

VARCO LIMITED (FORMERLY KNOWN AS TUBOSCOPE (UK) LIMITED)

Report and Accounts

31 December 2000

 ERNST & YOUNG



Varco Limited

Registered Number 873028

DIRECTORS

P J Stuart
R J Millett

SECRETARY

Paull & Williamsons
6 Union Row
Aberdeen AB10 1QY

AUDITORS

Ernst & Young LLP
50 Huntly Street
Aberdeen AB10 1ZN

BANKERS

Barclays Bank PLC
1 Rubislaw Terrace
Aberdeen AB10 1BE

SOLICITORS

Paull & Williamsons
6 Union Row
Aberdeen AB10 1QY

REGISTERED OFFICE

5A Furze Hill
Purley
Surrey CR2 3LB

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 2000.

RESULTS AND DIVIDENDS

The trading loss for the year after taxation was £979,442 (1999 loss - £981,510). The directors recommend that no dividend be paid and that the loss 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 oil and gas industry.

DIRECTORS AND THEIR INTERESTS

The directors at 31 December 2000 were as follows:

P J Stuart
R J Millett

No director was interested in the share capital of the company at the year end.

DISABLED EMPLOYEES

The group 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 group's 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

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. 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



R J Millett
Director

14 March 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 year. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts 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 accounts 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 (FORMERLY KNOWN AS TUBOSCOPE (UK) LIMITED)**

We have audited the company's financial statements for the year ended 31 December 2000 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

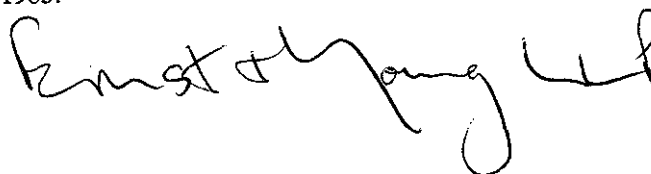
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
Aberdeen



14 March 2002

Varco Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2000

	Notes	2000 £	1999 £
TURNOVER	2	21,747,706	18,107,440
Cost of sales		(15,512,365)	(12,598,306)
GROSS PROFIT		6,235,341	5,509,134
Selling and distribution expenses		(1,367,635)	(1,511,399)
Administrative expenses		(5,565,382)	(4,886,954)
OPERATING LOSS	3	(697,676)	(889,219)
Income from investments		-	192,263
Interest receivable		47,402	38,460
Interest payable	4	(677,330)	(417,390)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1,327,604)	(1,075,886)
Taxation credit on loss on ordinary activities	7	(348,162)	(94,376)
LOSS RETAINED FOR THE FINANCIAL YEAR	19	(979,442)	(981,510)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2000

There are no recognised gains or losses for the year other than the loss of £979,442 for the year ended 31 December 2000 (1999 loss - £981,510).

Varco Limited

BALANCE SHEET at 31 December 2000

	Notes	2000 £	1999 £
FIXED ASSETS			
Intangible asset	8	2,110,347	2,304,627
Tangible assets	9	11,859,138	13,257,487
Investments	10	18,803,611	18,808,290
		<u>32,773,096</u>	<u>34,370,404</u>
CURRENT ASSETS			
Stock	11	4,980,025	4,585,177
Debtors - amounts falling due:			
within one year	12	7,688,605	6,058,966
after one year	13	1,646,155	1,646,155
Cash at bank and in hand		832,469	7,220
		<u>15,147,254</u>	<u>12,297,518</u>
CREDITORS: amounts falling due within one year	14	8,873,993	6,813,797
NET CURRENT ASSETS		<u>6,273,261</u>	<u>5,483,721</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>39,046,357</u>	<u>39,854,125</u>
CREDITORS: amounts falling due after more than one year	15	9,480,001	9,067,734
PROVISION FOR LIABILITIES AND CHARGES			
Deferred taxation	17	-	240,593
		<u>29,566,356</u>	<u>30,545,798</u>
CAPITAL AND RESERVES			
Called up share capital	18	20,847,421	20,847,421
Share premium account	19	202,167	202,167
Revaluation reserve	19	-	90,516
Profit and loss account	19	8,516,768	9,405,694
TOTAL SHAREHOLDERS' FUNDS		<u>29,566,356</u>	<u>30,545,798</u>


R J Millett, Director

14 March 2002

NOTES TO THE ACCOUNTS
at 31 December 2000

1. ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost accounting convention and in accordance with applicable accounting standards.

Group accounts

The accounts present information about the company as an individual undertaking and not about its group. The company is not required to prepare group accounts under section 228 of the Companies Act 1985. Group accounts are prepared for the immediate parent company (see note 23).

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.

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
Plant and machinery	5 - 20 years
Rental equipment	3 - 10 years
Motor vehicles	3 - 4 years
Fixtures and fittings	5 - 10 years
Leasehold improvements	10 years

No depreciation is provided on freehold land.

Gains or losses on disposals of rental equipment

The trading activities of offshore rental equipment in which the company trades, are an integral part of the company's business. Gains or losses on disposals of these assets, 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.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

NOTES TO THE ACCOUNTS

at 31 December 2000

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that taxation will be payable.

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.

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 22 for further details.

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on specific projects intended for commercial exploitation is carried forward when its recoverability can be foreseen with reasonable assurance. Such expenditure is amortised over the years expected to benefit from it, commencing with the year in which related sales are first made.

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.

Varco Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

2. TURNOVER (continued)

	2000	1999
	£	£
United Kingdom	10,968,910	9,358,835
Rest of Europe	3,489,494	1,987,283
United States of America	2,561,754	3,262,490
Asia	3,459,358	2,228,992
Africa	1,268,190	1,269,840
	<u>21,747,706</u>	<u>18,107,440</u>

3. OPERATING LOSS

This is stated after charging or (crediting):

	2000	1999
	£	£
Depreciation of owned fixed assets	1,098,871	1,345,367
Depreciation of assets held under finance leases and hire purchase contracts	667,888	174,049
Operating lease rentals - land and buildings	147,442	333,765
- plant and machinery	200,901	220,840
Auditors' remuneration	41,000	40,000
Loss/(gain) on disposals of fixed assets	(16,365)	58,134
Foreign exchange losses	364,523	157,119
	<u>2,543,260</u>	<u>2,259,274</u>

4. INTEREST PAYABLE

	2000	1999
	£	£
Interest on bank loans and overdrafts	2,456	1,498
Interest on underpaid tax	226	-
Interest on group loans	418,983	345,345
Interest on finance leases	255,665	70,547
	<u>677,330</u>	<u>427,490</u>

5. STAFF COSTS

	2000	1999
	£	£
Wages and salaries	6,061,077	5,932,761
Social security costs	582,803	563,899
Other pension costs	1,119,269	341,587
	<u>7,763,149</u>	<u>6,838,247</u>

Varco Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

5. STAFF COSTS (continued)

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

	2000 No	1999 No
Production	167	184
Sales	28	33
Administration	58	71
	<u>253</u>	<u>288</u>

6. DIRECTORS' EMOLUMENTS

	2000 £	1999 £
Emoluments	120,722	104,169
	<u>2000</u> £	<u>1999</u> £
Employer contributions paid to company pension scheme	8,956	5,424
	<u>2000</u> No	<u>1999</u> No
Members of company pension scheme	1	1

7. TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2000 £	1999 £
UK corporation tax	-	(14,523)
Group relief	(117,474)	(107,237)
Overseas tax	9,905	2,780
Deferred taxation	(240,593)	24,604
	<u>(348,162)</u>	<u>(94,376)</u>

The company is a member of a group for the purposes of relief under section 402 of the Income and Corporation Taxes Act 1988.

Varco Limited

NOTES TO THE ACCOUNTS at 31 December 2000

8. INTANGIBLE FIXED ASSETS

	<i>Goodwill</i> £
Cost:	
At 1 January 2000 and 31 December 2000	2,693,187
Amortisation	
At 1 January 2000	388,560
Provided during year	194,280
At 31 December 2000	582,840
Net book value at 31 December 2000	2,110,347
Net book value at 1 January 2000	2,304,627

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 unamortised 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.

Varco Limited

NOTES TO THE ACCOUNTS at 31 December 2000

9. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings (including leasehold improvements)</i>	<i>Plant and machinery including rental equipment</i>	<i>Motor vehicles</i>	<i>Fixtures</i>	<i>Total</i>
	£	£	£	£	£
Cost or valuation:					
At 1 January 2000	10,628,169	15,020,296	323,459	1,011,807	26,983,731
Additions	103,073	593,793	8,500	30,516	735,882
Disposals	(423,329)	(313,749)	(105,265)	(74,895)	(917,238)
Transfers (to)/from group companies	-	111,146	-	(4,929)	106,217
At 31 December 2000	10,307,913	15,411,486	226,694	962,499	26,908,592
Depreciation:					
At 1 January 2000	1,220,944	11,301,162	280,879	923,259	13,726,244
Charge for year	852,291	828,443	26,838	59,187	1,766,759
Disposals	(128,319)	(166,690)	(101,473)	(73,845)	(470,327)
Transfers (to)/from group companies	-	30,637	-	(3,859)	26,778
At 31 December 2000	1,944,916	11,993,552	206,244	904,742	15,049,454
Net book value:					
At 31 December 2000	8,362,997	3,417,934	20,450	57,757	11,859,138
At 1 January 2000	9,407,225	3,719,134	42,580	88,548	13,257,487

The cost or valuation of land and buildings includes £8,554,816 (2000 - £8,855,072) of depreciable assets.

Included in the total net book value of land and buildings is £3,176,935 (1999 - £3,835,387) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £658,452 (1999 - 164,613).

Included in the total net book value of fixtures and fittings is £15,756 (1999 - £25,133) in respect of assets held under finance leases and similar hire purchase contracts. Depreciation for the year on these assets was £9,436 (1999 - £9,436).

NOTES TO THE ACCOUNTS
at 31 December 2000

10. FIXED ASSET INVESTMENTS

	<i>Subsidiary undertakings £</i>
Cost:	
At 1 January 2000 and 31 December 2000	20,926,574
Amounts written off:	
At 1 January 2000	2,118,284
During the year	4,679
At 31 December 2000	2,122,963
Net book value:	
At 31 December 2000	18,803,611
At 1 January 2000	18,808,290

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>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Subsidiary undertakings				
Environmental Procedures (UK) Limited	Great Britain	Ordinary shares	100%	Dormant
The Brandt Company (UK) Limited	Great Britain	Ordinary shares	100%	Dormant
Tuboscope Vetco (UK) Limited	Great Britain	Ordinary shares	100%	Dormant
Tuboscope Vetco Capital Limited	Great Britain	Ordinary shares	100%	Inspection services to the oil & gas industry in Kazakhstan
Pump Systems Limited	Great Britain	Ordinary shares	50.1% *	Dormant
Chargewood Limited	Great Britain	Ordinary shares	100%	Dormant
Enaco PLC	Great Britain	Ordinary shares	100%	Dormant
Enaco Mudcat Limited	Great Britain	Ordinary shares (held directly by Enaco PLC)	100%	Dormant

Varco Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

10. FIXED ASSET INVESTMENTS (continued)

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Subsidiary undertakings				
SSR (International) Ltd	Great Britain	Ordinary and Preference	100%	Dormant
Pressure Control Engineering Ltd	Great Britain	Ordinary shares	100%	Dormant

* The remaining interest is held by Enaco PLC

Tuboscope (UK) Limited is exempt from disclosing the aggregate capital and reserves at the end of its most recent financial year, and the profit or loss for the year of each subsidiary as group accounts are prepared by Tuboscope Holdings Limited - the immediate parent company.

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.

11. STOCK

	<i>2000</i>	<i>1999</i>
	<i>£</i>	<i>£</i>
Raw materials and consumables	239,757	353,633
Work in progress	2,276,886	1,293,043
Finished goods and goods for resale	2,463,382	2,938,501
	<u>4,980,025</u>	<u>4,585,177</u>

12. DEBTORS: amounts falling due within one year

	<i>2000</i>	<i>1999</i>
	<i>£</i>	<i>£</i>
Trade debtors	5,342,149	3,456,561
Amounts owed by other group undertakings	1,863,634	1,881,251
Amounts owed by subsidiary undertakings	119,929	312,192
Group relief	168,579	41,198
Prepayments and accrued income	155,189	317,511
Other debtors	39,125	50,253
	<u>7,688,605</u>	<u>6,058,966</u>

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

	<i>2000</i>	<i>1999</i>
	<i>£</i>	<i>£</i>
Amounts owed by subsidiary undertakings	<u>1,646,155</u>	<u>1,646,155</u>

Varco Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

14. CREDITORS: amounts falling due within one year

	2000	1999
	£	£
Bank overdraft	-	1,151,962
Trade creditors	1,294,985	896,292
Amounts due to fellow subsidiary undertakings	4,027,831	1,753,914
Amounts due to subsidiary undertakings	1,063,549	1,063,549
Obligations under finance leases and HP commitments (note 16)	12,693	9,933
Taxation and social security	188,005	698,837
Corporation tax	110,452	97,910
Accruals and deferred income	2,134,421	1,131,400
Pension scheme (note 22)	32,057	-
Other creditors	10,000	10,000
	<u>8,873,993</u>	<u>6,813,797</u>

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

	2000	1999
	£	£
Amounts due to group undertakings	4,130,500	3,705,915
Amounts due to subsidiary undertakings	1,349,501	1,349,501
Obligations under financial leases and HP commitments	4,000,000	4,012,318
	<u>9,480,001</u>	<u>9,067,734</u>

16. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

	2000	1999
	£	£
Amounts payable:		
Within one year	265,152	262,851
In two to five years	4,669,774	4,928,958
	<u>4,934,926</u>	<u>5,191,809</u>
Less: finance charges allocated to future years	922,233	1,169,558
	<u>4,012,693</u>	<u>4,022,251</u>
Finance leases and hire purchase contracts are analysed as follows:		
Current obligations (note 14)	12,693	9,933
Non-current obligations (note 15)	4,000,000	4,012,318
	<u>4,012,693</u>	<u>4,022,251</u>

Varco Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

16. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS (continued)

Analysis of changes in finance leases and hire purchase contracts during the current and previous years:

	2000 £	1999 £
At 1 January 2000	4,022,251	41,937
Transfer from group companies	-	-
Additions	-	4,000,000
Capital element of finance lease rental payments	(9,558)	(19,686)
At 31 December 2000	<u>4,012,693</u>	<u>4,022,251</u>

17. PROVISION FOR LIABILITIES AND CHARGES

The movements in deferred taxation during the current and previous years are as follows:

	2000 £	1999 £
At 1 January	240,593	215,989
(Credit)/charge for the year (note 7)	(240,593)	24,604
At 31 December	<u>-</u>	<u>240,593</u>

All deferred taxation has been provided in the accounts as follows:

	<i>Not Provided</i>		<i>Provided</i>	
	2000	1999	2000	1999
	£	£	£	£
Capital allowances in advance of depreciation	363,989	-	-	519,450
Other timing differences	(505,446)	-	-	(278,857)
	<u>(141,457)</u>	<u>-</u>	<u>-</u>	<u>240,593</u>

18. SHARE CAPITAL

	<i>Authorised</i>		<i>Issued, called up and fully paid</i>	
	2000	1999	2000	1999
	£	£	£	£
Ordinary shares of £1 each	<u>21,000,000</u>	<u>21,000,000</u>	<u>20,847,421</u>	<u>20,847,421</u>

NOTES TO THE ACCOUNTS
at 31 December 2000

19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital £</i>	<i>Share premium £</i>	<i>Revaluation reserve £</i>	<i>Profit and loss account £</i>	<i>Total £</i>
At 31 December 1999	20,847,421	202,167	188,916	10,288,804	31,527,308
Release of revaluation reserve	-	-	(98,400)	98,400	-
Loss for year	-	-	-	(981,510)	(981,510)
At 1 January 2000	20,847,421	202,167	90,516	9,405,694	30,545,798
Loss for year	-	-	-	(979,442)	(979,442)
Release of revaluation reserve	-	-	(90,516)	90,516	-
At 31 December 2000	20,847,421	202,167	-	8,516,768	29,566,356

20. CONTINGENT LIABILITIES

At 31 December 2000, 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.

21. FINANCIAL COMMITMENTS

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

	<i>Other</i>		<i>Land and buildings</i>	
	<i>2000</i>	<i>1999</i>	<i>2000</i>	<i>1999</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Operating leases which expire:				
Within one year	38,878	19,000	42,000	4,160
In two to five years	119,041	169,177	29,500	71,500
In over five years	-	1,047	79,500	70,000
	157,919	189,224	151,000	145,660

NOTES TO THE ACCOUNTS

at 31 December 2000

22. PENSION COMMITMENTS

The group operated the Tuboscope Holdings Limited 1998 Pension scheme which is a hybrid pension scheme comprised of 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 employees of Varco Limited (formerly known as Tuboscope (UK) Limited) contribute to the defined contribution section. Prior to January 1998, employees contributed to various pension schemes. The transfers of the assets from these schemes is ongoing.

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 actuarial valuation of the scheme has an effective date of 5 April 2000. The method used in this valuation was an ongoing basis to ascertain the current funding level and determine a suitable contribution rate.

The most significant assumptions in this valuation relate to salary growth and the rate of return on the investments. The salary growth assumed was 4.5% per annum. The investment return used was between 5% and 5.75%.

The actuarial valuation of the scheme showed that the market value of the assets was £1,503,351 and that the actuarial value of those assets represented 76% of the liability under the valuation method, for service to the valuation date. Varco Limited made a lump sum contribution of £600,000 to the fund in December 2001 to improve the funding position. No account was made for this shortfall in the December 2000 results. Full provision has been made in the December 2001 accounts for the shortfall estimated at that time.

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

23. RELATED PARTIES

The company's ultimate parent undertaking is Varco International Inc, a company incorporated in the United States of America. The consolidated accounts of Tuboscope Holdings 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.

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.