

873028

**National Oilwell Varco UK Limited** (formerly Varco Limited)

**Report and Financial Statements**

31 December 2005



*Registered No 873028*

Registered No 873028

**Directors**

T D Boyle  
S G Valentine

**Joint Secretaries**

K J Holland  
Paul and Williamsons

**Auditors**

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

**Bankers**

Barclays Bank PLC  
Johnstone House  
52-54 Rose Street  
Aberdeen  
AB15 4DT

**Solicitors**

Paul & Williamsons  
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6 Union Row  
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AB10 1QY

**Registered Office**

Martin Street  
Audenshaw  
Manchester  
M34 5JA

## Directors' report

The directors present their report and financial statements for the year ended 31 December 2005

### Results and dividends

The profit for the year, after taxation, was £8,815,000 (2004 restated profit - £1,296,000) The directors recommend that no dividend be paid and that the profit be transferred to reserves

In the current year, the company has adopted FRS 17 "Retirement Benefits" This has resulted in a restatement of the results and financial position for the year ended 31 December 2004 and the effect has been an increase in the profit before taxation of £598,000 and a reduction of net assets of £902,000 (see note 20)

### 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 and Rig Solutions

On 10 March 2005, as part of a group restructure, the authorised share capital of National Oilwell Varco UK Limited was increased to 31,514,555 ordinary £1 shares and the issued share capital was increased to £31,361,976 All shares are held by Tuboscope Holdings Limited

As part of this group restructure, the investments in Rig Technology Limited, Elmar Services Limited, Morinoak International Limited and Hydra Rig UK Limited were transferred into National Oilwell Varco UK Limited These investments had previously been held by other Group companies

Additionally, during the year National Oilwell Varco UK Limited funded its 60% share of Heibei Huayouyi Tuboscope Coating Co Ltd which is a joint venture for coating based in China

### Post balance sheet events

On 28 July 2006, the name of the company was changed from Varco Limited to National Oilwell Varco UK Limited

On 31 August 2006, as part of a UK entity reorganisation National Oilwell Varco UK Limited acquired shares in National Oilwell (UK) Limited and Russell Sub Surface Systems Limited from Tuboscope Holdings Limited in consideration for shares issued The trade and assets of these companies was subsequently transferred to National Oilwell Varco UK Limited

On the same date, the assets and liabilities of Tuboscope Holdings Limited (other than the investment in National Oilwell Varco UK Limited) were transferred to National Oilwell Varco UK Limited in consideration for shares issued

The issued and authorised share capital of National Oilwell Varco UK Limited was increased to £39,310,164 ordinary £1 shares All shares are held by Tuboscope Holdings Limited

On 6 December 2006, the company acquired the shares of Toolbox Drilling Solutions Limited, a company specialising in the sale and rental of drilling tools and equipment

During 2006, following a review of pension arrangements the company offered members of the Tuboscope Holdings Limited 1998 pension scheme enhanced transfer terms To date, the cost to the company in respect of members who have elected to transfer their benefits has been £1,370,000 No provision has been made in these financial statements for the post year end costs The impact on the pension scheme deficit has yet to be determined

## Directors' report

### Directors and their interests

The directors at 31 December 2005 were as follows

S G Valentine (appointed 15 February 2006)

T D Boyle

P J Stuart (resigned 28 February 2007)

No director held an interest in the share capital of the company at the year end

In addition to the above, Mr R J Millett served as a director until his resignation on 15 February 2006

### Political and charitable donations

There were no political or charitable donations in the year (2004 - £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 and 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

### Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting

On behalf of the board



T D Boyle  
Director

6 April 2007

## **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom generally accepted accounting practice

Company law requires the directors to prepare financial statements for each financial year which 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the 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 (formerly Varco Limited)

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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.

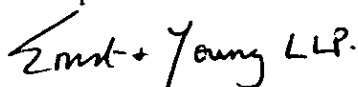
## Basis of audit opinion

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.

## 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 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young LLP

Registered auditor  
Aberdeen

6 April 2007

**Profit and loss account**

for the year ended 31 December 2005

		<i>As restated</i>	
	<i>Notes</i>	<i>2005</i>	<i>2004</i>
		<i>£000</i>	<i>£000</i>
<b>Turnover</b>	2	130,821	126,903
Cost of sales		104,269	109,460
		<hr/>	<hr/>
<b>Gross profit</b>		26,552	17,443
Selling and distribution expenses		2,431	2,608
Administrative expenses		12,960	9,107
		<hr/>	<hr/>
<b>Operating profit</b>	3	11,161	5,728
Exceptional item – re-organisation costs		-	(2,855)
Profit on disposal of tangible fixed assets		1,682	153
Income from shares in group undertakings		1,974	357
Amounts written off fixed asset investments	10	(1,353)	-
Interest receivable		250	152
Interest payable	4	(933)	(1,019)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		12,781	2,516
Taxation on profit on ordinary activities	7	3,966	1,220
		<hr/>	<hr/>
<b>Profit retained for the financial year</b>	16	8,815	1,296
		<hr/> <hr/>	<hr/> <hr/>

The profit and loss account for the year ended 31 December 2004 has been restated to reflect the adoption of FRS 17 "Retirement Benefits" (see note 20)

**Statement of total recognised gains and losses**

for the year ended 31 December 2005

		<i>As restated</i>
	2005	2004
	£000	£000
Profit for the financial year	8,815	1,296
Actuarial loss relating to the pension scheme (note 19)	(263)	(386)
Deferred taxation attributable the actuarial loss	79	116
Total gains and losses recognised in the year	<u>8,631</u>	<u>1,026</u>
Prior year adjustment (note 20)	(902)	
Total gains and losses recognised since the last annual report and Financial statements	<u>7,729</u>	



**Balance sheet**

at 31 December 2005

			<i>As restated</i>
		2005	2004
	<i>Notes</i>	£000	£000
<b>Fixed assets</b>			
Intangible assets	8	3,265	3,370
Tangible assets	9	18,567	24,255
Investments	10	53,386	24,505
		<u>75,218</u>	<u>52,130</u>
<b>Current assets</b>			
Stock	11	28,243	21,914
Debtors	12	53,586	45,536
Cash at bank and in hand		1,938	2,485
		<u>83,767</u>	<u>69,935</u>
<b>Creditors</b> amounts falling due within one year	13	79,889	53,088
		<u>3,878</u>	<u>16,847</u>
<b>Net current assets</b>		<u>79,096</u>	<u>68,977</u>
<b>Total assets less current liabilities</b>		<u>79,096</u>	<u>68,977</u>
<b>Creditors</b> amounts falling due after more than one year	14	26,057	34,905
<b>Provision for liabilities and charges</b>			
Deferred tax	7	652	514
		<u>52,387</u>	<u>33,558</u>
<b>Net assets excluding pension liability</b>		<u>52,387</u>	<u>33,558</u>
Pension liability		720	1,037
		<u>51,667</u>	<u>32,521</u>
<b>Net assets including pension liability</b>		<u>51,667</u>	<u>32,521</u>
<b>Capital and reserves</b>			
Called up share capital	15	31,362	20,847
Share premium account	16	202	202
Profit and loss account	16	20,103	11,472
		<u>51,667</u>	<u>32,521</u>
<b>Total shareholders' funds</b>	16	<u>51,667</u>	<u>32,521</u>

The Balance Sheet at 31 December 2004 has been restated to reflect the adoption of FRS 17 "Retirement Benefits" (see note 20)



T D Boyle, Director

6, April 2007

## Notes to the financial statements

at 31 December 2005

### 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

#### **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

#### **Fixed assets**

All fixed assets are initially reduced at cost

#### **Depreciation**

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, 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 2005

### 1. Accounting policies (continued)

#### **Gains or losses on disposals of rental equipment**

Gains or losses on disposals of offshore rental equipment, which are a recurring feature of the company's business, are considered to be operating items and accordingly are included within operating profit and are separately disclosed within the company's financial statements

#### **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
- provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable
- 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 2005

### 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 a defined contribution pension scheme and a hybrid pension scheme which comprised of a defined contribution section with a defined benefit underpin. The company has adopted FRS 17 "Retirement Benefits" during the year. See note 19 for further details.

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.

Prior to the adoption of FRS 17, the company accounted for pension costs in line with SSAP 24. Under SSAP 24, the expected cost of providing pensions (as calculated by an independent actuary) was charged to the profit and loss account so as to spread the cost over the service lives of the employees. The prior year adjustment in respect of the implementation of FRS 17 is disclosed in note 20.

### 2. Turnover

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

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

	2005	2004
	£000	£000
Europe	72,457	51,485
North America	17,508	14,033
Asia	27,952	45,044
Africa	12,904	16,341
	<u>130,821</u>	<u>126,903</u>

## Notes to the financial statements

at 31 December 2005

### 3. Operating profit

This is stated after charging or (crediting)

	2005	<i>As restated</i> 2004
	£000	£000
Amortisation of intangible assets	371	383
Depreciation of owned fixed assets	3,773	4,071
Depreciation of assets held under finance leases and hire purchase contracts	-	141
Operating lease rentals - land and buildings	1,211	1,068
- plant and machinery	1,172	1,087
Auditors' remuneration	146	133
Foreign exchange losses/(gains)	532	(344)
	<u>          </u>	<u>          </u>

### 4. Interest payable and similar charges

	2005	<i>As restated</i> 2004
	£000	£000
Bank loans and overdrafts	265	198
Amounts due to group undertakings	647	478
Other	30	276
On pension scheme financing (note 19)	(9)	67
	<u>          </u>	<u>          </u>
	933	1,019
	<u>          </u>	<u>          </u>

### 5. Staff costs

	2005	<i>As restated</i> 2004
	£000	£000
Wages and salaries	23,403	25,220
Social security costs	2,512	2,574
Other pension costs (contributions to deferred contribution scheme)	775	955
	<u>          </u>	<u>          </u>
	26,690	28,749
	<u>          </u>	<u>          </u>

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

	2005	2004
	No	No
Production	568	638
Sales	65	76
Administration	101	114
	<u>          </u>	<u>          </u>
	734	828
	<u>          </u>	<u>          </u>

## Notes to the financial statements

at 31 December 2005

### 6. Directors' emoluments

	2005 £000	2004 £000
Emoluments	344	284
Employer contributions paid to company pension scheme	41	36
	2005 No	2004 No
Members of company pension scheme	2	2
The amounts in respect of the highest paid director are as follows	2005 £000	2004 £000
Emoluments	235	210
Company contributions paid to money purchase pension schemes	30	27

### 7. Tax

#### (a) Tax charge on profit on ordinary activities

The tax charge is made up as follows

	2005 £000	<i>As restated</i> 2004 £000
<i>Current tax</i>		
Corporation tax	2,949	1,014
Group relief	402	-
Less double tax relief	(96)	-
	3,255	1,014
Overseas tax	96	153
	3,351	1,167
Adjustments in respect of prior periods	262	24
Total current tax (note 7(b))	3,613	1,191
<i>Deferred tax</i>		
Origination and reversal of timing differences	138	(150)
Movement on pension accrual	215	179
	3,966	1,220

## Notes to the financial statements

at 31 December 2005

### 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 30% (2004 30%) The differences are reconciled below

	<i>As restated</i>	
	2005	2004
	£000	£000
Profit on ordinary activities before taxation	12,781	2,516
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	3,834	754
Effect of		
Expenses not deductible for tax purposes	91	321
Depreciation in excess of capital allowances	(175)	(87)
Other timing differences	(283)	69
Movement on pension accrual	(215)	(179)
Overseas Taxes payable	-	153
Depreciation on non-qualifying assets	99	111
Valuation adjustment on intra-group transfer	-	68
Adjustments in respect of previous periods	262	24
Double tax relief	-	(43)
Total current tax (note 7(a))	3,613	1,191

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

There are no factors considered to affect future tax charges

#### (d) Deferred tax

Deferred taxation has been fully provided in the financial statements as follows

	<i>As restated</i>	
	2005	2004
	£000	£000
Capital allowances in advance of depreciation	1,240	1,320
Other timing differences	(588)	(806)
	652	514

## Notes to the financial statements

at 31 December 2005

### 7. Tax (continued)

	£000	<i>As restated</i> £000
At 1 January	514	606
Adjustment for restatement of pension liabilities	-	58
Deferred tax charge/(credit) in profit and loss account	138	(150)
	<u>652</u>	<u>514</u>
At 31 December 2005	<u>652</u>	<u>514</u>

### 8. Intangible fixed assets

	<i>Intellectual property</i> £000	<i>Goodwill</i> £000	<i>Total</i> £000
Cost			
At 1 January 2005	732	4,412	5,144
Additions	266	-	266
	<u>998</u>	<u>4,412</u>	<u>5,410</u>
At 31 December 2005	<u>998</u>	<u>4,412</u>	<u>5,410</u>
Amortisation			
At 1 January 2005	415	1,359	1,774
Provided during year	177	194	371
	<u>592</u>	<u>1,553</u>	<u>2,145</u>
At 31 December 2005	<u>592</u>	<u>1,553</u>	<u>2,145</u>
Net book value			
At 31 December 2005	<u>406</u>	<u>2,859</u>	<u>3,265</u>
At 1 January 2005	<u>317</u>	<u>3,053</u>	<u>3,370</u>

Goodwill includes amounts which arose on the acquisition of the assets, liabilities and business of inspection and non destructive testing of tubular goods from Tuboscope Pipeline Services Limited

The cost of this earlier transaction amounted to the net assets acquired plus the amortised element of the goodwill which was paid by Tuboscope Pipeline Services Limited when the business was originally acquired from a third party in October 1991. The remaining goodwill is being amortised over the balance of the original 20 years of its estimated useful life.

The cost of intellectual property on the purchase of Maersk Contractors Thermal business during 2004 is being amortised over a maximum five years from the date of purchase.

Goodwill and intellectual property arose on the purchase of Recovery Systems business in 2004, intellectual property is being amortised over a maximum five years from the date of purchase.

The intellectual property addition during 2005 relates to the acquisition of licence fees for technology which are being amortised over three years.



## Notes to the financial statements

at 31 December 2005

### 9. Tangible fixed assets

	<i>Freehold land and buildings £000</i>	<i>Leashold improve- ments £000</i>	<i>Plant, machinery and rental equipment £000</i>	<i>Motor vehicles £000</i>	<i>Fixtures and fittings £000</i>	<i>Total</i>
Cost or valuation						
At 1 January 2005	15,961	857	41,478	215	2,751	61,262
Additions	263	77	837	11	44	1,232
Disposals	-	-	(7,982)	-	(1)	(7,983)
At 31 December 2005	16,224	934	34,333	226	2,794	54,511
Depreciation						
At 1 January 2005	5,568	423	28,238	185	2,593	37,007
Charge for year	599	100	2,967	13	94	3,773
Disposals	-	-	(4,780)	(55)	(1)	(4,836)
At 31 December 2005	6,167	523	26,425	143	2,686	35,944
Net book value						
At 31 December 2005	10,057	411	7,908	83	108	18,567
At 1 January 2005	10,393	434	13,240	30	158	24,255

The cost of land and buildings includes £13,857,000 (2004 - £13,594,000) of depreciable assets

Included in the total net book value of plant and machinery is £nil (2004 - £857,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2004 - £141,000)

## Notes to the financial statements

at 31 December 2005

### 10. Fixed asset investments

	<i>Subsidiary undertakings £000</i>
Cost	
At 1 January 2005	26,627
Additions	30,234
At 31 December 2005	<u>56,861</u>
Amounts written off	
At 1 January 2005	2,122
Provided during the year	1,353
At 31 December 2005	<u>3,475</u>
Net book value	
At 31 December 2005	<u>53,386</u>
At 1 January 2005	<u>24,505</u>

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) Ltd	Ordinary shares	100%	Sale/rental of oilfield equipment
Elmar Services Pty Limited	Ordinary shares	100%	Sale/rental of oilfield equipment

## Notes to the financial statements

at 31 December 2005

### 10. Fixed asset investments (continued)

#### *Subsidiary undertakings* (continued)

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
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

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

### 11. Stock

	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>
Raw materials and consumables	11,363	7,717
Work in progress	8,670	6,085
Finished goods and goods for resale	8,210	8,112
	<u>28,243</u>	<u>21,914</u>

### 12. Debtors

	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	27,689	20,779
Amounts owed by other group undertakings	23,411	18,424
Amounts owed by subsidiary undertakings	1,766	1,766
Prepayments and accrued income	707	1,741
Other debtors	13	-
Corporation tax	-	2,826
	<u>53,586</u>	<u>45,536</u>

## Notes to the financial statements

at 31 December 2005

### 12. Debtors (continued)

Amounts falling due after more than one year included above are

	2005	2004
	£000	£000
Amounts owed by subsidiary undertakings	1,646	1,646

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

	2005	<i>As restated</i> 2004
	£000	£000
Trade creditors	5,058	3,984
Amounts due to fellow subsidiary undertakings	61,399	40,537
Amounts due to subsidiary undertakings	1,064	1,064
Obligations under finance leases and HP commitments	-	76
Other taxes and social security costs	1,242	583
Corporation tax	431	-
Group relief	408	375
Overseas tax	66	-
Accruals and deferred income	9,778	5,902
Loan notes payable	439	425
Pension scheme (note 19)	-	4
Other creditors	4	138
	<u>79,889</u>	<u>53,088</u>

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

	2005	2004
	£000	£000
Amounts due to group undertakings	26,008	34,416
Amounts due to subsidiary undertakings	49	49
Loan notes payable	-	440
	<u>26,057</u>	<u>34,905</u>

### 15. Share capital

	<i>Authorised</i>		<i>Issued, called up and fully paid</i>	
	2005	2004	2005	2004
	<i>No</i>	<i>No</i>	£000	£000
Ordinary shares of £1 each	31,514,555	21,000,000	31,362	20,847

During the year, the company increased its authorised share capital and issued £10,514,555 shares to Tuboscope Holdings Limited as consideration for the investment in Rig Technology Limited

## Notes to the financial statements

at 31 December 2005

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

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholders' funds £000</i>
At 1 January 2004 (as previously reported)	20,847	202	11,497	32,546
Prior year adjustment	-	-	(1,051)	(1,051)
At 1 January 2004 (as restated)	<u>20,847</u>	<u>202</u>	<u>10,446</u>	<u>31,495</u>
Profit for the year (as restated)	-	-	1,296	1,296
Actuarial loss relating to pension scheme	-	-	(386)	(386)
Deferred taxation referring to pension scheme	-	-	116	116
At 31 December 2004 (as restated)	<u>20,847</u>	<u>202</u>	<u>11,472</u>	<u>32,521</u>
Profit for the year	-	-	8,815	8,815
Issued during the year	10,515	-	-	10,515
Actuarial loss relating to pension scheme	-	-	(263)	(263)
Deferred taxation relating to pension scheme	-	-	79	79
At 31 December 2005	<u><u>31,362</u></u>	<u><u>202</u></u>	<u><u>20,103</u></u>	<u><u>51,667</u></u>

### 17. Contingent liabilities

At 31 December 2005, the company had contingent liabilities in respect of outstanding guarantees given for performance bonds and contracting agreements 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>2005 £000</i>	<i>2004 £000</i>	<i>2005 £000</i>	<i>2004 £000</i>
Operating leases which expire				
Within one year	268	182	242	236
In two to five years	649	640	-	-
In over five years	47	13	837	920
	<u>964</u>	<u>835</u>	<u>1,079</u>	<u>1,156</u>

## Notes to the financial statements

at 31 December 2005

### 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 company has adopted FRS 17 in the current year and the pension cost figures in these financial statements comply with FRS 17. The comparative figures for 2004 have been restated as if FRS 17 had been applied for that financial year.

The most recent formal actuarial valuation prepared by a qualified independent actuary of the scheme has an effective date of 5 April 2005. The method used in this valuation is the defined accrued benefits basis. The next formal valuation of the scheme will have an effective date of 5 April 2008.

The valuation showed that the market value of the assets (including the defined contribution section) was £9,647,000 and that the actuarial value of those assets represented 76% of the liability under that valuation date.

The valuation showed that the market value of the assets for the defined benefit section only was £7,772,000 and that the actuarial value of those assets represented 72% of the liability under that valuation date.

National Oilwell Varco UK Limited made lump sum contributions to the fund of £600,000 in December 2002, £480,000 in December 2003, £490,000 in December 2004 and £500,000 in December 2005 to improve the funding position.

At 31 December 2005 the financial statements contain a pension accrual of £nil (£nil defined benefit) (2004 restated £4,000 (£nil defined benefit)).

This pension scheme was closed to new members with effect from 1 March 2002 and a group Personal Pension Plan was initiated.

#### **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 5 April 2005 and the results were updated to 31 December 2005 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):

	2005	2004	2003
Rate of increase in salaries	N/A	N/A	N/A
Rate of increase of pensions in payment	2.9%	2.9%	2.7%
Discount rate	4.7%	5.2%	5.4%
Inflation	2.9%	2.9%	2.7%

## Notes to the financial statements

at 31 December 2005

### 19. Pension commitments (continued)

The balance sheet position for the Plan as calculated under FRS 17 at 31 December 2005 and the expected gross rates of return before allowance for expenses were

	2005	2005	2004	2004
		£000		£000
Equities	7.0%	5,082	7.3%	4,757
Bonds	4.5%	3,740	4.8%	2,495
Cash	4.0%	767	4.0%	546
		<u>9,589</u>		<u>7,798</u>
Total market value of assets				
Actuarial value of liability		(10,618)		(9,280)
		<u>(1,029)</u>		<u>(1,482)</u>
Deficit in the plan				
Related deferred tax asset		309		445
		<u>(720)</u>		<u>(1,037)</u>
Net pension liability				

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

	2005	2004
	£000	£000
Current service cost	-	-
Amount credited/charged to other net finance costs		
	<u>492</u>	<u>433</u>
Expected return on pension scheme assets		
Interest on pension liabilities	(483)	(500)
Net return/(finance costs)	<u>9</u>	<u>(67)</u>

## Notes to the financial statements

at 31 December 2005

### 19. Pension commitments (continued)

Movement in deficit during the year

	2005 £000	2004 £000
Deficit in scheme at beginning of year	(1,482)	(1,640)
Movement in year		
Current service costs	-	-
Contributions	707	611
Net return on assets/(interest costs)	9	(67)
Actuarial loss	(263)	(386)
	<u>(1,029)</u>	<u>(1,482)</u>

History of experience gains and losses

	2005	2004	2003	2002
Differences between expected and actual returns on scheme assets				
Amounts (£000)	753	351	(391)	910
As a percentage of scheme assets	7.8%	6.0%	(6.0)%	15.54%
Experience gains and losses on scheme liabilities				
Amounts (£000)	(68)	(119)	437	(48)
As a percentage of scheme liabilities	(0.6)%	(1.3)%	5.4%	(0.64)%
Total amount recognised in statements of total recognised gains and losses				
Amount (£000)	(263)	(386)	(486)	(1,156)
As a percentage of scheme liabilities	(2.5)%	(4.2)%	(6.0)%	(15.31)%



## Notes to the financial statements

at 31 December 2005

### 20. Prior year adjustment

#### *Adoption of FRS 17 "Retirement Benefits"*

As a result of the adoption of FRS 17, the profit and loss account and balance sheets have been restated to reflect the impact of moving from SSAP 24 to FRS 17. The effects of this change in accounting policy are disclosed in the table below.

	<i>Per 2004 accounts £000</i>	<i>2004 Adoption of FRS 17 £000</i>	<i>As Restated 2004 £000</i>
Operating profit	5,063	665	5,728
Interest payable	(952)	(67)	(1,019)
Exceptional item			
- reorganisation costs	(2,855)	-	(2,855)
Profit on disposal of tangible fixed assets	153	-	153
Interest receivable	152	-	152
Income from shares in group undertakings	357	-	357
Tax charge	(1,041)	(179)	(1,220)
Profit on ordinary activities after taxation	<u>877</u>	<u>419</u>	<u>1,296</u>
Deferred tax	<u>(456)</u>	<u>(58)</u>	<u>(514)</u>
Pension accrual	<u>(197)</u>	<u>193</u>	<u>(4)</u>
Pension liability	<u>-</u>	<u>(1,037)</u>	<u>(1,037)</u>
Net assets	<u>33,423</u>	<u>(902)</u>	<u>32,521</u>
Profit and loss reserves	<u>12,374</u>	<u>(902)</u>	<u>11,472</u>

### 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. Ultimate parent undertaking

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

The consolidated accounts of Varco International, Inc, are those of 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 1000 Richmond Avenue, Houston, Texas 73210, USA.

On 11 March 2005, Varco Limited's ultimate parent company, Varco International, Inc merged into National-Oilwell Inc in a stock for stock transaction. As part of the merger, National-Oilwell Inc changed its name to National Oilwell Varco, Inc.