

National Oilwell Varco UK Limited

Report and Financial Statements

31 December 2010

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COMPANIES HOUSE

Registered No 873028

Directors

C P O'Neil
S G Valentine

Secretary

A J Fleming

Auditors

Ernst & Young LLP
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Directors' report

Registered No. 873028

The directors present their report and financial statements for the year ended 31 December 2010

Results and dividends

The loss for the year, after taxation, was £4,991,000 (2009 profit - £38,435,000) The directors recommend no dividend be paid in 2010 (2009 - £8,450,000) and the loss 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 Brandt, Brandt Environmental, Distribution Services, Downhole Tools, Elmar, Hydra Rig, MD Totco, Rig Solutions, Russell Sub-Surface Systems, Tuboscope and Tuboscope Far East throughout the year The company also began trading as

- NOV ASEP Elmar UK division after acquiring and transferring the trade, assets and liabilities of ASEP (UK) Limited, a company involved in providing pressure control equipment for the oil and gas industry
- NOV Portable Power division after acquiring and transferring the trade, assets and liabilities of KVA Limited, a company which is involved in manufacturing, rental and service of diesel driven generators
- Grant Prideco, Amclyde Norson Engineering and Procon Engineering after acquiring the shares from a fellow group company and transferring the trade, assets and liabilities
- Coil Services (North Sea) and CTES after acquiring the shares from a fellow group company and transferring the trade, assets and liabilities

The company operates branches in Norway and Azerbaijan

Also during 2010, the company

- acquired a minority interest in Sigma Offshore Limited, a company that specialises in the design of Floating Production Storage and Offloading turrets and mooring systems
- acquired Big Red Tubulars Limited, a company registered in the British Virgin Islands This company owns 49% of Big Red Tubular Industries LLC ("BRT") a company licensed to manufacture drill pipe and located in Abu Dhabi, UAE
- acquired 51% of the outstanding shares of Greystone Technologies Pty Ltd, a technology holding company based in Australia that currently has 14 US and international patents relating to positive displacement pumps and motors

As part of a group reorganisation in 2010

- the company acquired the shares in Mono Pumps Limited and NOV Downhole Eurasia Limited from a fellow group company The downhole tools business of National Oilwell Varco UK Limited was sold to another group company, NOV Downhole Eurasia Limited following the acquisition

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

	2010	2009	Change
Turnover £000	294,084	315,828	(7%)
Profit on ordinary activities before taxation £000	8,138	51,521	(84%)
Shareholders' funds £000	693,584	217,255	219%
Current assets as a percentage of current liabilities	123%	107%	N/A
Average number of employees	1,149	1,007	14%

Turnover fell in the year mainly due to the sale of the Downhole Tools division to a fellow group company

Profit before taxation fell mainly due to write downs associated with the group reorganisation undertaken in the year Profits also fell due to the sale of the Downhole Tools division

Directors' report

Registered No. 873028

Shareholders' funds increased by 219% due to a share capital issue less the loss for the year

Net current assets increased during the year following the group reorganisation. The company increased its overall cash balances as well as reducing short term intercompany balances

Employee levels rose during the year following the group reorganisation

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

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 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 2010 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

Registered No. 873028

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

Post balance sheet events

In 2011, the company

- acquired Capital Valves Limited, a valve distribution company based in England
- acquired Merpro Group Limited, a company that 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. The trade, assets and liabilities were transferred to National Oilwell Varco UK Limited post acquisition and the business now trades as the NOV Merpro division
- established NOV ASEP Elmar do Brasil Equipamentos e Servicos Para Petroleo Ltda, a subsidiary based in Macae, Brazil

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, the directors have a reasonable 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 £3,374 (2009 - £2,598)

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

Directors' report

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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

24 October 2011

Statement of directors' responsibilities

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 proper 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 2010 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 24. 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 Statement of Directors' Responsibilities 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 implication 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 2010 and of its loss 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.

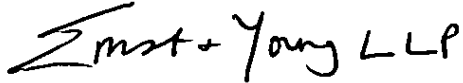
Independent auditor's report

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 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



Kenneth MacLeod Hall (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

29, October 2011

Profit and loss account

for the year ended 31 December 2010

	<i>Notes</i>	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Turnover	2	294,084	315,828
Cost of sales		(215,360)	(235,686)
Gross profit		78,724	80,142
Selling and distribution expenses		(5,371)	(6,051)
Administrative expenses		(23,677)	(28,679)
Operating profit	3	49,676	45,412
Profit on disposal of tangible fixed assets		663	337
Profit on disposal of business		3,720	-
Income from shares in group undertakings		181,279	14,190
Amounts written off fixed asset investments	10	(225,422)	(7,800)
Interest payable	4	(2,192)	(543)
Interest receivable		128	-
Other finance income/(costs)	20	286	(75)
Profit on ordinary activities before taxation		8,138	51,521
Taxation on profit on ordinary activities	7	(13,129)	(13,086)
(Loss)/profit for the financial year	16	(4,991)	38,435

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 2010

	2010	2009
	£000	£000
(Loss)/profit for the financial year	(4,991)	38,435
Actuarial (loss)/gain relating to the pension scheme (note 20)	(1,192)	155
Deferred taxation attributable the actuarial (loss)/gain	334	(43)
Total gains and losses recognised in the year	(5,849)	38,547

Balance sheet

at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Intangible assets	8	10,759	3,837
Tangible assets	9	30,086	26,649
Investments	10	614,122	204,276
		<u>654,967</u>	<u>234,762</u>
Current assets			
Stock	11	71,431	73,098
Debtors	12	101,570	105,438
Cash at bank and in hand		36,786	25,867
		<u>209,787</u>	<u>204,403</u>
Creditors amounts falling due within one year	13	(169,287)	(190,634)
Net current assets		<u>40,500</u>	<u>13,769</u>
Total assets less current liabilities		<u>695,467</u>	<u>248,531</u>
Creditors amounts falling due after more than one year	14	(10)	(29,244)
Provision for liabilities			
Deferred tax	7	-	(169)
Net assets excluding pension liability		<u>695,457</u>	<u>219,118</u>
Pension liability	20	(1,873)	(1,863)
Net assets including pension liability		<u>693,584</u>	<u>217,255</u>
Capital and reserves			
Called up share capital	15	77,916	39,310
Share premium account	16	507,714	65,083
Share-based payment reserve	16	4,098	3,157
Profit and loss account	16	103,856	109,705
Total shareholders' funds	16	<u>693,584</u>	<u>217,255</u>

The financial statements were approved by the Board of Directors and authorised for issue on 24 October 2011



C P O'Neil

Director

Notes to the financial statements

at 31 December 2010

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 2010

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

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

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

Intangible assets

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

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

Investments

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

Notes to the financial statements

at 31 December 2010

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.

Research and development

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

Deferred taxation

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

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

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

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

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

Foreign currencies

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

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.

Pensions

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

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

Notes to the financial statements

at 31 December 2010

1. Accounting policies (continued)

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.

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.

	2010 £000	2009 £000
Europe	191,180	214,045
Americas	30,572	26,405
Asia	40,180	45,071
Africa	22,567	27,400
Other	9,585	2,907
	<u>294,084</u>	<u>315,828</u>

(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

	2010 £000	2009 £000
Amortisation of intangible assets	1,010	613
Depreciation of owned fixed assets	5,738	4,603
Operating lease rentals - land and buildings	3,116	2,802
- plant and machinery	892	917
Auditors' remuneration - audit of the financial statements	193	184
non audit fees	59	-
Research and development expenditure written off	1,175	1,224

Notes to the financial statements

at 31 December 2010

4. Interest payable and similar charges

	2010	2009
	£000	£000
Bank loans and overdrafts	2	11
Amounts due to group undertakings	2,190	532
	<u>2,192</u>	<u>543</u>

5. Staff costs

	2010	2009
	£000	£000
Wages and salaries	45,230	37,196
Social security costs	4,623	3,896
Other pension costs	1,566	1,132
	<u>51,419</u>	<u>42,224</u>

Included in wages and salaries is a total expense of equity settled share-based payments of £941,000 (2009 - £703,000)

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

	2010	2009
	No	No
Production	932	866
Sales	46	52
Administration	171	89
	<u>1,149</u>	<u>1,007</u>

Notes to the financial statements

at 31 December 2010

6. Directors' remuneration

	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Aggregate remuneration in respect of qualifying services	133	184
Employer contributions paid to company pension scheme	19	25
	<i>2010</i> <i>No</i>	<i>2009</i> <i>No</i>
Number of directors		
- who are members of company pension scheme	1	1
- who received shares in respect of qualifying services	1	1
- who exercised share options	0	0
- who exercised options over shares in the ultimate parent company	0	0
The amounts in respect of the highest paid director are as follows		
	<i>2010</i> <i>£000</i>	<i>2009</i> <i>£000</i>
Aggregate remuneration in respect of qualifying services	133	184
Company contributions paid to money purchase pension schemes	19	25

The directors of the company are also directors of fellow subsidiaries. The directors received total remuneration for the year of £237,000 (2009 £316,000), which was paid by the company and another group company in the UK.

Notes to the financial statements

at 31 December 2010

7. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows

	2010 £000	2009 £000
<i>Current tax</i>		
Corporation tax	8,990	11,453
Group relief	5,097	2,430
Less double tax relief	(955)	(1,632)
	<u>13,132</u>	<u>12,251</u>
Overseas tax	955	891
	<u>14,087</u>	<u>13,142</u>
Adjustments in respect of prior periods	(212)	(38)
	<u>13,875</u>	<u>13,104</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(341)	293
Deferred tax on share based payments	(326)	(264)
Reversal of provision on Industrial Buildings Allowances	(79)	(47)
	<u>(746)</u>	<u>(18)</u>
	<u>13,129</u>	<u>13,086</u>

(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 28% (2009 – 28%) The differences are reconciled below

	2010 £000	2009 £000
Profit on ordinary activities before taxation	8,138	51,521
	<u> </u>	<u> </u>
Profit on ordinary activities multiplied by standard rate of corporation tax of 28% (2009 – 28%)	2,279	14,426
Effect of		
Expenses not deductible for tax purposes/(income not taxable)	12,046	(910)
Capital allowances in excess of depreciation	155	186
Other timing differences	(393)	(41)
Adjustments in respect of previous periods	(212)	(38)
Underlying tax	-	(519)
	<u>13,875</u>	<u>13,104</u>

There was no tax impact on the gain on sale of the business of £3,720,000

Notes to the financial statements

at 31 December 2010

7. Tax (continued)

(c) Factors that may affect future tax charges

UK Corporation tax is calculated at 28% (2009 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%. As at 31 December 2010 the reduction in the UK tax rate from 28% to 27% was substantively enacted and has been applied to the deferred tax calculations in these accounts

In the Budget of March 2011, it was further announced that the full rate of UK corporation tax would instead 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%

(d) Deferred tax

Deferred taxation is included in the balance sheet as follows

	2010 £000	2009 £000
Included in (debtors)/provisions for liabilities		
Accelerated capital allowances	857	1,115
Other timing differences	(1,044)	(629)
Share based payments	(643)	(317)
	(830)	169
Included in defined benefit pension liability (note 20)		
- National Oilwell (U K) Limited Pension Plan	(692)	(724)
	(1,522)	(555)
	<u>2010</u> <u>£000</u>	
As at 1 January	(555)	
Deferred tax credit in profit and loss account	(633)	
	(1,188)	
Amounts credited to Statement of Total Recognised Gains and Losses	(334)	
	<u>(1,522)</u>	
At 31 December		

Notes to the financial statements

at 31 December 2010

8. Intangible fixed assets

	<i>Intellectual property £000</i>	<i>Goodwill £000</i>	<i>Total £000</i>
Cost			
At 1 January 2010	1,658	9,053	10,711
Additions	66	-	66
Transfers	1,942	6,007	7,949
At 31 December 2010	3,666	15,060	18,726
Amortisation			
At 1 January 2010	1,636	5,238	6,874
Provided during year	153	857	1,010
Transfers	83	-	83
At 31 December 2010	1,872	6,095	7,967
Net book value			
At 31 December 2010	1,794	8,965	10,759
At 1 January 2010	22	3,815	3,837

Notes to the financial statements

at 31 December 2010

9. Tangible fixed assets

	<i>Freehold land and buildings</i>	<i>Leasehold improve- ments</i>	<i>Plant, machinery and rental equipment</i>	<i>Motor Vehicles</i>	<i>Fixtures and fittings</i>	<i>Construction in progress</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost							
At 1 January 2010	17,493	1,619	51,531	161	3,988	993	75,785
Additions	107	24	7,982	19	90	2,066	10,288
Disposals	-	-	(3,701)	(13)	(624)	-	(4,338)
Transfers from group undertakings	163	16	3,894	74	92	-	4,239
Transfers to group undertakings	(572)	(151)	(8,154)	-	(182)	(54)	(9,113)
Transfers	-	-	350	-	-	(350)	-
At 31 December 2010	17,191	1,508	51,902	241	3,364	2,655	76,861
Depreciation							
At 1 January 2010	8,221	970	36,052	155	3,738	-	49,136
Charge for year	559	148	4,833	30	168	-	5,738
Disposals	-	-	(2,608)	(13)	(620)	-	(3,241)
Transfers to group undertakings	(551)	(115)	(4,023)	-	(169)	-	(4,858)
At 31 December 2010	8,229	1,003	34,254	172	3,117	-	46,775
Net book value							
At 31 December 2010	8,962	505	17,648	69	247	2,655	30,086
At 1 January 2010	9,272	649	15,479	6	250	993	26,649

The cost of land and buildings includes £15,269,000 (2009 - £15,550,000) of depreciable assets

Notes to the financial statements

at 31 December 2010

10. Fixed asset investments

	<i>Subsidiary undertakings</i>	<i>Associate undertakings</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost			
At 1 January 2010	220,041	27	220,068
Additions	700,761	2,002	702,763
Disposals	(67,495)	-	(67,495)
At 31 December 2010	853,307	2,029	855,336
Amounts written off			
At 1 January 2010	15,792	-	15,792
Provided during year	225,422	-	225,422
At 31 December 2010	241,214	-	241,214
Net book value			
At 31 December 2010	612,093	2,029	614,122
At 1 January 2010	204,249	27	204,276

Notes to the financial statements

at 31 December 2010

10. Fixed asset investments (continued)

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

Subsidiary undertakings

<i>Name of company</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
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 & 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 & service of oilfield goods
Mono Pumps Limited	100%	Manufacture & sale of water pumping & treatment equipment
Mono Pumps (Australia) Pty Limited	100% (3)	Manufacture & sale of water pumping & treatment equipment
Mono Pumps (New Zealand) Limited	100% (3)	Manufacture & sale of water pumping & treatment equipment
NOV Downhole Eurasia Limited	100%	Design & manufacture of equipment to the oil & gas industry
Big Red Tubulars Limited	100%	Manufacturing of oilfield equipment
Greystone Technologies Pty Limited	51%	Technology holding company
<i>Associate undertakings</i>		
Sigma Offshore Limited	23%	Engineering services to the oil & gas industry

Notes to the financial statements

at 31 December 2010

10. Fixed asset investments (continued)

All shareholdings are Ordinary shares except for Varco CIS LLC and Tuboscope Vetco Moscow which are Charter Capital and Sigma Offshore Limited which are Ordinary and Preference shares

All of the above subsidiary undertakings and joint ventures 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 Al Mansoori Service Company LLC which is incorporated in United Arab Emirates, Hebei Huayoujij Tuboscope Coating Co Limited which is incorporated in the People's Republic of China, NOV Ghana Limited which is incorporated in Ghana, Big Red Tubulars Limited which is incorporated in the British Virgin Islands and Mono Pumps (New Zealand) Limited which is incorporated in New Zealand

- (1) Held by Tuboscope Vetco Capital Limited (99%)
- (2) Held by Varco CIS LLC
- (3) Held by Mono Pumps Limited

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

11. Stock

	2010 £000	2009 £000
Raw materials and consumables	8,732	7,927
Work in progress	25,752	20,813
Finished goods and goods for resale	36,947	44,358
	<u>71,431</u>	<u>73,098</u>

12. Debtors

	2010 £000	2009 £000
Trade debtors	50,630	49,142
Amounts owed by other group undertakings	42,029	53,793
Amounts owed by subsidiary undertakings	120	120
Amounts recoverable on contracts	1,115	-
Corporation tax	3,902	73
Overseas tax	-	398
Prepayments and accrued income	2,862	1,847
Other debtors	82	65
Deferred tax (note 7)	830	-
	<u>101,570</u>	<u>105,438</u>

Notes to the financial statements

at 31 December 2010

13. Creditors: amounts falling due within one year

	2010 £000	2009 £000
Bank overdraft	36,233	35,273
Trade creditors	14,259	13,380
Payments received in advance	6,485	4,353
Amounts due to fellow subsidiary undertakings	90,254	120,263
Amounts due to subsidiary undertakings	1	1,533
Other taxes and social security costs	1,035	2,057
Group relief	5,400	468
Overseas tax	437	-
Accruals and deferred income	14,359	13,307
Other creditors	824	-
	<u>169,287</u>	<u>190,634</u>

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

	2010 £000	2009 £000
Amounts due to group undertakings	9	29,195
Amounts due to subsidiary undertakings	1	49
	<u>10</u>	<u>29,244</u>

15. Share capital

	<i>Authorised</i>		<i>Issued, called up and fully paid</i>	
	2010 <i>No</i>	2009 <i>No</i>	2010 £000	2009 £000
Ordinary shares of £1 each	77,916,494	39,310,164	77,916	39,310

During the year the company issued 38,606,330 Ordinary £1 shares at a price of £12.47 per share

Notes to the financial statements

at 31 December 2010

16. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Share based payment reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholders' funds £000</i>
At 1 January 2009	39,310	65,083	2,454	79,608	186,455
Profit for the year	-	-	-	38,435	38,435
Actuarial gain relating to pension scheme	-	-	-	155	155
Deferred taxation relating to pension scheme	-	-	-	(43)	(43)
Share based payment reserve	-	-	703	-	703
Dividends paid	-	-	-	(8,450)	(8,450)
At 31 December 2009	39,310	65,083	3,157	109,705	217,255
Shares 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

17. Capital commitments

Amounts contracted but not provided in the financial statements amounted to £600,000

18. Contingent liabilities

At 31 December 2010, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £6,247,000 entered into in the normal course of business

19. Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	<i>Other</i>		<i>Land and buildings</i>	
	<i>2010 £000</i>	<i>2009 £000</i>	<i>2010 £000</i>	<i>2009 £000</i>
Operating leases which expire				
Within one year	29	169	195	23
In two to five years	379	319	399	210
In over five years	-	-	1,474	2,890
	408	488	2,068	3,123

Notes to the financial statements

at 31 December 2010

20. Pension commitments

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

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

The 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 2010.

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.

National Oilwell (U K) Limited Pension Plan

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 2008. 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 2011.

The valuation showed that the market value of the assets was £37,453,000 and that the actuarial value of those assets represented 93.6% of the liability at that valuation date.

At 31 December 2010 the financial statements contain a pension accrual of £nil relating to this scheme.

FRS 17 disclosures

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

A full actuarial valuation was carried out at 1 January 2008 and the results were updated to 31 December 2010 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):

	2010	2009
Rate of increase in salaries	4.0%	4.1%
Rate of increase of pensions in payment	2.75%	3.6%
Rate of increase in pensions in deferment	2.75%	3.6%
Discretionary increases on pensions in payment	2.75%	2.0%
Discount rate	5.4%	5.8%
Inflation assumption (RPI)	3.5%	3.6%
Inflation assumption (CPI)	2.75%	N/A
Expected return on scheme assets	6.0%	7.45%
Post retirement mortality – years		
Current pensioners at 65 – male	20.9	20.9
Current pensioners at 65 – female	23.2	23.2
Future pensioners at 65 – male	22.1	22.1
Future pensioners at 65 – female	24.2	24.2

Notes to the financial statements

at 31 December 2010

20. Pension commitments (continued)

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

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

	2010 £000	2009 £000
Equities	22,741	20,565
Bonds	14,461	12,901
Other	251	-
Total fair value of assets	37,453	33,466
Present value of scheme liabilities	(40,018)	(36,053)
Deficit in the plan	(2,565)	(2,587)
Related deferred tax asset	692	724
Net pension liability	(1,873)	(1,863)

Analysis of the amount charged to operating costs

	2010 £000	2009 £000
Current service cost	130	174
Amount credited/(charged) to other net finance income/(costs)		
Expected return on pension scheme assets	2,340	1,993
Interest on pension liabilities	(2,054)	(2,068)
Net return/(cost)	286	(75)

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

	2010 £000	2009 £000
Expected return less actual return on pension scheme assets	2,015	2,441
Changes in assumptions underlying the present value of the scheme liabilities	(3,207)	(2,286)
	(1,192)	155

Notes to the financial statements

at 31 December 2010

20. Pension commitments (continued)

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

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

	2010 £000	2009 £000
Value at beginning of year	(36,053)	(32,727)
Movement in year		
Current service costs	(130)	(174)
Interest cost	(2,054)	(2,068)
Employee contributions	(59)	(51)
Benefits paid	1,485	1,253
Actuarial loss	(3,207)	(2,286)
Value at end of year	(40,018)	(36,053)

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

	2010 £000	2009 £000
Value at beginning of year	33,466	29,289
Movement in year		
Expected return	2,340	1,993
Employer contributions	1,058	945
Employee contributions	59	51
Benefits paid	(1,485)	(1,253)
Actuarial gain	2,015	2,441
Value at end of year	37,453	33,466

History of experience (gains) and losses

	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Fair value of scheme assets	37,453	33,466	29,289	35,208	34,140
Present value of defined benefit obligation	(40,018)	(36,053)	(32,727)	(36,300)	(37,250)
Deficit in scheme	(2,565)	(2,587)	(3,438)	(1,092)	(3,110)
Experience gains and (losses) on scheme liabilities	-	-	(612)	190	(6)

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

Notes to the financial statements

at 31 December 2010

21. Shared based payments

Senior Executive Plan

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

The expense recognised for equity settled share-based payments in respect of employee services received during the year to 31 December 2010 is £621,000 and £320,000 for the restricted share options (2009 - £438,000 and £265,000 respectively).

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

	2010 No	2010 WAEP £	2009 No	2009 WAEP £
Outstanding as at 1 January	225,529	18.89	184,429	18.64
Granted during the year	78,697	28.13	64,200	18.14
Forfeited during the year	(3,722)	18.09	-	-
Transferred during the year	(800)	18.14	(8,350)	21.66
Exercised	(30,192)	14.05	(14,750)	10.86
Outstanding at 31 December	269,512	18.89	225,529	18.89
Exercisable at 31 December	140,665	19.20	128,629	17.22

For the share options outstanding as at 31 December 2010, the weighted average remaining contractual life is 8.15 years (2009 - 7.19 years).

The weighted average share price at the date of exercise for options exercised was £32.26 (2009 - £18.91).

The weighted average fair value of options granted during the year was £10.68 (2009 - £8.31). The range of exercise prices for options outstanding at the end of the year was £6.12 - £32.82 (2009 - £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 2010 and 31 December 2009.

	2010	2009
Risk free interest rate	2.38%	1.8%
Expected dividend	\$0.40	-
Expected option life (years)	3.2	3.4
Expected volatility	55%	64%

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.

Notes to the financial statements

at 31 December 2010

21. Shared based payments (continued)

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 16 February 2010 at a fair value of £28.08 (2009 - £18.18). These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested.

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

	2010 No	2010 WAGDFV £	2009 No	2009 WAGDFV £
Outstanding as at 1 January	36,300	22.10	27,800	23.63
Granted during the year	16,450	28.08	9,900	18.18
Forfeited during the year	(1,950)	28.08	-	-
Transferred during the year	3,150	19.34	(1,400)	24.90
Exercised	(16,700)	17.97	-	-
Outstanding at 31 December	37,250	26.04	36,300	22.10
Exercisable at 31 December	-	-	-	-

The weighted average vesting period is 1.25 years (2009 - 0.95 years).

22. Related parties

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

23. Post balance sheet events

In 2011, the company

- acquired Capital Valves Limited, a valve distribution company based in England
- acquired Merpro Group Limited, a company that 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. The trade, assets and liabilities were transferred to the company post acquisition and the business now trades as the NOV Merpro division
- established NOV ASEP Elmar do Brasil Equipamentos e Servicos Para Petroleo Ltda, a subsidiary based in Macae, Brazil

24. 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.