Registered No 873028

National Oilwell Varco UK Limited

Report and Financial Statements

31 December 2009

Registered No 873028

Directors
T D Boyle
S G Valentine

Joint Secretaries
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C P O'Neil
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Directors' report

Registered No. 873028

The directors present their report and financial statements for the year ended 31 December 2009

Results and dividends

The profit for the year, after taxation, was £38,435,000 (2008 - £29,378,000) The directors recommended and paid a dividend of £8,450,000 during 2009 (2008 – nil) The directors recommend that no final dividend be paid and that the remaining profit be transferred to reserves

Principal activity and review of business

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

The company traded as the following divisions Brandt, Brandt Environmental, Elmar, Hydra Rig, MD Totco, Tuboscope, Tuboscope Far East, Rig Solutions, Downhole Tools, Distribution Services and Russell Sub-Surface Systems throughout the year The company also traded as PCE until the business unit was closed during the year In April 2009, the company purchased the entire share capital of Anson Limited, a Gateshead based company, which designed and manufactures flowline and valve equipment for the oil and gas industry A subsidiary company NOV Ghana Limited was incorporated during the year

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

	2009	*2008*	*Change*
Turnover £000	315,828	287,073	10%
Profit on ordinary activities before taxation £000	51,521	42,298	22%
Shareholders' funds £000	217,255	186,455	16%
Current assets as a percentage of current liabilities	107%	154%	(47%)
Average number of employees	1,007	1,003	-

Turnover rose mainly reflecting increased demand for capital equipment from customers

Profit before taxation increased in the year due to product mix at a marginally lower operating profit than 2008, coupled with higher dividends received, partly offset by a write down of an investment in a subsidiary

Shareholders' funds increased by 16% due to the retained earnings for the year less the dividend paid

Net current assets declined mainly due to the funding of acquisitions through short term intercompany balances

Employee levels remained constant during the year

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

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 2010, the company

- acquired ASEP (UK) Limited, a company which trades as dealers in industrial machinery and parts
- acquired a minority interest in Sigma Offshore Limited, a company that specialises in the design of FPSO turrets and mooring systems
- acquired KVA Limited, a company which is involved in manufacturing, rental and service of diesel driven generators The trade, assets and liabilities were transferred to the company post acquisition and the business now trades as the NOV Portable Power division

Also in 2010, as part of a group reorganisation

- the company acquired the shares in Grant Prideco Limited, Amclyde UK Limited, ASEP (UK) Limited and Procon Engineering Limited from a fellow group company The trades, assets and liabilities of these subsidiaries were subsequently transferred to the company where they now trade as divisions
- the company acquired the shares in Mono Pumps Limited and NOV Downhole Eurasia Limited from a fellow group company The downhole tools business of the company was contributed to another group company, NOV Downhole Eurasia Limited following the acquisition
- the trades, assets and liabilities of Coil Services (North Sea) Limited and CTES Limited were acquired from fellow subsidiaries for cash and these business units now trade as divisions of the company

Directors' report

Registered No. 873028

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 and their interests

The directors at 31 December 2009 were as follows

T D Boyle
S G Valentine

Political and charitable donations

There were no political or charitable donations in the year (2008 - £nil)

Disabled employees

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

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

Employee involvement

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

Disclosure of information to auditors

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

Re-appointment of auditors

In accordance with S 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

30 September 2010

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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) Under company law the directors must not approve the financial statement 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 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 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 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 2009 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 23 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statements set out on page 5, 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 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 (APB'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

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 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Kenneth MacLeod Hall (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
30 September 2010

Profit and loss account

for the year ended 31 December 2009

	Notes	2009 £000	2008 £000
Turnover	2	315,828	287,073
Cost of sales		(235,686)	(212,751)
Gross profit		80,142	74,322
Selling and distribution expenses		(6,051)	(4,688)
Administrative expenses		(28,679)	(27,945)
Operating profit	3	45,412	41,689
Profit on disposal of tangible fixed assets		337	1,287
Income from shares in group undertakings		14,190	2,322
Amounts written off fixed asset investments	10	(7,800)	(2,196)
Interest receivable		-	9
Interest payable	4	(543)	(1,002)
Other finance (costs)/income	19	(75)	189
Profit on ordinary activities before taxation		51,521	42,298
Taxation on profit on ordinary activities	7	(13,086)	(12,920)
Profit retained for the financial year	16	38,435	29,378

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 2009

	2009	2008
	£000	£000
Profit for the financial year	38,435	29,378
Actuarial gain/(loss) relating to the pension scheme (note 19)	155	(2,398)
Deferred taxation attributable the actuarial gain/(loss)	(43)	671
Total gains and losses recognised in the year	38,547	27,651

Balance sheet
at 31 December 2009

	Notes	2009 £000	2008 £000
Fixed assets			
Intangible assets	8	3,837	4,380
Tangible assets	9	26,649	25,601
Investments	10	204,276	121,115
		234,762	151,096
Current assets			
Stock	11	73,098	59,240
Debtors	12	105,438	111,352
Cash at bank and in hand		25,867	20,764
		204,403	191,356
Creditors amounts falling due within one year	13	(190,634)	(123,896)
Net current assets		13,769	67,460
Total assets less current liabilities		248,531	218,556
Creditors amounts falling due after more than one year	14	(29,244)	(29,244)
Provision for liabilities and charges			
Deferred tax	7	(169)	(382)
Net assets excluding pension liability		219,118	188,930
Pension liability	19	(1,863)	(2,475)
Net assets including pension liability		217,255	186,455
Capital and reserves			
Called up share capital	15	39,310	39,310
Share premium account	16	65,083	65,083
Share-based payment reserve	16	3,157	2,454
Profit and loss account	16	109,705	79,608
Total shareholders' funds	16	217,255	186,455

The financial statements were approved by the Board of Directors and authorised for issue on 30 September 2010

T D Boyle

Director

Notes to the financial statements

at 31 December 2009

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 2009

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 2009

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 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

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

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

Notes to the financial statements

at 31 December 2009

1. Accounting policies (continued)

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 2009

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

	2009	*2008*
	£000	*£000*
Europe	214,045	188,902
Americas	26,405	28,791
Asia	45,071	47,367
Africa	27,400	19,304
Other	2,907	2,709
	315,828	287,073

(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

	2009	*2008*
	£000	*£000*
Amortisation of intangible assets	613	637
Depreciation of owned fixed assets	4,603	5,111
Operating lease rentals - land and buildings	2,802	2,503
- plant and machinery	917	1,008
Auditors' remuneration - audit of the financial statements	184	175
Research and development expenditure written off	1,224	468

Notes to the financial statements

at 31 December 2009

4. Interest payable and similar charges

	2009	2008
	£000	£000
Bank loans and overdrafts	11	286
Amounts due to group undertakings	532	716
	543	1,002

5. Staff costs

	2009	2008
	£000	£000
Wages and salaries	37,196	38,021
Social security costs	3,896	4,011
Other pension costs	1,132	1,156
	42,224	43,188

Included in wages and salaries is a total expense of equity settled share-based payments of £703,000 (2008 - £586,000)

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

	2009	2008
	No	No
Production	866	868
Sales	52	55
Administration	89	80
	1,007	1,003

Notes to the financial statements

at 31 December 2009

6. Directors' remuneration

	2009	*2008*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	184	202
Employer contributions paid to company pension scheme	25	27

	2009	*2008*
	No	*No*
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

	2009	*2008*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	184	202
Company contributions paid to money purchase pension schemes	25	27

Notes to the financial statements

at 31 December 2009

7. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows

	2009	*2008*
	£000	*£000*
Current tax		
Corporation tax	11,453	12,865
Group relief	2,430	192
Less double tax relief	(1,632)	(1,042)
	12,251	12,015
Overseas tax	891	1,042
	13,142	13,057
Adjustments in respect of prior periods	(38)	(140)
Total current tax (note 7(b))	13,104	12,917
Deferred tax		
Origination and reversal of timing differences	293	(448)
Deferred tax on share based payments	(264)	479
Prior period adjustments on transfers from other group companies	-	(7)
Reversal of provision on Industrial Buildings Allowances	(47)	(21)
	(18)	3
	13,086	12,920

(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% (2008 – 28 5%) The differences are reconciled below

	2009	*2008*
	£000	*£000*
Profit on ordinary activities before taxation	51,521	42,298
Profit on ordinary activities multiplied by standard rate of corporation tax of 28% (2008 28 5%)	14,426	12,055
Effect of		
Expenses not deductible for tax purposes/(income not taxable)	(910)	1,449
Capital allowances in excess of depreciation	186	31
Other timing differences	(41)	(478)
Adjustments in respect of previous periods	(38)	(140)
Underlying tax	(519)	-
Total current tax (note 7(a))	13,104	12,917

Notes to the financial statements

at 31 December 2009

7. Tax (continued)

(c) Factors that may affect future tax charges

Following announcements in the Emergency Budget of 22 June 2010, it was proposed that the full rate of corporation tax 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%

(d) Deferred tax

Deferred taxation is included in the balance sheet as follows

	2009	*2008*
	£000	*£000*
Included in provisions for liabilities and charges		
Accelerated capital allowances	1,115	905
Other timing differences	(629)	(470)
Share based payments	(317)	(53)
	169	382
Included in defined benefit pension liability (note 19)		
- National Oilwell (U K) Limited Pension Plan	(724)	(963)
	(555)	(581)

	2009
	£000
As at 1 January	(581)
Deferred tax credit in profit and loss account	(17)
	(598)
Amounts credited to Statement of Total Recognised Gains and Losses	43
At 31 December	(555)

Notes to the financial statements

at 31 December 2009

8. Intangible fixed assets

	Intellectual property £000	*Goodwill £000*	*Total £000*
Cost			
At 1 January 2009	1,588	9,053	10,641
Additions	70	-	70
At 31 December 2009	1,658	9,053	10,711
Amortisation			
At 1 January 2009	1,570	4,691	6,261
Provided during year	66	547	613
At 31 December 2009	1,636	5,238	6,874
Net book value			
At 31 December 2009	22	3,815	3,837
At 1 January 2009	18	4,362	4,380

Notes to the financial statements

at 31 December 2009

9. Tangible fixed assets

	Freehold land and buildings	*Leasehold improve-ments*	*Plant, machinery and rental equipment*	*Motor Vehicles*	*Fixtures and fittings*	*Construction in progress*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Cost							
At 1 January 2009	16,778	1,737	48,358	167	3,941	754	71,735
Additions	341	64	5,829	-	47	875	7,156
Disposals	(124)	(182)	(2,772)	(6)	-	(22)	(3,106)
Transfers	498	-	116	-	-	(614)	-
At 31 December 2009	17,493	1,619	51,531	161	3,988	993	75,785
Depreciation							
At 1 January 2009	7,769	973	33,690	120	3,582	-	46,134
Charge for year	537	148	3,720	36	162	-	4,603
Disposals	(85)	(151)	(1,364)	(1)	-	-	(1,601)
Transfers	-	-	6	-	(6)	-	-
At 31 December 2009	8,221	970	36,052	155	3,738	-	49,136
Net book value							
At 31 December 2009	9,272	649	15,479	6	250	993	26,649
At 1 January 2009	9,009	764	14,668	47	359	754	25,601

The cost of land and buildings includes £15,550,000 (2008 - £14,836,000) of depreciable assets

Notes to the financial statements

at 31 December 2009

10. Fixed asset investments

	Subsidiary undertakings *£000*	*Other* *£000*	*Total* *£000*
Cost			
At 1 January 2009	129,080	27	129,107
Additions	90,961	-	90,961
At 31 December 2009	220,041	27	220,068
Amounts written off			
At 1 January 2009	7,992	-	7,992
Provided during year	7,800	-	7,800
At 31 December 2009	15,792	-	15,792
Net book value			
At 31 December 2009	204,249	27	204,276
At 1 January 2009	121,088	27	121,115

Notes to the financial statements

at 31 December 2009

10. Fixed asset investments (continued)

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

Subsidiary undertakings

Name of company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
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
Heibei Huayouyiji Tuboscope Coating Co Limited	Ordinary shares	60%	OCTG Coating
Tuboscope Pipeline Services Limited	Ordinary shares	100%	Pipeline inspection
Anson Limited	Ordinary shares	100%	Manufacturing & marketing of oilfield equipment
Anson Oilfield Equipment Pte Limited *	Ordinary shares	100%	Distribution of engineering components
Anson Flowline Equipment Inc *	Ordinary shares	100%	Distribution of engineering components
NOV Ghana Limited	Ordinary Shares	100%	Sale, rental and service of oilfield goods

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, Heibei Huayoujiji Tuboscope Coating Co Limited which is incorporated in the People's Republic of China, Anson Oilfield Equipment Pte Limited which is incorporated in Singapore, Anson Flowline Equipment Inc which is incorporated in the United States of America and NOV Ghana Limited which is incorporated in Ghana

* Investments held by Anson 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

Notes to the financial statements

at 31 December 2009

11. Stock

	2009	*2008*
	£000	*£000*
Raw materials and consumables	7,927	10,255
Work in progress	20,813	14,626
Finished goods and goods for resale	44,358	34,359
	73,098	59,240

12. Debtors

	2009	*2008*
	£000	*£000*
Trade debtors	49,142	77,322
Amounts owed by other group undertakings	53,793	31,968
Amounts owed by subsidiary undertakings	120	120
Corporation tax	73	304
Overseas tax	398	-
Prepayments and accrued income	1,847	1,573
Other debtors	65	65
	105,438	111,352

13. Creditors: amounts falling due within one year

	2009	*2008*
	£000	*£000*
Bank overdraft	35,273	20,134
Trade creditors	13,380	12,564
Payments received in advance	4,353	7,341
Amounts due to fellow subsidiary undertakings	120,263	61,757
Amounts due to subsidiary undertakings	1,533	1,533
Other taxes and social security costs	2,057	2,670
Group relief	468	1,432
Overseas tax	-	216
Accruals and deferred income	13,307	16,249
	190,634	123,896

Notes to the financial statements

at 31 December 2009

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

	2009 £000	2008 £000
Amounts due to group undertakings	29,195	29,195
Amounts due to subsidiary undertakings	49	49
	29,244	29,244

15. Share capital

	Authorised 2009 No	Authorised 2008 No	Issued, called up and fully paid 2009 £000	Issued, called up and fully paid 2008 £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 2008	39,310	65,083	1,868	51,957	158,218
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	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

Notes to the financial statements

at 31 December 2009

17. Contingent liabilities

At 31 December 2009, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements amounting to £2,471,000 entered into in the normal course of business

18. Financial commitments

Annual commitments under non-cancellable operating leases are as follows

	Other		*Land and buildings*	
	2009	*2008*	*2009*	*2008*
	£000	*£000*	*£000*	*£000*
Operating leases which expire				
Within one year	169	73	23	48
In two to five years	319	378	210	478
In over five years	-	5	2,890	1,394
	488	456	3,123	1,920

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 2009 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 2009

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 £33,466,000 and that the actuarial value of those assets represented 92 8% of the liability under that valuation date

At 31 December 2009 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 2009 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)

	2009	*2008*
Rate of increase in salaries	4 1%	4 25%
Rate of increase of pensions in payment	3 6%	3 0%
Rate of increase in pensions in deferment	3 6%	3 1%
Discretionary increases on pensions in payment	2 0%	3 0%
Discount rate	5 8%	6 5%
Inflation assumption	3 6%	3 1%
Expected return on scheme assets	7 45%	7 0%
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 2009

19. 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 sheet date were

	2009 *£000*	*2008* *£000*
Equities	20,565	17,630
Bonds	12,901	11,659
Total fair value of assets	33,466	29,289
Present value of scheme liabilities	(36,053)	(32,727)
Deficit in the plan	(2,587)	(3,438)
Related deferred tax asset	724	963
Net pension liability	(1,863)	(2,475)

Analysis of the amount charged to operating costs

	2009 *£000*	*2008* *£000*
Current service cost	174	270

Amount (charged)/credited to other net finance (costs)/income		
Expected return on pension scheme assets	1,993	2,286
Interest on pension liabilities	(2,068)	(2,097)
Net (cost)/return	(75)	189

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

	2009 *£000*	*2008* *£000*
Expected return less actual return on pension scheme assets	2,441	(6,634)
Experience losses arising on the scheme liabilities	-	(612)
Changes in assumptions underlying the present value of the scheme liabilities	(2,286)	4,848
	155	(2,398)

Notes to the financial statements

at 31 December 2009

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

	2009	*2008*
	£000	*£000*
Value at beginning of year	(32,727)	(36,300)
Movement in year		
Current service costs	(174)	(270)
Interest cost	(2,068)	(2,097)
Employee contributions	(51)	(60)
Benefits paid	1,253	1,764
Actuarial (loss)/gain	(2,286)	4,236
Value at end of year	(36,053)	(32,727)

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

	2009	*2008*
	£000	*£000*
Value at beginning of year	29,289	35,208
Movement in year		
Expected return	1,993	2,286
Employer contributions	945	133
Employee contributions	51	60
Benefits paid	(1,253)	(1,764)
Actuarial gain/(loss)	2,441	(6,634)
Value at end of year	33,466	29,289

History of experience (gains) and losses

	2009	*2008*	*2007*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*	*£000*
Fair value of scheme assets	33,466	29,289	35,208	34,140	32,991
Present value of defined benefit obligation	(36,053)	(32,727)	(36,300)	(37,250)	(37,990)
Deficit in scheme	(2,587)	(3,438)	(1,092)	(3,110)	(4,999)
Experience gains and (losses) On scheme liabilities	-	(612)	190	(6)	579

Notes to the financial statements

at 31 December 2009

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 2009 is £703,000 (2008 - £586,000)

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

	2009	*2009 WAEP*	*2008*	*2008 WAEP*
	No	*£*	*No*	*£*
Outstanding as at 1 January	184,429	18 64	229,160	15 09
Granted during the year	64,200	18 14	35,918	31 77
Forfeited during the year	-	-	(5,950)	23 40
Transferred during the year	(8,350)	21 66		
Exercised	(14,750)	10 86	(74,699)	13 68
Outstanding at 31 December	225,529	18 89	184,429	18 64
Exercisable at 31 December	128,629	17 22	82,059	13 24

For the share options outstanding as at 31 December 2009, the weighted average remaining contractual life is 7 19 years (2008 - 7 4 years)

The weighted average share price at the date of exercise for options exercised was £18 91 (2008 - £38 71)

The weighted average fair value of options granted during the year was £8 31 (2008 - £11 33) The range of exercise prices for options outstanding at the end of the year was £6 12 - £32 82 (2008 - £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 2009 and 31 December 2008

	2009	*2008*
Risk free interest rate	1 8%	2 9%
Expected dividend	-	-
Expected option life (years)	3 4	3 6
Expected volatility	64%	42%

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 2009

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 2009 at a fair value of £18 18 (2008 - £32 82) These shares will not vest until the third anniversary of the date of the grant, at which time the 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

	2009	*2009 WAGDFV*	*2008*	*2008 WAGDFV*
	No	*£*	*No*	*£*
Outstanding as at 1 January	27,800	23 63	17,200	17 97
Granted during the year	9,900	18 18	11,750	32 19
Forfeited during the year	-	-	(1,150)	26 36
Transferred during the year	(1,400)	24 90		--
Outstanding at 31 December	36,300	22 10	27,800	23 63
Exercisable at 31 December	-	-	-	-

The weighted average vesting period is 0 95 years (2008 – 1 53 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 2010, the company

- acquired ASEP (UK) Limited, a company which trades as dealers in industrial machinery and parts
- acquired a minority interest in Sigma Offshore Limited, a company that specialises in the design of FPSO turrets and mooring systems
- acquired KVA Limited, a company which is involved in manufacturing, rental and service of diesel driven generators The trade, assets and liabilities were transferred to the company post acquisition and the business now trades as the NOV Portable Power division

Also in 2010, as part of a group reorganisation

- the company acquired the shares in Grant Prideco Limited, Amclyde UK Limited, ASEP (UK) Limited and Procon Engineering Limited from a fellow group company The trades, assets and liabilities of these subsidiaries were subsequently transferred to the company where they now trade as divisions
- the company acquired the shares in Mono Pumps Limited and NOV Downhole Eurasia Limited from a fellow group company The downhole tools business of the company was contributed to another group company, NOV Downhole Eurasia Limited following the acquisition
- the trades, assets and liabilities of Coil Services (North Sea) Limited and CTES Limited were acquired from fellow subsidiaries for cash and these business units now trade as divisions of the company

Notes to the financial statements

at 31 December 2009

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