Varco Limited

Report and Financial Statements

31 December 2004

Ernst & Young

873028

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
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Aberdeen
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Registered Office
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2004.

Results and dividends

The profit for the year, after taxation, was £877,000 (2003 profit - £348,000). 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, MIL, PCE, Tuboscope and Varco. From April 2004, the trade of Mud Rentals Limited was transferred into Varco Limited.

During the year, the company acquired the Thermal Desorption business of Recovery Systems Limited, which now operates within Brandt Environmental division.

The MIL division of Varco Limited was closed during 2004 having made substantial losses during 2002 and 2003. Reorganisation costs of £2,855,000 are included in these financial statements in connection with the closure.

Directors and their interests

The directors at 31 December 2004 were as follows:

P J Stuart

R J Millett

T D Boyle

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 (2003 - £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

On 10 March 2005, as part of a group restructure, the authorised share capital of Varco 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.

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.

On 16 August 2005, Varco Limited funded its 60% share of Heibei Huayouyiji Tuboscope Coating Co Ltd which is a joint venture for coating based in China.

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

TDBoyle

T D Boyle
Director

31 January 2006

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 2004 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 2004 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

31 January 2006

Profit and loss account

for the year ended 31 December 2004

	Notes	2004 £000	2003 £000
Turnover	2	126,903	107,142
Cost of sales		109,460	87,509
Gross profit		17,443	19,633
Selling and distribution expenses		2,608	4,051
Administrative expenses		9,772	12,764
Operating profit	3	5,063	2,818
Exceptional item – re-organisation costs		(2,855)	-
Profit on disposal of tangible fixed assets		153	683
Interest receivable		152	129
Interest payable	4	(952)	(2,363)
Income from shares in group undertakings		357	-
Profit on ordinary activities before taxation		1,918	1,267
Taxation on profit on ordinary activities	7	1,041	919
Profit retained for the financial year	17	877	348

There are no recognised gains or losses for the year other than the profit attributable to shareholders of the company of £877,000 in the year ended 31 December 2004 and the profit of £348,000 in the year ended 31 December 2003.

Balance sheet
at 31 December 2004

	Notes	2004 £000	2003 £000
Fixed assets			
Intangible assets	8	3,370	2,783
Tangible assets	9	24,255	27,016
Investments	10	24,505	23,609
		52,130	53,408
Current assets			
Stock	11	21,914	30,435
Debtors	12	45,536	37,206
Cash at bank and in hand		2,485	968
		69,935	68,609
Creditors: amounts falling due within one year	13	53,281	62,555
Net current assets		16,654	6,054
Total assets less current liabilities		68,784	59,462
Creditors: amounts falling due after more than one year	14	34,905	26,310
Provision for liabilities and charges			
Deferred tax	7	456	606
		33,423	32,546
Capital and reserves			
Called up share capital	16	20,847	20,847
Share premium account	17	202	202
Profit and loss account	17	12,374	11,497
Total shareholders' funds	17	33,423	32,546

TDBoyle

T D Boyle, Director

31 January 2006

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Notes to the financial statements

at 31 December 2004

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 2004

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 2004

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.

	2004	*2003*
	£000	*£000*
Europe	51,485	58,358
North America	14,033	17,719
Asia	45,044	19,373
Africa	16,341	11,692
	126,903	107,142

Notes to the financial statements

at 31 December 2004

3. Operating profit

This is stated after charging or (crediting):

		2004	2003
		£000	£000
Amortisation of intangible assets		383	227
Depreciation on buildings for resale		-	10
Depreciation of owned fixed assets		4,071	3,665
Depreciation of assets held under finance leases and hire purchase contracts		141	221
Operating lease rentals	- land and buildings	1,068	968
	- plant and machinery	1,087	1,133
Auditors' remuneration		133	123
Foreign exchange gains		(344)	(1,274)

4. Interest payable and similar charges

	2004	2003
	£000	£000
Bank loans and overdrafts	198	80
Amounts due to group undertakings	478	1,675
Finance leases	-	288
Other	276	320
	952	2,363

5. Staff costs

	2004	2003
	£000	£000
Wages and salaries	25,220	29,395
Social security costs	2,574	3,209
Other pension costs	1,076	1,490
	28,870	34,094

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

	2004	2003
	No.	No.
Production	638	708
Sales	76	68
Administration	114	115
	828	891

Notes to the financial statements

at 31 December 2004

6. Directors' emoluments

	2004	*2003*
	£000	*£000*
Emoluments	284	301
Employer contributions paid to company pension scheme	36	38

	2004	*2003*
	No.	*No.*
Members of company pension scheme	2	2

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

	2004	*2003*
	£000	*£000*
Emoluments	210	214
Company contributions paid to money purchase pension schemes	27	29

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7. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows:

	2004	*2003*
	£000	*£000*
Current tax:		
Corporation tax	1,014	140
Less double tax relief	-	(140)
	1,014	-
Overseas tax	153	332
	1,167	332
Adjustments in respect of prior periods	24	255
Total current tax (note 7(b))	1,191	587
Deferred tax:		
Origination and reversal of timing differences	(150)	332
	1,041	919

The tax effect in the profit and loss account relating to the exceptional item recognised below operating profit is a credit of £610,000.

Notes to the financial statements

at 31 December 2004

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% (2003: 30%). The differences are reconciled below:

	2004	*2003*
	£000	*£000*
Profit on ordinary activities before taxation	1,918	1,267
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	575	380
Effect of:		
Expenses not deductible for tax purposes	321	227
Depreciation in excess of capital allowances	(87)	(288)
Other timing differences	69	(369)
Overseas Taxes payable	153	193
Depreciation on non-qualifying assets	111	150
Valuation adjustment on intra-group transfer	68	-
Disposal of non-qualifying assets	-	39
Adjustments in respect of previous periods	24	255
Double tax relief	(43)	-
Total current tax (note 7(a))	1,191	587

(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:

	2004	*2003*
	£000	*£000*
Capital allowances in advance of depreciation	1,320	1,356
Other timing differences	(864)	(750)
	456	606

	£000
At 1 January 2004	606
Deferred tax credit in profit and loss account	(150)
At 31 December 2004	456

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Notes to the financial statements

at 31 December 2004

8. Intangible fixed assets

	Research and development costs	*Intellectual property*	*Goodwill*	*Total*
	£000	*£000*	*£000*	*£000*
Cost:				
At 1 January 2004	198	648	3,526	4,372
Additions	-	84	886	970
Disposals	(198)	-	-	(198)
At 31 December 2004	-	732	4,412	5,144
Amortisation:				
At 1 January 2004	198	226	1,165	1,589
Provided during year	-	189	194	383
Disposals	(198)	-	-	(198)
At 31 December 2004	-	415	1,359	1,774
Net book value:				
At 31 December 2004	-	317	3,053	3,370
At 1 January 2004	-	422	2,361	2,783

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 has arisen during the year on the purchase of Recovery Systems business, intellectual property is being amortised over a maximum five years from the date of purchase.

Notes to the financial statements

at 31 December 2004

9. *Tangible fixed assets*

	Freehold land and buildings £000	*Leasehold improve-ments £000*	*Plant, machinery and rental equipment £000*	*Motor vehicles £000*	*Fixtures £000*	*Total*
Cost or valuation:						
At 1 January 2004	16,547	735	41,204	274	3,354	62,114
Additions	-	19	2,412	19	-	2,450
Disposals	(416)	(67)	(2,138)	(78)	(603)	(3,302)
Transfers	(170)	170	-	-	-	-
At 31 December 2004	15,961	857	41,478	215	2,751	61,262
Depreciation:						
At 1 January 2004	5,087	307	26,467	235	3,002	35,098
Charge for year	600	94	3,424	15	79	4,212
Disposals	(91)	(6)	(1,653)	(65)	(488)	(2,303)
Transfers	(28)	28	-	-	-	-
At 31 December 2004	5,568	423	28,238	185	2,593	37,007
Net book value:						
At 31 December 2004	10,393	434	13,240	30	158	24,255
At 1 January 2004	11,460	428	14,737	39	352	27,016

The cost of land and buildings includes £13,594,000 (2003 - £14,991,000) of depreciable assets.

Included in the total net book value of plant and machinery is £857,105 (2003 - £1,306,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £141,403 (2003 - £216,000).

Included in the total net book value of motor vehicles is £nil (2003 - £6,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £nil (2003 - £4,569).

Notes to the financial statements

at 31 December 2004

10. Fixed asset investments

	Subsidiary undertakings £000
Cost:	
At 1 January 2004	25,731
Additions	896
At 31 December 2004	26,627
Amounts written off:	
At 1 January 2004 and 31 December 2004	2,122
Net book value:	
At 31 December 2004	24,505
At 1 January 2004	23,609

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
Recovery Systems Limited (name changed from Pump Systems Limited on 5 May 2005)	Ordinary shares	50.1%	Dormant
Chargewood Limited	Ordinary shares	100%	Dormant
Enaco PLC	Ordinary shares	100%	Dormant

Notes to the financial statements

at 31 December 2004

10. Fixed asset investments (continued)

Name of company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
Subsidiary undertakings			
Enaco Mudcat Limited	Ordinary shares	100%	Dormant
SSR (International) Ltd	Ordinary& Preference	100%	Dormant
Pressure Control Engineering Ltd	Ordinary shares	100%	Dormant
Varco Al Mansoori Service Company LLC	Ordinary shares	49%	Sale/Repair of oilfield equipment

All of the above subsidiary undertakings are incorporated in Great Britain, other than Elmar Services Pty Limited which is incorporated in Australia and Varco Al Mansoori Service Company LLC which is incorporated in United Arab Emirates.

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.

On 14 April 2004, the company acquired the business and certain assets relating to the Thermal Desorption business of Recovery Systems Limited. The total consideration was £1,986,000.

Analysis of the acquisition:

	£000
Fixed assets	1,000
Inventory	16
Intellectual property	84
Net assets	1,100
Goodwill arising on acquisition	886
	1,986
Discharged by:	
Cash	1,986

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Notes to the financial statements

at 31 December 2004

11. Stock

	2004	*2003*
	£000	*£000*
Raw materials and consumables	7,717	3,628
Work in progress	6,085	13,892
Finished goods and goods for resale	8,112	12,915
	21,914	30,435

12. Debtors

	2004	*2003*
	£000	*£000*
Trade debtors	20,779	19,563
Amounts owed by other group undertakings	18,424	9,711
Amounts owed by subsidiary undertakings	1,766	1,766
Prepayments and accrued income	1,741	2,429
Other debtors	-	101
Corporation tax	2,826	3,070
Other taxes	-	566
	45,536	37,206

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

	2004	*2003*
	£000	*£000*
Amounts owed by subsidiary undertakings	1,646	1,646

13. Creditors: amounts falling due within one year

	2004	*2003*
	£000	*£000*
Trade creditors	3,984	6,018
Amounts due to fellow subsidiary undertakings	40,537	49,482
Amounts due to subsidiary undertakings	1,064	1,064
Obligations under finance leases and HP commitments (note 15)	76	427
Other taxes and social security costs	583	-
Group relief	375	375
Overseas tax	-	141
Accruals and deferred income	5,902	4,452
Loan notes payable	425	411
Pension scheme (note 20)	197	150
Other creditors	138	35
	53,281	62,555

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Notes to the financial statements

at 31 December 2004

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

	2004 £000	2003 £000
Amounts due to group undertakings	34,416	25,316
Amounts due to subsidiary undertakings	49	49
Obligations under finance leases and HP commitments (note 15)	-	80
Loan notes payable	440	865
	34,905	26,310

15. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2004 £000	2003 £000
Amounts payable:		
Within one year (note 13)	76	427
In two to five years (note 14)	-	80
	76	507

16. Share capital

	Authorised		Issued, called up and fully paid	
	2004 No.	2003 No.	2004 £000	2003 £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 2003	20,847	202	11,149	32,198
Profit for the year	-	-	348	348
At 31 December 2003	20,847	202	11,497	32,546
Profit for the year	-	-	877	877
At 31 December 2004	20,847	202	12,374	33,423

18. Contingent liabilities

At 31 December 2004, 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 2004

19. Financial commitments

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

	Other		*Land and buildings*	
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	182	84	236	143
In two to five years	640	813	-	17
In over five years	13	28	920	994
	835	925	1,156	1,154

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 will have an effective date of 5 April 2005 and will be completed prior to 6 April 2006.

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, £490,000 in December 2004 and £500,000 in December 2005 to improve the funding position.

At 31 December 2004 the accounts contain a pension accrual of £197,000 (£193,000 defined benefit) (2003 £150,000 (£140,000 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 new members with effect from 1 March 2002 and a group Personal Pension Plan was initiated.

Notes to the financial statements

at 31 December 2004

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 2004 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):

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

The balance sheet position for the Plan as calculated under FRS 17 at 31 December 2004 and the expected gross rates of return before allowance for expenses were:

	2004	*2004* *£000*	*2003*	*2003* *£000*
Equities	7.3%	4,757	7.3%	4,364
Bonds	4.8%	2,495	4.8%	1,498
Cash	4.0%	546	4.0%	651
Total market value of assets		7,798		6,513
Actuarial value of liability		(9,280)		(8,153)
Recoverable deficit in the plan		(1,482)		(1,640)
Related deferred tax asset		445		492
Net pension liability		(1,037)		(1,148)

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:

	2004 *£000*
Net assets as stated in the balance sheet excluding pension asset	33,423
SSAP 24 balance	193
FRS 17 pension liability	(1,037)
Net assets including defined benefit liabilities	32,579
Profit and loss reserve as stated in the balance sheet, excluding amounts relating to defined benefit liabilities	12,374
SSAP 24 balance	193
FRS 17 pension liability	(1,037)
Profit and loss reserve including amounts relating to defined benefit liabilities	11,530

Notes to the financial statements

at 31 December 2004

20. Pension commitments (continued)

Analysis of the amount charged to operating profit

	2004 £000
Current service cost	-

Amount credited to other finance income

	2004 £000
Expected return on pension scheme assets	433
Interest on pension liabilities	(500)
Net return	(67)

Movement in surplus during the year

	2004
Deficit in scheme at beginning of year	(1,640)
Movement in year:-	
Current service costs	611
Contributions	-
Net return on assets/(interest cost)	(67)
Actuarial loss	(386)
Deficit in scheme at end of year	(1,482)

History of experience gains and losses

	2004
Differences between expected and actual returns on scheme assets:	
Amounts (£000)	351
As a percentage of scheme assets	6.0%
Experience gains and losses on scheme liabilities:	
Amounts (£000)	(119)
As a percentage of scheme liabilities	(1.3%)
Total amount recognised in statements of total recognised gains and losses:	
Amount (£000)	(386)
As a percentage of scheme liabilities	(4.2%)

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.

Notes to the financial statements

at 31 December 2004

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 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 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 sock for stock transaction. As part of the merger, National-Oilwell Inc. changed its name to National Oilwell Varco, Inc.

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