873028

Varco Limited

Report and Financial Statements

31 December 2003

ERNST & YOUNG

Registered No. 873028

Registered No: 873028

Directors
P J Stuart
R J Millett
T D Boyle

Joint Secretaries
T D Boyle
Paull and Williamsons

Auditors
Ernst & Young LLP
50 Huntly Street
Aberdeen
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Bankers
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2003.

Results and dividends

The profit for the year, after taxation, was £348,000 (2002 profit - £2,240,000). 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, Morinoak International Limited, PCE, Tuboscope and Varco.

During the year the company acquired the shares of Mud Rentals Limited, a solids control rental business and the UK Thermal Desorption business of Maersk Contractors, which now operates as Brandt Environmental Division.

Directors and their interests

The directors at 31 December 2003 were as follows:

P J Stuart

R J Millett

T D Boyle (appointed 16 October 2003)

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

Political and charitable donations

There were no political or charitable donations in the year (2002 - £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 through their newsletter 'In Scope' in which employees have also been encouraged to present their suggestions and views on the group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Directors' report

Events after the balance sheet date

In 2004, the company acquired the thermal desorption business of Recovery Systems Limited. These acquisitions add to the total waste management capability of the company.

The Morinoak International Limited division of Varco Limited made a substantial loss during 2002 and 2003 and a decision to close this business was taken in 2004. Provision for the losses on a long term contract of £7,479,200 (2002 - £5,540,000) is included in these financial statements in accordance with SSAP 9.

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

P J Stuart
Director

28 January 2005

Statement of directors' responsibilities in respect of the financial statements

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.

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Independent auditors' report

to the members of Varco Limited

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 22. 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 transactions with the company 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 United Kingdom Auditing Standards 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 judgements 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 of the state of affairs of the company as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst + Young LLP

Ernst & Young LLP
Registered Auditor
Aberdeen

28 January 2005

Profit and loss account

for the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover	2	107,142	99,045
Cost of sales		87,509	82,464
Gross profit		19,633	16,581
Selling and distribution expenses		4,051	1,127
Administrative expenses		12,764	11,160
Operating profit	3	2,818	4,294
Profit on disposal of tangible fixed assets		683	70
Interest receivable		129	97
Interest payable	4	(2,363)	(1,965)
Profit on ordinary activities before taxation		1,267	2,496
Taxation on profit on ordinary activities	7	919	256
Profit retained for the financial year	17	348	2,240

There are no recognised gains or losses for the year other than the profit attributable to shareholders of the company of £348,000 in the year ended 31 December 2003 and the profit of £2,240,000 in the year ended 31 December 2002.

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Balance sheet

at 31 December 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Intangible assets	8	2,783	1,755
Tangible assets	9	27,016	26,230
Investments	10	23,609	18,808
		53,408	46,793
Current assets			
Stock	11	30,435	16,316
Debtors	12	37,206	36,489
Cash at bank and in hand		968	5,801
		68,609	58,606
Creditors: amounts falling due within one year	13	62,555	36,975
Net current assets		6,054	21,631
Total assets less current liabilities		59,462	68,424
Creditors: amounts falling due after more than one year	14	26,310	35,952
Provision for liabilities and charges			
Deferred tax	7	606	274
		32,546	32,198
Capital and reserves			
Called up share capital	16	20,847	20,847
Share premium account	17	202	202
Profit and loss account	17	11,497	11,149
Total shareholders' funds	17	32,546	32,198

Peter Stuart

P J Stuart, Director

28 January 2005

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Notes to the financial statements

at 31 December 2003

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 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 2003

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 accounts.

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 earning 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 2003

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 hybrid pension scheme which comprised of a defined contribution section with a defined benefit underpin.

The pension cost for the defined contribution section is charged to the profit and loss account as the contributions become payable.

The pension cost for the defined benefit section is calculated in such a way that the cost of the pension is spread over the employee's working lives with the company.

Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

See note 20 for further details.

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.

	2003	*2002*
	£000	*£000*
Europe	58,358	61,720
North America	17,719	7,662
Asia	19,373	16,669
Africa	11,692	12,994
	107,142	99,045

Notes to the financial statements

at 31 December 2003

3. Operating profit

This is stated after charging or (crediting):

		2003	2002
		£000	£000
Amortisation of intangible assets		227	361
Depreciation on buildings for resale		10	294
Depreciation of owned fixed assets		3,665	3,356
Depreciation of assets held under finance leases and hire purchase contracts		221	955
Operating lease rentals	- land and buildings	968	745
	- plant and machinery	1,133	866
Auditors' remuneration		123	90
Foreign exchange gains		(1,274)	(76)

4. Interest payable and similar charges

	2003	2002
	£000	£000
Bank loans and overdrafts	80	242
Amounts due to group undertakings	1,675	1,361
Finance leases	288	362
Other	320	-
	2,363	1,965

5. Staff costs

	2003	2002
	£000	£000
Wages and salaries	29,395	21,429
Social security costs	3,209	2,109
Other pension costs	1,490	1,388
	34,094	24,926

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

	2003	2002
	No.	No.
Production	708	708
Sales	68	59
Administration	115	108
	891	875

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Notes to the financial statements

at 31 December 2003

6. Directors' emoluments

	2003	2002
	£000	£000
Emoluments	301	236
Employer contributions paid to company pension scheme	38	29

	2003	2002
	No.	No.
Members of company pension scheme	2	1

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

	2003	2002
	£000	£000
Emoluments	214	236
Company contributions paid to money purchase pension schemes	29	29

7. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows:

	2003	2002
	£000	£000
Current tax:		
Corporation tax	140	-
Less double tax relief	(140)	-
	-	-
Overseas tax	332	161
Group relief receivable	-	(76)
	332	85
Adjustments in respect of prior periods	255	422
Total current tax (note 7(b))	587	507
Deferred tax:		
Origination and reversal of timing differences	332	(251)
	919	256

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Notes to the financial statements

at 31 December 2003

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% (2002: 30%). The differences are reconciled below:

	2003	*2002*
	£000	*£000*
Profit on ordinary activities before taxation	1,267	2,496
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	380	748
Effect of:		
Expenses not deductible for tax purposes	227	109
Depreciation in excess of capital allowances	(288)	(8)
Other timing differences	(369)	260
Overseas Taxes payable	193	161
Overseas tax claimed as an expense	-	(45)
Depreciation on non-qualifying assets	150	443
Disposal of non-qualifying assets	39	(1)
Movement on unprovided deferred tax	-	(1,582)
Adjustments in respect of previous periods	255	422
Total current tax (note 7(a))	587	507

(c) Factors that may affect future tax charges

There are no factors considered to affect future tax charges.

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Notes to the financial statements

at 31 December 2003

7. Tax (continued)

(d) Deferred tax

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

	2003	*2002*
	£000	*£000*
Capital allowances in advance of depreciation	1,356	1,069
Other timing differences	(750)	(795)
	606	274

	£000
At 1 January 2003	274
Deferred tax charge in profit and loss account	332
At 31 December 2003	606

8. Intangible fixed assets

	Research and development costs	*Intellectual property*	*Goodwill*	*Total*
	£000	*£000*	*£000*	*£000*
Cost:				
At 1 January 2003	198	226	2,693	3,117
Additions	-	422	833	1,255
At 31 December 2003	198	648	3,526	4,372
Amortisation:				
At 1 January 2003	165	226	971	1,362
Provided during year	33	-	194	227
At 31 December 2003	198	226	1,165	1,589
Net book value:				
At 31 December 2003	-	422	2,361	2,783
At 1 January 2003	33	-	1,722	1,755

Notes to the financial statements

at 31 December 2003

8. Intangible fixed assets (continued)

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.

Goodwill has arisen during the year on the purchase of Maersk Contractors Thermal business which is being amortised over a maximum five years from the date of purchase.

9. Tangible fixed assets

	Freehold land and buildings £000	*Leashold improve-ments £000*	*Plant, machinery and rental equipment £000*	*Motor vehicles £000*	*Fixtures £000*	*Total*
Cost or valuation:						
At 1 January 2003	17,323	462	38,216	299	3,358	59,658
Additions	714	273	5,347	12	125	6,471
Disposals	(1,490)	-	(2,459)	(37)	(29)	(4,015)
Transfers	-	-	100	-	(100)	-
At 31 December 2003	16,547	735	41,204	274	3,354	62,114
Depreciation:						
At 1 January 2003	5,199	263	24,941	251	2,774	33,428
Charge for year	530	44	3,055	21	246	3,896
Disposals	(642)	-	(1,529)	(37)	(18)	(2,226)
At 31 December 2003	5,087	307	26,467	235	3,002	35,098
Net book value:						
At 31 December 2003	11,460	428	14,737	39	352	27,016
At 1 January 2003	12,124	199	13,275	48	584	26,230

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Notes to the financial statements

at 31 December 2003

9. Tangible fixed assets (continued)

The cost of land and buildings includes £14,991,000 (2002 - £15,355,000) of depreciable assets.

Included in the total net book value of land and buildings is £nil (2002 - £1,860,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2002 - £658,000).

Included in the total net book value of plant and machinery is £1,306,000 (2002 - £2,644,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £216,000 (2002 - £281,000).

Included in the total net book value of motor vehicles is £6,000 (2002 - £18,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £4,569 (2002 - £6,000).

Included in the total net book value of fixtures is £nil (2002 - £6,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on those assets was £nil (2002 - £10,000).

Freehold land and buildings includes assets at cost of £429,000 and NBV of £389,000 in respect of buildings sold in 2004.

10. Fixed asset investments

	Subsidiary undertakings £000
Cost:	
At 1 January 2003	20,930
Additions	4,801
At 31 December 2003	25,731
Amounts written off:	
At 1 January 2003 and 31 December 2003	2,122
Net book value:	
At 31 December 2003	23,609
At 1 January 2003	18,808

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Notes to the financial statements

at 31 December 2003

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:

Name of company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
Subsidiary undertakings			
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
Mud Rentals Limited	Ordinary shares	100%	Rental of Oilfield equipment
Environmental Procedures (UK) Limited	Ordinary shares	100%	Dormant
The Brandt Company (UK) Limited	Ordinary shares	100%	Dormant
Tuboscope Vetco (UK) Limited	Ordinary shares	100%	Dormant
Pump Systems Limited	Ordinary shares	50.1%	Dormant
Chargewood Limited	Ordinary shares	100%	Dormant
Enaco PLC	Ordinary shares	100%	Dormant
Enaco Mudcat Limited	Ordinary shares	100%	Dormant
SSR (International) Ltd	Ordinary& Preference	100%	Dormant
Pressure Control Engineering Ltd	Ordinary shares	100%	Dormant

All of the above subsidiary undertakings are incorporated in Great Britain, other than Elmar Services Pty Limited which is incorporated in Australia.

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

Notes to the financial statements

at 31 December 2003

10. Fixed asset investments (continued)

On 9 October 2003, the company acquired the business and certain assets relating to the UK Thermal Desorption business of Maersk Contractors. The total consideration was £3,524,000 of which £660,000 was deferred and has been paid subsequent to the year end.

Analysis of the acquisition:

	£000
Fixed assets	2,170
Inventory	99
Intellectual property	422
Net assets	2,691
Goodwill arising on acquisition	833
	3,524
Discharged by:	
Cash	3,524

11. Stock

	2003 £000	2002 £000
Raw materials and consumables	3,628	3,281
Work in progress	13,892	2,261
Finished goods and goods for resale	12,915	10,774
	30,435	16,316

Included in work in progress is a provision of £7,479,200 (2002 - £5,540,000) in respect of a loss making long term contract as noted in the directors report.

Notes to the financial statements

at 31 December 2003

12. Debtors

	2003 £000	2002 £000
Trade debtors	19,563	24,264
Amounts owed by other group undertakings	9,711	6,789
Amounts owed by subsidiary undertakings	1,766	1,766
Group relief	-	528
Prepayments and accrued income	2,429	3,130
Other debtors	101	12
Corporation tax	3,070	-
Other taxes	566	-
	37,206	36,489

Amounts falling due after more than one year included above are:

	2003 £000	2002 £000
Amounts owed by subsidiary undertakings	1,646	1,646

13. Creditors: amounts falling due within one year

	2003 £000	2002 £000
Trade creditors	6,018	5,797
Amounts due to fellow subsidiary undertakings	49,482	20,963
Amounts due to subsidiary undertakings	1,064	1,064
Obligations under finance leases and HP commitments (note 15)	427	839
Other taxes and social security costs	-	350
Corporation tax	-	3,657
Group relief	375	-
Overseas tax	141	-
Accruals and deferred income	4,452	4,252
Loan notes payable	411	-
Pension scheme (note 20)	150	45
Other creditors	35	8
	62,555	36,975

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

	2003 £000	2002 £000
Amounts due to group undertakings	25,316	31,420
Amounts due to subsidiary undertakings	49	49
Obligations under finance leases and HP commitments (note 15)	80	4,483
Loan notes payable	865	-
	26,310	35,952

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Notes to the financial statements

at 31 December 2003

15. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2003 £000	2002 £000
Amounts payable:		
Within one year (note 13)	427	839
In two to five years (note 14)	80	4,483
	507	5,322

16. Share capital

	Authorised		Issued, called up and fully paid	
	2003 No.	2002 No.	2003 £000	2002 £000
Ordinary shares of £1 each	21,000,000	21,000,000	20,847	20,847

17. Reconciliation of shareholders' funds and movement on reserves

	Share capital £000	Share premium £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2002	20,847	202	8,909	29,958
Profit for the year	-	-	2,240	2,240
At 31 December 2002	20,847	202	11,149	32,198
Profit for the year	-	-	348	348
At 31 December 2003	20,847	202	11,497	32,546

18. Contingent liabilities

At 31 December 2003, 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.

Notes to the financial statements

at 31 December 2003

19. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Other		*Land and buildings*	
	2003	*2002*	*2003*	*2002*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	84	208	143	11
In two to five years	813	843	17	98
In over five years	28	-	994	747
	925	1,051	1,154	856

20. Pension commitments

The group operated 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 Varco Limited contribute to the defined contribution section. Prior to January 1998, employees contributed to various pension schemes.

The pension cost for the defined contribution section is charged to the profit and loss account as the contributions become payable.

The pension cost for the defined benefit section which is charged to the profit and loss account is calculated by an independent actuary. It is calculated in such a way that the cost of pensions is spread over the employees' working lives with the company. The most recent formal actuarial valuation prepared by a qualified independent actuary of the scheme has an effective date of 5 April 2002. The method used in this valuation is the defined accrued benefits basis. The next formal valuation of the scheme is due to be completed on 6 April 2005.

The valuation showed that the market value of the assets including the defined contribution section was £10,080,000 and that the actuarial value of those assets represented 81% of the liability under that valuation date.

The valuation showed that the market value of the assets for the defined benefit section only was £5,862,000 and that the actuarial value of those assets represented 71% of the liability under that valuation date.

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

At 31 December 2003 the accounts contain a pension accrual of £151,000 (£140,000 defined benefit) (2002 £45,000 (£35,000 defined benefit)).

The deficit in the UK scheme is being recognised as variations from regular cost over 10 years, the expected remaining service life of the employees.

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

Notes to the financial statements

at 31 December 2003

20. Pension commitments (continued)

FRS 17 disclosures

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

A full actuarial valuation was carried out at 5 April 2002 and the results were updated to 31 December 2003 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):

	2003	*2002*
Rate of increase in salaries	N/A	3.75%
Rate of increase of pensions in payment	2.7%	2.4%
Discount rate	5.4%	5.5%
Inflation	2.7%	2.4%

The balance sheet position for the Plan as calculated under FRS 17 at 31 December 2003 and the expected gross rates of return before allowance for expenses were:

	2003	*2003*	*2002*	*2002*
		£000		*£000*
Equities	7.3%	4,364	7.25%	3,342
Bonds	4.8%	1,498	4.75%	739
Cash	4.0%	651	4.0%	1,779
Total market value of assets		6,513		5,860
Actuarial value of liability		(8,153)		(7,550)
Recoverable deficit in the plan		(1,640)		(1,690)
Related deferred tax asset		492		507
Net pension liability		(1,148)		(1,183)

If the above pension liability was recognised in the financial statements, the company's net assets and profit and loss reserve would be as follows:

	2003
	£000
Net assets as stated in the balance sheet excluding pension asset	32,546
SSAP 24 balance	140
FRS 17 pension liability	(1,148)
Net assets including defined benefit liabilities	31,538

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Notes to the financial statements

at 31 December 2003

20. Pension commitments (continued)

Profit and loss reserve as stated in the balance sheet, excluding amounts relating to defined benefit liabilities	11,497
SSAP 24 balance	140
FRS 17 pension liability	(1,148)
Profit and loss reserve including amounts relating to defined benefit liabilities	10,489

Analysis of the amount charged to operating profit

	2003
	£000
Current service cost	-

Amount credited to other finance income

	2003
	£000
Expected return on pension scheme assets	351
Interest on pension liabilities	(415)
Net return	(64)

Movement in surplus during the year

	2003
Deficit in scheme at beginning of year	(1,690)
Movement in year:-	
Current service costs	-
Contributions	600
Net return on assets/(interest cost)	(64)
Actuarial loss	(486)
Deficit in scheme at end of year	(1,640)

History of experience gains and losses

	2003
Differences between expected and actual returns on scheme assets:	
Amounts (£000)	(391)
As a percentage of scheme assets	-6%
Experience gains and losses on scheme liabilities:	
Amounts (£000)	437
As a percentage of scheme liabilities	5.4%
Total amount recognised in statements of total recognised gains and losses:	
Amount (£000)	(486)
As a percentage of scheme liabilities	-6%

Notes to the financial statements

at 31 December 2003

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 Varco International, Inc., a company incorporated in the United States of America.

The consolidated accounts of Varco UK Acquisition Limited are those of the smallest group of which the company is a member and for which group accounts are prepared. Copies of these accounts are available from Companies House.

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 Varco International, Inc,. PO Box 808, Houston, Texas, USA.