

# **National Oilwell Varco UK Limited**

## **Report and Financial Statements**

31 December 2008



**National Oilwell Varco UK Limited**

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Registered No 873028

**Directors**

T D Boyle  
S G Valentine

**Joint Secretaries**

K J Leighton  
C P O'Neil  
Paull and Williamsons LLP

**Auditors**

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

**Bankers**

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

**Solicitors**

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

**Registered Office**

Martin Street  
Audenshaw  
Manchester  
M34 5JA

## Directors' report

Registered No. 873028

The directors present their report and financial statements for the year ended 31 December 2008

### Results and dividends

The profit for the year, after taxation, was £29,378,000 (2007 - £14,279,000) The directors recommend that no dividend be paid and that the profit be transferred to reserves

### Principal activity and review of business

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

The company traded as the following divisions Brandt, Brandt Environmental, Elmar, Hydra Rig, MD Totco, PCE, Tuboscope, Tuboscope Far East, Rig Solutions, Downhole Tools, Distribution Services and Russell Sub-Surface Systems throughout the year

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

	2008	2007	Change
Turnover £000	287,073	240,791	19%
Profit on ordinary activities before taxation £000	42,298	19,440	118%
Shareholders' funds £000	186,455	158,218	18%
Current assets as a percentage of current liabilities	154%	131%	23%
Average number of employees	1,003	876	14%

Turnover increased mainly reflecting increased demand for capital equipment, quality of design and manufacture of product and increased customer service levels

Profit before taxation increased in the year due to product mix and marginal improvements in foreign exchange rates

Shareholders' funds increased by 18% due to the retained earnings increase

Excess current assets over liabilities improved due to activity, including increases in inventory levels to meet demand

Employee levels increased during the year due to the demand of products and services

The company wrote down the investment in PCE following the closure of the business unit in 2009

### Principal risks and uncertainties

#### Market risks

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

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

#### Other risks and uncertainties

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

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

## **Directors' report**

**Registered No. 873028**

### **Financial instruments**

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

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

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

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

### **Future developments**

The directors believe that turnover and profitability of the company will continue to 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 2009, the company acquired Anson Limited, a company which designs and manufactures flowline and valve equipment for the oil and gas industry

In 2009, the PCE operating division was closed

In 2010, the company acquired ASEP UK Limited, a company which trades as dealers in industrial machinery and parts

In 2010, the company acquired the trade and assets of Grant Prideco Limited, a fellow subsidiary of National Oilwell Varco Inc

In 2010, the company acquired a minority interest in Sigma Offshore Limited, a company that specialises in the design of FPSO turrets and mooring systems

### **Directors and their interests**

The directors at 31 December 2008 were as follows

T D Boyle

S G Valentine

### **Political and charitable donations**

There were no political or charitable donations in the year (2007 - £nil)

### **Disabled employees**

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

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

### **Employee involvement**

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

## **Directors' report**

**Registered No. 873028**

### **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



T D Boyle  
Director

31 May 2010

## Statement of directors' responsibilities

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

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

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

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

## **Independent auditors' report**

### **to the members of National Oilwell Varco UK Limited**

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

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

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

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

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

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

### **Basis of audit opinion**

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

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

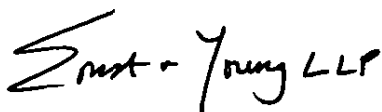
## **Independent auditors' report**

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

### **Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



Ernst & Young LLP  
Registered Auditor  
Aberdeen

31, May 2010



## Profit and loss account

for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
<b>Turnover</b>	2	287,073	240,791
Cost of sales		(212,751)	(192,250)
<b>Gross profit</b>		74,322	48,541
Selling and distribution expenses		(4,688)	(4,702)
Administrative expenses		(27,945)	(23,970)
<b>Operating profit</b>	3	41,689	19,869
Profit/(loss) on disposal of tangible fixed assets		1,287	(102)
Income from shares in group undertakings		2,322	633
Amounts written off fixed asset investments	10	(2,196)	(390)
Interest receivable		9	117
Interest payable	4	(1,002)	(1,004)
Other finance income	19	189	317
<b>Profit on ordinary activities before taxation</b>		42,298	19,440
Taxation on profit on ordinary activities	7	(12,920)	(5,161)
<b>Profit retained for the financial year</b>	16	29,378	14,279

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 2008

	2008	2007
	£000	£000
<b>Profit for the financial year</b>	29,378	14,279
Actuarial (loss)/gain relating to the pension scheme (note 19)	(2,398)	1,136
Deferred taxation attributable the actuarial gain/(loss)	671	(318)
<b>Total gains and losses recognised in the year</b>	<u>27,651</u>	<u>15,097</u>

**Balance sheet**

at 31 December 2008

	Notes	2008 £000	2007 £000
<b>Fixed assets</b>			
Intangible assets	8	4,380	4,967
Tangible assets	9	25,601	27,444
Investments	10	121,115	123,284
		<u>151,096</u>	<u>155,695</u>
<b>Current assets</b>			
Stock	11	59,240	50,189
Debtors	12	111,352	79,279
Cash at bank and in hand		20,764	9,051
		<u>191,356</u>	<u>138,519</u>
<b>Creditors:</b> amounts falling due within one year	13	(123,896)	(105,767)
<b>Net current assets</b>		<u>67,460</u>	<u>32,752</u>
<b>Total assets less current liabilities</b>		<u>218,556</u>	<u>188,447</u>
<b>Creditors:</b> amounts falling due after more than one year	14	(29,244)	(29,244)
<b>Provision for liabilities and charges</b>			
Deferred tax	7	(382)	(297)
<b>Net assets excluding pension liability</b>		<u>188,930</u>	<u>158,906</u>
Pension liability	19	(2,475)	(688)
<b>Net assets including pension liability</b>		<u>186,455</u>	<u>158,218</u>
<b>Capital and reserves</b>			
Called up share capital	15	39,310	39,310
Share premium account	16	65,083	65,083
Share-based payment reserve	16	2,454	1,868
Profit and loss account	16	79,608	51,957
<b>Total shareholders' funds</b>	16	<u>186,455</u>	<u>158,218</u>

The financial statements were approved by the Board of Directors and authorised for issue on **31** May 2010



T D Boyle, Director

## Notes to the financial statements

at 31 December 2008

### 1. Accounting policies

#### *Basis of preparation*

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

#### *Group financial statements*

The financial statements present information about the company as an individual undertaking and not about its group. The company is not required to prepare group financial statements under section 228 of the Companies Act 1985 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 2008

#### *Cashflow statement*

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

#### *Goodwill*

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

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

#### *Intangible assets*

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

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

#### *Investments*

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

#### *Fixed assets*

All fixed assets are initially recorded at cost

#### *Depreciation*

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

## Notes to the financial statements

at 31 December 2008

### 1. Accounting policies (continued)

#### *Revenue recognition*

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

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

#### *Segmental reporting*

The directors consider that no disclosure should be made of the geographical analysis of profit on ordinary activities before taxation and net assets as it is considered that disclosure of this information would be seriously prejudicial to the interests of the 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.

#### *Stocks*

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

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

#### *Research and development*

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

#### *Deferred taxation*

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

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

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

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

## Notes to the financial statements

at 31 December 2008

### 1. Accounting policies (continued)

#### *Foreign currencies*

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

#### *Leasing and hire purchase commitments*

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

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

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

#### *Pensions*

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

The 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.

#### *Share based payments*

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

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

## Notes to the financial statements

at 31 December 2008

### 1. Accounting policies (continued)

#### *Share based payments (continued)*

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

### 2. Turnover

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

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

	2008 £000	2007 £000
Europe	188,902	162,452
North America	28,791	19,999
Asia	47,367	42,583
Africa	19,304	15,757
Other	2,709	-
	<u>287,073</u>	<u>240,791</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 or (crediting)

	2008 £000	2007 £000
Amortisation of intangible assets	637	787
Depreciation of owned fixed assets	5,111	4,615
Operating lease rentals - land and buildings	2,503	2,118
- plant and machinery	1,008	1,096
Auditors' remuneration - audit of the financial statements	175	171
Research and development expenditure written off	468	465

## Notes to the financial statements

at 31 December 2008

### 4. Interest payable and similar charges

	2008	2007
	£000	£000
Bank loans and overdrafts	286	664
Amounts due to group undertakings	716	340
	<u>1,002</u>	<u>1,004</u>

### 5. Staff costs

	2008	2007
	£000	£000
Wages and salaries	38,021	33,325
Social security costs	4,011	3,567
Other pension costs	1,156	1,031
	<u>43,188</u>	<u>37,923</u>

Included in wages and salaries is a total expense of equity settled share-based payments of £586,000 (2007 - £441,000)

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

	2008	2007
	No	No
Production	868	703
Sales	55	61
Administration	80	112
	<u>1,003</u>	<u>876</u>



## Notes to the financial statements

at 31 December 2008

### 6. Directors' emoluments

	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Emoluments	202	490
Employer contributions paid to company pension scheme	27	331
	<i>2008</i>	<i>2007</i>
	<i>No</i>	<i>No</i>
Number of directors who are members of company pension scheme	1	2
Number of directors who received shares in respect of qualifying services	1	2
Number of directors who exercised share options	0	2
Exercised options over shares in the ultimate parent company	0	2
The amounts in respect of the highest paid director are as follows		
	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>
Emoluments	202	294
Company contributions paid to money purchase pension schemes	27	309

## Notes to the financial statements

at 31 December 2008

### 7. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows

	2008 £000	2007 £000
<i>Current tax</i>		
Corporation tax	12,865	4,674
Group relief	192	846
Less double tax relief	(1,042)	(1,118)
	<u>12,015</u>	<u>4,402</u>
Overseas tax	1,042	904
	<u>13,057</u>	<u>5,306</u>
Adjustments in respect of prior periods	(140)	(330)
	<u>12,917</u>	<u>4,976</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	54	121
Movement on pension accrual	(502)	332
Deferred tax on share based payments	479	(150)
Prior period adjustments on transfers from other group companies	(7)	-
Reversal of provision on Industrial Buildings Allowances	(21)	(118)
	<u>3</u>	<u>185</u>
	<u>12,920</u>	<u>5,161</u>

## Notes to the financial statements

at 31 December 2008

### 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 28.5% (2007 – 30%). The differences are reconciled below

	2008 £000	2007 £000
Profit on ordinary activities before taxation	42,298	19,440
Profit on ordinary activities multiplied by standard rate of corporation tax of 28.5% (2007 – 30%)	12,055	5,832
Effect of		
Expenses not deductible for tax purposes/(income not taxable)	1,449	(369)
Capital allowances in excess of depreciation/(depreciation in excess of capital allowances)	31	(67)
Other timing differences	(478)	60
Adjustments in respect of previous periods	(140)	(330)
Double tax relief	-	(149)
Tax credit	-	(1)
Total current tax (note 7(a))	12,917	4,976

#### (c) Factors that may affect future tax charges

UK Corporation tax is calculated at 28.5% (2007 – 30%) of the estimated assessable profit for the year. A reduction in the UK tax rate from 30% to 28% will apply from 1 April 2008. This has been applied to the deferred tax calculations in these financial statements.

## Notes to the financial statements

at 31 December 2008

### 7. Tax (continued)

#### (d) Deferred tax

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

	2008 £000	2007 £000
Included in provisions for liabilities and charges		
Accelerated capital allowances	905	1,394
Other timing differences	(470)	(574)
Share based payments	(53)	(523)
	<u>382</u>	<u>297</u>
Included in defined benefit pension liability (note 19)		
- Tuboscope Holdings 1998 Pension Scheme	-	38
- National Oilwell (U K ) Limited Pension Plan	(963)	(306)
	<u>(963)</u>	<u>(268)</u>
	<u>(581)</u>	<u>29</u>
	2008 £000	
As at 1 January	29	
Deferred tax charge in profit and loss account		
Origination and reversal of timing differences	493	
Reversal of provision on Industrial Buildings Allowances	(21)	
Adjustments in respect of prior years	(411)	
	<u>90</u>	
Amounts credited to Statement of Total Recognised Gains and Losses	(671)	
At 31 December	<u>(581)</u>	

## Notes to the financial statements

at 31 December 2008

### 8. Intangible fixed assets

	<i>Intellectual property £000</i>	<i>Goodwill £000</i>	<i>Total £000</i>
Cost			
At 1 January 2008	1,481	9,053	10,534
Additions	50	-	50
Transfers	57	-	57
At 31 December 2008	1,588	9,053	10,641
Amortisation			
At 1 January 2008	1,424	4,143	5,567
Provided during year	89	548	637
Transfers	57	-	57
At 31 December 2008	1,570	4,691	6,261
Net book value			
At 31 December 2008	18	4,362	4,380
At 1 January 2008	57	4,910	4,967

## Notes to the financial statements

at 31 December 2008

### 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 - restated							
At 1 January 2008	16,669	1,409	48,938	205	4,178	1,991	73,390
Additions	-	439	2,992	6	251	754	4,442
Disposals	-	(2)	(5,563)	(44)	(488)	-	(6,097)
Transfers	109	(109)	1,991	-	-	(1,991)	-
At 31 December 2008	16,778	1,737	48,358	167	3,941	754	71,735
Depreciation							
At 1 January 2008	7,464	869	33,482	188	3,943	-	45,946
Charge for year	235	175	4,556	18	127	-	5,111
Disposals	-	(1)	(4,390)	(44)	(488)	-	(4,923)
Transfers	70	(70)	42	(42)	-	-	-
At 31 December 2008	7,769	973	33,690	120	3,582	-	46,134
Net book value							
At 31 December 2008	9,009	764	14,668	47	359	754	25,601
At 1 January 2008	9,205	540	15,456	17	235	1,991	27,444

The cost of land and buildings includes £14,836,000 (2007 - £14,119,000) of depreciable assets

£1,991,000 of amounts previously included within debtors at 31 December 2007 has been reclassified to fixed assets – Construction in progress There is no impact on net assets

## Notes to the financial statements

at 31 December 2008

### 10. Fixed asset investments

	<i>Subsidiary undertakings £000</i>	<i>Other £000</i>	<i>Total £000</i>
Cost			
At 1 January 2008	129,080	-	129,080
Additions	-	27	27
At 31 December 2008	129,080	27	129,107
Amounts written off			
At 1 January 2008	5,796	-	5,796
Provided during year	2,196	-	2,196
At 31 December 2008	7,992	-	7,992
Net book value			
At 31 December 2008	121,088	27	121,115
At 1 January 2008	123,284	-	123,284

## Notes to the financial statements

at 31 December 2008

### 10. Fixed asset investments (continued)

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

#### ***Subsidiary undertakings***

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Tuboscope Vetco Capital Limited	Ordinary shares	100%	Inspection services to the oil & gas industry in Kazakhstan
Elmar Services (Middle East) Limited	Ordinary shares	100%	Sale/rental of oilfield equipment
Elmar Services Pty Limited	Ordinary shares	100%	Sale/rental of oilfield equipment
Varco Al Mansoori Service Company LLC	Ordinary shares	49%	Sale/repair of oilfield equipment
Hebei Huayouyiji Tuboscope Coating Co Limited	Ordinary shares	60%	OCTG Coating
Tuboscope Pipeline Services Limited	Ordinary shares	100%	Pipeline inspection

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

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



## Notes to the financial statements

at 31 December 2008

### 11. Stock

	2008 £000	2007 £000
Raw materials and consumables	10,255	12,910
Work in progress	14,626	13,789
Finished goods and goods for resale	34,359	23,490
	<u>59,240</u>	<u>50,189</u>

### 12. Debtors

	2008 £000	<i>Restated</i> 2007 £000
Trade debtors	77,322	57,599
Amounts owed by other group undertakings	31,968	15,673
Amounts owed by subsidiary undertakings	120	1,766
Corporation tax	304	2,942
Prepayments and accrued income	1,573	1,252
Other debtors	65	47
	<u>111,352</u>	<u>79,279</u>

£1,991,000 of amounts previously included within debtors at 31 December 2007 has been reclassified to fixed assets – Construction in progress. There is no impact on net assets.

Amounts falling due after more than one year included above are

	2008 £000	2007 £000
Amounts owed by subsidiary undertakings	-	1,646

### 13. Creditors: amounts falling due within one year

	2008 £000	2007 £000
Bank overdraft	20,134	22,018
Trade creditors	12,564	6,488
Payments received in advance	7,341	4,560
Amounts due to fellow subsidiary undertakings	61,757	52,888
Amounts due to subsidiary undertakings	1,533	1,064
Other taxes and social security costs	2,670	2,122
Group relief	1,432	1,266
Overseas tax	216	724
Accruals and deferred income	16,249	14,637
	<u>123,896</u>	<u>105,767</u>

## Notes to the financial statements

at 31 December 2008

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

	2008 £000	2007 £000
Amounts due to group undertakings	29,195	29,195
Amounts due to subsidiary undertakings	49	49
	<u>29,244</u>	<u>29,244</u>

### 15. Share capital

	2008 No	Authorised 2007 No	Issued, called up and fully paid 2008 £000	2007 £000
Ordinary shares of £1 each	39,310,164	39,310,164	39,310	39,310

### 16. Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Share premium £000	Share based payment reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2007	39,310	65,083	1,427	36,860	142,680
Profit for the year	-	-	-	14,279	14,279
Actuarial gain relating to pension scheme	-	-	-	1,136	1,136
Deferred taxation relating to pension scheme	-	-	-	(318)	(318)
Share based payment reserve	-	-	441	-	441
At 31 December 2007	<u>39,310</u>	<u>65,083</u>	<u>1,868</u>	<u>51,957</u>	<u>158,218</u>
Profit for the year	-	-	-	29,378	29,378
Actuarial loss relating to pension scheme	-	-	-	(2,398)	(2,398)
Deferred taxation relating to pension scheme	-	-	-	671	671
Share based payment reserve	-	-	586	-	586
At 31 December 2008	<u>39,310</u>	<u>65,083</u>	<u>2,454</u>	<u>79,608</u>	<u>186,455</u>

## Notes to the financial statements

at 31 December 2008

### 17. Contingent liabilities

At 31 December 2008, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £6,220,000 entered into in the normal course of business

### 18. Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	<i>Other</i>		<i>Land and buildings</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire				
Within one year	73	38	48	399
In two to five years	378	556	478	415
In over five years	5	5	1,394	1,165
	<u>456</u>	<u>599</u>	<u>1,620</u>	<u>1,979</u>

### 19. Pension commitments

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

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

The 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 2008. The scheme will be fully wound up in 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.

## Notes to the financial statements

at 31 December 2008

### 19. Pension commitments (continued)

#### *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 £24,806,000 and that the actuarial value of those assets represented 77% of the liability under that valuation date.

At 31 December 2008 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 2008 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):

	2008	2007
Rate of increase in salaries	4.25%	5.0%
Rate of increase of pensions in payment	3.0%	3.25%
Rate of increase in pensions in deferment	3.1%	3.25%
Discount rate	6.5%	5.92%
Inflation assumption	3.1%	3.25%

## Notes to the financial statements

at 31 December 2008

### 19. Pension commitments (continued)

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

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

	2008 %	2008 £000	2007 %	2007 £000
Equities	8.4	17,630	7.75	20,657
Bonds	4.8	11,659	5.06	14,551
Total fair value of assets		29,289		35,208
Present value of scheme liabilities		(32,727)		(36,300)
Deficit in the plan		(3,438)		(1,092)
Related deferred tax asset		963		306
Net pension liability		(2,475)		(786)

#### Analysis of the amount charged to operating costs

	2008 £000	2007 £000
Current service cost	270	388
Amount credited/(charged) to other net finance income/(costs)		
Expected return on pension scheme assets	2,286	2,231
Interest on pension liabilities	(2,097)	(1,938)
Net return	189	293

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

	2008 £000	2007 £000
Expected return less actual return on pension scheme assets	(6,634)	(1,163)
Experience (losses)/gains arising on the scheme liabilities	(612)	1,325
Changes in assumptions underlying the present value of the scheme liabilities	4,848	1,800
	(2,398)	1,962

## Notes to the financial statements

at 31 December 2008

### 19. 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

	2008 £000	2007 £000
Value at beginning of year	(36,300)	(37,250)
Movement in year		
Current service costs	(270)	(388)
Interest cost	(2,097)	(1,938)
Employee contributions	(60)	(69)
Benefits paid	1,764	1,355
Actuarial gain	4,236	1,990
Value at end of year	<u>(32,727)</u>	<u>(36,300)</u>

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

	2008 £000	2007 £000
Value at beginning of year	35,208	34,140
Movement in year		
Expected return	2,286	2,231
Employer contributions	133	151
Employee contributions	60	69
Benefits paid	(1,764)	(1,355)
Actuarial loss	(6,634)	(28)
Value at end of year	<u>29,289</u>	<u>35,208</u>

History of experience (gains) and losses

	2008	2007	2006	2005	2004
Fair value of scheme assets	29,289	35,208	34,140	32,991	27,704
Present value of defined benefit obligation	(32,727)	(36,300)	(37,250)	(37,990)	(34,806)
Deficit in scheme	(3,438)	(1,092)	(3,110)	(4,999)	(10,102)
Experience gains and (losses) on scheme liabilities	(612)	190	(6)	579	213

## Notes to the financial statements

at 31 December 2008

### 20. Shared based payments

#### Senior Executive Plan

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

The expense recognised for equity settled share-based payments in respect of employee services received during the year to 31 December 2008 is £586,000 (2007 - £441,000).

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

	2008 No	2008 WAEP £	2007 No	2007 WAEP £
Outstanding as at 1 January	229,160	15.09	358,578	12.52
Granted during the year	35,918	31.77	51,600	17.97
Forfeited during the year	(5,950)	23.40	(35,736)	18.12
Exercised	(74,699)	13.68	(145,282)	9.03
Outstanding at 31 December	184,429	18.64	229,160	15.09
Exercisable at 31 December	82,059	13.24	87,674	11.48

For the share options outstanding as at 31 December 2008, the weighted average remaining contractual life is 7.4 years (2007 - 7.82 years).

The weighted average share price at the date of exercise for options exercised was £38.71 (2007 - £21.06).

The weighted average fair value of options granted during the year was £11.33 (2007 - £6.11). The range of exercise prices for options outstanding at the end of the year was £6.12 - £32.82 (2007 - £6.12 - £19.09).

The fair value of equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 31 December 2008 and 31 December 2007.

	2007	2007
Risk free interest rate	2.9%	4.6%
Expected dividend	-	-
Expected option life (years)	3.6	3.5
Expected volatility	42%	39%

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

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

## Notes to the financial statements

at 31 December 2008

### 20. Shared based payments (continued)

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

#### Restricted Shares

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 2008 at a fair value of £32.82 (2007 - £17.97). These shares will not vest until the third anniversary of the date of the grant, at which time they will be 100% vested.

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

	2008 No	2008 WAGDFV £	2007 No	2007 WAGDFV £
Outstanding as at 1 January	17,200	17.97	-	-
Granted during the year	11,750	32.19	17,200	17.97
Forfeited during the year	(1,150)	26.36	-	-
Exercised	-	-	-	-
Outstanding at 31 December	27,800	23.63	17,200	17.97
Exercisable at 31 December	-	-	-	-

The weighted average vesting period is 1.53 years (2007 - 2.16 years).

### 21. Related parties

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

### 22. Post balance sheet events

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

In 2009, the PCE operating division was closed.

In 2010, the company acquired ASEP UK Limited, a company which trades as dealers in industrial machinery and parts.

In 2010, the company acquired the trade and assets of Grant Prideco Limited, a fellow subsidiary of National Oilwell Varco Inc.

In 2010, the company acquired a minority interest in Sigma Offshore Limited, a company that specialises in the design of FPSO turrets and mooring systems.

### 23. 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.