Registered No 873028

National Oilwell Varco UK Limited

Report and Financial Statements

31 December 2011

Registered No 873028

Directors
C P O'Neil
S G Valentine

Secretary
A J Fleming

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Directors' report

Registered No. 873028

The directors present their report and financial statements for the year ended 31 December 2011.

Results and dividends

The profit for the year, after taxation, was £31,763,000 (2010 loss - £4,991,000) The directors recommend no dividend be paid in 2011 (2010 – nil) and the profit be transferred to reserves

Principal activity and review of business

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

The company traded as the following divisions Amclyde Norson Engineering, ASEP Elmar, Brandt, Brandt Environmental, Coil Services (North Sea), CTES, Distribution Services, Grant Prideco, Hydra Rig, MD Totco, Portable Power, Procon Engineering, Rig Solutions, Russell Sub-Surface Systems, Tuboscope, Tuboscope Far East and XL Systems throughout the year The company also began trading as

- Mission Montrose division after acquiring and transferring the trade, assets and liabilities of the Merpro Group, which specialises in the manufacture of process equipment and solutions associated with sand handling, produced water treatment, and gas treatment in both the land and offshore markets
- Capital Valves division after acquiring and transferring the trade, assets and liabilities of Capital Valves Limited, a valve distribution company

The company operates branches in Norway and Azerbaijan

Also during 2011, the company

- increased its investment in NOV Ghana Limited
- established NOV ASEP Elmar do Brasil Equipamentos e Servicos Para Petroleo Ltda, a subsidiary based in Macae, Brazil
- established NOV Oil & Gas Services Nigeria Limited, a subsidiary based in Nigeria

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

	2011	*2010*	*Change*
Turnover £000	355,793	294,084	21%
Profit on ordinary activities before taxation £000	36,830	8,138	353%
Shareholders' funds £000	711,061	693,584	3%
Current assets as a percentage of current liabilities	95%	125%	N/A
Average number of employees	1,387	1,149	21%

Turnover increased through the acquisition and transfer of the Mission Montrose business, along with a full period of accounting for the divisions acquired in 2010

The operating profit fell for the year despite the increased turnover This was due to a full period of accounting without the Downhole Tools division and a large transfer pricing adjustment being recorded in the Rig Solutions division

Profit before taxation increased significantly in 2011 which followed the UK group reorganisation in 2010 and its associated non recurring items The profit also includes the result of the newly transferred Mission Montrose division

Shareholders' funds increased slightly by 3%, as the profit for the year was offset by the recognition of a merger reserve

At the year end, the company is in a net current liabilities position, however, two thirds of the current liabilities are balances due to fellow subsidiary undertakings

Employee levels rose during the year following further acquisitions

Directors' report

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Principal risks and uncertainties

Market risks

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

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

Other risks and uncertainties

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

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

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of foreign exchange movements, interest rate risk, liquidity risk, credit risk and price risk

Foreign exchange risk
The company is exposed to foreign currency exchange rate fluctuations, primarily between sterling and the US dollar The continued financial uncertainty across Europe is indirectly affecting currencies worldwide The company uses forward foreign currency contracts to reduce this exposure The directors do not consider the fair value of the contracts in place at 31 December 2011 to be materially different to the issue cost

Interest rate risk
Exposure to interest rate risk is limited to movements in the UK and US base rates However, as the company has no external debt its exposure to interest rate risk is considered low

Liquidity risk
The company has available cash reserves and no external debt As such, the directors consider the company's exposure to liquidity risk to be low

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

Directors' report

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Financial risk management (continued)

Price risk

The directors do not consider the company to be exposed to commodity price risk as the goods and services supplied to customers are delivered based on fixed price lists and are not linked to commodity price movements

Research and development

The company continues to meet and exceed market demand by enhancing its product offering through research and development

Future developments

The directors believe that turnover and profitability of the company will continue to reflect market conditions in the coming years, due to the quality and service levels provided by the company, the benefits of being part of a growing global group and continued market buoyancy The directors are focused on continuing to expand the company through strategic acquisitions

Post balance sheet events

In 2012, the company

- transferred the Russell Sub-Surface Systems division to a fellow group company on 1 January 2012
- acquired Techdrill Limited, a company that supplies pipes, drilling equipment and manifolds to the oil field development industry The trade, assets and liabilities were transferred to the company post acquisition and the business now trades as the Mission Morpeth division
- acquired Forth Valley Engineering Limited, a company that supplies general oil and gas manufactured products The trade, assets and liabilities were transferred to the company post acquisition and the business now trades as the Mission Edinburgh division
- began trading as a branch in Cameroon

Going Concern

The current economic conditions create an element of uncertainty over demand for some of the company's services but the directors' forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is expected to have a sufficient level of financial resources available and therefore the directors believe that the company is well placed to manage its business risks successfully despite the economic uncertainty After making enquiries and despite the net current liabilities position, the directors have a strong expectation that the company has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to prepare the financial statements on a going concern basis

Directors

The current directors are shown on page 1

T D Boyle was a director until 4 July 2011 when he resigned and D J Keener was appointed

D J Keener was a director until 3 August 2011 when he resigned and C P O'Neil was appointed

Political and charitable donations

During the year the company made charitable donations of £20,421 (2010 - £3,374)

Directors' report

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Disabled employees

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

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

Employee involvement

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

Disclosure of information to auditors

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

Re-appointment of auditors

In accordance with S 487 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the Company

On behalf of the board

C P O'Neil
Director

27 June 2012

Directors' Responsibilities Statement

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 financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditor's report

to the members of National Oilwell Varco UK Limited

We have audited the financial statements of National Oilwell Varco UK Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 25 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition we read all the financial and non financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatement or inconsistencies we consider the implications for our report

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Kenneth MacLeod Hall (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
27 June 2012

Profit and loss account

for the year ended 31 December 2011

	Notes	2011 £000	2010 £000
Turnover	2	355,793	294,084
Cost of sales		(282,170)	(215,360)
Gross profit		73,623	78,724
Selling and distribution expenses		(7,424)	(5,371)
Administrative expenses		(32,725)	(23,677)
Operating profit	3	33,474	49,676
Profit on disposal of tangible fixed assets		344	663
Profit on disposal of business		-	3,720
Income from shares in group undertakings		4,333	181,279
Amounts written off fixed asset investments	10	(50)	(225,422)
Interest payable	4	(1,645)	(2,192)
Interest receivable		383	128
Other finance (expenses)/income	21	(9)	286
Profit on ordinary activities before taxation		36,830	8,138
Taxation on profit on ordinary activities	7	(5,067)	(13,129)
Profit/(loss) for the financial year	17	31,763	(4,991)

All activities in the current and prior year relate to continuing operations

Statement of total recognised gains and losses
for the year ended 31 December 2011

	2011	2010
	£000	£000
Profit/(loss) for the financial year	31,763	(4,991)
Actuarial gain/(loss) relating to the pension schemes	2,060	(1,192)
Deferred taxation attributable the actuarial gain/(loss)	(577)	334
Total gains and losses recognised in the year	33,246	(5,849)

Balance sheet

at 31 December 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Intangible assets	8	21,706	10,759
Tangible assets	9	40,676	30,086
Investments	10	663,927	614,122
		726,309	654,967
Current assets			
Stock	11	91,457	71,431
Debtors	12	123,549	101,570
Cash at bank and in hand		72,027	36,786
		287,033	209,787
Creditors: amounts falling due within one year	13	(301,686)	(168,152)
Net current (liabilities)/assets		(14,653)	41,635
Total assets less current liabilities		711,656	696,602
Creditors amounts falling due after more than one year	14	(10)	(10)
Provision for liabilities	15	(1,126)	(1,135)
Net assets excluding pension asset/(liability)		710,520	695,457
Pension asset/(liability)	21	541	(1,873)
Net assets including pension asset/(liability)		711,061	693,584
Capital and reserves			
Called up share capital	16	77,916	77,916
Share premium account	17	507,714	507,714
Merger reserve	17	(17,007)	-
Share-based payment reserve	17	5,336	4,098
Profit and loss account	17	137,102	103,856
Total shareholders' funds	17	711,061	693,584

The financial statements were approved by the Board of Directors and authorised for issue on 27 June 2012

C P O'Neil

Director

Notes to the financial statements

at 31 December 2011

1 Accounting policies

Basis of preparation

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

Group financial statements

The financial statements present information about the company as an individual undertaking and not about its group The company is not required to prepare group financial statements under section 401 of the Companies Act 2006 as the company and all of its subsidiary undertakings are consolidated in the consolidated financial statements of National Oilwell Varco Inc, which are prepared in accordance with US GAAP and are drawn up to 31 December 2011

Cashflow statement

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

Revenue recognition

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

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

Segmental reporting

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

Goodwill and Merger Reserve

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

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

Where a positive balance is generated from an inter group reorganisation, goodwill cannot be recognised and the debit balance is instead recorded as a merger reserve within capital and reserves

Intangible assets

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

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

Investments

Fixed asset investments are valued at historical cost less any provision for impairment

Notes to the financial statements

at 31 December 2011

1. Accounting policies (continued)

Fixed assets and depreciation

All fixed assets are initially recorded at cost

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

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

Stocks

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

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

Long term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract Revenues derived from variations on contracts are recognised only when they have been accepted by the customer Full provision is made for losses on all contracts in the year in which they are first foreseen

Warranty costs

A warranty provision is recognised when the company has a legal or constructive obligation as a result of a past sale and it is likely that an outflow of economic benefits will be required to settle the obligation Provisions for the expected costs of maintenance under guarantee are charged against profits when products have been invoiced

Research and development

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

Notes to the financial statements

at 31 December 2011

1 Accounting policies (continued)

Deferred taxation

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

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

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date All differences are taken to the profit and loss account

Derivative instruments

The company uses forward foreign currency contracts to reduce exposure to foreign exchange rates

Forward foreign currency contracts

The criteria for forward foreign currency contracts are

- the instrument must be related to a firm foreign currency commitment,
- it must involve the same currency as the hedged item, and
- it must reduce the risk of foreign currency exchange movements on the company's operations

The rates under such contracts are used to record the hedged item As a result, gains and losses are offset against the foreign exchange gains and losses on the related financial assets and liabilities, or where the instrument is used to hedge a committed future transaction, are not recognised until the transaction occurs

Leasing and hire purchase commitments

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

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

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

Notes to the financial statements

at 31 December 2011

1. Accounting policies (continued)

Pensions

The company operated three schemes, two defined benefit schemes and a hybrid pension scheme which comprised of a defined contribution section with a defined benefit underpin

The contributions in the defined contribution scheme are charged to the profit and loss account as they fall due for payment

The assets of the defined benefit scheme are held separately from those of the company in separate trustee administered funds

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

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

Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award Fair value is determined using an appropriate pricing model In valuing equity-settled transactions no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions)

No expense is recognised for awards that do not ultimately vest

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

Notes to the financial statements

at 31 December 2011

2. Turnover

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

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

	2011	*2010*
	£000	*£000*
Europe	222,776	191,180
Americas	43,746	30,572
Asia	47,826	40,180
Africa	29,350	22,567
Other	12,095	9,585
	355,793	294,084

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

3. Operating profit

This is stated after charging/(crediting)

	2011	*2010*
	£000	*£000*
Amortisation of intangible assets	899	1,010
Depreciation of owned fixed assets	5,988	5,738
Operating lease rentals - land and buildings	3,250	3,116
- plant and machinery	822	892
Auditors' remuneration - audit of the financial statements	198	193
Research and development expenditure written off	967	1,175
Foreign exchange gain	(2,699)	(1,319)

4. Interest payable and similar charges

	2011	*2010*
	£000	*£000*
Bank loans and overdrafts	117	2
Amounts due to group undertakings	1,528	2,190
	1,645	2,192

Notes to the financial statements

at 31 December 2011

5. Staff costs

	2011	2010
	£000	£000
Wages and salaries	57,023	45,230
Social security costs	6,155	4,623
Other pension costs	2,250	1,566
	65,428	51,419

Included in wages and salaries is a total expense of equity settled share-based payments of £1,238,000 (2010 - £941,000)

The average monthly number of employees during the year was as follows

	2011	20010
	No	No
Production	1,150	932
Sales	77	46
Administration	160	171
	1,387	1,149

6. Directors' remuneration

	2011	2010
	£000	£000
Aggregate remuneration in respect of qualifying services	207	133
Employer contributions paid to company pension scheme	16	19

	2011	2010
	No	No
Number of directors		
- who are members of company pension scheme	2	1
- who received shares in respect of qualifying services	2	1
- who exercised share options	1	0
- who exercised options over shares in the ultimate parent company	1	0

Notes to the financial statements

at 31 December 2011

6. Directors' remuneration (continued)

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

	2011	*2010*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	165	133
Company contributions paid to money purchase pension schemes	13	19

During 2011, £33,000 (2010 £nil) was payable to one director as compensation for loss of office

The directors of the company are also directors of fellow subsidiaries The directors received total remuneration for the year of £373,000 (2010 £237,000), of which £223,000 was paid by the company and £150,000 by another group company in the UK

7. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows

	2011	*2010*
	£000	*£000*
Current tax		
Corporation tax	3,308	8,990
Group relief	4,898	5,097
Double taxation relief	(757)	(955)
Adjustments in respect of prior periods	(2,926)	(212)
	4,523	12,920
Overseas tax	757	955
Total current tax (note 7(b))	5,280	13,875
Deferred tax		
Origination and reversal of timing differences	1,125	(341)
Deferred tax on share based payments	(17)	(326)
Reversal of provision on Industrial Buildings Allowances	(1,321)	(79)
	(213)	(746)
	5,067	13,129

Notes to the financial statements

at 31 December 2011

7. Tax (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 26 5% (2010 – 28%) The differences are reconciled below

	2011	*2010*
	£000	*£000*
Profit on ordinary activities before taxation	36,830	8,138
Profit on ordinary activities multiplied by standard rate of corporation tax of 26 5% (2010 28%)	9,760	2,279
Effect of		
(Income not taxable)/expenses not deductible for tax purposes	(434)	12,046
Capital allowances (less than)/in excess of depreciation	(336)	155
Other timing differences	(784)	(393)
Adjustments in respect of previous periods	(2,926)	(212)
Total current tax (note 7(a))	5,280	13,875

(c) Factors that may affect future tax charges

UK Corporation tax is calculated at 26 5% (2010 28%) of the estimated assessable profit for the year

In the Budget of June 2010, it was announced that the full rate of UK corporation tax would be reduced by 1% per year for four years starting from 1 April 2011, ultimately bringing the corporation tax rate down to 24% In addition, it was proposed to reduce the main rate of capital allowances from 20% to 18%

In the Budget of March 2011, it was further announced that the full rate of UK corporation tax would reduce by 2% to 26% effective from 1 April 2011 and then 1% per year for three years thereafter, ultimately bringing the corporation tax rate down to 23% As at 31 December 2011 the reduction in the UK tax rate from 27% to 25% from 1 April 2012 was substantively enacted and has been applied to the deferred tax calculations in these accounts

In the Budget of March 2012, it was further announced that the full rate of UK corporation tax would be reduced to 24% effective from 1 April 2012 and then 1% per year for two years thereafter, ultimately bringing the corporation tax rate down to 22%

Notes to the financial statements

at 31 December 2011

7. Tax (continued)

(d) Deferred tax

Deferred taxation is included in the balance sheet as follows

	2011 £000	2010 £000
Included in debtors		
Accelerated capital allowances	670	857
Other timing differences	(1,287)	(1,044)
Share based payments	(660)	(643)
	(1,277)	(830)
Included in defined benefit pension asset/(liability) (note 21)	180	(692)
	(1,097)	(1,522)

	2011 £000
As at 1 January	(1,522)
Deferred tax credit in profit and loss account	(213)
Transfer on acquisition	61
	(1,674)
Amounts credited to Statement of Total Recognised Gains and Losses	577
At 31 December	(1,097)

Notes to the financial statements

at 31 December 2011

8. Intangible fixed assets

	Intangibles *£000*	*Goodwill* *£000*	*Total* *£000*
Cost			
At 1 January 2011	3,666	15,060	18,726
Additions	17,082	-	17,082
Transfers to Merger reserve (note 17)	-	(5,523)	(5,523)
At 31 December 2011	20,748	9,537	30,285
Amortisation			
At 1 January 2011	1,872	6,095	7,967
Provided during the year	353	546	899
Transfers to Merger reserve (note 17)	-	(287)	(287)
At 31 December 2011	2,225	6,354	8,579
Net book value			
At 31 December 2011	18,523	3,183	21,706
At 1 January 2011	1,794	8,965	10,759

Notes to the financial statements
at 31 December 2011

9. Tangible fixed assets

	Freehold land and buildings	Leasehold improvements	Plant, machinery and rental equipment	Motor Vehicles	Fixtures and fittings	Construction in progress	Total
	£000	£000	£000	£000	£000	£000	£000
Cost							
At 1 January 2011	17,191	1,508	51,902	241	3,364	2,655	76,861
Additions	-	25	4,743	34	768	3,297	8,867
Disposals	-	-	(1,196)	(56)	(189)	(14)	(1,455)
Transfers from group undertakings	4,900	-	2,914	64	159	14	8,051
Transfers to group undertakings	-	-	(713)	-	-	-	(713)
Transfers	(230)	-	795	-	587	(1,152)	-
At 31 December 2011	21,861	1,533	58,445	283	4,689	4,800	91,611
Depreciation							
At 1 January 2011	8,229	1,003	34,254	172	3,117	-	46,775
Charge for the year	681	131	4,696	69	411	-	5,988
Disposals	-	-	(1,103)	(42)	(189)	-	(1,334)
Transfers to group undertakings	-	-	(494)	-	-	-	(494)
At 31 December 2010	8,910	1,134	37,353	199	3,339	-	50,935
Net book value							
At 31 December 2011	12,951	399	21,092	84	1,350	4,800	40,676
At 1 January 2011	8,962	505	17,648	69	247	2,655	30,086

The cost of land and buildings includes £17,128,000 (2010 - £15,269,000) of depreciable assets

Notes to the financial statements

at 31 December 2011

10. Fixed asset investments

	Subsidiary undertakings £000	*Associate undertakings £000*	*Total £000*
Cost			
At 1 January 2011	853,307	2,029	855,336
Additions	49,855	-	49,855
At 31 December 2011	903,162	2,029	905,191
Amounts written off			
At 1 January 2011	241,214	-	241,214
Provided during the year	50	-	50
At 31 December 2011	241,264	-	241,264
Net book value			
At 31 December 2011	661,898	2,029	663,927
At 1 January 2011	612,093	2,029	614,122

Notes to the financial statements

at 31 December 2011

10. Fixed asset investments (continued)

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

Subsidiary undertakings

Name of company	*Proportion of voting rights and shares held*	*Nature of business*
Tuboscope Vetco Capital Limited	100%	Inspection services to the oil & gas industry in Kazakhstan
Varco CIS LLC	100% (1)	Holding company
Tuboscope Vetco Moscow	100% (2)	Inspection services to the oil and gas industry in Russia
NOV ASEP Elmar (Middle East) Limited	100%	Sale/rental of oilfield equipment
Elmar Services Pty Limited	100%	Sale/rental of oilfield equipment
Varco Al Mansoori Service Company LLC	49%	Sale/repair of oilfield equipment
Heibei Huayouyiji Tuboscope Coating Co Limited	60%	OCTG Coating
NOV Mission Products UK Limited	100%	Manufacturing & marketing of oilfield equipment
NOV Ghana Limited	100%	Sale, rental and service of oilfield goods
Mono Pumps Limited	100%	Manufacture and sale of water pumping and treatment equipment
Mono Pumps (Australia) Pty Limited	100% (3)	Manufacture and sale of water pumping and treatment equipment
Mono Pumps (New Zealand) Limited	100% (3)	Manufacture and sale of water pumping and treatment equipment
NOV Downhole Eurasia Limited	100%	Design and manufacture of equipment to the oil and gas industry
Big Red Tubulars Limited	100%	Manufacturing of oilfield equipment
Greystone Technologies Pty Limited	51%	Technology holding company
NOV ASEP Elmar Do Brasil Equip E Servicios Para Petroleo Ltda	100% (4)	Manufacturing and sale of oilfield equipment
NOV Oil and Gas Services Nigeria Limited	100% (4)	Manufacturing and sale of oilfield equipment

Notes to the financial statements

at 31 December 2011

10. Fixed asset investments (continued)

Subsidiary undertakings

Name of company	*Proportion of voting rights and shares held*	*Nature of business*
Capital Valves Holdings Limited	100%	Holding company
Merpro Group Limited	100%	Holding company

Associate undertakings

Name of company	*Proportion of voting rights and shares held*	*Nature of business*
Sigma Offshore Limited	23%	Engineering services to the oil and gas industry

All shareholdings are Ordinary Shares except for Varco CIS LLC and Tuboscope Vetco Moscow which are Charter Capital

All of the above companies are incorporated in Great Britain, other than Elmar Services Pty Limited, Mono Pumps (Australia) Pty Limited and Greystone Technologies Pty Limited, which are incorporated in Australia, Varco CIS LLC and Tuboscope Vetco Moscow which are incorporated in Russia, Varco Al Mansoori Service Company LLC which is incorporated in United Arab Emirates, Hebei Huayoujiji Tuboscope Coating Co Limited which is incorporated in the People's Republic of China, Mono Pumps (New Zealand) Limited which is incorporated in New Zealand, NOV ASEP Elmar Do Brasil Equip E Servicios Para Petroleo Ltda which is incorporated in Brazil, Big Red Tubulars Limited which is incorporated in the British Virgin Islands and NOV Oil and Gas Services Nigeria Limited which is incorporated in Nigeria

(1) Held by Tuboscope Vetco Capital Limited (99%) and National Oilwell Varco UK Limited (1%)
(2) Held by Varco CIS LLC
(3) Held by Mono Pumps Limited
(4) Held by National Oilwell Varco UK Limited (99%) and Mono Pumps Limited (1%)

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

11. Stock

	2011	*2010*
	£000	*£000*
Raw materials and consumables	11,682	8,732
Work in progress	32,691	25,752
Finished goods and goods for resale	47,084	36,947
	91,457	71,431

Notes to the financial statements

at 31 December 2011

12. Debtors

	2011	*2010*
	£000	*£000*
Trade debtors	58,447	50,630
Amounts owed by other group undertakings	47,659	42,029
Amounts owed by subsidiary undertakings	-	120
Amounts recoverable on contracts	-	1,115
Corporation tax	11,959	3,902
Other taxes and social security costs	571	-
Prepayments and accrued income	2,763	2,862
Other debtors	873	82
Deferred tax (note 7)	1,277	830
	123,549	101,570

13. Creditors: amounts falling due within one year

	2011	*2010*
	£000	*£000*
Bank overdraft	34,887	36,233
Trade creditors	19,343	14,259
Payments received in advance	18,349	6,485
Amounts due to fellow subsidiary undertakings	201,142	90,254
Amounts due to subsidiary undertakings	1	1
Other taxes and social security costs	-	1,035
Group relief	10,280	5,400
Overseas tax	240	437
Accruals and deferred income	17,444	14,048
	301,686	168,152

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

	2011	*2010*
	£000	*£000*
Amounts due to group undertakings	9	9
Amounts due to subsidiary undertakings	1	1
	10	10

Notes to the financial statements

at 31 December 2011

15. Provisions for liabilities

	Provision for warranty costs £000
At 1 January 2011	1,135
Provided during the year	575
Utilised	(88)
Provision written back	(496)
At 31 December 2011	1,126

The warranty provision has been reclassified separately on the face of the balance sheet from accruals

16. Share capital

	Authorised		*Issued, called up and fully paid*	
	2011 No	*2010 No*	*2011 £000*	*2010 £000*
Ordinary shares of £1 each	77,916,494	77,916,494	77,916	77,916

Notes to the financial statements

at 31 December 2011

17. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Share premium*	*Merger reserve*	*Share based payment reserve*	*Profit and loss account*	*Total shareholders funds*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 January 2010	39,310	65 083	-	3,157	109,705	217,255
Share issued	38,606	442,631	-	-	-	481,237
Loss for the year	-	-	-	-	(4,991)	(4,991)
Actuarial loss relating to pension scheme	-	-	-	-	(1,192)	(1,192)
Deferred taxation relating to pension scheme	-	-	-	-	334	334
Share based payment reserve	-	-	-	941	-	941
At 31 December 2010	77,916	507,714	-	4,098	103,856	693,584
Profit for the year	-	-	-	-	31,763	31,763
Actuarial profit relating to pension scheme	-	-	-	-	2,060	2,060
Deferred taxation relating to pension scheme	-	-	-	-	(577)	(577)
Share based payment reserve	-	-	-	1,238	-	1,238
Merger reserve	-	-	(17,007)	-	-	(17,007)
	77,916	507,714	(17,007)	5,336	137,102	711,061

The merger reserve was recognised in the year following inter group reorganisations which would have given rise to positive goodwill This goodwill cannot be recognised in accordance with FRS6 and has therefore been transferred to the merger reserve

18. Capital commitments

Amounts contracted but not provided in the financial statements amounted to £84,000 (2010 £600,000)

19. Contingent liabilities

At 31 December 2011, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £4,559,000 entered into in the normal course of business

Notes to the financial statements

at 31 December 2011

20. Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	Other		*Land and buildings*	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Operating leases which expire				
Within one year	88	29	210	195
In two to five years	371	379	1,117	399
In over five years	-	-	1,420	1,474
	459	408	2,747	2,068

21. Pension commitments

The company is party to a number of schemes – Tuboscope Holdings Limited scheme, National Oilwell (UK) Limited scheme and during the year acquired the Merpro plan, details are given in respect of each below

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

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

The trustees secured all remaining defined benefit liabilities with the Legal and General Assurance Society Limited in 2007 and 2008 and the policies were assigned to the individuals in 2009

The assets and liabilities are fully matched at December 2011

National Oilwell (U K) Limited Pension Plan

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

The assets of this scheme are held in separate trustee administered funds

The most recent formal actuarial valuation prepared by a qualified independent actuary of the scheme has an effective date of 1 January 2011 The method used in this valuation is the projected unit method The next formal valuation of the scheme will have an effective date of 1 January 2014

The valuation showed that the market value of the assets was £37,440,000 and that the actuarial value of those assets represented 93 8% of the liability at that valuation date

At 31 December 2011 the financial statements contain a pension accrual of £nil relating to this scheme

Notes to the financial statements

at 31 December 2011

21. Pension commitments (continued)

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

FRS 17 disclosures

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

A full actuarial valuation was carried out at 1 January 2008 and the results were updated to 31 December 2011 and were converted to a basis consistent with FRS17 by a qualified independent actuary The major assumptions used by the actuary were (in nominal terms)

	2011	*2010*
Rate of increase in salaries	4%	4 0%
Rate of increase of pensions in payment	2 1%	2 75%
Rate of increase in pensions in deferment	2 1%	2 75%
Discretionary increases on pensions in payment	2 1%	2 75%
Discount rate	4 9%	5 4%
Inflation assumption (RPI)	3 0%	3 5%
Inflation assumption (CPI)	2 1%	2 75%
Expected return on scheme assets	6 5%	6 0%
Post retirement mortality – years		
Current pensioners at 65 – male	21 0	20 9
Current pensioners at 65 – female	23 1	23 2
Future pensioners at 65 – male	22 0	22 1
Future pensioners at 65 – female	24 3	24 2

The fair value of the assets in the scheme and the present value of the liabilities in the scheme at each balance sheet date were

	2011	*2010*
	£000	*£000*
Equities	22,458	22,741
Bonds	14,950	14,461
Other	173	251
Total fair value of assets	37,581	37,453
Present value of scheme liabilities	(37,146)	(40,018)
Surplus/(deficit) in the plan	435	(2,565)
Related deferred tax (liability)/asset	(109)	692
Net pension asset/(liability)	326	(1,873)

Notes to the financial statements

at 31 December 2011

21. Pension commitments (continued)

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

Analysis of the amount charged to operating costs

	2011 *£000*	*2010* *£000*
Current service cost	115	130

Amount credited/(charged) to other net finance income/(costs)		
Expected return on pension scheme assets	2,106	2,340
Interest on pension liabilities	(2,120)	(2,054)
Net (cost)/return	(14)	286

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

	2011 *£000*	*2010* *£000*
Expected return less actual return on pension scheme assets	(1,716)	2,015
Changes in assumptions underlying the present value of the scheme liabilities	(263)	(3,207)
Experience gains on scheme assets	4,050	-
	2,071	(1,192)

Analysis of the changes in the present value of the defined benefit obligations during the year

	2011 *£000*	*2010* *£000*
Value at beginning of year	(40,018)	(36,053)
Movement in year		
Current service costs	(115)	(130)
Interest cost	(2,120)	(2,054)
Employee contributions	(64)	(59)
Benefits paid	1,384	1,485
Actuarial gain/(loss)	3,787	(3,207)
Value at end of year	(37,146)	(40,018)

Notes to the financial statements

at 31 December 2011

21. Pension commitments (continued)

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

Analysis of the changes in the fair value of the plan assets during the year

	2011 *£000*	*2010* *£000*
Value at beginning of year	37,453	33,466
Movement in year		
Expected return	2,106	2,340
Employer contributions	1,058	1,058
Employee contributions	64	59
Benefits paid	(1,384)	(1,485)
Actuarial (loss)/gain	(1,716)	2,015
Value at end of year	37,581	37,453

History of experience (gains) and losses

	2011 *£000*	*2010* *£000*	*2009* *£000*	*2008* *£000*	*2007* *£000*
Fair value of scheme assets	37,581	37,453	33,466	29,289	35,208
Present value of defined benefit obligation	(37,146)	(40,018)	(36,053)	(32,727)	(36,300)
Surplus/(deficit) in scheme	435	(2,565)	(2,587)	(3,438)	(1,092)
Experience gains and (losses) on scheme liabilities	4,050	-	-	(612)	190

Following the government's announcement of the change in the minimum pension increases from RPI to CPI, pension revaluation in deferment and pension increases in payment for all members are now linked to CPI

Merpro Group Pension & Life Assurance Scheme

During 2011 the trade, assets and liabilities of the Merpro Group was transferred to National Oilwell Varco UK Limited, which included the employee pension scheme

The assets of this scheme are held in separate trustee administered funds

The most recent formal actuarial valuation prepared by a qualified independent actuary of the scheme has an effective date of 6 April 2010 The method used in this valuation is the projected unit method The next formal valuation of the scheme will have an effective date of 6 April 2013

The valuation showed that the market value of the assets was £2,729,000 and that the actuarial value of those assets represented 94 36% of the liability at that valuation date

At 31 December 2011, the financial statements contain a pension accrual of £nil relating to this scheme

Notes to the financial statements

at 31 December 2011

21. Pension commitments (continued)

Merpro Group Pension & Life Assurance Scheme (continued)

FRS 17 disclosures

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

A full actuarial valuation was carried out at 6 April 2010 and the results were updated to 31 December 2011 and were converted to a basis consistent with FRS17 by a qualified independent actuary The major assumptions used by the actuary were (in nominal terms)

	2011
Rate of increase in salaries	4 0%
Inflation	3 0%
Rate of increase of pensions in payment	-%
Rate of increase in pensions in deferment	3 0%
Discount rate	4 9%
Expected return on scheme assets	5 41%
Post retirement mortality – years	
Current pensioners at 65 – male	21 0
Current pensioners at 65 – female	23 1
Future pensioners at 65 – male	22 0
Future pensioners at 65 – female	24 3

The fair value of the assets in the scheme and the present value of the liabilities in the scheme at the balance sheet date was

	2011 *£000*
Equities	698
Bonds	131
Cash	221
Fixed interest gilts	1,770
Total fair value of assets	2,820
Present value of scheme liabilities	(2,534)
Surplus in the plan	286
Related deferred tax liability	(71)
Net pension asset	215

Notes to the financial statements

at 31 December 2011

21. Pension commitments (continued)

Merpro Group Pension & Life Assurance Scheme (continued)

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

	2011 £000
Expected return on pension scheme assets	70
Interest on pension liabilities	(65)
Net return	5

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

	2011 £000
Expected return less actual return on pension scheme assets	138
Changes in assumptions underlying the present value of the scheme liabilities	(110)
Experience gains on scheme assets	(39)
	(11)

Analysis of the changes in the present value of the defined benefit obligations since acquisition

	2011 £000
Value at beginning of period	(2,411)
Movement in year	
Interest cost	(65)
Benefits paid	91
Actuarial loss	(149)
Value at end of year	(2,534)

Analysis of the changes in the fair value of the plan assets since acquisition

	2011 £000
Value at beginning of year	2,562
Movement in year	
Expected return	70
Employer contributions	141
Benefits paid	(91)
Actuarial gain	138
Value at end of year	2,820

Notes to the financial statements

at 31 December 2011

21. Pension commitments (continued)

***Merpro Group Pension & Life Assurance Scheme** (continued)*

History of experience gains and losses

	2011
	£000
Fair value of scheme assets	2,820
Present value of defined benefit obligation	(2,534)
Surplus in scheme	286
Experience adjustment on scheme assets	138
Experience adjustment on scheme liabilities	(39)

Following the government's announcement of the change in the minimum pension increases from RPI to CPI, pension revaluation in deferment and pension increases in payment for all members are now linked to CPI

22. Shared based payments

The expense recognised for equity settled share-based payments in respect of employee services received during the year to 31 December 2011 is £910,000 for the Senior Executive Plan and £328,000 for the restricted share options (2010 - £621,000 and £320,000 respectively)

Senior Executive Plan

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

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

	2011	*2011*	*2010*	*2010*
		WAEP		*WAEP*
	No	*£*	*No*	*£*
Outstanding as at 1 January	269,512	22 15	225,529	18 89
Granted during the year	69,184	51 31	78,697	28 13
Forfeited during the year	(12,844)	23 40	(3,722)	18 09
Transferred during the year	-	-	(800)	18 14
Exercised	(93,847)	19 77	(30,192)	14 05
Outstanding at 31 December	232,005	31 73	269,512	18 89
Exercisable at 31 December	95,396	22 06	140,665	19 20

Notes to the financial statements

at 31 December 2011

22. Shared based payments (continued)

For the share options outstanding as at 31 December 2011, the weighted average remaining contractual life is 8 44 years (2010 – 8 15 years)

The weighted average share price at the date of exercise for options exercised was £48 87 (2010 - £32 26)

The weighted average fair value of options granted during the year was £18 19 (2010 - £10 68) The range of exercise prices for options outstanding at the end of the year was £6 12 - £50 93 (2010 - £6 12 - £32 82)

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted The following table lists the inputs to the model used for the years ended 31 December 2011 and 31 December 2010

	2011	*2010*
Risk free interest rate	2 10%	2 38%
Expected dividend	$0 44	$0 40
Expected option life (years)	3 1	3 2
Expected volatility	53 2%	55%

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

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

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

Restricted Shares

National Oilwell Varco, Inc issues restricted stock awards ("RSA") with no exercise price to officers and key employees in addition to share options The Company granted restricted shares to key employees on 19 February 2011 at a fair value of £48 99 (2010 - £28 08) These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested

Notes to the financial statements

at 31 December 2011

22. Shared based payments (continued)

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

	2011	*2011 WAGDFV*	*2010*	*2010 WAGDFV*
	No	*£*	*No*	*£*
Outstanding as at 1 January	37,250	26 04	36,300	22 10
Granted during the year	8,510	48 99	16,450	28 08
Forfeited during the year	(3,575)	27 15	(1,950)	28 08
Transferred during the year	1,150	18 18	3,150	19 34
Exercised	(8,500)	32 82	(16,700)	17 97
Outstanding at 31 December	34,835	29 62	37,250	26 04
Exercisable at 31 December	-	-	-	-

The weighted average vesting period is 1 02 years (2010 – 1 25 years)

23. Related parties

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

24. Post balance sheet events

In 2012, the company

- transferred the Russell Sub-Surface Systems division to a fellow group company on 1 January 2012
- acquired Techdrill Limited, a company that supplies pipes, drilling equipment and manifolds to the oil field development industry The trade, assets and liabilities were transferred to the company post acquisition and the business now trades as the Mission Morpeth division
- acquired Forth Valley Engineering Limited, a company that supplies general oil and gas manufactured products The trade, assets and liabilities were transferred to the company post acquisition and the business now trades as the Mission Edinburgh division
- began trading as a branch in Cameroon

25. Ultimate parent undertaking

The company's immediate parent undertaking is Tuboscope Holdings Limited, a company incorporated in Great Britain

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

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