005	**(8,134)**	**(25,680)**	**(33,814)**

History of experience gains and losses

	UK	Norway	Total
For the year ended 31 December 2006:			
Difference between the expected and actual return on scheme assets:			
Amount ($000)	2,390	(3,799)	(1,409)
Percentage of scheme assets	0 95%	2 86%	37%
Experience gains/(losses) on scheme liabilities:			
Amount ($000)	(4,780)	(20,143)	(24,923)
Percentage of the present value of the scheme liabilities	1 91%	10 68%	5 81%
Total amount recognised in the statement of total recognised gains and losses·			
Amount ($000)	-	(22,051)	(22,051)
Percentage of the present value of the scheme liabilities	-	11 69%	5 14%

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Notes *(continued)*

25. Pension schemes *(continued)*

History of experience gains and losses *(continued)*:

	UK	Norway	Total
For the year ended 31 December 2005:			
Difference between the expected and actual return on scheme assets.			
Amount ($000)	16,623	299	16,922
Percentage of scheme assets	8 16%	0 27%	5 41%
Experience losses on scheme liabilities:			
Amount ($000)	(11,303)	6,262	(5,041)
Percentage of the present value of the scheme liabilities	(5 32%)	4 31%	(1 41%)
Total amount recognised in the statement of total recognised gains and losses:			
Amount ($000)	(10,207)	(16,360)	(26,567)
Percentage of the present value of the scheme liabilities	(4 80%)	(11 27%)	(7 44%)
For the period from 12 July 2004 to 31 December 2004:			
Difference between the expected and actual return on scheme assets:			
Amount ($000)	5,406	(4,973)	433
Percentage of scheme assets	4 40%	(5 25%)	0 20%
Experience losses on scheme liabilities:			
Amount ($000)	(1,548)	-	(1,548)
Percentage of the present value of the scheme liabilities	(0 89%)	-	(0 52%)
Total amount recognised in the statement of total recognised gains and losses:			
Amount ($000)	3,858	15,447	19,305
Percentage of the present value of the scheme liabilities	2 20%	12 22%	6 45%

25 Pension schemes *(continued)*

Disclosures in relation to the US post-retirement medical plan.

Present values of the liabilities, assessed using the assumptions noted above, were as follows:

	31 December 2006	31 December 2005	31 December 2004
	$000	$000	$000
Present value of scheme liabilities	**(36,062)**	(45,334)	(47,183)
Deficit in scheme	**(36,062)**	(45,334)	(47,183)
Related deferred tax asset	**-**	-	-
Net benefit liability	**(36,062)**	(45,334)	(47,183)

Analysis of the amount credited/(charged) to operating profit:

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Current service cost	**(908)**	(962)
Past service cost	**8,250**	2,043
Total operating credit/(charge)	**7,342**	1,081

Analysis of the amount debited to other finance cost

	Year ended 31 December 2006	**Year ended 31 December 2005**
	$000	$000
Interest on plan liabilities	**(1,932)**	(2,519)
Net finance cost	**(1,932)**	(2,519)

Analysis of amount recognised in statement of total recognised gains and losses.

	Year ended 31 December 2006	**Year ended 31 December 2005**
	$000	$000
Experience gains arising on plan liabilities	**2,415**	1,249
Changes in assumptions underlying the present plan value	**(361)**	-
Actuarial gain/(loss) recognised in the statement of total recognised gains and losses	**2,054**	1,249

25. Pension schemes *(continued)*

Movement in deficit during the year:

	Year ended 31 December 2006 $000	Year ended 31 December 2005 $000
Deficit in scheme at beginning of year	**(45,334)**	**(47,183)**
Movement in the period		
Current service (cost)/credit	**(908)**	**(962)**
Contributions	**1,808**	**2,038**
Past service costs	**8,250**	**2,043**
Other finance costs	**(1,932)**	**(2,519)**
Actuarial gain/(loss)	**2,054**	**1,249**
Deficit in scheme at the end of year	**(36,062)**	**(45,334)**

History of gains and losses.

For the year ended 31 December 2006:	
Difference between the expected and actual return on scheme assets:	
Amount ($000)	-
Percentage of scheme assets	N/A
Experience gains/(losses) on scheme liabilities:	
Amount ($000)	2,415
Percentage of present value of scheme liabilities	6 70%
Total amount recognised in the statement of total recognised gains and losses	
Amount ($000)	2,054
Percentage of present value of scheme liabilities	5 70%
For the year ended 31 December 2005:	
Difference between the expected and actual return on scheme assets:	
Amount ($000)	-
Percentage of scheme assets	N/A
Experience gains/(losses) on scheme liabilities:	
Amount ($000)	-
Percentage of present value of scheme liabilities	0 00%
Total amount recognised in the statement of total recognised gains and losses:	
Amount ($000)	1,249
Percentage of present value of scheme liabilities	2 76%

Vetco International Limited
Notes *(continued)*

25. Pension schemes *(continued)*

History of gains and losses *(continued)*:

For the period from 12 July 2004 to 31 December 2004:	
Difference between the expected and actual return on scheme assets.	
Amount ($000)	-
Percentage of scheme assets	N/A
Experience gains/(losses) on scheme liabilities:	
Amount ($000)	1,402
Percentage of present value of scheme liabilities	2 97%
Total amount recognised in the statement of total recognised gains and	
Amount ($000)	(2,023)
Percentage of present value of scheme liabilities	(4 29%)

Analysis of movements in deficit (combined):

	UK $000	Norway $000	US $000	Total $000
Deficit at 31 December 2005	(8,134)	(36,358)	(45,334)	(89,826)
Service (cost)/credit	(6,435)	(12,676)	7,342	(11,769)
Finance cost, net	4,780	(283)	(1,932)	2,565
Contributions	10,296	22,504	1,808	34,608
Actuarial gain/(loss)	-	(25,850)	2,054	(23,796)
Exchange rate movements	(311)	(2,954)	-	(3,265)
Deficit at 31 December 2006	196	(55,617)	(36,062)	(91 483)
Related deferred tax asset (see note 19)	-	15,595	-	15,595
Net deficit at 31 December 2006	**196**	**(40,022)**	**(36,062)**	**(75,888)**

Vetco International Limited
Notes *(continued)*

26. Reconciliation of operating profit to net cash flow from operating activities

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Operating profit	**55,404**	84 378
Depreciation of tangible fixed assets	**48,283**	45,607
Amortisation of intangible fixed assets	**28,169**	27,984
Profit on sale of fixed assets	**(517)**	(1,511)
Increase in stocks	**(79,423)**	(117,127)
Increase in debtors	**(193,705)**	(14,454)
Increase in creditors	**348,888**	209,428
Increase in investments	**(2,403)**	(1,001)
Increase/(decrease) in provisions	**45,823**	(1,575)
Shortfall of contributions over service cost	**(38,434)**	(99,629)
Net cash flow from operating activities	**212,085**	132,100

Vetco International Limited

Notes *(continued)*

27. Analysis of cash flows

	Year ended 31 December 2006		Year ended 31 December 2005	
	$000	$000	$000	$000
Net cash flow from operating activities		212,085		132,100
Returns on investment and servicing of finance				
Interest receivable	3,787		2,750	
Interest payable on bank loans	(104,682)		(111,805)	
		(100,895)		(109,055)
Taxation paid		(28,139)		(49,196)
Investing activities				
Capital expenditure on tangible fixed assets	(45,527)		(25,544)	
Purchase of minority interest	(1,750)		-	
Sales of tangible fixed assets	2,741		3,039	
		(44,536)		(22,505)
Acquisitions				
Tangible fixed assets	-		4,258	
Intangible fixed assets	-		14,579	
Investments	-		-	
Current assets	-		(11,469)	
Creditors due within one year	-		1,257	
Creditors due after more than one year	-		-	
Provisions	-		(1,750)	
Pensions	-		-	
Minority interests	-		-	
		-		6,875
Financing				
Bank loans received	199,000		411,061	
Bank loans repaid	(155,285)		(12,900)	
Payments on finance leases	-		(2,315)	
Debenture loans paid (see note 17)	(149)		(432,202)	
Debt issue costs paid	-		(16,307)	
Purchase of own shares (by Vetco EBT)	(106)		(213)	
Dividends paid to minority interest	(551)		-	
		42,909		(52,876)
Net cash inflow/(outflow) for the period		81,424		(94,657)

28. Analysis of net debt

	At 1 January 2006 $000	Cashflow $000	Foreign exchange movements	Other non-cash movements $000	At 31 December 2006 $000
Cash at bank and in hand	157,696	81,424	(2,164)	-	236,956
Bank loans due within one year	(16,762)	(17,857)	-	-	(34,619)
Bank loans due after more than one year	(1,029,722)	(25,858)	(12,912)	(38,316)	(1,106,808)
Deep discount bonds due after more than one year	(149)	149	-	-	-
Preferred ordinary shares reclassified	(4,003)	-	-	-	(4,003)
Total	(892,940)	37,858	(15,076)	(38,316)	(908,474)

29 Control

JPMorgan Partners LLC, Candover Partners Limited and 3i Group Plc, and partnerships sponsored by each, own 25 2%, 25 5% and 25 7%, respectively, of the company's share capital and each has representatives that serve as directors of the company

30. Related party transactions

Transactions with owners

JPMorgan Partners LLC ("JPMP") is a subsidiary of J P Morgan Chase, N A ("JPM"), which is a large global diversified financial services firm The company maintains lending, foreign exchange, debt underwriting, cash management, investment management, derivative counterparty and shareholder service relationships with JPM and/or its affiliates Affiliates of JPM were also the lead bank for the Senior Credit Agreement and were responsible for arranging the acquisition of the company on 12 July 2004 and the subsequent debt refinancing outlined in note 18 At 31 December 2006, JPM and its affiliates held $28,377,212 of the Senior Term Loan (*2005 $44,427,611*)

For the years ended 31 December 2006 and 2005, the company paid fees to JPM or its affiliates for the following services

30. Related party transactions *(continued)*

	Year ended 31 December 2006	Year ended 31 December 2005
	$000	$000
Acquisition and Senior Credit Agreement fees:		
Arrangement	-	14,505
Commitment	-	-
Advisory and syndication	-	-
Other, including reimbursed expenses	287	-
	287	14,505

The company also paid advisory fees and reimbursed expenses to Candover Partners Limited and 3i Group Plc in the amounts of $nil and $11,932, respectively, for the year ended 31 December 2006 (*2005 $404,205 and $200,860, respectively*)

Each of the shareholders of the company also held deep discount bonds in the company's immediate subsidiary, Vetco Group Limited All of the deep discount bonds, except the deep discount bonds held by P Butzberger and F Machuca, were redeemed during the year ended 31 December 2005 as part of the refinancing outlined in note 18 The deep discount bonds held by P Butzberger and F Machuca were redeemed on 5 January 2006 The table below sets out the shareholdings and deep discount bonds held by each party at 31 December 2006 and 31 December 2005

	Common ordinary shares		Preferred ordinary shares		Deep discount bonds held in Vetco Group Limited	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005	**31 December 2006**	31 December 2005
					$000	$000
Candover	-	-	2,563,942	2,563,942	-	-
3i	-	-	2,564,461	2,564,461	-	-
JPMP	-	-	2,522,854	2,522,854	-	-
Alpinvest	-	-	839,707	839,707	-	-
J Kennedy	1[1]	1[1]	-[1]	-[1]	-	-
J P Parayre	-	-	41,606	41,606	-	-
P Loyd	43,366	43,366	-[2]	-[2]	-	-
P Kennedy	9,637	9,637	5,201	5,201	-	-
P Butzberger	33,729	33,729	2,080	2,080	-	75
D Lamont	33,729	33,729	2,912	2,912	-	-
D Grierson	24,092	24,092	2,080	2,080	-	-
F Machuca	16,062	48,185[3]	2,080	2,080	-	74
E Fougner	28,911	48,185[3]	2,080	2,080	-	-
J Wilkerson	-	-	1,040	1,040	-	-
A Tripodo	9,637	9,637	4,160	4,160	-	-
					-	149

Vetco International Limited
Notes *(continued)*

30 Related party transactions *(continued)*

[1]A discretionary trust established for the benefit of J Kennedy's family also holds 240,924 and 41,606, respectively, of common ordinary and preferred ordinary shares

[2] Two entities collectively own 83,212 preferred ordinary shares on behalf of Mr P Loyd

[3] F Machuca and E Fougner transferred 32,123 and 19,274, respectively, of their common ordinary shares to the Vetco Employee Benefit Trust on 21 July 2005

31. Post balance sheet events

Sale of the business

On 23 February 2007, the following transactions occurred

- Vetco Group Limited assumed certain third party debts and debts (being debts associated with the Vetco Gray business) owed by the Aibel Group Limited to other group companies, totalling $149,303,000, by way of a capital contribution,

- Aibel Group Limited declared a dividend to the Vetco Group Limited which comprised the transfer of receivables (being receivables associated with the Vetco Gray business) due from third parties and other group companies, totalling $328,934,000, and

- Aibel Group Limited sold the shares of Vetco Gray Holding Limited to Vetco Group Limited for their fair value of $1,850,579,000

After these transactions, the then-shareholders of the company sold all the issued share capital in the company to General Electric ("GE"), and Vetco Group Limited sold the shares in Aibel Group Limited (holding the Vetco Aibel business) to a company associated with the former shareholders of the company

Reorganisation of Vetco Gray business following the GE acquisition

In August 2007, the following transactions involving the company and its subsidiaries took place (all sales were for cash and at fair value)

- On 16 August 2007, Vetco International Holding 4 sold its shares in Vetco International Holding (Delaware) to the company,

- On 17 August 2007, GE sold the shares in the company to IGE USA Group Ltd , a UK holding company in the General Electric UK group, and

- Also on 17 August 2007, the company sold the shares in Vetco Group Limited to IGE USA Group Limited, which shortly afterwards sold the shares to its wholly owned subsidiary, International General Electric (USA), another UK holding company in the General Electric UK group

Vetco International Limited

Profit and loss account

for the year ended 31 December 2006

	Year ended 31 December 2006	Year ended 31 December 2005
Turnover	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	(6,394)	(883)
Operating loss	(6,394)	(883)
Loss on ordinary activities before taxation	(6,394)	(883)
Tax on loss on ordinary activities	(37)	-
Loss for the financial period	(6,431)	(883)

The results in the above profit and loss account relate entirely to continuing operations

This profit and loss account was approved by the board of directors on ________________ 2007 and was signed on its behalf by

D Larssen
Director

Vetco International Limited
Profit and loss account
for the year ended 31 December 2006

	Year ended 31 December 2006	Year ended 31 December 2005
Turnover	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	(6,394)	(883)
Operating loss	(6,394)	(883)
Loss on ordinary activities before taxation	(6,394)	(883)
Tax on loss on ordinary activities	(37)	-
Loss for the financial period	(6,431)	(883)

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Vetco International Limited
Profit and loss account
for the year ended 31 December 2006

	Year ended 31 December 2006	Year ended 31 December 2005
Turnover	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	(6,394)	(883)
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The results in the above profit and loss account relate entirely to continuing operations

This profit and loss account was approved by the board of directors on __________________ 2007 and was signed on its behalf by

D Larssen
Director

vetcogray™
a GE Oil & Gas business

Davis Larssen
Director

Silverburn House
Bridge of Don Aberdeen AB23 8GD
U K

9 November 2007

KPMG LLP
100 Temple St
Bristol
BS1 6AG
UK

Representation letter for Vetco International Ltd & Vetco Group Ltd

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Vetco International Ltd and Vetco Group Ltd, for the purpose of expressing an opinion as to whether these financial statements give a true and fair view of the financial position of the Companies and of their financial performance in accordance with UK Generally Accepted Accounting Practice These financial statements comprise the balance sheet as at 31 December 2006, and the profit and loss account, statement of total recognised gains and losses and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes ("the 2006 financial statements")

We acknowledge as directors our responsibilities under the Companies Act 1985 for preparing financial statements which give a true and fair view of the Companies

We also acknowledge as directors our responsibilities under the Companies Act 1985 for making accurate representations to you and for ensuring that there is no relevant audit information that you are unaware of

The board of each of the Companies ("the Boards") approves the financial statements

The Boards understand that auditing standards require you to obtain representations from directors on matters that are material to your opinion

The Boards have made appropriate inquiries of directors and officers of the Companies with the relevant knowledge and experience Accordingly, the Boards confirm, to the best of their knowledge and belief, the following representations given to you in connection with your audit of the 2006 financial statements

1 The financial statements referred to above give a true and fair view in accordance with UK Generally Accepted Accounting Practice

2 All the accounting records have been made available to you for the purpose of your audit, and the full effect of all the transactions undertaken by the companies have been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements All other records and related information, including minutes of all management, board and shareholders meetings, have been made available to you

3 Except as disclosed to you regarding the matter with the US Department of Justice, The Boards are not aware of any known actual or possible non-compliance with laws and regulations that could have a material effect on the ability of the Companies to conduct their business and therefore on the results and financial position to be disclosed in the 2006 financial statements

4 The Boards

(a) understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets Misstatements resulting from fraudulent financial reporting involve intentional misstatements including omissions of amounts or disclosures in the financial statements to deceive financial statement users Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation

(b) acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error

(c) have disclosed to you their knowledge of fraud or suspected fraud affecting the Companies involving

- management and those charged with governance,
- employees who have significant roles in internal control, or
- others where the fraud could have a material effect on the group's and companies' financial statements

(d) have disclosed to you their knowledge of any allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others

(e) have disclosed to you the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud

6 The Boards confirm the completeness of the information provided to you regarding the identification of related parties and regarding transactions with such parties that are material to the financial statements The identity of, and balances and transactions with, related parties have been properly recorded and when appropriate, adequately disclosed in the notes to the financial statements The

Boards are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements

7 Presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity are in accordance with UK Generally Accepted Accounting Practice The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Companies where relevant to the fair value measurements or disclosures.

8 The Boards have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and, in the case of Vetco International Ltd, have disclosed in Note 22 to the financial statements all guarantees given to third parties

9 The estimated financial effect of pending or threatened litigation and claims against the Companies have been properly recorded and/or disclosed in the financial statements Except as disclosed in the notes to the financial statements, the Boards are not aware of any additional claims that have been or are expected to be received

10 Except as disclosed in the financial statements or notes thereto there are no

(a) other gain or loss contingencies or other liabilities that are required to be recognised or disclosed in the financial statements, including liabilities or contingencies arising from environmental matters resulting from illegal or possibly illegal acts, or possible violations of human rights legislation, or

(b) other environmental matters that may have a material impact on the financial statements

11 The Boards confirm that in the cases of Vetco International Ltd and Vetco Group Ltd, the financial statements contain their plans for future action relevant to the Companies' ability to continue as a going concern

12 On the basis of the process established by the Boards and having made appropriate enquiries, the Boards are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with their knowledge of the business The Boards further confirm that

(a) all significant retirement benefits, including any arrangements that are statutory, contractual or implicit in the employer's actions, arise in the UK and the Republic of Ireland or overseas, are funded or unfunded, and are approved or unapproved, have been identified and properly accounted for, and

(b) all settlements and curtailments have been identified and properly accounted for

The schemes set out in the attached schedule have been accounted for in the financial statements There are no other schemes of any significance

This letter was tabled and agreed at the meeting of the Boards of Directors of Vetco International Ltd on 9 November 2007

Yours truly,

Davis Larssen

Vetco International Limited
Profit and loss account
for the year ended 31 December 2006

	Year ended 31 December 2006	Year ended 31 December 2005
Turnover	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses	(6,394)	(883)
Operating loss	(6,394)	(883)
Loss on ordinary activities before taxation	(6,394)	(883)
Tax on loss on ordinary activities	(37)	-
Loss for the financial period	(6,431)	(883)

The results in the above profit and loss account relate entirely to continuing operations

This profit and loss account was approved by the board of directors on Nov 9, 2007 and was signed on its behalf by

D Larssen

D Larssen
Director