

Varco Limited

Report and Financial Statements

31 December 2002

 ERNST & YOUNG



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Registered No: 873028

Directors

P J Stuart
R J Millett
T D Boyle

Joint Secretaries

T D Boyle
Paul and Williamsons

Auditors

Ernst & Young LLP
50 Huntly Street
Aberdeen
AB10 1ZN

Bankers

Barclays Bank PLC
1 Rubislaw Terrace
Aberdeen
AB10 1BE

Solicitors

Paul & Williamsons
Investment House
6 Union Row
Aberdeen
AB10 1QY

Registered Office

Dewey Ballantine
1 London Wall
London
EC2Y 5EZ

Director's report

The directors present their report and financial statements for the year ended 31 December 2002.

Results and dividends

The profit for the year, after taxation, was £2,240,000 (2001 profit - £391,000). 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.

On March 31, 2002 as part of a reorganisation of Varco's UK legal entities, the trade, assets and liabilities of the following companies were transferred into Varco Limited: Varco (UK) Limited; Rig Technology Limited; Hydra Rig (UK) Limited; Elmar Services Limited; Elmar Casing Limited; Elmar Engineering Limited; Elmar Rental Limited; Elmar Screens Limited and Morinoak International Limited.

The businesses of these former entities now trade as divisions of Varco Limited.

Directors and their interests

The directors at 31 December 2002 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 (2001 - £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.

Director's report

Events after the balance sheet date

In 2003, the company acquired the UK Thermal Desorption business of Maersk Contractors and acquired the shares of Mud Rentals Limited, a solids control rental business.

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 £5,540,000 has been taken in these accounts 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



T D Boyle
Director

3 September 2004

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.

Independent auditors' report

to the members of Varco Limited

We have audited the company's financial statements for the year ended 31 December 2002 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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.

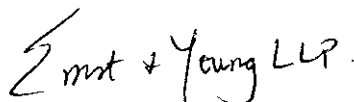
Basis of audit opinion

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 2002 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

3 September 2004

Profit and loss account

for the year ended 31 December 2002

	<i>Notes</i>	<i>2002</i> £000	<i>2001</i> £000
Turnover	2	99,045	32,937
Cost of sales		82,464	22,226
		<hr/>	<hr/>
Gross profit		16,581	10,711
Selling and distribution expenses		1,127	1,297
Administrative expenses		11,090	6,656
		<hr/>	<hr/>
Operating profit	3	4,364	2,758
Interest receivable		97	53
Interest payable	4	(1,965)	(838)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		2,496	1,973
Taxation on profit on ordinary activities	7	256	1,582
		<hr/>	<hr/>
Profit retained for the financial year	18	2,240	391
		<hr/> <hr/>	<hr/> <hr/>

There are no recognised gains or losses for the year other than the profit attributable to shareholders of the company of £2,240,000 in the year ended 31 December 2002 and the profit of £391,000 in the year ended 31 December 2001.

Balance sheet

at 31 December 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Intangible assets	8	1,755	1,916
Tangible assets	9	26,230	12,424
Investments	10	18,808	18,804
		<u>46,793</u>	<u>33,144</u>
Current assets			
Stock	11	16,316	6,837
Debtors - amounts falling due:			
within one year	12	34,843	17,130
after one year	13	1,646	1,646
Cash at bank and in hand		5,801	1,209
		<u>58,606</u>	<u>26,822</u>
Creditors: amounts falling due within one year	14	36,975	19,896
		<u>21,631</u>	<u>6,926</u>
Net current assets			
		<u>68,424</u>	<u>40,070</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	15	35,952	10,112
Provision for liabilities and charges			
Deferred tax	7	274	-
		<u>32,198</u>	<u>29,958</u>
Capital and reserves			
Called up share capital	17	20,847	20,847
Share premium account	18	202	202
Profit and loss account	18	11,149	8,909
		<u>32,198</u>	<u>29,958</u>
Total shareholders' funds	18	<u>32,198</u>	<u>29,958</u>



T D Boyle, Director

3 September 2004

Notes to the financial statements

at 31 December 2002

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 2002

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 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 2002

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 21 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.

	2002 £000	2001 £000
United Kingdom	44,374	15,440
Rest of Europe	17,346	4,969
United States of America	7,662	4,594
Asia	16,669	5,532
Africa	12,994	2,402
	<u>99,045</u>	<u>32,937</u>

Notes to the financial statements

at 31 December 2002

3. Operating profit

This is stated after charging or (crediting):

	2002	2001
	£000	£000
Amortisation of intangible assets	361	194
Depreciation on buildings for resale	294	-
Depreciation of owned fixed assets	3,356	1,101
Depreciation of assets held under finance leases and hire purchase contracts	955	658
Operating lease rentals - land and buildings	745	154
- plant and machinery	866	196
Auditors' remuneration	90	41
Gain on disposals of fixed assets	(70)	(41)
Foreign exchange gains	(76)	(82)
	<u> </u>	<u> </u>

4. Interest payable and similar charges

	2002	2001
	£000	£000
Bank loans and overdrafts	242	52
Amounts due to group undertakings	1,361	538
Finance leases	362	245
Underpaid tax	-	3
	<u> </u>	<u> </u>
	1,965	838
	<u> </u>	<u> </u>

5. Staff costs

	2002	2001
	£000	£000
Wages and salaries	21,429	8,052
Social security costs	2,109	783
Other pension costs	1,388	1,564
	<u> </u>	<u> </u>
	24,926	10,399
	<u> </u>	<u> </u>

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

	2002	2001
	No.	No.
Production	708	189
Sales	59	26
Administration	108	55
	<u> </u>	<u> </u>
	875	270
	<u> </u>	<u> </u>

Notes to the financial statements

at 31 December 2002

6. Directors' emoluments

	2002 £000	2001 £000
Emoluments	236	204
Employer contributions paid to company pension scheme	29	22
	2002 No.	2001 No.
Members of company pension scheme	1	1

7. Tax

(a) Tax charge on profit on ordinary activities

The tax charge is made up as follows:

	2002 £000	2001 £000
<i>Current tax:</i>		
Corporation tax	-	1,340
Overseas tax	161	10
Group relief receivable	(76)	-
	85	1,350
Adjustments in respect of prior periods	422	232
Total current tax (note 7(b))	507	1,582
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(251)	-
	256	1,582

Notes to the financial statements

at 31 December 2002

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% (2001: 30%). The differences are reconciled below:

	2002 £000	2001 £000
Profit on ordinary activities before taxation	2,496	1,973
Profit on ordinary activities multiplied by standard rate of corporation tax of 30%	748	592
Effect of:		
Expenses not deductible for tax purposes	109	448
Finance lease depreciation	-	(197)
Depreciation in excess of capital allowances	(8)	-
Other timing differences	260	-
Overseas Taxes payable	161	-
Overseas tax claimed as an expense	(45)	-
Depreciation on non-qualifying assets	443	-
Disposal of non-qualifying assets	(1)	-
Movement on unprovided deferred tax	(1,582)	507
Adjustments in respect of previous periods	422	232
Total current tax (note 7(a))	507	1,582

(c) Factors that may affect future tax charges

There are no factors considered to affect future tax charges.

Notes to the financial statements

at 31 December 2002

7. Tax (continued) (d) Deferred tax

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

	<i>Provided</i>		<i>Not Provided</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Capital allowances in advance of depreciation	1,069	-	-	425
Other timing differences	(795)	-	-	(1,393)
	<u>274</u>	<u>-</u>	<u>-</u>	<u>(968)</u>
				<i>£000</i>

At 1 January 2002	-
Deferred tax credit in profit and loss account	(251)
Transfer from group companies	525
At 31 December 2002	<u>274</u>

8. Intangible fixed assets

	<i>Research and</i>	<i>Intellectual</i>	<i>Goodwill</i>	<i>Total</i>
	<i>development costs</i>	<i>property</i>		
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 1 January 2002	-	-	2,693	2,693
Transfers from other group companies	198	226	-	424
At 31 December 2002	<u>198</u>	<u>226</u>	<u>2,693</u>	<u>3,117</u>
Amortisation:				
At 1 January 2002	-	-	777	777
Provided during year	31	136	194	361
Transfers from other group companies	134	90	-	224
At 31 December 2002	<u>165</u>	<u>226</u>	<u>971</u>	<u>1,362</u>
Net book value:				
At 31 December 2002	<u>33</u>	<u>-</u>	<u>1,722</u>	<u>1,755</u>
At 1 January 2002	<u>-</u>	<u>-</u>	<u>1,916</u>	<u>1,916</u>

Notes to the financial statements

at 31 December 2002

8. Intangible fixed assets (continued)

Goodwill transferred from Tuboscope Vetco (UK) Limited represents the goodwill 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.

Intellectual property transferred from Morinoak International Limited has been fully written down in the year.

9. Tangible fixed assets

	<i>Freehold land and buildings (including leasehold improvements) £000</i>	<i>Plant, machinery and rental equipment £000</i>	<i>Motor vehicles £000</i>	<i>Fixtures £000</i>	<i>Total £000</i>
Cost or valuation:					
At 1 January 2002	11,018	16,676	155	1,002	28,851
Additions	164	3,239	12	189	3,604
Disposals	(74)	(2,007)	(113)	(95)	(2,289)
Transfers	6,677	20,308	245	2,262	29,492
At 31 December 2002	<u>17,785</u>	<u>38,216</u>	<u>299</u>	<u>3,358</u>	<u>59,658</u>
Depreciation:					
At 1 January 2002	2,801	12,529	147	950	16,427
Charge for year	1,478	2,793	17	317	4,605
Disposals	(25)	(1,085)	(109)	(96)	(1,315)
Transfers	1,208	10,704	196	1,603	13,711
At 31 December 2002	<u>5,462</u>	<u>24,941</u>	<u>251</u>	<u>2,774</u>	<u>33,428</u>
Net book value:					
At 31 December 2002	<u>12,323</u>	<u>13,275</u>	<u>48</u>	<u>584</u>	<u>26,230</u>
At 1 January 2002	<u>8,217</u>	<u>4,147</u>	<u>8</u>	<u>52</u>	<u>12,424</u>

Notes to the financial statements

at 31 December 2002

9. Tangible fixed assets (continued)

The cost of land and buildings includes £15,355,000 (2001 - £9,264,000) of depreciable assets.

Included in the total net book value of land and buildings is £1,860,000 (2001 - £2,518,000) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £658,000 (2001 - £658,000).

Included in the total net book value of plant and machinery is £2,644,000 (2001 - £nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £281,000 (2001 - £nil).

Included in the total net book value of motor vehicles is £18,000 (2001 - £nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £6,000 (2001 - £nil).

Included in the total net book value of fixtures is £6,000 (2001 - £nil) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on those assets was £10,000 (2001 - £nil).

Freehold land and buildings includes assets at cost of £1,873,000 and NBV of £1,264,000 in respect of buildings sold in 2003 and 2004. Additional depreciation of £294,000 was provided in this period to bring the assets down to the resale value.

10. Fixed asset investments

	<i>Subsidiary undertakings</i>
	<i>£000</i>
Cost:	
At 1 January 2002	20,926
Transfers from other group companies	4
	<hr/>
At 31 December 2002	20,930
	<hr/> <hr/>
Amounts written off:	
At 1 January 2001	2,122
During the year	-
	<hr/>
At 31 December 2002	2,122
	<hr/> <hr/>
Net book value:	
At 31 December 2002	18,808
	<hr/> <hr/>
At 1 January 2002	18,804
	<hr/> <hr/>

Notes to the financial statements

at 31 December 2002

10. Fixed asset investments (continued)

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

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

* The remaining interest is held by Enaco PLC

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 2002

11. Stock

	2002 £000	2001 £000
Raw materials and consumables	3,281	215
Work in progress	2,261	3,806
Finished goods and goods for resale	10,774	2,816
	<u>16,316</u>	<u>6,837</u>

Included in work in progress is a provision of £5,540,000 in respect of a loss making long term contract as noted in the directors report.

12. Debtors: amounts falling due within one year

	2002 £000	2001 £000
Trade debtors	24,264	9,506
Amounts owed by other group undertakings	6,789	6,814
Amounts owed by subsidiary undertakings	120	120
Group relief	528	169
Prepayments and accrued income	3,130	383
Other debtors	12	138
	<u>34,843</u>	<u>17,130</u>

13. Debtors: amounts falling due after more than one year

	2002 £000	2001 £000
Amounts owed by subsidiary undertakings	1,646	1,646
	<u>1,646</u>	<u>1,646</u>

Notes to the financial statements

at 31 December 2002

14. Creditors: amounts falling due within one year

	2002	2001
	£000	£000
Trade creditors	5,797	1,609
Amounts due to fellow subsidiary undertakings	20,963	10,873
Amounts due to subsidiary undertakings	1,064	1,064
Obligations under finance leases and HP commitments (note 16)	839	-
Other taxes and social security costs	350	216
Corporation tax	3,657	1,582
Accruals and deferred income	4,252	4,188
Pension scheme (note 21)	45	354
Other creditors	8	10
	<u>36,975</u>	<u>19,896</u>

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

	2002	2001
	£000	£000
Amounts due to group undertakings	31,420	4,763
Amounts due to subsidiary undertakings	49	1,349
Obligations under finance leases and HP commitments (note 16)	4,483	4,000
	<u>35,952</u>	<u>10,112</u>

16. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2002	2001
	£000	£000
Amounts payable:		
Within one year (note 14)	839	-
In two to five years (note 15)	4,483	4,000
	<u>5,322</u>	<u>4,000</u>

17. Share capital

	<i>Authorised</i>		<i>Issued, called up and fully paid</i>	
	2002	2001	2002	2001
	<i>No.</i>	<i>No.</i>	£000	£000
Ordinary shares of £1 each	21,000,000	21,000,000	20,847	20,847
	<u>21,000,000</u>	<u>21,000,000</u>	<u>20,847</u>	<u>20,847</u>

Notes to the financial statements

at 31 December 2002

18. 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 2001	20,847	202	8,518	29,567
Profit for the year	-	-	391	391
At 31 December 2001	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

19. Contingent liabilities

At 31 December 2002, 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.

20. Financial commitments

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

	<i>Other</i>		<i>Land and buildings</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	208	52	11	21
In two to five years	843	159	98	33
In over five years	-	-	747	79
	1,051	211	856	133

21. 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.

Notes to the financial statements

at 31 December 2002

21. Pension commitments (continued)

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 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 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 a lump sum contribution of £600,000 to the fund in December 2002 and a further £480,000 in 2003 to improve the funding position.

At 31 December 2002 the accounts contain a pension accrual of £45,000 (£35,000 defined benefit) (2001 £354,000 (£336,000 defined benefit)).

The deficit in the UK scheme is being recognised as variations from regular cost over 11 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.

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 2002 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):

	2002	2001
Rate of increase in salaries	3.75%	3.75%
Rate of increase of pensions in payment	2.4%	2.75%
Discount rate	5.5%	5.75%
Inflation	2.4%	2.75%

Notes to the financial statements

at 31 December 2002

21. Pension commitments (continued)

FRS 17 disclosures (continued)

The balance sheet position for the Plan as calculated under FRS 17 at 31 December 2002 and the expected gross rates of return before allowance for expenses were:

	2002	2002	2001	2001
		£000		£000
Equities	7.25%	3,342	7.5%	3,974
Bonds	4.75%	739	5.0%	822
Cash	4.0%	1,779	4.0%	1,062
Total market value of assets		5,860		5,858
Actuarial value of liability		(7,550)		(7,145)
Recoverable deficit in the plan		(1,690)		(1,287)
Related deferred tax asset		507		386
Net pension liability		(1,183)		(901)

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:

	2002
	£000
Net assets as stated in the balance sheet excluding pension asset	32,198
SSAP 24 balance	36
FRS 17 pension liability	(1,183)
Net assets including defined benefit liabilities	31,051
Profit and loss reserve as stated in the balance sheet, excluding amounts relating to defined benefit liabilities	11,149
SSAP 24 balance	36
FRS 17 pension liability	(1,183)
Profit and loss reserve including amounts relating to defined benefit liabilities	10,002
Analysis of the amount charged to operating profit	
Current service cost	12

Notes to the financial statements

at 31 December 2002

21. Pension commitments (continued)

FRS 17 disclosures (continued)

Amount credited to other finance income

	2002 £000
Expected return on pension scheme assets	398
Interest on pension liabilities	(403)
Net return	(5)
Movement in surplus during the year	2002 £000
Deficit in scheme at beginning of year	(1,287)
Movement in year:	
Current service costs	(12)
Contributions	770
Net return on assets/(interest cost)	(5)
Actuarial loss	(1,156)
Deficit in scheme at end of year	(1,690)
History of experience gains and losses	2002
Differences between expected and actual returns on scheme assets:	
Amounts (£000)	910
As a percentage of scheme assets	15.54%
Experience gains and losses on scheme liabilities:	
Amounts (£000)	(48)
As a percentage of scheme liabilities	-0.64%
Total amount recognised in statements of total recognised gains and losses:	
Amount (£000)	(1,156)
As a percentage of scheme liabilities	-15.31%

22. 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.

23. 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.